

AIIB's \$100 million investment in India has filled a crucial gap

India has become the third country after China and South Korea to host the annual summit of the Asia Infrastructure Investment Bank (AIIB). Even before the summit started, AIIB has announced an investment of \$100 million in the National Infrastructure Investment Fund, a public-private initiative to finance infrastructure activities in India. Investment of another \$100 million is under consideration. Speaking at the event on Tuesday, Prime Minister Narendra Modi assured the participants of India's commitment to stay on the path of fiscal consolidation. The assurance is not without reason. Higher deficits can lead to higher public debts which can spike interest rates in an economy. Such developments can upset the long-term calculations infrastructure financing is based on.

The theme of this year's AIIB meeting is innovation and collaboration in mobilising finance for infrastructure. The issue is extremely relevant for India. Our infrastructural requirements are too large to be financed by the public sector. Infrastructure projects have played a large part in the bad debt problem, which plagues the Indian banking sector. This has led to questions on whether long-term infrastructure financing through commercial banks needs to be revisited. Making a project remunerative is just one aspect of the challenges in infrastructure funding. A growing conflict between infrastructural requirements and livelihood and sustainability concerns has increased difficulties in this field. Institutions like AIIB, through their experience and wider knowledge pool, have an important role to play on this front.

To be sure, there is also a need to look at the wider context in which the AIIB is operating. Jin Lique, president of the AIIB, is a former Chinese politician. AIIB's board of governors has representatives from all permanent members of the UN Security Council except the United States. A substantial portion of Mr Jin's opening remarks at the summit has been devoted to defending globalisation and the benefits of free trade. It also talks about things such as China's One-Belt-One-Road initiative. It is clear that initiatives such as AIIB are also driven by China's ambitions of emerging as a leader in the international economic order.

While many in India may not be pleased with the Chinese dominance which comes with the AIIB, Mr Jin said something which is important for India's infrastructure managers: failure to ensure cost recovery through rational pricing for infrastructure projects can derail both infrastructure development and economic development. In democracies, ensuring this is more about political will than technocratic knowledge.

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