

Geopolitical shift at a time of Covid-19 and the Asian Infrastructure Investment Bank: A case study of Chinese innovation in multilateralism

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ABSTRACT

How China will contribute to global governance has become a critical question in international relations, amplified by the linkages between the Covid-19 pandemic, escalating geopolitical contest and multilateralism in crisis. China has been doubling down on its authoritarian model of domestic governance while becoming more internationally assertive, including in existing and new multilateral institutions. Meanwhile, the United States appeared in recent years to be undermining the institutions, norms and rules of the liberal international order that it, itself, built. The subsequent decline in international cooperation poses grave risks to public health, economic and other forms of security. Can China cooperate with other actors to contribute public goods and stabilisation of global governance in such a deteriorating international environment? While there is a wide range of institutions in which to examine China's growing role in international governance, from United Nations bodies such as the World Health Organisation and World Trade Organisation to regional initiatives such as the Regional Comprehensive Economic Partnership, this paper examines the Asian Infrastructure Investment Bank (AIIB), an example of Chinese innovation in multilateralism. Established amidst geopolitical contest, the new institution seeks to address the Asian deficit of financing for sustainable development. The bank challenges a number of prevailing norms, including replacing the disproportionate power of the US and the advanced economies in the multilateral system with a more proportionate role for China and other developing countries; a new focus on infrastructure-led development which is built on Chinese confidence in the East Asian development model; and a shift away from the Bretton Woods practices of using financing conditions to drive liberal democratic and neo-liberal economic reforms. At the same time as representing a challenge to the traditional order, the bank exhibits – at least to date – best practices in implementation and addresses previously unmet concerns of the developing world. While it is not possible to extrapolate from only one initiative to draw comprehensive conclusions about China's likely future role in global governance, the AIIB case nonetheless

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suggests that, at least in some fields, China will challenge liberal norms to reform rather than revolutionise the international order.

KEYWORDS

China, multilateralism, global governance, Asian Infrastructure Investment Bank

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1. INTRODUCTION

The institutions, rules and norms of global governance that evolved in the post-war era are in crisis at the beginning of the second decade of the twenty first century. The Covid-19 pandemic has amplified declining international trust and pessimism about prospects for international cooperation. The global public health crisis has occurred at a tipping point for rising China, newly assertive and seeking a greater leading role as driver of globalisation and self-styled champion of multilateralism. At the same time, the United States (US) appeared, at least in the Trump era, to have abandoned its former leading role in important areas of international cooperation, including the world trade system, action against climate change and cooperation on public health. Representing a failure of international cooperation, the Covid-19 pandemic conversely demonstrates that only nation states hold the levers of power for enforcing measures to protect health as well as to stave off economic collapse. At the peak of the crisis the US signalled its intention to withdraw from the World Health Organisation (WHO) and both China and the US engaged in a war of words and pursued multiple vectors of confrontation. The global public health crisis brings into sharp focus not only the importance of the social and political determinants of public health (with widely different public health outcomes evident between differently governed states), but also the importance of geopolitical threats to international cooperation in the face of an international crisis. With a geopolitical contest underway between the US and China, a critical question is how China will act as a major power in a future, uncertain global order. While China has demonstrated aspirations for a leading role in multilateral institutions, from United Nations (UN) peacekeeping to the World Trade Organisation (WTO), and in regional initiatives, such as the Regional Comprehensive Economic Partnership (RCEP), China has also been the architect of a number of new international initiatives and multilateral institutions that may provide a clearer indication of its goals.

The paper begins with a discussion of the global geopolitical shift underway and the recent decline in international cooperation. The second part of the paper discusses one of China's innovations in multilateralism, the Asian Infrastructure Investment Bank (AIIB), drawing on research conducted on the bank for the Palgrave Encyclopaedia of Global Security Studies (Morris 2020). The AIIB is discussed as a potential "best case" example of Chinese innovation in multilateralism, although it is of course impossible to extrapolate from one case in international finance to more general conclusions for global governance in public health, economic or other forms of security. Nevertheless, with "worst case" scenarios prevalent in the current geopolitical



climate, generating fear of confrontation and conflict, it is proposed that there is value in examining less gloomy cases to understand in what conditions China may, after all, play a constructive – if contested – role in building international cooperation.

The outbreak of Covid-19 in China has demonstrated the linkages between events (such as a health crisis) and declining international cooperation, economic and political crises. Indeed, the social determinants of public health were identified by the WHO (2020) as including globalisation dynamics and processes. These forces of globalisation, once broadly welcomed, have become a double-edged sword, with China's giant and apparently resilient economy continuing to fuel world growth but its interdependence with the global economy also generating geopolitical risks. The literature has not only examined social, but also political, determinants of health at national and local government levels, as well as in global development (Kickbusch 2015) but Covid-19 demonstrates that determinants of public health at the global level include also geopolitical dynamics and processes. The *Lancet – University of Oslo Commission on Global Governance for Health* (2014) report noted that efforts of the health sector to address global health risks often come into conflict with powerful global actors in pursuit of security and other interests and therefore recommended improving how global governance works. The Commission's recommendations to address dysfunctions in global governance included, for example, independent monitoring of progress; more transparent and internationally connected policy dialogue in decision-making processes; and commitments to global solidarity and shared responsibility. These encapsulate the challenges faced by the international community in the grip of interconnected crises of health, environment, economy and security contest during the Covid-19 pandemic.

There is, however, little prospect of the international community adopting the Commission's recommendations to improve international cooperation. The world is experiencing a power shift unprecedented in modern times, and while the transition period likely offers both opportunities and risks for global governance, there is little attention given to global governance reform, and much more attention given by decision makers and observers alike to geopolitical contest and confrontation. In the centres of Western power, narratives and strategies in reaction to the Covid-19 outbreak in China and the subsequent pandemic focused from the outset at the level of national governance, suspicious of China and, with global governance in a state of crisis, dismissive of a multilateral response. This paper looks beyond the short-term public health crisis to the long-term questions for international cooperation more generally and the rarely asked question of what best practice leadership by China in global governance might look like.

2. THE GEOPOLITICAL SHIFT

The rise of China to a leading role in global economic governance became evident by the second decade of the twenty first century, following decades of its “reform and opening up”. Adopting elements of the earlier East Asian development models but at a larger scale and with a central role for its Party State, China embraced private sector development, foreign direct investment, integration into global supply chains and investment in large-scale infrastructure. In important respects, China's marketization process involved being co-opted into – and cooperating with – the liberal international order. This was confirmed with China's role in Asia Pacific Economic Cooperation (APEC) and in particular by its entry to the WTO in 2001, as well as its subsequent



membership of the G20 and the negotiation of the RCEP with fourteen major Asia Pacific economies. In each of these platforms, China agreed to adhere to regional and global trade rules, while controversially benefiting from concessions because of its developing country status. Over the last decades, China gradually liberalized the internationally exposed sectors of its economy, while retaining state control of strategic sectors. By 2010 it had overtaken Japan to become the second largest economy in the world, by 2013 China became the world's leading trading nation (Woetzel et al. 2019) and by 2019 two thirds of the world traded more goods with China than with the US (Leng – Rajah 2019). The size of China's economy was US\$14.3 trillion in 2019 (World Bank 2020).

The transition from a unipolar world, dominated by the US since the end of the Cold War, to a new multipolar order incorporating China remains axiomatically uncertain. China is in transition from being a developing nation which only decades ago was a uniformly poor society, to a nation that today has a middle class larger than the entire population of the US, numbering in the hundreds of millions. China is arguably now better described as an emerging, rather than developing, economy. It remains behind the US in its capabilities as a major power, but is certainly the leading emerging or developing country. As a result of global interdependence in matters of economic, health or environmental security, it has considerable weight in world affairs and will likely have greater influence in future, both generating global risks and also exhibiting power to address global risks. China's per capita Gross National Income (GNI) was US\$10,410 in 2019 (World Bank 2020). This places China at the upper end of so-called developing nations. The term “developing nation” is generally recognised to be self-defined and China continues to describe itself as such. Given China's continued high relative rate of growth (even despite Covid-19), it is reasonable for it to be described as still developing. Further, the high level of inequality in income dispersal generated by its rapid growth means that for many sections of Chinese society it remains a developing nation, even while in some of its industries, major cities and in its financial power, China is considered to be in the process of graduating to the ranks of the developed nations. China's self-description as a developing nation will be used here not as an endorsement of the term, but in recognition of its relevance to China's championing of the developing nations in its normative challenges to the international system, to be discussed further below.

Until recent years, an optimistic narrative prevailed about the widely distributed gains from globalisation (Bhagwati 2004), with expectations that China would follow a predictable course of integration and interdependence with the global system. Indeed, international firms benefitted from investing in low cost manufacturing in China and consumers around the world benefitted from low cost products. A narrative of China's “peaceful rise” was based on assumptions that the liberal international order was indeed international and not intrinsically Western, and that it could therefore accommodate the rise of non-Western powers (Christenson 2015). In the US, liberal internationalists held a normative confidence that China's economic liberalisation would inevitably lead to democratisation, following the path of other East Asian economies such as Japan, Korea and Taiwan (Fukuyama 1992; Overholt 1993). China was not expected to challenge the US for world leadership, as it remained a “partial power” constrained from global expansion (Shambaugh 2013) and focused on its own economic development and maintenance of social order in its own “civilisation state” (Jacques 2012). China was perceived as rising within the norms and rules of the international system, from which it so demonstrably benefitted (Ikenberry 2011). US liberal thought and elite opinion was driven by a confidence that China could be



encouraged to be a “responsible stakeholder” through a combination of US coercive power and reassurance of respect (Christensen 2015).

That optimistic (if often normatively biased) narrative collapsed in the face of a faster power shift than expected, accentuated by more assertive Chinese actions in its neighbourhood, China’s more ambitious approach to global governance and its strengthening domestic authoritarianism following the elevation of Xi Jinping to the leadership in 2012. Privileging order over Western ideas of democracy, displaying confidence and ambition rather than passive acceptance of US global leadership, Xi’s China pursued a “Chinese Dream” of national rejuvenation, development and a place in the world as a major power (Han 2017). This has become interpreted by a consensus of opinion in Washington as a competitive threat. While other emerging economies across Asia also maintained authoritarian governance (and a central role for the state in economic development) during their rapid growth phases, China appears to be charting a different long-term course, doubling down on its unique hybrid Marxist-Leninist/Confucian model (Jacques 2012; Brown 2018). Meanwhile, the Asia Pacific region remains wracked by serious security dilemmas including longstanding strategic rivalries, a context in which a resurgent and authoritarian China is feared by many of its neighbours (Muttalib 2010). While China settled most of its land border disputes through the establishment of the Shanghai Cooperation Organisation, another new international organisation, it continues to have serious territorial and maritime disputes with numerous Asian powers.

The US has become increasingly unsettled and unwilling to share power with a rising China. Despite interdependence from investment and trade, US engagement with China has been persistently unbalanced due to US credit-fuelled consumption and a resulting severe savings deficit, generating for China soaring US dollar foreign exchange reserves (Roach 2014). This provided China with significant capacity to redeploy US currency towards financing for development, enhancing its global power footprint. At the same time, US confidence in globalisation has plummeted as a result of its financial crisis of 2007–8 and two decades of a declining share of national productivity distributed to labour, with sharpening inequality (Manyika et al. 2019), political polarisation and the rise of aggrieved US nationalism disillusioned with the liberal international order (Thompson 2020).

Since the consolidation of Xi’s leadership, the Chinese government has been staking a greater role in global governance. As well as seeking leadership positions in the UN system and promoting the Paris Agreement on Climate Change, China has also developed new institutions and quasi-institutions with potentially global reach for rule-making and norm setting. The most ambitious of these is the Belt and Road Initiative (BRI), a characteristically vague (Ang 2019) umbrella term for a suite of Chinese infrastructure funding initiatives, utilising Chinese capital and expertise for investment in infrastructure connectivity, policy coordination, trade, financial integration and people-to-people links (State Council of the People’s Republic of China 2015; National Development and Reform Commission 2015). It includes projects to bring new funding, new technology, employment and most importantly new infrastructure such as transport, power, communications and water to support trade development and economic integration across the developing world and beyond. More than one hundred and twenty-five nations have signed BRI cooperation agreements with China (Raiser – Ruta 2019). In its massive scale, the BRI appears likely to drive substantial trade and investment development, with the World Bank estimating that trade in the BRI economic corridors is 30 per cent below potential and foreign direct investment 70 per cent below potential, with BRI investments likely to raise



global income with significant net benefits for BRI countries, particularly in East Asia (Maliszewska – van der Mensbrugge 2019). At the same time, the BRI has stimulated a counter-reaction in many regions, in the face of perceived corruption, debt and, in some cases, unsustainable projects for which China has attracted blame due to a lack of transparency as well as, in some cases, poorly-governed local business environments, from Malaysia to the Maldives (Balding 2018).

Like Japan before it, China's integration of aid and finance with its trade and investment interests reflects its conviction that it has become indispensable to globalisation, and confidence in its model, built on the East Asian state-led, export-oriented development model (Johnston – Rudyak 2017). Whether China's new activism, which has been termed "institutional entrepreneurship" (Benabdallah 2018), complements or challenges the liberal international order remains a matter of debate. China certainly has a vastly different political, economic and social model from other advanced economies and while it seeks international order, it does not seek a liberal order, with its priorities aligned rather with the developing world. Xi has propounded a new kind of major power relations, including interdependent economic cooperation and broadening the focus of the international system to include non-Western priorities such as development (Liu 2020). Nevertheless, China has sought to increase its global role without issuing a direct challenge to the multilateral system (Hodzi – Chen 2017). While the US turned away from championing free trade and investment, Xi has attempted to position himself as a champion of globalisation, epitomised by his speech at Davos in 2017 when he called for a more inclusive, sustainable globalisation based on "win-win cooperation" (Xi 2017). The unimpressed Western reaction has generated a binary narrative, suggesting a choice between a US-led or China-led world.

Asia Pacific scholars, as well as leaders (Lee 2020), continue to resist the binary narrative. Indeed, the likely rise of India, Indonesia and Vietnam in the years ahead suggests multipolarity rather than bipolarity will better describe the international system that is evolving. Mahubani (2020) is confident China's rise might yet strengthen, rather than challenge, the liberal international order, with East Asia's resurgence, driven by its embrace of knowledge, internationalism and order, bringing greater respect for its meritocratic governance models and power, but in a more democratic, multipolar world. Khanna (2019) argues Asia, as the world's new strategic and economic theatre, will not be led or financed or dominated by one power, but pursue a new multipolar, multi-civilizational balance. According to such reasoning, Asians may find Asian solutions for Asian problems. This reflects post-colonial thinking that is starkly different from Western universalist notions of international order. Indeed, Khanna argues Western normative expectations that China will militarize trade in the way European powers had in previous times is misplaced, claiming China is less likely to seek hegemony than to secure its interests within a multipolar balance. Australia's pre-eminent geopolitical analyst White (2013) expects a new concert of powers will need to share power in Asia. Canada's Acharya (2018) suggests the new order may be better described as multiplex, rather than multipolar, with no hegemon but interconnected diversity and dispersed agency as security challenges become transnational. There are also some voices in the US claiming the China challenge is much more complex than the simplistic alarmism that has taken hold (Zakaria 2019). Those perspectives are however largely dismissed in the dominant Western threat narratives about rising China.

By the time of the confluence of crises marked by Covid-19, the Western discourse had firmly embraced the conclusions of Mearsheimer's "offensive realism" (2014). Mearsheimer



assumed rising China would seek to dominate Asia and project power globally, and that the US and other Asian powers would need to contain China. Following the election of US President Donald Trump, the US formally switched from constructive engagement with China to a doctrine of “strategic competition” (US Government 2017; Department of Defense 2018) and launched a trade war and a campaign against the BRI, labelling it “debt trap diplomacy”. As in the 1930s, an earlier time of great power transition, deep economic dislocation and political crises, a culture of fear (Furedi 2018) and pessimism (Rosling 2018) has taken hold in Western culture, generating narratives that catastrophise risks and in which Chinese power and influence are understood as constituting threats to Western interests. Also, as in the 1930s, there is a revival of geopolitics, a school of thought that relies less on evidence than vast imaginings of new geographies in contest, such as the constructed notion of “Eurasia” (Mackinder 1919) and the invention of the “Indo-Pacific” (Medcalf 2020), both swathes of the map that share few of the characteristics that would warrant calling them regions, but which appeal to grand theories of zero-sum world domination. In the new culture of fear, with risks catastrophised and narratives focused on worst-case scenarios, rising China is expected not only to assert its economic power but to also export its authoritarian political model to dominate the world (Zenn 2015; Harper 2017; Brands 2019; McMaster 2020). In this new narrative, China is assumed to be illegitimately seeking a greater role in global governance, while continued US hegemony is assumed as both desirable and possible, despite China’s obvious outsized stake in international order and the relatively diminished leadership of the US (Beeson – Li 2016).

One of the critical problems in assessing motives and predicting future scenarios is that Chinese decision making remains opaque and unfamiliar to Western observers. The Chinese Government’s response to Covid-19, both its characteristically authoritarian cover-up of early missteps and its later successes in containing the outbreak within China, demonstrated two sides of the same coin, as argued by McGregor (2020), alerting many non-China watchers in the West for the first time to China’s domestic authoritarianism and its massive capability to mobilise. Neither provided reassurance in the face of a pandemic, as the virus spread around the world. Further, China’s clumsy international public relations campaigns including aggressive “wolf warrior diplomats” (Maçães 2020) in response to equally aggressive US rhetoric (Spaulding 2020) contributed to a growing pessimism about the prospects of international cooperation the next time the world faces a public health - or any other kind of - crisis.

Meanwhile the US announced its withdrawal from the WHO as the pandemic grew (and as the pandemic had particularly devastating consequences in the US itself). This followed the earlier US withdrawal from the Paris Agreement on Climate Change, and its ongoing undermining of the WTO as the US increasingly turned away from its previous leadership of the multilateral system. Yet the US retains predominance in the international order because of its overwhelming hard power as well as its greater soft power appeal, in contrast to a less internationally attractive China model (Green – Medeiros 2020). The twin phenomenon of the US undermining and China challenging the world order has generated fears of “worst case” scenarios, even expectations of future conflict, in the international discourse, after decades of optimism about the liberal international order. China is perceived to have embedded itself in the liberal international order in order to dominate it, provoking a global pushback, at a time of failing confidence in international rules and norms (Arase 2020).

But must the West abandon cooperation for confrontation and is the liberal international order really unable to absorb China without being dominated by it? Answers to these questions



are beyond the scope of this paper, as the power shift remains a work in progress, yet the questions plagued international relations at the time of Covid-19. The global governance actions of China (and the US) will need to be closely examined over the years ahead before conclusions can be drawn for long-term consequences, including in existing and new international and regional organisations. One of China's new initiatives for global governance is instructive as a possible "best case". It may be that there are lessons in this case about how China may continue to act as a norm entrepreneur, rather than revolutionary, in global governance.

3. THE ASIAN INFRASTRUCTURE INVESTMENT BANK

The AIIB was announced as part of a suite of international financing vehicles to support the BRI, including the New Development Bank (founded in partnership with the BRICS countries, i.e., Brazil, Russia, India and South Africa), a Silk Road Fund, and various regional infrastructure financing platforms. These Chinese initiatives were described in terms of building "new Silk Roads" reminiscent of the trading routes that linked China to the civilizations across Eurasia in the centuries before the rise of Western Europe and its colonisation of the world. If the terminology was intended to sound benign, it did not take long for resistance to develop.

To realists and a renewed chorus of geopolitical commentators in the West (as well as to some enthusiastic commentators in China), the AIIB was commonly grouped with these other initiatives to represent China's bid for increased geo-economic power and challenge to the liberal international order. The Obama administration (which "pivoted" to Asia to reassure its allies of its continued role in the Pacific and arguably began the transition towards strategic competition with China) actively lobbied US allies to oppose the new institution, which it represented as undermining global norms (Power 2016). Only Japan followed the US. The failed campaign against the AIIB contributed to a weakening of US standing in the region and strengthened the role and standing of China (Aberg 2016). In joining the AIIB, other US allies demonstrated that they were prepared to welcome the AIIB as complementary to the liberal international order. This suggested the binary US-led narrative that had framed Chinese institution-building as a threat to the liberal international order did not adequately explain the context in which the AIIB was founded or is operating. Indeed the literature soon found the AIIB not to be such a threat, as discussed below.

The AIIB is a new Multilateral Development Bank (MDB), established to address the significant infrastructure deficit in Asia, the fastest growing region of the world. It began operations in 2016 with 57 member states, including regional economies such as Australia, India, Indonesia, Korea and Russia, as well as non-regional members such as France, Germany and the United Kingdom. Its headquarters is in Beijing.

As the first MDB to be established by a developing country, and as a multilateral institution with some important new characteristics, the AIIB did indeed represent a set of normative challenges to the liberal international order led by the US. First, its creation by rising China reflected a demand for multipolarity in leadership of global economic governance. Second, its structure reflected a more equitable representation of the developing world. Third, its focus was on developing world priorities. Fourth, and finally, it imposed no conditions based on internal political concerns. Together, these represent priorities that China appears likely to promote more broadly across the multilateral system over time, impacting the external perception of China's leadership and its norm-setting power in global governance (Peng & Tok 2016).



The evolution of the multilateral system to accommodate new economic powers and the priorities of the developing world has been a long time coming. In 1944 at Bretton Woods, the US established the International Monetary Fund (IMF) and World Bank Group as part of a network of multilateral institutions centred around the UN system constructed to anchor a liberal international order. In the immediate post-war decades, the Bretton Woods institutions were focused on financing for infrastructure development as a priority, first in reconstruction of Europe and later in developing countries in other regions (Humphrey 2015). Soon after the establishment of the Bretton Woods system, however, the international order was frozen by the Cold War into two rival camps, a US-led grouping and a Soviet-led grouping (with little space for non-aligned states).

Despite the process of decolonisation that brought a large number of new nations into the UN system, and the subsequent rapid development and growing importance of key Asian and other economies, the multilateral institutions did not adapt to the changing balance. In the Bretton Woods institutions, the non-borrower countries continued to determine the rules and allocation of finance for development. Just as the UN Security Council remained controlled by the same Permanent Five as at its establishment, the World Bank and IMF remained controlled by the US (and its European allies). In the later Cold War era, the Group of 77 (G77) developing nations agitated for a New International Economic Order and the response from the US, convinced of new, prevailing neo-liberal economic theories, was to advocate a more muscular market-led agenda as integral to the liberal international order (Gilman 2015). Consequently, from the 1990s the IMF and World Bank sharply reduced their funding for infrastructure investment to focus instead on neo-liberal policy prescriptions (while nevertheless also funding poverty alleviation programs). Both institutions applied stringent conditions on finance such as requiring market-oriented economic policy reform and structural economic change, as well as political reforms including observation of human rights (Larionova – Shelepov 2016; Stephen – Skidmore 2019).

Financial liberalization, including capital account liberalization, promoted by the Bretton Woods institutions based on the new neo-liberal orthodoxy, generated a significant backlash in the developing world, particularly following the Asian Financial Crisis of 1997, and demonstrably failed to deliver the economic success that economists had predicted (Liao 2015; Chan – Lee 2017). Further, the conditions imposed by the IMF and World Bank were widely perceived to have failed in their objectives to drive economic and political reforms (Limpach – Machaelowa 2010).

Meanwhile the Asian Development Bank (ADB), created by Japan in 1966 (while the US prevented the establishment of an Asian Monetary Fund), remained focused on infrastructure financing. Nevertheless, by early in the twenty first century, the MDBs as a whole were widely considered to be failing to address the demand, in particular in rapidly-growing Asia, for infrastructure. The highly successful economic development of an increasing number of countries across Asia had generated significant demand for energy, transport, communications and other infrastructure to sustain growth. The ADB estimated addressing the infrastructure gap in Asia required US\$1.7 trillion per year to 2030 (ADB 2017). Another problem for some Asian states was that the MDBs had in recent decades demonstrated an aversion to investing in high-risk environments (Humphrey 2015). Both of these factors provided an opening for a new approach from a rising power.

The establishment of the AIIB, a new multilateral organisation led by and headquartered in China, provides China with an enhanced role in global economic governance, with new rule-



making and norm-setting power that is likely to generate strengthened influence in the developing world. It provides legitimacy to China's major role in financing for development, in the face of US (and Japanese) resistance to giving China such legitimacy. A greater role for China based on its economic weight goes directly to the matters of geopolitics discussed above. For some time in the early twenty first century, liberal internationalists talked about a "G2" that would represent greater global economic coordination between the US and China. The recent switch in US geopolitical strategy driven by a realist fear of rising China and designating it a "strategic competitor" makes it unlikely China can play a greater role in economic governance without provoking conflict with the US. China's claimed ambition is to reform and democratise, rather than to overthrow, the international system. It has nevertheless created in Beijing a new institution that issues normative challenges to the old order in a way that Japan, in establishing the ADB in Manila and in accordance with the norms of the prevailing system, did not. [Carrai \(2017\)](#) describes the AIIB as "nested" within the liberal international order. Nevertheless, because of its growing economic power, China is uniquely positioned to shape the norms of the future order.

The structure of the AIIB itself importantly diverges from the norm established in the Bretton Woods institutions that entrenched US leadership and the structural dominance of the developed world in decision making. The creation of the new MDB is a response to the resistance by the existing MDBs to reform voting power to reflect a changing order. Not only does the US by convention provide the President of the World Bank (by convention, the IMF is led by a European), but it retains veto-wielding stakes in both. Voting rights of major developing countries, although slightly adjusted in recent years, have not grown to match their relative weight in the global economy. In the IMF, the US has a weighted voting power of 16.52%, with the world's third largest economy, Japan, at 6.15%. China, although a larger economy than Japan, has 6.09% since recent reforms. In the World Bank Group, the US retains voting rights of 15.98%, with Japan at 6.89% and China at only 4.45%. The Asian Development Bank established by Japan provides equal voting rights of 15.6% to Japan and the US (both must combine to exercise a veto), with only 6.4% to China. The imbalance is clear, but significant reform of the Bretton Woods institutions has long been blocked by the US Congress, with the small-scale adjustment of voting shares approved by Congress in late 2015 arguably in response to the establishment of the AIIB itself ([Peng – Tok 2016](#)).

The AIIB uses a similar formula to the other MDBs in determining voting rights based on a combination of basic votes, share votes and Founding Member Votes. Where it diverges from the Bretton Woods institutions, however, is that from its establishment, developing countries have a structural majority and nine of the twelve directorships are reserved for Asian members (in the ADB, also, a majority of the board of directors are from regional members). Moreover, China holds 26.59% voting power in the AIIB providing it with a veto over key strategic decisions. A super-majority of 75% of votes is required to amend the founding treaty including decisions such as authorized capital, subscription of shares, composition of the Board of Directors, election of the President of the Bank, suspension of a member or distribution of assets. China offered to reduce its voting share to below the veto threshold if the US and Japan agreed to join as co-founding members, as part of its bid to attract broad international involvement ([Hu 2015](#)). The Chinese veto does not extend to operational matters such as project approvals.

The normative challenge set by the AIIB would, if extended to other organisations in the multilateral system, see a shift of power to the developing world commensurate with its



economic weight. It may be difficult in the long term for the US to justify its resistance to this trend, although the deteriorating geopolitical contest with China appears likely to indefinitely postpone any such self-examination.

The geopolitical contest is of less interest to the developing world than economic development. The AIIB normatively endorses China's model of infrastructure-driven development, which itself builds upon the successful East Asian model of development. It is possible that, by successfully leveraging more finance for infrastructure and if projects are successfully implemented, the AIIB may reinforce the emerging consensus in Asia (and more broadly across the developing world) that there is an alternative development path to the "Washington Consensus". As noted above, disillusionment with the IMF and World Bank's preferred neoliberal economic solutions had already become apparent well before the AIIB was established. Some have referred to the alternative Chinese model as a "Beijing Consensus" (Yagci 2016), characterised by a focus on industrialization and a central role for state investment in infrastructure to build capabilities to attract investment and build export industries. Prior to the establishment of the AIIB, or even the announcement of the BRI, China had already begun to embark on an ambitious program of extending development finance for developing country partners to build infrastructure. Its domestic policy banks, the Export Import Bank of China (Exim Bank) and China Development Bank (CDB) remain by far the largest funders of what are now labelled "Belt and Road" projects, lending Chinese foreign currency reserves to developing countries. Indeed, the CDB is now the world's largest source of development finance. The new initiatives such as the AIIB and the NDB represent the internationalization of this effort and further spreading of risk, as Chinese capital alone cannot fund the infrastructure needs of the developing world.

The final important normative challenge of the AIIB is its commitment not to attach political conditions to its lending. This is a significant break from the practices of the Bretton Woods institutions. The IMF and World Bank have explicitly linked financing to encouraging practices considered important to good governance including accountability, rule of law, human rights, decentralized political authority, political pluralism and participation. China has consistently opposed the imposition of such conditions, and, in this, it is supported by others in the developing world. For China, claimed "non-interference" in the internal affairs of other countries is a key plank of its contemporary foreign policy orthodoxy and a driving principle in its participation in the multilateral system. China often abstains or opposes moves in the UN that it perceives as interfering in the internal affairs of member states. China is particularly sensitive about international interference within its sovereign territory, considered to be a result of its "century of humiliation" at the hands of imperial powers. Such sensitivity to foreign interference is not unusual for any nation but China is unique as a rising power in its claim that it will not interfere in other nations' internal affairs. The claim is widely distrusted in the international community. Article 31 of the AIIB's *Articles of Agreement* states it "shall not interfere in the political affairs of any member" and further that its decisions will not be influenced by "political character" of any members.

China may still be a "partial power" (Shambaugh 2013), a long way from matching the hard and soft power of the US, but the creation of the AIIB, as part of a suite of other initiatives for financing development, indicates that China is beginning to exercise influence in shaping new norms in the international system. While some of the early literature raised fears the AIIB was part of China's apparent geopolitical project to build a "parallel order" and sphere of influence to



ultimately challenge the prevailing international rules (Hodzi – Chen 2017), a closer examination of the operations of the AIIB allows preliminary assessment of how China will wield its growing influence, when it combines with others in multilateralism. So far, rather than posing a geopolitical threat, even if raising normative challenges, the AIIB and even Chinese development finance channelled through its China Development Bank or other multilateral funds appear not to pose a revolutionary threat, and might even be described in practice as “business as usual” (Babones et al. 2020).

The AIIB commenced operations in January 2016 with initial pledged capital of US\$100 billion (about two thirds the size of the ADB). The Bank reached a milestone of one hundred approved memberships by mid-2019, at which time it had provided US\$8.5 billion in finance to 45 projects in 18 countries and received the highest credit ratings from the world’s three leading rating agencies, Standard & Poor’s, Moody’s and Fitch Group (Chen – Chen 2019). In its first five years of operation, there has been no evidence to sustain the concerns at its foundation that the AIIB would be driven by Chinese geopolitical priorities. The leading destination for AIIB investment in its first five years of operation was India (itself a strategic rival of China), with funding for 21 approved projects worth a total of US\$5.4 billion at January 2021 (AIIB 2021). Other leading destinations for approved finance were Indonesia (US\$2.4 billion), Turkey and Bangladesh (both around US\$2.1 billion). By the beginning of 2021, the bank had approved 112 projects with total financing of US\$23.1 billion (AIIB 2021).

The AIIB has pursued a “lean, clean and green” philosophy, seeking to demonstrate that it can overcome the widely observed constraints on the traditional MDBs by operating with a smaller team without a resident board as well as with less cumbersome and costly processes for borrowers, yet still meet high standards (Humphrey 2015). In time, it may provide healthy competition to the Bretton Woods institutions, although in its early years it also seeks to learn from them and, as an ongoing priority, to work with established MDBs collaboratively.

Jin Liqun, a former Vice President of the ADB and Chinese Vice Minister of Finance, was appointed to lead the establishment of the AIIB as inaugural President and Chair of the Board of Directors, and was reappointed in 2020 for a second term. The Board of Directors is non-resident, designed to provide separation between strategic policy, budget and management supervision determined by member states, on the one hand, and day-to-day operations determined by professional management, on the other hand. This arguably provides higher efficiency than in the case of the Bretton Woods institutions, with their resident boards of directors overseeing operations (Stephen – Skidmore 2019), who are driven by non-borrower priorities (Humphrey 2015). Expert and experienced staff have been recruited from other MDBs to assist the AIIB to learn, build its capabilities and implement best practices. A high proportion of staff is internationally educated (Oswald 2018; Shelepov 2018). While the operating structure mirrors those of the Bretton Woods institutions, it is slimmer, allowing fast and efficient decision making.

Despite fears when it was launched that the AIIB would prioritize Chinese firms and would operate at lower standards than other MDBs (Hameiri – Jones 2018), the bank has been widely observed to be implementing standard industry practices. Throughout its operations, its commitment to best practices, including in project appraisal, zero tolerance for corruption, open public procurement and transparent tendering, remains modelled on the established MDBs. In so doing, the AIIB has internalised a set of operating practices from other multilateral institutions. It combined with other MDBs to prevent corrupt bidding practices in the Agreement



on Mutual Enforcement of Debarment Decisions (AIIB 2017). To be sure, however, the AIIB's adoption of transparent processes has not been matched by the Chinese government's bilateral aid and infrastructure lending. It is as yet unclear if the AIIB will be a source of learning for the Chinese domestic policy banks over time (Chan – Lee 2017; Stephen – Skidmore 2019).

Cooperation with other multilateral and bilateral development institutions is cited as core to the AIIB's purpose in Article 1 of the Bank's *Articles of Agreement* and demonstrates the AIIB's potential to bolster not only regional economic security but multilateralism. Indeed, until the recent descent into geopolitical strategic competition, the post-Cold War world had demonstrated that greater economic security was delivered through international cooperation (Cable 1995). In its operations to date, the AIIB has sought to maximise its impact, leverage its contributions, spread risks and harness other benefits from co-financing projects with other MDBs. Approximately three quarters of projects approved to date have been co-financed with other institutions (Shelepov 2018) and these have been widely observed to be constructive partnerships (Gåsemyr 2018). For example, an early approved project to support a new energy project in Myanmar was co-financed with the ADB and World Bank. The AIIB has cooperation and co-financing agreements with the World Bank, ADB, NDB, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB) and the Eurasian Development Bank (EaDB). Co-financing with MDBs has three main operational effects in addition to increasing the pool of funds available for infrastructure projects. First, co-financing shares and mitigates risks. Second, it ensures that the AIIB aligns with and therefore reinforces the best practice standards and operations of other MDBs, as it is bound in co-financing agreements to follow standards in areas from procurement to environmental sustainability. Third, by leveraging resources, developing common approaches and spreading risks across multiple institutions, the AIIB facilitates coordination, cooperation and strengthening of the multilateral system, ensuring that it is positioned over time as a non-controversial contributor to the network of MDBs.

Further, the AIIB seeks to become a leader in catalysing private capital investment in infrastructure by working on developing emerging market infrastructure as an asset class. The objective is to develop a pipeline of private sector projects for which the bank will provide leveraging finance, in partnership with other MDBs, commercial banks and institutional investors, to achieve a ratio of sovereign and private funds providing half of the capital for projects, although the plans have been delayed by the Covid-19 crisis (Gao 2020). Becoming a leader in this field will require maintenance of the highest reputation for the AIIB, its staff, operations and outcomes.

In response to the Covid-19 pandemic, the AIIB established a US\$13 billion Crisis Recovery Facility, which it deployed in co-financed initiatives with other MDBs to finance immediate health sector needs of members as well as to provide emergency liquidity support for critical sectors. By the end of 2020 27 projects had been approved (worth more than US\$7 billion), including large-scale assistance to bigger members as well as some unusually small but targeted financing such as a US\$20 million facility for tourism industry resilience in the Cook Islands and similar US\$50 million facilities for Fiji and the Kyrgyz Republic (AIIB 2021).

Finally, the bank's commitment to sustainability throughout its lending portfolio has become an integral operational principle that will strengthen its reputation and which aligns the work of the AIIB with the priorities of the multilateral system as articulated in the UN 2030 Sustainable Development Goals and industry standards known as ESG (Environmental, Social and



Governance). The AIIB has identified carbon-intensive infrastructure investment as a risk to be avoided in the post-Covid recovery and set a target in its 10-year Corporate Strategy for overall financing of climate action to reach 50 per cent by 2025 (AIIB 2021). Sustainable infrastructure is one of the bank's three thematic priorities and it is funding projects in renewable energy, energy efficiency, rehabilitation and upgrading of existing plants, and transmission and distribution networks to support member states in achieving their commitments under the Paris Climate Agreement and national development plans. Projects have included wind power in Kazakhstan; solar power in Egypt, India and Oman; village infrastructure in Uzbekistan; improved energy efficiency in Bangladesh; coal to gas transition in northern China; geothermal energy in Turkey; and a US\$100 million investment in the ADM Capital Elkhorn Emerging Asia Renewable Energy Fund. The AIIB has adopted a Social and Environmental Framework to ensure environmental and social sustainability of its infrastructure projects. In 2019, the Bank launched a US\$500 million Asia Climate Bond Portfolio, in partnership with European asset manager Amundi, aiming to bolster the underdeveloped climate bond market (AIIB 2019) and in 2020 launched its first "Panda Bond", a Chinese renminbi-denominated sustainable infrastructure bond (AIIB 2021). It is also developing a Water Strategy, to guide the investment sector in addressing water security challenges, to which the AIIB has contributed US\$1.4 billion (International Institute for Sustainable Development 2019).

China itself is seeking to position itself as a champion of renewable energy with massive investments in new technologies and infrastructure within China. Notably, however, China continues through its bilateral programs for infrastructure financing to build coal-fired power stations across the developing world, attracting much criticism and in contradiction with the AIIB's focus on green infrastructure.

4. CONCLUSION

The Commission on Global Governance for Health underlined the importance of functioning global governance to mitigate public health risks. Indeed, geopolitical dynamics impact directly on health risks and on the capacity for the international community to cooperate in addressing those risks. The Covid-19 pandemic is a testament to this. As a result of the geopolitical shift underway, it is likely that next time there is a global health emergency, China will have amassed greater influence in the international system. It is therefore important to understand how China will act in international institutions. As a developing country but also a major power – as well as an authoritarian Party State – China brings a different normative approach to global governance from the US. To be sure, how China acts in the international system can have repercussions for the world, a realization that for better or worse became dominant in the international discourse during the Covid-19 pandemic. China claims to offer global leadership but lacks international trust, while the US has in recent times failed to live up to its promise of world leadership. Geopolitical risks are rising as a result of the continuing decline in international cooperation. The Covid-19 crisis has confirmed a deteriorating climate of distrust, blame and fear, even generating expectations in some quarters that the world could divide into rival US-led and China-led camps in a Cold War 2.0.

Yet the case of the AIIB provides some reasons for optimism. It represents China's ambition and its norm entrepreneurship in an important area of international cooperation, infrastructure



finance in the fastest growing region of the world. The results so far indicate a bias towards multilateral cooperation, best practices and a focus on building regional and global economic, social, health and environmental security. From observation of its early operations, the AIIB represents a new public good created by China that is both complementary to the liberal international order, in augmenting the deficient financing of infrastructure by the existing institutions, even as it challenges some of the norms of those institutions. By bolstering finance for sustainable development amongst its member states, the AIIB has contributed a welcome focus on mitigating environmental risks in the world's most populous region, while it has contributed as well to economic growth, health responses and social projects. That the bank makes a positive contribution is therefore not at issue in the discourse about this new international institution.

The AIIB however represents two new tests for the liberal international order: whether that order can incorporate a new leading power and, at the same time, whether the new power's attempts to reform the international order will undermine or strengthen that order. The US allies that joined the AIIB essentially voted with their feet on the first question, welcoming China into the business of institution-building, just as China had been welcomed into the UN system after 1971 and the WTO in 2001. The second question is more difficult to answer conclusively in this period of geopolitical transition. The creation of the AIIB is likely to be followed by further initiatives from China to shift the international system away from US leadership, towards a multipolar system. China's impact on the liberal international order is therefore a work in progress. Further research on other new Chinese institutions and initiatives in the international system will be important to understand the new order.

China confounds some observers because it does not conform to Western narratives, and neither should we expect that it will in future. In what would be considered contradictory actions in any other country, China simultaneously builds its own model of economic development while also adopting and integrating experiences and best practices from outside its own model. Both of these tendencies are apparent in its design of the AIIB, which therefore contributes to a new pluralism in the international system.

The AIIB challenges a number of prevailing norms, including replacing the disproportionate power of the US and the advanced economies in the multilateral system with a more proportionate role for China and other developing countries, a new focus on infrastructure-led development which is built on Chinese confidence in the East Asian development model, and a shift away from the Bretton Woods practices of using financing conditions to drive liberal democratic and neo-liberal economic reforms.

The AIIB case may not be generalisable. Risks remain and concerns are likely to persist about China's intentions in the new international order, given its authoritarian domestic system of governance with low levels of transparency. These concerns will come to the fore in periods of geopolitical anxiety such as that marked by the Covid-19 pandemic. Even if the AIIB is an example of how China acts in multilateral cooperation with others, it cannot necessarily represent how China acts in bilateral economic cooperation or in other areas. The AIIB, along with China's other international financing activities under the umbrella of the BRI, reinforces the trend to multipolarity in the international system. If the AIIB can at least be a source of learning to implement best practices across those broader programs of infrastructure funding, it will be very helpful indeed.



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