

### The AIIB in the Liberal International Order

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## The AIIB in the Liberal International Order

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### Abstract

The rise of China raises fundamental questions about the future of the liberal international order (LIO) at a time when it is under ever more strain. Although China's focus for some years was on joining and participating in existing multilateral institutions, today China is increasingly building its own. Prominent among them is the Asian Infrastructure Investment Bank (AIIB), launched in late 2014. Against the background of contending theoretical expectations, this article examines the extent to which the AIIB either reinforces or challenges the LIO and highlights what this tells us about China's broader relationship with the LIO. We provide a definition of the LIO that is based on its social purpose rather than on its formal characteristics. State-centric approaches offer insights into China's decision to engage in new institution building via the AIIB, but we argue that a focus on social purpose is necessary to assess the AIIB's broader implications for the LIO. We find that, while conforming in large measure to existing institutional models, the AIIB promotes China's integration into global social networks, strengthens state-led development pathways, and is associated with the Chinese norm of non-interference. The AIIB, thus, foreshadows the possibility of an institutionalised international order indifferent to liberalism. In sum, the AIIB reflects the tensions between the socialising effects of the LIO and China's growing externalisation of its own non-liberal, state-led model of political economy.

### Introduction

The liberal international order (LIO)—traditionally associated with rules-based multilateralism, economic openness, and the spread of liberal values and institutions, including representative democracy and human rights—has lately been buffeted from two directions.<sup>1</sup> First, both the capacity and willingness of the United

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<sup>1</sup> G. John Ikenberry, 'Liberal Internationalism 3.0: America and the Dilemmas of Liberal World Order', *Perspectives on Politics*, Vol. 7, No. 1 (2009), pp. 71–87; G. John Ikenberry, 'The End of Liberal International Order?', *International Affairs*, Vol. 94, No. 1 (2018), pp. 7–23.

States to support liberal values and institutions at the global level have diminished. Secondly, China appears increasingly willing to assert a vision of international order that departs significantly from certain of the LIO's key features, albeit while embracing other aspects of the current order.

The United States has recently withdrawn from the Trans-Pacific Partnership (TPP), unilaterally imposed import tariffs,<sup>2</sup> repudiated the Paris climate accord,<sup>3</sup> exited the United Nations Human Rights Council,<sup>4</sup> and reduced financial support for the United Nations.<sup>5</sup> The Chinese government, meanwhile, has been forthright in its defence of economic globalisation,<sup>6</sup> increased its foreign aid,<sup>7</sup> and pledged to 'uphold the authority and status of the United Nations, actively fulfil China's international obligations and duties, remain firmly committed to China's pledges to tackle climate change, actively push for the Belt and Road Initiative, and always be a builder of world peace, contributor of global development and keeper of international order'.<sup>8</sup>

A key part of China's new-found commitment to be a 'keeper of international order' has been the construction of new multilateral institutions, including the BRICS New Development Bank (NDB, created in 2014), the Chiang Mai Initiative Multilateralisation Agreement (CMIM, signed in 2014), the expansion of the Shanghai Cooperation Organisation (SCO, founded 2001), and the Regional Comprehensive Economic Partnership (RCEP, under negotiation).<sup>9</sup>

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<sup>2</sup> 'Trump Trade Tsar Wields Power over WTO Destiny', *Financial Times*, 11 December, 2017, <https://www.ft.com/content/b59b4412-dc6f-11e7-a039-c64b1c09b482>.

<sup>3</sup> Valerie Volcovici, 'U.S. Submits Formal Notice of Withdrawal from Paris Climate Pact', 4 August, 2017, <http://www.reuters.com/article/us-un-climate-usa-paris/u-s-submits-formal-notice-of-withdrawal-from-paris-climate-pact-idUSKBN1AK2FM>.

<sup>4</sup> Gardiner Harris, 'Trump Administration Withdraws U.S. from U.N. Human Rights Council', *The New York Times*, 19 June, 2018, <http://www.nytimes.com/2018/06/19/us/politics/trump-israel-palestinians-human-rights.html>.

<sup>5</sup> Rick Gladstone, 'Taking Credit for U.N. Budget Cut, Trump's Envoy Hints at More to Come', *The New York Times*, 25 December, 2017, <http://www.nytimes.com/2017/12/25/world/americas/trump-united-nations-budget.html>.

<sup>6</sup> 'Keynote Speech by H. E. Xi Jinping, President of the People's Republic of China', at the Opening Session of the World Economic Forum Annual Meeting 2017, 17 January, 2017, <https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>.

<sup>7</sup> James Griffiths, 'Report Exposes Size of China's Secretive Aid Budget', 11 October, 2017, <https://edition.cnn.com/2017/10/11/asia/china-overseas-aid/index.html>.

<sup>8</sup> 'Xi Demonstrates China's Role as Responsible Country in New Year Address', 1 January, 2018, [http://www.xinhuanet.com/english/2018-01/01/c\\_136865307.htm](http://www.xinhuanet.com/english/2018-01/01/c_136865307.htm).

<sup>9</sup> See, He Kai, 'Contested Multilateralism 2.0 and Regional Order Transition: Causes and Implications', *Pacific Review*, Vol. 87, No. 3 (2018), pp. 1–11; Sebastian Heilmann, Moritz Rudolf, Mikko Huotari, and Johannes Buckow, 'China's Shadow Foreign Policy: Parallel Structures Challenge the Established International Order', *Chinamonitor*, No. 18 (2018), [https://www.merics.org/sites/default/files/2018-01/China\\_Monitor\\_18\\_Shadow\\_Foreign\\_Policy\\_EN.pdf](https://www.merics.org/sites/default/files/2018-01/China_Monitor_18_Shadow_Foreign_Policy_EN.pdf); Matthew D. Stephen, 'Emerging Powers and Emerging Trends in Global

To date, one of the most prominent China-sponsored multilateral initiatives has been the Asian Infrastructure Investment Bank (AIIB). Several authors have examined the motivations prompting China's decision to sponsor the AIIB.<sup>10</sup> Some see it as part of a greater endeavour to 'balance' the United States;<sup>11</sup> others have investigated the decisions of other countries to join the bank.<sup>12</sup> There has also been debate over whether the AIIB represents a challenge to US hegemony or to the existing norms of multilateral development banks (MDBs). Earlier commentaries anticipated that the AIIB might pose a revisionist challenge to the existing institutional order,<sup>13</sup> but more recent analyses have depicted the AIIB as largely conforming to

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Governance', *Global Governance*, Vol. 23, No. 3 (2017), pp. 483–502; Ye Min, 'China and Competing Cooperation in Asia-Pacific: TPP, RCEP, and the New Silk Road', *Asian Security*, Vol. 11, No. 3 (2015), pp. 206–24; Yan Xuetong, 'Chinese Values vs. Liberalism: What Ideology Will Shape the International Normative Order?', *Chinese Journal of International Politics*, Vol. 11, No. 1 (2018), pp. 1–22.

<sup>10</sup> See, for example: Mike Callaghan and Paul Hubbard, 'The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road', *China Economic Journal*, Vol. 9, No. 2 (2016), pp. 116–39; Chen Zheng and Liu Yanchuan, 'Granting Reassurance While Posing Challenge: Explaining China's Creation of the Asian Infrastructure Investment Bank', *GEG Working Paper*, No. 130 (2017), <http://www.geg.ox.ac.uk/granting-reassurance-while-posing-challenge>; Daniel C. K. Chow, 'Why China Established the Asia Infrastructure Investment Bank', *Vanderbilt Journal of Transnational Law*, Vol. 49, No. 5 (2016), pp. 1255–98; Jonathan R. Strand, Eduardo M. Flores, and Michael W. Trevathan, 'China's Leadership in Global Economic Governance and the Creation of the Asian Infrastructure Investment Bank', *Rising Powers Quarterly*, Vol. 1, No. 1 (2016), pp. 55–69.; Ren Xiao, 'China as an Institution-Builder: The Case of the AIIB', *Pacific Review*, Vol. 29, No. 3 (2015), pp. 435–42; Yu Hong, 'Motivation behind China's "One Belt, One Road" Initiatives and Establishment of the Asian Infrastructure Investment Bank', *Journal of Contemporary China*, Vol. 26, No. 105 (2017), pp.353–68.

<sup>11</sup> He Kai, 'Role Conceptions, Order Transition and Institutional Balancing in the Asia-Pacific: A New Theoretical Framework', *Australian Journal of International Affairs*, Vol. 72, No. 2 (2018), pp. 92–109; Yuan Jing Dong, 'Beijing's Institutional-Balancing Strategies: Rationales, Implementation and Efficacy', *Australian Journal of International Affairs*, Vol. 72, No. 2 (2018), pp. 110–28.

<sup>12</sup> Tyler Pratt, 'Angling for Influence: Institutional Proliferation in Development Banking', paper delivered to the 10th Annual Conference of the Political Economy of International Organizations, Bern, 12–14 January, 2017, <http://wp.peio.me/wp-content/uploads/2016/12/Program%20PEIO10.pdf>; Wang Yu, 'The Political Economy of Joining the AIIB', *Chinese Journal of International Politics*, Vol. 11, No. 2 (2018), pp. 105–30.

<sup>13</sup> Chow, 'Why China Established the Asia Infrastructure Investment Bank'; Heilmann, 'China's Shadow Foreign Policy'; Shintaro Hamanaka, 'Insights to Great Powers' Desire to Establish Institutions: Comparison of ADB, AMF, AMRO and AIIB', *Global Policy*, Vol. 7, No. 2 (2016), pp.288–92; Rebecca Liao, 'Out of the Bretton Woods: How the AIIB Is Different', *Foreign Affairs*, 27 July, 2015, <https://www.foreignaffairs.com/articles/asia/2015-07-27/out-bretton-woods>.

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standard institutional practices.<sup>14</sup> Certain scholars, however, have situated the AIIB within a broader inter-institutional context, characterised by institutional proliferation and potential inter-institutional competition.<sup>15</sup> De Jonge, meanwhile, emphasises that the AIIB represents the outcome of a recursive interaction between China's domestic order and global norms.<sup>16</sup>

This article goes beyond existing accounts of the AIIB in two ways. First, we argue that in order to understand the implications of the AIIB for the LIO and how China will relate to the liberal order in the coming decades, it is essential first to clarify the LIO and what it does. Therefore, we provide a clear and more targeted definition of the liberal international order as *international institutions that wed the exercise of international power to liberal social purpose* and use this benchmark to guide our empirical study.<sup>17</sup>

Secondly, a satisfactory assessment of what the AIIB and other new institutions mean for the LIO requires us to move beyond traditional state-centric theories of international politics to engage with the societal sources of international behaviour. State-centric approaches to 'contested multilateralism',<sup>18</sup> rooted in functional and power-oriented types of institutionalism, offer formal accounts of institutional proliferation and provide useful insights into China's decision to sponsor the AIIB.<sup>19</sup> From a functionalist perspective, the AIIB arose partly as a response to the inefficiencies and institutional rigidities of existing multilateral

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<sup>14</sup> Shahar Hameiri and Lee Jones, 'China Challenges Global Governance? Chinese International Development Finance and the AIIB', *International Affairs*, Vol. 94, No. 3 (2018), pp. 573–93; Robert J. Hanlon, 'Thinking about the Asian Infrastructure Investment Bank: Can a China-Led Development Bank Improve Sustainability in Asia?', *Asia & the Pacific Policy Studies*, Vol. 4, No. 3 (2017), pp. 541–54. Gregory Chin came to an intermediate conclusion, stressing both innovation and continuity. See Gregory T. Chin, 'Asian Infrastructure Investment Bank: Governance Innovation and Prospects', *Global Governance*, Vol. 22, No. 1 (2016), pp. 11–26.

<sup>15</sup> Nick Bisley, 'Contested Asia's "New" Multilateralism and Regional Order', *Pacific Review*, Vol. 78, No. 3 (2018), pp. 1–11; Miles Kellerman, 'The Proliferation of Multilateral Development Banks', *Review of International Organizations*, 28 February, 2018, <https://doi.org/10.1007/s11558-018-9302-y>; Annalisa Prizzon, Romilly Greenhill, and Shakira Mustapha, 'An "Age of Choice" for External Development Finance? Evidence from Country Case Studies', *Development Policy Review*, Vol. 35, No. 1 (2018), pp. 29–45.

<sup>16</sup> Alice de Jonge, 'Perspectives on the Emerging Role of the Asian Infrastructure Investment Bank', *International Affairs*, Vol. 93, No. 5 (2017), pp. 1061–84.

<sup>17</sup> See also G. John Ikenberry and Darren J. Lim, 'China's Emerging Institutional Statecraft', Brookings Institution, April 2017, <https://www.brookings.edu/wp-content/uploads/2017/04/chinas-emerging-institutional-statecraft.pdf>; Yan Xuetong, 'Chinese Values vs. Liberalism'.

<sup>18</sup> Julia C. Morse and Robert O. Keohane, 'Contested Multilateralism', *Review of International Organizations*, Vol. 9, No. 4 (2014), pp. 385–412.

<sup>19</sup> See, for example: Chen and Liu, 'Granting Reassurance'; Morse and Keohane, 'Contested Multilateralism'; Pratt, 'Angling for Influence'; Johannes Urpelainen and Thijs van de Graaf, 'Your Place or Mine? Institutional Capture and the Creation of Overlapping International Institutions', *British Journal of Political Science*, Vol. 45, No. 4 (2015), pp. 799–827.

development banks. But as power-oriented theories would suggest, the AIIB also serves China's desire to gain clout and status within international development institutions commensurate with its growing capabilities.

Yet the LIO consists not only of formal institutions such as states and international organisations but also of an underlying social and normative order that embraces liberal social purposes.<sup>20</sup> Whereas state-centric approaches emphasise the reasons why dissatisfied states build new institutions, the emphasis of societal approaches is on the substantive reasons for such state dissatisfaction and its substantive implications for international order and its social purpose. Seen in this light, we find that, much like China itself, the AIIB stands in a relationship of *partial accommodation and partial challenge* to the LIO: On the one hand, the AIIB builds upon the established structures and practices of existing MDBs and has actively collaborated with older development banks. The AIIB, thus, reflects China's partial socialisation to the norms of the LIO, brought about by ever-deepening integration within a Western-designed system. On the other hand, the AIIB departs from established norms and objectives in significant ways, notably by rejecting liberal universalism and creating space for an emergent 'China model' of development. In short, the AIIB may presage a potential 'international order with Chinese characteristics' that entwines both liberal and non-liberal features.

We first define the LIO and unpack its component parts to provide a benchmark against which to assess the AIIB. Secondly, we compare the insights of two sets of theories—state-centric and societal—on the creation of the AIIB and its likely implications for international order. Thirdly, we evaluate the explanatory power of each theory, as regards understanding China's relationship to the LIO, based on a qualitative analysis of the AIIB's characteristics, such as its institutional design, staff composition formal policies, and early operations.

## **Liberal International Order: Definition and Components**

Debates about China's relationship to the LIO have suffered from a lack of clarity as to exactly what is meant by LIO. In particular, the LIO must be distinguished from international order *per se*. We define the contemporary LIO as constituted by an *array of international institutions that wed the exercise of international power to liberal social purpose*. Not all features of the current international order are liberal in character. Certain elements often associated with the LIO, such as sovereignty, international trade, and rules-based cooperation, have been present

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<sup>20</sup> Robert W. Cox, Production, *Power and World Order* (New York: Columbia University Press, 1987); John W. Meyer, 'World Society, Institutional Theories, and the Actor', *Annual Review of Sociology*, Vol. 36, No. 1 (2010), pp. 1–20; John Gerard Ruggie, 'Multilateralism: The Anatomy of an Institution', *International Organization*, Vol. 46, No. 3 (1992), pp. 561–98; David Skidmore, *Contested Social Orders and International Politics* (Nashville: Vanderbilt University Press, 1997); Matthew D. Stephen, 'Rising Powers, Global Capitalism and Liberal Global Governance: A Historical Materialist Account of the BRICs Challenge', *European Journal of International Relations*, Vol. 20, No. 4 (2014), pp. 912–38.

in non-liberal international orders.<sup>21</sup> It is the particular way in which the LIO combines power and purpose that defines its liberal character.

First, the LIO allocates and exercises forms of power. International organisations can exercise power directly—by allocating or withholding resources, imposing sovereignty costs, or authoritatively interpreting international norms,<sup>22</sup> and indirectly—by reflecting the agendas of powerful states<sup>23</sup> and social forces.<sup>24</sup> The United States and its allies continue to enjoy special rights, privileges, and opt-outs that favour their interests within keystone LIO institutions, such as the World Bank and the International Monetary Fund.<sup>25</sup> Changes to the LIO's decision-making structures and power relations would alter its power-based and distributional consequences, but not necessarily the order itself, as defined by its social purpose.

Secondly, *liberal* international institutions embody distinctively liberal social purposes.<sup>26</sup> Social purpose refers to the substantive normative and policy content that international institutions represent.<sup>27</sup> Many contemporary IOs, according to Michael Barnett and Martha Finnemore, serve as 'purveyors of liberal values, including human rights, democracy, and the rule of law', as well as 'liberal economic notions about the virtues of markets and capitalism as the best (and perhaps the only) means to "progress"'.<sup>28</sup> Liberal social purpose is embedded in

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<sup>21</sup> In fact, it may be more accurate to speak of an international order with liberal features, but we will use LIO to refer to those liberal features for the sake of brevity.

<sup>22</sup> Kenneth W. Abbott and Duncan Snidal, 'Hard and Soft Law in International Governance', *International Organization*, Vol. 54, No. 3 (2000), pp. 421–56; Michael Barnett and Martha Finnemore, 'The Politics, Power, and Pathologies of International', *International Organization*, Vol. 53, No. 4 (1999), pp. 699–732.

<sup>23</sup> Michael N. Barnett and Raymond Duvall, *Power in Global Governance* (Cambridge: Cambridge University Press, 2005); Randall W. Stone, *Controlling Institutions: International Organizations and the Global Economy* (Cambridge: Cambridge University Press, 2011).

<sup>24</sup> Robert W. Cox, 'Hegemony and International Relations: An Essay in Method', *Millennium*, Vol. 12, No. 2 (1983), pp. 162–75.

<sup>25</sup> Ikenberry, 'Liberal Internationalism 3.0'; Jakob Vestergaard and Robert H. Wade, 'Protecting Power: How Western States Retain The Dominant Voice in The World Bank's Governance', *World Development*, Vol. 46 (2013), pp. 153–64; David Skidmore, *The Unilateralist Temptation in American Foreign Policy* (New York: Routledge, 2011), pp. 17–42.

<sup>26</sup> Barnett and Finnemore, 'The Politics, Power, and Pathologies of International Institutions', p. 708; Ikenberry, 'Liberal Internationalism 3.0'; John G. Ruggie, 'International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization*, Vol. 36, No. 2 (1982), p. 380.

<sup>27</sup> Ruggie, 'International Regimes, Transactions and Change', p. 382; Andrew Baker, 'Macroprudential Regimes and the Politics of Social Purpose', *Review of International Political Economy*, Vol. 25, No. 3 (2018), pp. 293–316; Bastiaan van Apeldoorn and Sandy

Brian Hager, 'The Social Purpose of New Governance: Lisbon and the Limits to Legitimacy', *Journal of International Relations and Development*, Vol. 13, No. 3 (2010), pp. 209–38.

<sup>28</sup> Michael Barnett and Martha Finnemore, *Rules for the World: International Organizations in Global Politics* (Ithaca: Cornell University Press, 2004), p. ix.



rules and agreements that favour the market-led allocation of resources, prioritise economic openness over collective management and public oversight, and foster individualist conceptions of human rights and procedural notions of democracy. These liberal concepts are defining features of the LIO because they relate to its normative content. International institutions that are neutral with regard to certain core issues, such as human rights, democracy, the rule of law, markets, and capitalism, should not be considered liberal.

The policy field of multilateral development finance is a key component of the LIO. The World Bank, the largest and only global multilateral development bank, has often served as a major conduit for the dissemination of liberal economic prescriptions via its research and loan activities. During the 1990s—a period of US predominance—the average number of conditions entailed in the bank’s policy-based lending increased considerably<sup>29</sup> and, together with its policy-related research activities, earned it a reputation as a key representative of the liberal Washington Consensus, characterised by commitments to trade liberalisation, reduced fiscal deficits, privatisation, and financial liberalisation.<sup>30</sup> Today, the Bank’s approach has been described as a ‘post’ or ‘augmented’ Washington Consensus, wherein the commitment to economic liberalism is augmented by a greater focus on domestic governance issues.<sup>31</sup> This became visible most recently in fresh debates over the World Bank’s *Ease of Doing Business Report*,<sup>32</sup> which China has long criticised as having an anti-regulation stance.<sup>33</sup>

If, then, China is rising in the context of an international order with liberal characteristics, which features of the LIO will China support and which will it oppose? As China gains the power to alter the rules of the game, how will an

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<sup>29</sup> World Bank, *Review of World Bank Conditionality* (Washington, DC: World Bank, 2005), <https://siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/ConditionalityFinalDCpaperDC9-9-05.pdf>.

<sup>30</sup> Joseph E. Stiglitz, *Globalization and its Discontents* (New York: W. W. Norton, 2002); Lance Taylor, ‘Editorial: The Revival of the Liberal Creed—the IMF and the World Bank in a Globalized Economy’, *World Development*, Vol. 25, No. 2 (1997), pp. 145–52.

<sup>31</sup> Sarah Babb, ‘The Washington Consensus as Transnational Policy Paradigm: Its Origins, Trajectory and Likely Successor’, *Review of International Political Economy*, Vol. 20, No. 2 (2013), pp. 268–97; Dani Rodrik and Roberto Zaghera, ‘Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank’s “Economic Growth in the 1990s: Learning from a Decade of Reform”’, *Journal of Economic Literature*, Vol. 44, No. 4 (2006), pp. 973–87.

<sup>32</sup> Andre’ Broome, Alexandra Homolar, and Matthias Kranke, ‘Bad Science: International Organizations and the Indirect Power of Global Benchmarking’, *European Journal of International Relations*, Vol. 24, No. 3 (2018), pp. 514–39; ‘The World Bank’s “Ease of Doing Business” Report Faces Tricky Questions’, *The Economist*, 20 January, 2018, <https://www.economist.com/news/finance-and-economics/21735076-embarrassingly-they-are-raised-and-then-answered-by-its-chief-economist-world>.

<sup>33</sup> Robin Harding, ‘China Seeks to Water Down Key World Bank Report’, *Financial Times*, 7 May, 2013, <http://www.ft.com/intl/cms/s/0/a1ca36d2-b654-11e2-b1e5-00144feabdc0.html#axzz2VMxphHjJ>.

international order with Chinese characteristics differ from the status quo in distributional and social terms?

## **The Creation of the AIIB and Liberal International Order: Theoretical Approaches**

Building on existing theory, we develop a framework to analyse the AIIB's relationship to the LIO. Our basic argument is that prevailing state-centric approaches have spoken narrowly to a single dimension of the LIO related to matters of institutional structure, authority, and power. A fuller understanding of the LIO requires consideration of its social components, including the social groups and normative orders it serves.<sup>34</sup>

### **State-centric Approaches**

China's launching of the AIIB can be considered, from a rationalist, state-centric perspective, as a case of institutional creation,<sup>35</sup> institutional proliferation,<sup>36</sup> creation of an overlapping institution,<sup>37</sup> or contested multilateralism.<sup>38</sup> Such approaches build primarily on two types of rational institutionalism: functionalist (gains-oriented) and distributive (power-based).

Both functionalist institutionalism<sup>39</sup> and distributive institutionalism (the former associated with liberal theory and the latter with realist theory) are concerned primarily with patterns of international conflict and cooperation, rather than the social orders that such patterns produce. They treat states as unitary actors whose goals can be described in quantitative terms (i.e. gains or losses). As Andrew Moravcsik has observed, neither functionalist nor distributive institutionalism 'explains the changing substantive goals and purposes over which states conflict and cooperate; both focus instead on formal causes, such as relative power or issue density, and formal consequences, such as conflict and cooperation per se'.<sup>40</sup>

Although these approaches converge in their concern with the distribution of gains and authority within international institutional arrangements, they differ

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<sup>34</sup> In this respect, our approach to international order echoes Peter Gourevitch's distinction between the two core features of a political system: regime type and coalition pattern. See Peter Gourevitch, 'The Second Image Reversed: The International Sources of Domestic Politics', *International Organization*, Vol. 32, No. 4 (1978), p. 883.

<sup>35</sup> Joseph Jupille, Walter Mattli, and Duncan Snidal, *Institutional Choice and Global Commerce* (Cambridge: Cambridge University Press, 2013).

<sup>36</sup> Kellerman, 'The Proliferation of Multilateral Development Banks'; Pratt, 'Angling for Influence'.

<sup>37</sup> Urpelainen and van de Graaf, 'Your Place or Mine?'.

<sup>38</sup> Morse and Keohane, 'Contested Multilateralism'.

<sup>39</sup> Sometimes referred to as liberal institutionalism or regime theory.

<sup>40</sup> Andrew Moravcsik, 'Taking Preferences Seriously: A Liberal Theory of International Politics', *International Organization*, Vol. 51, No. 4 (1997), p. 534.

over which logic predominates: functionalist institutionalism assumes profit-oriented, absolute gains logic; distributive institutionalism emphasises power-based, relative gains logic.

### Functional Institutionalism

For functional institutionalists, international institutions provide efficient solutions to collective action problems and other impediments to mutually beneficial interstate cooperation.<sup>41</sup> The domestic character and social purposes of the participating states and dominant social groups, however, lie outside of the scope of the theory and are, hence, largely ignored.

From a functional institutionalist perspective, China's creation of the AIIB presents a puzzle. Given the costs of institutional setup and the uncertainty of success, it is unclear why states sometimes create new institutions—such as the AIIB—that duplicate the work of already existing institutions.<sup>42</sup> Dysfunction or underperformance on the part of existing institutions may be one motivation for such institutional innovation. Dissatisfied stakeholders may push for reform when international organisations become bloated and inefficient. As institutions age, a number of organisational pathologies may arise.<sup>43</sup> The leadership and staff of IOs may seek expansion of their own power and resources and greater independence from the control of sponsoring states (i.e. the principal-agent problem).<sup>44</sup> Mission creep may lead to an ever broader and more diffuse agenda that moves the organisation further from its core competencies, and a lack of market competition, strict oversight, or hard budget caps might cause its inefficiencies to proliferate.

The functionalist approach proposes that the creation of a new institution may be the result of bargaining failure, whereby attempts to reform established institutions have been blocked by internal veto players, or of a failure to successfully signal commitment.<sup>45</sup> This suggests that China's sponsorship of the AIIB may represent an effort to create a more focused, efficient, and responsive institution

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<sup>41</sup> Kenneth W. Abbott and Duncan Snidal, 'Why States Act through Formal International Organizations', *Journal of Conflict Resolution*, Vol. 42, No. 1 (1998), pp. 3–32; Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984); Barbara Koremenos, Charles Lipson, and Duncan Snidal, 'The Rational Design of International Institutions', *International Organization*, Vol. 55, No. 4 (2001), pp. 761–99.

<sup>42</sup> Urpelainen and van de Graaf, 'Your Place or Mine?', p. 799; Pratt, 'Angling for Influence'.

<sup>43</sup> Barnett and Finnemore, *The Politics, Power, and Pathologies of International Organizations*, pp. 699–732; Tine Hanrieder, *International Organization in Time: Fragmentation and Reform* (Oxford: Oxford University Press, 2015).

<sup>44</sup> Steffen Eckhard and Joern Ege, 'International Bureaucracies and their Influence on Policymaking: A Review of Empirical Evidence', *Journal of European Public Policy*, Vol. 23, No. 7 (2016), pp. 960–78.

<sup>45</sup> Morse and Keohane, 'Contested Multilateralism'; Urpelainen and van de Graaf, 'Your Place or Mine?'.

in the field of multilateral development finance. This would likely be the result of previous failed attempts to reform legacy institutions.

If new institutions are designed with the same purposes in mind as existing ones and seek merely to improve on their performance or operate with greater efficiency, this would strongly imply that functional gains-seeking is at play. Therefore, if the AIIB were designed to do what established institutions do, only better, it would hardly qualify as a challenge to the LIO.

### **Power-distributive Institutionalism**

Other state-centric approaches stress the role of power in shaping institutional outcomes. Almost all international institutions raise distributive issues, giving rise to relative gains dynamics.<sup>46</sup> Realists have conceived of international institutions as ‘intervening variables’ between the underlying distribution of power and international outcomes.<sup>47</sup> As Steven Krasner argues, misalignments can arise between underlying power distributions and institutional governance due to the stickiness of institutional adaptation. International institutions also often fall prey to the informal control mechanisms that powerful states wield, which would further disadvantage rising powers.<sup>48</sup> It would not be surprising, therefore, if China, as a rising power, sought to correct the mismatch between its meagre influence within existing multilateral institutions and its growing capabilities.<sup>49</sup>

From this perspective, we should expect the Chinese decision to sponsor a new institution (i.e. the AIIB) to follow close on the heels of China’s failed efforts to gain greater voice within existing multilateral development institutions. But, in contrast to functional institutionalism, we would also expect the reigning hegemon, the United States, to resist the creation of new China-centred institutions that compete with those which it and its allies dominate. In general, therefore, China’s sponsorship of the AIIB should show evidence of an overriding desire to maximise China’s power and influence within the international development finance regime.

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<sup>46</sup> Stephen D. Krasner, ‘Global Communications and National Power: Life on the Pareto Frontier’, *World Politics*, Vol. 43, No. 3 (1991), pp. 336–66; Philip Y. Lipsky, *Renegotiating the World Order: Institutional Change in International Relations* (Cambridge: Cambridge University Press, 2016); Thomas S. Mowle, ‘Worldviews in Foreign Policy: Realism, Liberalism, and External Conflict’, *Political Psychology*, Vol. 24, No. 3 (2003), pp. 561–92; Pratt, ‘Angling for Influence’.

<sup>47</sup> Stephen D. Krasner, ‘Structural Causes and Regime Consequences: Regimes as Intervening Variables’, *International Organization*, Vol. 36, No. 2 (1982), pp. 185–205; Stephen D. Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985).

<sup>48</sup> Stone, *Controlling Institutions*; Randall W. Stone, ‘Informal Governance in International Organizations: Introduction to the Special Issue’, *Review of International Organizations*, Vol. 8, No. 2 (2013), pp. 121–36.

<sup>49</sup> Lipsky, *Renegotiating the World Order*; Pratt, ‘Your Place or Mine?’.

## Societal Approaches

From a state-centric perspective, institutional innovation may be explained as the result of dissatisfaction with existing institutions, either because of institutional inefficiencies (functionalist) or due to a mismatch between material and institutional power (distributive). Although this tells us much about the potential for institutional innovation within the LIO, both theories are agnostic regarding the substantive norms, principles, and practices of new institutions. Both ignore international institutions' social purposes or the role of states or social forces in pursuing particular social orders or sets of normative values. Rather, each describes institutional variation in respect of efficiency (functionalist) or of the distribution of voting power and other aspects of governance (power-based).<sup>50</sup>

To situate the AIIB in the context of the LIO as a social order, it is necessary to engage societal theories of international politics. By societal theories, we mean approaches that embed international politics and institutions in a qualitative social context defined by social groups and ideas. Societal approaches emphasise the 'substantive goals and purposes over which states conflict and cooperate'<sup>51</sup> and analyse states 'as both the products of evolving societies and as shapers of those societies'.<sup>52</sup> Here, we derive expectations about the AIIB from two societal approaches: 'World Society' constructivism (also known as sociological institutionalism) and second-image 'social order' approaches. The former operates according to an 'outside-in' logic, while the latter links states' conduct to their domestic and transnational societies ('inside-out').<sup>53</sup> What unites these approaches is their concern for the social quality of international orders.

## World Society Approach

World society constructivism begins with the observation that the evolution of the global order over the past several centuries has been dominated by the gradual spread and increasing elaboration of a set of modern, liberal norms and principles.<sup>54</sup> As non-Western societies have opened—whether by consent or coercion—to the penetration of external ideas and material exchange, they have become socialised into a set of universalising norms and institutions. This socialisation process works from the outside-in: *a state's external behaviour and interaction*

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<sup>50</sup> For example, Phillip Lipsky's elegant theory of institutional change focuses solely on institutions' distributive characteristics, while Kellerman's focus on the proliferation of MDBs' focuses on distribution and procedures. See Lipsky, *Renegotiating the World Order*; Kellerman, 'The Proliferation of Multilateral Development Banks'.

<sup>51</sup> Moravcsik, 'Taking Preferences Seriously'.

<sup>52</sup> Robert W. Cox, "'The International' in Evolution', *Millennium*, Vol. 35, No. 3 (2007), p. 514.

<sup>53</sup> Harald Mueller and Thomas Risse-Kappen, 'From the Outside in and From the Inside Out: International Relations, Domestic Politics and Foreign Policy', in David Skidmore and Valerie Hudson, eds., *The Limits of State Autonomy: Societal Groups and Foreign Policy Formulation*, (Boulder: Westview, 1993), pp. 29–48.

<sup>54</sup> Barnett and Finnemore, *Rules for the World*; Meyer, 'World Society, Institutional Theories, and the Actor'.

*with the outside world conform more quickly than its domestic culture and institutions.* From this perspective, China should remain a rule-taker rather than a rule-maker, even as it sponsors the creation of new multilateral institutions. We should, hence, expect the AIIB to import rules, standards, and procedures from already existing development banks, even where such standards differ markedly from those practiced within China itself.<sup>55</sup> In line with a logic of appropriateness, therefore, China will emulate existing LIO norms, standards, and practices in an effort to ensure that Chinese-sponsored institutions are viewed as legitimate.<sup>56</sup>

While functional institutionalists view 'institutions as exogenous rule-based, sanction-based constraints on non-changing agents',<sup>57</sup> constructivists, on the other hand, argue that engagement with international institutions changes the identity of participating states and reinforces collective norms of behaviour. From the World Society theory perspective, the spread of liberal, modern norms and values over the past two centuries has gradually redefined appropriate state behaviour. International institutions embody universal, liberal norms and also serve as agents for socialising newly open states into the specifically *liberal* rules of the LIO.<sup>58</sup> From this perspective, China's willingness to orient the AIIB towards the norms, standards, and rule-sets of the pre-existing development finance regime would offer strong evidence of this socialisation process and a reproduction of LIO.

### **Social Order Theory**

Social order theories argue that great powers seek to structure the international system along lines compatible with their own political, social, and economic institutions. The basic process moves from the inside-out: states seek to 'establish a basic compatibility between domestic and international policy objectives'.<sup>59</sup> Consequently, states leave traces of their domestic orders in their foreign policies and in international orders.<sup>60</sup> From a social order perspective, therefore, the AIIB should reflect elements of China's single-party political system and state-capitalist

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<sup>55</sup> James Reilly, 'A Norm-Taker or a Norm-Maker? Chinese Aid in Southeast Asia', *Journal of Contemporary China*, Vol. 21, No. 73 (2012), pp. 71–91.

<sup>56</sup> Jeffrey D. Wilson, 'The Evolution of China's Asian Infrastructure Investment Bank: From a Revisionist to Status-seeking Agenda', *International Relations of the Asia-Pacific*, Vol. 19, No. 1 (2019), pp. 147–76.

<sup>57</sup> Alastair Iain Johnston, *Social States: China in International Institutions, 1980–2000* (Princeton: Princeton University Press, 2008), p. xvi.

<sup>58</sup> Barnett and Finnemore, *Rules for the World*.

<sup>59</sup> Peter J. Katzenstein, 'Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy', *International Organization*, Vol. 31, No. 4 (1977), p. 588.

<sup>60</sup> Ruggie, 'Multilateralism', p. 593. After Waltz, these are known as 'second image' approaches. See Kenneth Waltz, *Man, The State and War* (New York: Columbia University Press, 1954).

political economy, which would put it in tension with the LIO of the largely democratic, liberal capitalist 'West'.<sup>61</sup>

Samuel Huntington offered a strong version of a culturalist social order model in his 'clash of civilisations' thesis, which depicts Sinic and Western cultures as bound for conflict.<sup>62</sup> Martin Jacques similarly argues that China has pioneered its distinctive path to modernity and will externalise the principals of its political and cultural systems.<sup>63</sup> Charles Kupchan likewise asserts that great powers inevitably export their domestic orders, meaning that China will 'challenge the foundational norms of Pax Americana' and instead advance its own norms in keeping with its ideological preferences and material interests.<sup>64</sup>

If the strong versions of social order theory are correct, we should expect the AIIB to reflect a fundamental challenge to the basic principles, norms, and rules of the LIO. If China sought to overturn the LIO, for instance, the AIIB might embody mercantilist principles, strongly favour state-owned firms, take the form of an exclusive regional economic bloc, or fail to incorporate protection of human rights, the environment, or honest government.<sup>65</sup> A social order model, therefore, would lead us to expect Western countries to unite in boycotting the AIIB, as countries might be confronted with a normative clash that forces them to choose between the World Bank and Asian Development Bank on one hand and the AIIB on the other.

A weaker version of the social order model emerges from comparative capitalism research. From this perspective, a state's stance on multilateral economic issues will be influenced by judgments on whether such initiatives are likely to sustain or to undermine the comparative institutional advantages of their nation's economy. Governments should oppose initiatives that threaten those institutions most crucial to their firms' competitive advantages.<sup>66</sup> From this perspective, we should expect China to promote different, less liberal forms of economic

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<sup>61</sup> Charles A. Kupchan, 'The Normative Foundations of Hegemony and The Coming Challenge to Pax Americana', *Security Studies*, Vol. 23, No. 2 (2014), pp. 219–57; Andreas No" lke, 'Second Image Revisited: The Domestic Sources of China's Foreign Economic Policies', *International Politics*, Vol. 52, No. 6 (2015), pp. 657–665; Yan Xuetong, 'Chinese Values vs. Liberalism'.

<sup>62</sup> Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Schuster, 1998).

<sup>63</sup> Martin Jacques, *When China Rules the World: The End of the Western World and the Birth of a New Global Order*, 2nd edition (London: Penguin, 2012).

<sup>64</sup> Kupchan, 'The Normative Foundations of Hegemony', p. 224.

<sup>65</sup> Chow, 'Why China Established the Asia Infrastructure Investment Bank'; Liao, 'Out of the Bretton Woods'.

<sup>66</sup> Orfeo Fioretos, 'The Domestic Sources of Multilateral Preferences: Varieties of Capitalism in the European Community', in Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001), pp. 213–44; Miles Kahler, *International Institutions and the Political Economy of Integration* (Washington, DC: Brookings Institution, 1995).

regulation commensurate with its state-led form of capitalism.<sup>67</sup> China could, hence, use the AIIB to promote a ‘China model’ of development as an alternative to the ‘Washington Consensus’ that the World Bank and IMF have promoted, with varying levels of intensity, since the 1990s. Although the depth of conflict would be more limited than that suggested by Huntington or Jacques, the AIIB would nevertheless serve as a competitor to rather than as a collaborator with the legacy development banks and signal a challenge to the LIO at a normative level. Table 1 summarises these approaches and their observable implications.

## The AIIB and Liberal International Order

This framework guides our qualitative analysis of the AIIB. For data, we examine sources that include the AIIB’s founding documents and institutional design, its staff composition, statements made by state and bank officials, and analyses of its early operations. First, we examine to what extent the creation of the AIIB conforms to the observable implications of functionalist or distributive forms of state-centric theory. Secondly, we use societal approaches to assess the compatibility of the AIIB with the social purpose of the LIO in the issue area of development lending.

### AIIB Design: Efficiency-seeking Gains or Power Redistribution?

There is significant evidence of a role for *functional gains* with regard to China’s decision to initiate the AIIB. Developing countries have long complained about the bureaucratic burdens, high transaction costs, and lengthy approval processes at existing MDBs.<sup>68</sup> Chinese and AIIB officials have repeatedly promoted the Bank as a ‘lean’ organisation, with a small staff, a non-resident Board, and low overhead costs.<sup>69</sup> Chinese critics describe the World Bank’s management structure—including a resident Board that costs \$70 million per year—as slow, cumbersome, and expensive.<sup>70</sup> These costs represent between 3 and 7% of the

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<sup>67</sup> Christopher A. McNally, ‘Sino-Capitalism: China’s Reemergence and the International Political Economy’, *World Politics*, Vol. 64, No. 4 (2012), pp. 741–76; Ten Brink, ‘The Challenges of China’s Non-Liberal Capitalism for the Liberal Global Economic Order’, *Harvard Asia Quarterly*, Vol. 15, No. 2 (2015), pp. 36–44.

<sup>68</sup> Richard Carey, Annalisa Prizzon, Xu Jiajun, and Chris Humphrey, ‘Multilateral Development Banks in the 21st Century Three Perspectives on China and the Asian Infrastructure Investment Bank’, Overseas Development Institute Discussion Paper, 2015; Wang Hongying, ‘New Multilateral Development Banks: Opportunities and Challenges for Global Governance’, *Global Policy*, Vol. 8, No. 1 (2017), p. 116.

<sup>69</sup> Gregory Chin, ‘Asian Infrastructure Investment Bank’, pp. 15–17.

<sup>70</sup> Inclusive Development International, *Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond* (Asheville: Inclusive Development International, 2016), p. 13; Huang Yukon, ‘China has a Role to Play in Setting the ‘Right’ Standards’, *Financial Times*, 15 April, 2015, <https://www.ft.com/content/b1a49850-23bb-3f1d-9400-9c96d09cbc60>.



**Table 1.** Theoretical Approaches

	State-centric		Societal	
	Functionalist	Distributive	World Society	Social order
Assumption	International institutions enable joint gains	International institutions reflect interests of powerful states	International institutions embody and espouse norms of (liberal) world society	International institutions reflect the domestic orders of powerful states
Observable implications for China's creation of the AIIB	Can be explained as the result of bargaining failure May represent an effort to create a more focused, efficient and responsive institution	May be an effort to create an institution in line with new distribution of power and prestige	China's institutions will copy existing templates in search for credibility and legitimacy	China's institutions will diverge from existing templates because they reflect its domestic social order
Implications for LIO	Gains-seeking institutional innovation within the LIO	Power-seeking institutional innovation within the LIO	Continuation of the institutionalisation of world society, reinforce social purpose	Externalisation of alternative norms, challenge social purpose

institution's operating budget.<sup>71</sup> It takes, on average, seven years for a project to progress from proposal to approval to completion at the ADB.<sup>72</sup> Commenting on this, Chinese Foreign Minister Lou Jiwei explicitly touted shorter project execution times as one of the bank's goals. 'We would not bureaucratize the AIIB. Instead, we need to be efficient and "green".'<sup>73</sup>

AIIB officials have stated that although the new Bank will reference existing best practices, it will also 'make adjustments to some of the regulations of the established MDBs in order to raise operating efficiency and improve upon current practices that are overly complicated and not highly relevant to the actual conditions'.<sup>74</sup> One example is that responsibility for project approval lies

<sup>71</sup> Leonardo Martinez-Diaz, 'Executive Boards in International Organizations', in Ruben Lamdany and Leonardo Martinez-Diaz, eds., *Studies of IMF Governance: A Compendium* (Washington, DC: International Monetary Fund, 2009), pp. 82–126.

<sup>72</sup> Jane Perlez, 'China's Plan for Regional Development Bank Runs into U.S. Opposition', *International New York Times*, 9 October, 2014, <http://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-aloof.html>.

<sup>73</sup> Hua Shengdun, 'AIIB Looks to be Efficient, "Green"', *China Daily*, 20 April, 2018, [http://usa.chinadaily.com.cn/us/2015-04/20/content\\_20476271.htm](http://usa.chinadaily.com.cn/us/2015-04/20/content_20476271.htm).

<sup>74</sup> Eiichi Sekine, 'Aims and Prospects of the Asian Infrastructure Investment Bank Proposed by China', *Nomura Journal of Capital Markets*, Vol. 6, No. 4 (2015), p. 7.

chiefly with the Bank's management rather than the Board of Directors.<sup>75</sup> Indeed, many of the design features that differentiate the AIIB from the World Bank stem from recommendations of the High-Level Commission on Modernisation of World Bank Group Governance chaired by former President of Mexico Ernesto Zedillo, which criticised the World Bank for bloat and inefficiency.<sup>76</sup>

Criticism of the Bretton Woods institutions—the World Bank and the International Monetary Fund (IMF)—has focused not only on issues of speed and efficiency but also on their poor performance with regard to preventing and managing regional and global financial crises.<sup>77</sup> In the wake of the Asian financial crisis of the late 90s and the global financial crisis of 2008 and beyond, many Asian leaders concluded that their countries were overly dependent upon trade and financial ties with the West and sought to steer their economies towards stronger regional integration and alternative mechanisms for managing financial risk. The dramatic declines in investment flows from the World Bank and private capital after 2008 underlined the urgency of these problems.<sup>78</sup>

In 2010, therefore, China and the Member States of the Association of Southeast Asian Nations (ASEAN) launched a \$10 billion investment fund. In the same year, ASEAN, together with China, Japan, and South Korea, announced the Chiang Mai Initiative, which provided a foreign exchange reserve pool for Member States to tap at times of financial crisis.<sup>79</sup> The AIIB's creation, thus, followed more than a decade of deliberations among East Asian governments on institutional innovation to meet regional needs and provide alternatives to the Bretton Woods institutions.

As often emphasised, the AIIB's focus on infrastructure reflected the particular needs and priorities of Asian countries.<sup>80</sup> Famously, in 2010, the ADB estimated

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<sup>75</sup> A group of development NGOs issued a joint statement criticising this arrangement for undermining the 'chain of accountability' that ensures Bank accountability to civil society. See Centre for Financial Accountability, 'Civil Society Sounds Alarm on AIIB's Latest "Hands-off" Lending Deal', 26 June, 2018, <http://www.cenfa.org/media-coverage/civil-society-sounds-alarm-on-aiibs-latest-hands-off-lending-deal/>.

<sup>76</sup> Leonardo Martinez-Diaz, 'Toward a Grand Bargain on World Bank Reform', Brookings, 16 December, 2009, <https://www.brookings.edu/articles/toward-a-grand-bargain-on-world-bank-reform/>; David Dollar, 'The AIIB and the "One Belt, One Road"', *Brookings Institutions Report* (2015), <https://www.brookings.edu/opinions/the-aiib-and-the-one-belt-one-road/>.

<sup>77</sup> Thomas D. Lairson and David Skidmore, *International Political Economy: The Struggle for Power and Wealth in a Globalizing World* (New York: Routledge, 2017), pp. 232–81.

<sup>78</sup> Alice D. Ba, 'In Pursuit of Asian Infrastructure Investment Bank: The Politics and Geopolitics of a Chinese Bank', in Steven B. Rothman, Utpal Vyas, Yoichiro Sato, eds., *Regional Institutions, Geopolitics and Economics in the Asia-Pacific* (Abingdon: Routledge, 2017), pp. 41–59.

<sup>79</sup> Ba, 'In Pursuit of Asian Infrastructure Investment Bank'.

<sup>80</sup> Callaghan and Hubbard, 'The Asian Infrastructure Investment Bank', pp. 120–22; Ren Xiao, 'China as an Institution-builder: The Case of the AIIB', *Pacific Review*, Vol. 29, No. 3 (2016), pp. 435–42, p. 2; Wang, 'New Multilateral Development Banks', p. 115.

that Asian countries needed around US \$776 billion in annual infrastructure investment.<sup>81</sup> From China's perspective, the AIIB constitutes a vehicle for marshalling and channelling Asia's savings glut specifically to meet these infrastructure needs.<sup>82</sup> Thus, China had both the incentive and the capacity to sponsor a competing institution. But the AIIB's infrastructure mission was also demand-driven in response to the articulated desires of potential recipient countries.

The Chinese government also has hopes that the competition the AIIB generates for existing development banks will force the latter to adapt.<sup>83</sup> Indeed, this may already have occurred, as both the World Bank and the ADB have promised to streamline project approval and reduce overhead costs.<sup>84</sup> Since China's push to create the AIIB, both institutions have also promised to allocate greater resources to infrastructure development.<sup>85</sup>

China's choice of multilateralism rather than unilateralism can also be explained from a functionalist perspective. MDBs, in contrast to national development banks, pool the resources of multiple countries, so spreading political and economic risks and facilitating coordination among recipient and lending countries on projects with transnational spillovers and network effects. This accurately describes the AIIB's ambit.<sup>86</sup>

Given its particular economic needs and those of its neighbours, China held a strong interest in expanding infrastructure investment in Asia and had plentiful resources to devote to this task but found existing development banks poor vehicles for the appropriate channelling of such resources. From a functional institutionalist perspective, China's sponsorship of the AIIB represents an effort to create a more focused, efficient, and responsive institution wherein China would naturally exercise considerable, although not exclusive, control.

At the same time, there is also evidence that relative-gains considerations played a role in the AIIB's creation and that the AIIB will effect a redistribution of authority within the field of multilateral development financing. Although functional institutionalism can account well for the creation of the AIIB and its

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<sup>81</sup> Callaghan and Hubbard, 'The Asian Infrastructure Investment Bank', pp. 120–21; Catherine Weaver, 'The Rise of China: Continuity or Change in the Global Governance of Development?', *Ethics in International Affairs*, Vol. 29, No. 4 (2015), p. 426.

<sup>82</sup> Scott Morris and Tao Lipei, 'When China Looks at MDBs, It Sees Infrastructure', Center for Global Development, 7 June, 2016, <https://www.cgdev.org/blog/when-china-looks-mdbs-it-sees-infrastructure>.

<sup>83</sup> Hua, 'AIIB Looks to be Efficient, "Green"'.  
<sup>84</sup> Perlez, 'China's Plan for Regional Development Bank Runs into U.S. Opposition'.

<sup>85</sup> Asian Development Bank, 'ADB President Calls for New Infrastructure Investment as Part of ADB's Long-Term Strategy', 6 May, 2017, <https://www.adb.org/news/adb-president-calls-new-infrastructure-investment-part-adbs-long-term-strategy>; World Bank, 'World Bank Group Launches New Global Infrastructure Facility', 9 October, 2014, <http://www.worldbank.org/en/news/press-release/2014/10/09/world-bank-group-launches-new-global-infrastructure-facility>.

<sup>86</sup> Callaghan and Hubbard, 'The Asian Infrastructure Investment Bank', pp. 122–3.

efficiency focus, it is less able to account for the political trade-offs and conflicts underlying its creation.

In line with a power-distributive approach, the inadequacy of Chinese representation in the World Bank's voting share was a key background factor of Chinese dissatisfaction with the *status quo ante*.<sup>87</sup> China, together with other BRICS countries, had long called for a faster and greater quota and voice reform at the World Bank,<sup>88</sup> but this effort brought only grudging concessions from the World Bank's dominant shareholders.<sup>89</sup> Although China gained greater voting power as part of a package of Bank reforms in 2010, it remained far from proportional to China's actual weight in the world economy, leaving the United States in a position to veto key World Bank decisions. The US Congress, moreover, delayed approval of the 2010 Bank reforms until 2015,<sup>90</sup> by which time China was even more under-represented.

First announced in 2013, the AIIB, therefore, could be considered part of a Chinese effort to enhance its relative power by creating a competitive institution capable of weakening the US-dominated World Bank and the Japan-dominated ADB's influence or at least expanding Chinese influence within existing institutions through demonstrating that it offers a credible 'exit option'.<sup>91</sup> The AIIB's location in Beijing and the presence of Chinese nationals high in the bank's secretariat also enable it to provide scope for Beijing's exercise, similar to that of the United States' within the Bretton Woods institutions, of informal paths of control over the institution.<sup>92</sup>

On the other hand, ideas about a China-centred Asian investment bank had been floated as early as 2007.<sup>93</sup> The AIIB was itself originally attached to the much more ambitious Belt and Road Initiative (BRI) unveiled in 2013. The BRI provides a means for China's economy to integrate more closely with those of its neighbours. As China built-out its own domestic infrastructure, moreover,

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<sup>87</sup> Chow, 'Why China Established the Asia Infrastructure Investment Bank'; Helmut Reisen, 'Will the AIIB and the NDB Help Reform Multilateral Development Banking?', *Global Policy*, Vol. 6, No. 3 (2015), pp. 297–304.

<sup>88</sup> BRIC Finance Ministers, *BRICs Finance Communiqué*, 14 March, 2009, <http://www.brics.utoronto.ca/docs/090314-finance.html>.

<sup>89</sup> Vestergaard and Wade, 'Protecting Power'.

<sup>90</sup> Tom Miller, *China's Asian Dream: Empire Building along the New Silk Road* (London: ZedBooks, 2017), p. 36.

<sup>91</sup> Ikenberry and Lim, 'China's Emerging Institutional Statecraft'; Chen and Liu, 'Granting Reassurance while Posing Challenge', p. 7.

<sup>92</sup> Stone, *Controlling Institutions*; Stone, 'Informal Governance in International Organizations'. Evidence that powerful countries have informal influence over bank lending and policy decisions is presented in Christopher Kilby, 'An Empirical Assessment of Informal Influence in the World Bank', *Economic Development & Cultural Change*, Vol. 61, No. 2 (2013), pp. 431–64.

<sup>93</sup> Perlez, 'China Creates a World Bank of its Own, and the U.S. Balks', *International New York Times*, 4 December, 2015.

Chinese construction and engineering firms were eager to find new markets for their capacities through the BRI. The AIIB would provide the financing necessary to exploit such opportunities in regions stretching from Southeast Asia to Southeast Europe. For this reason, some argue that, even if reforms at the World Bank and IMF had been more accommodating, 'China would still have proposed the establishment of an institution like the AIIB.'<sup>94</sup>

But is the AIIB nevertheless part of a zero-sum power contest between China and the United States and its allies? If so, it would appear to be more the result of US attempts to undermine the bank than Chinese attempts to exclude the United States.<sup>95</sup> China took steps early on to assuage American concerns about the AIIB and to smooth the way for the US membership, to the extent of offering to reduce China's voting share to below the 25% veto threshold if the United States and Japan agreed to join as founding members.<sup>96</sup> Jin Liqun, later named AIIB's first president, visited Washington DC in September 2014 to make a pitch for US participation. When Evan S. Medeiros, senior China advisor on the National Security Council, remarked, 'I am not going to buy the cake you have cooked,' Jin reportedly replied: 'you are always welcome into the kitchen to help with the baking.'<sup>97</sup>

Despite these Chinese efforts at reassurance, the United States initially criticised the AIIB as an effort to undermine the World Bank and the Asian Development Bank. American and Japanese officials also raised questions on whether or not the AIIB would meet the necessarily high standards of environmental and social protection and anti-corruption. The United States actively discouraged Australia, South Korea, and European countries from joining the Bank, although most US allies ignored this advice.<sup>98</sup> After the UK announced its plans to join the Bank, a White House official declared: 'We are wary about a trend toward constant accommodation of China.'<sup>99</sup> Others worried that the AIIB threatened<sup>99</sup> to fragment and weaken global economic governance.<sup>100</sup>

As regards the AIIB's relationship to pre-existing MDBs, both Chinese and AIIB officials have gone out of their way to emphasise that the AIIB will closely collaborate with the World Bank and ADB. In fact, the AIIB's Articles of

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<sup>94</sup> Callaghan and Hubbard, 'The Asian Infrastructure Investment Bank', p. 125.

<sup>95</sup> *Ibid.*

<sup>96</sup> Chin, 'Asian Infrastructure Investment Bank'; Hu Weija, 'De-Sinicization Can Counter Concerns about AIIB', *Global Times*, 3 December, 2015, <http://www.globaltimes.cn/content/956445.shtml>.

<sup>97</sup> Perlez, 'China Creates a World Bank of its Own, and the U.S. Balks'.

<sup>98</sup> Perlez, 'China's Plan for Regional Development Bank Runs into U.S. Opposition'; Perlez, 'China Creates a World Bank of its Own, and the U.S. Balks'.

<sup>99</sup> Joshua Kurlantzick, 'Let China Win. It's Good for America', *Washington Post*, 15 January, 2016, [https://www.washingtonpost.com/opinions/let-china-win-its-good-for-america/2016/01/14/bfec4732-b9b6-11e5-829c-26ffb874a18d\\_story.html](https://www.washingtonpost.com/opinions/let-china-win-its-good-for-america/2016/01/14/bfec4732-b9b6-11e5-829c-26ffb874a18d_story.html).

<sup>100</sup> Paola Subacchi, 'The AIIB Is a Threat to Global Economic Governance', *Chatham House Expert Comment*, 7 May, 2015, <http://www.chathamhouse.org/expert/comment/17391>.

Agreement stipulate that it will 'complement the existing multilateral development banks'.<sup>101</sup> The AIIB's initial loans, moreover, have been made as a junior partner in World Bank- and Asian Development Bank-led projects.<sup>102</sup> The AIIB welcomed World Bank staff as consultants on the new bank's design and hired many former World Bank and Asian Development Bank employees.<sup>103</sup> China has, moreover, increased its investment stake in both the World Bank and the ADB since the AIIB was announced.<sup>104</sup> AIIB President Jin Liqun emphasised that, 'It is certainly a misconception that the creation of this new bank is meant to create a rivalry against the Asian Development Bank (ADB) or the World Bank.'<sup>105</sup>

Although the degree of competition among these institutions could, of course, grow over time, China has assiduously sought to avoid perceptions that the AIIB represents a direct challenge to existing MDBs, having actively courted the membership of self-perceived upholders of the liberal order. In this way, China's strategy conforms closely to a pattern of 'strategic restraint', wherein international institutions are used to reduce fears of China's rise and reassure lesser states of China's commitments.<sup>106</sup> Moreover, the AIIB has adopted norms, rules, and procedures that are much closer to global standards than those China practices in its bilateral aid programmes. Thus, China both dilutes its potential influence and accepts deeper constraints by redirecting aid resources through multilateral channels.

The design of the AIIB also suggests that China left potential relative gains on the bargaining table by accepting conditions less favourable than might be expected in view of its financial weight in the organisation. Having contributed one-third of the initial capital (33.4%), China's voting weight is 28.5%.<sup>107</sup>

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<sup>101</sup> Asian Infrastructure Investment Bank, 'Asian Infrastructure Investment Bank Subscriptions and Voting Power of Member Countries', 22 September, 2016, <https://www.aiib.org/en/about-aiib/who-we-are/membership-status/.content/index/download/20160930035841674.pdf>.

<sup>102</sup> Sam Fleming, 'AIIB and World Bank to World on Joint Projects', *Financial Times*, 15 April, 2016, <https://www.ft.com/content/3995f790-01b0-11e6-ac98-3c15a1aa2e62>; Hameiri and Jones, 'China Challenges Global Governance?'

<sup>103</sup> Indeed, former World Bank official Natalie Lichtenstein drafted the AIIB's Articles of Agreement while another former World Bank staffer, Stephen Lintner, designed the AIIB's environmental and social framework. Tamar Gutner, 'AIIB: Is the Chinese-led Development Bank a Role Model?', Council on Foreign Relations, 25 June, 2018, <https://www.cfr.org/blog/aiib-chinese-led-development-bank-role-model>.

<sup>104</sup> Perlez, 'China Creates a World Bank of its Own, and the U.S. Balks'.

<sup>105</sup> Tabita Diela and Iwan Subarkah, 'AIIB President Dismisses Accusations of Rivalry with ADB, World Bank', *Jakarta Globe*, 11 May, 2017, <https://jakartaglobe.id/economy/aiib-president-dismisses-accusations-rivalry-adb-world-bank/>.

<sup>106</sup> Chen and Liu, 'Granting Reassurance while Posing Challenge'; G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars* (Princeton: Princeton University Press, 2001).

<sup>107</sup> Asian Infrastructure Investment Bank, 'Asian Infrastructure Investment Bank Subscriptions and Voting Power of Member Countries'.



Although this will initially ensure China's veto power over key decisions (for which a 75% supermajority is required), Chinese authorities have intimated their disinclination to maintain veto power as new Member States gradually dilute China's voting share.<sup>108</sup> Another key indicator is the greater number of 'basic' votes allocated on a one-state, one-vote basis.<sup>109</sup> As with other development banks, AIIB founder members' votes consist of basic votes, share votes, and bonus votes. Whereas basic votes make up only 5.55% of World Bank (IBRD) voting shares, in the AIIB they account for 12%.<sup>110</sup> This gives poorer Member States a much bigger role than in other banks.

Although many observers initially expected loans to be denominated in RMB,<sup>111</sup> in keeping with China's stated goal to diversify global financial flows, the AIIB will in fact conduct all transactions in US dollars (although Chinese currency transactions may be introduced over time).<sup>112</sup> Rather than limiting membership to Asian countries, moreover, all World Bank and ADB members are eligible, and already includes a number of major European powers.<sup>113</sup> China has also stated that the United States and Japan are welcome to join, despite both countries' initially negative attitudes towards the AIIB's creation, and the fact that US and/or Japanese membership would dilute Chinese sway.

Distributive institutionalism is consistent with China's frustrated efforts to gain greater voting power within existing MDBs, with its consequent decision to sponsor the AIIB, and with the US resistance to these moves. Yet China has exercised a degree of restraint patently incompatible with the assumptions of relative-gains seeking. Indeed, Beijing has sought to balance a message of growing strength and leadership with steps designed to offer reassurance of benign intent.<sup>114</sup> China's strategy is not to replace existing institutions but rather to ensure greater 'portfolio diversification' across institutional platforms.<sup>115</sup> In contrast to the predictions of power-based institutionalism, China has made greater

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<sup>108</sup> Inclusive Development International, *Making Inroads*, p. 24. Even while China retains voting power in excess of 25%, AIIB President Jin Liqun has stated that China has no plans to wield its veto power. See Gutner, 'AIIB: Is the Chinese-led Development Bank a Role Model?'

<sup>109</sup> Marina Larionova and Andrei Vladimirovich Shelepov, 'Potential Role of the New Development Bank and Asian Infrastructure Investment Bank in the Global Financial System', *Vestnik RUDN. International Relations*, Vol. 16, No. 4 (2016), p. 706.

<sup>110</sup> Asian Infrastructure Investment Bank, 'Asian Infrastructure Investment Bank Subscriptions and Voting Power of Member Countries'; World Bank, 'Allocation of Votes by Organization' (2018), <http://www.worldbank.org/en/about/leadership/votingpowers>.

<sup>111</sup> Chow, 'Why China Established the Asia Infrastructure Investment Bank', pp. 1295–6.

<sup>112</sup> Inclusive Development International, *Making Inroads*, p. 15.

<sup>113</sup> As of this writing, the number of AIIB Member States stands at 87.

<sup>114</sup> Miller, *China's Asian Dream*, p. 36; Chen and Liu, 'Granting Reassurance while Posing Challenge', p. 4.

<sup>115</sup> Evan Feigenbaum, 'Reluctant Stakeholder: Why China's Highly Strategic Brand of Revisionism is More Challenging Than Washington Thinks', 27 April, 2018, <https://carne>

accommodations of the pre-existing MDB regime (especially in institutional design and cooperation with other MDBs) than a purely distributive strategy would suggest.

Functionalist institutionalism and distributive institutionalism each offer useful insights into China's decision to sponsor the AIIB, although the latter theory cannot account for the degree of Chinese restraint as regards seeking relative gains. Nonetheless, neither variant of rational institutionalism addresses important questions about the qualitative focus of the AIIB and the type of development it seeks to promote, which is critical to the AIIB's ultimate impact on the distinctly *liberal* elements of international order. To address this broader question, we need to examine the social purposes underlying Chinese strategic behaviour.

### **AIIB's Social Purpose: Reproducing or Challenging Liberalism?**

As has been widely recognised, the formal institutional structure of the AIIB closely models the format of established MDBs.<sup>116</sup> AIIB's tripartite governance structure of President and staff, Board of Directors, and Board of Governors reflects the typical MDB structure. Although, in contrast to the World Bank and the ADB, the Board of Directors is non-resident, which some have suggested would limit management oversight,<sup>117</sup> this is not an unprecedented innovation, the Development Bank of Latin America having adopted it in 1970. The AIIB's policy of capping the shares of 'non-regional' members is also in line with other regional development banks.

Despite these clear signs of institutional isomorphism,<sup>118</sup> Obama administration officials and other critics expressed concern that the AIIB would diverge substantively from the development *policies* and *practices* of established MDBs.<sup>119</sup> Particular concern surrounded policy conditionality and transparency and anti-corruption, accountability, and environmental and labour standards.<sup>120</sup> There were concerns that its focus on efficiency might motivate the AIIB to privilege

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gieendowment.org/2018/04/27/reluctant-stakeholder-why-china-s-highly-strategic-brand-of-revisionism-is-more-challenging-than-washington-thinks-pub-76213.

<sup>116</sup> Chin, 'Asian Infrastructure Investment Bank'; Hameiri and Jones, 'China Challenges Global Governance?'; Wilson, 'The Evolution of China's Asian Infrastructure Investment Bank'.

<sup>117</sup> Chow, 'Why China Established the Asia Infrastructure Investment Bank', p. 1288.

<sup>118</sup> Chin, 'Asian Infrastructure Investment Bank'.

<sup>119</sup> Nicholas Watt, Paul Lewis, and Tania Branigan, 'US Anger at Britain Joining Chinese-led Investment Bank AIIB', *The Guardian*, 13 March, 2015, <https://www.theguardian.com/usnews/2015/mar/13/white-house-pointedly-asks-uk-to-use-its-voice-as-part-of-chinese-ledbank>.

<sup>120</sup> European Political Strategy Centre, 'The Asian Infrastructure Investment Bank', EPSC Strategic Notes, April 2015, [https://ec.europa.eu/epsc/publications/strategic-notes/asian-infrastructure-investment-bank\\_en](https://ec.europa.eu/epsc/publications/strategic-notes/asian-infrastructure-investment-bank_en); Rohini Kamal and Kevin Gallagher, 'China Goes Global with Development Banks', Bretton Woods Project, April 2016, p. 4; Wang Hongying, 'New Multilateral Development Banks: Opportunities and Challenges for Global Governance', in Miles Kahler, ed., *Global Order and the New Regionalism* (New York: Council on Foreign Relations, 2016), p. 49; Weaver, 'The Rise of China: Continuity or Change', p. 427; Martin

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quick turnarounds over rigorous safeguards, human rights protection, and promotion of ‘good governance’,<sup>121</sup> which would constitute a significant challenge to the LIO’s established norms in the area of multilateral development finance.

However, the AIIB has in many respects (so far) conformed to the global norms and practices of existing MDBs. This fits the overall picture of China’s socialisation into the established LIO. AIIB staff and Chinese government officials have consistently signalled the commitment to ensure that the AIIB’s lending practices are in line with global norms.<sup>122</sup> At its outset, the bank drew up a ‘Social and Environmental Framework’, consulted with lender governments and NGOs, and even hired the World Bank’s former senior technical adviser on safeguard policies.<sup>123</sup> The normative framework within which this Chinese-led institution presents itself hews remarkably closely to liberal ideas and norms—even though the operation of such norms is only faintly evident in Chinese domestic society.<sup>124</sup>

Moreover, having relied heavily on co-financing with established MDBs, the AIIB is bound to follow the conditions of legacy MDBs.<sup>125</sup> It is too early to judge whether this policy framework will translate into compliant behaviour in the long run. But paper compliance with and conformity to global models has indeed been secured, in keeping with World Society expectations. This would imply parallels with China’s broader engagement in global economic governance. Entry to the World Trade Organisation (WTO) in 2001 compelled China’s revision of many laws and institutions to meet WTO standards.<sup>126</sup> The PRC has imported legal standards and regulations relating to such areas as disability, environment, and anti-corruption reforms that drew upon relevant United Nations conventions.<sup>127</sup> Indeed, the Chinese government can reap reputational gains solely to the extent

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Weiss, *Asian Infrastructure Investment Bank (AIIB)* (Washington, DC: Congressional Research Service, 2017), p. 4.

<sup>121</sup> Chow, ‘Why China Established the Asia Infrastructure Investment Bank’; Joshua Rosenzweig, ‘The AIIB and Human Rights’, 24 June, 2016, <https://thediplomat.com/2016/06/the-aiib-and-human-rights/>.

<sup>122</sup> AIIB President Jin Liqun pledged that ‘we go by international best standards.’ Quoted in Adva Saldinger, ‘AIIB President Jin Liqun: “We’re Lean, Clean and Green, but Not Mean”’, *Devex*, 26 April, 2017, <https://www.devex.com/news/aiib-president-jin-liqun-we-re-lean-clean-and-green-but-not-mean-90140>.

See also Netherland’s statement at the 2016 AIIB Board of Governors meeting, Netherlands, ‘Statement at the Annual Meeting of the Board of Governors’, Asian Infrastructure Investment Bank, 25-26 June, 2016, p. 46. <https://www.aiib.org/en/about-aiib/governance/board-governors/.content/index/download/20160913083104365.pdf>.

<sup>123</sup> Carey et al. ‘Multilateral Development Banks in the 21st Century’, p. 6.

<sup>124</sup> Wilson, ‘The Evolution of China’s Asian Infrastructure Investment Bank’.

<sup>125</sup> Hameiri and Jones, ‘China Challenges Global Governance?’, pp. 576–8; Weiss, *Asian Infrastructure Investment Bank (AIIB)*, p. 13.

<sup>126</sup> Mingtao Shi, ‘China and International Institutions International Order Beyond Formal Rules?’ *International Journal of China Studies*, Vol. 4, No. 3 (2017), p. 443.

<sup>127</sup> Gregory Chin and Ramesh Thakur, ‘Will China Change the Rules of Global Order?’ *The Washington Quarterly*, Vol. 33, No. 4 (2010), pp. 119–38.

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whereby AIIB policies resonate with widely held perceptions of appropriateness.<sup>128</sup> In line with the concept of 'laundering' activities via independent and impartial international organisations, this serves an important role in garnering acceptance and legitimacy for projects that would otherwise be funded through bilateral aid: 'States may prefer development assistance from an independent financial institution over direct aid from another state, especially a former colonial power or one seeking political influence.'<sup>129</sup>

In addition to institutional legitimacy and prestige, China gains benefits from ensuring that the AIIB conforms to perceived 'best practices' within the global development regime. First, the AIIB may serve as another lever for the Chinese leadership to push Chinese state-owned enterprises (SOEs) towards higher standards of environmental quality, transparency, honesty, and efficiency, as China looks to move up the economic value chain. International commitments can, thus, be used to promote reforms both at home and in China's overseas investments.<sup>130</sup> Many of the practices that have evoked the most serious criticism of Chinese SOEs, with regard to their investments abroad, are neither products of strategic direction nor efforts to challenge liberal norms, but rather the result of an increasingly fragmented state authority and growing SOE autonomy in China.<sup>131</sup> Chinese authorities may see the AIIB as a vehicle through which to learn the best practices for setting and bringing into effect high standards in disciplining overseas aid and investment projects. Yet, as Hameiri and Jones note,<sup>132</sup> the small size of the AIIB portfolio relative to China's overall foreign aid and investment may limit its broader impact.

Secondly, the Chinese leadership has recognised the benefits accruing to the United States through its centrality within inter- and trans-governmental networks and institutions.<sup>133</sup> In the contemporary international system, governmental elites are ever more integrated at an international level, forming trans-governmental networks and a global bureaucracy wherein the international-domestic dichotomy has broken down, making them increasingly significant in the shaping of governance outcomes.<sup>134</sup> This internationalisation of state functions has closely followed the internationalisation of production, consumption,

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<sup>128</sup> Reilly, 'A Norm-Taker or a Norm-Maker?', p. 72.

<sup>129</sup> Kenneth W. Abbott and Duncan Snidal, 'Why States Act through Formal International Organizations', *Journal of Conflict Resolution*, Vol. 42, No. 1 (1998), pp. 3–32. Miller, *China's Asian Dream*, pp. 15, 33; Hameiri and Jones, 'China Challenges Global Governance?'

<sup>130</sup> Gu Bin, 'Chinese Multilateralism in the AIIB', *Journal of International Economic Law*, Vol. 20, No. 1 (2017), pp. 145–6.

<sup>131</sup> Hameiri and Jones, 'China Challenges Global Governance?'

<sup>132</sup> *Ibid.*, p. 593.

<sup>133</sup> Pang Xun, Liu Lida, and Stephanie Ma, 'China's Network Strategy for Seeking Great Power Status', *Chinese Journal of International Politics*, Vol. 10, No. 1 (2017), pp. 1–29.

<sup>134</sup> Stephen Gill and A. Claire Cutler, *New Constitutionalism and World Order* (Cambridge: Cambridge University Press, 2014); Nico Krisch and Benedict Kingsbury, 'Introduction: Global Governance and Global Administrative Law in the International Legal Order',

and exchange.<sup>135</sup> As Ruben Gonzalez-Vicente emphasises, the internationalisation of the Chinese state under the leadership of the Communist Party of China has unfolded subsequent to the process whereby former communist ministries were transformed into SOEs, resulting not in a liberal market economy but rather in an 'entrepreneurial state' that exercises control over corporations with Fortune 500 rankings and which has deep commitments to international markets.<sup>136</sup>

From the Chinese leadership's perspective, national power relates to the placement of Chinese elites in influential global social networks. Yet until now, such elites have remained largely outside such networks.<sup>137</sup> Consequently, there is evidence that the Chinese government seeks to 'increase its global social power through networking with other prominent countries' and building China-centred multilateral institutions.<sup>138</sup> The AIIB provides one vehicle for thickening the connections between relatively insulated state-party-corporate networks and the broader transnational networks of corporate elites, government officials, IO staff, and technical experts that will come together through AIIB projects.

Yet these networks are typically organised around sets of shared epistemic and normative assumptions and knowledge, and tighter connections may serve as mechanisms for further socialising key Chinese participants.<sup>139</sup> Particularly, since Jiang Zemin's legitimisation of the Chinese business class in 2002, the interaction of the Chinese party-state model with international standards has resulted in a 'growing permeability of ideologies in the Chinese state.'<sup>140</sup> This highlights the double-edged nature of the AIIB from China's perspective: constructing China-centred institutions not only builds Chinese social and relational power but also serves to socialise Chinese elites into norms that stand in tension with Chinese domestic structures.<sup>141</sup>

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*European Journal of International Law*, Vol. 17, No. 1 (2006), pp. 1–13; Anne-Marie Slaughter, *A New World Order* (Princeton: Princeton University Press, 2004).

<sup>135</sup> Robert W. Cox, 'Social Forces, States and World Orders: Beyond International Relations Theory', *Millennium*, Vol. 10, No. 2 (1981), pp. 144–9.

<sup>136</sup> Ruben Gonzalez-Vicente, 'The Internationalization of the Chinese State', *Political Geography*, Vol. 30, No. 7 (2011), pp. 402–11.

<sup>137</sup> William K. Carroll and Colin Carson, *The Making of a Transnational Capitalist Class: Corporate Power in the Twenty-first Century* (London and New York: Zed, 2010); Nana' de Graaff, 'Oil Elite Networks in a Transforming Global Oil Market', *International Journal of Comparative Sociology*, Vol. 53, No. 4 (2012), pp. 275–97.

<sup>138</sup> Pang, Liu and Ma, 'China's Network Strategy for Seeking Great Power Status'; Nana' de Graaff and Baastian van Apeldoorn, 'US Elite Power and the Rise of Statist Chinese Elites in Global Markets', *International Politics*, Vol. 54, No. 3 (2017), pp. 338–55; Nana' de Graaff and Baastian van Apeldoorn, 'US-China Relations and the Liberal World Order: Contending Elites, Colliding Visions?', *International Affairs*, Vol. 94, No. 1 (2018), pp. 113–31.

<sup>139</sup> Stephen, 'Rising Powers, Global Capitalism and Liberal Global Governance', p. 920.

<sup>140</sup> Gonzalez-Vicente, 'The Internationalization of the Chinese State', p. 405.

<sup>141</sup> Jonge, 'Perspectives on the Emerging Role of the Asian Infrastructure Investment Bank'.

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Thirdly, there also exist material incentives to conform to the pre-existing norms of the multilateral development aid regime. Like other MDBs, the AIIB will raise funds by issuing bonds on commercial markets, and investors will give weight to the ratings that credit rating agencies place upon these bonds. This means that the AIIB must meet the standards of governance that are in line with what such agencies define as international best practices, as they will not otherwise issue favourable ratings.<sup>142</sup>

In general, China's behaviour with respect to the AIIB appears relatively consistent with the idea that China and other states are under strong socialisation pressure to conform to global norms, especially when they seek buy-in for new international institutions from other states. Nevertheless, it is unclear exactly how deep such socialisation has gone.<sup>143</sup> Despite the striking institutional isomorphism of the AIIB vis-à-vis established MDBs, our analysis implies that the AIIB indeed bears certain hallmarks of China's particular social order, which differentiate it from the social purpose of the LIO.

First, the AIIB's Articles of Agreement stipulate that it will take a politically neutral approach. This at least differentiates the AIIB from explicitly liberal MDBs, such as the European Bank for Reconstruction and Development (EBRD), which Western and former Soviet-aligned countries set up in the aftermath of the Cold War and which aligned much more closely to the policy preferences, beliefs, and resources of legitimacy of Western countries.<sup>144</sup> In contrast to the overtly liberal EBRD, the AIIB's Articles of Agreement stipulate that, 'The Bank, its President, officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions.'<sup>145</sup> The Chinese government is deeply wary of Western attempts to use human rights and limitations on sovereignty as a political tool and has

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<sup>142</sup> Ikenberry and Lim, 'China's Emerging Institutional Statecraft', pp. 14–5; Sekine, 'Aims and Prospects of the Asian Infrastructure Investment Bank', p. 11.

<sup>143</sup> He Kai and Feng Huiyun, 'Transcending Rationalism and Constructivism: Chinese Leaders' Operational Codes, Socialization Processes, and Multilateralism after the Cold War', *European Political Science Review*, Vol. 7, No. 3 (2015), p. 405; Sekine, 'Aims and Prospects of the Asian Infrastructure Investment Bank'.

<sup>144</sup> Steven Weber, 'Origins of the European Bank for Reconstruction and Development', *International Organisation*, Vol. 48, No. 1 (1994), p. 1. According to its establishing agreement, the EBRD is 'Committed to the fundamental principles of multiparty democracy, the rule of law, respect for human rights and market economics', and its Article 1 commits the bank 'to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiatives. . .'. EBRD, *Agreement Establishing the European Bank for Reconstruction and Development*, 29 May, 1990, <http://www.ebrd.com/news/publications/institutional-documents/basic-documents-of-the-ebrd.html>.

<sup>145</sup> AIIB, *Articles of Agreement*, [www.aiib.org/en/about-aiib/basic-documents/download/articles-of-agreement/basic\\_document\\_english-bank\\_articles\\_of\\_agreement.pdf](http://www.aiib.org/en/about-aiib/basic-documents/download/articles-of-agreement/basic_document_english-bank_articles_of_agreement.pdf).

consequently espoused a broader doctrine of *non-interference* in the affairs of other countries.<sup>146</sup> As the Information Office of the State Council of China explains:

China has firmly opposed to [sic] any country making use of the issue of human rights to sell its own values, ideology, political standards and mode of development, and to [sic] any country interfering in the internal affairs of other countries on the pretext of human rights, the internal affairs of developing countries in particular, and so hurting the sovereignty and dignity of many developing countries. [...] China has always maintained that human rights are essentially matters within the domestic jurisdiction of a country. Respect for each country's sovereignty and non-interference in internal affairs are universally recognized principles of international law, which are applicable to all fields of international relations, and of course applicable to the field of human rights as well.<sup>147</sup>

By extending Chinese influence through a formal multilateral organisation committed to the doctrine of non-interference, the AIIB strengthens the Chinese government's ability to raise this normative challenge to the LIO. AIIB officials have not only pledged to uphold existing standards of multilateral development lending but have also suggested a 'more business-like approach', with a lesser focus on poverty reduction and promotion of political and social change.<sup>148</sup> China's overriding message has been to defend sovereignty, pluralism, and diversity in political and economic institutions against perceived efforts by the United States to impose a singular, universal model. In this respect, China presents a challenge to the LIO, not by championing a ready-made alternative, but by rejecting political and economic uniformity, and advancing a norm of international diversity. In keeping with this approach, China has also largely eschewed the attachment of political or economic conditions to its bilateral foreign assistance.<sup>149</sup>

Even if the AIIB offers only slightly more lenient terms on its loans than established MDBs, it is the relative absence of conditions that creates worries in certain quarters that existing development institutions and donor countries will find insisting upon maintaining their particular standards difficult when bargaining with recipient countries if a more forgiving alternative is available.<sup>150</sup> By stoking the trend towards institutional proliferation, the creation of the AIIB ushers in an 'age of choice' wherein borrowing countries can pick and choose.<sup>151</sup> Indeed, there

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<sup>146</sup> Peng Zhongzhou and Sow Keat Tok, 'The AIIB and China's Normative Power in International Financial Governance Structure', *Chinese Political Science Review*, Vol. 1, No. 4 (2016), pp. 73–53.

<sup>147</sup> As cited in Randall Peerenboom, 'Assessing Human Rights in China: Why the Double Standard?', *Cornell International Law Journal*, Vol. 38, No. 1 (2005), p. 82.

<sup>148</sup> Chin, 'Asian Infrastructure Investment Bank', pp. 20–21; Wang, 'New Multilateral Development Banks'.

<sup>149</sup> A significant exception is that China insists that aid recipients adopt a One-China policy with respect to Taiwan.

<sup>150</sup> Subacchi, 'The AIIB Is a Threat to Global Economic Governance'.

<sup>151</sup> Prizzon, Greenhill and Mustapha, 'An "Age of Choice" for External Development Finance?'.

is evidence that the governments of many of the least developed countries have chosen more expensive development finance options that carry fewer conditions.<sup>152</sup> Although the AIIB did, in its early days, co-finance and, therefore, conform to existing standards, a greater institutional choice would make promoting a particular development model more difficult for any country in the long run. If this holds, then the AIIB and other new ‘counter-institutional’ initiatives may erode the efficacy of certain levers of liberal influence in the global political economy.

Secondly, as social order models would expect, the focus on infrastructure is itself reflective of China’s distinctive political and economic system, implying a more subtle path whereby China’s internal order is becoming externalised in its interaction with global processes.<sup>153</sup> China has leaned heavily upon infrastructure-led development, even by comparison with other East Asian countries that placed infrastructure at the centre of their economic development strategies. China has also supported existing multilateral institutions’ greater focus on infrastructure.<sup>154</sup> Infrastructure-led development typically privileges states over markets. Most infrastructure projects are public-owned, and Chinese SOEs operating in infrastructural sectors have expanded overseas investment assets to more than \$900 billion.<sup>155</sup> In short, the spread of infrastructure-led development models provides a mechanism for strengthening the legitimacy and centrality of China’s own political economy within the global order, extends Chinese influence,<sup>156</sup> and provides opportunities that strengthen China’s state-owned sector.

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<sup>152</sup> *Ibid.*

<sup>153</sup> Jonge, ‘Perspectives on the Emerging Role of the Asian Infrastructure Investment Bank’.

<sup>154</sup> Morten Ougaard, ‘The Transnational State and the Infrastructure Push’, *New Political Economy*, Vol. 23, No. 1 (2018), pp. 128–44.

<sup>155</sup> Chen Aizhuang and Matthew Miller, ‘Overseas Assets Held by China’s Centrally Owned Firms Top \$900 Billion’, 18 October, 2017, <https://www.reuters.com/article/us-china-congress-soes/overseas-assets-held-by-chinas-centrally-owned-firms-top-900-billion-idUSKBN1CN0UE>; Chow, ‘Why China Established the Asia Infrastructure Investment Bank’, pp. 1292–5. Note that to date only three Chinese SOEs have won major AIIB contracts (most of which have been associated thus far with projects co-sponsored with the World Bank or the ADB). Private communications with RWR Advisory Group, <https://www.rwradvisory.com>.

<sup>156</sup> One form of influence arises from debt-dependence. Considering only extreme cases, one study has identified 10–15 countries that ‘could suffer from debt distress due to future BRI-related financing’. John Hurley, Scott Morris and Gailyn Portelance, ‘Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective’, Center for Global Development Policy Paper, Vol. 121 (2018), p. 11. Through BRI, China is also gaining control over major infrastructure projects in other countries through ownership, lease or management arrangements.

Ultimately, this bolsters the control of the ruling Communist Party<sup>157</sup> and rewards members of the governing coalition at the heart of China's political order.<sup>158</sup>

It is perhaps no surprise, then, that the AIIB and the BRI may well encourage other countries in the region to pursue a similar path, led by Chinese finance, expertise, and contracts.<sup>159</sup> Chin and Thakur observe that although China attaches no mandatory conditions, it does advise recipients to emphasise 'state support for core industries, foreign exchange management, (and) central bank direction of capital'.<sup>160</sup> In the face of opposition from Western businesses and certain governments, China has often sought to legitimise the role of SOEs in economic development, for example, by persuading the BRICS countries to 'acknowledge the important role that State Owned Companies (SOCs) play in the economy...'.<sup>161</sup> And China has demonstrated growing confidence that its social model 'offers a new option for other countries and nations who want to speed up their development while preserving their independence'.<sup>162</sup> These ideas and practices promote a shift towards greater state control and a loosening of liberal policy conditionality.

To be sure, the spread of a 'China model' and the strengthening of economic networks centred upon China itself do not signal an intention to undermine or replace the existing LIO. In the design and early operations of the AIIB, China has, contrary to initial predictions, largely supported efforts to collaborate with existing development banks and to import most of the rules, norms, and standards associated with the current aid regime. China is itself heavily entwined with global markets and relies upon a strong private sector.

Moreover, the very fact that China prefers state-to-state relations and limits its engagements with the broader civil society indeed impedes the transfer of Chinese norms and knowledge via aid projects. In contrast, not only do Western aid

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<sup>157</sup> Huang Yasheng, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (Cambridge: Cambridge University Press, 2010).

<sup>158</sup> Lin Li-wen and Curtis Milhaupt, 'We Are the (National) Champions: Understanding the Mechanisms of State Capitalism in China', *Stanford Law Review*, Vol. 65, No.4 (2013), pp. 697–759; Tan Bann-Seng and Bruce Bueno de Mesquita, 'Does Chinese Foreign Aid Giving Differ from Other Donor Nations?', 18 January, 2013, [https://www.princeton.edu/politics/about/file-repository/public/Chinese-Foreign-Aid\\_BdM3\\_Bueno-PDF.pdf](https://www.princeton.edu/politics/about/file-repository/public/Chinese-Foreign-Aid_BdM3_Bueno-PDF.pdf).

<sup>159</sup> Angela Stanzel, Nade`ge Rolland, Jabin Jacob, and Melanie Hart, 'Grand Designs: Does China Have a "Grand Strategy"?', European Council on Foreign Relations, 18 October, 2017, [https://www.ecfr.eu/publications/summary/grands\\_designs\\_does\\_china\\_have\\_a\\_grand\\_strategy](https://www.ecfr.eu/publications/summary/grands_designs_does_china_have_a_grand_strategy).

<sup>160</sup> Chin and Thakur, 'Will China Change the Rules of Global Order?', p. 125.

<sup>161</sup> BRICS, 'eThekweni Declaration and Action Plan', 27 March, 2013, [https://www.brics2017.org/English/Documents/Summit/201701/t20170125\\_1407.html](https://www.brics2017.org/English/Documents/Summit/201701/t20170125_1407.html).

<sup>162</sup> Xi Jinping, 'Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era', delivered at the 19th National Congress of the Communist Party of China, 18 October, 2017, p. 9, [http://www.xinhuanet.com/english/download/Xi\\_Jinping's\\_report\\_at\\_19th\\_CPC\\_National\\_Congress.pdf](http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf).

agencies and private firms penetrate recipient societies more deeply, but Western NGOs also 'train and socialise local NGOs in developing nations ... teaching a "Western model" of state-society relations, whereby NGOs act as a watchdog and are sometimes antagonistic to the government'.<sup>163</sup> As Chinese government-organised NGOs increasingly follow Chinese aid and investment, however, this asymmetry could change.<sup>164</sup>

## Conclusion

As a key element of China's new institutional initiatives, the AIIB provides an important medium for an assessment of the impact of China's rise on the LIO as the latter faces renewed challenges from within. The complex forces currently driving international change belie simple predictions about the future of the LIO. In this article, we have argued that in order to render judgements about China's relationship to the LIO, it is necessary not only to analyse the AIIB using the tools of state-centric IR theory but also to employ societal approaches to understand its social purpose.

Our empirical findings are two-fold. First, both functional efficiencies and relative power dynamics appear to have played a role in China's decision to create the AIIB. The AIIB can neither be attributed to simple gains-seeking nor to straightforward power politics. It is the two in combination that generate institutional change. Secondly, we find evidence in the AIIB of a remarkable level of conformity to existing norms and institutional models, implying a strong role for socialisation dynamics within the LIO in the issue area of multilateral development financing. Nonetheless, it is hard to judge how deep or lasting such socialisation really is, and certain features of the AIIB also reflect the growing global presence of China's particular political-economic order.

The AIIB's focus on infrastructure-led development is itself an externalisation of China's domestic political-economic model, much as changes in the US political-economic situation have shaped the World Bank and UN agencies' agendas over previous decades.<sup>165</sup> This model favours planning and state-ownership, and sees poverty reduction as a result of development, rather than the other way around. China's political order, based upon Leninist principles, stands in stark contrast to Western liberal democracy, and China's economy still retains strong elements of state guidance. Yet China has been profoundly changed over the past four decades through a process of ever deeper integration into a pre-existing liberal order. As a result, a hybrid social order has emerged which combines state-led development with entrepreneurial markets that relate to one another

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<sup>163</sup> Reza Hasmath, 'China's NGOs Go Global', 23 March, 2016, <https://thediplomat.com/2016/03/chinas-ngos-go-global/>.

<sup>164</sup> *Ibid.*

<sup>165</sup> Mark Mazower, *Governing the World: The History of an Idea* (London: Penguin, 2012), pp. 273–99.



‘compensatory, even seemingly contradictory fashion’.<sup>166</sup> These internal tensions are mirrored by the frictions and mutual dependencies that exist between China’s hybrid social order and the LIO. They also appear to be built into the AIIB itself, so reflecting the somewhat contradictory influences of the global norms embedded in the LIO, and the structural features of China’s hybrid social order.

One important caveat about our findings is that, in comparison to other Chinese-led institutions, the AIIB may qualify as the least likely case of a substantive challenge to the LIO for two key reasons: membership composition and issue area characteristics. First, China made important concessions to win the participation of many developed countries. The Chinese approach to international institution building, therefore, is somewhat diluted with regard to the AIIB. The bank’s membership composition may, hence, have a constraining influence on departures from the liberal social purpose when compared to regional organisations that exclude non-regional members. Secondly, the policy field of development banking may be one wherein—compared to other policy fields such as internet governance or human rights—the normative divergence between China and the LIO is less pronounced. This suggests the need for more research into the social purposes of China’s other multilateral initiatives and institutions.

The AIIB and China’s new institutional initiatives may not constitute a ‘grand ideological alternative to a liberal international order’.<sup>167</sup> Nor do they—in the words of German Foreign Minister Sigmar Gabriel—represent an effort ‘to put a Chinese stamp on the world and impose a Chinese system’.<sup>168</sup> But this may be beside the point. The creation of new institutions may address functional deficiencies of long-established incumbent institutions and provide a mechanism for China to subvert the US institutional privileges. At the same time, the LIO’s distinctly liberal features may be eroded more effectively by going around them—either bilaterally, as in the case of the hub-and-spokes investment patterns that dominate China’s Belt and Road Initiative, or by adopting new international institutions that are indifferent to core liberal ideas, as in the case of AIIB. Even without openly challenging the LIO, therefore, the AIIB lends it Chinese characteristics.

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<sup>166</sup> McNally, ‘Sino-Capitalism’, p. 754.

<sup>167</sup> Ikenberry, ‘The End of Liberal International Order?’, p. 23.

<sup>168</sup> Steven Erlanger, ‘Europe Once Saw Xi Jinping as a Hedge Against Trump. Not Anymore’, *The New York Times*, 4 March, 2018, <https://www.nytimes.com/2018/03/04/world/europe/europe-china-xi-trump-trade.html>.