

# Banking & Finance

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## AIIB — a catalyst for Asia's growth story



**DOHA DATELINE**  
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**T**HE ASIAN Infrastructure Investment Bank, or AIIB, is an international financial institution proposed by the government of China in October 2014.

The purpose of the multilateral development bank is to provide finance to infrastructure projects in Asia region. The bank is expected to be headquartered in Beijing. Developing countries in Asia are in desperate need of such investment. Private funding of risky and long-term projects is often either expensive or non-existent. The Asian Development Bank (ADB) forecast that there is a \$8 trillion demand for infrastructure funding up until 2020 and the current levels of investment provided by the World Bank and the ADB are far from enough to meet this. Asian economies are key contributors to global trade and they continue to witness growth after the crisis. Asia's industrial base was built upon the combination of foreign capital and well-educated labour force. This industrial base has boosted export-led growth in Asian economies. They have a surging middle class and also attract huge foreign direct investment and portfolio investment. Asian economies have key challenges arising from US Fed tapering, slowdown in China, elevated household leverage in certain countries and infrastructure execution challenge. The authorised capital of the AIIB is \$100 billion and the initial subscribed capital is expected to be around \$50 billion. India along with other countries signed an agreement to become founding members of the China-backed AIIB in October 2014.

Voting rights are to be decided after consultations among the members over fixing the bench marks based on a combination of GDP and Purchasing Power Parity (PPP). The prospective founding members

include Saudi Arabia, Kuwait, Oman, Qatar, Egypt, China, India, Indonesia, Malaysia, South Korea, Singapore, Germany, France and Italy. The UAE has also joined recently as prospective founding member of the bank. The other applicant countries include Hong Kong, Turkey, Finland, Australia, New-Zealand, the Netherlands, Russia, Denmark, Poland and Luxembourg. The final number of founding members to be confirmed by mid of this month.

In July 2014 the leaders of Brazil, Russia, India, China and South Africa (Brics), announced at the sixth annual Brics summit the creation of the New Development Bank (NDB) to finance infrastructure and "sustainable development" projects, with \$50 billion in capital. The Brics Development Bank works on an equal-share voting basis, with each of the five signatories contributing \$10 billion for the capital. Brics have also created \$100 billion Contingent Reserve Arrangement (CRA), which member states can draw on in financial emergencies when their foreign exchange reserves become dangerously depleted. The CRA — unlike the pool of contributed capital to the Brics Development Bank, which is equally shared — is being funded 41 per cent by China, 18 per cent from Brazil, India, and Russia, and five per cent from South Africa.

The IMF and the World Bank are responsible for providing assistance to developing countries across the world. The ADB mainly focuses on Asia. Brics can work both on infrastructure and for contingency

**\$100b**

authorised capital  
of the AIIB



Men work to build electric transmission lines in Tezpur, India. The purpose of the AIIB is to provide finance to infrastructure projects in Asia. — Bloomberg

reserve arrangement. The AIIB can complement the efforts of the IMF, the World Bank, the ADB and Brics Development Bank. China is a member of the World Bank, the ADB and Brics Development Bank. Establishing the AIIB and having the largest tranche of shares in it means that China will be the key player. In recent years China has entered into currency swaps with various central banks to promote yuan and also plans to open its capital markets. China is coming up with more measures in global scenario despite the slowdown in their economic growth. The European countries looking to join reflects a recognition that

China is a reliable and responsible collaborator and is therefore extremely beneficial for European countries to enhance their relations with China. The Chinese model of infrastructure development has served it well and it can bring such expertise in the AIIB. The interest evoked by global countries for AIIB indicates that AIIB could be the catalyst for Asia's infrastructure growth story.

*The writer is the group chief executive officer at Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.*