

AIIB to boost Asian Infrastructure and Connectivity

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Launched in Beijing last month, the Asian Infrastructure Investment Bank (AIIB) is the latest multilateral development bank (MDB), coming 15 years after the establishment of the European Bank for Reconstruction and Development (EBRD) in 1991 (Table 1). In a major departure from the past, this MDB has been established by developing countries for developing countries, unlike MDBs of the past which were set up by developed countries for developing countries. It starts with a solid foothold on the global financial landscape with an authorized capital base of \$100 billion of which \$50 billion is initially subscribed, much of it by China. Including Bangladesh, the 58 founding members now have as many as 21 European countries, but 75 per cent of the shareholding (voting distributed according to size of gross domestic product or GDP) has been reserved for Asian members thus giving it a predominantly Asian character in terms of ownership, in sharp contrast to the MDBs established in the previous century.



AIIB's website calls it the multilateral institution "for the 21st century". The bank's Chinese President, Jin Liqun, confirms that the bank will go into lending operation in the second quarter of 2016. Reportedly, AIIB already has a strong pipeline of viable projects, and is expected to lend \$10-15 billion a year for the next five years.

In a surprising move which might confound poverty pundits AIIB did not make poverty reduction the centrepiece of its objectives. Instead it made investment in infrastructure and connectivity the primary goal of its operation. That is a smart move for Asia, the fastest growing region of the world and hungry for copious amounts of investment in infrastructure, with an equally massive resource gap.

A 2010 Asian Development Bank (ADB) study estimated an \$8.0 trillion infrastructure financing gap across Asia during 2010-20. Asian countries will need \$730 billion annually over the next decade to meet their demand for infrastructure investment with Bangladesh's requirement, according to the Seventh Five Year Plan, at \$9-10 billion annually. Globally, MDBs lent only \$40 billion to infrastructure projects in 2013 with only 30 per cent of World Bank lending portfolio going to infrastructure.



The greatest demand for infrastructure investment across Asia may initially be in the energy, transport, and water/urban sectors. However, the bank is open to investments across all infrastructure sub sectors. It takes little to imagine that when infrastructure gaps serve as binding constraint to growth in many developing countries of Asia, there is wide consensus that easing that gap will be the best way to have the greatest impact on poverty reduction. That appears to be the simple economic rationale of AIIB lending operations. The underlying principle is indisputable: should developing economies of Asia get what is needed for their own infrastructure development, the benefits would go beyond borders. The world economy will benefit from infrastructure being developed in emerging market countries as it can be used in global and regional trade, creating jobs and income.

At a time when central banks have been practising quantitative easing (QE) in monetary policy and driving down interest rates, private commercial capital though cheap is not forthcoming into much needed infrastructure projects which typically have long gestation periods. Also, with most Western countries experiencing economic slowdowns, and the current global finance order (based on Bretton Woods system) sets too many limits on funding in developing countries, AIIB could indeed serve as a new funding source for the Asia Pacific region.

AIIB founders recognise the potential for high growth in Asian economies whose governments, though eager to invest in hard infrastructure such as roads, railways, harbours, electricity, and telecommunications, find themselves strapped with limited financial capacity to generate adequate resources in the short-to- medium term. Hence, AIIB's emphasis on trade, regional economic cooperation, and connectivity, to sustain high growth rates in the future, by facilitating more investment opportunities and closer connectivity among Asian countries.

In 1941, Fortune Magazine founder Henry Luce described the 20th Century as an American

century, predicting that by 2041 the 21st Century will be Asia's. Indeed there is now a clear recognition of Asia's growing importance in the international arena, yet the region faces severe infrastructure deficit often resulting in stunted growth performance. That is why the Asian-led AIIB represents a new, distinctively Asian development tool, bringing regional know-how and expertise to the problem of matching the supply of infrastructure to specific regional needs, while adding to the pool of multilateral resources. However, AIIB management makes it clear that its resources will complement those of existing MDBs as it plans to be involved in co-financing schemes in the case of many large projects.

Make no mistake, the AIIB is a China-led multilateral institution headquartered in Beijing with China having predominant voting power. China tried but failed to get traction on reform initiatives that would have given it more voice and weight in the Bretton Woods system. So it should come as no surprise when the AIIB might be seen to promote some Chinese agenda, one of which that has been cited by analysts is China's broader regional development strategy embodied in the Belt and Road Initiative (BRI).

To be fair, the AIIB will be one of several sources of financing for the BRI which is a massive infrastructure scheme of global import and economic ramifications. In keeping with the goals of AIIB, the BRI aspires to develop connectivity and cooperation among countries in Asia, Africa, and Europe through an elaborate network of land and sea infrastructure known as the Silk Road Economic Belt and the Maritime Silk Road. Preliminary estimates by The Asia Foundation suggest that the BRI could benefit 63 per cent of the global population and contribute \$2.1 trillion to global GDP.

Finally, as infrastructure investment tends to be energy intensive, AIIB seeks to break new grounds as a development bank in order to bring a truly new model of development finance that helps lead the global transition to smart and efficient infrastructure development. It does not intend to ignore dealing with climate change and the environment to ensure that investing in infrastructure does not contribute to aggravating the problem of global warming that is already afflicting many regions of Asia. In fostering Asia's development in the 21st century, this MDB appears committed to furthering the global agenda for sustainable development as envisaged under the UN post-2015 Sustainable Development Goals.