

HITTING ITS STRIDE: ON THE ASIAN INFRASTRUCTURE INVESTMENT BANK

Relevant for: International Relations | Topic: AIIB and India

On January 16, the Asian Infrastructure Investment Bank (AIIB) marked its third anniversary. India has been the bank's biggest beneficiary, with a quarter of the AIIB's approved projects geared towards its development. India is also the only country apart from China to enjoy a permanent seat on the Bank's board of directors.

When the AIIB opened for business in 2016, critics assailed it as a barely concealed attempt by China, India and the global south to supplant the existing international financial order. The reality is that the bank has been both a rule-maker and rule-taker, devising innovations in multilateral development finance while upholding existing best practices. Most of its projects are co-financed with the World Bank or the Asian Development Bank, suggesting a healthy mix of complementarity and competition with its peers.

Critics also assailed the AIIB for its non-transparent internal procedures, notably the lack of a resident board, and potentially lax loan appraisal standards, which they claimed would spark a rash of irrecoverable loans. Former U.S. President Barack Obama's administration sought to dissuade Western countries and Asian allies from joining the bank as prospective founding members, pointing to concerns related to governance and environmental and social safeguards. The reality is that the AIIB's lending practices have been socially conscious and prudent, attested by its triple-A credit rating secured from the three major international rating agencies. Disregarding the U.S.'s 'dog in the manger' attitude towards infrastructure finance, 90-odd countries have signed up as founding or prospective members.

As the AIIB marches from strength-to-strength, it should develop a wider portfolio of projects in areas such as smart cities, renewable energy, urban transport, clean coal technology, solid waste management and urban water supply. Along with the New Development Bank, its uniqueness must lie in faster loan appraisal, a lean organisational structure resulting in lower cost of loans, a variety of financing instruments, including local currency financing, and flexibility in responding to its clients' needs. It should leverage its unique 'special funds mechanism' to crowd-in infrastructure financing from external sources, including extra-regional, public and private, as well as nurture infrastructure as a profitable asset class for capital market investors.

A distracted U.S. appears neither willing nor capable of fundamentally reshaping and resourcing the much-vaunted Bretton Woods-era institutions for the challenges of the 21st century. India, China and other multilaterally minded major countries will need to pick up this gauntlet in the areas of trade, development and finance. The successful mainstreaming of the AIIB in three short years must become just the beginning of system-wide reform and overhaul.

The writer is a Senior Fellow at the Institute for China-America Studies in Washington, DC

India has the technological capacity, the financial resources, and the need for a simple, transparent basic income scheme

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