

mintessayy

A celebration in Yokohama and a summit in Beijing

Led by Japan, the Asian Development Bank has helped transform this continent over the past 50 years. Now, China is taking the lead and its Belt and Road Initiative is only one of three key tools

SUDIPTO MUNDLE

is emeritus professor at the National Institute of Public Finance and Policy and was a member of the Fourteenth Finance Commission.

Some 6,000 delegates came together in Yokohama earlier this month to celebrate the 50th anniversary of the Asian Development Bank (ADB). Indeed there is much for the ADB to celebrate. Its growth during the past five decades has been phenomenal. Thirty-one member countries, the original owners of ADB, launched the bank with an authorized capital of only \$1 billion in 1966. That capital has since grown to \$143 billion. Its level of assistance, including loans, equity investment, guarantees, grants and technical assistance, has grown from around \$100 million in the initial years to as much as \$17.5 billion per year at present.

That Japan hosted the ADB's 50th anniversary celebrations has considerable historical significance. The inaugural meeting which established the ADB was also hosted by Japan in Tokyo 50 years ago. Japan became the largest shareholder of the bank along with the US. And as the largest Asian shareholder, it has nurtured ADB and provided all the presidents who have led the bank from the very beginning. The location is also significant for another reason. The Yokohama event was not just a celebration of ADB's 50th anniversary, but also a celebration of the transformation of Asia with which ADB's growth has been inextricably linked.

At the time when ADB was established in 1966, the Asia Pacific region was the poorest in the world with a per capita income of about \$100, less than the per capita income of sub-Saharan Africa and only about a quarter of that in Latin America. Today, the region has a per capita income of over \$5,800, measured at constant 2010 prices, according to ADB estimates. It now accounts for about a third of global GDP and over half of global growth.

This remarkable rise of Asia was also initially led by Japan. Recovering from the devastation of World War II, and supported by US security cover and economic assistance, Japan was able to clock nearly three decades of exceptionally high growth. By the end of the 1970s, it had become the second largest economy in the world. In the wake of Japan's high growth, it pulled along the countries of East Asia, and later other countries of the Asian region as a whole. This growth experience where the leading economy pulls along the follower economies in an orderly pattern of catch-up through linkages of trade, technology transfer and capital flow was evocatively captured in Kaname Akamatsu's flying geese paradigm of growth (FGP).

However, neither Akamatsu's original FGP nor its subsequent updates anticipated that the orderly sequence could also be disrupted by a follower country not only catching up but even overtaking the lead economy. China's long spurt of growth started in the 1980s, later than in the rest of East Asia. But its astonishingly high rates of growth were historically unprecedented and the growth spurt has persisted for nearly four decades. Though growth has recently slowed, it is still very high at around 6.5%. China

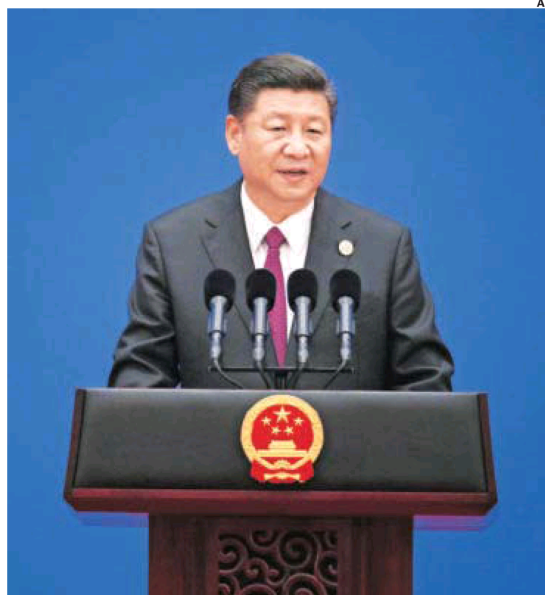
is now the largest economy in the world, accounting for nearly 18% of world GDP in purchasing power parity (PPP) terms. By the same metric, Japan is now the fourth largest economy after China, the US and India with a global gross domestic product (GDP) share of 4.4%. However, its per capita income of nearly \$39,000 in PPP terms is still far higher compared to any other Asian country.

So, China is now the leading economy in the FGP and it has positioned itself carefully through multiple policy initiatives to lead not just Asia but the entire global economy. At the beginning of the second millennium, when China together with India accounted for about half the world's population and also half of global GDP, Chinese rulers could legitimately consider themselves to be the Middle Kingdom—the centre of the world. Thereafter, the pendulum of economic power swung away from Asia. Now, the pendulum is swinging back towards Asia after 1,000 years and China could well re-establish itself as the Middle Kingdom. The three key pillars of China's strategy are the Regional Comprehensive Economic Partnership (RCEP) initiative, the Asian Infrastructure Investment Bank (AIIB) and the flagship Belt and Road Initiative (BRI).

The RCEP is China's response to the Trans-Pacific Partnership (TPP). A US-led free trade area initiative of countries around the Pacific which excluded China and was clearly aimed at containing its reach in world trade. One of President Donald Trump's first decisions was to exit the TPP, scoring a massive self-goal against American interests. This has provided a great opportunity for China. At the World Economic Forum meeting last year, President Xi Jinping had already presented China as the new champion of free trade. Now, with TPP out of the way, China has free reign to push ahead with RCEP. However, so far, it remains a relatively loose free trade agreement with many issues still under discussion. Since many of its participants also belong to the TPP group, it is possible that eventually, some of the key chapters of the TPP agreement may get incorporated in the RCEP.

The second pillar of the strategy is the AIIB, which started operating in 2016. Though promoted by China, which is also its largest shareholder, China seems committed to establishing the AIIB as a genuinely multilateral institution. It now has a membership of 70 countries from around the world, the only notable exceptions being the US and Japan. Moreover, AIIB seems keen to adopt global best practices in multilateral development banking as indicated in a recent interview by Jin Ligu, the first president of AIIB. He was groomed for the job through earlier stints at the World Bank and as a vice-president of the ADB.

When the AIIB was first established, the buzz was that it would be in competition with the ADB. In his interview, Jin pointed out that the AIIB is authorized to lend up to 2.5 times the



The three pillars of China's strategy are the RCEP initiative, the Asian Infrastructure Investment Bank and the flagship Belt and Road Initiative

equity of \$100 billion, i.e., up to \$250 billion. He was in effect indicating that the AIIB can operate on a scale significantly larger than the ADB and comparable to that of the World Bank. Long before the AIIB was established, he is reported to have said, referring to the global financial architecture, that if China was not given a seat at the table, it would establish its own kitchen. That kitchen has now been established and the AIIB, RCEP and BRI are its three pillars.

By far the most important of these three pillars is the BRI. For many years, the ADB has pioneered regional cooperation through cross-border projects. But China has taken the concept to a whole new level. The BRI is a giant portfolio of infrastructure projects in 68 participating countries along the belt and the road. The belt consists of several economic corridors across the Eurasian landmass. The road is planned as the maritime silk route from the eastern China seaboard via Singapore and India to East Africa and the Mediterranean. The infrastructure backbone of these projects will include roads, railroads, ports, hydrocarbon pipelines, power projects and special economic zones along the corridors.

Most of the countries along these corridors are infrastructure and capital deficit, while China has surplus capital, large excess capacity in the steel and construction material industries, and many experienced infrastructure building companies. Building these corridors will revive growth, use up China's idle capital and industrial capacity and provide markets for Chinese companies. At the same time, it will provide scarce capital, develop infrastructure, and generate employment in the recipient countries—a win-win strategy which has been compared to the US Marshall Plan for Europe.

The BRI will cost an estimated \$100 billion to \$150 billion for the next 10 years, which will be mostly financed by Chinese loans to the host countries. Loans would probably come mostly from the China Development Bank and The Export-Import Bank of China. China's two giant development banks. It would also come from the recently established Silk Road Fund, AIIB, and the New Development Bank. However, it is reported that there are conflicts among the many Chinese agencies involved in BRI, that many of the identified projects are not bankable and may default on their loan repayments, and that there is pushback from the host countries in some projects.

To address these issues and take stock of progress with BRI, China hosted a summit of participating countries in Beijing last weekend. With 29 heads of state, including President Xi of China, attending along with delegations from over 60 countries, it was China's most important foreign policy event of the year. All major advanced and emerging market economies participated, including the US and Japan. India was the only exception.

The decision whether or not to participate was a difficult one for India. Its several outstanding issues with China notwithstanding, China is the emerging global superpower, a neighbour and also one of India's largest trading partners. It is in India's interest to develop a strong economic relationship with China. Accordingly, India became a founding member of AIIB and a participant in RCEP. China, too, is keen on India's participation in its economic initiatives because India is today the fastest growing major economy in the world and the third largest economy after China and the US in PPP terms.

However, the China Pakistan Economic Corridor, a major component of BRI, directly conflicts with India's sovereignty as it passes through Pakistan-occupied Kashmir. So, India decided to stay away in protest. In a similar situation, when the ADB approved a loan project for India in Arunachal Pradesh, where China makes territorial claims, China had also protested vehemently. Eventually, a face-saving compromise was worked out. Perhaps India's response to the BRI forum invitation could also have been more nuanced.

Comments are welcome at views@livemint.com

drawbridge

