Alignment Minus Alliance  
*India’s China Quandary on Alternative Institution Building*

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The phenomenon of “India rising” has hitherto been overshadowed by “China rising.” A point of view has taken root that China, as an emerging economic powerhouse, is taking the lead to restructure and redesign the global financial and political order. Given its vision for greater leadership, China does not seem to be a traditional status quo power anymore. Rather, China aims to emerge more as a revisionist power. Perceived indicators of this trend are China’s propelling the establishment of the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) under BRICS (a concept which, incidentally, was first put forth by India), reviving the idea of a Free Trade Area of the Asia-Pacific (FTAAP), and taking the lead in the ASEAN-led Regional Comprehensive Economic Partnership (RCEP). Where does India stand in this picture?

**Between Bretton Woods and Alternatives**

Reforming the Bretton Woods institutions—particularly the International Monetary Fund (IMF) and the World Bank—has been a clearly enunciated objective of India’s foreign policy for some time. With its rising economic strength, the Indian dialogue on reforming these institutions has primarily focused on the role of the developing world, where India recognizes China as a partner.

Three issues are central to India’s perspective on this matter. First, India has been demanding a reformed governance process in the IMF and the World Bank in order to provide more opportunity and representation for developing countries. For example,

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1. The five BRICS countries are Brazil, Russia, India, China, and South Africa.
India has been advocating for a new application of the global financial institutions’ “quota formula,” which is supposed to be linked to the economic strength of a member country. Economic strength normally determines a member’s voting rights. For these reasons, India has been demanding a review of the quota formula for some time, given that the economic strength of the developing countries has grown substantially over the last decade or so.\(^3\) At the 2012 Group of 20 (G-20) summit in Los Cabos, Mexico, then-Indian Prime Minister Manmohan Singh expressed the view that “quotas must reflect economic weight, in a manner that is simple and transparent.”\(^4\) On this aspect, India is in agreement with China, which also advocates greater representation for the developing world in the IMF and the World Bank.

Second, India’s advocacy is linked to its need for more loans, grants, and funding for infrastructural development and for other projects in developing societies. Regarding this issue, Indian discourse has a dual purpose. For one, India expects to receive more funding from the IMF and the World Bank. At the same time, New Delhi wants to explore new avenues and forums for obtaining development funding. To cite one instance, then-Prime Minister Singh said at the 2010 G-20 summit in Seoul that “multilateral development banks have a key role to play in investment and infrastructural development.”\(^5\)

Third, from India’s perspective, the Bretton Woods institutions are heavily clouded by the “protectionist tendencies” of the industrialized countries. India’s position, also outlined by Prime Minister Singh at the 2010 G-20 summit, is based on four objectives: (i) avoiding competitive devaluation and resisting protectionism; (ii) ensuring advanced deficit countries follow the policies of fiscal consolidation; (iii) undertaking necessary structural reform of the global financial structure; and (iv) preserving flexibility in exchange rate and reserve currencies.\(^6\) The Chinese have also long been advocating against the “protectionist tendencies” of the developed countries in global financial institutions.

Despite these areas of agreement, the perspective shared by India and China is temporal and conditional, essentially tempered by their differing foreign policy perspectives and distinct national interests. The Chinese outlook on reforming the Bretton Woods

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\(^6\) Ibid.
institutions and forming alternative institutions is concomitant to Beijing’s vision of its own position in world affairs. Specifically, China seeks to maximize the strategic interests that are important to its rise and, most importantly, to check the prevailing American dominance regionally and globally. As for India’s perspective, Indian economic prominence has yet to reach a level where it can pursue a multiple vision of a Chinese parallel, nor does India aim to jettison its reliance on the IMF and the World Bank. The influence of the Western economy in India is too strong to allow for a singular reliance on emerging alternative institutions. Thus, the Indian perspective is more linked to the concurrent balance that India aims to uphold between the developing and developed worlds. In any case, India’s relationship with both the United States and the European Union (EU) is far too strong to be discarded lightly.

NDB: India’s Presidency and China’s Premiership

As discussed in the previous section, India views emerging economies as disadvantaged in terms of the treatment they receive from the current international trade and financial structure. Although, as noted by the Reserve Bank of India (RBI) Governor Raghuram Rajan, the NDB is not “meant to challenge the existing multilateral institutions,” the institution would nevertheless help emerging economies explore new opportunities and avenues for long-term risk-oriented project investment. RBI Governor Rajan also said, “One of the biggest lacunae in emerging markets is patient, risk-bearing money, so if we can have a bank which is willing to take junior stakes or equity stakes… that would be a really good thing.” In other words, India perceives the NDB as an alternative to the existing financial institutions—a source for funding crucial infrastructural development needs. Notably, this Indian perspective is congruent with the overall BRICS outlook. In calls for reforming global financial institutions, the BRICS have stressed the difficulty developing countries face in financing infrastructural development. This issue was aptly noted when the BRICS countries formally announced the NDB’s establishment with the 2014 Fortaleza Declaration, which emphasized the continuous “financing constraints to address infrastructure gaps and sustainable development needs” in emerging market economies and developing countries.

The division of leadership within the NDB makes it a truly cross-continental institution. The Chinese succeeded in establishing the NDB headquarters in Shanghai; the presidency of the Bank remains with India for five years; Russia chairs the Board of Governors; Brazil chairs the Board of Directors; and South Africa holds the Africa regional center of the NDB. The NDB’s modalities of operation are yet to be finalized. But the bank, with an initial authorized capital base of $100 billion, promises to mobilize resources for infrastructure and other forms of development. The Fortaleza

8 Ibid.
Declaration notes that the opening subscribed grants of $50 billion will be equally shared among the bank’s founding members. With this equitable distribution of initial capital and shared responsibility among the BRICS member countries, one may be led to believe that the NDB’s governance process and operations will be based on principles of equality and equal distribution.

Graph I. Contribution to WTO Budget, 2014

Data: All the figures are approximate.

In practical terms, however, this is not likely to be the case. China’s involvement in the NDB is linked to its strategy to increase its global power. In line with this goal, the structure of the NDB is likely to give China a definite edge in determining the bank’s operations. Several factors point to this potential development. First, the bank’s headquarters are within Chinese territory. China has more millionaires than other BRICS countries, and Shanghai has more millionaires than even Beijing. China may have greater say in influencing the bank’s day-to-day affairs, granting loans, or pushing particular projects by offering more capital or financial backing to the NDB. Unlike in democratic countries, the Chinese business community is heavily backed by the Communist Party of China (CPC) and the Chinese government. Second, China is the third largest contributor to the World Trade Organization’s (WTO) budget (see Graph I), surpassed only by the United States and Germany. This indicates Chinese economic supremacy over the other BRICS countries both in and outside of the NDB. Given its economic weight, it would not be surprising if China demands greater rights or privileges in the NDB. Third, the NDB’s Board of Governors and Board of Directors are chaired by Russia and Brazil, respectively. China maintains positive and stable relations with these countries. Fourth, China’s far-reaching trade and economic contacts with Russia, Brazil, and South Africa will contribute to limiting the Indian influence in the NDB. In terms of both commercial and merchandise global trade, China dominates the other BRICS countries (see Graphs II and III). Fifth, because China has emerged as a strong and influential factor in Africa, locating the NDB’s regional center in South Africa will likely help the Chinese to establish close ties between the regional center and the headquarters in Shanghai. One of the factors contributing to China’s ascendance in Africa is its strong advocacy of permanent African continental representation.

In contrast with these concrete advantages, India’s presidency of the bank is more symbolic in nature. The NDB is still an institution in the making. Therefore, it is difficult to know whether and how the Indian presidency will eventually help India to increase its influence both in and outside of BRICS. But it is becoming clear that, because of Beijing’s economic supremacy, India’s influence will be secondary to China’s.

Graph II. Share of World Commercial Trade, 2014

![Graph II](source.png)


Graph III. Share of World Merchandise Trade, 2014

![Graph III](source.png)


China’s economic advantages may help Beijing to not only influence the NDB’s decisions, but also gradually dominate its proceedings, which may vex India. Two specific matters may aggravate this friction: (i) the type of infrastructure projects that the NDB will finance; and (ii) the source of funding for such projects. In regard to the first factor, India’s infrastructure development requirements are huge, and furthermore, they are different from those of other BRICS countries. Therefore, it may be difficult to reach consensus on the types of projects that will be implemented as well as their funding...
criteria. The second aspect regarding funding sources may also create friction. Given its economic authority, China may want to fund most of the NDB projects, which India may not find palatable. Due to the complex security situation between India and China, New Delhi has always been hesitant to accept funding from Beijing or support Beijing-backed projects. With the exception of the recent agreements on establishing industrial parks and sister city or provincial-level engagement at the bilateral level, India has been cautious with regard to China's investment and financial proposals. In addition, will the NDB be open to the idea of funding loan proposals to carry out infrastructure development in disputed regions? It should be noted that India's proposal for a loan from the Asian Development Bank (ADB) to carry out infrastructure development in India's northeast region was sternly opposed by China on the basis that Beijing calls the state of Arunachal Pradesh—which is a part of India's sovereign territory—a disputed region.

If the NDB emerges as another arrow in China's quiver in its quest for global prominence, as seems likely, the NDB may eventually facilitate the promotion of the Chinese currency as the most prominent currency in the world market. The Master Agreement on Extending Credit Facility in Local Currency and the Multilateral Letter of Credit Confirmation Facility Agreement between EXIM/Development Banks, two agreements under the BRICS Interbank Cooperation Mechanism, are important indicators of this potential. These agreements allow BRICS members to not only boost intra-BRICS trade cooperation, but to also facilitate the use of member countries' currencies as the direct medium for intra-BRICS trade transactions. In brief, this would allow BRICS members “to reduce dependence on the U.S. dollar, cut trading costs, [and] increase trade and investment flows.” The dominance of the Chinese yuan within BRICS gives it an edge to emerge as the medium of exchange within BRICS and in the NDB. The approximate combined foreign exchange reserves of the BRICS is around $5 trillion, of which China holds roughly $4 trillion. China's foreign assets comprise half of its gross domestic product, a ratio that no other country can match. China has been hunting for any opportunity to decrease the influence of the U.S. dollar in the world economy. The NDB may become instrumental in helping China realize this objective. If this happens, India's growth strategy in terms of the value of its rupee will certainly be affected.

The AIIB Alternative: Is India Conceding to China's Authority?

The NDB not only implies the potential beginning of a new global financial order, but also builds upon growing Chinese leadership in world affairs. Consonant with

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this trend is the Chinese initiative to establish the AIIB. How does India view the AIIB and its role in facing China's ambition of establishing a regional economic order congruent with its aspiration for an improved position in the global financial order? As of yet, New Delhi has been quite cautious in expressing its views on the Beijing-proposed AIIB. A detailed perspective from Indian officials with regard to the AIIB is still missing. Politically, India has signed the Memorandum of Understanding (MoU) to join the AIIB, signaling to the world that it does not want to be left out of the emerging regional economic order. But diplomatically, there is a more nuanced significance attached to it. India's stance has to be understood mainly in terms of the changing discourse of regional politics, in which China is now an influential power and factor.

China proposed the AIIB against the background of the United States's “pivot toward Asia” policy. Chinese President Xi Jinping made the proposal at the 2013 Asia-Pacific Economic Community Chief Executive Officer (APEC CEO) meeting in Bali, Indonesia, primarily aiming to promote infrastructure development and economic growth in Asia. China has advocated that the AIIB become a leading investment bank in Asia to facilitate regional cooperation and developmental partnership with multilateral and development institutions. The Chinese further reason that the AIIB will nurture and harness resources from within Asia as well as outside the region, while maintaining consistency with other leading multilateral development banks in the world.

India signed the MoU on 24 October 2014 in Beijing, becoming one of the bank's twenty-one founding members. This was a surprising move, as India often finds its strategic interests in Asia differing from China's interests. Given the two countries’ conflicting stances on building infrastructure in various parts of Asia, including in both the maritime and land corridor domains, India's political decision to join the AIIB prompts a debate: Is India conceding to China's authority and influence both in Asia and elsewhere? India's rationale for going forward with this initiative becomes even more puzzling due to the fact that India has yet to accept the Chinese-proposed Maritime Silk Road (MSR) and Silk Road Economic Belt (SREB).

The AIIB MoU is not legally binding; it is so far just a political commitment to start the bank. Negotiations regarding the AIIB’s mode of operations, governance procedures, and the issues it would address will be carried out in 2015. It is also expected that the Articles of Agreement, which will be legally binding, will be signed in 2015. India's approach to the AIIB is crucial, particularly given that the AIIB is linked to Asia's regional architecture as well as global governance structure and economic growth. In deciding to join the AIIB, India has perhaps decided it does not wish to pass up the advantages and opportunities that the Chinese economy offers to Asia and the world—opportunities from which India can benefit. Pursuing trade and economic engagement and partnering with China in multilateral mechanisms have been stable aspects of India's China policy and overall India-China relations. India's engagement with China on the economic front demonstrates the pragmatism in India's China policy. However, India's decision to join the AIIB is most likely linked to the changing course of Asian and global governance.

Three practical reasons may have induced India to decide to join the AIIB. First, the
progression of India-China bilateral ties has been advanced as a “developmental partnership.” During Xi Jinping’s visit to India in 2014, and as noted in the Joint Statement of the two countries, India and China expressed an interest in shaping a “developmental partnership,” which would be an important module of their “Strategic and Cooperative Partnership.” The pledge to foster a developmental partnership is contextualized at both the bilateral and regional levels. This developmental partnership may have its limitations, and we may instead witness only a “limited partnership” as the strategic interests of the two countries clash at the regional level. Nevertheless, in regional and global economic engagement and interaction, there has been steady and progressive growth in India-China ties. India’s decision to join the AIIB seems to be a part of this trend.

Second, India may foresee the AIIB becoming an important alternative institution that is beneficial to developing nations in Asia and beyond. It is in the common interest of India and China to work together in mutually beneficial multilateral institutions or structures. This approach has been seen in India’s association with China in BRICS and its institutions, the Russia–India–China (RIC) trilateral framework, the Bangladesh–China–India–Myanmar (BCIM) sub-regional mechanism, and the on-going trade liberalization negotiation of RCEP (where India is linked to China through the ASEAN+6 mechanism). Another indicator of this mutual benefit was also seen in China’s invitation to India to attend the APEC preparatory summit meeting in Beijing in 2014. Furthermore, India is now seeking membership in the Shanghai Cooperation Organization (SCO), where the SCO Development Bank is aiming to finance multilateral infrastructural projects connected to India.

Third, aligning with China serves India’s interest in reforming the Bretton Woods institutions. It is well known that the IMF is largely dominated by the Europeans, the World Bank by the Americans, and the ADB by the Japanese. In proposing the AIIB, China wants to make a leadership statement in the regional and global financial order. Given India’s stable relations with Europe, America, and Japan, it is perhaps prudent for India to engage with China in this area. India’s main intention here is to engage with China economically, though not strategically. Because China has become the main driver behind numerous economic initiatives, India cannot ignore its influence in Asia. Chinese leadership of the RCEP negotiations and its recent proposal to revive the idea of establishing a FTAAP are additional testimonies to Beijing’s economic leadership, which leaves India without any other option but to engage with China.

By building alternative institutions, Beijing is becoming a revisionist power and a

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“banking country” with the distinction of being the largest manufacturer and exporter. With almost $4 trillion in international reserve assets, China aims to replace the United States as the largest economy in the world. China’s aims and objectives, with regard to Asia and the regional financial order, are part of its global aspirations and strategy. India is not a revisionist power. It is still progressing on the global stage and is still trying to bring about a balance between its economic attractiveness and political weight. Nevertheless, India’s decision to join the AIIB points to emerging facets of Asia’s changing regional order. India’s regional outlook is based on a nuanced and pragmatic approach. Even though India does identify its strategic interests as being congruent with the American “pivot to Asia” strategy, its outlook is different when it comes to economic undertakings. India does see the importance of China and identifies its own regional economic interests with those of China.

The core goal of the AIIB is to build infrastructure in Asia, something that is also being propelled by the Chinese through the “One Belt, One Road” initiative. This “belt and road” initiative demonstrates Chinese ambitions are linked to building up key land and maritime corridors. It is not difficult to understand that this proposal is based on China’s grand design for regional and global objectives, which are detrimental to India’s overall strategic interests in Asia. Consequently, India’s response to this initiative has been reticent. India has neither supported China’s MSR project, nor has it welcomed the China-Pakistan economic corridor projects, both of which are a part of China’s SREB initiative. At the same time, India can better impede these Chinese financial projects from inside the AIIB, rather than outside of the institution. This is a strategy that China previously sought to employ vis-à-vis loans to India and project proposals from the ADB.

Conclusion

In brief, the Indian outlook toward the emerging regional economic order is fundamentally cooperative and driven by a desire to engage internationally. India is an important actor in RCEP negotiations and anticipates that the Indian economy will be more integrated into the regional economy once the RCEP negotiations conclude. RCEP will enhance India’s free trade agreement (FTA) with ASEAN as well as with Japan and South Korea, thereby improving India’s economic reach and regional trade contacts in areas such as banking, tourism, services, communications, and societal interactions.

In other words, the Indian outlook is linked to the evolving regional order through the development of new institutions such as the AIIB, RCEP, and other agreements. Despite having this goal, given that China is the only country in East Asia with whom India is yet to sign a FTA, India’s backing of Chinese-led institutions or alternative institutions in Asia and elsewhere does not necessarily mean it is backing a Chinese-dominated order. Rather, India would like to engage with China in making an alternative order as long as it is not an entirely “China-centric” order. India seeks to associate and engage with China while making its own presence felt, rather than
leaving everything to China’s authority. Ultimately, it all boils down to the fact that India believes in a “shared leadership” in Asia rather than a “single leadership.”

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