China’s Approach to Multilateralism – The Case of the AIIB

Written by
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Abstract
China’s current ‘One Belt One Road’ initiative and the related establishment of a new multilateral development bank, the Asian Infrastructure Investment Bank (AIIB), lead to the assumption of a new trend within China’s approach to multilateralism. While in the past China was a rule taker in multilateral processes, it appears that through these new developments and in particular through the China-led AIIB, it has increasingly turned to a rule maker in the multilateral sphere. Considering China’s role in its regional integration policy, this change towards a regional multilateralism under Chinese dominance is crucial because it also might have significant impacts on future developments of Asian regionalism. This paper presents an analysis of the current change in China’s approach to multilateralism by examining the case of the AIIB. The preliminary results of the research show that in some cases the AIIB enables China to expand its influence and power regionally as well as globally. However, it has also been found that external channels are influencing and even restricting China’s dominance in the AIIB.

Introduction: Realignment in China’s Foreign Policy?

As the second largest economy, China is one of the most important global players in world politics today. Consequently, there is an increasing number of voices from abroad as well as at the domestic front, expecting the Chinese leadership to assume more responsibility in global affairs (Jakobson, 2016). However, this is in contrast with Deng Xiaoping’s ‘low-profile diplomacy’ of not becoming a world leader (juebu dangtou 绝不当头) (Stenslie & Chen Gang, 2016). During the Hu Jintao and Wen Jiabao administration, China’s foreign policy also appeared rather reserved than proactive. For instance, terms of China’s foreign policies such as ‘Peaceful Rise’ (heping jueqi 和平崛起) or later ‘Peaceful Development’ (heping fazhan 和平发展) were supposed to emphasize China’s peaceful intentions (Heilmann & Schmidt, 2012; Information Office of the State Council, 2005; Cf.: State Council, 2011).

With the political succession in 2012/2013 international observers wondered whether the fifth generation of Chinese leadership under Xi Jinping was striving for a new approach to international politics (Noesselt, 2015; Cf.: Zhao Kejin, 2013). Indeed, some considerable changes in China’s foreign policy have been observed under the Xi administration. Compared to his two predecessors Hu Jintao and Jiang Zemin, Xi appears to be a more visionary leader by establishing his doctrines such as the ‘Chinese Dream’ (zhongguo meng 中国梦), - which was extended to the ‘Asia-Pacific Dream’ (yatai meng 亚太梦), and the ‘One Belt One Road’ (OBOR) initiative (yidai yilu 一带一路). Although Xi’s predecessors had their doctrines likewise for instance, Jiang’s ‘Three Represents’ (san ge daibiao 三个代表) and Hu’s ‘Harmonious Society’ (hexie shehui 和谐社会) and ‘Scientific Outlook on Development’ (kexue fazhanguan 科学发展观), Xi’s doctrines are considered as more exceptional and visionary.

As Stenslie and Chen Gang (2016) state, Xi’s doctrines display the vision for a rising China combined with national interests, Chinese values, and beliefs. Xi’s initiatives also appear to confirm the assumption of a realignment in China’s foreign policy (Cf.: Heilmann & Schmidt, 2012). Thus, scholars such as Heilmann and Schmidt (2012) state that China is increasingly turning from a passive observer and a rule taker to an active player and a rule shaper in international politics. In this context, there are also debates about whether China is attempting to restructure the current international order by promoting and financing new China-led initiatives as parallel structures (Heilmann et al., 2014). *

China’s increasing active engagement as a rule shaper in international politics has also led to negative connotations and to concerns of a potential threat to the international order. For instance, proponents of realism – such as Mearsheimer (2014) - believe that as long as its power continues to grow, ‘China like all previous potential hegemons, (will) be strongly...
inclined to become a real hegemon.’ (p.400) However, in the wake of globalization, other key factors have also shaped international politics. These are economic interdependence, international institutions, and the multilateral approach. Most realists downplay the role of these key factors by arguing relative gain is more important than absolute gain for nations. Liberalists are convinced that nowadays these key factors have a strong influence on state behavior and in international politics (Cf.: Friedberg, 2005; Chen Dingding, 2012; Keohane & Martin, 1995; Keohane, 1990).

Nowadays, the multilateral approach is a key characteristic of China’s current foreign policy. For instance, Chen Dingding (2012) observed that China’s approach to multilateralism has steadily increased by joining regional as well as global multilateral institutions and organizations since its reform and opening policy. Nevertheless, it has to be emphasized that China’s notion of multilateralism is different from the Western idea. Based on the findings of their book *China turns to Multilateralism: Foreign policy and regional security*, Wu Guoguang and Lansdowne (2011) explain that multilateral diplomacy is frequently utilized by China as an instrument to achieve its desired future structure of a multipolar world order. For this paper, a more significant finding of Wu Guoguang and Lansdowne (2011) is the new growing trend within China’s approach to multilateralism. To a large degree, both found that China’s multilateral approach is more regional than global, and its multilateral engagement coincides with its sphere of influence. As they state: ‘Chinese multilateralism is conducted with the support of its own material power. Multilateralism is, therefore, a tool to influence those peripheral locales where China’s power reaches, rather than a mechanism by which China simply prefers to be bound.’ (p.12) In other words China strives for China-dominated multilateral arrangements, rather than multilateral arrangements which emphasize equal coordination among the members. This confirms assumptions from other scholars, who claim that China’s multilateral diplomacy is frequently a vehicle to maximize its regional but also its global power (Kuik, 2008).

To promote this trend, China emphasizes more on the regional approach to multilateralism to shape the dynamics of new regionalism in East, Southeast, and Central Asia, where China is the driving force (Wu Guoguang & Lansdowne, 2011). In this context, Xi’s current OBOR initiative is a good example displaying this new trend within China’s approach to multilateralism. Apart from its purpose to boost China’s economy, it is supposed to build a huge network through the Silk Road Economic Belt and the 21st Century Maritime Silk Road. Altogether the OBOR initiative is sup-
posed to: ‘[...] enable China to further expand and deepen its opening-up, and to strengthen its mutually beneficial cooperation with countries in Asia, Europe and Africa and the rest of the world. China is committed to shouldering more responsibilities and obligations within its capabilities, and making greater contributions to the peace and development of mankind.’ (National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People’s Republic of China, with State Council authorization, 2015)

Within this scope, China also established a new regional multilateral development bank (MDB), the AIIB. Apart from the Silk Road Fund, it is a key institution of the OBOR initiative, and it serves as a predominant financial institution (State Council, 2016). Subsequently, these steps can be considered as China’s indication to assume responsibility and promote its own ideas for international norms and regimes primarily in the local sphere.

In this context, China’s AIIB initiative has received considerable international attention and it has also led to a controversial discussion among Western and Chinese scholars. While some observers regard the AIIB as a positive contribution to the international order, others assume that the AIIB is a vehicle to expand China’s regional and global influence. This in turn, could be a challenge for the current international order (Long Zhongying, 2016; Heath, 2015; Economy, 2015b). By utilizing the AIIB as a case study, this paper analyses the current changes within China’s approach to multilateralism. Furthermore, it shall be examined what impact the AIIB will have on China’s influence in international politics. To answer these questions, this paper first takes a look at the reasons and purposes to establish a new regional MDB. To ascertain the similarities and the differences between the existing global and regional financial institutions and the AIIB, the author provides a short but comprehensive comparison between selected major financial institutions. Finally, the analytical results will be combined with the theoretical framework of the introduction.

At this point, it has to be emphasized that answering the research questions is only partially possible due to the fact that the AIIB has started its operation at the beginning of 2016. Consequently, there are neither enough tangible results nor sufficient scientific literature to prove all assumptions. Notwithstanding, this paper strives to offer a first insight into this issue which is worthy of consideration because a regional multilateralism under Chinese dominance in the case of China’s AIIB initiative is considered to have a strong influence on China’s current and future role in regional and global affairs.
The AIIB: The Establishment of a New Multilateral Development Bank

During their state visits to the Southeast Asian countries in October 2013, President Xi Jinping, and Premier Li Keqiang proposed the establishment of a new MDB (Asian Infrastructure Investment Bank, n.d.a). At a state visit and meeting with Indonesia’s President Susilo, Xi explained that the purpose of the AIIB is ‘[…] to promote the construction of connectivity and the process of economic integration in the region […]’. (Ministry of Foreign Affairs, 2013:n.p.) Furthermore, he stated that the AIIB would ‘[…] work with the existing multilateral development banks outside the region to make full use of their respective advantages and jointly promote the sustained and stable growth of the Asian economy.’ (Ministry of Foreign Affairs, 2013:n.p.) One year later, in October 2014, representatives from 22 countries signed the Memorandum of Understanding (MOU) to establish the AIIB and Beijing was selected as headquarters (Asian Infrastructure Investment Bank, n.d.a).

There are three factors which played a crucial role in the establishment of the AIIB. Firstly, the infrastructural deficiencies in the Asian region. Although Asian countries such as Japan, the Tiger countries (Hong Kong, Singapore, South Korea and Taiwan), large parts of China and India have achieved high economic growth over the last decades, the prosperity has not reached all Asian countries and their whole populations yet. Furthermore, the Asian economy, in general, is also currently facing stagnation. This problem is linked to the enormous deficiencies in the infrastructural constructions among the developing and industrialized Asian countries, curbing the expansion and seamless interconnection as well as the development of the economy in Asia (Feng Guiqiang & Cai Hongbo, 2015; Long Zhongying, 2016). These deficiencies in Asia’s infrastructural constructions refer particularly to the domains of transport, energy, communication and different technology standards (Feng Guiqiang & Cai Hongbo, 2015; Long Zhongying, 2016). To stress the crucial importance of infrastructure for the development and economic growth in Asia, Batthacharyay (2010) explains:

‘[…] regional infrastructure enhances competitiveness and productivity which could help in economic recovery and in sustaining growth in the medium to long-term. Regional infrastructure also helps increase standard of living and reduce poverty by connecting isolated places and people with major economic centers and markets, narrowing the development gap among Asian economies. It also promotes environmental sustainability, facilities regional trade integration and the acceleration of regional cooperation, and helps increase regional...’
demand and intraregional trade necessary to rebalance Asia’s economic growth.’ (p.4)

Secondly, the conflict between huge demands for capital and lack of funding opportunities. Due to the massive infrastructure deficit in Asian regions, there are huge financial needs. Although there are adequate reserves in Asia, the funding for expanding infrastructure is insufficient. As Long Zhongying (2016) indicates, the Asia-Pacific region in its entirety is not short of funding. Asian countries such as China have high savings rate and foreign-exchange reserves. However, a significant portion of Asian countries is suffering from a huge budget deficit and public debt, rapid credit growth, and low foreign exchange reserve. Therefore, these Asian countries cannot provide adequate infrastructure funds to rely on themselves (Feng Guiqiang & Cai Hongbo, 2015). In the light of these circumstances, MDBs such as the Asian Development Bank (ADB) or the World Bank are expected to provide loans for expanding infrastructure. The crucial issue is that the financial needs for the expansion of Asia’s infrastructure far exceed what global financial institutions can currently support (Feng Guiqiang & Cai Hongbo, 2015). According to a study by the Asia Development Bank Institute in 2008 the financial needs for enhancing the Asian infrastructure amount to approximately $8.22 trillion between 2010 and 2020 (Bhattacharyay, 2010; Bhattacharyay (2010) estimates that around 68% of this amount is needed for new capacity investments in infrastructure while another 32% is required for maintenance or replacement of existing assets (Cf.: Feng Guiqiang & Cai Hongbo, 2015). However, in 2013 the ADB provided financing services of 21.2 billion, while the specified amount for the expansion of infrastructure is quite low, considering the World Bank only about 1/3 of World Bank credit loans flowed into Asia. Furthermore, both the ADB and the World Bank are bound to a lot of restrictive conditions and currently focus more on poverty alleviation. Consequently, this results in less financial support for the Asian countries (Long Zhongying, 2016; Feng Guiqiang & Cai Hongbo, 2015).

Thirdly, the low representation of emerging economies in existing international financial institutions and the reluctance of the United States and other industrial countries to cede their power at the International Monetary Fund (IMF) and the World Bank (Callaghan & Hubbard, 2016). The authority in these institutions refers to the member country’s quotas determining its maximum financial commitment to IMF and its voting power in the IMF (International Monetary Fund, 2016b). However, a member country’s quota is based ‘[...] broadly on its relative position in the world economy.’ (International Monetary
Until very recently, the advanced economies held voting shares totaling about 60 percent, including the United States with 17 percent. The remaining 40 percent were held by the emerging markets and developing countries, with China that had less than 6 percent of voting shares in the IMF. Consequently, emerging economies such as China criticized the IMF that despite their rapid economic growth, their IMF voting shares are still lower than the advanced economies (Momani, 2015). Considering the voting shares of the US or the European countries in total, they have a blocking minority to veto these decisions, because changes in an IMF member country’s quotas have to be approved by an 85 percent majority of the total voting power (International Monetary Fund, 2016b).

Since 2010, China has made significant efforts to call for reforms in the IMF and the financial system by implementing the 2010 IMF quota and governance reform package. These reforms would purpose the shift of global institutional power to developing countries and emerging markets. Despite the support, China’s proposal has languished for years in the US Congress (Momani, 2015). However, in the beginning of 2016, the 2010 IMF quota and governance reform package was finally implemented (International Monetary Fund, 2016c). Consequently, the voting shares of emerging markets and developing countries have increased. For instance, China’s voting share shifted from 3.8 percent to 6 percent. Further, the BRICS countries will now be among the ten largest members of the IMF besides the other top 10 IMF members (the United States, Japan, and the four largest European countries) (International Monetary Fund, 2016c). Notwithstanding, it is important to note that the total BRICS voting shares are still less than 15 percent. This in turn means that the BRICS countries don’t have a blocking minority to veto IMF decisions.

Purposes and Future Scope of Activities of the AIIB

The fundamental task of the AIIB is to address the issues mentioned above such as (1) infrastructural deficiencies in the Asian region; (2) the conflict between huge demands for capital and lack of funding opportunities and (3) the low representation and influence of emerging countries in existing international financial institutions. According to its Articles of Agreement, the first purpose of the AIIB is to ‘(i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors [...].’ (Asian Infrastructure Investment Bank, n.d.e: n.p.) By other productive sectors, they mean ‘[...] energy and power, transportation and telecommunications, rural infrastructure and agriculture
development, water supply, and sanitation, environmental protection, urban development and logistics, etc.’ (Asian Infrastructure Investment Bank, n.d.: n.p.) Although the AIIB has only been in operation since the beginning of 2016, the first results in terms of six projects have become apparent on its website this year (Asian Infrastructure Investment Bank, n.d.b: n.p.). These projects focus particularly on the development of infrastructure and energy in Asian regions. For instance, the ‘Indonesia National Slum Upgrading Project’ has the purpose of improving access to urban infrastructure and services in targeted slums in Indonesia. As a consequence of the access to urban infrastructure and services, it is expected that there will be a significant improvement of living conditions for about 9.7 million slum dwellers in Indonesia (Asian Infrastructure Investment Bank, 2016c). Moreover, there are further infrastructure projects planned for Tajikistan and Pakistan (Cf.: Asian Infrastructure Investment Bank, n.d.b).

Apart from these infrastructure projects, the AIIB has planned a project to expand capabilities of electricity supply in Asia as well. Examples are the ‘Distribution System Upgrade and Expansion Project’ in Bangladesh, which is supposed to expand electricity coverage by providing 2.5 million new service connections in rural areas. As well the ‘Tarbela 5 Hydropower Extension Project’ in Pakistan, where a powerhouse at the fifth tunnel of the Tarbela Dam and a transmission line to connect the power to the national grid shall be constructed (Asian Infrastructure Investment Bank, 2016a; Asian Infrastructure Investment Bank, 2016b). A further energy project is planned for India. Overall, these projects are supposed to improve the connectivity and mobility along these regions (Asian Infrastructure Investment Bank, n.d.b).

It is noteworthy, that four of six projects will be co-financed by other financial institutions, including the World Bank, the ADB and the European Bank for Reconstruction and Development (EBRD) (Asian Infrastructure Investment Bank, n.d.b). This confirms the second purpose of the AIIB which is to ‘(ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.’ (Asian Infrastructure Investment Bank, n.d.c) Accordingly, the ADB, the EBRD, and the European Investment Bank have signed a non-binding Memoranda of Understanding with the AIIB (Asian Infrastructure Investment Bank, n.d.d).

Another purpose of the AIIB (which is not written down officially in its charter, but has been promoted since its first proposal) is to be different from other existing institutions. Thus, the AIIB is supposed to become ‘[…] faster
and nimbler than the existing financial institutions.’ (Wan Ming, 2016) Furthermore, the AIIB aims to shift the power in favor of emerging markets and developing countries (Wan Ming, 2016). However, according to the projects as mentioned earlier, the differences between the AIIB and existing MDBs do not appear very significant. Therefore, it is not astonishing that in the wake of the establishment of the AIIB, huge concerns came up from existing MDBs such as the World Bank and particularly from the ADB. Therefore, a comparison between existing MDBs such as the World Bank respectively, the International Bank for Reconstruction and Development (IBRD), the ADB and the AIIB is necessary to illustrate similarities and the differences. The next section first provides a short introduction of each MDB as each bank was conceived and established at a different point of time and under different circumstances.

The AIIB Among Other International Financial Institutions

The World Bank was founded as a consequence of the breakdown of the international monetary cooperation after World War II. In 1945, 29 member countries signed the World Bank Articles of Agreement and the headquarter was established in Washington D.C. (World Bank, n.d. a). Over the years, the World Bank has expanded from a single institution to a group of five development institutions, namely the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). All together these institutions make up the World Bank Group (World Bank, n.d.a).

Twenty years after the establishment of the World Bank, Japan proposed the initiative of a multilateral development bank, the ADB. However, the burden to finance and to improve the creditworthiness of a new MDB in the global financial market seemed to be impossible for Japan. Therefore, the establishment of the ADB without US support appeared to be inevitable (Wan Ming, 2016). Despite initial concerns in Washington, the ADB was finally established in 1966, and its headquarter was chosen in Manila, Philippines. Up to today, the ADB is one of the largest regional multilateral development banks (Orr, 2016; Asian Development Bank, n.d.a).

Compared to the first fund and the size of membership, the AIIB is currently considered as a medium-sized financial institution (Callaghan & Hubbard, 2016; Wan Ming, 2016; Cf.: Asian Development Bank, n.d.c; World Bank, n.d.c). Nevertheless, it has to be taken into account that the AIIB is still at its starting point,
which means its fund and size of membership can still grow. Concerning the membership the AIIB seems to be closer to the IBRD, because unlike the ADB the AIIB as a regional MDB is open to virtually all the countries in the world (Wan Ming, 2016). The ADB membership is only open to: ‘(i) members and associate members of the United Nations Economic Commission for Asia and the Far East; and (ii) other regional countries and non-regional developed countries which are members of the United Nations or any of its specialized agencies.’ (Asian Development Bank, 1966) However, the AIIB offers its membership to all members of the IBRD or the ADB (Asian Infrastructure Investment Bank, n.d.e). Although both the AIIB and the ADB differentiate regional from non-regional member countries and give preference to the former, they have a different understanding for local members. For instance, Turkey is in the AIIB registered as a regional member, while in the ADB it is recorded as a non-regional member (Wan Ming, 2016).

For a better understanding of the purposes of all three institutions, an analysis of their Articles of Agreement is necessary. Comparing the purposes of all three financial institutions, it becomes clear that the AIIB is more similar to the ADB than to the IBRD. The long-time focus of the IBRD is ‘[…] the assistance in the reconstruction and development of territories […]’ (International Monetary Fund and International Bank for Reconstruction and Development, 1944; World Bank, 2014) However, its current main task is to bring about a smooth transition from a wartime to a peacetime economy and the mandate of worldwide poverty alleviation (International Monetary Fund and International Bank for Reconstruction and Development, 1944; World Bank, 2014).

Both the ADB and the AIIB focus on the development of regional economies and cooperation in the Asian region according to the Articles of Agreement (Asian Development Bank, 1966; Asian Infrastructure Investment Bank, n.d.e). The only differences between both charters are that the AIIB highlights as a key purpose ‘[…] the significance of infrastructure development in expanding regional connectivity and improving regional integration […]’ (Asian Infrastructure Investment Bank, n.d.e) In contrast, since the 1990s, the ADB focuses as well as the IBRD on poverty alleviation (Asian Development Bank, n.d.b).

Apart from the purposes, the AIIB differs from other MDBs by its Board of Directors. The Board of Directors ‘[…] will function on a non-resident basis, except as otherwise decided by the Board of Governors.’ (Asian Infrastructure Investment Bank, n.d.c:n.p.) China has argued that a non-resident board would be more effective and the likelihood that someone interferes in bank operations on behalf of
its home government is lower. However, many are sceptical, because they argue that such a system may give the president of the AIIB more power and influence (Wan Ming, 2016).

Comparison of the Shares of Voting Power Between the IBRD, the ADB, and the AIIB

The comparison of the shares of voting power between these financial institutions is equally important because as mentioned before the AIIB promises to give emerging markets and developing countries more voting power. Figure 1 shows the voting and the current top five voting shareholders in the IBRD, the ADB, and the AIIB.

Figure 1

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The voting share model of the IMF and the World Bank was slightly outlined before. Both the ADB and the AIIB follow this traditional voting share model (Wan Ming, 2016). This means members in each institution receive votes consisting of share votes and basic votes (World Bank, n.d.b.; Asian Development Bank, 1966; Asian Infrastructure Investment Bank, n.d.c). However, the differences are that the IBRD has a 5.55 percent basic vote arrangement, whereas the AIIB has a 12 percent and the ADB has 20 percent basic vote arrangement. Furthermore, the AIIB differs from the others by providing 600 votes for AIIB founding members (See Figure 1; Cf.: Wan Ming, 2016).

With regard to the top five shareholders in each bank, the United States has the largest share in the IBRD (16.63%), and with Japan, it has almost the same percentage of shareholding in the ADB (the US with 15.5% and Japan with 15.6%). Accordingly, in the ADB both the United States and Japan can form a blocking minority to veto decisions. This is also a reason why the ADB is frequently considered as Japan-US led MDB (Chen Shaofeng, 2015).

As discussed before, as a consequence of the 2010 IMF quota and governance reform package China’s voting share in the IMF has risen. Accordingly, as figure 1 shows, China’s voting share in the IBRD has risen to third place now. However, in the ADB China does not belong to the top five voting shareholders.

As China established the AIIB, it is accordingly the largest shareholder in the AIIB (26.06%). This means that in the case of an adjustment of the organization structure, joining members and a capital increase in the AIIB, China has currently the final word and as well the blocking minority (Chen Shaofeng, 2015). Secretary-General of the Multilateral Interim Secretariat and President of the AIIB Jin Liqun explains that China is the majority shareholder of the AIIB due to its strong economic power in Asia. Therefore, China will provide the necessary fund, but he emphasizes ‘[…] to be the majority shareholder is not a privilege, but it means to assume responsibility.’ (Renminwang, 2015) Furthermore, China seems to be willing to reduce its shareholding or change the number of votes, in case founding member states change their views or the proportion of provided funds will vary (Fenghuang International markets, 2016; Cf.: Renminwang, 2015).

According to these statements, it appears that the AIIB truly differs from the existing international financial institutions by offering these opportunities for emerging markets and developing countries in the AIIB. Thus, the AIIB also promised that at least 75 percent of the voting shares would go to Asia-Pacific coun-
tries, which gives smaller Asian members more voting power (Wan Ming, 2016). For instance, India is the second largest shareholder in the AIIB. Although its voting power is less than China with 7.51%, as an emerging market it has much more voting power in the AIIB than in the ADB (6.3%) and in the IBRD (3.05%) (Figure 1; Asian Development Bank, 2015; Corporate Secretariat, 2016). Further, it should be noticed that the distribution of shareholding is still at the beginning in the AIIB.

After the comparisons, it can be inferred that the AIIB is much closer to the ADB from its purposes. Due to some similarities of both regional MDBs, the AIIB can be considered to be more of a challenge for the ADB than for the World Bank (Wan Ming, 2016). However, there are considerable differences between all three institutions, especially in terms of the shares of voting power. In this context, China sets a new example by promoting the ‘fair’ and ‘equal’ distribution of shares and votes in emerging markets such as India. Notwithstanding, it should be kept in mind that until today there are no tangible results to confirm that China truly reduces its shareholdings in the AIIB.

China’s ambition of establishing a new MDB caused controversial reactions around the world and it appears that China is willing to assume responsibility and contribute to a global public good. Notwithstanding, it was not easy for China to establish the AIIB in a world order created by the post-war Western allies which are particularly dominated by the United States. Years before the AIIB was established, China’s proposal was observed with critical eyes by the United States. According to media reports from 2014, the United States Treasury criticized the AIIB initiative as a deliberate effort to undercut the World Bank and the ADB. Further concerns were whether the bank would meet environmental standards, procurement requirements, and other safeguards, which are adopted by the existing financial institutions to prevent forced removal of vulnerable populations from their home (Perlez, 2014). Despite China’s open invitation to become an AIIB member, the United States rejected China’s request. Apart from the United States, Japan also expressed concerns and refused any invitation from Beijing to become a member, because creating a new international body was considered as unnecessary (Kyodo, 2014).

Accordingly, when it was not clear which countries wanted to join the AIIB, both the United States and Japan made efforts to convince non-regional and regional countries such as the
European countries, South-Korea and Australia to not become an AIIB founding member (Callaghan & Hubbard, 2016; Cf.: Long Zhongying, 2016). However, at the beginning of 2015, the United Kingdom was the first Western country and G7 member to express interest in becoming an AIIB founding member (Watt et al., 2015). In the following, more and more European countries such as Germany, France, Italy, Spain, and others followed the UK’s decision and applied to become AIIB founding members by the end of 2015 (Callaghan & Hubbard, 2016). These decisions by the Western allies can be considered as a huge setback for the United States. Nevertheless, we should ask why the establishment of the AIIB is embedded in controversial discussions especially in the U.S.?

Firstly, China’s AIIB appears to contest the US hegemonic global power and its power influence in Asia. Although a major portion of the source of US hegemonic power is its leading military force, a more important source of its power is the US dollar (Chen Shaofeng, 2015; Long Zhongying, 2016). This is linked to the par value system which is also known as the Bretton Woods System established at the same time as the IMF and the World Bank in Bretton Woods, New Hampshire (International Monetary Fund, n.d.a). Later in the 1970s this par value system was dissolved and IMF members are today free to choose any form of exchange arrangement (International Monetary Fund, n.d.b). Nevertheless, through the Bretton Woods system and the related establishment of global financial institutions, the United States were able to build up an enormous structural power, as well as a strong currency (Cf.: Wan Ming, 2016; Chen Shaofeng, 2015).

In this context, Chinese scholars such as Long Zhongying (2016) states that maintaining the dominance of the U.S. dollar and its leading role in the global financial governance is an important reason why the United States is so wary if new international financial institutions are established without its involvement. As mentioned before, Japan’s proposal of the ADB was initially opposed by the United States as well, but later the United States was the major financial contributor and until today it is the second largest shareholder in the ADB. In this context, the concerns of the US government towards the AIIB are that it might develop into a leading independent institution in competition to the existing World Bank. This could eventually undermine U.S. interests in its dominated institutions, and secondly, it could challenge the US-led financial and economic system (Long Zhongying, 2016; Lipscy, 2015).

Considering the second point, the influence of the United States, under President Barack Obama the US government put its security policy, economic and diplomatic focus back to
the Asia-Pacific region known as the ‘US Rebalance to Asia’ or ‘Pivot to Asia’ (Sutter, 2014; Cf.: Office of the Press Secretary, 2015). This rebalances and the related TPP Agreement for the United States can be considered as a measure to keep its power or more precisely its dominance in the Asia-Pacific region. Fundamental goals of the US engagement in the Asia-Pacific regional are to broaden areas of cooperation with the regional countries and institutions, to strengthen the relations between the United States and its Asian allies and partners, to further develop regional norms, standards and rules, which are consistent with the international economic, political and security order promoted by the United States (Sutter, 2014; Clinton, 2011; Sec.: Office of the Press Secretary, 2015). Overall, these goals are important for the United States to maintain its power in Asia (Sutter, 2014). Therefore, in terms of the AIIB and the current OBOR initiative, the United States fears that these initiatives will strengthen China’s influence and allies in the Asian region, and at the same time will overshadow the United States in this area (Cf.: Long Zhongying, 2016).

The AIIB and China’s Approach to Multilateralism

Coming back to the question what impact the AIIB has on China’s influence in international politics or precisely on the Asian order, we first look at the AIIB’s impact on China’s approach to multilateralism. As discussed before, scholars assume that China’s multilateral diplomacy is an increasing vehicle to maximize its regional and consequently its global power. Accordingly, the predicted trend of China’s approach to multilateralism was a stronger regional multilateral diplomacy and a striving for China-dominated multilateral arrangements. Indeed, the AIIB displays some accordance with the main features of China’s approach to multilateralism.

Firstly, multilateralism as a strategy of economic development. Here, the assumption was that multilateralism opened new channels for China to gain economic benefits and to advance its economic interest. It is evident that the AIIB includes beneficial purposes for China. As Chen Shaofeng explains, the AIIB is supposed to be a motivational force for China’s continuing economic growth. Through the infrastructure projects within the scope of the OBOR initiative, overallocated Chinese companies shall be relieved by new incoming orders. At the same time, this shall lead to more foreign investments and consequently, promoting the return on investment, the increase in China’s foreign exchange reserves, and particularly the spread of China’s currency the Renminbi (Chen Shaofeng, 2015).

On the other hand, it is questionable how long Chinese companies will get new orders, espes-
cially if the infrastructure will be more developed in other countries. As Fan Wenmin (2015) indicates, from the long-term perspective, Chinese companies and Chinese human resources are more expensive because the income level in China is increasing steadily in contrast to other countries such as Vietnam, Thailand or India.

Another issue that Chen Shaofeng (2015) points out is that internationalization of the Renminbi through the AIIB is only partially possible. This is because internationalization of the Renminbi is linked with important objectives and factors which are closely related, for instance, China’s economic growth, the development of China’s financial market and switching costs of the user. Under these circumstances, investments in the AIIB could only in the short term promote the internationalization of the Renminbi.

Secondly, multilateralism as an image-improving mechanism. In this case, the AIIB distinctly shows that China has made many efforts to improve its international image by proving its responsibility. For instance, the AIIB Articles of Agreement and the planned projects in Asia show China’s stronger emphasis on transparency in the governance structure and playing by rules. This latterly refers to international concerns whether the AIIB will observe the standards and norms respectively, the social and environmental standards adopted by existing institutions such as the World Bank and the IMF (Lipscy, 2015). By establishing the AIIB, the Articles of Agreement ensures that ‘[…] each of its operations complies with the Bank’s operational and financial policies, including without limitation, policies addressing environmental and social impacts.’ (Asian Infrastructure Investment Bank, n.d.c: n.p.)

Thirdly, multilateralism as an instrument to balance the hegemonic power. In this context, China benefits through the formation of allies with common ground such as discontent with US unilaterism to curb US hegemony (Cf.: Wu Guoguang & Lansdowne, 2011). Regarding the AIIB, the discontent of the US hegemony in the existing international institutions such as the IMF and the World Bank can be considered as a common ground or trigger for some emerging markets and developing countries to join the AIIB. For the other portion, it is possible that it is not the deliberate intention to form an alliance against the United States, considering that many of the regional member countries are also part of the US-led TPP. Rather, the AIIB is just seen as a new lending bank.

Scholars such as Wan Ming (2016) and Zheng Wang (2015) explain this situation with the division of labor between the United States and China. The distribution of labor means the division of the security dimension for the
United States and the economic division for China. Accordingly, both agree that most Asian countries behave pragmatically, turning to China for economic and to the United States for security benefits.

The AIIB and its Impact on China’s Influence in International Politics

Considering the key features of China’s approach to multilateralism, its influence will apparently increase as long as its dominance in the AIIB, and consequently its economic growth remains. In the case of China this is a crucial factor because China’s economic growth is considered as the source of its power regionally and globally (Saunders, 2014). Further, this would explain China’s current significant voting share as well as the decision of a non-resident board of directors. Many skeptics argue that such a system may give the president of the AIIB, which at the moment is a Chinese - more power, and influence (Wan Ming, 2016). In contrast, Callaghan and Hubbard (2016) claim that ‘[…] a non-resident board opens the possibility of a more efficient board that provides strategic oversight and direction to the bank, as well as holding management accountable for its performance.’ (p.132)

Even if China’s multilateral approach and current dominance in regional multilateral arrangements play a crucial role in increasing its influence, it is questionable how far the AIIB can guarantee this condition. In the long run, the AIIB needs to attract more member states to remain successful. Ironically, the more members join the AIIB, the more its relative power will diminish, and the more China is ‘constrained’ to run the bank (Wan Ming, 2016; Cf.: Cozzi, 2015).

This does not necessarily have to be negative. Quite the contrary, more participants could bring about positive multilateral effects on the AIIB. For instance, the guarantee of the AIIB to consider environmental and labor standards. Even if China may have expertise in building infrastructure, nevertheless, the AIIB needs the expertise, skills, and experience from the existing MDBs (Callaghan & Hubbard, 2016). The current co-operation in the AIIB projects with several existing MDBs such as the World Bank or the ADB gives evidence that the AIIB needs this expertise, but also co-financing. To this Cozzi (2015) explains: ‘The participation of advanced European countries, along with other democratic players, could favour good governance and a focus on high-quality projects, job creation, and strict environmental standards in the AIIB’s future investments. Moreover, their role in the design and approval of funded projects could encourage the opening of potentially profitable foreign investment channels.’ (n.p.)

More members and cooperation between the AIIB can be considered as effective channels
to diminish or influence China’s current dominance in the AIIB through cooperation. Therefore, many scholars advise that more wealthy or fast-rising countries should join the AIIB so that power will be stronger and balanced in AIIB and will help to shape its future (Cf.: Cozzi, 2015; Lipsy, 2015).

**Conclusion**

Through the establishment of the AIIB China shows that it assumes responsibility in international politics and contributes to a global public good. Despite initial suspicions of other countries, China can be considered as a winner, due to the approval of at least 57 other countries (Cf.: Wan Ming, 2016; Chen Shaofeng, 2015).

Considering the impact of the AIIB on China’s approach to multilateralism, we observed that the AIIB is largely shaped by the previous mentioned Chinese key features. Moreover, it can be recognized that the AIIB confirms the assumption that China’s multilateral diplomacy evolves increasingly into a regional multilateralism under Chinese dominance. Through the AIIB Articles of Agreement China was able to appease concerns over the governance arrangements and the transparency of the AIIB, simultaneously, it demonstrated that it could lead multilateral negotiations. Notwithstanding, it is evident that the AIIB can also be considered as a vehicle to increase China’s influence in Asia and possibly globally. This particularly results from China’s skillful multilateral diplomacy, which includes features to promote China’s economic growth and consequently its influence and power.

Nevertheless, we should keep in mind that China’s multilateral diplomacy is particularly linked with its endeavor to a multipolar world order. In this respect, the AIIB can be interpreted as a vehicle to achieve China’s desired future structure. This would mean that China does not only consider increasing its influence rather it aims to strengthen the whole regional influence and power through the expansion of Asia’s infrastructure and consequently the development of Asia’s economy.

With regard to the post-war international order and the question whether or not the AIIB could challenge it, from the theoretical perspective, China’s dominance in the AIIB and the related increasing influence in Asia could be assessed by realists as a clear strategic move from China. As a result, this step could be considered as a potential risk for the current international order, because other powerful states could seek means to increase their power as well to rebalance the first action.

However, it seems that the liberal mechanism such as economic interdependence and international institutions play a more important role in state behavior. This can be supported by the current cooperation between the World Bank
or the ADB with the AIIB. It shows that economic opportunities and avoidance of serious conflicts are the most important factors for all participants (Cf.: Sutter, 2014).

Yet, most Chinese and Western scholars agree that the AIIB does not challenge the current international order (Long Zhongying, 2016; Wan Ming, 2016; Lipscy 2015). China is still regarded as incapable of being the global leader because apart from its weakening economy, it is facing many domestic issues (Cf.: Wan Ming, 2016). Besides, Jin Liqun President of the AIIB also reassures that ‘[...] the AIIB is a complement to the World Bank and the ADB. However, it has not the purpose of replacing them. Further, the AIIB is supposed to improve and to impel the existing financial system and not to overturn it.’ (Financial Times Chinese, 2015) Hence, the AIIB can be seen as China’s contribution (global public good) to international politics, but not necessarily as an attempt to overturn the current international order. As Lipscy states: ‘China has more to gain from incremental adjustments of the architecture than from a wholesale redesign.’ (Lipscy, 2015: n.p.) Further, the AIIB provides new input for more competition among the existing MDBs, which could perhaps spur all international institutions to enhance their performance (Cf.: Cozzi, 2015). Accordingly, Chen believes that this competitiveness could naturally lead to the adjustment and reform of the international system (Chen Shaofeng, 2015). Although the AIIB’s future is hard to predict, it

Overall, as a contemporary observer, a prediction of the AIIB’s development in the future is almost impossible due to random events and actions that may occur and impact fundamental dynamics. What can be said is that the Chinese government will work hard to make the AIIB a successful bank to maintain their credibility in international politics. Even if it is currently accompanied by China’s dominance in the bank, one should take into account the cooperation among the international MDBs and the other member countries in the AIIB, which are crucial factors that influence China. Hence, the future will tell.
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