

Specific topic

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Taking stock two years after AIIB's opening



File photo. As of end 2017, AIIB had granted just over \$1 billion worth of loans for various infrastructure projects in India. Photo: Mint

The third annual meeting of the board of governors of the Asian Infrastructure Investment Bank (AIIB) is scheduled to be held in Mumbai in June. This is fitting; India is the AIIB's second-largest shareholder and is also a major recipient of loans from the bank. The largest shareholder, China, hosted the first annual meeting in 2016 and the second was hosted by South Korea last year. And with the bank completing two years since its formal opening in January, it's a good time to assess how it has shaped up.

The multilateral development bank (MDB) was established in January 2016 with its headquarters located in Beijing. At the launch of the AIIB, there were 57 prospective founding members (including India) and 20 from outside the region (including France Germany, Italy and the UK). The membership stands at 84 as of end 2017 (the US and Japan being notably absent).

The AIIB has an authorized capital base of \$100 billion earmarked to address Asia-Pacific's acute infrastructural needs. Its stated mission is "to improve economic and social development in Asia by investing in high quality, financially viable and environmentally friendly infrastructure projects". The bank's focus is on project financing on commercial terms. Beyond its own

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balance sheet, the AIIB aims to mobilize private capital to co-finance projects.

It was reasonable to expect that the creation of the AIIB would be a welcome initiative to plug Asia's monumental infrastructural deficit. A much-publicized study by the Asian Development Bank (ADB) in 2017 estimated the Asia-Pacific region's infrastructural needs at around \$22.5 trillion over 15 years (to 2030) or about \$1.5 trillion annually. While one can certainly quibble about the quantitative estimates of the ADB and other such studies, it is an established fact that the economic and social benefits of funding infrastructural spending are immense—although lack of financing is not always the main constraint (i.e. there is a dearth of bankable projects mainly due to concerns about project preparation and structuring and an uncertain regulatory environment).

However, there were suspicions in some quarters about the long-term aims and intentions of the AIIB. This was partly to do with the fact that the AIIB project was first announced in October 2013 simultaneously with Chinese President Xi Jinping's mooted the overland Silk Road Economic Belt and Maritime Silk Road initiatives—the two pillars of China's Belt and Road Initiative (BRI). The initial scepticism was therefore that the AIIB was primarily a vehicle to fund BRI-related projects to promote connectivity in Asia as well as to further China's strategic goals (diversify energy supplies and establish blue-water capabilities in the Indian Ocean, deploy its vast financial resources, and internationalize the renminbi).

The AIIB was thus initially considered China's World Bank, i.e. a so-called "Beijing Woods" moment. This perception was given further credence by the spokesperson for the National People's Congress who, in March 2015, was reported to have said that the "AIIB and the Silk Road Fund are both created for the better implementation of One Belt, One Road".

China is the AIIB's single largest contributor and holds around 28% voting share, giving it veto power over major decisions at the AIIB (as major bank decisions require at least 75% support). The initial projects approved by the AIIB in 2016 were granted to China's close allies—mainly in Central Asia and Pakistan, as well as Oman, which was a strategic centre of trade and exchange along the historic maritime Silk Road.

However, the AIIB is evolving towards being a truly collective institution.

Several other AIIB-funded projects that have been approved have no obvious connection to the BRI. Nor are they concentrated among China's closest allies. For instance, India was the single-largest borrower from the AIIB in 2017, with part of the Bengaluru Metro line and Gujarat rural roads each being granted around \$330 million loans. As of end 2017, AIIB had granted just over

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\$1 billion worth of loans for various infrastructure projects in India. Besides these, financing for another \$1.2 billion worth of projects from India has been proposed.

The fact that India (which has an 8% voting share in AIIB) has become an important recipient of AIIB loans is noteworthy and indicates the degree of independence of the AIIB from the BRI. After all, India has expressed reservations about the BRI (notably the China-Pakistan Economic Corridor) and did not send an official delegation to the inaugural Belt and Road Forum in Beijing in May 2017.

For its part, the BRI is largely funded separately via bilateral lending from the Silk Road Fund and two Chinese policy banks (China Development Bank and EXIM Bank of China). There is therefore a clear difference between the AIIB and other China-specific financial entities.

While there were initial concerns about a "race to the bottom" in terms of standards of lending by the AIIB, it has not eventuated. AIIB officials have repeated the slogan "our bank is lean, clean, and green", i.e. an emphasis on rules-based style of governance, transparency in procurement and other policies, and environmental and social safeguards. Increasingly, the AIIB is looking as though it will complement rather than compete with the work of existing MDBs such as the ADB and World Bank (though some level of competition may not per se be bad). In fact, more than half of the AIIB loans to date have been co-financed with other MDBs.

Overall, rather than being part of a "new world order", the AIIB appears to be well on its way to becoming a credible institution that promises to make an important contribution in providing regional and global public goods.

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Comments are welcome at theirview@livemint.com

Direct topic = Direct Conc.
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(No philosophy)

(stress was on data/evidence for claims made)

Conc. restates the main idea.