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Regarding China-led AIIB, the dominant discourse tends to take simplistic, dichotomous approaches based upon the heated debate over Chinese revisionism and status quo from conventional IR theories. While the dichotomous approach seems to suggest compelling narratives, it cannot fully reflect the real dynamics behind the establishment of AIIB. To more comprehensively understand Chinese behaviors behind AIIB and the bank’s implications in the Asian financial order, this article reviews Chinese rhetoric, attitudes, and behaviors during the setup processes of AIIB, and compares the bank’s institutional design with that of the World Bank and Asian Development Bank. Suggesting China’s four strategic approaches to AIIB, this article argues that China-led AIIB can be viewed as a gradual modification of Asian financial order.

Keywords: China, Asian Infrastructure Investment Bank (AIIB), Asian Financial Order, World Bank (WB), Asian Development Bank (ADB)

1. INTRODUCTION

In October 2013, Chinese President Xi Jinping first announced his intention to create the AIIB, a new regional Multilateral Development Bank (MDB). While the AIIB is a financial institution, it has not only economic but also geopolitical and diplomatic implications, particularly in terms of the strategic rivalry between the US and China. It is because the AIIB is championed by a rising China, and it is established despite the existence of U.S.- and Japan-led financial institutions in Asia, the World Bank (WB) and Asian Development Bank (ADB), respectively. Moreover, it is because the US has been suspicious of Chinese intentions behind the AIIB and engaged in a tense bid to prevent its allies from joining the bank. In this context, as China successfully launched the AIIB in December 2015, with 57 Prospective Founding Members (PFM), its headquarter in Beijing, its first president a Chinese national and China being the largest shareholder, people around the world cast a great deal of doubt on the new institution’s intentions, functions, and implications. This was in spite of the fact that the bank is relatively on a small scale, because it is a part of Chinese bigger initiatives such as One Belt One Road initiative and renmenbi internationalization.

Regarding Beijing’s new institution, a large number of people tend to take a simplistic, dichotomous position based upon the framework of Chinese status quo and revisionism from the lens of traditional IR theories, namely, realism and neo-liberal institutionalism. Drawing their logic from the realist’s perspective, Western people often argue that China has finally

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1 The China-led AIIB is regarded as President Xi Jinping’s new signature regional economic agenda together with the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road,” which are collectively known in abbreviated form in Chinese parlance as the “One Belt One Road” (OBOR) initiative. The AIIB is often referred to as the most important financial and institutional mechanism for implementing the OBOR strategy.
become a revisionist power that seeks to build a new global order by revealing its true colors after decades of participating in existing international organizations. On the other hand, from the neo-liberal institutionalist viewpoints, Asian developing countries tend to have optimistic perspectives, regarding the AIIB as a constructive institution that would overcome the existing MDBs’ resources and governance constraints while not disrupting the U.S.-led liberal world order.

While the two contrasting IR theory-based spectrums seem to suggest plausible narratives, it cannot fully reflect the real dynamics behind the establishment of the AIIB. The nature of Sino-American relations in the field of international financial institution is much more complex and intractable than the dichotomous approach can explain, encompassing multiple states’ interests and strategies, institutional norms and arrangements, and common goals, especially in an era of increased economic interdependence and proliferated multilateralism.

Then, how can we approach the China-led AIIB? How can we better explain Chinese rhetoric and behaviors regarding its establishment of the new MDB, as well as, the bank’s strategic implication in the Asia-Pacific region? In order to answer these questions, this article scrutinizes how China has successfully launched the AIIB using empirical process-tracing. In the first section, this paper reviews the mainstream approaches to the China-led AIIB that are built upon the framework of Chinese status quo and revisionism from the lens of conventional IR theories. In the second section, this paper points out key shortcomings of the two contrasting IR theory-based approaches and suggests alternative arguments for this article based upon Schweller and Pu’s ideas on Chinese strategy of delegitimizing American power. The following sections go into more specific analyses. In the third section, this paper scrutinizes Chinese rhetoric, behaviors, and attitudes during the set up processes of the AIIB based on empirical evidences. In the fourth section, this article examines the completed version of the AIIB, placing the new MDB in comparative context with major existing financial institutions. Comparing the scale, functions, and institutional design of the AIIB with those of the WB and ADB, this article addresses questions regarding the degree of Chinese influence within the AIIB and the depth of the AIIB’s commitments to the norms and principles encapsulated within the international system.

The main argument is that the China-led AIIB can be viewed as a gradual modification of the Asian financial order, neither wholly status quo nor wholly revisionism. Launching the AIIB in a gradual and careful manner within the established system rather than directly challenging US primacy and rejecting the deeply embedded principle of liberal order, China has tried to increase its influence, take on a leadership role, and carefully modify the Asian financial order to shift it from US-centered toward more China-centered one. China’s strategic approaches to do so can be summarized by four major practices that China has conducted: (1) delegitimizing U.S. primacy by criticizing the U.S.-led global financial governance structure and calling for democratization of the international economic order, (2) projecting its image as a responsible power with emphasis on its altruistic devotion to Asia’s growth, (3) revising the core architecture of the AIIB in response to overwhelming concerns and controversies, and (4) making the institutional design of the AIIB similar to and compatible with that of the existing institutions. Using these rhetorical and behavioral strategies as a way to launch the new MDB without open and complete defiance, China was able to avoid the ideational barrier to balancing behaviors and successfully open the AIIB by gaining general support from other countries.
2. MAINSTREAM APPROACH TO CHINA-LED AIIB

The AIIB has become one of the central points of the debate on the direction of a rising China. After Xi’s October 2013 announcement, the new MDB has been framed in terms of strategic rivalry and power transition between China and the US. Regarding the China-led AIIB, most people tend to take a simplistic approach based upon the heated debate over Chinese revisionism and status quo from the lens of the conventional IR theories.

The mainstream discourse on the China-led AIIB is largely divided into two groups as the new institution generated considerable anxiety in the US and other Western countries while it conversely represented a hope to Asian developing countries. First, Western media pundits, policymakers and the public, particularly Americans and the Japanese, are inclined to have pessimistic views. They tend to see the China-led AIIB as a serious threat to the status quo, claiming that the bank is an example of new assertiveness and that it allegedly challenges the U.S.-led international economic order supported by the Western-dominated financial institutions that have been established following the WWII, such as the International Monetary Fund (IMF), the World Bank, and Asian Development Bank (Kahn and Albert, 2015; Mcdowell, 2015; Summers, 2015; The Economist, 2014). They believe that through the AIIB, China tries to create a regional sphere of influence and make an alternative architecture to the one that has been formulated and governed by the West.

The basis of these pessimistic views overlaps with the viewpoints of the proponents of power transition theory and offensive realism, such as A.F.K. Organski, Robert Gilpin and John Mearsheimer. According to Organski (1980), any rising state is by definition a revisionist power. He claims that it is mainly because a rising nation generally is dissatisfied with its underrepresented position in the system and attempts to find a new place for itself in the international society commensurate with its own increasing national capability. Moreover, Gilpin (2013) contends that because of the redistribution of power, on the one hand, the incumbent state maintains its dominant position in the current system at an increasing cost, and on the other hand, the cost to the rising state of changing the system decreases. And, because states are intrinsically self-interested-power maximizers and there is no global government, the rising state dares to topple the incumbent power and undermines the status quo. Finally, according to Mearsheimer (2001), all great powers are fundamentally revisionists because the anarchical international system forces them to achieve relative gains over absolute gains for their own survival and security. Based on this viewpoint, Mearsheimer (2014) argues, “China will attempt to dominate Asia the way the United States dominates the Western Hemisphere.”

On the other hand, media pundits, policymakers and the public in China and other developing countries have more optimistic views. They tend to regard the AIIB as a hope and opportunity, claiming that the China-led new institution attempts to promote Asia’s growth while adhering to the rules of international cooperation mechanism and pursuing mutual gains (Xinhuanet, 2016). Furthermore, they emphasize that the new MDB would make the preexisting financial institutions neither irrelevant nor redundant by serving a complementary role to the existing institutions rather than substituting them. Based on these ideas, they claim that the China-led AIIB indicates status quo-orientation, seeking to assume
greater responsibility but does not attempt to challenge U.S. primacy or the liberal order’s multilateral norms and institutional practices.

These optimistic views are built upon the theoretical perspectives of neo-liberal institutionalists, such as Robert Keohane and John Ikenberry. Focusing on mutual benefits through interdependence and reciprocity, neo-liberal institutionalists believe that cooperation among states is not impossible even under anarchy, because of the role of international laws and institutions (Ikenberry, 2008). As such, they claim that rising powers are not intrinsically revisionist powers since they are able to learn to use institutions that reduce the chance of their own malefeasance or dangerous manipulation of other states and pursue mutual gains. On the basis of this framework, they argue that logically, China will not seek to overthrow the current international system because China has been accommodated within the system, has benefitted from it, and has risen to become the world’s second-biggest economy. To sum up, Asian developing countries tend to have optimistic views on the China-led AIIB based upon the theoretical framework of neo-liberal institutionalism, which claims that China will be a status-quo power that does not seek to challenge the US primacy and the stability of the liberal order.

3. FILLING THE GAP: GRADUAL MODIFIER

As described earlier, the debate over whether the China-led AIIB indicates status quo or is a revisionist power has been the central approach to the new MDB. While the dichotomous approach, which sees the Sino-American relations and the China-led AIIB through the lens of a zero-sum logic, seems to suggest plausible narratives, it cannot fully reflect the real dynamics. Regarding security and military issues, most notably the territorial and jurisdictional conflicts in the South China Sea and Taiwan issue, the US and its allies often face confrontations and frictions with China with conflicting interests. Because security and military affairs are fundamental to ensure their national survival, they tend to see each other as a dangerous threat, rather than as a reliable partner, through the lens of zero-sum game.

However, in the international financial and economic realm, the nature of their relationship is quite complex and intractable because the elements of cooperation and competition between them exist side by side, especially in an era of increased economic interdependence and proliferated multilateralism. Moreover, their relations within international institutions are multifaceted, encompassing multiple states’ interests and strategies, institutional norms and arrangements, and common development goals. Accordingly, the dynamics and prospects of Sino-American relations in the field of international finance and economy are not necessarily driven from the framework of zero-sum game. For instance, in the case of the AIIB, UK’s decision to join the bank ultimately opened the way for other G-7 European countries and U.S. key allies, including France, Germany, Italy, South Korea and Australia, to follow suit despite Washington’s strong opposition. Moreover, many of China’s neighboring countries involved in the territorial disputes with China, such as Philippines, Vietnam, Brunei and Malaysia, also applied to become a founding member.

From this unexpected support, we can find one valuable lesson. That is, many countries, even the US’s allies or countries harboring risk of conflict with China in the South China Sea, do not view the AIIB as a geopolitical chess game for regional dominance between the US and China. Instead, from their own calculations of economic interests, they tend to see the bank as representing win-win cooperation with the potential for synergistic economic
growth. As this clearly manifests that the dichotomous dualism based on the zero-sum logic cannot fully comprehend the real context behind the new MDB, it does not seem appropriate to simply define the China-led AIIB as wholly status quo or wholly revisionism.

Then, how should we approach the China-led AIIB? How can we better explain Chinese attitudes and behaviors regarding the AIIB and the bank’s strategic implication in the Asia-Pacific region? How can we supplement the two contrasting IR theory-based spectrums toward the new MDB? Schweller and Pu’s analysis on the rise of China from the perspective of the theory of long cycle provides helpful insights. Schweller and Pu (2011) explain that power transition between hegemony and rising challenger occurs within cyclical pattern, and argue that our international system is now entering a stage of delegitimation and deconcentration. According to them, under unipolarity, balancing is a revisionist process; therefore, any state intent on restoring a global balance of power will be labeled an aggressor and targeted by the hegemon and its allies. To overcome this ideational barrier, an emerging power should first delegitimize and deconcentrate the hegemon’s authority in global politics. Based on this logic, they maintain that China as a rising power currently seeks “gradual modification of Pax Americana,” which pragmatically accommodates U.S. hegemony and at the same time contests its legitimacy. Chinese tactics to do so include “(1) denouncing U.S. unilateralism and promoting the concept of multilateralism, (2) participating in and creating new international organizations, (3) pursuing a proactive soft power diplomacy in the developing world, (4) voting against the United States in international institutions, and (5) setting the agenda within international and regional organizations” (Schweller and Pu, 2011: 53).

Schweller and Pu’s work offers helpful logic to why China would not directly contest the US hegemony at this moment and how China has tried to expand its influence in global politics without open defiance. Indeed, such Chinese tactics of delegitimizing and deconcentrating U.S. hegemony are also manifested in Chinese approaches to the launch of the AIIB while there exist some differences. Keeping the framework suggested by Schweller and Pu in mind, this article analyzes Chinese strategic approaches to its establishment of the AIIB and the new bank’s implications in the Asian financial order. Given the above-mentioned analytical limitations of the mainstream dichotomous approaches, excluding the theoretical framework of status quo and revisionism, this paper generally reviews how China has successfully established the AIIB based upon empirical process-tracing. More specifically, in the first part of the analysis, this paper scrutinizes Chinese rhetoric, behaviors and attitudes during the setup processes of the AIIB. In the latter part, this article examines the completed version of the AIIB, placing the AIIB in comparative context with the existing major MDBs. Doing so, this article addresses questions with regard to the degree of Chinese influence within the AIIB and the depth of the AIIB’s commitments to the norms and principles of the international system.

4. CHINESE ATTITUDES AND BEHAVIORS DURING THE SETUP OF AIIB

In this section, this article scrutinizes how and what China had done to successfully launch the new MDB. The empirical process-tracing on Chinese rhetoric, attitudes and behaviors during the setup processes of the AIIB suggests Chinese three major strategies: (1) delegitimizing U.S. primacy by criticizing U.S.-led global financial governance structure and calling for democratization of international economic order, (2) projecting its image as a
responsible power with emphasis on its devotion to Asia’s growth, and (3) revising the core architecture of AIIB in response to overwhelming concerns.


The US-led global financial system has been criticized due to its biased governance structure as the world economic order has gradually shifted from unipolar toward multipolar, being relatively less dominated by the G-7 nations, over the past two decades. There has been a great transformation in world economic structure since developing countries have come to occupy pivotal positions in international production, trade and finance amid the emergence of the new powers such as India and China. For example, while the US and other G-7 countries accounted for 51.2% of the world’s GDP in the early 1990s, their share has decreased to 31.6% in 2015 (Subacchi and Pickford, 2015). On the other hand, over the same period, the new economic powers such as India and China have risen from 7.7 to 24.3%. Moreover, from 2000 to 2014, the combined GDP of the so-called BRICS group (Brazil, Russia, India, China, and South Africa) grew by over 500%, compared to 64% for the G-7 (IMF, 2014).

The need for international economic governance to adjust to the new multipolar reality was particularly underlined by the 2008 global financial crisis. At that time, as the banking crisis spread and economies faltered, G-7 leaders eventually turned to the G-20 because the sheer scale of the crisis required a more systematic, comprehensive, and collective responses than the G-7’s limited range could deliver. After the global financial crisis, the G-20 has become the leading forum for global financial and economic affairs, replacing the G-7, from November 2008 onwards. The expansion from G-7 to G-20 with the outbreak of the global financial crisis being the turning point reflects that managing the global economy is no longer an exclusive matter for a small number of the advanced countries.

However, even after the crisis, emerging and developing countries did not have decision-making powers inside the so-called Bretton Woods institutions such as the IMF and WB due to the US and other Western countries’ structural dominance. For example, as of March 2011, China, the world’s second-biggest economy, had just 3.65% of total votes in the IMF, while the US and Japan have 16.72% and 6%, respectively (IMF, 2013). Besides, the UK and France each have 4.84%, yet the size of their economy is one third of China (IMF, 2013). In the case of the WB, as of March 2011, the BRICS together held only about 11.05% of voting rights despite their 22% share of the world economy (World Bank, 2011). Furthermore, despite the fact that China’s economy is more than twice as large as Japan’s, China possessed only a 2.73% voting share compared to Japan’s 9.54% (World Bank, 2011). In addition to the biased voting share, advanced countries have staked their claim to leadership in the Bretton Woods institutions. Europeans have controlled the IMF and Americans have led the WB since the banks’ establishment. The inherently biased governance structure also applies to the ADB. While China is the largest economy in Asia, Japan’s voting share of 12.79% is more than double that of China, 5.45% (ADB, 2015). Besides, even though the US is not an Asian country, it is the second largest shareholder, accounting for 12.71% (ADB, 2015). Furthermore, the ADB’s president has always been a Japanese since the bank’s founding in 1966.

Since the first G-20 summit in 2008, China as a leader of the developing world has denounced the existing international financial system as being Western-dominated and
unfair to developing countries. For example, at the first G-20 summit, the former Chinese president Hu Jintao gave statements to reform the Bretton Wood institutions in a gradual way to reflect shifts in the economic balance of power, outlining four areas. Because of China’s consistent criticism and request, some progresses were made on governance of the WB. For instance, a commitment to move towards equitable voting power, with an increase of at least three percent of voting power for developing and transition states, was made at the September 2009 Pittsburgh summit. However, reforms did not extend to the leadership of the institutions. ‘French woman’ replaced her French predecessor as the head of the IMF in 2011, and an ‘American man’ replaced another American man as the head of the WB in 2012.

More importantly, the reforms in the IMF had stalled from 2010 to 2016. In 2010, the IMF formally adopted the G-20’s proposals for quota and governance reforms that would renovate the IMF board to lessen the dominance of Western countries and make China the third-largest shareholder with Brazil, India and Russia as the top 10 largest shareholders. The reforms were expected to be completed by the end of 2012, but it had been delayed due to the U.S. Congress’ resistance. In response to the shortsighted U.S. foot-dragging approach, non-G7 nations had kept urging Washington to quickly ratify the reform. Only recently, the U.S. congress accepted the changes, and the IMF’s 2010 quota and governance reforms finally entered into force in January 2016.

For years, China along with other developing countries has been dissatisfied with the outdated, biased governance structure of existing financial institutions. And, they have been frustrated with the reluctance of the US to revamp rules that would make space for emerging players. Such prolonged dissatisfaction and frustration eventually led Beijing realize that boosting its status cannot be achieved within the existing institutions and thus something outside the given setting was needed as an alternative mechanism.

After Xi’s announcement on the AIIB, China has more actively engaged in delegitimizing US primacy. When President Xi gave his first speech to the United Nations General Assembly in September 2015, he stated “We should be committed to multilateralism and reject unilateralism. We should adopt a new vision of seeking win-win outcomes for all, and reject the outdated mindset that one’s gain means the other’s loss or that the winner shall take all” (Sonnad, 2015). In addition, during an October 2015 Politburo session, Xi called for setting new rules and mechanisms for international financial and economic cooperation and regional collaboration, as well as, reforming unjust arrangements in the global governance system (Huanxin and Yinan, 2015). At that time, Xi singled out the need for the IMF and WB to offer greater representation for emerging countries.

Proactively delegitimizing U.S. primacy, Beijing at the same time highlighted that one of the main goals of the AIIB is to promote the global economic governance system for fairer development. At the inaugural meeting of the Board of Governors of the AIIB held on January 2016, Chinese Premier Li Keqiang stressed that the AIIB “bears a positive and

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2 Four areas of the reform include (1) strengthening international cooperation and improving international regulatory mechanisms, (2) Advancing the representation mechanisms in the decision-making processes in international financial institutions, (3) Encouraging regional financial cooperation and enhancing the role of a regional assistance funding mechanism, and (4) Steadily pushing forward the diversification of international currency regime. See Xu and Zhiming (2008).

3 The 2010 reforms cannot pass without US approval, since 85% of the IMF’s voting power is required for the reform, and the US alone holds more than 16% of voting power and has veto power over governance changes at the IMF.
constructive significance for the reform of the global economic governance system” (AIIB, 2016d). Forming such rightful narrative surrounding its creation of the AIIB, China was able to secure the legitimacy of the new MDB and gain support from many developing countries.

4.2. Projecting its Image as a Responsible Power with Emphasis on its Devotion to Asia’s Growth

Chinese assertiveness narratives, which have rapidly spread since 2009, have been more intensified as Beijing has adopted stronger posture under President Xi. In order to lessen the threat perception and project its image as a responsible power, as well as to expand its influence, China used its new-gained economic strength for diplomatic benefit by helping to meet Asia’s demand for infrastructure through the AIIB. Indicating the huge infrastructure investment needs in Asia and emphasizing its altruistic willingness to contribute to regional growth based on its abundant economic resources and successful experience in domestic infrastructure growth, China tried to project the image of the AIIB as a constructive addition for the region and enhance its status as a responsible contributor.

According to WB’s 2012 report, the Asia-Pacific region lags behind the Latin American and the Caribbean, Europe and Central Asia and Middle East and North Africa regions in access to electricity (World Bank, 2012). Moreover, 28 percent of urban population in the region lives in households that lack enhanced water, sufficient living area, improved durable housing or sanitation. A Working Paper published by the ADB Institute in 2010 provides more detailed information on the huge infrastructure shortfall in Asia. According to the report, despite Asian countries’ economic development, about 1.8 billion people are not connected to basic sanitation services, 800 million people lack electricity, and 600 million do not have access to potable water in the region (Bhattacharyay, 2010). To deal with these challenges, Asia approximately needs US$ 8.22 trillion between 2010 and 2020 invested in overall national infrastructure. Furthermore, over the same period, Asia needs another US$ 290 billion for specific regional infrastructure projects in energy and transport.

Although Asia desperately needs greater infrastructure investments, none of the existing major MDBs have been able to meet such demand. The WB and the ADB operate on capital bases of US$ 223 billion and US$ 160 billion, respectively. In 2011, the amount the WB provided for infrastructure-related projects was only around US$ 26 billion, accounting for 43% of the total annual funds disbursed by the WB (World Bank, 2011). Moreover, the amount the ADB lent for infrastructure financing was approximately US$ 7.5 billion in 2012, which is around 64 percent of its total lending (ADB, 2012).

Critically indicating Asia’s need for infrastructure investment and the insufficient capacity of the existing MDBs, China repeatedly stressed its ability to help cover some of the shortfall through the AIIB. China is now the second largest economy and the largest exporter of manufactured goods, and holds the largest volume of foreign exchange reserves in the world. In addition, China has achieved quite successful outcomes in developing its national infrastructure. Ever since the opening-up policy in the late 1970s, the Chinese government has absorbed a huge amount of funds both from home and abroad to strengthen its national infrastructure construction. The extraordinary infrastructure growth within China has played a significant role in achieving Beijing’s fast economic growth. In November 2008, to minimize the impact of global financial crisis and continuously support its rapid growth, China embarked on a plan to invest RMB 4 trillion (equals to approximately US$586 billion) in infrastructure (KPMG, 2009). Besides, China is now the world’s largest investor
in infrastructure, outpacing both developed and developing countries, spending around 8.5% of its GDP a year on infrastructure (Woetzel et al., 2016). With its economic resources and abundant experiences in national infrastructure development, Beijing linked its national economic and diplomatic interests with common development goals by filling the gaps in Asian infrastructure.

Since Xi’s announcement to create the AIIB, Chinese officials emphasized that the US$ 100 billion AIIB will be able to boost infrastructure development in Asia by providing additional financing. Stressing its altruistic rationale for the establishment of the new MDB, China tried to show its readiness to embrace more responsibility commensurate with its growing size. For example, at the inaugural ceremony in the Great Hall of the People in June 2015, Xi described the new institution’s mission in altruistic terms, saying “Our motivation [for setting up the bank] was mainly to meet the need for infrastructure development in Asia and also satisfy the wishes of all countries to deepen their co-operation” (Wildau and Clover, 2015). In the opening ceremony of AIIB in January 2016, Xi also stressed China’s attempt to promote prosperity of Asia and the world as a constructive contributor by stating, “the initiative of setting up the AIIB is a constructive move for China to undertake more international responsibilities, promote the improvement of the existing international economic system and provide international public products, which helps all parties to achieve mutual benefits and win-win results” (Ministry of Foreign Affairs of the People’s Republic of China, 2016).

Potential recipient governments in Asia eagerly embraced China’s plan to contribute to Asian infrastructure financing via the AIIB. For instance, the Finance Minister of Indonesia Bambang Brodjonegoro mentioned, “We have more than $450 billion of infrastructure financing needs for the next five years. With that kind of need, I don’t think a single multilateral agency like the World Bank or ADB can fulfill that kind of requirement” (Jegarajah and Tang, 2015). Cambodian Prime Minister Hun Sen also stated, “the lack of capital is a main obstacle for countries in the development of infrastructure, so China’s initiatives for the AIIB and the Silk Road Fund are very useful” (Xuequan, 2015). The welcomed gestures by Asian countries reveal that Chinese strategy to highlight its altruistic motivation was attractive enough to bring membership from many countries.

4.3. Revising the Core Architecture of AIIB in Response to Overwhelming Concerns

Since Xi’s announcement to create the AIIB, skepticism have been raised over whether the bank would serve Chinese own political and economic interests and how much China would stick to its commitment to make the AIIB a true MDB that promotes common goals based on existing international norms and rules. In order to allay fears and suspicions over the AIIB and to make the bank happen, China tried to remain transparent and open, and changed its plans for the bank over time by undergoing several negotiations with PFMs over the AOA (Articles of Agreement) of the bank.

In many respects, the current structure of the AIIB differs from the bank Beijing designed in the beginning. There are several significant changes that China made during the setup processes to relieve the overwhelming concerns over the new MDB. First modification is the idea of open and inclusiveness with regard to the scope of membership, procurement policy, and staff members. Initially, the AIIB was supposed to be an MDB that is composed of only Asian countries. At first, China did not anticipate or encourage membership from non-regional countries. In the announcement of a proposal for the AIIB in October 2013,
Xi mentioned that the new MDB would open to participation by Asian governments (The Economist, 2013). The AIIB’s plan for membership that exclusively focuses on regional countries is also reflected in Chinese Foreign Minister Lou Jiwei’s statement on March 6, 2015. At the National People’s Congress, Lou stated, “the prospective founding membership is open to countries from the region first and applications from outside the region are not considered for now” (Sun, 2015). However, as interest outside of Asia grew and the UK submitted its application to become a PFM on March 12, 2015, China changed its original plan. As many European countries followed suit to join the bank the next few days, China decided to allot 25% of capital shares to non-regional member countries. The entry of more developed countries into the AIIB implied that U.S. allies as PFM can take part in designing the bank’s governance and operations at the ground level by often obstructing Chinese plans. Also, it would reduce China’s influence within the bank since it would decrease China’s capital input as percentage of subscribed whole capital. Nevertheless, China gladly welcomed the additional applications from non-regional countries and adopted the principle of openness and inclusiveness.

China also applied the rule of openness and inclusiveness to the bank’s procurement policy and staff members. Following Australia’s suggestions during the negotiation processes, China decided to adopt a procurement policy that opens doors to all the corporations on a competitive basis, including non-member countries (Perlez, 2015). Furthermore, China decided to adopt open recruitment of the bank’s staff members that is not exclusive to member or regional countries only, but apply to talents all around the world. The most representative example would be that two respected Americans, Stephen F. Lintner and Natalie Lichtenstein, who had worked for the WB, now work at the AIIB helping drafting the bank’s Memorandum of Understanding (MOU) and advancing the bank’s high standards in governance (Perlez, 2015).

Second major compromise is the bank’s authorized capital and the degree of Chinese influence within the bank. When first proposing the bank, Beijing prepared to secure capital up to $50 billion. However, in June 2014, China suggested doubling the bank’s initially registered capital to US$ 100 billion (Anderlini, 2014). This idea had led many countries more interested in joining the bank as a PFM. After increasing the initially authorized capital of the bank to US$ 100 billion, China announced its willingness to subscribe up to 50% of that amount, which might be translated into absolute veto powers. However, to relieve fears over the possibility of the AIIB being a China-dominated strategic tool, China eventually lowered its planned capital contribution to US$ 29.78 billion, accounting for 30.34% of the total authorized capital stock of the bank. Besides, China offered to give up outright veto power in day-to-day operations during its negotiations with European countries in March 2015 (Wei and Davis, 2015). Although Beijing would exert substantial influence over the AIIB even without veto power, China’s compromise convinced many European countries that Beijing was willing to bring the AIIB in line with international norms.

Third modification is the setup of the bank’s board. Originally, China proposed that a technical panel would make the final decisions, instead of a Board of Directors from member countries (Perlez, 2015). However, the UK complained that having a technical panel would inhibit transparent operation. After several rounds of negotiations with PFM countries, China eventually compromised. Discarding its initial idea of having a technical panel, Beijing agreed to make 12 members of Board of Directors that will not live in the AIIB’s Headquarters in Beijing.

Through its evolving positions on the institutional design of the AIIB, China delivered
a message that the AIIB will not become a tool for promoting China’s regional conquest. These compromises eventually convinced others that China is trying to accommodate the international community and amenable to outside suggestions through interactive processes. Because it showed its flexibility in constructing the institutional design of the AIIB, China was able to attract many countries both in and outside the Asian region.

5. AIIB IN COMPARISON WITH WB AND ADB

We can further analyze the China-led AIIB with empirical scrutiny by placing the bank in comparative context with existing institutions. To provide a more objective diagnosis on the China-led AIIB’s functions and strategic implications, this paper compares the AIIB with the WB and ADB based their AOA and other official documents in terms of six criteria: (1) purpose and functions, (2) capital, (3) membership, (4) voting power, (5) governance structure, and (6) lending standards. Doing so, this paper suggests another facet of China’s strategic approach to modify the existing financial order with the successful launch of the new MDB, which is rendering the AIIB similar to and compatible with existing institutions.

5.1. Purpose and Functions

First, with respect to the WB, the International Bank for the Reconstruction (IBRD) encompasses a wide array of areas such as health, education, infrastructure, public administration, and environmental and natural resource management in order to achieve five core purposes from assisting reconstruction to promoting private foreign investments and balanced growth of trade (World Bank Articles of Agreement). On the other hand, the ADB puts emphasis on economic development and regional cooperation as its core aims (ADB Articles of Agreement). To achieve its two goals, the ADB performs in a wide range of fields encompassing environment, infrastructure, regional cooperation and integration, education and financial sector development. Regarding the AIIB, the bank’s major purposes listed in the AOA are similar to those of the ADB, apart from that the AIIB highlights infrastructure as its key task. The AIIB’s core functions are also similar to those of the ADB, even often using identical language. The comparison of the primary goals and functions reveals that the AIIB more closely resembles the ADB than the WB because both the AIIB and ADB emphasize Asia as a regional institution while the WB covers the entire world. However, the AIIB has narrower purposes and functions than the ADB since it concentrates exclusively on infrastructure development.

5.2. Capital

The IBRD’s initial authorized capital in 1944 was US$ 10 billion with 20% paid-in capital and 80% callable capital, and the US allocated US$ 3.5 billion (35 percent of the MDB’s initial stock) in line with its comparative economic strength (World Bank Articles of Agreement). Since 1944, the IBRD’s capital stock has gradually increased, and the bank’s current capital (as of June 2016) is US$ 263.3 billion with paid-in capital of US$ 15.8 billion and uncalled subscribed capital of US$ 247.5 billion (World Bank, 2016).

The ADB started with smaller capital size than the IBRD. The original authorized capital of the ADB in 1966 was US$ 1 billion with 50% paid-in and 50% callable capital, and Japan
and the US contributed approximately US$ 300 million each (Watanabe, 1977). As the size of the ADB has increased like the case of the WB, the bank’s current subscribed capital stock as of December 2015 amounts to US$ 147.05 billion with paid-in capital of US$ 17.45 billion and callable capital of US$ 129.6 billion (ADB, 2015). As a regional MDB, the ADB authorizes at least 60% of the total subscribed capital stock to its regional members.

Regarding the AIIB, the bank’s authorized capital stock is US$ 100 billion with 20 percent paid-in shares and 80 percent callable shares (AIIB Articles of Agreement). China as the initiator of the bank provided US$ 29.78 billion (approximately 30%) of the authorized capital stock. Similar to the ADB, the AIIB reserves at least 75% of the total subscribed capital stock for its regional members, with the aim of preserving the influence of the Asian regional members. Although the capital of the AIIB may also be increased in the future, the capital size of the AIIB for now is much smaller than that of the two existing MDBs. The total capital of the AIIB amounts approximately only two-thirds capital of the ADB and half of that of the WB.

5.3. Membership

When it comes to the WB, a country must first join the IMF to become a member of the IBRD. The IBRD currently has near universal membership with 189 member nations. Regarding the ADB, the bank admits the members of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and other non-regional countries, which are members of the United Nation. The ADB as a regional MDB restricts non-regional members to developed countries. The ADB has 67 members with 48 regional developing and developed countries and 19 non-regional developed countries.

The AIIB is not an exclusive institution since it is open to all countries. The AIIB has 57 founding member countries. The AIIB’s membership very much overlaps with the membership of the existing major MDBs. All founding members of the AIIB are member of the IBRD, and more than half of the founding members of the AIIB have membership in the ADB. Although the founding members are fixed, China is still welcoming other interested countries under the principle of open and inclusiveness. 23 new applicants (nine regional and 14 non-regional prospective members) have been accepted, bringing the bank’s total membership to 80.

5.4. Voting Power

IBRD member’s voting power consists of the sum of its share votes based on capital share and basic votes, which is equal to 5.55% of the aggregated sum of the voting power of all members (World Bank Articles of Agreement). As of March 2017, the top five largest voting powers in the IBRD are following: (1) the United States with 16.39% voting power, (2) Japan with 7.07% voting power, (3) China with 4.57% voting power, (4) Germany with 4.14% voting power, and (5) France and United Kingdom with 3.88% voting power, each (World Bank, 2017). Although the US cannot unilaterally play a veto over day-to-day decisions, its voting power makes the country the only shareholder that can block major policy changes at the bank requiring a majority of at least 85% of the total voting power.

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4 Of the AIIB’s 57 founding member countries, 34 countries are in Asia, 18 in Europe, two in Oceania, two in Africa and one in Latin America.
The ADB’s voting power is determined by 20% of basic votes and a proportional vote. Japan holds 12.80% of the total voting power, followed by the US (12.71%), China (5.46%), India (5.37%), and Australia (4.94%) (ADB, 2015). As a regional MDB, ADB’s regional members’ total voting share amounts to 65.21%. While Japan does not have a formal veto power and its 12.80% of voting share is not enough to have a de facto veto over majority decisions requiring at least 75% of the total voting power, Japan together with the US can exert huge influences over the bank’s operation.

The AIIB’s voting power is allocated based on the sum of 12% basic votes, share votes, and 600 founding member votes, where applicable. As of February 2017, China is the largest shareholder, holding 27.84% of the total voting power, followed by India (8.02%), Russia (6.33%), Germany (4.43%), and South Korea (3.74%) (AIIB, 2016e). This makes Beijing the AIIB’s single greatest shareholder, with around 3.5 times the voting share of the second biggest shareholder. Besides, China’s voting power is bigger than the sum of the voting power of the second, third, fourth, and fifth largest shareholders. Similar to the case of the US’s veto power over the IBRD decision, although Beijing does not hold a formal veto power, its 27.84% voting share gives it a de facto veto over major decisions that require at least 75% of the total voting power (AIIB Articles of Agreements).

Regional members’ voting power in the AIIB, which accounts for 79%, clearly manifests the so-called “the Asian face with China in the driving seat.”

5.5. Governance Structure

The IBRD has 189 Board of Governors that represent each member country. The Governors delegate certain duties to 25 Executive Directors, who are responsible for the direction of the bank’s general operation. Five out of 25 directors are appointed, one by each of the five largest shareholders, and the other 20 directors are elected by the Board of Governors other than those appointed by the five members (World Bank Articles of Agreement). The Executive Directors of the IBRD work on-site at the headquarters of the bank, Washington D.C., and have a meeting at least twice a week to monitor the bank’s overall business. Although the IBRD’s AOA does not specify the president’s nationality, the U.S. executive directors make a nomination by custom.

The ADB has 67 Board of Governors, which elects a twelve-member of Board of Directors—eight represent countries within the Asia-Pacific region and four represent countries outside the region (ADB Articles of Agreement). Like the WB, the Board of Directors carries out its duties full time at ADB headquarters in Manila, Philippines. The ADB’s president has to be a citizen of a regional member country, and traditionally it always has been a Japanese national.

The AIIB also adopts the typical three-layer governance structure comprised of board of governors, board of directors, and management level. The Board of Governors elect twelve Board of Directors—nine regional members and three non-regional members. In comparison, the AIIB gives more power to the regional countries than the ADB since 75% of the bank’s Board of Directors (nine out of twelve members) come from Asia while around 67% of the

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5 The major decisions in the AIIB where Beijing can utilize a veto power encompass amending the AOA, expanding the authorized capital stock of the bank, changing the size and composition of the Board of Directors, electing the president, terminating the bank’s operations, suspending a member, distributing the bank’s assets, and others.
ADB Board of Directors (eight out of twelve positions) are regional members. The president of the AIIB must come from regional member countries. While the AIIB Charter illustrates a fair process of the selection of the president, whether the bank’s appointment process will be actually transparent or follow the existing MDBs’ tradition remains to be seen until the appointment of second president.

Interestingly, unlike the WB and ADB, the AIIB has unpaid, non-resident Board of Directors. Regarding this issue, some skeptics criticized that the absence of on-the-ground Board of Directors would weaken the AIIB’s governance and accountability because it might strengthen the influences of management level and weaken the role of shareholder governments. In response to the raised concerns, Chinese officials argued that the non-resident Board of Directors would raise efficiency levels by accelerating decision-making processes, particularly in terms of loan approvals. Furthermore, Beijing claimed that this would help reduce the substantial administrative operating costs with regard to the board that are now associated with the existing MDBs.

**5.6. Lending Standards**

The AIIB adopts similar safeguard policies for lending with the WB and ADB’s. The AIIB’s environment and social standards are exactly same as the ADB’s, consisting of the three core safeguard areas: (1) environmental safeguards, (2) involuntary resettlement safeguards, and (3) indigenous peoples safeguards. Moreover, the AIIB’s overall design of environment and social standards including the scope of application and requirements is also similar to that of the ADB. Although the AIIB’s environmental and social framework seems to adopt high standards following the ADB’s, questions still remain.

The WB and ADB are known to have “best practices” in terms of lending standards, because they have established well-structured regulatory environment around infrastructure projects with detailed conditions. However, they are often considered by developing counties to be too inflexible and bureaucratic, with complex policies and processes that prolongs approval period for projects or loans and increases transaction costs. In response to the complaints, the AIIB attempts to adopt higher environmental and social standards that can be applied in a balanced way and be proportional to recipient countries’ situations, to some extent. Chinese officials often speak of the possibility of greater flexibility in applying environmental and social standards in poorer countries. For instance, in his visit to the Brookings Institution to deliver a public address, AIIB President Jin Liqun mentioned that the AIIB should take into account local economic conditions in making a decision for loans and projects, suggesting that the bank would make an exception for poor areas where there is no

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6 Article 27(1) of AIIB Article of Agreement states that the Board of Directors “function on a non-resident basis” and “serve without remuneration from the bank”, unless the Board of Governors decides otherwise.

7 The WB’s safeguard policies for lending are composed of three main parts: environmental policies, social policies, and legal policies. The three safeguard policies of the WB have several sub-categories: (1) the environmental safeguard policies encompass environment assessment, natural habitats, forests, physical cultural resources, safety of dams, and pest management, (2) social safeguard policies is comprised of sub-policies of involuntary resettlement and indigenous peoples, and (3) legal policies consist of two sub-policies, which are projects on international waterways and projects in disputed areas.
**Table 1. Overall Comparison of AIIB with WB and ADB**

<table>
<thead>
<tr>
<th></th>
<th>AIIB</th>
<th>WB (IBRD)</th>
<th>ADB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year established</strong></td>
<td>2015</td>
<td>1944</td>
<td>1966</td>
</tr>
<tr>
<td><strong>Headquarters</strong></td>
<td>Beijing, China</td>
<td>Washington D.C., US</td>
<td>Manila, Philippines</td>
</tr>
<tr>
<td><strong>Head</strong></td>
<td>Chinese (Jin Liqun)</td>
<td>American (Jim Yong Kim)</td>
<td>Japanese (Takehiko Nakao)</td>
</tr>
<tr>
<td><strong>Major task</strong></td>
<td>Infrastructure development and connectivity in Asia</td>
<td>Economic development, poverty reduction, and policy advice</td>
<td>Economic development, poverty reduction, and policy advice in the Asia-Pacific region</td>
</tr>
<tr>
<td><strong>Membership</strong></td>
<td>57 (37 regional, 20 non-regional members)</td>
<td>188</td>
<td>67 (48 regional, 19 non-regional developed members)</td>
</tr>
<tr>
<td><strong>Authorized Capital</strong></td>
<td>$100 billion with 20% paid-in, 80% callable (at least 75% for regional members)</td>
<td>$10 billion in 1944 with 20% paid-in, 80% callable</td>
<td>$1 billion in 1966 with 50% paid-in, 50% callable (at least 60% for regional members)</td>
</tr>
<tr>
<td><strong>Capital Subscriptions</strong></td>
<td>$100 billion</td>
<td>$263.3 billion</td>
<td>$147.05 billion</td>
</tr>
<tr>
<td><strong>Voting Structure</strong></td>
<td>1. Proportional share votes</td>
<td>1. Proportional share votes</td>
<td>1. Proportional share votes</td>
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<tr>
<td></td>
<td>2. 12% basic votes</td>
<td>2. 5.55% basic votes</td>
<td>2. 20% basic votes</td>
</tr>
<tr>
<td></td>
<td>600 votes each for founding members</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Top Five Voting Powers</strong></td>
<td>1. China (27.84%)</td>
<td>1. US (16.39%)</td>
<td>1. Japan (12.80%)</td>
</tr>
<tr>
<td></td>
<td>2. India (8.02%)</td>
<td>2. Japan (7.07%)</td>
<td>2. US (12.71%)</td>
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<tr>
<td></td>
<td>3. Russia (6.33%)</td>
<td>3. China (4.57%)</td>
<td>3. China (5.46%)</td>
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<td></td>
<td>4. Germany (4.43%)</td>
<td>4. Germany (4.14%)</td>
<td>4. India (5.37%)</td>
</tr>
<tr>
<td></td>
<td>5. Korea (3.74%)</td>
<td>5. France &amp;UK (3.88%, each)</td>
<td>5. Australia (4.94%)</td>
</tr>
<tr>
<td><strong>Major Decisions</strong></td>
<td>75% majority</td>
<td>85% majority</td>
<td>75% majority</td>
</tr>
<tr>
<td><strong>Regional Member Voting Shares</strong></td>
<td>Regional: 77.33%</td>
<td>-</td>
<td>Regional: 65.21%</td>
</tr>
<tr>
<td><strong>Governance Structure</strong></td>
<td>Board of governors</td>
<td>Board of governors</td>
<td>Board of governors</td>
</tr>
<tr>
<td></td>
<td>12 Board of directors (9 regional and 3 non-regional), President and vice presidents</td>
<td>25 Executive directors (5 from largest shareholders and 20 elected by governors), President and vice presidents</td>
<td>12 Board of directors (7 regional and 3 non-regional), President and vice presidents</td>
</tr>
<tr>
<td><strong>Board of Directors</strong></td>
<td>Non-resident</td>
<td>Resident</td>
<td></td>
</tr>
<tr>
<td><strong>Procurement Policies and Safeguards</strong></td>
<td>Environmental safeguards, involuntary resettlement safeguards, indigenous peoples safeguards</td>
<td>Environmental safeguards, involuntary resettlement safeguards, indigenous peoples safeguards</td>
<td>Environmental safeguards, involuntary resettlement safeguards, indigenous peoples safeguards</td>
</tr>
</tbody>
</table>
access to power since the major concern is basic human rights (Brookings Institution, 2015). Moreover, Chinese Finance Minister Lou Jiwei stated that the practices of the WB and ADB are not always best suited to developing countries; accordingly, China is likely to promote less stringent safeguards and less bureaucratic procedures (Kawai, 2015).

5.7. Sum-up: Making the AIIB Similar to and Compatible with Existing Institutions

Given China’s huge voting share at the AIIB, together with the bank’s physical headquarters located in Beijing and a Chinese national serving as the bank’s first president, one can expect that China would exert strong influence over the bank’s operation, although not overly dominant. Also, the AIIB is intended to be a slightly different kind of MDB in terms of lending procedures because it pursues several innovative practices to reduce process time and much less bureaucratic, rather than exactly following the existing institutions’ practices. However, in contrast to the skeptical views that the AIIB may become an alternative to the existing institutions undermining the liberal world order, the overall analysis of the AIIB in comparison with the WB and ADB (Table 1) shows that the AIIB is similar to the existing financial institutions in many respects, particularly in terms of its governance system, membership, and voting power structure. Those similarities reveal that Beijing has largely embraced the deep principle of the liberal world order underpinned by open-, rule-, and multilateral institution-based relations, without seeking radical changes. This manifests Chinese other approach, which is to pursue a gradual modification of the existing international order, rule and norm instead of directly challenging or merely accepting them.

Also, it is important to note that the AIIB has signed MOU with existing major MDBs for several jointly financing projects. AIIB President Jin Liqun signed the first co-financing framework agreement with WB President Jim Yong Kim in April, and signed the cooperation memorandum with ADB President Takehiko in May (AIIB 2016a, AIIB 2016b). Furthermore, in June 2016, the AIIB’s Board of Directors approved US$ 509 million in investments for its first four projects, three of which are co-financed with the WB, the ADB, and major European MDBs (AIIB, 2016c). Although how the different institutions would cooperate and reconcile their interests and operational procedures for successful joint projects remains to be seen, the co-financing and cooperation frameworks can be considered a positive signal that the AIIB is likely to be compatible with the existing institutions.

6. CONCLUSION

To fill the gap between the two contrasting, dichotomous IR theory-based spectrums toward the China-led AIIB and to better understand Chinese strategies regarding the AIIB and the bank’s implications in the Asian financial order, this paper reviewed what China has done to successfully launch the bank based upon empirical process-tracing. Examining Chinese rhetoric, behaviors, and attitudes during the setup processes of the bank and comparing the institutional design of the AIIB with that of the WB and ADB, this article illustrated China’s four key strategies. Through the four approaches, Beijing has tried to modify the Asian

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8 The four projects mainly concern power grid upgrades in Bangladesh, slum renovation in Indonesia and highway construction in Tajikistan and Pakistan.
financial order, moving from U.S.-centered toward a more of China-centered, in a very gradual and careful manner within the established system, rather than directly challenging the U.S. hegemony and rejecting the liberal world order. These strategies of gradual modification of Asian financial order via the AIIB have allowed Beijing to successfully transform itself from rule-follower to rule-maker and take on a leadership role in the regional financial arena, while avoiding direct confrontation with and open defiance towards the US.

Since the AIIB has opened for business only as recently as January 2016, in order to see whether the bank will actually become an important institution of financial society in the region, to see whether it will continue to adopt the current governance structure without any further drastic modification, and to see how the bank will interact with the existing institutions, a long observation is required. Nonetheless, the empirical-based analysis on China's strategic approaches to the establishment of AIIB and the beginning stages of the bank's operation reveal that the China-led AIIB does not intend to overthrow the current financial architecture at this moment. Rather China is attempting to make a more China-centered order in a gradual manner and present some innovative practices at the same time. Accordingly, it is too early to tell if the China-centered AIIB is a status quo institution or a revisionist institution.

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