ISAS Brief

No. 559 – 6 March 2018

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India and the Asian Infrastructure Investment Bank: Sustained Engagement notwithstanding Anxieties

India has emerged as the largest borrower from the China-led Asian Infrastructure Investment Bank (AIIB), much to the surprise of many. This paper studies the details of the AIIB's funding for infrastructure projects in India. It argues India's heavy use of the AIIB's funds can be explained by its hunger for infrastructure finance, long-term economic viability of its projects and the AIIB's eagerness to work with multiple stakeholders. These factors have led to heavy engagement between India and the AIIB, notwithstanding India's opposition to China-led infrastructure initiatives like the Belt and Road.

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As India prepares to hold the 3rd annual meeting of the Asian Infrastructure Investment Bank (AIIB) at Mumbai in June 2018, its prominent engagement with the Bank is noticeable.

Since its inception in January 2016, the AIIB – with a registered capital of around US$100 billion (S$131.9 billion) and more than 80 countries from Asia and the rest of the world as its members – has financed more than 20 projects in a dozen countries. More projects are in the pipeline. India tops the list of countries that have received AIIB funding till now. Both with

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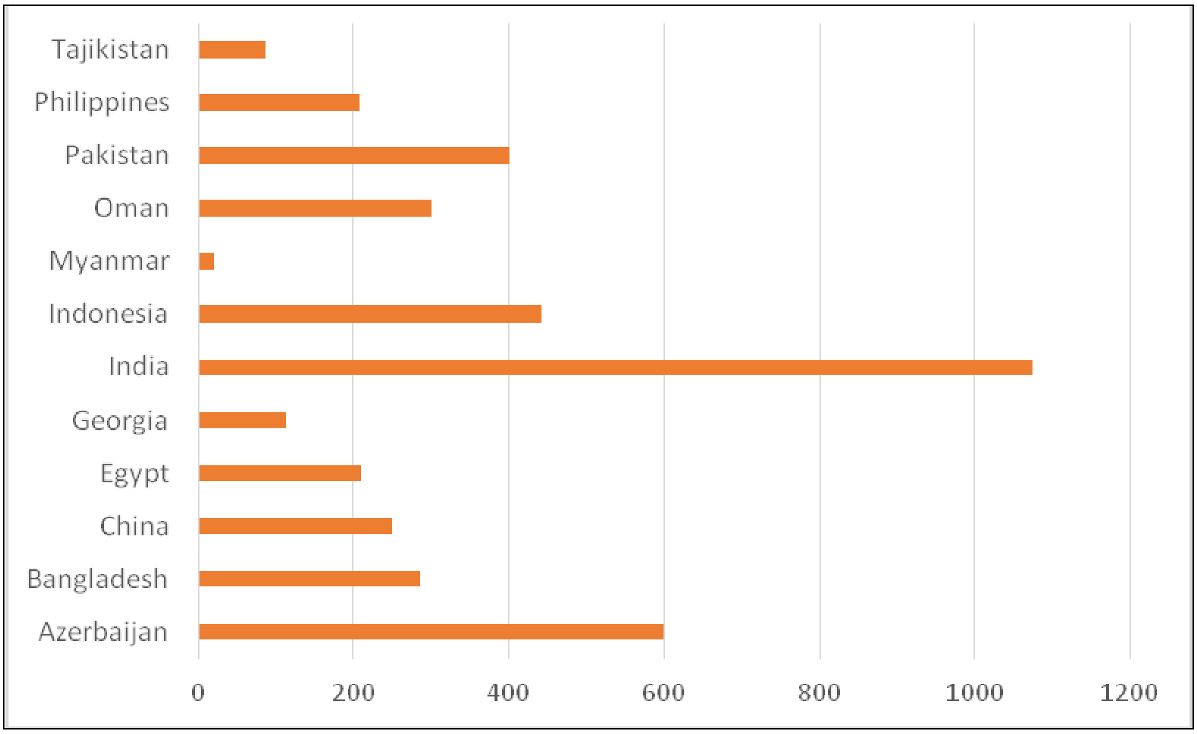
respect to projects sanctioned and those in the pipeline, India has been the biggest beneficiary of the AIIB. India's emergence as the largest recipient of the AIIB's funds is significant as this reflects its willingness to work closely with an institution in which China has contributed the largest capital.

The AIIB and India

Out of the 24 projects funded by the AIIB till now, India tops the list with five, followed by Bangladesh, Indonesia and Oman with three each. India's five projects account for a total assistance of around US$1.1 billion (S$1.45 billion) (Figure 1). India is followed by Azerbaijan, which has one mega-project involving the AIIB lending of US$600 million (S$793.1 million). The AIIB assistance to India has also been much larger than those to Indonesia and Pakistan – two other major recipients – which have been sanctioned US$441.5 million (S$582.3 million) and US$400 million (S$527.5 million) respectively till now.

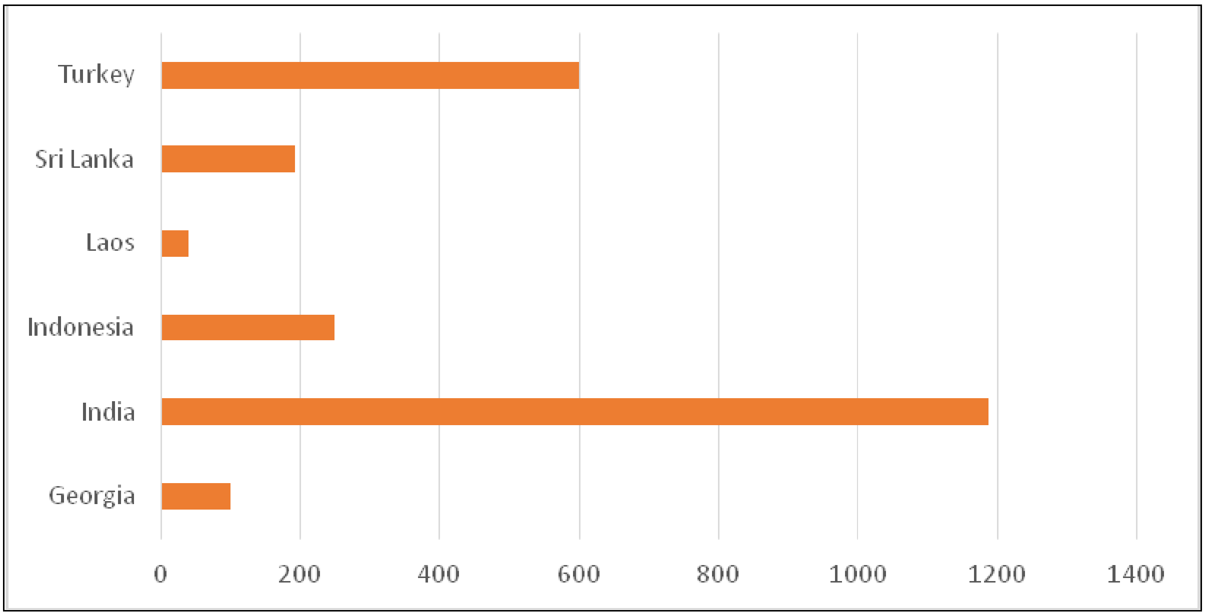
<u>Figure 1</u>: Countrywise AIIB Loans Approved (US$mn)



Source: Compiled from AIIB (http://aiib.org)

India is expected to remain the largest recipient of the AIIB funds in the foreseeable future too. This is evident from the number of Indian projects awaiting approval. These projects would see India receiving around US$1.2 billion (S$1.6 billion) in various new infrastructure projects. This would be far higher than Turkey, Indonesia and Sri Lanka, the other major countries among those that are awaiting AIIB funds (Figure 2).

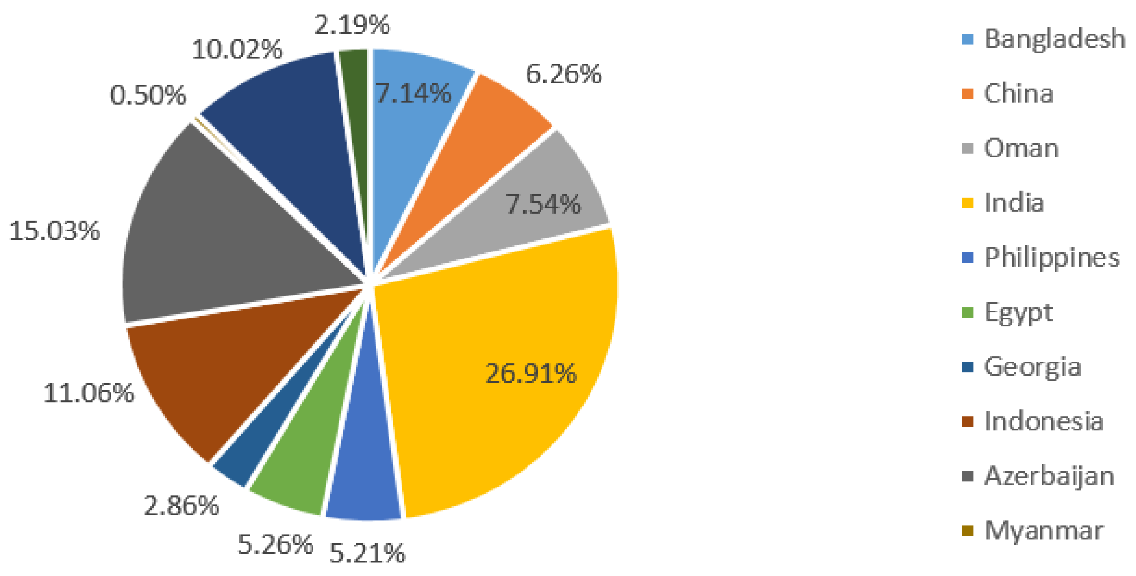
<u>Figure 2:</u> Countrywise AIIB Loans in Pipeline (US$mn)



Source: Compiled from AIIB (http://aiib.org)

A closer look at India's share in the AIIB's disbursements leaves little doubt about its emergence as a location of robust business for the latter. Till now, the AIIB's total sanctioned funds for infrastructure projects in 12 countries are around US$4 billion (S$5.28 billion). India has received 27 per cent of these funds (Figure 3). Its share is much higher than those following, such as Azerbaijan (15 per cent), Indonesia (12 per cent) and Pakistan (10 per cent). The share would increase further following approval of the projects that are currently being considered by the AIIB. Taking into account these new projects, India's share is likely to increase to almost half of AIIB's total lending.

<u>Figure 3:</u> Country Shares in AIIB Approved Projects



Source: Compiled from AIIB (http://aiib.org)

The five projects assisted by the AIIB in India, till now, are in roads, urban transport and electricity (Table 1). These are coming up in India's southern and western States such as Andhra, Tamil Nadu, Karnataka and Gujarat. The projects awaiting approval would see the AIIB funds flowing into infrastructure development in West Bengal, Madhya Pradesh and Maharashtra.[2] This points to a wider role of the AIIB funds for infrastructure building across Indian States – not just being confined to more industrially developed States in India's West and South – but also to relatively industrially backward States in India's East and Central regions.

[2] Proposed Projects – Asian Infrastructure Investment Bank. https://www.aiib.org/en/projects/proposed/index.html. Accessed on 3 March 2018.

<u>Table 1:</u> Indian Projects Funded by AIIB

Project	Project Cost (US$ million)	Lead Financier	Co-Financier
Andhra Pradesh 24x7 –Power for All	571	World Bank (IBRD)	Government of Andhra Pradesh and AIIB
India Infrastructure Fund	750	Other investors (loan/credit/equity)	AIIB
Gujarat Rural Roads Project	658 (Phase1)		AIIB and Government of Gujarat
Tamil Nadu Transmission Systems Strengthening	303	Powergrid Corporation of India	AIIB and Asian Development Bank
Bangalore Metro Rail Project	1785	Government of India	European Investment Bank and AIIB

Source: Compiled from AIIB (http://aiib.org).

A further interesting feature about the AIIB lending is its co-financing character. The AIIB is collaborating with government agencies – both federal and state government – and other prominent global and regional development finance institutions in funding projects. This is visible from all the projects it has committed to India so far (Table 1). The AIIB's financing partners in India include the Powergrid Corporation of India, the Governments of Andhra Pradesh and Gujarat, the World Bank, the Asian Development Bank and the European Investment Bank. Indeed, this is noticeable not only for projects being financed in India, but also elsewhere in South and Southeast Asia. The Titas natural gas project in Bangladesh, Tarbela hydropower extension project in Pakistan, dam operational improvement project in Indonesia, and the Myingan power plant project in Myanmar are relevant examples.

Why India?

Given India's size and appetite for infrastructure projects, there is no surprise in it emerging as the AIIB's largest borrower. As the AIIB President points out, India has more "shovel ready" projects and greater institutional capacity than other countries.[3]

[3] "China-Backed AIIB Eyes $1 Billion Infrastructure Push in India", Iain Marlow and Archana Chaudhary, *Bloomberg* 28 February 2018. https://www.bloomberg.com/news/articles/2018-02-28/china-backed-aiib-eyes-1-billion-infrastructure-push-in-india. Accessed on 5 March 2018.

Over the last few years, funding for infrastructure projects in India has slackened due to mounting non-performing loans of Indian banks and implementation delays arising from difficulties in acquiring land and operational permits. Indian banks hardly have the 'deep pockets' anymore for funding infrastructure projects over the medium and long-term. The AIIB funding has, therefore, been a great opportunity for Indian State governments and infrastructure agencies to tap into.

From the AIIB's perspective, India's infrastructure projects are stable business prospects. This is just not due to India being a founding member and the second largest stakeholder in the bank. Indian infrastructure projects, particularly those in the energy, telecommunications and transport sectors, are being conceptualised with a strong focus on profitability and the pricing of their services are being decided accordingly. Regulatory agencies in India's infrastructure are keen on pricing services in a manner that makes these projects attractive for developers. Indeed, the long-term economic viability of the upcoming projects is imperative for sustaining the development of India's infrastructure, in the absence of which funding for infrastructure will be difficult to access.

From a geostrategic perspective, there is curiosity over India emerging the largest beneficiary of the AIIB – a China-led development finance institution, which, according to many, is also a part of China's grand plan of establishing a China-led global order like the Belt and Road Initiative (BRI). Given that India has been a staunch critic of the BRI and the fact that the possibility of the AIIB becoming involved in funding BRI projects in the future cannot be ruled out, India and the AIIB hardly appear made for each other, as they are demonstrating to be.

Apart from the obvious economic needs that India and the AIIB fulfill for each other, their engagement and cooperation draw attention to the 'neutral' institutional character of the bank. The co-financing model is a testimony to this character. The involvement of multiple stakeholders not only helps in diversifying project risks, but also dispels doubts over the unilateral nature of the institution. The AIIB's project financing record, till now, establishes its credentials as a plurilateral and collaborative development finance institution leaving cynics little scope of labeling it a 'China-led' bank. This is in stark contrast to the BRI, which is primarily China-funded, channelised through overseas investments by Chinese stateowned-enterprises, creating apprehensions over China's strategic influence on host countries, which these investments produce.

Looking Ahead

As the AIIB expands its portfolio and financing operations, its role in Asia's infrastructure development would progressively become larger. Given its funding record till now, India would be a major location for the AIIB's assistance and business. It is possible that, over time, the AIIB becomes one of the largest stakeholders in India's infrastructure development. If that indeed happens, it will be filling up a major void in India's infrastructure – availability of sustained long-term finance from creditworthy institutions. And that would happen notwithstanding 'security' anxieties!

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