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Asia's New Financial Architecture: Politics and Diplomacy

Abdul Nafey*

A new financial architecture, centred on China, is fast emerging, and is shaping the infrastructure map of Asia and the world at large. The US$ 50 billion New Development Bank (NDB) of BRICS and the US$ 50 billion Asian Infrastructure Investment Bank (AIIB), launched on 31 March 2015 to finance infrastructure development within the BRICS and in Asia respectively, would both go operational by the end of 2015. Besides, a US$ 40 billion fund would finance the Silk Road Economic Belt and the 21st Century Maritime Silk Road, of late referred to as 'One Belt One Road' (OBOR) projects spanning three continents of Asia, Africa and Europe. The development bank of Shanghai Cooperation Organisation (SCO), long proposed by China, would, as and when it materialises, become the fourth pillar to undergird the mammoth Asian infrastructure network. It would spread infrastructural connectivity in the Eurasian region.

This essay describes and analyses the politics and diplomacy of infrastructure in Asia. The principal arguments presented are two: (i) finance is shaping policy choices and development preferences as connectivity opens up prospects of further national economic growth and interdependence; in other words, geopolitics, in combination with finance, remain strong determinants of future actions; and (ii) there are opportunities for an emerging economy like India to benefit from Asian infrastructure development; it is being called upon to craft appropriate responses to changing geopolitics, most importantly in terms of its ties with China.

A Century of Infrastructure

It is an aphorism that the twenty-first century is the Asian century. Sixteen years into it, it is also a truism that the major impediment to economic growth

***The Author** is Professor and Chairperson, Centre for Canadian, US and Latin American Studies, School of International Studies, Jawaharlal Nehru University, New Delhi.

and exchange in Asia remains inadequate infrastructure. Admittedly, the inability to raise finances at an affordable cost is a perennial challenge. The Table below details infrastructure spending and estimated need as a percentage of GDP in the BRICS and other economies over the past forty years.

Infrastructure Spending as a Percentage of GDP

Countries/ Regions	**Estimated Need, 2013-30**	**Avg. Annual Spending, 1992-2011**
World	4.07	3.78
EU	3.13	2.62
Other Developed Countries	3.42	3.13
Developing Countries	5.60	5.45
India	6.84	4.73
China	6.33	8.44
Brazil	5.45	2.18
South Africa	5.09	3.42
Russia	4.00	3.41
U S	3.56	2.62
Japan	2.61	4.95

Source: Based on Ian Talley, 'U.S. Looks to Work with China-led Infrastructure Fund', *Wall Street Journal*, 22 March 2015.

McKinsey & Co estimates the global need for financing infrastructure through 2030 at US$ 57.3 trillion. Only China and Japan spend more than their estimated need. The total capital base of the World Bank, the principal institution that provides development financing, is at an inadequate of US$ 223 billion. A 2009 report of the Asian Development Bank (ADB) estimates Asia's annual requirement for investment in infrastructure at US$ 800 billion for 2010–20. With its total paid-in and pledged capital of US$ 160 billion, the ADB meets only about 5 per cent (roughly US$ 10 billion) of the Asian need.

It is said that some 60 per cent of the financing for infrastructure in developing countries comes out of over-stretched national budgets. The United Progressive Alliance (UPA) government (2004–14) had estimated India's need at US$ 200 billion annual investment in infrastructure for the decade 2010–20. The Union budget for the current fiscal earmarks roughly US$ 40 billion by the Central government and public sector enterprises for infrastructure spending; with state governments chipping in, the amount would increase, albeit marginally.[1]

The problems are numerous, and of various kinds. (i) The lack of infrastructure is a far more serious trade barrier than tariffs in the fast emerging and developing economies. Logistics costs in India, for instance, are three times the global average. (ii) For years, the World Bank and regional development banks have been prioritising finance for poverty alleviation and healthcare programmes; and thus have left even bigger gaps in infrastructure funding. (iii) Joseph Stiglitz argues that the present financial system shows its inability to complement high rates of saving with high demand for investment in infrastructure.[2] All this is when the IMF concurs that infrastructure has the largest multiplier economic effects. Studies show how connectivity has massively dented poverty and raised productivity in China.

International Relations have become more about infrastructure, more so, among the emerging and developed economies. In particular, Asian economies are vying for investment in infrastructure. Sensing a historic opportunity, every nation is giving foremost priority to growth; all else, including domestic polity and foreign policy, has been dovetailed to achieve this singular goal. In countries such as India, there is a serious focus on building infrastructure – transportation, energy, and public health – so as to generate jobs and income; and thus, to further raise the growth potential.

Politics of Financial Multilateralism in Asia

With the formation of AIIB, a new financial multilateralism is shaping up in Asia. By the closing of the deadline of 31 March 2015, as many as 57 countries had signed the Memorandum of Agreement so as to become the founding members of the China-initiated AIIB. The response of so many countries, including 37 from Asia, reportedly 'stunned' China; and clearly jolted the USA as its Western allies came in droves to become the founding members of AIIB. It is more than a question of numbers: four out of the five permanent members of the UN Security Council; 14 of the 28-member EU; 21 from the 34-member OECD countries; 14 of the G-20 advanced economies; the whole of ASEAN; and all the BRICS are founding members of the AIIB. Hints of geopolitical strains cannot be missed: twelve of the NATO countries and three US military allies in Asia – Australia, New Zealand and South Korea – are founding members. Saudi Arabia and seven other oil-rich Arab states also signed as associate members.

How does one explain the 'stampede' to join the AIIB?[3] The possible answers are as instructive as insightful into what possibly goes on in the chanceries around the world. For one, no one wants to be left out; each wants to be in so as to be able to write the rules and have a say in matters of the governance structure of the bank. Britain broke its century-old 'special' relationship, and the USA publicly chastised its closest ally for its "constant accommodation of China"[4]. Still, Britain, France, Germany and others have rushed in to sign the paper before the deadline. Why? Because London wants to maintain its status as a hub for global trading in the *yuan*; and to provide financing for Chinese enterprises bidding for infrastructure contracts in Asian countries. Germany, France and Italy – who otherwise stoutly oppose IMF reforms, giving more voting weightage to emerging economies – find strong Asian markets and a strong *yuan* attractive for their businesses. In times of slowdown, nothing more can galvanize the EU economies than contracts for infrastructure building in Asia; and banking centres in Switzerland, Luxembourg and Holland know it best.

And, what of China's own interests in AIIB? Of its business and economic interests, the principal ones are: to facilitate the export of China's surplus production capacity; to enable its construction companies, with unique competitive advantage, bid for the multi-billion dollar AIIB-funded infrastructure projects; to enhance the use of *renminbi* in international trade and capital transactions; to recycle a part of its US$ 4 trillion foreign exchange reserves for better returns; and to reduce its exposure to US Treasury bonds – presently to the tune of US$ 3 trillion, which earn low interest. China averaged an annual economic growth of 9.91 per cent during 1979 and 2010. That is over. As it enters the 'new normal' of 7 per cent average annual growth on the back of domestic consumption, building infrastructure ensures it access to external resources and markets.

Other questions that arise are: Who would run the bank and how? On 31 March 2015, representatives of 29 founding members had opened discussions in Almaty, Kazakhstan on the Charter and governance structure of AIIB. Major principles have reportedly been set, and will not be changed; and AIIB would be operational before the year ends.[5] Unlike the ADB, the AIIB is to ensure easier access to funds, especially by the small and poor countries, without their having to go through the bureaucratic rigmaroles and the opaque decision-making process. AIIB is set to improve the standards of existing multilateral banks and to borrow their 'best practices'. It certainly won't have the pro-market, anti-development 'conditionalities' associated with the IMF and the World Bank. Further, AIIB shuns the practice whereby a Japanese national has always been the President of the ADB, and an American heads the World Bank, and a European the IMF. China's Vice Finance Minister, Zhu Guangyao, is also on record saying that AIIB shall avoid being dominated by a few countries.

The structure being thrashed out for AIIB envisages a President (heading a multinational executive) to propose decisions, and a senior management to oversee implementation of projects. It may have a non-resident Board of Directors so as to avoid red tapism. There might not be a Board of Governors; if there is one, it might also be a non-resident one. Since China would contribute about half of the subscribed capital, Jin Liqun, who is the interim head and a former vice president of ADB, could as well hold the first presidency of AIIB. Voting right is likely to be based as follows: 50 per cent on the size of the GDP in nominal and another 50 per cent in Purchasing Power Parity (PPP) terms. Being the second largest economy and having pledged the second largest subscription, India could get one of the vice presidencies, and clearly would have a strong say in decision-making.

Is the AIIB China-centric or Asia focussed? *Japan Times* rejects it as a 'financial institution by China and for China'.[6] With so many stakeholders, governance norms and structure would have iron-clad provisions, ensuring the autonomy of the bank from potential state influence. Having succeeded in the face of overt US opposition, China itself might not want to jeopardise the project by seeking to control the bank. Asian countries are in need of investment in infrastructure. But, nearly all of them also fear China's expansionism. A large number of founding members have maritime territorial disputes with it; to that extent the AIIB puts the onus on China to assuage the geopolitical fears of its South East Asian neighbours. In short, geo-finance might pip the geopolitics of collision in the South and East China Seas. AIIB might rather face a different kind of problem: Asian members are likely to have as much as three-quarters of stakes in the Bank, and this may not go down well with non-Asian countries. Brazil and Great Britain might get a vice presidency each so as to achieve balance and bring the repertoire of their developmental experience to the bank.

Is Asia set to undergo the 'deepening' of financial integration under the AIIB? With its exclusive focus on infrastructure, AIIB offers a new type of safe investment to institutions like pension and insurance funds. Infrastructure bonds ensure long-term measurable returns to institutional investors, and help recycle excess savings and massive foreign exchange reserves that some of the Asian countries have accumulated. AIIB bonds could probably have the mixed currency denomination, say, of the *renminbi*, dollar and yen.

As Xavier Denis, a Global Strategist at Societe Generale Private Banking says, " ... [T]he long-planned initiative mirrors the growing influence China intends to have on world economic and financial affairs. However, beyond political assertiveness stand major economic challenges (long term economic growth and financial integration) for Asia that the new bank could help tackle. At the current juncture, there is no reason to believe that this new multilateral bank could not be a successful enterprise".[7]

Washington Times described the US opposition to AIIB as a 'diplomatic disaster'.[8] Britain breaking ranks with the US has been called 'epochal'.[9] Seeing the overwhelming response especially from its European allies, the USA has softened its opposition. With 37 Asian countries on board, Japan also does not want to be left alone and left behind in Asia. It is in talks with China since early 2014, and could join the AIIB at a later stage. At the bilateral meeting with Japanese Prime Minister Shinzo Abe on 28 April 2015, US President Barrack Obama took pains to dispel the impression that the US is critical of AIIB or is opposed to allies joining it. Both said that they are fine with AIIB so long as it has fair governing norms, and takes care of environmental and social aspects. ADB President, Takehiko Nakao, has since offered AIIB joint projects and co-financing: "We have begun sharing our experience and know-how".[10] The World Bank's Jim Yong Kin has described the Bank as China's 'bold' step in the direction of financial multilateralism; and IMF's Christine Legarde is 'delighted' to cooperate with the AIIB.

There is more complexity to the Asia-US relationship in finance than meets the eye. As of end-March 2015, leading Asian economies held approximately US$ 3122.4 billion in US Treasuries – over half of the holdings of US debt instruments by overseas investors. As for BRICS, its total holding of American debt instruments exceeds US$ 1700.2 billion.[11] These countries might want to reduce their exposure to the US Treasury and other debt instruments, as returns are far lower than inflation rate. Latest data indicates that trade surplus countries in East Asia have an astounding US$ 6.7 trillion in foreign exchange reserves – about two-thirds of the world's total. It is this large investible capital which is fuelling the politics of mega infrastructure projects in Asia. AIIB could mop up this massive capital through bonds. Thus, the possibility of AIIB getting more financial traction in the coming years remains very high.

The Geo-finance of 'OBOR'

The 'Great Game' and the 'Invisible Hand' seem to be working in tandem.

The influence of Asian geography, demography, and economy on finance reveals valuable insights. One of the viewpoints is that finance – and not force – is guiding Chinese foreign policy towards Asia under the new dispensation headed by President Xi Jinping. Conventional analyses highlighting the geopolitics of the Middle Kingdom exacting tributes from vassals are clearly unhelpful in the context of finance transforming Asian geo-politics and economics. The arch geo-politician, Henry Kissinger, has surmised that China will create more multilateral institutions in the twenty-first century, wherein it can sit at the centre. It would do this more for its own security.

Xi Jinping unveiled the Silk Road Economic Belt in a speech at the Nazarbayev University in Astana, Kazakhstan in September 2013; a few weeks later in early October, he announced the 21st Century Maritime Silk Road in his address to the Indonesian parliament.[12] The largest ever infrastructure development project in human history, the 'OBOR' would change the way man has known to live and work. 'Belt' is an 8000 mile long high-speed road and rail transportation, energy pipelines, fibre optics, 'industrial parks', and 'smart cities'. A road of diverse cultures, it covers around 4.4 billion people, and an economic output of US$ 21 trillion. Likewise, the maritime 'Road' spans ports of some 50 countries.

A map published by the *Xinhua* news agency in 2014 shows the 'Belt' as starting from Xian in Central China. From the borders with Kazakhstan, it then runs across most of the Central Asian republics, Iran, Iraq, Syria and Turkey; and further, it covers large parts of Eastern Europe before reaching Duisburg. From Germany, the 'Belt' moves towards Rotterdam before swinging south to end at Venice. The maritime 'Road' starts from Quanzhou in Fujian province and heads south to the Malacca Straits. From Kuala Lumpur, it goes to Kolkata; then crosses the rest of the Indian Ocean to Nairobi. From Kenya, it goes around the Horn of Africa and moves through the Red Sea into the Mediterranean. With a stopover in Athens, the 'Road' meets the 'Belt' in Venice, Italy.[13]

The 'OBOR' is not for tomorrow; it is for here and now. In the first six months of 2015, Chinese companies signed as many as 1401 project contracts worth US$ 37.6 billion in countries on the silk roads.[14] It is already making the different nations position themselves strategically. Russia is on board; so is the Shanghai Cooperation Organisation (SCO). The 14th summit held at Ufa on 8–9 July 2015, entrusted SCO to entwine the China-sponsored silk roads project and Russia-led 5-nation Eurasian Economic Union (EEU). In other words, the security alliance has been tasked to effect economic coordination and connectivity in the Eurasian landmass. Thus, some 63 Chinese projects are already underway in some 60 countries which would be traversed by the 'OBOR'. It is believed that about US$16 billion of the silk roads fund would go to projects in Central Asia. If, and as and when, the development bank of SCO is created, it would bankroll the multilateral projects in the now-expanded Organisation. Importantly, BRICS itself has witnessed an 'easterly geopolitical flow' at its seventh summit in Ufa.[15]

Countries enter into security pacts for their own perceived benefits. Russia needs China to fight the Western design to keep it off the Eurasian landmass; and China needs the Russian east both for strategic depth and its friendship to handle the confrontational US naval pressure in the South and East China Seas. Russia wants China to finance energy and transport infrastructure in its Siberian and Far Eastern region, with connectivity towards western China; and China wants to have access to Russian energy resources and defence know-how. It is thus that China has 'reset' the relationship with Russia, and Russia has 'pivoted' to Asia – perhaps for rest of the century.[16]

The induction of India, Pakistan, and soon Iran, as full members gives the SCO an elevated status as an international organisation, and an expanded role in South Asia and the Middle East. The SCO could mark the initiation of a new collective security system in Asia. Intra-SCO negotiations were reportedly 'lengthy and difficult' on the question of India's membership; China eventually dropped its opposition, and is reportedly keen to have India on board for its AIIB and silk roads project.

The 'northern tier' states of the Cold War era, viz. Pakistan, Iran, and Turkey are all showing easterly geopolitical proclivities. NATO countries have their own conviviality. Several European allies hold the view that the USA might have exaggerated the fears of AIIB and the silk roads to sell its own Trans-Pacific Partnership (TPP) and spoil their relations with China. There is good reason to believe that USA and China would eventually cooperate on the silk roads project. It would take decades as well as billions of dollars of investment for the 'OBOR' to materialise. As vast and complicated a project as this one "will need US technology, experience, and resources to lower risks, remov[e] political barriers for other allied countries like Japan to join in, while maintaining US influence in Eurasia. The silk roads could enhance US objectives, and US support could improve the outcome of the project."[17] An editorial in the *Wall Street Journal* argues that the US-championed TPP and China-sponsored silk roads project are "complementary, with the trade agreement aimed at writing rules for international trade, while China aims at developing infrastructure necessary for increased trade."[18] The USA and China are on the same page; informal reports suggest China will eventually become part of TPP.

The 'Silk rush' is bringing in metamorphic changes in its wake. Asian geography will change: there is this 10-year, US$ 28 billion, 100 kilometre project for a canal at Kra Isthmus which would connect the Gulf of Thailand and the Andaman Sea, reducing the dependence on the Malacca Straits.[19] Asian geo-strategy will change: Indonesia has the US$ 10 billion infrastructure project to become the maritime bridge to Africa. So will the Asian economy change: China proposes to inject US$ 62 billion in the China Development Bank and others to raise their capital through the sale of infrastructure bonds for the silk roads projects. And, ethnic politics in Xinjiang will be read differently, once Urumqi and Khorgas emerge as major trade and transport hubs, and Kashgar connects with Gwadar.

BRICS of Gold

From being largely a discussion group in Yekaterinburg in 2009, BRICS has reached a stage where it offers two 'public goods' to the international community in the form of the New Development Bank (NDB) and the Contingency Reserve Arrangement (CRA). Progress on NDB and the 'bail-out' CRA had remained stalled almost for two years. China had wanted a bigger share and voice in the BRICS bank. Diplomacy finally prevailed at Fortaleza when Brazil and India convinced everyone that capital participation remains equal among members, and that India should have the first go on the presidency of the NDB. The BRICS summit showed remarkable speed and alacrity in institutionalising the bank. The first meeting of the Board of Governors – comprising Finance Ministers with central bank governors in tow – was held on 7 July 2015 in Moscow. It appointed members of the Board of Directors and senior management led by the NDB President Kundapur Vaman Kamath. The Board of Governors is ministerial, whereas the Board of Directors has senior officials to manage the operations and structure of the bank. The management assumed office in mid-July at the head office located on the 8th floor of the 22-story China Financial Information Centre in Lujiazui – the financial district of Shanghai. With subscriptions paid in, NDB will be approving the first slot of infrastructure projects as early as April 2016.

The Shanghai-based NDB and the Beijing-based AIIB are similar in their capital base and governance norms. Both will be operational by the end of 2015. It was agreed at Fortaleza that a Russian would be the first Chairman of the Board of Governors; and the first Chairman of the Board of Directors would be a Brazilian. Russia's Finance Minister Anton Siluanov accordingly chaired the first meeting of the BOG in Moscow on 7 July 2015. Zhu Xian of China, Leslie Maasdorp of South Africa and Paulo Nogueira Batista of Brazil have been designated as Vice Presidents. South Africa shall head the African Regional Centre of the NDB which shall finance infrastructure project in Africa. The Presidency of the NDB would be rotational; and shall always go to one of the BRICS countries. Brazil and Russia shall follow India in heading the NDB.

Other countries could join; but the share of the BRICS will not be allowed to fall below 55 per cent; and key decisions in the management would have to have the majority vote of the founder countries. The President will be elected on the recommendation of one of the founding members on a rotational basis for a term of five years. Voting will be conducted on a weighted system according to the shares of the members. The decision will be made by a special majority, requiring the support of four out of five country representatives, and two-thirds of the general votes. The NDB shall finance infrastructure, primarily in the BRICS countries.[20] Putin had told the media at Ufa that there would be specific intra-BRICS projects ready for investment before the year ends.[21]

The NDB is driven by values similar to those of the AIIB: that is, to fight off the financial marginalisation of the developing and emerging economies under the Breton Woods system. Kamath has assured that the NDB will have a 'mindset' guided by all the stakeholders and not just the lenders; and an important aspect will be the speed and transparency of lending for projects in developing countries. The volume of NDB capital is put at US$ 100 billion of which the subscribed capital is US$ 50 billion. The paid up capital is US$ 10 billion; and payable on demand US$ 40 billion. The initial share is equitably allocated at US$ 2 billion each and the full payable capital will be formed in the next 6 to 7 years. Within two years, the NDB capital is expected to double to US$ 100 billion, giving it a total lending capacity of US$ 350 billion over time.

Anton Siluanov has described the US$ 100 billion 'bail-out' CRA as a 'mini IMF'. CRA got operational quickly – by 30 July 2015. CRA has a different structure: China contributes US$ 41 billion; Brazil. Russia and India US$ 18 billion each, and South Africa's contribution is US$ 5 billion. Countries are entitled to different degrees of access: China 50 per cent; Brazil, Russia and India 100 per cent; and South Africa can access upto 150 per cent of the committed resources of the CRA in case of a balance of payments crisis. CRA will not have a permanent secretariat, nor a legal personality of its own. It will be run directly by the governments and the central banks of the BRICS countries. It is reported that other countries wishing to access more than 30 per cent of their CRA could be required to have a programme with the IMF. BRICS' advice to Greece to negotiate with creditors structural measures to bring its commitment in line with the capabilities of its economy is an indication of the norms that shall govern the CRA.

Role in Search of an Actor

What is there for India in the AIIB, the 'OBOR', the NDB and, in the latest, the SCO? Equally important, what is it that India brings to these diverse fora?

The emerging financial architecture and infrastructure connectivity have roles which are in search of an actor. This is especially so in the areas of norm-setting, institution-building, fair governance, sustainable and inclusive development, and financial pluralism. The NDB was an Indian idea, and India insisted on shepherding the bank during its infancy. A part of the reason was India wanting to lend credibility to the bank; another was to keep the bank independent of any Chinese state influence.

India is a virtual *sin qua non* for the success of AIIB; and China understands this well. A development bank meant for Asia, without the second largest economy on board, would carry only incredulity. China has been mulling over the idea of a development bank for some ten years; and officials of some Asian countries also met first in 2009. New Delhi was, reportedly, sounded out early. Chinese foreign minister Wang Yi raised the issue during his visit to New Delhi in June 2014; and in October of that year, India had signed the Memorandum of Agreement. India also hosted a meeting of the chief negotiators of AIIB to signal its intent to shape the structure of the China-backed bank. At their bilateral meeting on the side-lines in Fortaleza, Xi Jinping had again raised the issue of India becoming the founding member of the AIIB. "The two countries should join hands in settling global rules, so as to raise the voice of developing countries," *Xinhua* quoted Xi Jinping telling Narendra Modi.

India has a nuanced position on the NDB, the AIIB, the Silk Roads Project, and the SCO. India pioneered the idea of NDB; it has warmly received the AIIB; as for the Silk Roads, *New York Times* describes India's position as "reticent". In Beijing, Foreign Secretary, Subrahmanyam Jaishankar described the 'OBOR' as "a Chinese initiative." Beijing did not approach the Indian leadership for participation. However, Jaishankar added: "We are open to discussing this with the Chinese whenever they want to."[22] The visit by an Indian Prime Minister to the five Central Asian republics before and after the

Ufa summit, his earlier trips to China and Mongolia, and his visit to the island states of Indian Ocean even earlier – all have something of an imprint of the 'OBOR' project. India is determined to link with the Central Asian on the Russia-backed North-South transport corridor so as have connectivity with Central Asia through the Iranian port of Chabahar. India is already in the BCIM (Bangladesh-China-India-Myanmar) Economic Corridor – the ancient south-western silk roads plied by bullion traders – connecting Kolkata with Kunming, the capital of Yunnan; and which shall also be India's gateway to Myanmar, Laos and Vietnam. As an editorial in the *Hindu* wrote, of all the engagements Prime Minister Modi had at Ufa, none perhaps was more important than "to begin the process of India's admission into" the SCO.[23] On 9 July 2015, India signed the document approved by the SCO secretariat initiating the ascension; it would be required to sign as many as 28 more documents before becoming a full member at the Tashkent summit in 2016.[24]

At the bilateral with China, on the side lines of the Ufa summit, India reportedly raised its concerns about the silk roads programme. In particular, India finds the US$ 46 billion China-Pakistan Economic Corridor (CPEC) 'unacceptable'. The 4000 kilometre-long corridor, connecting Gwadar port with Kashgar in Xinjiang, passes through the Pakistan Occupied Jammu & Kashmir (POJK), and also envisages military facilities. India also has apprehensions regarding SAARC: at the Kathmandu summit in November 2014, several of the neighbours had called for the full membership of China. This was, perhaps, to counterbalance India; or was it the lure of the Chinese promise of US$ 30 billion investment in infrastructure linking Kathmandu with Colombo? India is apprehensive that a China in SAARC would wield a veto on India-related projects: for instance, China restrained the ADB from funding projects in Arunachal Pradesh. Likewise, China has spent billions of dollars on infrastructure in the small island states in the Indian Ocean. This impinges directly on India's national security, and thereby its role as the security provider to the island states.[25] India is also apprehensive that China would use the silk roads to project its military might, and thus impinge on India's national security and strategic interests. The silk roads project was reportedly on the agenda for a discussion between Prime Minister Modi and President Xi Jinping; but, it seems that China could not allay India's concerns.[26]

With all significant European powers in the AIIB, along with Australia, Brazil, South Africa and South Korea, etc., a clearly discerned trend in international relations is emerging: the great powers seem to have decided to hedge their bets. They will work with China to reap economic benefits, and engage the USA in security matters. This is not an either/or choice; rather, it is a historic moment wherein a slight diminution in the political might of the USA and a slight rise in the economic weight of China can have only salutary effects on emerging powers like India. Broadly speaking, so long as the USA continues to engage China, and China accepts the legitimacy of the US presence in the western Pacific, it might be possible for India and other Asian powers "to continue to play both sides". The BBC's China editor has argued that in case the two drift towards competition, the "core of that rivalry will be who has better friends". [27]

The plus point for India is: neither the USA nor China could have a better friend than India on the Asian geostrategic landscape. And, India does not need to choose between them. Indeed, it has forsaken the binary approach and bipolarity generations ago. It is the one Asian country which is capable of setting an infrastructure development agenda which would carry credibility and acceptability in the rest of Asia. It is one country which puts a premium on its autonomy in its external relations – and there can be no diluting that. India also knows that 'counterbalance' is an archaic concept in the context of connectivity and interdependence; and that countries of the size and capability of India and China do not get 'contained'.

Though a politically polarised situation now obtains between the US-led West, Russia and China, these great powers are, nevertheless, economically interlinked. In this context, "India's best hope to emerge a leader lies in its ability to bridge the two".[28] SCO has been tasked to twine the EEU and the silk roads; at Ufa, Xi proposed a similar exercise involving India and South East Asia.[29] It is the first multilateral security system India has formally joined; what else the SCO holds for India in geopolitical terms needs to be deciphered, and subsequently applied in foreign policy arena.

Jim O'Neill had coined the acronym BRICS in 2001 because, never in the history of modern capitalism, have economies grown as fast and at such a sustained clip as the foursome have been doing. Moreover, they also hold the prospect of continuing to grow in the coming decades. However, intra-BRICS equations have changed since then. O'Neill says the only one who matters now is 'C'. Two of the BRICS, namely Russia and Brazil, are today financially much beholden to Beijing. China singly accounts for more than 60 per cent of BRICS GDP of US$ 16 trillion. Intra-BRICS trade totalled around US$ 168 billion in 2014, and it consisted mostly of China's bilateral trade with the other four. China is invariably the top trading partner; and all the other BRICS are tied to it as resource suppliers. For instance, India's current trade deficit is to the tune of US$ 48.43 billion in a total trade of US$ 72.34 billion. Trade in national currencies has been a pet theme at BRICS summits; only China has a three year US$ 30 billion trade agreement with Brazil, and another 3-year US$ 24.4 billion currency swap deal with Russia, signed last year.

Jim O'Neill makes a case for "making space for China."[30] Its US$ 10 trillion economy is bigger than those of France, Germany, and Italy combined; and even if China's annual output growth slows to 7 per cent, the country will still add some US$ 700 billion to global GDP in 2015. Japan would have to grow at something like 14 per cent to have that kind of an impact on the world. O'Neill calls for accommodating China as well as a few more emerging economies into the G 7, and reducing the Eurozone to one seat only. Kenneth Rogoff, former chief economist of IMF, believes that China "needs to be given space to forge its own approach to global economic leadership". As a first, the *renminbi* should be included in the IMF's currency basket.[31]

In Lieu of a Conclusion

Decades ago, Albert O. Hirschman had cautioned against 'paradigms that obstruct understanding'. Paradigms need to interpret the present and provide insights into the future of ideas and events. China has changed enormously in the last forty years: for instance, Chinese society today is more egalitarian and less hierarchical than earlier, and its governance more participatory at the grass-roots level.[32] Development indicators tell their own story: at the end of March 2014, annual car sales in China stood at 19.7 million compared to India's 1.9 million. At the end of March 2013, India's GDP stood at US$ 1.88 trillion compared to China's US$ 9.24 trillion; and GDP per capita of US$ 1,498 can hardly be compared with China's US$ 6,807. India's total exports of US$ 313.24 billion pale before China's exports at US$ 2.21 trillion.[33] The change is also noticeable in external relations: China is said to have as many as 72 partnerships in different forms and at different levels, with 67 countries and 5 regions/regional organisations, including with the SCO.[34]

India has its own huge infrastructural needs; and one gets some idea about how this holds the country back. Inadequate sanitation costs India more than six per cent of its annual GDP; about 40 per cent of India's fresh produce is lost in transit; and twenty-one million metric tonnes of wheat – equivalent to Australia's annual production – is lost due to inadequate storage and distribution facilities. One can understand why 'Make in India' has been made the cornerstone of Indian foreign policy, and why there is a palpable urgency and determination in the foreign policy of Prime Minister Narendra Modi to boost investment in infrastructure and manufacturing. At Ufa, Prime Minister Modi called for developing manufacturing supply chains across BRICS, and to finance clean energy projects. The NDB and AIIB would be major sources of funding in projects on energy, health and sanitation, transportation, and connectivity.[35] SCO opens up new and vast geo-political and -economic vistas for the country in the Eurasian region.

In brief, development finance is reshaping Asian geopolitics; and infrastructure development is about to change many a conventional wisdom. The one challenge is to the leadership of India and China to do some 'calibrated futurology' to get over their present limitations.

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