

ISAS Brief

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Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



AIIB – A Test for China-India Cooperation

The recent launch of the Asian Infrastructure Investment Bank (AIIB), a Chinese initiative, showcases Beijing's rise as an economic powerhouse in the context of the perceived failure of the US-sponsored World Bank and the International Monetary Fund to meet the aspirations of the developing countries. Yet, the AIIB's success will depend on the equation between the bank's leading stakeholders, China and India, who are otherwise competitors.

Sajjad Ashraf¹

The formal launch of China-led Asian Infrastructure Investment Bank (AIIB) in Beijing on 29 June 2015 may be looked upon as the beginning of the Chinese century. Four out of the five permanent members of the United Nations Security Council have joined; eighteen out of the 34 members of the Organisation for Economic Cooperation and Development (OECD) are in; all ASEAN countries have entered. Five out of the six states of the Gulf Cooperation Council (GCC) are in, and six out of the eight South Asian states have joined.² In co-opting major European economies despite the

¹ Mr Sajjad Ashraf is a Consultant at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS), and an Adjunct Professor at the Lee Kuan Yew School of Public Policy at the NUS. He was Pakistan's High Commissioner to Singapore from 2004 to 2008. He can be contacted at sashraf1947@gmail.com. The author, not ISAS, is responsible for the facts cited and opinions expressed in this paper.

² Trends in Southeast Asia -The Politics of the Asian Infrastructure Investment Bank (AIIB). Tang Sew Mun, Institute of Southeast Asian Studies (ISEAS), Singapore 2015, p. 8

dissuasion from the United States, China has dealt a blow to America's dominant status in the world; this increases China's clout in the international economic arena.

Significantly, China, India, Russia and Germany are the four biggest contributors to the AIIB which has an initial capitalisation of US\$ 50 billion, which will be raised to US\$ 100 billion later.³ With 26.06 percentage of voting rights, China will be able to exercise considerable control over the Bank's operations. But the diverse group of countries that have signed up will keep China in check. India reportedly gets the second spot in leadership.

With the agreement on International Monetary Fund reforms stalled in the US Congress since 2010, China is frustrated at the inability of the existing financial order to accommodate its ability and ambitions.

By 2050 Asia will have eleven countries amongst the top twenty-five in the world in GDP (Purchasing Power Parity) terms.⁴ Asia is thirsty for infrastructure funding. The Asian Development Bank (ADB), in a 2010 report, estimated that Asia would need US\$ 8.22 trillion for infrastructure development in the coming decade.⁵ The World Bank (WB) and the ADB have neither the capacity nor the will to meet this demand. China's US\$ 3.45 trillion⁶ worth of foreign exchange reserves and its political will can come in handy for Asia.

After the unsuccessful US' opposition, reflected in its chiding of its allies upon their joining the AIIB, the US and Japan will find their ability to influence Asia further curtailed. China's success in getting more countries on board than the pundits had predicted an erosion of US leadership in the international financial system. When Australia, which US Secretary of State John Kerry personally pleaded with to stay out, became the first country to sign the Articles of Agreement, the "United States lost its role as the underwriter of the global economic system" said Larry Summers,

³ http://usa.chinadaily.com.cn/opinion/2015-06/30/content_21140163.htm

⁴ ISEAS, p 2.

⁵ Ibid p 3

⁶ <https://www.imf.org/external/np/sta/ir/IRProcessWeb/data/hkg/eng/curhkg.htm#I>

former US Treasury Secretary. With a US\$ 700 million stake, Australia is the fifth largest contributor to the AIIB's capital structure.⁷

In one-way, the AIIB is a part-fulfilment of China's dream of national rejuvenation. The Washington-led organisations like the WB and the IMF are no longer reflective of the true economic balance of power in the world. China now has the capacity and willingness to contribute. And yet, it had been frustrated by the gridlock in the US political process.

Asia's infrastructure needs are of the order of US\$ 8 trillion during this decade to maintain current levels of economic growth.⁸ Asia, home to the bulk of global population and with the fastest-growing economies, needs substantial amounts of money to invest in communications, power, transport and other infrastructure networks to prevent stagnation. By 2025, 60 per cent of world's infrastructure funding demands will come from Asia according to Price Waterhouse Coopers, one of the leading finance and management firms in the world.⁹ In 2014, the ADB could only allocate a total of US\$ 21 billion for all development projects.¹⁰ Japan has stayed away from the AIIB for purely geopolitical reasons, and its knee-jerk announcement of US\$ 110 billion for infrastructure projects was too little, too late.¹¹ With its growing capacity China is steadily able to increase its aid commitments, while the Japanese aid figures have fallen for 16 years in succession.¹² With top economies already on board in the AIIB, the United States, too, will soon want to be a part of it. In fact, Western countries like Canada, which opted to stay out, are now facing public calls for joining the bank.¹³ Asia's infrastructure needs, the inability of the Bretton Woods institutions to meet Asia's expectations and China's growing capacity and ambition point to a promising future for the bank.

⁷ <http://www.thestar.com.my/Business/Business-News/2015/06/25/Australia-to-contribute-to-AIIB/?style=biz>

⁸ <http://www.pwc.com/sg/en/capital-projects-infrastructure/assets/cpi-develop-infrastructure-in-ap-201405.pdf>

⁹ *ibid.*

¹⁰ <http://www.cnbc.com/2015/06/25/is-aiib-the-answer-to-asias-infrastructure-needs.html>

¹¹ *ibid.*

¹² <http://www.japantimes.co.jp/opinion/2015/03/10/commentary/japan-commentary/abes-new-policy-on-foreign-aid-risks-playing-with-fire/#.Va38W3jN7dl>

¹³ <http://www.theglobeandmail.com/report-on-business/rob-commentary/new-asian-development-bank-needs-a-canadian-presence/article22296905/>

The new bank, seen as the competitor to the WB and the ADB, is the first big Chinese attempt to shoulder more responsibilities amongst the developing world, even though there are sceptics who question China's benign declarations. China assures that the AIIB will be managed through best practices, and dismisses apprehensions about the largest number of votes it possesses. "AIIB is a bank, not a political organization or political alliance," said Jin Liqun,¹⁴ the man widely tipped to be the first head of the bank.

Like China, India too believes that the Bretton woods arrangement is unfair. No wonder that India was amongst the first countries to embrace the AIIB idea. But sceptics question if India actually wants Washington's domination replaced by Beijing's, especially when both neighbours have border disputes to settle and are jockeying for influence in the Indian Ocean. It is how China and India relate that will determine the effectiveness of the new bank.

With India joining the AIIB, the new institution has gained credibility; this more than adequately compensates for the damage, if any, from the US being absent. Taking note of the fact that 57 countries showed up for the launch, and factoring in Chinese financial backing, many fence-sitters will join the bank over time. India's influence in the bank's decision-making will be protected by the number of shares it holds and its second spot in the administration.

India's dilapidated infrastructure is the biggest impediment to its economic growth. Modi's 'Make in India' is heavily dependent upon rolling out China-style roads, ports, airports and power. To meet these costs, India needs to rely on institutions like the AIIB, regardless of the underlying political power-play.

With the 5th largest coal reserves,¹⁵ India's ambitious plans to set up coal-fired electricity generation plants have gone awry since 2013, when the US and the WB severely restricted investments in coal-fired power generation.¹⁶ India needs help

¹⁴ http://news.xinhuanet.com/english/2015-04/11/c_134142959.htm

¹⁵ <http://www.mining-technology.com/features/feature-the-worlds-biggest-coal-reserves-by-country/>

¹⁶ <http://www.reuters.com/article/2013/07/16/us-worldbank-climate-coal-idUSBRE96F19U20130716>

from outside to fill its gap in infrastructure financing, and its joining the AIIB comes in at an appropriate time.

Working with India on infrastructure financing presents China with an excellent opportunity for strengthening and deepening relations between the two. It demonstrates that India and China are prepared to work together for the betterment of the Asian continent. India may have its reservations over China's One Belt, One Road (OBOR) strategy, but when the AIIB approves projects with India's acquiescence, India becomes a partner.

While it is reassuring that India is teaming up with China on the economic front, ideas like the US-India Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region, signed during President Obama's India visit in January 2015, cast doubts on India's real priorities in the geopolitics of the region.¹⁷ Similarly, the Chinese pursuit of possible naval presence in the Indian Ocean, through port constructions in Myanmar, Sri Lanka and Pakistan, makes Indian strategic planners wary of Chinese intentions.

It is a challenge to both China and India, and they owe it to Asia that they will not force a choice on the continental states. Their interests coincide, and there is enough space for the two to pursue them. It may even mean giving space to the other at times. After all, the cost of military preparedness or escalation is bound to be heavier than any concession either one makes.

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¹⁷ <https://www.whitehouse.gov/the-press-office/2015/01/25/us-india-joint-strategic-vision-asia-pacific-and-indian-ocean-region>