

# **AIIB will play the role of financial leverage and synergy in Asian infrastructure investment**

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The Asian Infrastructure Investment Bank(AIIB) is an intergovernmental organization of multilateral development banks(MDBs) dominated by the developing countries in Asia. Its mission is to promote Asian economic integration and sustainable development through investment in Asian infrastructure and other productive areas. AIIB was initiated by China in 2013 and formally established in December 25, 2015. As a baby and newcomer, the influence of AIIB could be very limited. Especially during start-up stage, there is a pressing urgent to study relevant business and accumulate experience. So, all aspects of society should shelter it and help it to begin in taking a stable pace, while not give it too much duty and unrealistic expectation.

AIIB has just capital of \$100 billion. However, the total assets would reach \$1 trillion by backward reasoning according to the capital adequacy ratio of 10%. The commercial financial institutions have played fundamental part in the international financial market. Normally, the

financial institution of development can effectively compensate for the dysfunction of market or government. In my view, it would be not a reality that AIIB meets all financial demand of “one Belt and one Road” construction. Its maximum impact could reach \$10 trillion if AIIB just provides the 10% funds in the portfolio of project investment. The actual size of being brought along by AIIB would be less than this figure.

First of all, we could understand that AIIB has to cooperate deeply with governments because any borrower has to repay principal and interest. No free lunch in the world. Generally speaking, the loan of AIIB needs to be guaranteed by sovereign credit. Due to the diversified funding sources of investment projects, the AIIB should cooperate with a variety of institutions, including governments, industrial and commercial enterprises, commercial banks, multilateral development banks and capital markets. Therefore, AIIB couldn't be alone in depth. Its main task is to reasonably lead social capital to invest in Asian infrastructure.

Second, AIIB should cooperate with other financial institutions of development. In recent years, China Development Bank made a crucial contributions to the success of making up the dysfunction of commercial finance and fiscal policy in the shanty towns, infrastructure construction and in the high-tech field. Nowadays, China Development Bank has rich experience, but also its dollar loans is even far ahead of the world bank. So, the priority of AIIB should mutually support with China Development

Bank. Furthermore, AIIB should jointly invest with World Bank, Asian Development Bank, and European Bank for Reconstruction and Development.

Third, AIIB should cooperate with private investors, especially the PE fund such as Silk Road Fund, all kinds of merger and acquisition fund, and industrial and commercial enterprises. These institutions provide equity capital that take the risk and is a deductible funds. Without them, the project's financial structure just loaned by AIIB will be unreasonable. In other words, AIIB will face with huge risk. Especially, the listed company should play an important part in the portfolio. The reason is the listed company, as a capital operation platform, has a lot of financing means such as issuing shares and bonds to attract social capital to actively participate in “the Belt and Road” construction.

Fourth, AIIB should cooperate with other commercial banks. The commercial banks can not play the leading role in investing infrastructure. The leading role should be the non-financial enterprise and all kinds of institutional investor. The Belt and Road construction needs large funds. Considering the risk, the debt rate of project should be not too high. Its construction cycle is longer and the investment return is lower. However, it has a great advantage to produce the economic externality that can strongly support for the sustainable development of economy. Obviously, the commercial banks' active involvement can quickly increase the scale

of funds and diversify the risk of investment.

Fifth, AIIB should connect with the capital market. As an international financial center, Shanghai should promptly launch the international board market so that foreign companies can issue stocks denominated by RMB, and form a relatively large pool of funds so that foreign enterprises have the means of financing to actively participate in “the Belt and Road” construction. In addition, the issuance of Panda bonds is conducive to the RMB play a greater role in the Belt and Road construction. Recently, the RMB has slightly depreciated to the US dollar and the interest rate gap between China and America has narrowed that is helpful to the issuance of Panda bonds. AIIB should seize this opportunity to widely use RMB in its business.

Sixth, AIIB should encourage financial innovation. Its first choice is to participate in the model of public private partnership(PPP) that can create a mechanism to diversify risk and share benefit, so that more social capital guided by public sectors will invest in infrastructure. Second is financing lease that can break up the whole into the part by deferred payment to solve the problem of current large-scale cash payment. This model is suitable for large equipment investment. Another choice is asset securitization that can absorb more savings to improve the liquidity of assets basing on a stable cash flow in the future.

In addition, we could also plan to establish a regional financial center at Urumqi city in western China by setting up a financial exchanges denominated by RMB to facilitate the project finance along with “the Belt and Road” and to enhance the interconnection of Asia and Europe, and then to promote international trade, investment and financial cooperation.

To sum up, AIIB should only play a role of financial leverage and synergy in Asian infrastructure investment. There is an old Chinese saying that “many hands make light work”. Obviously, strengthening the mutual cooperation with the partners would be significant to the AIIB’s sustainable development.