

**THE POLITICAL ECONOMY
OF EAST ASIA**

Series Editors: Ming Wan and
Natasha Hamilton-Hart

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**THE ASIAN
INFRASTRUCTURE
INVESTMENT BANK**

The Construction of Power and
the Struggle for the East Asian
International Order

Ming Wan





The Asian Infrastructure Investment Bank

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Ming Wan, George Mason University
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CHINA ON THE GROUND IN LATIN AMERICA: Challenges for the Chinese and Impacts on the Region

R. Evan Ellis

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To my beloved daughter Annaliese

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Preface

The Chinese government's sudden proposal for establishing the Asian Infrastructure Investment Bank (AIIB) has garnered worldwide attention from the media. There have been many dramatic news stories in the past two years. These include the Islamic State advance in the Middle East and beyond, Russia's annexation of Crimea and continuous conflict in eastern Ukraine, the United States-led comprehensive agreement on the Iranian nuclear program, the Ebola outbreak in West Africa and the electoral victory of a left-wing party Syriza in Greece that has posed a major challenge for the European Union. When viewed in this context, a \$50–100 billion proposal for a development bank does not appear to be that significant.

One of the primary reasons the AIIB has attracted so much attention is that officials and commentators view it as a sign that China, as a rising power, is making significant progress in establishing a new hegemonic order in East Asia. They perceive that Beijing-led multilateral institutions such as the AIIB are mechanisms for the creation and entrenchment of this order. The United States – the reigning world leader – has declined or made major policy blunders that will further facilitate this trend. The validity of these notions is very difficult to ascertain. The basic facts about the AIIB itself are not complicated. Yet we see many diverse interpretations.

I wanted to write this book because it gives me an opportunity to reexamine our very conceptual basis for foreign policy analysis. As an international relations scholar who has researched, taught and talked about international

political economy issues, particularly when they are relevant to East Asia, I have already felt that a new framework is needed. I am also interested in the AIIB because this topic provides important empirical clues to the emerging struggle for the East Asian international order, an area of expertise and interest for me.

The AIIB debate goes to the heart of international relations, namely the very nature of political power, international rules and the relationship between global finance and sovereign states. Power is a notoriously difficult concept. It is easy to observe and understand but difficult to measure and predict. It is also fascinating to observe ourselves as observers of international politics. We are often surprised by new developments but are quick to resign to the new power realities.

The AIIB issue is intimately linked to most other events happening in the world. Take the *Washington Post's* one-day coverage on 10 May 2015, for example: the paper had a two-page plus headline story on how the US government has been struggling to counter the sophisticated social media propaganda from the Islamic State of Iraq and the Levant (ISIL).¹ With all its military, financial and technological power, the United States has yet to win war on terror. This raises a fundamental question about power (how powerful is the United States?) and power calculations (why would anyone challenge a country with preponderant power?). It also explains partly China's strategic success in recent years: the United States is preoccupied in the Middle East despite its effort to rebalance to the Asia-Pacific. The next prominent story was about the general election in the United Kingdom three days earlier, which gave the ruling conservative party a surprising victory. The story analyzed the possibility of the United Kingdom becoming 'Little England' after losing Scotland and leaving the European Union. This would weaken its role as a crucial strategic ally for the United States.² The United Kingdom had already done some 'damage' to the United States when it became the first Group of Seven (G-7) country to join the AIIB despite US opposition. The paper carried a story on page A6 about the massive military parade staged by Russian President Putin to mark the 70th anniversary of victory over Nazi Germany. Unlike the previous two occasions, the United States and its Western allies chose not to attend the ceremony because of Russian annexation of Crimea. Chinese President Xi Jinping was the main guest of honor.³ The tensions with the West have moved Russia closer to China. Russia is a founding member of the AIIB and has expressed support for Xi's vision of the 'New Silk Road'. In a smaller

news story in the Politics and the Nation section, President Obama called Sen. Elizabeth Warren was ‘absolutely wrong’ about the Trans-Pacific Partnership (TPP) Agreement under negotiation. Warren was opposed to the TPP and viewed it as ‘an overlooked threat to the safety of our financial markets.’⁴ The US government has framed the TPP as all about making sure the United States rather than China write rules for Asia. The TPP that excludes China was a reason for Beijing to create its own institutions such as the AIIB, which in turn puts pressure on the US government and the Japanese government to conclude the TPP.

I have summarized only a few stories relevant to the AIIB in a single major newspaper’s one-day coverage. How should we handle the massive information we are bombarded with every second then? One solution is to utilize the computing power we now possess. In fact, there was a long story in the same edition of the *Washington Post* about the big data we now have about consumer lifestyles thanks to the proliferation of wearable devices.⁵ We political scientists are not in that stage yet. Even more important, we need to tell computers the algorithms to make calculations unless we utilize artificial intelligence. Knowing is not the same as problem solving, as recognized by the lead character cited in the news story.

We may also rely on our own brains and experiences to process information and reach conclusions. We are hardwired to see patterns, but are influenced by implicit or explicit theories about the world we observe. Are these theories useful or accurate? As a reminder of the limitation of political science theory, the *Washington Post* noted that opinion polls before the British election had all predicted a different outcome for the British election, revealing that the preelection assumptions had been wrong.⁶ Studies of electoral politics in the United States and other advanced democracies are arguably the most sophisticated political science research in the discipline.

I have adopted an evolutionary approach in this book in order to analyze the development around the AIIB. Power should be understood as a duality on at least two dimensions. First, power should be understood as both the ends and the means. How much one wants power and how one uses power is observable. However, the variation in choices relates to the inherent competitive nature of the environment one is in. And one’s own behavior contributes to how competitive that environment becomes. Second, power practiced and power observed can be different. Put together, one needs to be comfortable with the notion that an actor

may be powerful and not powerful simultaneously. An actor is powerful when it seeks to expand its power or when it has power to implement its policy. It is not powerful when it is passive, when its goal to expand power does little to affect the environment or when it has limited power to implement its policy goals.

Viewing power as ecological in nature, I define power also as the impact on the environment and other actors. An actor is powerful if it has an ecological fitness, or the range of activities, between its capacity and its environment. Thus, when measuring power, besides the usual methods of counting power assets or gauging influence by one actor over another, we should also measure ecological fitness to reveal the competitiveness of the environment and where a particular action fits. I will also measure how natural one's power is judging from its past behavior.

Power is socially constructed. And different from nature, much of what has happened in the human world and increasingly natural world has resulted from artificial selection. We can study empirically how power is tried or not tried and how actors can establish power or fail to establish power.

To apply my theoretical approach to the AIIB case, the Chinese government has made a major power move and has realized its initial goal of founding a China-led international organization. China's power is thus reflected in its ability to marshal resources for its confidently declared objectives. China's move was stronger than before but in a more competitive environment. China's AIIB project is a good fit for the global financial system. It has historically been the case that a hegemon builds institutions after establishing overall dominance rather than the other way around. And China's construction of the AIIB is not yet a radical departure from the existing international order. The AIIB has generated so much curiosity mainly because it appears to show that the United States no longer commands the respect of friends or fear of foes. Moreover, one may view the AIIB as an integral part of a larger Chinese strategy. These perceptions matter at this sensitive historical moment when balance of power seems to be shifting away from the status quo hegemon.

What surprised me while writing this book is that I started by dismissing the alarming comments on the AIIB as hyperbole but came to view the AIIB as indeed historically significant. However, I did so for reasons different from those advanced by most analysts and commentators. The AIIB is likely to be successful and compatible with the international norms. Yet it does partially draw from a different institutional lineage/

historical root/national system of political economy. China's greater success will constitute a partial change of the existing international order whatever the Chinese intentions. It is also conceivable that the grafting of Western-originated institutions into the Chinese tree may change China as well. If there is a concerted effort by the West to stifle the AIIB (which is fortunately not the case yet), the result could be Chinese institutional initiatives less influenced and less connected with the Western ones, which would be damaging for both.

The Chinese government is constructing its power, which reveals a process of social reality construction. While one might have been taken back by the boldness of the Chinese initiative initially, it is striking how quickly the international community came to accept the fact that the Chinese government would get the bank and differ only over the significance of this development. The social fact that China is entitled to have a development bank under its dominance is being established. What appeared to be a novel idea stopped being so quickly. The Chinese determination and speed in pursuing its goals has contributed to their success. It is equally important that the Chinese initiative has resulted from its past foreign policy actions and interactions with the international community. After all, they have established themselves as cost-effective infrastructure constructors. They also have cash and a ready workforce to meet the demands of the developing world not fully met by the existing development institutions. The AIIB already contains familiar features to the West and developing nations. It should be more so with more member states operating in it.

More broadly, while it is difficult to predict what China will do at a particular point in the future, how it has conducted itself is largely consistent with its institutional trajectory in recent decades. Put simply, China is doing what comes naturally to it. It is largely viewed as such by others whether they like what the Chinese are doing or not.

This book makes a particular contribution to the literature of East Asian international studies by explaining how the Chinese government goes about building an international institution at a critical historical juncture despite negative United States reaction. International order does not spring into existence automatically. Rather, political players build them using material and ideational resources at their disposal, often ignorant of potential consequences. Moreover, the AIIB drama reflects the fundamental characteristics of the competing major national systems in the world.

I have written, taught or talked about the issues relevant for understanding the AIIB phenomenon. These issues include international relations theory on power and order, the history of East Asian international orders, the American hegemony and postwar global economic institutions, the Asian Development Bank (ADB) and Japan's use of its rising economic and financial power, China's development model that has gone global and Chinese president Xi Jinping's ambitious policy agenda. The AIIB is a fascinating case for research. Thus, a detailed study should provide a necessary corrective to our conventional understanding of international order, East Asian international relations and Chinese foreign policy.

The book has five chapters. The first chapter examines the theories of power and international order. The next chapter illustrates what seems common and peculiar about the East Asian international orders. Chapter 3 studies how the Chinese have been constructing the AIIB and sets the AIIB in the Chinese domestic context. Chapter 4 compares the AIIB with the World Bank and the ADB. The last chapter analyzes the AIIB factor in the struggle for hegemony in East Asia.

I want to thank Sara Doskow, Natasha Hamilton-Hart and an anonymous reviewer for their support and useful comments on the proposal. Jihye Lim provided able assistance for research that went into the sections on 'the branching of the political institutions in the world' and 'halting expansion of democracy' in Chapter 2. She brilliantly made the four maps used in the book. I also want to thank Erica Seng-White for her excellent editorial assistance.

Figure 2.1 came from my previous publication: Wan, M. (2013) 'Back to Nature: An Achievement-Based Structural Assessment of the Modern International System', *The Chinese Journal of International Politics*, 6 (4), 401–428.

I spent the summer of 2015 working on the book manuscript, which took me away from some family activities. My family's support continues to be central to my research and academic career.

Notes

- 1 G. Miller and S. Higham (2015) 'US Struggles to Degrade Terrorists via Twitter', *The Washington Post*, 10 May, A1.

- 2 G. Witte and D. Balz (2015) 'Britain Faces Crucial Choices,' *The Washington Post*, 10 May, A1.
- 3 M. Birnbaum (2015) 'Putin Mixes Pomp with Politics in Victory Parade Snubbed by West,' *The Washington Post*, 10 May, A6.
- 4 Cited in G. Jaffe (2015) 'Warren Is "Absolutely Wrong" on Trade Deal, Obama Says,' *The Washington Post*, 10 May, A3.
- 5 A.E. Cha (2015) 'The Human Upgrade: The Revolution Will Be Digitized,' *The Washington Post*, 10 May, A1.
- 6 D. Balz (2015) 'British Voters Shattered Pre-Election Assumptions,' *The Washington Post*, 10 May, A2.

List of Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
CCIEE	China Center for International Economic Exchanges
CPEC	China-Pakistan Economic Corridor
ECAFE	Economic Commission for Asia and the Far East of the United Nations
FTAAP	Free Trade Area of Asia Pacific
G-7	Group of Seven
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IMF	International Monetary Fund
ISIL	Islamic State of Iraq and the Levant
ODA	official development assistance
OPEC	Organization of Petroleum Exporting Countries
PPP	purchasing power parity
RTAA	Reciprocal Trade Agreements Act
TPP	Trans-Pacific Partnership Agreement

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Power, Order and Biogeography

Abstract: *Wan examines the theories of power and international order, the relationship between global finance and sovereign states and a broader scientific field of biogeography. The AIIB is a power move by a rising great power vis-à-vis the status quo superpower. Wan provides an alternative but unified framework to analyze power. Logically and empirically, power can be both goal and means. He follows a biogeographical approach that emphasizes evolving processes rather than simply action and reaction in a mechanical fashion. Evolution exerts pressure on the content and intensity of power. He also argues that power is both intrinsic and observer-relative. Power is partially a social construction. We should focus on what seems to come 'natural' for the players in international relations.*

Keywords: AIIB; biogeography; global finance; order; power; social construction

Wan, Ming. *The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order*. New York: Palgrave Macmillan, 2016. DOI: 10.1057/9781137593870.0005.

Why should anyone care whether China or any country wants to take a leading role in helping other countries construct highways, ports or power plants? Before I answer that question, I simply want to point out that people do care, which is why I am writing this book. Whether they should, we know that political actors care about power and influence associated with development finance. Thus, we need to understand the concept of power and preferred international order based on both power and larger purposes.

This chapter provides what I think is an appropriate analytical framework for the AIIB. The AIIB is necessarily unique but we need to understand what the underlying forces driving it are, which should also be applicable for looking at other international relations issues. I have written this book because I want to make a larger point based on my critique of the prevailing approaches to international relations. But because this is a fast book, I will not engage in theoretical discussion in great detail. Rather, I will adopt a need-based approach.

The chapter examines the concept of power, the theory of international order, the relationship between the global financial market and the sovereign state, and briefly a broader scientific field of biogeography. The US-China rivalry is fundamentally about the rules of the game for Asia. The theory of international order thus provides an appropriate analytical framework.

The dual nature of political power

The AIIB has garnered so much attention because it is viewed as a power move by a rising great power vis-à-vis the status quo superpower. Is there a real power dynamic involved here? To answer this question, we need to understand better what power really is.

Power is arguably the foundational concept of Political Science (PS) and International Relations (IR). But as Philippe Schmitter has rightly pointed out, much of current research in International Political Economy (IPE) focuses on voluntary exchange of information, aggregation of individual preferences and rational design of institutions, neglecting power as the micro-foundation that differentiates PS from other disciplines.¹

IPE scholars have neglected power partly because it is notoriously difficult to define and measure, unlike market transactions. Mainstream IR scholars have gone through three stages of conceptualizing power.

In what some scholars call the prescience stage, power was understood intuitively as it had been since before history. In the second stage, coinciding with the behavioral revolution in Political Science some scholars began to emphasize a precise definition and measure of power as an analytical concept starting around 1950. A backlash emerged later due to an assessment of limited progress made. Some would point out that we should not treat power as atomistic.² What is a valid indicator of power in one period time may not be so in other periods. In the third stage, rational choice has gained increasing influence in the discipline but power is less emphasized in that framework.

Scholars have come to understand various aspects of power. We know, for example, that power has different dimensions. Power assets may not translate into actual influence. What is power in one area may not be fungible in another. And we need to understand intention as well as capacity.³ Fully aware of all these conceptual and measurement challenges, most IR scholars now adopt a pragmatic approach to power.⁴

In the following paragraphs, I will seek to provide an alternative but unified framework to analyze power. To do so, I will go back to the early studies of power when IR was emerging as a discipline in the United States. Students who have studied IR theory should know the apparent logical deficiency in Hans Morgenthau's conceptualization of power. Morgenthau, who aimed at making IR a scientific field, defined national interest in terms of power.⁵ Power is a relationship or more precisely 'man's control over the minds and actions of other men.'⁶ I learned early on in graduate school that Morgenthau had supposedly erred by confusing power as end with power as means. Put simply, power cannot be both goal and instrument.

Yet my research and observation for the past two decades has led me to the conclusion that Morgenthau's duality is intuitively more useful than the later conceptualizations of power. Logically and empirically, power can be both goal and means. Since power is highly desirable and necessary, it makes sense that countries would want power. An analogy is people pursuing wealth that can be used for achieving other objectives. I am not concerned about the supposedly tautological problem. Power pursued and power exercised are often not the same and they occur at different points in time. More importantly, I follow an evolutionary approach, which means that I use constitutive causality rather than linear causality. Linear causality matches variation in the independent variable and the dependent variable. However, from a biological perspective,

international relations are a 'living thing' and our attention should be paid to evolving processes as well as internal changes rather than simply action and reaction in a mechanical fashion.⁷ Empirically, we know that countries pursue power as national goal, which has certainly been the case in Northeast Asia.

Scholars who emphasize power typically follow the realist approach. Realists have recognized the balance of power as a principal mechanism in international relations. There are also other mechanisms such as balance of threat and bandwagoning. Yet an evolutionary approach offers a wide variety of types of relationships. Scientists have identified the following cooperative or competitive interactions between populations within an ecosystem: proto-cooperation, mutualism, commensalism, competition, amensalism and predation. Proto-cooperation refers to nonobligatory mutual gains between two populations. Mutualism is obligatory mutual gains. Commensalism means that one population gains while the other population is unaffected. Competition refers to an interaction that impedes one another. Amensalism means one population is impeded and the other not. Predation happens when one population kills and eats the other. To minimize competition, populations may diversify or partition energy requirements and evolve to avoid direct competition. Spatial competition also allows good-dispersers-but bad competitors to coexist with bad-dispersers-but good competitors by spreading first into unoccupied territories.⁸

There should be more types of interaction in the human world. However, we should then immediately see a potential problem of excessive complexity. Indeed, Michael Mann maintains that 'Human beings are restless, purposive, and rational, striving to increase their enjoyment of the good things of life and capable of choosing and pursuing appropriate means for doing so. These human characteristics... are the original source of power.'⁹ The more I think about international relations the more I agree with Mann's assertion. However, I differ from Mann in whether a general theory may be achieved. Mann reasons that 'goal-oriented people form a multiplicity of social relationships too complex for any general theory.'¹⁰ Rational choice scholars certainly would argue that they have a scientific theory based on the very fact that humans are goal-oriented. I adopt an evolutionary approach, which is a proven scientific way of thinking about the living world.

Mann himself rejects evolution as an appropriate approach to studying societies. His objection comes mainly from the conviction that societies

do not necessarily develop into a higher form.¹¹ However, evolution is not meant to be teleological, as Charles Darwin and others have made it clear. As philosopher John Searle has pointed out, 'one of Darwin's greatest achievement was to drive teleology out of the account of the origin of species'.¹² Indeed, evolution may lead to 'lower forms' that fit better in a given ecosystem. Mann also observes that although we can apply evolution to the Neolithic Revolution, the theory has become irrelevant once our ancestors could no longer evade from power the way prehistorical hunters and gathers with loose social ties supposedly could.¹³ I maintain that logically one can turn Mann's argument on its head and suggest that power accelerates evolution. Whether evolution still applies to our societies is also an empirical question.

Pure balance of power is rare. Other relationships are more prominent through a longer historical lens. As a case in point, a most interesting relationship is that of symbiosis between different players located in different ecological niches. After an exhaustive study of early empires throughout the world, Mann offered a general pattern: '[a] regionally dominant, institution-building, developing power also upgrades the power capacities of its neighbors, who learn its power techniques but adapt them to their different social and geographical circumstances'.¹⁴ The nomadic empires needed successful pedantic empires to grow and succeed because of their need for resource extraction.¹⁵ In modern times, nations feed off hegemony to become successful, and rebellions are a constant prominent feature in international relations.

Evolutionary notions such as competition and adaptation have already been used to do the causal work for most mainstream IR theories. Kenneth Waltz's neorealism requires an evolutionary selective mechanism, as pointed out by Robert Keohane.¹⁶ According to Waltz, structures work their effects through socialization and competition by which 'the variety of behaviors and outcomes is reduced'. Waltz argues that 'where selection according to consequences rules, patterns emerge and endure'.¹⁷ Put simply, actors need to adapt for a structural imperative to be relevant. And power evolves, particularly in terms of content and intensity, due to systemic competition. I argue that we should make explicit the underlying evolutionary logic.

Evolution exerts pressure on the content and intensity of power. Power is always countered. Any reaction should be viewed as equivalent to the action that triggers such reaction despite the apparent asymmetry of material resources. The balance should be viewed broadly along several

dimensions such as time horizon and social dimensions. Countries adopt adaptive response to power, not so much power balancing or bandwagoning.

One of Darwin's key contributions is natural selection. In the human world, artificial selection is most often at work. That does not prevent an evolutionary explanation. Darwin himself started his book *On the Origin of Species* with discussion of artificial selection. As evolutionary scholar Jerry Coyne maintains, the only difference between artificial and natural selection is that 'in artificial selection it is the breeder rather than nature who sorts out which variants are "good" and "bad"'.¹⁸ Artificial selection may well accelerate evolutionary pressure. Artificial selection relates directly to the fact that the world is what we make of it. Evolutionary pressure determines how fast evolution takes place. A key feature of international relations is the escalation of evolution over time.

Constructivism has become influential in the IR field in recent decades because it makes sense.¹⁹ As will be discussed in the following pages, constructivism relates to the English School of International Relations that focus on international order. Moreover, as my discussion shows, I do believe that the world is what we make of it. However, most constructivists reject science as appropriate for studies of human society. That is where I differ.

Artificial selection bears resemblance to social construction. John Searle's theory of construction of social reality is helpful for us to understand how we build new institutional facts with both material and social forces. Rather than engaging in a detailed abstract discussion of a philosopher's arguments in a fast book, I will introduce what I think is most relevant from Searle's insight framed around the AIIB phenomenon. Searle's central question is 'how can there be an objective world of money, property, marriage, governments... [or international organizations such as the AIIB] in a world that consists entirely of physical particles in fields of force, and in which some of these particles are organized into systems that are conscious biological beasts, such as ourselves?' Put simply, 'how do we construct an objective social reality?'.²⁰ In order to explain how this works, he first makes a 'fundamental distinction... between those features of the world that exist independently of us and those that are dependent on us for their existence' or between 'intrinsic and observer-related features' of the world.²¹ The AIIB, once formed, should have some intrinsic features such as the physical presence, size of authorized capital and loans as well as observer-relative features such as being a policy

instrument of the Chinese government, which can be epistemically objective.

Searle's distinction between intrinsic and observer-relative properties has also shaped the second duality of power emphasized in this book, namely, that power is both intrinsic and observer-relative. Power has to have intrinsic properties that are independent of what we think. For example, US power includes nuclear weapons and air carriers that have a physical presence. At the same time, American hegemony is a social construction. My hypothesis is that power takes on more of an observer-relative nature during a transition period when people rethink and recalibrate.

More concretely, social reality is constructed with the assignment of function, collective intentionality and constitutive rules. First, we impose function on a naturally occurring or created object. The AIIB is created to serve one or several functions that are always observer-relative. Collective intentionality does not have to be reduced to individual intentionality. Social facts involve collective intentionality, and human institutions are a subset of social facts. Constitutive rules do not just regulate activities but create the possibility for activities, in the form of 'X counts as Y' or 'X counts as Y in context C'.²² Searle's explanation lies mainly in the constitutive rules of human institutions even though the human agents may be typically unconscious of the rules, emphasizing what he calls 'background' nonintentional or preintentional capacities to cope with a complex world.

I emphasize more than Searle the permeation of power in the three elements to account for social reality: assignment of function, collective intentionality and constitutive rules. I will examine the power element in all these elements. As one should immediately see, the power element has to vary in these three elements of social reality.

When it comes to studies of international organizations such as the AIIB, liberal institutionalism is the approach that has committed most energy to its research agenda. The AIIB is an international organization. I endorse the basic arguments by liberal institutionalists that international organizations facilitate international cooperation by providing information, reducing transaction costs and allowing a longer-term perspective.²³ I am intellectually more comfortable with the earliest studies on international regimes.²⁴ Later IPE work on international institutions is heavily influenced by new institutionalism, which marginalizes power in favor of market transaction analogy. To be exact, current IPE research

on international organizations falls into either ‘credible commitment’ or ‘rational design.’²⁵ By contrast, I am interested in the power question related to the AIIB in this book. In particular, I want to examine how rising powers affect institutional landscapes, with a focus on East Asia. It is also important to realize that cooperation is far more complex than most IPE scholars have acknowledged in their work. For example, Mann devoted a whole chapter of his books on sources of social power to ‘the dialectics of compulsory cooperation.’²⁶ Mann has specific meaning for ‘compulsory cooperation’, but if we just use that phrase as it sounds, we can see its application in the contemporary world.²⁷ European integration was the early intellectual inspiration for studies of international cooperation. But the 13 July 2015 EU bailout deal with Greece was not a shining example of cooperation. Greece was coerced into an agreement not supported by its citizens. Thus, it is more important to understand how cooperation factors in the larger political ecology than simply how much occurs.

How do we calculate power? I do not believe that we should be obsessed with finding a universal, all-time and all-purpose measure of power. That is not logically possible given the twin-duality of power discussed earlier. It is certainly not possible for this book. Rather, we should seek a formula that is more appropriate for a particular time and a particular location.

One way to do this is to simply have four imagined computer screens in front of us, similar to the workstation of a broker. The screens include power as goal, power as instrument, power as intrinsic and power as observer-relative. There are surely relationships between them and one may indeed come up with algorithms to create a unified model relying on computer power. Yet one should keep in mind that any algorithm is necessarily based on past patterns. Consistent with evolutionary understanding of prediction, what we hope for and may find are laws that can be experimented with or tested with, but we cannot predict future evolution because of the presence of random factors.

Even without a supercomputer, humans have been able to make difficult decisions. That is because our brains are far more powerful than the best available artificial intelligence algorithms. Brain activities involve sophisticated and intelligent calculations that artificial intelligence researchers have yet to emulate. What is simple for a computer is often difficult for a human and what is simple for a human is often difficult for a computer. I would not be surprised that the brain situates calculations

like $1+1=2$ in a multidimensioned context. Moreover, we are socially wired to handle complex social reality. As Searle observes, ‘the complex structure of social reality is...weightless and invisible’. Complex social reality seems simple for us because ‘social reality is created by us for our purposes and seems as readily intelligible to us as those purposes themselves’.²⁸

I suggest that we focus on what seems to come ‘natural’ for the players in international relations. Recognition of being natural results from our observation of the past patterns. Things do not have to happen in a particular way. Thus, much of the intellectual energy poured into eliminating all possible alternatives to prove that only what actually happened could have happened without any doubt is futile.

Power and international order

The AIIB has rightly been framed as about international order. Hedley Bull’s conceptualization of international order has had a profound influence on IR scholars. Bull defines international order as ‘a pattern of activity that sustains the elementary of primary goals of the society of states, or international society’.²⁹ Bull is viewed as a founding member of the so-called English School of International Relations.³⁰ The English School of International Relations has also developed its distinct branch of International Political Economy compared to their American counterpart.³¹

The English School or British School of IR/IPE typically adheres to reductionist, interpretative and qualitative methods. This school of thought pays particular attention to institutions and history. In contrast to the American School, the English School values social contexts more and scientific methods less.³² Similar to the English School, I will provide a discussion of the East Asian international orders in the pages that follow as the historical and social context of current East Asian international relations and the AIIB.

Power is important in English School scholarship. Bull discussed the relationship between balance of power and international order. A particularly influential English School IPE scholar Susan Strange highlighted the connection between power and a reserve currency in her groundbreaking book *Sterling and British Policy*.³³ As will be discussed later, China’s AIIB initiative is connected with its yuan internationalization agenda.

One can imagine a title like *Yuan and Chinese Policy*, following a similar approach to great effect.

I differ from the English School mainly in believing that IR should be a scientific discipline.³⁴ After all, I follow an evolutionary approach. I assume that international order and what is composed of it continues to evolve, following scientific principles if not scientific laws.

Global finance and the sovereign state system

The AIIB is meant to be an intergovernmental financial institution. Thus, to understand the AIIB, one needs to have some theoretical understanding of the interaction between global finance and sovereign states. Financial markets emerged since before the modern sovereign states and then have coevolved powerfully. Intergovernmental institutions have largely been a phenomenon since the end of World War II. There is a debate over the nature and extent of financial globalization,³⁵ but there is no question that the global financial market now has an overwhelming presence, posing both challenges and opportunities for the sovereign states. In a well-known dilemma called ‘the impossible trinity’, one can only at most two of the three objectives. These include capital mobility, monetary policy autonomy and exchange rate stability.³⁶ For example, if one wants to benefit from the global financial market, one will need to liberalize capital control. This means that one would lose policy autonomy to some extent. If one wants to raise interest rate to fight inflation, that hike would lead to inflow of capital, defeating the original purpose of reducing the monetary supply.

Does that mean the state has diminished? Another way to ask about this is whether state power still matters. As discussed earlier, Susan Strange saw the importance of power in the British currency policy. From the American school, Stephen Krasner studied the power underlying and within international economic institutions.³⁷ More recently, Lloyd Gruber has discussed how the West-led international institutions have put pressure on other countries.³⁸ All these discussions are relevant for understanding the AIIB. I agree that the state has not diminished. Rather, the successful ones have adapted to the new global financial realities and continue to exert influence. The Chinese state has certainly not diminished. Consistent with my theorization of power, the Chinese state is both powerful and weak in the global financial market.

Another question is whether the states in the world have converged due to the financial market pressure. Robert Gilpin, a founding member of the IPE field in America, spent considerable time discussing the different national systems of political economy.³⁹ Gilpin's theorization of the national systems of political economy has had a strong influence on my research and teaching about East Asia and China. Gilpin actually explored the possibility of using an evolutionary approach to study the national systems but concluded that evolution was not a satisfactory approach for this topic.⁴⁰ I differ in that regard.

Going beyond the national systems, Peter Katzenstein has argued that regional orders remain at the center of world politics. To be exact, the contemporary international system can be characterized as an American imperium supported by key American allies in Europe and Asia, with regional orders established consistent with the nature of domestic institutions in the two regions, law in Europe and ethnic capitalism in Asia.⁴¹ The immediate implication of Katzenstein's arguments is that one can see why the United States would be concerned about the AIIB: any challenge to the East Asian regional order would potentially compromise its global imperium. At the same time, one can infer from a focus on regional orders that serious turmoil in several regions simultaneously would severely test American resources and potentially damage its world leadership position.

Before I turn to an even more abstract discussion of biogeography in the following section to provide a fundamental theoretical underpinning of my analysis in the book, I want to highlight how my previous discussion will help us understand the power stakes in the AIIB case, which I raised early in the chapter. China's AIIB initiative constitutes a challenge to the status quo powers such as the United States and Japan. It should be understood as a power move to increase its influence in Asia and the world based on its growing financial power. China has been successful so far also because most countries have seemingly accepted the new social reality of China building its own financial development institution just like the United States and Japan before it. China's power is limited at the same time, reflected both in its need to involve more member countries, which will weaken its relative power in the bank, and in strong push-back on some of China's other initiatives such as the land reclamation projects in the South China Sea. The AIIB itself does not represent a major departure from the existing international financial order, but it came from a nondemocratic country that has a state capitalist version of

political economy, different from the United States and Western Europe. Thus, the way China is rather than the establishment of the AIIB itself affects the international order. More broadly, China's long traditions can be expected to affect its goals and use of power. All these points will be fleshed out empirically in the following chapters.

Biogeography

I agree with Katzenstein that geography or how international relations are constituted in different regions is crucial for understanding international relations. To better understand how evolution and geography have impacted international relations, I turn to biogeography. Biogeography is a recently recognized scientific discipline that studies the geographical distributions and patterns of diversity of living things.⁴² Physical scientists ask a single question of how something works. By contrast, biology, from which biogeography draws, asks an additional question of its purpose. Biology offers both causal and functional explanations, which are not mutually exclusive.⁴³

Biogeography has been recognized as a distinct scientific discipline only in the past few decades, but it traces its intellectual origins to scientists such as Charles Darwin, Alfred R. Wallace and Alfred Wegener. Contemporary biogeographers include Edward O. Wilson and Jared M. Diamond. The discipline combines knowledge from geography, ecology and evolution.⁴⁴ Biogeography is a rapidly evolving and diverse field. Two main approaches are 'ecological biogeography' and 'historical biogeography'. Ecological biogeography 'analyzes patterns at the species or population level, at small spatial and temporal scales, accounting for distributions in terms of biotic and abiotic interactions that happen in short periods of time'. Historical biogeography 'analyzes patterns of species and supraspecific taxa, at large spatial and temporal scales, being more interested in processes that happen over long periods of time'.⁴⁵

Biogeography is more suitable than physical sciences for PS and IR. Humans are part of the living world. The questions we ask should be similar to those asked by biologists because we should want to know the purpose of any system of living things. Biogeography uses a constitutive logic that our theoretically based descriptive studies are cumulative for scientific study. Biogeography is an all-encompassing grand theory for the history of life on earth. Biogeography is a more proven scientific

discipline than economics. Biogeography asks really big questions, which offer a needed corrective to the current tendency of political scientists to focus on narrow topics. Biogeography opens new frontiers of research.

Biological and geographical approaches have been adopted by some in PS and IR,⁴⁶ but biogeography has largely been absent. A keyword search of the Social Science Index produces few articles mentioning biogeography let alone treating it as a central theme.⁴⁷ A handful of scholars, mostly outside the United States, have used biogeography to study early state formation and long-term economic development.⁴⁸ This book cannot provide full coverage of a field as diverse as biogeography and offers instead a sample of basic principles and theories in the following paragraphs.

The origin and dispersal of living things is a central concern for biogeography, which is highly relevant for studies of political institutions. Alfred Wallace, a central scholar in creating the discipline of biogeography, advocated for a list of 17 biogeographic principles. Several are relevant here. Principle 1: ‘Distance by itself does not determine the degree of biogeographic affinity between two regions; widely separated areas may share many similar taxa at the generic or familial level whereas those very close may show marked differences—even anomalous patterns’. Principle 3: ‘Prerequisites for determining biogeographic patterns are detailed knowledge of all distributions of organisms throughout the world, a true and natural classification of organisms, acceptance of the theory of evolution, detailed knowledge of extinct forms, and sufficient knowledge of the ocean floor and stratigraphy to reconstruct past geological concerns between landmasses’. Principle 6: ‘Competition, predation, and other biotic factors play determining roles in the distribution, dispersal, and extinction of animals and plants’. Principle 8: ‘Speciation may occur through geographic isolation of populations that subsequently become adapted to local climate and habitat’. Principle 10: ‘Long-distance dispersal is not only possible but is also the probable means of colonization of distant islands across ocean barriers; some taxa have a greater capacity to cross such barriers than others’.⁴⁹

We need to address a larger question of how we should determine the degree and nature of similarities and differences between political systems. Functional equivalents are not necessarily indications of similar structures. As Alexander Rosenberg noted, biology produces weaker generalization than physical sciences because the mechanism of natural selection chooses for effects, which means ‘*it cannot discriminate between differing structures with identical effects*’. Rosenberg noted that ‘functional

equivalence combined with structural difference will always increase as physical combinations become larger and more physically differentiated from one another.⁵⁰ It is therefore difficult to differentiate political systems if they exhibit functional equivalency and more so with greater complexity in the political system. Put simply, if two states have produced similar results in any functional arenas such as economic growth or central banking or public educational achievement, we cannot conclude that the two belong to the same category of political institutions. From an evolutionary perspective, different animals may have similar forms in different places due to a process known as ‘convergent evolution’: ‘Species that live in similar habitats will experience similar selection pressure from their environment, so they may evolve similar adaptations, or converge’.⁵¹

My discussion of functional equivalency earlier also provides a logical reason for suggesting a ‘nonreciprocal principle’. Although a desirable political regime may produce desirable outcomes the presence of desirable outcomes does not mean the political regime that has produced such outcomes is desirable. Similar outcomes may result from different political regimes. Thus, a political regime should be judged with political philosophy. Aristotle himself wanted to measure constitutions by comparing them to ideal types that draw from political theory. If one insists on basing judgment of two systems empirically, one needs to at least place the similar effects in the larger context of all the effects from the two systems and all their ramifications for the whole ecosystems.

To help understand the taxonomy of political institutions, we should differentiate ‘analogy’ from ‘homology’.⁵² Mario von Cranach defined analogy as two systems having ‘something in common without being related’ and homology as two systems having a common ancestor or similarity based on information passing from one to the other.⁵³ Functionally similar political regimes may be merely analogies, which provide only a partial basis for comparison.

What difference does it make whether a functional institution is home-grown or grafted? In some ways, there is little difference, particularly if researchers focus on a narrow functional issue. One may also argue that every single contemporary political regime is some sort of hybrid. Functionally equivalent institutional components may be found in very different political regimes. This may indicate a gradual convergence of these political regimes or the pathways for them to converge. However, I argue that it is logically important to differentiate institutional features based on lineage or learning.

First, there is a larger question of how functionally similar component institutions fit in different political ecosystems. We thus need to examine the interaction effect between similar institutional components and dissimilar ones in different political systems. There can be different types of interaction such as competitive, repelling or compatible interaction. I suggest a principle rather than a law here. What types of interactions exist between native and learned institutional components and what consequences we should expect are both empirical questions. For example, an electoral system introduced into different political systems should lead to different interaction effects. One could readily observe this on the ground. It is thus important to look at different political regimes directly and fit functional adaptations in them. Simply comparing and contrasting these adaptations across the cases without thinking hard about the larger context is insufficient. As a case in point, democratic institutions are logically possible in the Islamic countries and empirically proven in some cases. However, democracy interacts differently with traditional institutions in the Islamic countries than those in the Western Christian countries. Islamic and Christian countries so far have produced divergent political paths.

Second, the interaction effect discussed earlier relates to an equilibrium effect. Introduction of novel institutions constitutes a shock to the political equilibrium. This equilibrium could have already been shaken as a reason for the introduction in the first place. The new institutions could serve a channeling role for institutional learning but the outcomes of political change are not predetermined.

Third, organically developed institutions tend to have greater resilience than borrowed ones. This is partly due to the fact that the surviving institutions have passed the tests of interaction and political equilibrium effects. Moreover, native political institutions are associated with powerful nationalist sentiment in modern times.

Ultimately, there is no logical reason for all political institutions to blend over time into a single winning system. Such an outcome is not impossible but is highly unlikely partly due to the entrenched political traditions that have different origins. Figure 1.1 illustrates two possible historical trajectories, with A as a convergent trajectory and B as a briefly overlapping but ultimately divergent model. Other possible trajectories exist.

In short, to understand types of political institutions, we cannot simply look at their functions. Any conclusion that lumps analogies and homologies is bound to be limiting and potentially misleading if it is

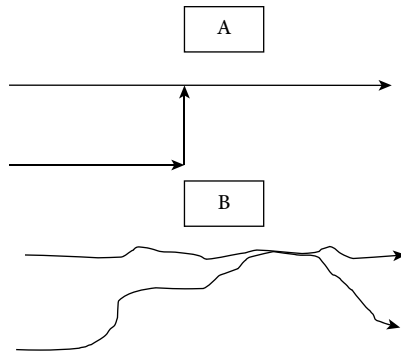


FIGURE 1.1 *Convergent versus divergent historical trajectories*

used to answer questions such as the sustainability of a political regime. Biologists and biogeographers have gone beyond taxonomy to systematics, which also studies the evolutionary histories and environmental adaptations of different living organisms.

I will apply biogeographical analysis to the study of the AIIB in the following chapters. Fundamentally, like any living being, an institution has its own origin and lineage, which are consequential politically. Chapter 2 offers a broad discussion of evolving political institutions in the world, classifying them in a crude cladistic tree and mapping them geographically. Chapter 3 focuses on how China has been constructing the AIIB using both material and ideational resources at its disposal and situates that initiative in the Chinese system of political economy. Put simply, power is constructed within a particular national system of political economy. Thus, a China-led order would be naturally different from a US-led order even if the AIIB is compatible with the existing international order. Chapter 4 shows how the AIIB is a functional equivalent of existing international financial institutions such as the World Bank and the ADB, a hybrid nested to them. The chapter also demonstrates how to measure institutional similarities and differences between the AIIB and the two existing development banks.

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2

The East Asian International Orders

Abstract: *Wan provides a broad historical institutional account of world political development to contextualize East Asian international relations and the AIIB. There have been entrenched civilizational centers in the Eurasian continent, with China as one of them. With their distinct evolutionary paths, the traditional centers of civilization have had difficulty adapting to democratic institutions and the trend continues. A major institutional development may be simply a functional equivalent resulting from convergent evolution or borrowing from competitors. Political lineage matters in that it dictates distinct mixtures of unique and universal ideational forces and gives clues about the interaction effect. All the civilizational centers view power acquisition as a central objective and use power broadly understood as policy instrument. The AIIB is a symbol of that historical trend.*

Keywords: AIIB; China; civilizations; democratization; East Asian international relations; political lineages

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For the past two millennia East Asia has gone through three stages of international orders. These include the Chinese world order, modern imperialism of the Western powers and Japan and American hegemony. The Chinese world order lasted for about two millennia until the mid-nineteenth century. Different from the Westphalian international system, the Chinese world order was hierarchical and morality-based. It operated as a tributary system with China on top most of the time. The Europeans arrived in East Asia in the early sixteenth century but came to dominate in all East Asia only after destroying the Chinese world order in the late nineteenth century. Modern imperialism lasted less than a century in East Asia, although much longer in Southeast Asia. European powers forced modern sovereign states and capitalist economy on East Asia, operating in a treaty system of open ports and extraterritoriality. Much of East Asia was colonized in a legally equal Westphalian system. As an exception, Japan embraced reforms after the Meiji Restoration of 1868 and grew quickly to join the rank of the imperialist powers after 1895. American hegemony established after World War II is now 70 years old and counting.¹ American hegemony differs from modern imperialism in that it is a liberal democratic order. However, it shares the same traditions as modern European imperialism. American hegemony of course goes beyond East Asia. Yet the United States chose to emphasize multilateralism in Europe and bilateralism in East Asia.²

Four features stand out in the East Asian international orders for the past two millennia. First, East Asia had a long international relations tradition distinct from that of the West. In all actuality, East Asia has really experienced two international orders, one distinctly Asian and the other Western. Both Western imperialism and American hegemony are integral to the Westphalian system. Japan sought to establish its dominance combining Western and Asian elements but failed.

Like every other Asian people, the Chinese are proud of their traditions, which they commonly refer to as ‘the world’s longest continuous history’. They generally view China as the most important and powerful country in Asia for much of the past two millennia and have a strong sense of entitlement to be Asia’s leader again. That partly explains their confidence in creating and leading the AIIB.

When Chinese seek to construct social reality, they necessarily draw from their long traditions, although it is an empirical question how much and in what way they may do so. On the basis of my past research, I hold the view that the fact that China had a long distinct tradition does not

mean that Chinese will necessarily favor them over modern experience.³ Rather, they can draw from a combination of traditions that are different from those of other distinct historical regions such as the Middle East and Europe. Put simply, they can realistically construct social reality that is partially distinct. How much a particular tradition will be emphasized is another empirical question.

Second, the pace of change in the East Asian international orders has accelerated. While contemporaries and historians will see dramatic events and transformations within the Chinese world order, what will strike observers is how stable the system was from a historical comparative perspective. We can argue rightly that the seeds for change were already present within the Chinese world order, but there is no doubt that the catalyst came from the West. East Asia has experienced a highly volatile period of reforms, revolutions and revolts. The greater competitive nature of the East Asian international relations and indeed the world international system results largely from the fact that a politically fragmented Europe was particularly competitive, which led to innovations

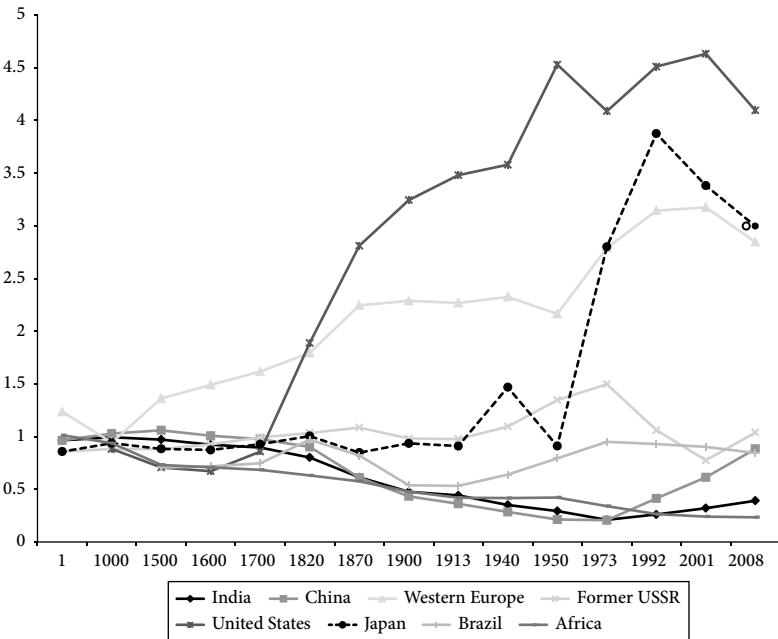


FIGURE 2.1 Achievement gaps in the world

Source: Wan, 'Back to Nature', 403.

that eventually paved the way for Europe to dominate the world and accelerate competition globally in the process.

Growing competitiveness of the modern international system results from and feeds back into innovative technologies and institutions. For the first time in human history, we see a huge gap in performance by different regions. As Angus Maddison has shown in his meticulously gathered historical economic statistics, all the regions in the world had similar GDP per capita until about 1700.⁴ I have argued previously that if we make a simple manipulation of calculating a country's relative size of GDP divided by its relative size of population, we observe an even sharper 'achievement gap' between the West and the rest. I argue that such a sustained large gap is 'unnatural' and therefore inherently unstable structurally.⁵

The competitive nature of the international system is far easier to measure and forecast than individual choices. My own prediction is that it should be less competitive and more stable. Emerging powers like China and India have a large share of world population. Thus it is mathematically impossible for them to reach the height of achievement by Western Europe, the United States and Japan. The rise of the rest means a long-term trend to move 'back to nature'.⁶ At the same time, how the international order is being constructed right now is profoundly important. There are reasons to be concerned about the general trends in East Asia.

Countries may respond to increased tension in different ways. East Asia does not have a simple story of West advances and East responds. The non-Western regions throughout the world faced similar challenges. Yet East Asia is unique in that there were a few key countries such as Japan and China that were not fully colonized by the West. This ensured a degree of institutional continuity and national unity.

Third, power as a goal is prevalent in the strategic thinking in the policy communities throughout East Asia. Power has always been intuitively understood broadly in the region despite much intellectual effort to alter this understanding. Power has certainly been important for the West, particularly at the start of the encounter when the West demonstrated its superior brutal force.

Fourth, non-Western peoples have been expected to conform to the Western international norms, standards and legal rules. Thus, scholars have studied how West-defined and West-led international society has expanded from Europe to the rest of the world, not necessarily

endorsing the historical trend.⁷ These evolving Western norms and standards constitute the contemporary international system and have been highly consequential. Take East Asia, for example. Japan learned early on that it could increase its power and elevate its international standing by adopting at least the trappings of international norms and legality. Japan also gained a significant strategic advantage and utilized that advantage to the full vis-à-vis its Asian neighbors that were not as quick in adapting to the new international realities.

The branching of the political institutions in the world

My discussion in the previous pages provides enough historical context for basic analysis. However, the AIIB has been viewed as indicative of larger historical trends. It is appropriate then to provide such a background consistent with my biogeographical analytical framework. First of all, I propose a systematics of political institutions that emphasizes lineages of political institutions. This is not a novel idea since political scientists have been discussing ‘political traditions’. I am not suggesting that lineages are all that truly matter. Traditions are not destiny and people change all the time. It is entirely possible that later adaptations and learning trump the ancient traditions. Yet it is important conceptually to recognize origins and evolution. The importance of this can be assessed empirically. It is better to start with political lineages than from an assumed universal category.

Figure 2.2 provides a rough cladistic tree of the early branching of political traditions. The tree starts with the *Homo sapiens* migrating from Africa to the rest of the world from 120,000 to 60,000 BP (before present). *Homo sapiens* first reached the Middle East and North Africa. They then branched out in two main directions, one eastward bending along the shores of the Indian Ocean to South Asia, Southeast Asia, and Australia, and the other northward to Eastern Europe and then eastward to Northeast Asia and the Americas. Around Eastern Europe, one group turned westward, joined by some from the eastern branch, moving into Western Europe. It is difficult to know what social institutions the ancestors of modern humans possessed. While we may assume that the *Homo sapiens* who left Africa in relatively small numbers must have had a single social form at start, their social institutions must have evolved to diversify greatly due to the different ecological environments they encountered,

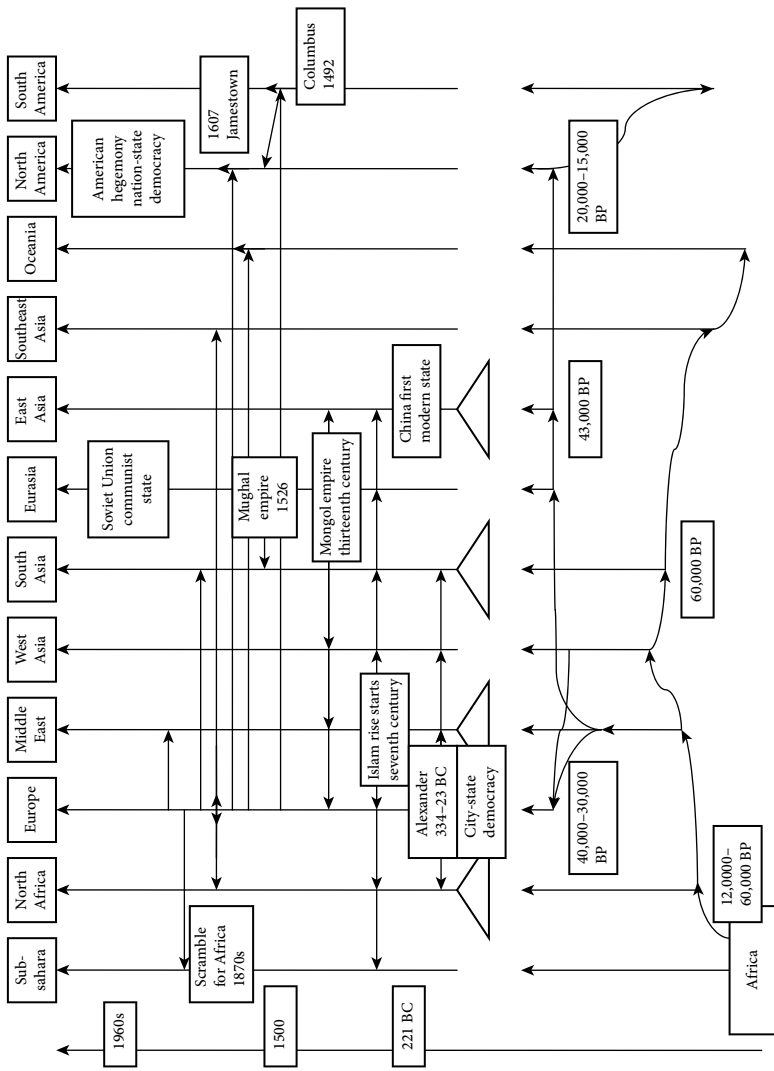


FIGURE 2.2 *Evolving political institutions*
 Note: The basic starting branching off followed the genotype study by Zhivotovsky et al. (2003).

the natural organizational drift that came from generational change and the physical distance between communities that spread thinly across the world.

Social barriers were also likely to be present when different lifestyles shaped by different ecological environments came into contact with one another. A German research team recently found the presence of farmer immigrants from the Near East and indigenous hunter-gatherers in Central Europe in the same cave. They conducted an analysis of bone DNA and isotopes that helped determine different dietary habits between the two groups. The team found that even though the two groups shared the same burial site for 400–600 years they did not interbreed.⁸ That fascinating scientific finding suggests the possibility that cultural norms were stronger then than now. This example also gives us some reasons to ponder the meaning of science. The finding was published in *Science*, one of the most prestigious science journals in the world. Yet suppose social scientists had access to the communities in the cave and conducted field research. They then discovered that the two groups refused to mingle even though they lived in close proximity due to strong social barriers resulting from different lifestyles. I doubt that *Science* would consider publishing that finding. However, the social science project is not inherently inferior to the natural science project. The natural science project is not based on a controlled experiment. Scientists cannot ethically and practically put two groups in the same location for a few centuries to test how they interact, nor can we predict that they would behave the same way as the cave people studied in the project. While the methods used are more precise and reliable, the science project can only infer about the social barriers. By contrast, social scientists can study the social structure directly and are not prevented from conducting DNA tests to see if interviewees are telling the truth. In the end, we need to think hard about what counts as science broadly. As Jared Diamond has noted, science is about ‘the acquisition of reliable knowledge about the world.’⁹ Put simply, rather than worrying whether one’s research looks scientific, one should ask first whether reliable knowledge has been acquired.

We do not yet have sufficient evidence to make a definitive argument about the nature and evolution of prehistorical political institutions. Thus, I have left a gap in Figure 2.2, restarting the tree a few thousand years BC. The figure does not capture the richness and dynamic of world political history. It is a rough sketch of origins, evolutions and interactions of political institutions.

Figure 2.2 illustrates four traditional civilizational centers, highlighted with triangular bases, in the lower reaches of the Nile River in North Africa, in the Tigris and Euphrates river basin, in the Indus Valley in South Asia and in the region of the Yellow River and Yangtze River in East Asia. Civilizational centers in Greece, Iran, Sub-Saharan Africa and the Americas have been suggested as equally important.¹⁰ But the four centers mentioned are the most accepted origins of civilizations. They emerged in greater Eurasia from North Africa to East Asia, with China the most distant in the group.

Since the AIIB is partially framed as a contest between a democratic United States and an alternative authoritarian China, I want to pay special attention to democracy as political institution in world history. Democracy did not organically evolve in these four traditional centers. It remains the case that the ‘cores’ of these regions are the most resistant to democratization. The Polity IV dataset shows¹¹ that Iraq started with a -4 in 1924 and continued to deteriorate to an autocratic regime in 1968, to a low -9 in 1979 that lasted until 2002. It had 78-year durability since 1924, which accounted for the whole period. Despite the US occupation partially meant to install democracy from 2003 to 2009, an independent Iraq ranked a nondemocratic 3 in 2010. Few expect democracy to be established in that country any time soon. Syria did better in the 1940s and 1950s but had a low from -7 to -9 since 1963. Egypt also started better than Iraq, scoring 4 in 1922. The country became nondemocratic in 1929, improved from 1935 to 1951, was again nondemocratic from 1952 to 2005 and improved again for the next few years until it achieved a brief electoral democracy. Yet the country is back to autocracy. China was independent throughout the 1800–2012 period but was nondemocratic (-6) from 1800 to 1910. With the Republican Revolution in 1911, China became less nondemocratic for a few years and then settled into a low -5 from 1914 to 1936. China was in a war situation from 1937 to 1945 and then assumed the low -5 from 1946 to 1948. The People’s Republic of China founded in 1949 has been solidly nondemocratic until now. India is a major exception due to its long, direct and intense British colonial administration, with high democracy scores almost continuously since 1950. In short, the ‘natural political tendencies’ of the traditional civilizational centers are nondemocratic.

Building on the cladistic figure in Figure 2.2 about the lineages of political institutions, Table 2.1 illustrates the systematics of political regimes, which puts democracy in a larger context. The table considers geographical

TABLE 2.1 Systematics of political regimes

	Location	Time period	Innovations	Learning
Mesopotamia	Middle East	3,100–539 BC	Writing, cities, temples, stratification	Pristine
Islam	Arabian peninsula	613 AD–present	Universal values, integrating religion and politics	Novel
Egypt	North Africa	3,000–31 BC	Writing, cities, temples, stratification	Pristine
Indus Valley	South Asia	2,300–2,000 BC	Writing un-deciphered, cities, temples, stratification	Pristine
Shang China	East Asia	1,600–1,046 BC	Writing, cities, temples, stratification	Pristine
Modern state	China	221 BC–present	Centralized bureaucracy, civil service	Novel
Minoan Crete	Mediterranean	2,500–1,425 BC	Writing un-deciphered, cities, temples	Diffusion from Middle East?
Democracy city-state	Athens, Greece	507 BC–322 BC	Town hall deliberation, government by eligible males	Novel
Mesoamerica (Maya)	Central America	AD 250–900	Neolithic age tool technologies, stratification, ceremonial centers, writing, the Long Count calendar	Pristine
Peru	South America	AD 500–700	Neolithic age tool technologies, redistributive states	Pristine
Inca		AD 1400–1430	Writing equivalent, theocratic state, centralized administration	Novel
Sovereign states	Western Europe	1648–present	Sovereignty, territoriality	Novel
Democracy, nation-state	United States	1828–present	Federalism, government by people, for people, of people	Novel
Authoritarianism	Europe and elsewhere	Fifteenth century–present	Rule by individuals or a small group, limited political pluralism	Partly novel
Totalitarianism–fascism, Nazism	Italy, German	1910s	Ideology, single party, mass mobilization	Novel
Totalitarianism–Communism	Russia	1917	Ideology, single party, mass mobilization	Novel

locations, time periods, institutional innovations and learning. I also group institutional innovations around their lineages in this table.

Table 2.1 shows that it makes sense to focus on the lineage of political institutions as the starting point for analyzing democratic expansion. This should not be surprising for earlier scholars who put much emphasis on political traditions. Anyone who has done field research should also know the importance of such political lineage and evolution.

Democracy started on a small scale, as a city-state political innovation in Greece about five centuries BC, and lasted fewer than 200 years. Democracy was an institutional mutation. As Francis Fukuyama has pointed out, it is extremely difficult to have all three basic institutions for a modern liberal democracy, namely, the state, the rule of law and accountable government. Democracy was 'unnatural' because people naturally attach to their kin. How do we explain the origin of democracy then? From a functional perspective, Fukuyama has reasoned that the political institutions of the state, the rule of law and accountable government 'come into being in the first place because people find that they can protect their interests, and the interests of their families through them.'¹² Self-interest and legitimacy thus form the basis of political order.

We need an evolutionary explanation rather than a physical science-type causal explanation. The fact that things happened the way they did is a fact that needs to be explained, but the type of explanation we come up with does not mean things would happen again the same way even if conditions were similar.

Democracy was innovated earlier than the modern state, which emerged in China in 221 BC building on the practices and ideologies developed earlier. Fukuyama is right that, to have a modern state, one had to create a system that could handle a large population. China created a centralized bureaucracy to rule a large empire without relying on the nobility that might challenge the emperor's absolute authority. The Chinese system combined self-interest and Confucian legitimacy. The Chinese imperial system was more successful than Athenian democracy, judging by the space occupied and the time span. The Chinese bureaucratic imperial system lasted until 1911, albeit with periodic chaos and system breakdowns. Both the Chinese and Greek systems enjoyed hegemonic influence, with the Chinese influencing the political systems and cultures around it and the Greek civilization influencing the Roman Republic. One may say that Greek democracy has the last laugh but the Chinese system remains strong.

Scale matters. China had an estimated population of 20 million around 221 BC.¹³ However, one cannot infer a definitive institutional response to demographic dynamics. The other three traditional centers of urban civilizations also had sizable populations, although they were more difficult to estimate than in China. China arguably has richer historical demographic information than other ancient civilizations.¹⁴ We know that they all had well-developed cities with populations of tens of thousands much earlier than in China.¹⁵ According to one estimate, about half a million people lived in Southern Mesopotamia at the start of history, sharing language, writing and culture.¹⁶ It is also reasonable to assume that South Asia had a population size more or less similar to that of East Asia, which remained the case throughout recorded human history.¹⁷ The biggest urban concentration in Minoan Crete was estimated at 50,000 residents.¹⁸ Existing around the same time as the Chinese empire, the Roman Empire did not create a uniform administrative system for its empire.¹⁹ Western Europe had a larger absolute population at 62.6 million in 1600²⁰ than China in 221 BC, but a modern international system of sovereign states emerged in Europe. Thus, scale operates in interaction with time and space.

The traditional systems were all different from one another even though they shared some common features such as cities, written languages, craftsmanship and social organizations.²¹ Political institutions did not develop in a linear fashion. Both the Greek democracy and Chinese centralized bureaucracy represented institutional revolutions. If we believe it is desirable to have democracy and modern states, it is then the case that not all good things happen in only one civilization. We did not have all origins of novel political institutions from a single lineage. New institutions should be compared to their contemporary alternatives as well as against previous institutions.²² Democracy did not arise from any of the earlier pristine political traditions and lasted only for a short historical time on a small scale.

Scholars from Western democracies have dominated contemporary political science. It is not surprising then that we have a democracy-centered typology of political institutions. Authoritarian and totalitarian regimes are simply defined as regimes that deprive citizens of their political freedom. Some leading comparative scholars have already warned about this tendency in Western scholarship.²³ People are interested in these nondemocratic regimes also because they are a threat to democracy and should be replaced with democracy for the benefit of all. Not

nearly as much consideration has been given to those failed or failing states that are difficult to characterize.

Earlier political scientists who studied political institutions thoroughly often found it difficult to classify them, for good reasons. For Juan Linz, totalitarianism refers to a system that has the following characteristics: 'an ideology, a single mass party and other mobilizing organizations, and concentrated power in an individual and his collaborators or a small group that is not accountable to any large constituency and cannot be dislodged from power by institutionalized, peaceful means'.²⁴ By contrast, authoritarianism refers to a political system 'with limited, not responsible, political pluralism, without elaborate and guiding ideology, but with distinctive mentalities, without extensive nor intensive political mobilization, except at some points in their development, and in which a leader or occasionally a small group exercises power within formally ill-defined limits but actually quite predictable ones'. Yet Linz observed that various other types of political institutions do not fit well in this three-way classifying scheme, such as militaristic Japan in the 1930–1940s and Fidel Castro's Cuba. There are traditional authority and personal rulership (particularly Sultanistic) regimes that are different from modern authoritarian regimes. In fact, it is difficult to differentiate even fascist, Nazi and communist regimes, which are often lumped together as totalitarian. Authoritarianism could be found next to Athens in Greece, and nation-state authoritarianism arguably originated earlier than modern democracy. It differed from personalized dictatorships by acquiring some representative institutions, and thus it was not an institutional reaction to democracy that was nonexistent at that time. In a way, the authoritarianism we observe now is a form of modern government that evolved from different sources and it is strongly associated with a country's modernization drive. By contrast, totalitarianism was created in the early twentieth century to address acute economic, social and political crises.²⁵

The typology of political institutions is indeed difficult. As for any classifying system, judgment has to be made about the categories and similarities or differences between those being classified. A clearer classification may result from viewing these institutions as historical phenomena. It is then crucial to trace the lineage of any particular type of political institutions as embedded in the nations involved. The next step is to determine whether functionally similar features of different lineages have resulted from learning and diffusion. It is acceptable in

my view to lump together functionally similar systems from different lineages for any appropriate analytical task, but one has to recognize the inherent limitation in that intellectual effort.

A halting expansion of democracy

A consensus exists about the lineage of democracy. Democracy was not revived after the Athenian experience until two millennia later. The United States built a nation-state democracy first. Some scholars have argued that the United States founded in 1776 did not yet meet the minimal democratic criteria. Samuel Huntington, for example, stated that the United States became a minimal democracy around 1828 when more than half of the male adult population gained the right to vote and when the chief executive was chosen by a majority in a parliament or by a periodic popular vote.²⁶ There was no genetic or environmental reason for the new United States to establish a democratic regime. Great Britain, the mother country for most early immigrants to the colonies that formed the basis of the United States, was not a democracy. There were nondemocratic colonies from other European powers in the new world as well. Since the early nineteenth century, democracy has expanded albeit not in a straight line. Dahl traced the expansion of democracies from merely 1 (out of the 37 countries in the world) in 1860 to 65 (out of 192) in 1990.²⁷ By 2000 Freedom House counted 120 countries as democratic. However, democracy has experienced some setbacks since then.

Figure 2.3 illustrates the halting expansion of democracy over time, both absolutely and relatively. Only the United States was a democracy from 1809 to 1847. Democracy slowly expanded after 1848, suffering a major setback in the 1930s and 1940s. It then shot up in the postwar era. Democracy has gained ground relative to other political regimes. Starting around the turn of the twentieth century, autocracies reversed their previous losses and kept pace with democracies. They gained significantly in the 1930s–1940s. They far outnumbered democracies for three decades after the end of the 1950s but suffered a major decline with the end of the cold war. Yet democracy has not scored a complete victory. It only accounts for half of the countries measured.

An increasing share of the world population lives in democracies. Only the United States was a democracy in 1828, with a population of 12.6 million or merely 1.2 percent of the world total. There were 32

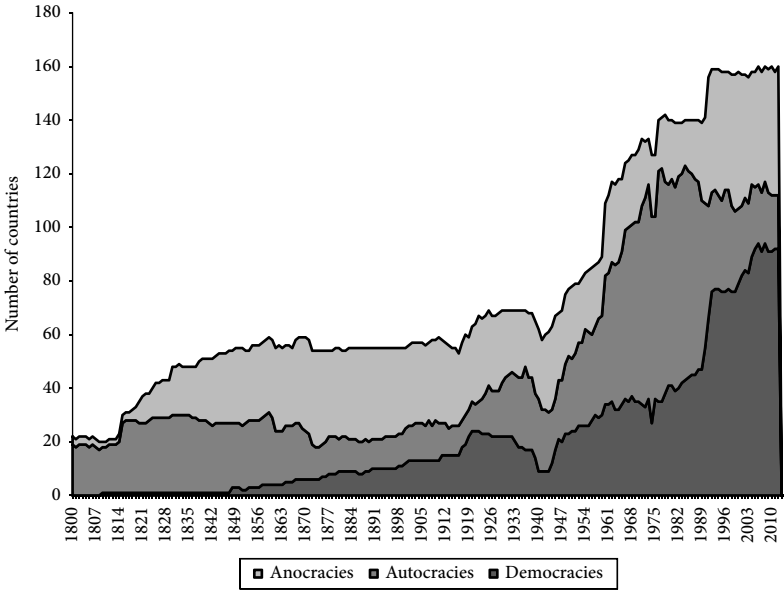


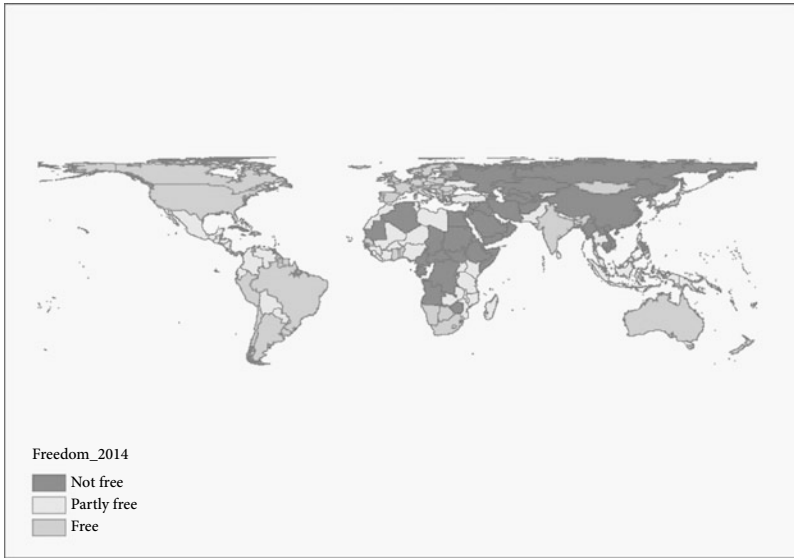
FIGURE 2.3 *Democratic expansion, 1809–2012*

Note: Scores from -10 to -6 indicate autocracies, 6–10 correspond to democracies and from -5 to 5 show ‘anocracies,’ which refer to polities that lack power or control (Gurr 1974, 1487). The total number of states does not include some countries not scored for various reasons for particular years.

Source: Marshall et al. (2013).

democracies totaling 536.6 million (28.8 percent of world population) in 1926, 52 democratic and semidemocratic countries totaling 1,593.3 million (50.8 percent) in 1962; an even larger share of the world population came to live in democracies later on.²⁸ According to Freedom House calculations, 88 countries (45 percent of the world total) were free, 59 countries partly free and 48 countries not free in 2013. As shares of world population, 40 percent lived free, 25 percent partly free and 35 percent not free.²⁹

The chart in Figure 2.3 does not take into consideration the geographic distribution of democracies over time. Map 2.1 charts the geographic distribution of the countries in the world based on the three Freedom House categories of free, partly free and not free. Democracies are free. Democracy gained much ground by 2014, prevailing in the Americas, Europe, Oceania, South Asia and the southern tip of Africa. At the same time, the map reveals a pistol-shaped nondemocratic greater Eurasia



MAP 2.1 *Distribution of freedom in the world*

Note: This is an equal area map based on ESRI, World Cylindrical Equal Area. ArcGIS10.1 mapping software is used.

Source: Freedom House (2014b).

heartland that stretches from Algeria to China and also reaches down to a nondemocratic heart in the African continent.

Huntington discussed three waves of democratization. The first wave began in 1828 and ended in 1926 with 33 democracies, with a reverse wave from 1922 to 1942. The second wave spanning from 1943 to 1962 increased the number of democracies to 52 and was stopped by a reverse wave from 1958 to 1975. The third wave began on April 25, 1974, in the Portuguese capital and lasted until 1990.³⁰ Larry Diamond built upon Huntington's waves of democracy in his book *Spirit of Democracy*, adding another burst to the third wave from 1989 to the middle of the first decade in the twenty-first century.³¹

The waves of democracy take place in time and space, following a pattern of diffusion. It is interesting to see where democratic break-outs happen and how and where democracy spreads. There should be hidden or not-so-hidden barriers shaping the pattern of distribution of democratization.

All three waves of democracy started from the West and were most successful in European countries, former British settlements, Latin

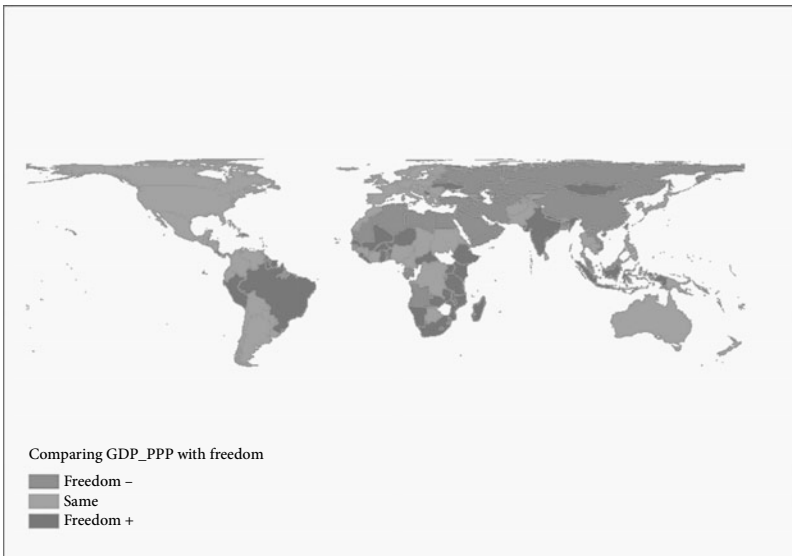
America, US-defeated countries and Western colonies. If one traces the waves in Map 2.1, one should see that these waves do not always spread continuously from one place to its proximity. They often exhibit a long-distance dispersal pattern. The first wave moved within the Anglo-American world, from North America to Europe to Australia. There was some proximity effect as democracy also spread to France and some small European countries, although one may say that France was also a source of democratic inspiration in its own right. The second wave was dominated by the United States when it installed democracy in the defeated nations in Europe and East Asia. Some Latin American countries flirted with democracy as well. The third wave started on the southern edge of Europe, reflecting internal dynamics and the promotion of democracy by Western Europe and the United States. The third wave was a more global diffusion, exhibiting both proximity effect and long-distance dispersal.

To understand the waves of democracy, we should not train our eyes only to the waves but also to the global geography. Democracies march or retreat against various types of political regimes. Thus, we should pay attention to background political ecosystems. As shown in the cladistic tree of political institutions in Figure 2.2, a different image would emerge if we focus on the traditional core civilizational zones. There is a pistol-shaped nondemocratic zone across the Greater Eurasian landscape. This is a resilient zone revealed in various angles. Only India has a strong democracy among the traditional civilizations. India was under British rule from the late 1700s to 1947. Fukuyama has also shown that Indian society had evolved in such a way that it did not allow a strong centralized state to emerge unlike in China.³²

A common view holds that economic growth is conducive to democratization. But as Map 2.2 shows, the Eurasian pistol largely holds true even if some countries in the zone have achieved economic growth. This map is designed to reveal the inconsistency between the level of political freedom and the level of economic development. A layer of economic growth information is superimposed on the political freedom layer. Green is used for countries that are consistently high, medium or low in both categories, such as the United States and Pakistan. Blue marks countries that have higher levels of political freedom than levels of economic growth, such as India and Brazil. Red is used for countries that rank lower politically than economically. The conservative pistol-shaped corridor corresponds with the distribution of ancient political

centers. Except India, none of the four ancient civilization centers is now a democracy. China stands out in particular with its rapid economic growth. In fact, China is providing a negative lesson about democracy for some developing countries.

One may ask why we see such a democracy-resistant zone. Underlying that specific question is a more fundamental question: why does democracy not triumph more easily if it is such a good system? Biogeographers ask similar fundamental questions about nature: ‘why hasn’t biotic interchange been more complete? What processes are responsible for the preservation of biogeographic provincialism, especially in organisms that are good dispersers?’. The answer is: ‘Since biotic interchange is due to dispersal and subsequent ecological success, the maintenance of provincialism must be due largely to some combination of continued isolation and resistance to invasion.’³³ The same is true for patterns of the dispersal of political institutions.



MAP 2.2 *Freedom versus economic development in the world*

Note: An equal area base map is from ESRI, World Cylindrical Equal Area. ArcGIS 10.1 mapping software is used. The GDP per capita (PPP) data are broken into seven natural breaks. The seven intervals are then consolidated into three to be comparable to the freedom data. A new classification is as follows: low (\$0–\$2,239), middle (\$2,240–\$12,584) and high (\$12,585–\$78,357).

Source: Freedom House (2014b); International Monetary Fund (2009).

Geographic isolation helps create political ‘provincialism’. The pre-Columbian American institutions were dramatically different from the Eurasian ones, a rare case of vicariance in political institutions resulting from humans migrating to the Americas who then became physically separated from the old world.³⁴ Vicariance, a biogeographic concept, means that a geographical separation of a population, which creates a physical barrier, leads to the emergence of two related but separate species.

Despite modern technologies, geography still matters, more so than most people realize. A country that has strategic depth horizontally or vertically is difficult to penetrate. Russia is large and other countries cannot do much about it. Afghanistan has difficult mountains for conquerors. The greater the distance from the Western democratic core, the greater the political differences. Proximity of authoritarian regimes facilitates mutual survival. And several large authoritarian countries anchor the authoritarian status quo.

Barriers are both ecological and mental, and they interact with each other. Political spatial dynamic is partly a social construction. Unlike ‘brute facts’ such as high mountains and narrow valleys, social barriers are essentially ‘institutional facts’ that depend on human agreement.³⁵ One salient example is Afghanistan. We now largely agree that it is next to impossible for outsiders to change Afghanistan. That shared view would then serve as a social barrier that deters such efforts. Geography and social structure are closely related through a historical lens. The fact that some countries have succeeded time after time against foreign intervention means they are likely to do so again in the future. I am advocating principles rather than laws here. It is an empirical question of how the real world works based on these principles.

Conclusion

This chapter has provided a broad historical institutional account of world political development to contextualize East Asian international relations and the AIIB. A broad discussion of history is necessary to properly situate my study. The AIIB topic has often been framed as a landmark event. And the bank is discussed in the context of China rise, which is increasingly framed from a longer historical lens.³⁶ In order to engage that discourse, I need to clearly articulate my own historical

view. This chapter has also highlighted democracy because China's rise is now viewed increasingly as presenting an alternative value system to the United States.

The chapter shows that from a very long historical lens, there have been entrenched civilizational centers in the Eurasian continent, with China as one of them. They have been integral parts of the global process but have been distinct in the scheme of things, importantly reflected in their unique evolutionary paths. The traditional centers of civilization have had difficulty adapting to democratic institutions and the trend should continue. Geographical locations matter in and of themselves and because of path dependence. If we combine distinct regional and globalizing forces and consider the fact that social reality is constructed, we know that there is nothing inevitable about what has happened and nothing fully predictable about what will happen in the future. At the same time, political lineage matters in that it dictates distinct mixtures of unique and universal ideational forces and gives clues about the interaction effect.

Power matters. All the civilizational centers view power acquisition as a central objective and feel entitled to it. They also use power broadly understood as policy instrument. The key is to look at the whole range of initiatives between the countries we want to compare, which would then indicate systemically how close or distant they are. A major institutional development alone cannot tell us that unless we situate it in the scheme of things. It may be simply a functional equivalent resulting from convergent evolution or borrowing from competitors.

What this historical context means is that China, as well as other great powers that occupied the ancient centers of civilization, will have different expectations and understanding of norms from the West and will assert themselves more when a perceived balance of power is shifting in their direction. The AIIB is indeed a symbol of that historical trend. The United States has been able to collapse the layers of the world order and Asian order to a large extent in the past decades. The United States is a hegemon both in the world and in Asia. It is also widely believed in the US policy community that the US-led world order will be in jeopardy if Washington can no longer dominate in Asia. Thus, the AIIB does potentially go to the heart of US-China rivalry about the rules of the game in Asia.

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3

The AIIB Tied in a Belt

Abstract: *Wan examines how China has been constructing the AIIB, successfully. The AIIB is one of the major policy initiatives such as ‘One Belt, One Road’ adopted by the Chinese government to expand its influence overseas. The AIIB seems ‘natural’ in the scheme of things. The Chinese system of political economy remains distinct from that of the United States and other major economies. Different branches may shoot up from the Chinese tree. The AIIB is a branch that is more acceptable than most other Chinese initiatives such as the large-scale land reclamation projects in the South China Sea. The more members the Chinese government is able to attract to this international financial organization, the more pressure there is on Beijing to follow the existing international practices.*

Keywords: AIIB; China; Chinese system of political economy; ‘One Belt, One Road’

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This chapter examines how the Chinese government has been constructing the AIIB. The AIIB is an ‘artificial’ selection and one of a series of major policy initiatives adopted by the Chinese government to expand its influence overseas, including a ‘Silk Road economic belt’ and a ‘21st-century maritime Silk Road’. Thus, the chapter scrutinizes how the AIIB initiative fits in the overall Chinese strategy and domestic politics. Now that China has become a global economic power, there is greater integration of its foreign economic policy and domestic politics and of domestic and international players in its decision-making process. Yet the Chinese system of political economy remains distinct from that of the United States and other major economies.

Constructing the AIIB

The Chinese government proposed the creation of the AIIB in October 2013 and launched the initiative in October 2014. Twenty-one countries attended the launching ceremony, with no major developed countries on board. Yet things would change. The deadline for becoming a founding member of this institution was 31 March 2015. By that date, 57 countries including 37 from Asia had expressed interest in joining the bank and became founding members. According to the working plan, the representatives from these countries met in Beijing at the end of April and in Singapore at the end of May for the fourth and fifth round of negotiations. The Articles of Agreement were signed on 29 June. The bank is expected to start operation by the end of the year. One should be struck by the fact that the Chinese government has so far carried out the plan as scheduled in contrast to some other major international cooperation initiatives such as the Trans-Pacific Partnership (TPP) that have frequently missed deadlines.

The origin of the AIIB

President Xi Jinping initially proposed the AIIB during his visit to Indonesia on 2 October 2013. Five months later, Chinese finance minister Lou Jiwei told the Chinese media that the Chinese Finance Ministry was speeding up the process of constructing the AIIB with around \$50 billion in authorized capital. The first multilateral working group was convened on 24 January involving over a dozen interested Asian

TABLE 3.1 *The ADB membership versus the AIIB membership*

	ADB				AIIB	
	Founding members		Other members		Founding members	
	Year	Initial voting shares	Year	Current voting shares	Year	Initial voting shares
Regional members						
Afghanistan	1966	1.02		0.326		
Armenia			2005	0.538		
Australia	1966	7.64		4.946	2015	3.46
Azerbaijan			1999	0.656	2015	
Bangladesh			1973	1.119	2015	
Bhutan			1982	0.303		
Brunei			2006	0.581	2015	
Cambodia	1966	0.91		0.338	2015	
China			1986	5.474	2015	26.06
Cook Islands			1976	0.301		
Fiji			1970	0.353		
Georgia			2007	0.573	2015	
Hong Kong, China			1969	0.736		
India	1966	8.30		5.384	2015	7.51
Indonesia	1966	2.69		4.437	2015	3.17
Iran					2015	
Israel					2015	
Japan	1966	17.12		12.835		
Jordan					2015	
Kazakhstan			1994	0.946	2015	
Kiribati			1974	0.302		
Korea, Republic of	1966	3.10		4.345	2015	3.50
Kuwait					2015	
Kyrgyz Republic			1994	0.539	2015	
Laos	1966	0.66		0.310	2015	
Malaysia	1966	2.27		2.486	2015	
Maldives			1978	0.302	2015	
Marshall Islands			1990	0.301		
Micronesia			1990	0.302		
Mongolia			1991	0.311	2015	
Myanmar			1973	0.736	2015	
Nauru			1991	0.302		
Nepal	1966	.080		0.417	2015	
New Zealand	1966	2.48		1.532	2015	
Oman					2015	
Pakistan	1966	3.26		2.048	2015	
Palau			2003	0.301		
Papua New Guinea			1971	0.374		
Philippines	1966	3.51		2.212	2015	
Qatar					2015	

Continued

TABLE 3.1 *Continued*

	ADB				AIIB	
	Founding members		Other members		Founding members	
	Year	Initial voting shares	Year	Current voting shares	Year	Initial voting shares
Russia					2015	5.92
Samoa	1966	0.63		0.301		
Saudi Arabia					2015	
Singapore	1966	1.04		0.572	2015	
Solomon Islands			1973	0.304		
Sri Lanka	1966	1.33		0.764	2015	
Taipei, China	1966	1.94		1.173		
Tajikistan			1998	0.529	2015	
Thailand	1966	2.27		1.392	2015	
Timor-Leste			2002	0.306		
Tonga			1972	0.302		
Turkmenistan			2000	0.502		
				Turkey	2015	
Tuvalu			1993	0.300		
UAE					2015	
Uzbekistan			1995	0.840	2015	
Vanuatu			1981	0.304		
Vietnam	1966	1.61		0.573	2015	
Total	19	62.58	29	65.125	37	
Nonregional members						
Austria	1966	1.04		0.572	2015	
Belgium	1966	1.04		0.572		
Brazil					2015	3.02
Canada	1966	2.69		4.500		
Denmark	1966	1.04		0.572	2015	
Egypt					2015	
Finland	1966	1.04		0.572	2015	
France			1970	2.168	2015	3.19
Germany	1966	3.43		3.773	2015	4.15
Iceland					2015	
Ireland			2006	0.572		
Italy	1966	2.27		1.750	2015	
Luxembourg			2003	0.572	2015	
Malta					2015	
The Netherlands	1966	1.53		1.122	2015	
Norway	1966	1.04		0.572	2015	
Poland					2015	
Portugal			2002	0.390	2015	
South Africa					2015	

Continued

TABLE 3.1 *Continued*

	ADB				AIIB	
	Founding members		Other members		Founding members	
	Year	Initial voting shares	Year	Current voting shares	Year	Initial voting shares
Spain			1986	0.572	2015	
Sweden	1966	1.04		0.572	2015	
Switzerland		1.04	1967	0.767	2015	
Turkey			1991	0.572		
United Kingdom	1966	3.10		1.939	2015	2.91
United States	1966	17.12		12.747		
Total	12	37.42	7	34.876	20	
Grand Total	31	100.00	67	100.000	57	

Note: The initial voting share was as of 31 December 1967. Switzerland joined the ADB at the end of 1967, taking a voting share of 1.04 percent. The current voting shares for the ADB are as of 31 December 2013.

Turkey is viewed as a nonregional member at the ADB but a regional member at the AIIB.

Source: For the ADB membership and the current voting shares, see ADB, <http://www.adb.org/sites/default/files/page/30786/oi-appendix1.pdf>. Date accessed 3 May 2015. For the ADB voting share as of 31 December 1967, see ADB, *ADB Annual Report for 1967*, pp. 38–39. For the ten shareholders at the AIIB, see Center for Strategic and International Studies Asia Program, 7 July 2015, <http://cogitasia.com/by-the-numbers-china-the-asian-infrastructure-investment-bank-aiib/>. Date accessed 10 July 2015.

countries. Lou said that the Chinese government had recently created a preparatory committee. He also commented that some of the dozen countries at the first working level meeting had expressed interest in becoming founding members and the Chinese government was engaged in bilateral talks with some countries.¹

On 24 October 2014, China and 20 other countries signed the memorandum of understanding to form the AIIB, including Bangladesh, Brunei, Cambodia, China, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan and Vietnam. We learned a few important features about the bank. It would be located in Beijing. It would now be capitalized with \$100 billion, half of which would be initial capital (20 percent paid-in). The shares would be decided by the size of a member state's GDP, which would mean that China would have the largest share. Yet Lou Jiwei said that China would not seek dominance

and its share would shrink with more members. The plan now would be to complete the preparation and start operation by the end of 2015.²

On 9 November 2014, at the APEC summit in Beijing, Xi Jinping highlighted the AIIB along with some other important initiatives. New Zealand expressed interest in joining the AIIB in early January 2015. On 6 March the Chinese finance minister announced that the number of interested countries had increased to 27, including some European countries.³

The avalanche

The Chinese government set 31 March 2015 as the deadline for becoming a founding member. On 12 March, Great Britain became the first major industrialized country to join the bank. This generated a snowballing effect. It was immediately recognized by analysts that Britain's membership would provide a cover for countries like Australia and South Korea that wanted to join the bank because of their close economic ties with China but were fearful of backlash from the United States.⁴ On 17 March, Germany, France and Italy decided to join. Three days later Switzerland came on board. It was reported on the same day that Australia would soon announce its intention to join. Australia formally made that announcement on 29 March. South Korea joined the bank on 26 March. On 28 March Russia and Brazil told media that they would join. By 29 March, 41 countries had decided to join the bank. As shown in Table 3.1, 57 countries became founding members, as announced by the Chinese Finance Ministry on 15 April.

As the AIIB became more realistic, there also emerged concerns about the bank competing against the World Bank and the ADB. This will be discussed in greater detail in the next chapter. The Chinese government developed several arguments. One is that there was need for investment in infrastructure, citing the ADB study about needing \$8 trillion for the purpose in 2010–2020. They also argued that the AIIB does not compete with the World Bank and the ADB directly since the two established banks focus on poverty alleviation. The AIIB was viewed as complementing the existing institutions for cofinanced projects. Moreover, the Chinese officials noted that the World Bank and the ADB are overly bureaucratic and often advocate goals unrelated to business.⁵ The Chinese analysts were more explicit in their analysis. They generally agreed that Asia has sufficient funding to support infrastructure but not adequate platforms to mobilize financial resources. They thus saw the

AIIB as China's offering of public goods and complained that the United States had been urging China to take on more international responsibilities but was now apparently opposed to the idea. They did recognize that the AIIB reflects the changing 'global financial ecology' and would weaken the dominance of the West in global finance.⁶

Getting down to business

By the middle of May, we heard that the AIIB would now have a subscribed capital stock reaching almost \$100 billion. Even though the Chinese had indicated that they would take about half of the subscribed capital stock, they now would have around 30 percent. In terms of voting power, China would be followed by India, Russia and South Korea.⁷ There was a reported exchange of words between the Chinese and Europeans who wanted more than the 30 percent planned for nonregional states and more seats at the board of directors.⁸ That is not surprising since positioning for power is typical of any international institutions. What is actually surprising is how little reported discord we can find in media coverage.

The fifth chief negotiators' meeting was held for three days in Singapore on 20–22 May. It was then reported at the end of the round that China would contribute 26–29 percent of the subscribed capital. India would be the next largest contributor among regional members. About 30 percent of the 12-member board of directors would go to nonregional members ensuring a degree of influence for European countries and others. Yet the board of directors would not be a permanent institution. China ensured a *de facto* veto power over important bank matters. It will have at least 25 percent voting power resulting from its contribution of subscribed capital. This will also influence important decisions over matters such as change in subscribed capital that require a three-fourth majority. The headquarters would be located in Beijing. The initial capital stock was increased to \$100 billion. And China's Jin Liqun would be the first bank president.⁹ The AIIB Articles of Agreements were now finalized and ready for signature by the end of June. It was confirmed that the bank would start operation by the end of the year.

By early June, the Chinese plan became more concrete. The Chinese government wanted to create a different type of international institutions. These institutions are designed to be more efficient and possess more power for the developing countries. At least 75 percent of the voting shares will go the Asia-Pacific countries, which would allow

smaller Asian members to have more voice. According to the Articles, China would contribute \$29.78 billion of the registered capital, thus acquiring veto power over major decisions that require a 75 percent supermajority. Other major contributors include India (\$8.36 billion), Russia (\$6.53 billion) and South Korea (\$3.74 billion) in the Asia-Pacific region and Germany (\$4.48 billion), France (\$3.37 billion) and Brazil (\$3.18 billion) from outside the region. The AIIB will have a nonresidential, unpaid board of directors, unlike the World Bank and the ADB. The bank can start operating once at least ten members with more than half of the voting shares ratify the agreement.¹⁰ The plan became clear on 16 June. It also became known that Australia would have a share of \$3.6 billion, Indonesia \$3.3 billion and Great Britain \$3 billion, rounding up the top ten capital contributors to the bank. The members from the region, including the Middle East, were given 75 percent of the shares.¹¹ A cabinet-level meeting for signing the agreement was held on 29 June in Beijing.

China's share of nearly 30 percent is much larger than America's share in the World Bank (16.05 percent versus 8.94 percent for Japan and 5.76 percent for China) and Japan's share in the ADB (15.7 percent versus 15.6 percent for the United States and 6.4 percent for China).¹² Yet it also became clear that the AIIB would be dominated by the emerging powers. China, India and Russia would be able to appoint their own directors.¹³ If we add Brazil and South Africa, the five BRICS countries count for 48.46 percent of the authorized capital in the bank.

There were some challenges for the AIIB. On 26 June, the Philippines indicated that it would attend the signing ceremony but would not sign due to its increased tension with China over the territorial dispute in the South China Sea and concern that China might use the AIIB for political reasons.

As scheduled, the AIIB was officially launched in Beijing on 29 June 2015. As it was becoming clear, China acquired a 26.06 percent voting share, which gives it effective veto power since 75 percent voting share is required for important decisions but that veto power would be gone if more countries join the bank. The Philippines decided not to sign the Articles of Agreement and reportedly wanted to review whether or not to join later.¹⁴ Six other countries (Denmark, Kuwait, Malaysia, Poland, South Africa and Thailand) did not sign because they were yet to receive domestic approval but would sign by the end of the year. The AIIB requires 75 percent of the capital coming from within the region.

Nonregional shares may increase with new members but will not reach beyond 30 percent. The AIIB is now scheduled to start operation by the end of the year. Jin Liqun is still the presumed first AIIB president. The bank will be headquartered in Beijing with possible regional centers elsewhere. The working language is English. As reported previously, the AIIB will differ from the existing international financial institutions by having a nonresidential, nonpaid board of directors. It will also open bids to all countries rather than just the member states.¹⁵ Greater detail about the operation of the AIIB will be provided in the next chapter that compares it to the World Bank and the ADB. On 6 July, the Chinese government formally nominated Jin as the candidate for AIIB president.

‘One Belt, One Road’

The AIIB initiative came straight from the top, Chinese president Xi Jinping himself. Thus, who Xi is and what he wants China to be is a central question. We do not know for sure how successful Xi will ultimately be and indeed what the standards for success will be defined. Yet we do know that Xi has been far more ambitious than his two cautious predecessors, has acquired more power and has been more willing to use that power as well. Xi’s ideas have been highly publicized in China. Xi Jinping’s book *The Governance of China* was issued in October 2014. The book has also been translated into seven other foreign languages.

Is this a case that an assertive leader will necessarily emerge when a country has arisen to a certain level? It might and might not be. The most logical thing we can say is that a strong leader can but does not have to rise in a rising country. We just have to accept that there are fundamental uncertainties what people choose to do individually or collectively. The fact is that Xi is more ambitious by Chinese standards.

The AIIB is firmly situated in Xi Jinping’s bigger initiative called ‘One Belt, One Road.’¹⁶ Xi first discussed the idea about a ‘Silk Road economic belt’ when visiting Kazakhstan in September 2013. In October of that same year, Xi proposed a ‘21st century maritime Silk Road’ while in Indonesia. On 28 March 2015, the Chinese government published its plans for the initiative and identified the AIIB as playing an important role in all this. China has committed \$40 billion for a ‘Silk Road fund.’ The emphasis would be on transportation, energy and telecommunications. Some compare China’s funding to the Marshall Plan. Xi is open about

his ambition. As the *Economist* noted, 'Mr. Xi, it appears, is guided by a dream of regional hegemony... This is not a plot. It is a long-term—and even credible—plan, albeit one that does little to inspire the rest of Asia.'¹⁷ With Xi pushing the initiative, the Chinese bureaucracy is responding predictably. For example, the China Development Bank announced on 28 March 2015 that it had already built a 'One Belt, One Road' project database including about 900 projects for 64 countries totaling around \$800 billion.¹⁸ The Chinese provincial governments also compete with each other to hitch on the 'One Belt, One Road' train. They see this as a golden opportunity to stimulate their economies. Chinese officials estimate that the number of infrastructure projects in planning or construction related to the 'One Belt, One Road' scheme already amount to 1.04 trillion yuan (around \$168 billion). They also contend that this will stimulate investment by 400 billion yuan in 2015 alone.¹⁹ Some of them already appeal directly to the AIIB for support.²⁰ A coalition of think tanks was formed in April 2015.²¹

One should not blame the analysts and officials from outside China for using hyperbole about Xi's ambitious plans. The high pitch within China about the 'One Belt, One Road' initiative is deafening. A major publicity campaign is going on in the country. As is often the case when it comes to Chinese discourse, everyone cheers for President Xi's brilliant initiative but also exhibits different degrees of warmth and subtle concerns. I do not intend to analyze the Chinese discussion here and will point out simply that the Chinese see the initiative as indicative of a new type of great power at work, open and cooperation-based. Yet there is no question that the initiative is viewed as central to raising China's status and influence in the world. The initiative is most likely to become an integral part of China's 13th Five-Year plan to start in 2016.

There is also discussion of where the initiative came from in the first place. Some observers pointed to several influential Chinese scholars.²² It is reported more recently that the AIIB idea came from China's influential China Center for International Economic Exchanges (CCIEE), a Chinese think tank founded in 2009 by former vice premiers and ministerial-level officials.²³ It is difficult to authenticate the accuracy of various accounts. Yet it appears to be the case that some Chinese strategic thinkers advocated a strategy to look west around 2012 after facing increased tensions with Japan and the United States in the Pacific region. That strategic reorientation proposal merged with other strategic interest in recycling China's massive foreign reserves in a more efficient and

beneficial fashion for the country. The ‘One Belt, One Road’ initiative was broader, including Southeast Asia as well as Central Asia and West Asia, and more economic than political. One should immediately note that the initiative is not meant to be overly confrontational with the United States. The Chinese government has also been promoting other regional schemes. In November 2014, Xi promoted FTAAP and pushed to start the process of creating a roadmap to achieve that goal. Finally, in the scheme of things, China has used its financial power in a way that is not detrimental to the United States and Japan. After all, it lends trillions of dollars to the United States and would to Japan if allowed. The AIIB is also open to the United States and Japan, thus less provocative than the Trans-Pacific Partnership initiative led by the United States and strongly supported by Japan that explicitly excludes China.

At the same time, one should indeed see the strategic implications of the Chinese initiatives. The geostrategic calculations are embedded in the larger plan. As a case in point, when Xi visited Pakistan in April 2015, he pledged \$46 billion of Chinese investment in the country by 2030. This will mainly go to infrastructure called the China-Pakistan Economic Corridor (CPEC) to link China’s Xinjiang to Pakistan’s deep-water port Gwadar to reduce dependence on the Malacca Strait. And the economic corridor may go through Kashmir, which is contested by India.²⁴ Moreover, greater influence by China, however achieved, would pose a greater challenge for the United States. The Chinese government has also pursued assertive security policy in recent years.

The China model

I have discussed in the previous section how the AIIB has resulted from an ambitious Chinese leader’s grand initiatives. At the same time, we need to understand that the AIIB is consistent with the Chinese political economy system.

The shorthand for the contemporary Chinese political economy system is ‘the China model’. Having spent several years writing a book on this very topic, I know firsthand that there is no easy way to characterize the Chinese system. In my own thinking, the China model started with Deng Xiaoping’s economic reform and opening in 1978. Therefore, this is different from the revolutionary Mao model before then. It is hard to pin down because it is multifaceted and evolves. Yet at its essence the

China model represents a system of authoritarianism combined with increasingly market-oriented economic activities, making it different from virtually all other great powers. The Chinese approach is pragmatic and gradual. The China model has helped the country deliver strong economic performance because it is a hybrid system that allows a positive feedback loop with global capitalism. Put simply, the Chinese system is a hybrid system that is largely compatible with the global economy system we have.²⁵

Consistent with the China model, the AIIB is a hybrid institution. It would make sense for the China-led AIIB to borrow the experience of the World Bank and the ADB. Indeed, it is reported that at least eight former World Bank employees, including David Dollar, have been advising the Chinese government over the AIIB since the start of the year. Some ADB employees, including Japanese nationals, have also participated in offering advice on the AIIB.²⁶ Moreover, the Chinese government has been conscious of the reaction to its AIIB initiative. For example, right before the signing of the Articles of Agreement, Jin Liqun told journalists that the AIIB would treat high-quality environmental protection as its highest priority.²⁷ Thus, the bank is within the realm of acceptability and respectability. This helps to explain the Chinese success so far. The fact that the United States and Japan do not like the project has much to do with perceived loss of power and privileges. Not surprisingly, those that do not have that power and privileges to start with have had little trouble accepting this China-led financial institution. In fact, if we juxtapose the AIIB to compare both to other existing financial institutions in the world and to China's ancient institutions, we can see immediately that the AIIB is far more familiar to the contemporary non-Chinese than to the ancient Chinese. For one thing, the AIIB uses English as its working language. If one imagines a spectrum of institutions with different degrees of similarities to the Western institutions, one should put China's participation in the existing international financial institutions at one end with a high degree of similarity to the West. The AIIB would be close by but one step toward the other end of ancient traditions. By an extreme contrast, the Islamic State would be largely familiar in its basic beliefs to the people from the past even though it has also adapted to modern conditions. Its use of social media would be one example.

More broadly, the AIIB is a central part of the 'One Belt, One Road' initiative that is designed partly to find an outlet for China's overcapacity in industry and construction. This is particularly relevant since the

country is making a difficult transition from an investment and export-led development strategy to a more balanced approach. China is thus also trying to gain from its commitment of financial resources overseas.

Finally, the Chinese government has been able to make large financial commitments for the past 15 years or so. This is largely due to the Chinese system in which average citizens have little say over such matters. If China were a democracy, it would be hard to image how Chinese voters would have approved such largeness so quickly. After all, China is not yet a developed country and has significant social needs. The AIIB and the related 'One Belt, One Road' initiative have much to do with the interests of the producers that have an oversupply of capacity and limited domestic markets.

Conclusion

The AIIB is not fully predictable based on Chinese domestic politics. Indeed, China has been rising. At the same time, we know that China has been seeking greater power as a goal. There has been some lag between China's newly acquired power and its willingness to use power. Jiang Zemin and Hu Jintao were cautious. Now we have a more ambitious Chinese leader in Xi Jinping.

Although not fully predictable, the AIIB seems 'natural' in the scheme of things. Even the Chinese government was surprised by how successful this initiative has become. However, power operates differently within an international institution. Ironically, the more members the Chinese government is able to attract to this international financial organization, which will help to make it more credible and prestigious, the more pressure there is on Beijing to follow the existing international practices.

China has been successful. It has assigned a function to a new entity of its influence. There is more than sufficient collective intentionality to allow the bank to materialize. At the same time, whether the AIIB will ultimately succeed as a funding institution is a different question. Different branches may shoot up from the Chinese tree. The AIIB should be viewed as a branch that is more acceptable than most other Chinese initiatives. China's land reclamation projects in the South China Sea would be at the other end of the spectrum.

Notes

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4

The AIIB versus the World Bank and the ADB

Abstract: *Wan compares the AIIB with the World Bank and the ADB, particularly at the moment of creation. The World Bank was truly a novel international financial institution but fully consistent with the American systems and legal practices. Japan successfully built the ADB, which was a hybrid of the World Bank and the Japanese institutions. Yet it failed in its attempt to create a Japan-led Asian Monetary Fund in 1997. The material and ideational resources China is using to construct the bank are not drastically different from those employed by the Americans and Japanese. The AIIB is nested to the World Bank and the ADB, thus firmly situated within the existing international financial order. But China is now further away from the US-led international structure.*

Keywords: AIIB; Asian Development Bank; China; Japan; United States; World Bank

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This chapter compares the AIIB to the World Bank and the ADB, particularly at the moment of creation. Areas of comparison include the larger international relations context and the embedded purposes and institutional designs. Although China differs from the United States and Japan, the AIIB reveals so far hybrid features that are only partially different from the existing international financial institutions. The material and ideational resources the Chinese government is using to construct the bank are not drastically different from those employed by the Americans and Japanese. This chapter also examines the US and Japanese reactions to the AIIB initiative.

The United States and the World Bank

The United States did not start with the World Bank in its construction of a liberal international economic order. It is generally agreed that the United States turned to free trade with the Reciprocal Trade Agreements Act (RTAA) in 1934, which changed the US trade policy institution and prepared the country for future leadership in international trade. The law mandated reciprocal tariff reduction and authorized trade agreements approved by a simple majority rather than a supermajority stipulated in the US Constitution.¹ The RTAA case reveals a clear trace of how the United States came to be the type of leader it did. For China, one may trace a more liberal thinking to 1978 when Deng Xiaoping decided to conduct economic reform and opening.

RTAA was adopted in a larger historical context of the United States's efforts to avoid a leadership role in the interwar period. Charles Kindleberger famously argued that the Great Depression was international in nature and resulted from the absence of a stabilizing greater power. 'Britain could not act as a stabilizer, and the United States would not. When every country turned to protect its national private interest, the world public interest went down the drain and with it the private interests of all.'² The United States would learn a lesson and begin conceptualizing a world economic order under its leadership during World War II. The United States built a liberal international order consistent with its democratic, market economy domestic system.³ Some have challenged what they view as myths about a liberal American hegemony.⁴ Yet my own view is that a country does not have to possess complete dominance to create an order. The United States was certainly more liberal than

any alternatives at the end of World War II. Unlike the previous British hegemony, the United States endorsed what John Ruggie terms 'embedded liberalism' in setting up intergovernment organizations for greater international cooperation and building domestic welfare institutions to cushion potential losers in sovereign states participating in free trade against volatility in the global market.⁵

Along with the International Monetary Fund (IMF), the World Bank was created during the negotiations at Bretton Woods in New Hampshire before World War II ended. In hindsight, it seemed only natural that the great power that won a great war would create a new international order. Yet it was not obvious for contemporaries how this institution would look like. In fact, E.S. Mason and R.E. Asher who wrote an authoritative work on the World Bank noted that looking back, 'one is struck by both the magnificence of the achievement and the lack of prescience of the founding fathers.'⁶ After all, there was no ready blueprint for the framers of the Bretton Woods system. The Japanese would later benefit from the World Bank experience when they were ready to build the ADB. The Chinese are in a better still position in this regard.

While purposes were crucial in terms of the nature of the international order, power was central to whether the international order could be constructed in the first place. The United States had emerged from World War II as a world hegemon. The World Bank was created based on the American plan, with some input from Great Britain. Unlike the United Nations General Assembly, the IMF and the World Bank do not give equal voting power to their members. The United States contributed \$3.175 billion of the initial \$10 billion capitalization and a 37.20 percent voting power. The United States dominated and provided a larger share of subscribed capital because Great Britain and others were not in a strong financial position. They preferred that the United States take on a bigger share of the burden in a development bank. Despite resistance from Great Britain, the United States also secured the headquarters in Washington, DC;⁷ US nationals by practice have always headed the World Bank.

The Bretton Woods conference was held on 1–22 July 1944. The 44 allied nations that attended the conference signed the Articles of Agreement on 22 July 1944. The US Congress passed the Bretton Woods Agreements Act signed by President Harry Truman on 31 July 1945. The Articles of Agreement were signed into effect by 28 countries on 27 December 1945 and the bank opened to business on 25 June 1946. Not

every country that attended the Bretton Woods conference ratified the Articles of Agreement. Most noticeably, the Soviet Union decided not to join the IMF and the World Bank. Thus, the AIIB compares favorably to the World Bank on this score.

The World Bank had 38 members in 1946. Currently known as the World Bank Group, it has 188 members in its International Bank for Reconstruction and Development (IBRD) and 172 members in its International Development Association (IDA). The World Bank was only part of a US strategy. Immediately after the war, the United States resorted to a bilateral approach, launching the Marshall Plan to assist the European countries in their reconstruction.

The World Bank has not moved in a straight line. Rather, it has gone through different stages of lending policy driven by real world challenges and ideological conventional wisdoms.⁸ With the Marshall Plan for the European countries, the World Bank focused on the non-European countries. The bank focused on infrastructure projects until 1968. Under Robert McNamara's leadership from 1968 to 1980, the World Bank emphasized basic human needs, and lending expanded in size and in areas from infrastructure to social service. The bank took a neoclassical ideological turn in the 1980s, focusing on market efficiency and structural adjustment for indebted developing countries. The World Bank has incorporated environmental protection and participation by nongovernmental organizations since 1989.⁹ The World Bank has been severely criticized for a whole range of issues, particularly its structural adjustment loans that were perceived as worsening poverty in indebted developing countries.¹⁰ Jim Yong Kim became World Bank president in April 2012. He has discussed the funding needs for infrastructure frequently in the context of increasing the scale of World Bank lending.¹¹ The World Bank Group financed \$24 billion of infrastructure projects or nearly 40 percent of the total in fiscal year 2014.¹²

Japan joined the IMF and the World Bank in 1952 after regaining its sovereignty earlier that year. Japan was a major beneficiary from the IBRD in the early years and kept a low profile in the World Bank and the IMF through the 1970s. With its rising economic power, Tokyo sought a higher status in the global financial institutions in the 1980s. It achieved a number two position in the World Bank in 1984 and a joint number two position with Germany in the IMF in 1990. Yet Japan had more limited policy influence, creating the image of a one-dimensional power. In response, the Japanese attempt at greater intellectual and policy

influence in the 1990s led to a clash of state-guided development philosophy with the Washington Consensus in the early 1990s. Sponsored by the Japanese government in defense of its development philosophy and practice, the Japanese thinkers and analysts argued that Japan had a different but effective approach to development as vindicated by the economic miracle achieved by East Asian countries. The World Bank studied East Asian development experience and concluded in its 1993 book *The East Asia Miracle* that East Asia had grown mainly because of policies consistent with neoclassical economics. The Japanese continued to fight for their views, but the Asian Financial Crisis undermined their intellectual campaign in 1997.¹³ With its bubble economy burst before the crisis, Japanese felt less confident in challenging the Western views on development. With China's recent rise, Japan has become increasingly focused on protecting its hard-won status against newcomers.

China joined the World Bank and the IMF in 1980, as part of its overall process of 'joining the world'.¹⁴ China has benefited from the World Bank. It has also been given due respect from the World Bank. As a case in point, Justin Lin, an economics professor from Peking University, was appointed World Bank Chief Economist in June 2008 serving a four-year term. Lin was the first World Bank chief economist from a developing country. More broadly, China has also come to influence the World Bank since the turn of the new century to the extent that some scholars have described a new two-way socialization process between the World Bank and China. As a case in point, China's Export-Import Bank and the World Bank signed a memorandum of understanding in April 2007, which allowed China to act as a co-donor rather than simply following the World Bank's lead.¹⁵

Yet as China began to rise, the gap between its financial power and its voting shares in the IMF and the World Bank became ever larger. This was primarily due to resistance to adjustment from the US Congress. The IMF agreed on a governance reform in 2010 that would give China and other emerging powers more voting shares as well as almost doubling the Fund's financial resources. Yet the US Congress has refused to authorize IMF governance reform, partly due to concerns over diminished US influence. In the IBRD, China now ranks third, with a voting share of 4.85 percent as of 8 April 2015. This trails behind the United States (16.21 percent) and Japan (7.51 percent).¹⁶

China's success in establishing the AIIB lies partly in the fact that its action seems justified. In fact, some former US financial officials and

scholars view the US Congress as responsible for pushing China to create its own bank since its share in the World Bank and the IMF are so low. Former Treasury Secretary Lawrence Summers commented shortly after the 31 March deadline that 'largely because of resistance from the right, the United States stands alone in the world in failing to approve International Monetary Fund governance reforms that Washington itself pushed for in 2009. By supplementing IMF resources, this change... would come closer to giving countries such as China and India a share of IMF votes commensurate with their increased economic heft'.¹⁷ Former Federal Reserve Board Chair Ben Bernanke said at a conference in Hong Kong on 2 June 2015 that 'I can understand why China and other countries might want to say, "Well, we're going to set up our own system"' because the US Congress refused to 'allow the governance system of the International Monetary Fund to appropriately reflect the changing economic weights'.¹⁸ Some American think tanks and former financial officials have viewed the Obama administration's initial opposition to the AIIB as a mistake and have urged the US government to join the AIIB. Yet it is widely recognized that this is unrealistic because Congress would not approve any financial contribution that would allow the United States to participate in the AIIB.

China's own foreign aid program has constituted a challenge to the World Bank in developing countries, particularly in Africa. It is difficult to compare China's policy banks active in Africa and elsewhere with a multilateral financial institution in the World Bank or their relative size of lending to Africa. The World Bank has also largely been positive about China's role in Africa. China provides badly needed financial resources. At the same time, China's way of doing business and its rapidly growing foreign aid program has inevitably put pressure on the World Bank to adapt its 'modus operandi and the norms of governance that it represents'.¹⁹ China follows a 'noninterference principle' in its aid program. Although that approach favors the status quo and the powerful, Chinese aid is thus often more attractive for developing country governments that often resent the stringent conditionality imposed by the IMF and the World Bank based on the free market neoliberal principles. But one should keep in mind that China's current foreign aid program is drastically different from its pre-1978 aid policy that aimed at supporting anti-West insurgencies and communist revolutions around the world starting in the early 1950s and then competing with the Soviet Union in places like Africa. With economic reform and opening, China began to

accept foreign aid and was influenced by how aid works based on their collaborations with foreign donors, particularly Japan. In fact, there are striking similarities between China's aid program and Japan's early ODA projects.²⁰

The World Bank leadership has sounded mostly supportive of the AIIB. World Bank President Jim Yong Kim has repeatedly expressed strong interest in cooperation with the AIIB. The AIIB would be yet another regional development bank, adding to the existing ones. Kim also observed that the funding need for infrastructure in the developing countries is 'simply enormous'.²¹ In his recent visit to China, Kim told journalists in Beijing on 17 July 2015 that the World Bank and the AIIB would start discussions later in the year about specific cofinancing projects.²² The AIIB would be more a challenge for the ADB than for the World Bank. More broadly, the US government has not been overly critical of the AIIB since its setback suffered when Great Britain decided to join the AIIB on 12 March. Rather, the United States has focused on what it does the best, namely, more motivated to conclude the TPP negotiations and to shore up alliances and friendships with the East Asian countries. By contrast, the Japanese leaders have been far more willing to criticize the Chinese project.

Japan and the ADB

The ADB is the institution that the AIIB competes against the most. The ADB was founded on 22 August 1966, almost half a century ago and 20 years after the World Bank. The ADB now has 67 members, with 48 from Asia. The Japanese media has been far more focused on the AIIB and its implications for the ADB than the American media.

Why did Japan build the ADB? It seemed natural for Japan to take such a step for those who wrote about the bank in the 1970s. There had been an extensive practice of foreign aid by developed countries and multilateral financial institutions. There was an Asian regional dynamic for greater cooperation. Japan had recovered and was now looking outward. Japan wanted greater prestige and influence.²³ Japan would be the first country to match the United States in its financial contributions to a major international organization. Japan was ambitious. Japan sought to establish a regional development organization less than ten years after it regained sovereignty in 1952.

Yet Japan sought to achieve its goals cautiously, leveraging partner countries and the strategic environment. A lesson had been learned by the earlier efforts made by Prime Minister Kishi Nobusuke. Kishi proposed three schemes to promote regional economic cooperation, all in vain. The United States was not supportive since all the Kishi initiatives relied on American financing without giving the United States managerial control. Moreover, the Asian countries were also opposed to Kishi's ideas. The initial idea for an Asian Development Bank came from a private citizen Ōhashi Kaoru. Ōhashi was well connected with politicians and Ministry of Finance officials. He organized a private study group in 1962 to produce a concept proposal on a regional development bank modeled after the World Bank and the Inter-American Development Bank (IADB) to supplement the World Bank in Asia. The plan called for an initial capitalization at \$1 billion. Japan and the United States would contribute about \$300 million each. The headquarters would be located in Tokyo and the bank would be headed by a Japanese president.²⁴ The group came to be chaired by Watanabe Takeshi, who would later become the first ADB president. Watanabe sounded out American reaction to the proposal but received little support during his visit to Washington, DC, in 1963. Yet fortunately for Japan, the United Nations' Economic Commission for Asia and the Far East (ECAFE) was exploring the establishment of a regional development bank independently. The two institution-building streams eventually merged. Thus, it was an Asian group that formally initiated the ADB project. The ADB was officially created under the ECAFE auspices, and ECAFE organized the first meeting about the creation of such a bank.²⁵ Watanabe represented Japan at the ECAFE experts' meeting. The proposal of the Japanese study group essentially became the ECAFE recommendations as the principal writer for the recommendation was a Japanese Ministry of Finance official on loan to the ECAFE.²⁶ Watanabe deliberately chose a low-profile approach, anticipating negative Asian reaction to a Japanese leadership role. He did not disclose the private Japanese plan to others at the meeting.²⁷

The ADB was a major diplomatic initiative that a rising Japan took in the early 1960s within the US-led international order. It would be inconceivable for Japan to proceed with the ADB initiative without US support. Japan also needed the United States to share the burden of financing and improving the creditworthiness of the bank in the global financial market. The bank needed to raise capital at a favorable rate.

Japan saw a niche. As Watanabe recalled, the Japanese participants in the Japanese study group agreed that there was a need for an Asian development bank since 'requirements of Asian development were too large to be met solely by the World Bank whose activities in Asia—except in India and Pakistan—were far from adequate.'²⁸ Moreover, the Japanese were fully aware of such regional developments in Latin America and Europe.

Japan did not achieve all its goals, particularly the goal of hosting the headquarters in Tokyo. It did acquire the presidency and important staff positions to ensure Japanese dominance in the bank. And it could not push down the percentage of the voting shares to be distributed equally among the member states. Japan preferred 10 percent rather than the 20 percent formally adopted by the bank.

The Working Group of Experts organized by ECAFE agreed that a regional development bank would facilitate regional trade liberalization and regional coordination for economic growth.²⁹ Also, similar to Japan, most ECAFE countries wanted to invite nonregional developed countries to enhance the bank's capacity to raise capital in the global financial market while maintaining the Asian character of the ADB. They studied the experience of the Inter-American Development Bank and the African Development Bank (AfDB) and decided not to follow their examples.³⁰ In terms of voting power, for example, after much debate, the ADB agreed to set 20 percent of voting power on the basis of equality for both regional and nonregional members and 80 percent on the basis of proportionality. Both the United States and Japan had wanted a lower percentage of voting shares based on equality. Japan actually had reservation on the final decision. It was known to the people involved in the creation of the ADB that the African Development Bank distributed 50 percent of voting power on the basis of equality, the IBRD about 10 percent and the IDB about 3.3 percent.³¹ As mentioned earlier, the AIIB will distribute 12 percent of the voting power on the basis of equality, which is similar to the IBRD.

While the Japanese often emphasize the Japan-US-led ADB now, there were times when the Japanese and Americans fought within the bank, and Japan was still worried about financial costs in the mid-1960s. Yet by 1972 Japan had quietly and skillfully established its leadership in the bank, forging a strong institutional tie between the bank and the Japanese Ministry of Finance. Japan now has an institutional advantage similar to what the United States has had in the World Bank. As an 'Asian' institution, the ADB acquired Japan's organizational culture to this day.³² Curtis

Chin, a former US ambassador to the ADB and an executive director at the bank under President Bush and President Obama, confirms what observers of the ADB have known, namely, that ‘management and staff of that Japan-led institution were able to undercut or “slow walk” initiatives that the US and European shareholders had long advocated for’. In particular, the head of the bank’s budget and personnel department is typically seconded from the Japanese government.³³ Japan can achieve its objectives through closed-door, painstaking consensus building.

With a strong ‘un-Japanese’ president in Fujioka Masao (1981–1990), Japan sought to establish hegemony in the bank in the late 1980s through ‘harmonization’ between voting shares and special fund contributions, the latter of which came mainly from Japan. Yet Japan could not achieve its objective due to fierce US opposition. While not willing to make greater financial contributions, the US government succeeded in maintaining parity with Japan in the bank. When push comes to shove, the Japanese government had to weigh its overall relations with the United States. The Japanese also used the ADB along with the World Bank and the IMF to recycle their balance of payment surpluses to demonstrate Japanese contribution to the international system instead of more controversial defense contributions to the United States. The Japanese reverted back to a more cautious leadership style in the bank in the 1990s.³⁴

The ADB came under US criticism in the 1980s for focusing too much on the expansion of loans for large projects. The Japanese leadership yielded to most US requests. Yet while the ADB policy now put greater emphasis on poverty alleviation, the content of its projects had changed little, with continuous emphasis on economic growth and meeting lending targets.³⁵ The Japan-US tension took place in a larger context of Japan-US tensions in the late 1980s and the early 1990s when many in both Japan and the United States felt that Japan was surpassing the United States. Many in the United States were determined to maintain American supremacy and demanded that Japan play ‘fairly’. The United States remained vigilant even after the bubble burst in Japan in the early 1990s. As a case in point, the United States killed the Japanese proposal for the Asian Monetary Fund (AMF) during the Asian Financial Crisis of 1997–1998. Ironically, the success of the US government strategy left the field more open for China to move in.

China became interested in the ADB once it began reform and opening in 1978. The Chinese government, for example, invited Watanabe Takeshi to lecture on the ADB. Beijing formally sought membership in

1983, three years after it joined the World Bank. Much of the negotiation was about the Republic of China, which was an original member. After a shuttle diplomacy conducted by Fujioka Masao, the ADB president, China joined in March 1986 while Taiwan changed its name in the ADB to 'Taipei, China'.³⁶ There was a long delay in China being accepted into the ADB due to concern over greater financial burden on the bank and US congressional opposition.³⁷ Politics has always mattered for the ADB, including its operations.

China has benefited from its ADB membership. With China's rise, a gap has emerged and grown between China's growing economic power and its voting share in the bank. When China joined the ADB, it was given a voting share of 6.2 percent, slightly ahead of India (6.1 percent), and behind Japan (12.5 percent) and the United States (12.3 percent).³⁸ China's voting share in the ADB has actually decreased over time. China's share decreased to 5.4 percent in 2006 while Japan's share increased to 12.8 percent, therefore a 15 percent decrease relative to Japan.³⁹ That ratio between China and Japan remains largely unchanged. In fact, China fares much better relative to Japan in the World Bank (64.6 percent of Japan's voting share) than in the ADB (42.6 percent).⁴⁰

As Joel Rathus pointed out correctly in his 2008 article, China's rising power had not come at Japan's expense in the ADB. Japan had begun decreasing ADB loans to China due to concern over that country's military development. He did forecast potential tensions between the two countries if China became an aid great power.⁴¹ If we look at the overall Sino-Japanese relations, we realize that the ADB has not been a source of tension. Now that we have the AIIB drama, one might go back and dig up some issues related to China and the ADB. Mark Magnier of *Wall Street Journal*, for example, has commented on two incidents. In 2009, China attempted but failed to prevent an ADB project in an area in India that China claims. In 2010, China blocked the ADB investigation of whether an ADB environmental protection project in a coastal Chinese city had treated the residents properly. The Chinese government proceeded without ADB funding.⁴² Yet as a specialist who has followed Sino-Japanese relations closely, I know that the ADB has virtually never come up voluntarily for both the Chinese and Japanese experts and officials. The two governments have had enough tensions since the start of the 2000s. The ADB has not been one of them.

For the ADB infrastructure has traditionally been an important component of its efforts though its declared policy preference is now

poverty alleviation. As a case in point, Japanese Finance Minister Asō Tarō told the attendees at the annual meeting in May 2014 that Japan would mobilize its capital, technology, knowledge and experience to assist infrastructure in Asia because infrastructure is the foundation for sustainable growth.⁴³

The Japanese have followed the development of the AIIB far more closely than any other nations, driven by concern over growing Chinese influence at the expense of the ADB. Given its growing tension with a rising China, Japan's position is hardly surprising. They had already begun to view virtually all Chinese actions as directed against them. When the news of Xi's proposal for an AIIB broke on 3 October 2013, Japanese media immediately saw it as a challenge to the ADB.⁴⁴

It was reported on 5 July 2014 that the Chinese government had requested Japanese participation in a meeting with the Japanese government in June. Yet the Japanese government had declined. They contended that Japan could not join based on the current plan that failed to clarify division of labor with the ADB. Yet the real Japanese concern was over China gaining influence through aid to Asian countries. Japan was reportedly following a strategy of cooperating with the United States and asking Australia and Southeast Asia not to participate in the China-led AIIB.⁴⁵

It is not possible or necessary to go through the intense Japanese media coverage of the AIIB issue. There have been supportive views expressed, particularly framed as helping shape the AIIB the right way from inside or helping Japanese firms to compete better. Yet the mainstream assessment has been highly negative. Different reasons have been given, some sounding like mantras after a while. Examples are as follows: since the ADB has a proven record in assisting Asian development, why the duplication? The AIIB will facilitate the rise of the *yuan* at the expense of the *yen*. The operation of the AIIB is not transparent. Japan does not really need to be in the AIIB since it will not have as much influence as desired anyway. It is not clear how many gains the Japanese companies can realistically expect from the bank. Thus far, Japanese companies have not been particularly competitive in winning bids from the multilateral development institutions including the ADB. Finally, Japan cannot be seen in Washington as yielding to China while working hard to persuade the United States to counter China.

By end of October 2014, the Japanese did not feel overly concerned since the AIIB had attracted only 21 countries at that point in time, with

the largest power being India. The Japanese believed that Australia and South Korea would not join the bank. When New Zealand joined in early January 2015 amid stories about Australia's keen interest, the Japanese became more concerned and paid particular attention to South Korean moves. The British decision to join the AIIB was a shock for the Japanese government. Prime Minister Abe Shinzō had previously been assured by the Ministry of Foreign Affairs and Ministry of Finance that no G-7 country would join the AIIB. Much resentment against Great Britain was expressed within the Japanese government but there was nothing Japan could do about it. The Japanese became even more shocked when continental European powers such as Germany and France decided to join as well. They had explained away Britain's decision as driven by special circumstances such as the scheduled general election in May. Abe had just met German Chancellor Angela Merkel eight days earlier. They talked about the AIIB and Merkel did not give any indication that Germany would join the bank according to Japanese media report.⁴⁶

There was some support within the Japanese government to join as well.⁴⁷ On 20 March Finance Minister Asō briefly entertained the possibility of Japan joining the AIIB if the bank met the standards of transparency in project decision and the environment, but both the chief cabinet secretary and the foreign minister maintained a cautious stance.⁴⁸ Asō would toe the government line later. The Japanese Foreign Ministry and Prime Minister Abe prioritized relations with the United States.⁴⁹ With Abe's upcoming visit to the United States, Japan did not want to appear to be breaking away from the United States. Another perceived opportunity was the end of June when the founding members would sign the Articles of Incorporation. Yet Abe did not want to make a move so close to his successful visit to the United States. Japan has a larger strategic interest that is different from the distant European powers.

While it is difficult to predict what will happen, we already know that the AIIB has added competition to the development institutional landscape in Asia and beyond. In fact, the Japanese have already begun to respond by adapting the ADB, something they would not have done judging by the recent history of the bank and the reform-resistant nature of the Japanese bureaucracy.

Pressure was building on the ADB even before the AIIB caught on. It was reported in Japanese media after the British decision on 12 March that the ADB now wanted to increase its financing by 1.5 times to around \$20 billion a year from 2017 on to compete for leadership with the AIIB.⁵⁰

The ADB leadership typically expressed interest in cooperation with the AIIB but always urged the AIIB to have transparency in governance and follow the international standards. Once the China-led bank became a certainty, the ADB had to respond. The ADB held its annual meeting in Baku, Azerbaijan, on 2–5 May 2015. This naturally attracted much media attention, particularly the Japanese media. Everything was indeed viewed from the lens of competing with the AIIB. The ADB first announced that the bank would combine its ordinary and special fund lending to \$20 billion, an increase of 50 percent. Nakao announced at the closing speech on 5 May that the bank would seek increasing contributions, but he did not mention whether the emerging countries like China and India would now have a greater voting power.⁵¹ This could be contentious. Moreover, the US Congress has not been particularly interested in making greater financial contributions to multilateral financial institutions for years now.

It seems to a large number of observers outside Japan that there is sufficient room for both financial institutions to grow. The ADB estimated an infrastructure funding need of \$8 trillion in 2010–2020. As a representative view, Indonesian Finance Minister Bambang Brodjonegoro told the media in Baku that ‘we need both AIIB and ADB because the infrastructure financing need is very big, it cannot be fulfilled by only one institution. We need strong collaboration between ADB and AIIB; it is critical not only for Indonesia but for most of the developing countries in Asia.’⁵² As the challenger, the Chinese delegation struck a conciliatory tone.

Not surprisingly, the Japanese feel that they have the most to lose. Despite much branding, the ADB has always been about infrastructure projects. As ADB President Nakao Takehiko told the journalists at the meeting, 80 percent of the ADB projects are for infrastructure.⁵³ Unlike the World Bank, the ADB is more tightly controlled by the Japanese Ministry of Finance, with the ADB presidents typically being the ‘old boys’ of the ministry and some senior positions taken up by the ministry officials on secondment. Thus, the Japan-China rivalry is felt more strongly in the ADB position. Fundamentally, this is about power and influence. One should also keep in mind that the ADB has played a significant role in Japan’s vision for Asian regionalism.⁵⁴ And Japan has arguably leveraged its dominance in the ADB for greater global influence.⁵⁵ In a typical Japanese fashion, the ADB president announced a plan to increase public-private partnership in project development,

setting up a special fund for the purpose. They also signed an agreement with several major banks including HSBC Holdings and Bank of Tokyo-Mitsubishi UFJ to accomplish this goal.

Besides increasing the capacity of the bank, the Japanese government has also sought to differentiate the bank from the AIIB by emphasizing the quality of Japanese aid programs. That is exactly what Finance Minister Asō said at a panel discussion at the annual meeting with the Chinese present. Prime Minister Abe also made a similar pitch for high-quality Japanese investment in infrastructure at the G-7 summit held in Germany in May 2015.

Right before the G-7 summit, Abe had announced that Japan would commit \$110 billion to fund Asian infrastructure projects. This is a larger amount of money than the AIIB subscribed capital. What is striking is how drastically different Japan's approach is now compared to its past. Japan used to act regarding the ADB in a way suggesting that it did not particularly care how much concrete benefits it would gain from the bank as long as it maintained its high status.⁵⁶ This is part of a broader change in Japanese official development assistance (ODA) policy.⁵⁷ There is little visible resistance in Japan to this drastic change as if it is only natural. A long-term economic slowdown and China's intensifying competition have contributed to this change, but such a sharp turnaround raises a fundamental question about the nature of the Japanese political economy system. Although Japan has been a mature, functioning democracy since the end of the World War II, it is hardly liberal. Thus, a more nativist, nationalist instinct resurfaces as soon as the system is under duress. In that context, Japan is focusing on 'doing well' rather than 'doing good' in its economic foreign policy.⁵⁸

On 4 July, Abe pledged 750 billion yen (\$6 billion based on the exchange rate of the day) of ODA in three years starting in Fiscal Year 2016 to Thailand, Vietnam, Cambodia, Laos and Myanmar at the Japan-Mekong summit held in Tokyo. Abe emphasized the importance of the Mekong River region for Japan and 'high-quality' infrastructure investment. The pledge is much bigger than the 600 billion *yen* pledge in the previous three-year cycle. The Japanese media again saw the Abe administration's clear intention to counter the AIIB.⁵⁹ Like the previous Democratic Party of Japan administration, the Abe government has also been promoting infrastructure exports as a way to bring Japan out of a two-decade-long economic slowdown. Yet the Japanese have faced tough competition from the Chinese who have been able to deliver large infrastructure projects at a faster time and lower cost.

It makes sense for the Japanese to emphasize quality given the higher costs of Japan-exported infrastructure projects. Japan needs to go to that niche and put China down at the same time. Yet a project has to be cost-effective for the recipient countries. Sino-Japanese rivalry in this area is fundamentally good news for the recipient countries given greater quantity of assistance and a greater variety of products and services available. Better infrastructure in East Asia, funded by whomever, would be beneficial for all. Moreover, the competition will necessarily force the Japanese to lower costs and the Chinese to improve quality, generating even more benefits for the recipient countries. The Chinese do not appear threatened by Abe's moves.⁶⁰ They are on the rise and have proven competitive with their aid packages that often are suitable for developing countries. It is also arguably easier for China as a catch-up economy to improve quality than for Japan as a mature economy to lower costs.

The Japanese keep talking about the importance of transparency.⁶¹ At the same time, the integrational projects Japan and the United States have championed are not transparent either. As a case in point, the details of the TPP were not disclosed to the members of the Japan Diet as late as early May 2015. The Japanese government made it clear on May 5 that the Diet members would be shown the detail of the negotiations in the next week on the conditions that they not reveal the secrets.⁶² The members of US Congress can view the texts in a secure room but cannot discuss them in public. In fact, the content of the ongoing TPP negotiations have been such a closely kept secret that WikiLeaks announced an award of \$100,000 to anyone who can get a copy of the TPP agreement. WikiLeaks had already published some chapters of the agreement under negotiations but had not been able to have its hand on the whole thing.⁶³

The Japanese have also been talking about 'governance'. Yet the ADB did not take on this issue until the mid-1990s and only under US pressure. The ADB adopted a board-approved policy on governance in October 1995. The governance issue was controversial for the multilateral development banks because their articles of agreement typically emphasize a principle of political noninterference. Recipient countries also typically resent what they view as infringement upon their sovereignty. China and a number of other ADB member countries were especially opposed to any linkage between policy and capital. The ADB adopted a narrow definition of governance. It chose the definition in the 1979 edition of *Webster's New Universal Unabridged Dictionary* that says that governance is 'the manner in which power is exercised in the management

of a country's social and economic resources for development'. On the global level, the dominant view in the West was that good governance is democracy and democratization.⁶⁴ In fact, it is well recognized that the ADB has not followed the World Bank's lead in linking development to human rights.⁶⁵ What the Japanese mean by governance in the discourse on the AIIB is mainly about the internal governance of the bank. Their concern is over China's dominance in the bank.

As discussed in Chapter 2, Japan was far quicker in adapting to the West-dominated international system and used that head start against other Asian nations. To a large extent, the Japanese identity as the most modernized Asian country and teacher to other Asian countries remains strong. It is to Japan's advantage to ask China or other countries to adapt to the international norms defined by the United States since Japan has a stronger alliance with that country than anyone else in the region.

It is not unreasonable to expect the AIIB to be less conforming to the existing international financial institutions than the ADB. After all, as a country that views itself as between Asia and the West, Japan has sought to balance between insistence on its own way of doing things and compromising with the adoption of Western features. These include accountability and transparency to the extent that observers often draw different assessment about the ADB.⁶⁶ China is in a different place in the global system and behaves differently from Japan. Nevertheless, the fact that it has been mainly the Japanese lecturing China over the AIIB has not been well received in Beijing. The Japanese position reflects both anxiety over loss of power and influence and long-standing identity that they are the most qualified in Asia to understand the international norms. All the comments are subconsciously meant to check China's advance and achieve some results in shaping the AIIB from outside. Yet so far it only serves to annoy the Chinese government. On 18 June 2015, the Chinese Foreign Ministry spokesman commented that 'we also understand those who choose not to join at the current stage. But if some countries, who themselves are not willing to join, keep carping about others' efforts to solve problems, then that is not quite desirable'.⁶⁷

The AIIB compared to the World Bank and the ADB

The World Bank, the ADB and the AIIB were created in different points of time and the three key players were situated in different places in the

global system. The United States was a world hegemon and especially powerful in the economic and financial arena at the end of World War II. The winning great power gets to restructure the postwar international order. As a defeated and protected country, Japan sought to enhance its standing within American hegemony, which largely explains why it proceeded with the ADB project. The Japanese commentators viewed the creation of the ADB in which Japan held as high a share of voting power as the United States as indication of its growing importance in world economy. By contrast, the Chinese government was willing to push ahead without the United States.

Different from Japan, the Chinese government has been far more assertive. The AIIB initiative came straight from the top, which partly explains the fast pace of its creation. This difference results from different positions the two Asian great powers occupy and the different nature of their relationships with the United States. Japan was not as powerful relatively speaking in the early 1960s as China is in the mid-2010s. Japan was an ally with the United States and had been occupied by the United States merely a decade ago. Japan wanted to elevate its position vis-à-vis the United States but did not want to challenge the hegemon. In fact, the Japanese government viewed securing US participation as central to the success of the ADB project. Moreover, Japan did not want to shoulder the financial burden alone. Conversely, the US government was initially indifferent to the ADB initiative.⁶⁸ By contrast, the China-led AIIB greatly alarmed the United States.

In the scheme of things though, China has started at a slower pace than Japan did with the ADB. Japan began to think about creating a regional development bank merely ten years after regaining its sovereignty. By contrast, it took longer for China to take this step—34 years after its opening and reform in 1978. One important reason is that Japan was a developed country while China is yet to reach that stage.

The AIIB is commonly viewed in Japan as a rival with the ADB in terms of membership: 67 for the ADB and 57 for the AIIB. But we should also compare the two banks at their birth. The AIIB is relatively more successful judging by the size of membership. The ADB was founded by 31 member states, which were divided into two categories of 19 regional and 12 nonregional members. The 19 regional included Afghanistan, Australia, Cambodia, India, Indonesia, Japan, South Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Philippines, Samoa, Singapore, Sri Lanka, Taipei (China), Thailand and Vietnam. The nonregional

members included Austria, Belgium, Canada, Denmark, Finland, Germany, Italy, the Netherlands, Norway, Sweden, United Kingdom and the United States.

The AIIB membership can be even bigger. The ADB membership includes Taiwan (Taipei, China) and Hong Kong (China). Taiwan actually applied to the AIIB but was not accepted over its proposed name. Beijing wants to emphasize the 'One China' principle. The Chinese government has welcomed Taiwan to be a member, just not a founding member. Hong Kong has also indicated that it wants to join. China wants to differentiate sovereign states from other entities. The ADB membership also includes a number of small Pacific island countries not currently in the AIIB.

The ADB could have been much larger as well. Israel, Saudi Arabia and Kuwait wanted to join the new bank, but the ADB decided against including nonregional developing countries. The United States and other countries were interested in inviting the Soviet Union and other East European socialist countries but those countries decided not to join based on the argument that the ADB does not give equal voting rights to all members. Iran was active in the preparatory stage but did not join largely because it failed to win the headquarters to Tehran. Burma also stayed away from the ADB initially because it wanted to invite the Asian socialist countries like China, North Korea and North Vietnam.⁶⁹ Twenty-two countries signed the Articles of Agreement on 4 December 1965, the last day of the Conference of Plenipotentiaries and nine other countries by 31 January 1966. The agreement provided that the member countries deposit their instruments of ratification or acceptance by 30 September 1966. All signatory countries except Iran did so by the deadline.⁷⁰ Thus, the AIIB is at least moving as smoothly as the ADB did.

Looking at Table 3.1, one should see that the AIIB is more Asian than Pacific when compared to the ADB. Since Japan and the United States have the largest voting shares and Canada is a member country, the center of gravity for the ADB is in the Pacific Ocean. By contrast, the center of gravity for the AIIB is in the western part of China, close to the heart of the Eurasian continent, with China, Russia and India as the top three voting shareholders.

Map 4.1 and Map 4.2 reveal more clearly the geographical difference between the AIIB and the ADB. Map 4.1 contrasts the geographical distribution of the ADB membership when created with the AIIB founding membership in 2015. The ADB membership in the mid-1960s was

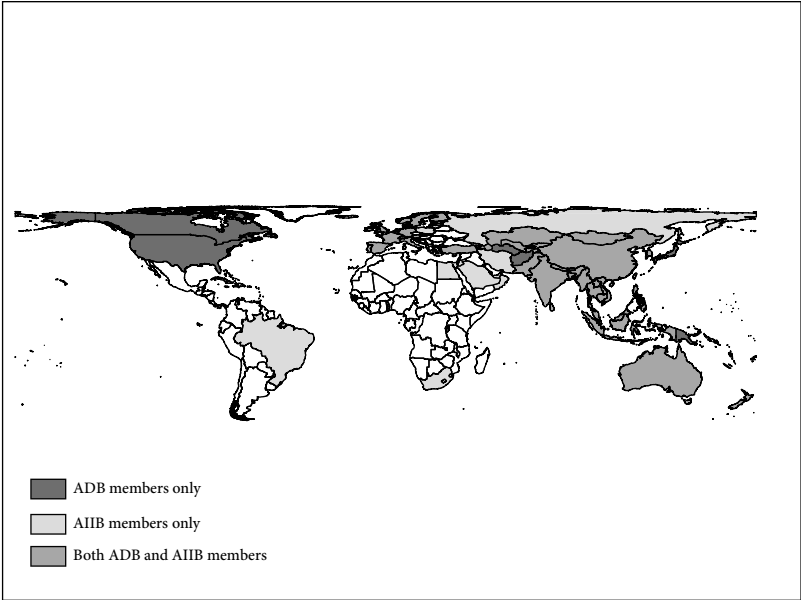


MAP 4.1 *ADB membership in 1966 versus AIIB membership in 2015*

Note: This is an equal area map based on ESRI, World Cylindrical Equal Area. ArcGIS10.1 mapping software is used. For the ADB membership, Germany rather than West Germany is marked and Taiwan is not marked for technical reasons.

centered in the Pacific Ocean and spread into Western Europe, Australia, some Southeast Asian countries and India. It overlapped with the Cold War divide. The AIIB membership overlaps with the ADB original membership in Southeast Asia, South Asia and Oceania, but sharply differs from the ADB in that it occupies almost all of the Eurasian continent, plus two BRICS countries in Brazil and South Africa. Map 4.2 shows that the two banks now overlap much more, but still differ in the ADB's tilting to the Pacific and the AIIB centered in Eurasia.

With the AIIB, the Chinese intend to improve international financial institutions. They view the World Bank and the ADB as overly bureaucratic, overstaffed and cumbersome. This is an assessment on which some longtime World Bank insiders agree. On the eve of the official signature for the Articles of Agreement on 29 June 2015, Jin Liqun, the Chinese candidate to be the first AIIB president, told journalists that the AIIB would learn both positive and negative lessons from the



MAP 4.2 *ADB membership versus AIIB membership in 2015*

Note: This is an equal area map based on ESRI, World Cylindrical Equal Area. ArcGIS10.1 mapping software is used. Taiwan and Hong Kong are not marked for technical reasons.

existing international financial institutions but will not be their clone.⁷¹ The Chinese government wants the AIIB to be nimbler and use electronic communications more.⁷² The fact that the existing international financial institutions need improvement should not be controversial. By definition all institutions can be improved. The international financial institutions have been criticized from all angles over the years. The more important question is whether China can indeed do better, which is not knowable at this point.

The AIIB nested to the World Bank and the ADB

Whether Beijing will actually succeed or not, its efforts to create the AIIB are within the realm of acceptability and respectability in the existing international order. Using the evolutionary terminology, the AIIB is nested to the World Bank and the ADB. There is an unmistakable evolu-

tionary linkage from the World Bank and the ADB to the AIIB even though they took place in different historical contexts.

The World Bank was unquestionably the original multilateral development institution. The ADB borrowed much from the World Bank. Participants such as Watanabe had direct experience with the World Bank. The World Bank also provided valuable advice. The ADB was thus a strong functional equivalent to the World Bank within Asia. There were necessarily institutional adaptations from the World Bank and existing regional development banks such as the IDB and the AfDB.⁷³

The ADB was nested to the World Bank and the West-led international order. As discussed earlier, the ADB was officially created under the auspices of ECAFE, a UN organization. There were also other nesting links. For example, the 'Agreement Establishing the Asian Development Bank' signed in December 1965 stated in Article 3 of Chapter 1 that 'membership in the Bank shall be 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 nonregional developed countries which are members of the United Nations or of any of its specialized agencies'. The instruments of ratification or acceptance needed to be deposited with the secretary general of the United Nations. As discussed in the previous paragraph, there were all these experience-based and personnel linkages with the existing institutions.

China has borrowed from both the World Bank and the ADB. China did not need the filter of the ADB to learn about contemporary international financial system. China joined the World Bank six years before the ADB admitted Beijing. China has gained practical experience from its participation in the ADB just as it has gained experience from the World Bank and other international organizations. Most noticeably, Jin Liqun, the AIIB's secretary general of the Multilateral Interim Secretariat, worked as an ADB vice president (August 2003–July 2008). Jin also had extensive experience working with the World Bank, including as an alternate executive director to the World Bank groups in 1988. The AIIB is nested to the ADB, the World Bank and other international financial institutions just like the ADB before it. However, it is arguably less so than the ADB. Such nestedness is an indication of evolution in international financial institutions. As Coyne has argued, 'the nested arrangement of life is precisely what evolution predicts.'⁷⁴ I argue that institutions that are not evolutionary cannot be nested. The AIIB is evolutionarily linked to the World Bank, the ADB and other postwar international institutions.

According to the Articles of Agreement for the AIIB, the bank defines 'Asia' and 'region' as 'the geographical regions and composition classified as Asia and Oceania by the United Nations, except as otherwise decided by the Board of Governors.' And the AIIB membership is open only to the members of the IBRD or the ADB. This is not convergent evolution because of time difference. There were no historical precedents in China's own traditional institutions.

In Table 4.1 I compare the Articles of Agreement for the IBRD, the ADB and the AIIB. The table reveals a striking similarity between the three institutions, at least on paper. In the following paragraphs, I will elaborate on a few evolutionary traits between the three documents.

The starting point for comparing international agreements is their preambles and objectives. The Articles of Agreement for the IBRD (as amended effective 27 June 2012) goes directly to five purposes, namely, to assist reconstruction and development, promote private foreign investment, promote balanced growth of trade, arrange loans for more useful and urgent projects, and bring about a smooth transition from a wartime to a peacetime economy. Both the ADB and AIIB Articles of Agreements have a preamble that look similar except that the AIIB highlights infrastructure as its core mission. The ADB charter and the AIIB charter both emphasize economic development and regional cooperation as key purposes. Then the ADB charter lists six functions and the AIIB lists four, which are similar to the listed purposes for the IBRD except that they both emphasize the need to 'promote investment in the region of public and private capital for development purposes', using identical languages, for Function (i). The IBRD charter does not mention public capital. Thus, the AIIB is more similar to the ADB than to the IBRD in purposes. Note, however, that both the ADB and AIIB documents follow the conventional format of international agreements.

In terms of membership, the AIIB is closer to the IBRD because it is open to virtually all countries in the world. The ADB restricts nonregional members to developed countries. Yet similar to the ADB, the AIIB differentiates regional from nonregional member states and gives preference to the former. The AIIB is fundamentally a regional financial institution. What is defined as regional for the ADB is not exactly the same for the AIIB. As shown in Table 3.1 Turkey is considered a nonregional member at the ADB but a regional member at the AIIB.

Both the ADB and the AIIB follow the authorized and voting share model established by the IMF and the World Bank. Yet the AIIB is closer

TABLE 4.1 The AIIB versus the IBRD and the ADB

	IBRD	ADB	AIIB
Purpose	Reconstruction and development, promote <i>private</i> investment, promote long-range balanced growth, arrange loans for most useful, most urgent projects first, assist transition from wartime to peacetime economy	Regional economic development and cooperation Functions: Promote <i>public and private</i> investment, utilize its resources to finance development, meet requests from members to assist them in development policy, provide technical assistance, cooperate with UN, ECAFE	Sustainable development, regional cooperation Functions: Promote <i>public and private</i> investment, utilize its resources to finance development, encourage private investment, other services
Membership	International Monetary Fund members Total members in IBRD: 188	ECAFE members, other regional countries and nonregional developed countries that are UN members	IBRD or ADB members Regional: Asia and Oceania as defined by United Nations Nonregional founding members Total members: 57
Authorized capital	\$10 billion in 1944, 20% paid-in, 80% callable	\$1 billion in 1965, 50% paid-in, 50% callable initially At least 60% for regional members 60% for nonregional members	\$100 billion, 20% paid-in, 80% callable 75% for regional members 25% for nonregional members
Currency	Gold, \$US or other currencies as specified	50% gold or convertible currency 50% the currency of the member	\$US or convertible currencies
Governance	Board of governors Executive directors (five from five largest share holders each, seven elected by governors), resident in headquarters, meet as often as required President and vice presidents President American by practice	Board of governors Board of directors (seven regional and three nonregional, resident in headquarters, meet as often as required President and vice presidents President Japanese by practice	Board of governors Board of directors (nine regional and three nonregional), nonresidential and not paid President and vice presidents President Chinese?

Continued

TABLE 4.1 *Continued*

	IBRD	ADB	AIIB
Voting	<ol style="list-style-type: none"> 1. Basic votes: 5.55% of all votes distributed equally 2. One vote for one share of authorized capital 	<ol style="list-style-type: none"> 1. Basic votes: 20% of all votes distributed equally 2. One vote for one share of authorized capital 	<ol style="list-style-type: none"> 1. Basic votes: 12% of all votes distributed equally 2. One vote for one share of authorized capital (\$100,000 a share) 3. 600 votes each for founding members
Top five voting share holders	<ol style="list-style-type: none"> 1. United States: 16.21% 2. Japan: 7.51% 3. China: 4.85% 4. Germany: 4.40% 5. France/United Kingdom: 3.95% 	<ol style="list-style-type: none"> 1. Japan: 12.84% 2. United States: 2.75% 3. China: 5.47% 4. India: 5.38% 5. Australia: 4.95% 	<ol style="list-style-type: none"> 1. China: 26.06% 2. India: 7.51% 3. Russia: 5.92% 4. Germany: 4.15% 5. South Korea: 3.50%
Headquarters	Washington, DC	Manila, Philippines	Beijing, China
Working language	English by practice	English by rule	English by rule

Source: Chinese Ministry of Finance, 'Asian Infrastructure Investment Bank: Articles of Agreement', <http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/201506/P020150629360882722541.pdf>. Date accessed 1 July 2015; World Bank, 'International Bank for Reconstruction and Development: Articles of Agreement' (as amended effective 27 June 2012), http://siteresources.worldbank.org/BODINT/Resources/278027-1215526322295/IBRDArticlesOfAgreement_English.pdf. Date accessed 1 July 2015; World Bank, 'World Bank Finances', <https://finances.worldbank.org/Shareholder-Equity/IBRD-Statement-of-Subscriptions-to-Capital-Stock-a/rcx4-r7xj#column-menu>. Date accessed 1 July 2015; ADB, 'Agreement Establishing the Asian Development Bank', <http://www.adb.org/documents/agreement-establishing-asian-development-bank-adb-charter>. Date accessed 1 July 2015; Table 3.1. The voting shares for the AIIB come from news stories. For the voting shares of the top five in the AIIB, see Center for Strategic and International Studies Asia Program, 7 July 2015, <http://cogitasia.com/by-the-numbers-china-the-asian-infrastructure-investment-bank-aiib/>. Date accessed 10 July 2015.

to the IBRD in terms of basic votes that are distributed equally among member states. The AIIB has a 12 percent basic vote arrangement, compared to 5.55 percent for the IBRD and 20 percent for the ADB. Both Japan and the United States had hoped to keep the basic vote ratio to 10 percent but to no avail before the founding of the ADB. The AIIB innovated by giving the founding members 600 votes, differing in practice from the IBRD and the ADB. Unlike both the IBRD and the ADB, the AIIB has given greater prominence to emerging powers like India.

Though not in the Articles of Agreement, the AIIB reportedly calculates the shares of authorized capital by giving a 40/60 percent weight to purchasing power GDP, which allowed India to become the second largest shareholder in the bank.⁷⁵

One of the well-publicized institutional departures by the AIIB is that its board of directors will not be in residence in the headquarters in Beijing and will not be paid. The Chinese government has argued that it is wasteful and inefficient to have a permanent board that interferes in bank operations on behalf of their home governments. Yet the criticism is that such a system may give the president, presumably a Chinese national, excessive power and influence.

We should recognize that the three documents are strikingly similar or we would have heard from analysts and journalists, some of whom are intensely scrutinizing the AIIB design. My discussion earlier is largely consistent with the thrust of the comments and analyses on the AIIB. That discourse matters because it helps shape policy response. At the same time, as a social scientist I want to provide a more complete and precise analysis of the similarities and differences between the three documents.

The three documents are long. The IBRD Articles of Agreement has 11 articles, totaling 50 sections, as well as 2 schedules attached at the end. The ADB document has 10 chapters with 66 articles, as well as 2 annexes at the end. The AIIB has 11 chapters that are divided further into 60 articles plus 2 schedules. Altogether, there are 87 features that can be analyzed based on my tally.

As shown in Appendix, I have devised a simple method to measure the similarities and differences between the three Articles of Agreement. I treat linguistic composition as similar to DNA that stores information. Thus, use of language provides evolutionary clues. I use my own judgment to score the similarities between the documents, including overlapping articles and unique ones. Any article that overlaps scores at least 1 and 4 if there is a perfect match. Any article that is only in one document but not in the other scores zero. In a three-way relationship, if Document A has a clause but Documents B and C do not have it, A is 0 relative to B and C while B and C score 4. I focus mostly on substance. Yet I give some consideration to how provisions are treated in the three legal documents. If a feature is essentially the same but is listed as an independent section or article but as only part of a section or article, I score it as 3.5. An average of similarities would allow us to compare

the documents. To simplify things, I give equal weight to every article and do not take into consideration different sequences. I also follow a chronological order, comparing the second in line to the first and the third in line to both the first and second.

It is conceivable to create a methodology that is more precise and even machine-coded to avoid subjectivity. However, I am trying to provide a prototype at this point. Moreover, it would be a methodological overkill for studying only three documents.

Even a simple method yields at least three key findings, as captured in Appendix. First, the AIIB is indeed much more similar to the ADB than to the IBRD, but it has features from both. The ADB scores an average 2.477 out of 4 in terms of similarities to the IBRD. By contrast, the AIIB has an average 2.241 with the IBRD but 3.098 with the ADB. If we itemize the similarities, the AIIB is more similar to the ADB than to the IBRD in 54 of the 87 total features. At the same time, the AIIB is actually closer to the IBRD than to the ADB in nine features. Put simply, the AIIB is not a grandson to the IBRD through the ADB, but a cousin of the ADB.

Second, considering the fact that the IBRD and the ADB would look somewhat different from themselves if they were redesigned from scratch today, the three financial institutions are clearly related. On paper at least, the newcomer AIIB is strikingly nested to the IBRD and the ADB. While there is innovation and novelty in the content of some key features, the AIIB has come up with only two new features as captured in Appendix, namely, Article 15 on technical assistance and Article 36 on references, arguably trivial in the scheme of things. Another way to see the striking similarities between the three documents is that the three documents use identical or almost identical languages in 17 features, mostly in areas that people take for granted. The legal language used in the documents is also uniformly and solidly Western.

Third, power is embedded in the three documents. As discussed earlier, the fact that much of the documents have been taken for granted reflects the legitimacy and socialization of Western power in the first place. The underlying power structure of the liberal international order is thus not being challenged by the AIIB *per se*. Moreover, as a financial institution, the AIIB is bound by the rule-based global financial market.

Power drives competition. This is reflected in primarily definition and subscription of authorized capital, shares of voting power, management and operations. Divergence takes place in all of these areas. That is the most dynamic part of institutional evolution also because people care

about these features and have made them more important independent of their intrinsic importance for an organization. At the same time, if we follow the definition of regime change by international regime theory, the AIIB constitutes change within a regime rather than change of a regime because it does not challenge the fundamental purpose and norms of the existing international organizations.⁷⁶ As a comparison, the AIIB is nothing similar to the Organization of Petroleum Exporting Countries (OPEC) that is an illiberal production cartel.

Since the AIIB is yet to start its lending operation, we cannot compare it to the World Bank and the ADB in that regard yet. Yet my discussion previously in the chapter should show that it is not always easy to compare the AIIB to the World Bank because the latter has gone through different stages of ideologies and lending practices. In some way, the AIIB looks similar to the early stage of the World Bank that also focused heavily on income-generating big projects.⁷⁷ We can imagine the growth of the World Bank as a crooked tree. It is then difficult to compare the ADB or the AIIB against it. One can imagine a three-dimensional grove of institutional trees. Closeness or distance would look different when we look at the trees in the grove from different angles.

We should expect to see conflictual forces at work. The Chinese government faces a dilemma even if it wants to differ completely from the existing institutions. This is not the case because a successful institution needs to attract more member states. Success ironically would reduce its control over the direction and operation of the bank. If we look into the organizations more closely, we see the active participants in the AIIB and other financial institutions know each other and have all largely been socialized into a similar mindset.

Conclusion

The World Bank was truly a novel international financial institution but it was fully consistent with the American systems and legal practices. The United States has overtime reduced financial support for multilateral institutions and become seemingly more focused on military and defense. This has opened up the institutional landscape for newcomers. Moreover, US resistance to expanded Japanese role in the ADB and other regional institutions made it more possible for China to fill up the vacant institutional space.

Both Japan and China have leveraged on the existing international order, which has fed into their rising power. The United States constructed a global political economy order after World War II, which included Japan as a defeated nation. Overtime, Japan has acquired greater capabilities and has been able to rise in the international economic order. It has been harder for Japan to rise within established international institutions in proportion to its rising overall economic power. Thus, Japan has had periodic urge to demand greater voices or sought to create its own institutions. Japan successfully built the ADB, which was a hybrid of the World Bank and the Japanese institutions. Yet it failed in its attempt to create a Japan-led Asian Monetary Fund in 1997.

China joined the US-led international order in the early 1980s. China is building its own international institutions. It is novel in that the United States does not dominate in them. China's AIIB promises to be faster and more nimble than the existing financial institutions, thus putting pressure on them to reform. This is particularly the case for the ADB, which is reforming and owning up to its somewhat hidden agenda of infrastructure projects rather than solely poverty alleviation. The AIIB itself is nested to the World Bank and the ADB, thus firmly situated within the existing international financial order. Put differently, the AIIB is a functional equivalent to the existing international financial institutions. However, in the scheme of things, China is now further away from the US-led international structure. To understand the larger strategic significance of the AIIB, I now turn to the last chapter.

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5

A New Hegemonic Order in Asia?

Abstract: *The AIIB is a major diplomatic success for China. China has the necessary financial power to accomplish its objective. Virtually every country has accepted China's leading role in a financial institution, a global social reality construction process that legitimizes a greater Chinese influence. But the global financial market affects China just like anyone else. The AIIB does not measure up to the ordering projects by the United States. Yet it still constitutes more of a change to the status quo powers than the Japanese attempt at institution building. While the AIIB is a hybrid borrowing much from the existing international order, the birth and operations of such institutions will weaken the liberal international order because the dominant country in it is not a liberal democracy.*

Keywords: AIIB; China; global financial market; hybridity; liberal democracy; United States

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This chapter seeks to accomplish three analytical tasks. First, I will provide a more focused discussion of China's power and strategies. Second, I will combine my arguments in the previous chapters to examine how the AIIB affects the ongoing struggle for hegemonic order in Asia. Finally, I will offer some forecasting into the future.

China's financial power and the AIIB

Why did China choose to build this AIIB? The answer is straightforward. The Chinese government under Xi Jinping is seeking greater international influence that also addresses China's domestic challenges. What does the case say about China's power and strategic competency? This is a harder question to answer.

The AIIB is a major diplomatic success for the Chinese government. China has the necessary financial power to accomplish its objective in this area. Beijing's commitment of \$6 billion paid-in capital for the AIIB is nothing in the scheme of things. The Chinese government has committed infrastructure funding all around the world. China has pledged \$250 billion in infrastructure investment in Latin America in the next decade. China has poured investment money into Africa for over a decade now. The 'One Belt, One Road' initiative simply adds more financial resources to a region in which China has already invested significantly. According to the Chinese government statistics, China has an FDI stock of \$161.2 billion in 64 countries along the belt and road as of May 2015, which is 20 percent of its overall outward FDI.¹ One needs to be mindful of these large numbers of financial commitment, some of which are exaggerated or double-counted. Yet China has invested in a major way around the world.

The global financial market affects China just like anyone else. The recent Chinese stock market crash is a case in point. China is not immune to the volatility of the global financial market. At the same time, China can mobilize more financial resources at this point because of relatively low entitlements and the dominance of the Chinese state.

What matters here is why China has chosen to use its financial power in this particular way and what objectives it has chosen to advance. The Chinese government has been assertive in terms of the goals it has set for itself, namely, greater influence in global finance and Asian geoeconomics and geopolitics. However, it has not been heavy-handed in its actual conduct in this case. What is notable is how little expressed discord there

has been. Some Japanese journalists reporting on the AIIB have apparently been searching for any sign of trouble that supports their assertion that China would not succeed. Yet they have had precious little to report in this regard. On the contrary, we read reports of the Chinese government being magnanimous rather than vindictive in their wooing of new members. As a case in point, even though Australia and South Korea appeared to pull away from the AIIB in late 2014 due to US pressure, the Chinese government signed free trade agreements with them instead of saying any harsh words.² Beijing has also openly extended invitation to the United States and Japan to join the bank. A key reason for China's interest in having developed countries join the AIIB is to boost the credit rating of the bank in the financial market. In a way, the more successful in attracting new members, the more 'constrained' Beijing would be in running the bank. The fact that we hear little open complaint from the developed country members is that the Chinese government is addressing their concerns. Australian Treasurer Joe Hockey announced on 24 June 2015 that Australia would contribute \$720 million of paid-in capital as the sixth largest shareholder in the AIIB. He said that Australia had initial concerns but was now confident that China will ensure 'appropriate transparency and accountability' in the bank.³

What is striking about the AIIB case is how quickly virtually every country has accepted China's leading role in a financial institution, as discussed in Chapter 3. Although we cannot predict how any rising power would behave in a particular area we can determine whether what it has done can be explained for what reasons. Fundamentally, we observe a global social reality construction process that legitimizes a greater Chinese influence in global finance. China is aware of that expectation and is now actively pushing the process further along.

Yet there are also natural limitations to how much Beijing can do. In a way, it would not be realistic for the Chinese government to act overly aggressively because it would be hard to force people to join their multi-lateral institutions against their will. Besides, the Chinese government has recently suffered a major defeat. After the Chinese fishing boat collision incident in September 2010, the Chinese government used its dominance in rare earths supplies as a weapon against Japan. However, this tactic has backfired. China abolished its export quota in January 2015 after losing the case in the WTO and then removed export tariffs on rare earths in May. China lost badly in this fight.⁴ Like every other country in the world, China is both powerful and weak.

Liberal institutionalism helps to partially explain China's conduct around the AIIB. As liberal institutionalists would predict, China has chosen to

create the AIIB because the bank presumably gives Beijing something valuable not readily available in the bilateral route. At the same time, the AIIB would condition China's behavior just as the World Bank for the United States and the ADB for Japan before China. It is well recognized inside and outside China that it takes more than brute financial power to make an intergovernmental financial institution work. Ironically, the more successful China becomes in attracting member states, the more it has to accommodate them and see its relative power diminish in the process.

Moreover, if we look beyond the AIIB, we see that China cannot seek to dominate in all the financial institutions. It needs to share influence and prestige to allow these institutions to succeed. The Development Bank of the BRICS is a case in point. Although the bank is headquartered in Shanghai, five member countries have equal shares of authorized capital. The position of president will be rotated among the five countries starting with an Indian national.

At the same time, one should not neglect the importance of power related to the China-led bank. Beijing has chosen to create its own institutions because it expects status quo powers like the United States and Japan to resist its effort to gain greater influence in the existing international financial institutions. Furthermore, China has visibly given more attention to the AIIB than to the BRICs development bank.

From a broader, evolutionary perspective, China is adapting to the existing international order, an ecosystem that favors liberal international arrangements. The AIIB has to be more liberal as well or to meet 'the international standards' as the United States. Japan and some others have urged Beijing to do so as well. Thus, we hear the Chinese leaders frequently sound outright liberal and altruistic. On the official launch day, President Xi emphasized to the representatives of the member states that 'Our motivation [for setting up the bank] was mainly to meet the need for infrastructure development in Asia and also satisfy the wishes of all countries to deepen their co-operation.' Finance Minister Lou said that 'This is China assuming more international responsibility for the development of the Asian and global economies.'⁵ One may dismiss such remarks as merely rhetoric. Yet it is still meaningful that the Chinese leaders feel that it is important to say the right things because of the larger global environment. More importantly, they will have to walk the walk as they have already done to some extent to make the AIIB a success. The AIIB looks like a functional equivalent to the World Bank and other existing international financial institutions. As discussed in the previous chapter, the bank is nested to the existing development financial institutions.

China has been rising economically. Regardless of how solid that growth has been and whether it is sustainable, the country has grown impressively for three decades. Yet converting that economic success to greater influence is a different story. One reason is that China's success has resulted from participating in the existing international order, which logically makes it less likely to desire a direct challenge to the arrangement. This is not a case in which the United States has allowed China to ascend. From an ecological perspective, a country's success changes the international structure and provides both costs and opportunities for other countries. No country has been or arguably ever will be able to impose direct administrative control over the whole world. There is a discrepancy between its political, military, economic and cultural reach. A successful country creates an economic network of influence far beyond its political control. This is due to its need for resources and outlets for its competitive production capacity. That economic network allows other political entities to grow although it does not guarantee success. Thus, an empire inevitably declines because it is most likely to become overextended over imperial commitments over time and its power will diffuse over time.⁶ China will not be an exception to that rule of history.

China has not been that strategic, admiration by some commentators aside. Beijing is being opportunistic. There has not been that much space for China to maneuver in the current international system in terms of politics, security or even economics. China has gradually opened up space to make its moves. Yet the country is still constrained. Reaction to China's land reclamation in the South China Sea by the international community, including some countries in the AIIB, is drastically different from the international reaction to the AIIB. In the scheme of things, the AIIB primarily demonstrates how the Chinese government is gaining fleeting influence the hard and expensive way. As mentioned just earlier, a successful country provides opportunities for other countries in its economic network. China's determined efforts to enhance that network will also hasten its own relative decline, not particularly strategic in terms of optimizing self-interests from a longer historical lens.

The AIIB and East Asian international orders

The AIIB has been viewed by some as all about a struggle for hegemonic order in East Asia, particularly in the United States, Japan and China. Objectively speaking, the AIIB does not measure up to the ordering

projects by the United States. Yet it still constitutes more of a change to the status quo powers than the Japanese attempt at institution building in the postwar era, as discussed in the previous chapter. However, the AIIB goes to the heart of East Asian international relations.

The AIIB is a hybrid institution nested to the existing international financial institutions. At the same time, the AIIB is consistent with China's recent foreign policy trajectory. In the spectrum of Chinese foreign policy initiatives, the ADB is the best China can do from a US perspective. China is not only creating the AIIB. It is also constructing man-made islands in the South China Sea. One should not expect China to do America's bidding. China and the United States are not the same countries. As discussed in Chapter 2, China is an ancient center of civilization situated in the democracy-resistant, pistol-shaped zone in the Eurasian continent. The AIIB for now at least overlaps with that zone better than the ADB does. As the AIIB case shows, China and the United States are not immutable to each other. China, in particular, has learned from the United States. Yet odds are that if China succeeds in its current political form, the East Asian order will be somewhat or quite different from what we have now.

The larger theoretical claim is that the countries in the world are not like units as Kenneth Waltz and John Mearsheimer assume them to be.⁷ There is competitive pressure on the states to become more alike but the same pressure may also push them apart in their effort to seek their niches. Empirically, the states are just very different politically, economically, socially and culturally. They have not fundamentally converged. That matters particularly when hegemony weakens.

If one desires continuity and stability, one should be greatly discouraged observing what is going on around the world. Some well-established expectations or myths have been burst, sure signs that the established international order is under severe stress. Russia burst the postwar myth that no country can seize another sovereign country's territories. It is suffering some consequences but there is no evidence that it can be forced to give up Crimea. The ISIL has challenged the assumption that a Muslim caliphate is buried in the distant past. The proto-state may not succeed but its audacious effort and appeal to the Muslims around the world would have been unimaginable only a few years back. Greek voters potentially burst the myth of the irreversibility of the European integration project. Japan's prime minister has undermined the postwar myth of Japan never using military force again. All the developments and many more are important because they may start a trend. Underlying

all these historical processes is a simple question of what and whom the existing international order is designed to serve. Challenges arise fundamentally because countries or groups or movements do not wish to accept the purposes embedded in the existing order. In this global context, China's AIIB challenge is less bold and more conservative. Yet the initiative comes from a rising great power and one naturally wonders what more will come from the same country.

A dominant theme in East Asia is a 'division of labor' between the United States and China, essentially a dual hegemonic structure, the security dimension for the United States, and economic dimension for China. In such a structure, most countries behave predictably, turning to the United States for security and to China for commercial benefits. Yet this structure is inherently unstable. With greater economic capabilities and higher stakes, China is building up its military might, which has led to stronger desire by some regional countries for the United States to balance against Beijing. The United States, on the contrary, has a strong stake in asserting its economic leadership as well.

Since around 2009, the United States has indeed sought to shore up its influence in the economic realm through the TPP project. Secretary of State Hillary Clinton promoted the TPP as an economic pillar to complement Pentagon's military moves in the Asia Pacific region. Some participants would recall that after they visited China in 2009 they felt even stronger support for the TPP initiative.⁸ From the US perspective, this is not about containing China but about countering China's assertiveness. That fine difference is largely lost in China. What they see is a regional economic project that explicitly excludes them. It does not help that from President Obama on down, American officials often portray the TPP as about letting the United States rather than China write the rules for East Asia.

The United States does have a strategic motive behind the TPP. It is not just rhetoric. In their highly influential analysis for the East-West Center, Peter Petri, Michael Plummer and Fan Zhai used a computable general equilibrium model to calculate that the TPP-12 countries may gain \$285 billion by 2025. Yet if China, Indonesia, South Korea, the Philippines and Thailand are added to TPP, the gains would increase to \$892.8 billion. A lower-quality Free Trade Area of Asia Pacific (FTAAP) would also increase the gains to a high \$759.5 billion.⁹ The Petri, Plummer and Zhai study has been credited for the often-heard US government's claim that the United States would gain \$77 billion from the TPP.¹⁰ However, the same government should note that the study has shown far greater gains from a China-included free trade agreement.

While the Obama administration has been emphasizing the rulemaking objective of the TTP, it is actually less about rules than about locking up friends and denying China closer ties to the same countries. East Asia has been immersed in international rules already, including trade rules. What the TPP hopes to accomplish is a tougher set of rules. Hillary Clinton called the TPP 'the gold standard' trade treaties in a speech given in Adelaide, Australia, in 2012. Yet the TPP may well be too sophisticated and complicated for the world we actually live in. The TPP is a highly demanding arrangement consistent with the United States's practices. China's FTAs are simpler and narrower. In a similar way, the Chinese government has framed the AIIB as more nimble and focused than the US-led financial institutions. Thus, we will continue to see a rivalry in this area even if the TPP is concluded.

The AIIB goes to the heart of a strategic triangle between the United States, China and Japan. The United States and Japan have moved much closer, partly thanks to the AIIB. Japan has been pursuing a strong alliance with the United States. The United States has been seeking to shore up its position in East Asia. Four weeks after over 50 countries had agreed to join the AIIB, Prime Minister Abe visited the United States. The United States welcome a more assertive Japan as crucial for countering a rising and more assertive China.¹¹

From a narrower realist perspective, even though the United States has relatively declined, the balance of power does not yet favor China. If we examine the economic power, measured as shares of total world GDP, among the five great powers in Asia, namely, China, India, Japan, Russia and the United States, as shown in Figure 5.1, we can see that the United States is still almost twice as big as China. If we use purchasing power parity, China actually surpasses the United States in 2014. Yet if we look at the military capabilities, the United States continues to commit far more resources to defense than China does, as revealed in Figure 5.3.

Three reasons explain why the struggle for hegemonic order has intensified. First, the relative trend of China gaining in power and influence is encouraging for Chinese analysts and alarming for the United States and its allies. Second, China may not yet match the United States but is now more than powerful against other Asian nations, as shown clearly in the three graphs.¹² Third, the United States faces challenges elsewhere. Challenges to the existing order come from all players in the international arena and domestic context. The ISIL wants to destroy the modern international system. Russia does not mind undermining the postwar order by annexing territories along its borders. By contrast,

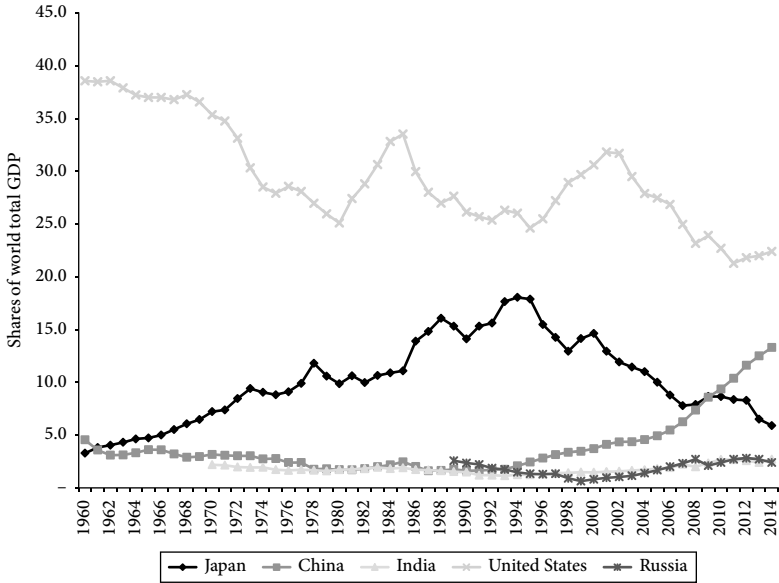


FIGURE 5.1 *Power distribution among the Big Five, 1960–2014 (Current \$US)*
 Source: Calculated from World Bank, World Development Indicators online.

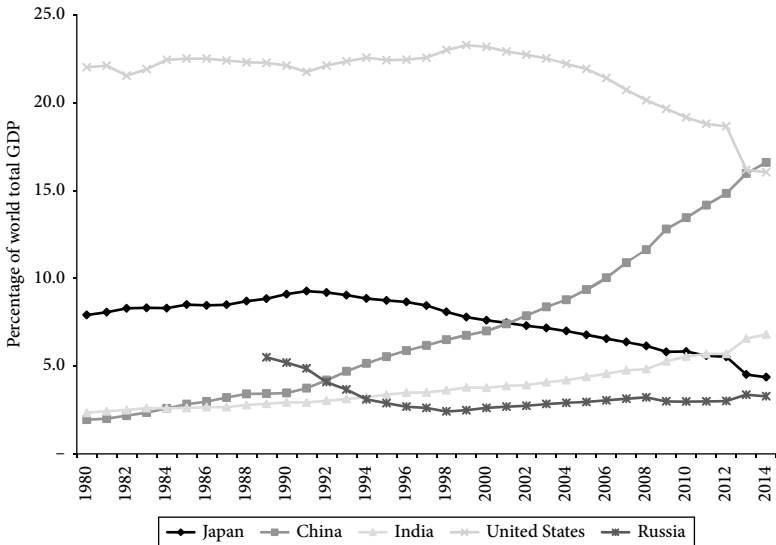


FIGURE 5.2 *Power distribution among the Big Five, 1980–2014 (PPP)*
 Note: GDP PPP constant 2005 international \$ for 1980–2012 and GDP PPP constant 2011 international \$ for 2013–2014.
 Source: Calculated from World Bank, World Development Indicators online

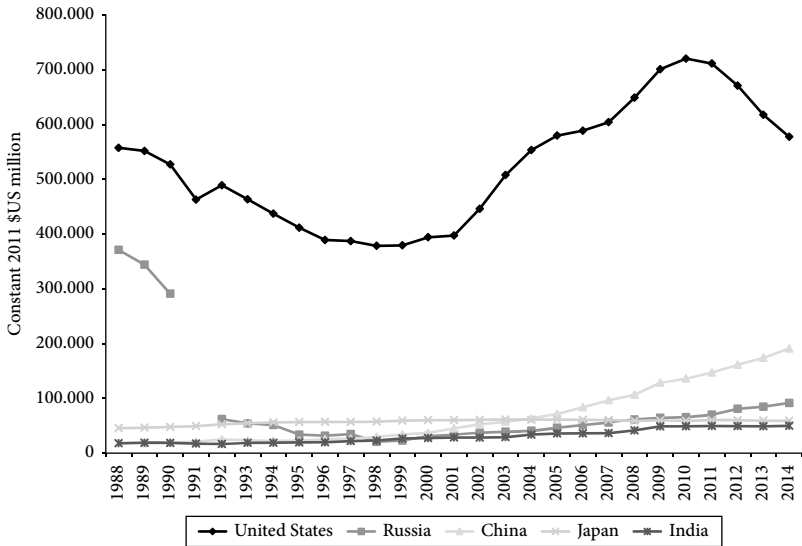


FIGURE 5.3 *Big Five military expenditure, 1988–2014*

Source: SIPRI, SIPRI Military Expenditure Database.

China is only partially challenging the liberal international order and is gaining influence without firing a shot. Thus, not everyone in the United States is willing to view Beijing as the primary opponent.

East Asia is not all about China and the United States of course. Other state or nonstate actors are making their own moves. The AIIB and other developments related to China are more likely to put pressure on Japan to revert to its ‘roots’ than to adopt more Western-style reforms. So we should expect to see more ‘East Asian’ in East Asian international order in the coming years. East Asia has a far wider diversity of political and economic institutions than most other regions but if we consider features such as developmental state as a key characteristic of East Asian international political economy, the region will move more in that direction.

It is useful only to some extent if we focus on whether a country is finally balancing against China as realist theory predicts. There is a whole range of strategies that countries can use and they typically mix them up. One should not be surprised. After all, even the United States has consciously adopted a mixture of engagement and containment to China, varying only in relative saliency of each approach. From a biogeographical perspective, we can view Asian international relations as part of a multilayered, multidirectional political economy ecosystem.

Besides substantive issues, I want to emphasize that we are in the start of a fundamental shift in international relations, however one wants to frame it. Thus, how we conceptualize what we are observing affects how the emerging international order will be structured. For a fast book, I cannot provide a detailed study of the analyses of the AIIB specifically and East Asian international relations broadly.¹³ More importantly, I should not pretend to be able to observe from above. I am one of the analysts. The policy discourse is important because it is a window into how new social reality is being constructed and how power factors in.

With all this complexity, how do we understand what is going on? As discussed in Chapter 1, one solution is to determine the past patterns of behavior for all the players. Put simply, what kinds of games have they been playing all this time? One should be able to observe readily that countries typically play different games and mix things up. Put simply, they do what seem natural for them. To see if a country is balancing or not is too simplistic to capture the rich and consequential mixed plays countries and nonstate actors have been utilizing.

Looking into the future

It is difficult to predict what will happen because of random events and developments. Having said that, I intend to forecast what might happen related to the AIIB and the East Asian international order.

The AIIB is most likely to have a strong presence in the international development financial scene. China will work hard to make the bank work because the country's and President Xi's reputation is at stake. There is no reason to believe, however, that the AIIB will necessarily be more successful than the World Bank and the ADB in facilitating development in a broad sense. Economic development is possible since a good number of countries have already done that. At the same time, we do not know the magic formulae to engineer economic growth. China will not be an exception to the rule.¹⁴

While the AIIB is a hybrid borrowing much from the existing international order, the birth and operations of such institutions will weaken the liberal international order because the dominant country in it is not a liberal democracy. As I have discussed in the book previously, all political institutions have a single origin. That means that any learning of an institution from another lineage faces the question of compatibility with the native institutions, affecting the survivability of the learned

institution. Put simply, lineage reveals what comes more naturally for a country. Moreover, the spread of political institutions is necessarily constrained by natural and man-made barriers.

Many people focus on performance, and they may be attracted to nondemocratic countries that exhibit some functional equivalency with democracies or even perform better in certain areas. Thus, the prospect of alternative and emerging political institutions is improving. Some democracies may well learn from these models or change to compete, weakening their democracy in the process either way. One needs to watch particularly the non-Western democratic great powers such as India and Japan. Democracy is likely to weaken in these countries because they are under competitive pressure to adapt to a changing international environment drawing from their predemocracy traditions.

Specific to some Asian countries, China is most likely to experience greater economic challenges and will have a financial crisis sooner or later like any major country that operates fully or partially on market principles. How the Chinese government handles a crisis will be at least as consequential as the crisis itself. At the same time, China will continue to grow, albeit at a lower pace than over the previous three decades, and will continue to gain power and influence in Asia and the world. Beijing will continue to make power moves, which will increase tension with the United States, which can be expected to make its own moves to reinforce its position in Asia. Japan will continue to be a major rival with China, strengthening its alliance with the United States and finding and supporting friends against China. Japan may at some point join the AIIB because all other East Asian countries are already in and because it makes strategic sense to be in as many groups as possible.

The rest of East Asia is already hedging but will face greater pressure from both China and the United States to do things that might be viewed as unfriendly by the other great power, an awkward but likely inescapable situation. All eyes will be on South Korea. Southeast Asia is already divided over appropriate response to China and will continue to be divided given the asymmetry of stakes and ties with China among the ASEAN members. China both benefits and loses from its central geographical location in East Asia, particularly compared to the United States. China will not move away and other countries have strong incentives to deal with China. Some Asian countries like Vietnam believe that they have learned how to deal with China based on the experience of millennia of interaction. But China will also pose greater immediate threat to some of its neighbors than any outside great powers. In short,

we are entering a highly volatile and uncertain period in East Asian international relations.

When future historians and political scientists study East Asian international relations, they are likely to view the establishment of the AIIB as a pivotal event, as both a reflection of a changed power equation in Asia and as a catalyst for further strategizing and action for the countries involved. With the benefit of hindsight, they will be able to study how the AIIB evolved in a larger institutional landscape. For contemporary observers, we should not pretend that we can predict what will happen. Random events may occur to impact fundamental dynamics, and our own actions may create self-fulfilling or self-denying effects. But we should recognize the complexity of the political institutions and events we study and how they make sense from an evolutionary perspective. I have written this book in that spirit.

Notes

- 1 People's Daily site, 7 July 2015, <http://finance.people.com.cn/n/2015/0707/c1004-27267033.html>. Date accessed 7 July 2015.
- 2 'The World Is Xi's Oyster,' *The Economist*, 6 December 2014, p. 48.
- 3 J. Scott (2015) 'Australia Pledges A\$930M to Become 6th-Largest AIIB Shareholder,' Bloomberg, 24 June, <http://www.bloomberg.com/news/articles/2015-06-24/australia-pledges-a-930m-to-become-6th-largest-aiib-shareholder>. Date accessed 24 June 2015. He also indicated that the American and Japanese officials understood Australia's position.
- 4 Wan, *Understanding Japan-China Relations*, pp. 165–182.
- 5 Quoted in Wildau and Clover, 'AIIB Launch Signals China's New Ambition.'
- 6 For the imperial overreach argument, see P. Kennedy (1987) *The Rise and Fall of the Great Powers* (New York: Random House).
- 7 Waltz, *Theory of International Politics*; J.J. Mearsheimer (2001) *The Tragedy of Great Power Politics* (New York: W.W. Norton).
- 8 Cited in David Nakamura, "Clinton's Hedging Leaves Obama without Political Cover", *The Washington Post*, 13 May 2015, A5.
- 9 P.A. Petri, M.G. Plummer and F. Zhai (2014) 'The TPP, China and the FTAAP: The Case for Convergence', East-West Center, 19 May.
- 10 'A Weighting Game,' *The Economist*, 30 May 2015, p. 77.
- 11 See, for example, the Washington Post editorial board, "Past, Present and Future: America Should Welcome Japan's Moves toward a More Assertive Role in the World," *The Washington Post*, 28 April 2015, A16.

- 12 For a detailed analysis along this line, see T.J. Christensen (2015) *The China Challenge: Shaping the Choices of a Rising Power* (New York: W.W. Norton).
- 13 For some representative views on the AIIB, see K. Mahbubani (2015) 'Why Britain Joining China-Led Bank Is a Sign of American Decline,' *Huffington Post*, 16 March 2015, http://www.huffingtonpost.com/kishore-mahbubani/britain-china-bank-america-decline_b_6877942.html?ir=World&ncid=newstushpmg00000003. Date accessed 24 June 2015; L. Summers (2015) 'Rescuing the Free-Trade Deals,' *The Washington Post*, 15 June, A17.
- 14 H. Root (2015) 'China's \$100 Billion Infrastructure Bank: Bumpy Road Ahead,' *The Fiscal Times*, 3 May, <http://www.thefiscaltimes.com/Columns/2015/05/03/China-s-100-Billion-Infrastructure-Bank-Bumpy-Road-Ahead>. Date accessed 8 May 2015.

Appendix



Comparing the Articles of Agreement for the IBRD, the ADB and the AIIB

IBRD			ADB			AIIB		
Articles	Content	Articles	Content	Similarity to IBRD	Articles	Content	Similarity to IBRD	Similarity to ADB
Introductory Article	<i>Have agreed to operate based on following rules</i>	(Preambles)	Considering, realizing, recognizing, convinced, <i>have agreed</i>	0.5	(Preambles)	Considering, acknowledging, realizing, convinced, <i>have agreed</i>	0.5	3.5
ARTICLE I	Purposes	Chapter I	Purposes, functions and membership		Chapter I	Purposes, functions and membership		
Purposes	Reconstruction, development, <i>private investment</i>	Article 1. Purpose	Development, regional cooperation, <i>Public and private investment, development policy, technical assistance</i>	2	Article 1. Purpose	Development through infrastructure, regional cooperation <i>Public and private investment, private investment in infrastructure projects</i>	2	3.5
ARTICLE II	Membership in and capital of the bank	Article 2. Functions			Article 2. Functions			
Section 1. Membership	<i>IMF members</i>	Article 3. Membership	<i>ECAFE members, other regional members and nonregional developed countries that are UN members</i>	2.5	Article 3. Membership	<i>IBRD or ADB members</i>	2.5	3
Section 2. Authorized capital	\$ 10 billion, 100,000 shares only for members	Chapter II Article 4. Authorized capital	Capital \$ 1 billion, 100,000 shares only for members	3.5	Chapter II Article 4. Authorized capital	Capital \$ 100 billion, 1 million shares only for members	3.5	3.5

IBRD			ADB			AIIB		
Articles	Content	Articles	Content	Articles	Content	Similarity to IBRD	Similarity to ADB	Similarity to ADB
Section 3. Subscription of shares	(a) Minimum shares for original members based on Schedule A. Shares of new members determined by the bank (b) The bank determines shares additional to the minimum (c) May increase subscription in proportion when authorized stock increases	Article 5. Subscription of shares	1. Initial subscription for original members based on Annex. A. Initial shares by new members determined by board of governors. <i>Regional members minimum 60% of subscribed capital</i> 2. Board of governors within every five years review capital stock. In case there is an increase of subscription, members may increase shares in proportion 3. Board of governors may increase a member's share at request, but regional members at least 60% of subscribed capital	1.5 Article 5. Subscription of shares	1. Initial subscription for original members based on Schedule A. 2. Initial shares by new members determined by the board of governors. <i>Regional members minimum 75% of subscribed capital</i> 3. Board of governors may increase a member's share at request, but regional members at least 75% of subscribed capital 4. Board of governors within every five years' review capital stock. In case of increase subscription, members may increase shares in proportion	1.5		3
Section 4. Issue price of shares	Initial subscription at par, other subscription at par unless decided by the bank with a majority	Article 5.4.	Initial subscription at par; other subscription by board of governors with a majority	4 Article 6. Payment of subscriptions Article 6.5. (b) (ii)	Payment in own currency equivalent to full value in terms of US\$	3		3
Section 5. Division and calls of subscribed capital	20% paid-in, 80% callable	Article 4.2.	50% paid-in, 50% callable	2 Article 4.2.	20% paid-in, 80% callable	3-5		2

IBRD			ADB			AfDB		
Articles	Content	Articles	Content	Articles	Content	Articles	Content	Articles
				Similarity to IBRD		Articles	Content	Similarity to ADB
		Article 9. Ordinary and special operations		0	Article 10. Ordinary and special operations			0
		Article 10. Separation of operations		0	Article 10.1			0
		Article 11. Recipients and methods of operation		0	Article 10.2			0
Section 2.	The bank and Dealings between members deal with members and the bank through treasury or similar fiscal agencies			0	Article 11. Recipients and methods of operation			0
Section 3.	Not exceeding 100% of unimpaired subscribed capital, reserve and surplus of the bank	Article 12. Limitations on ordinary operations		4	Article 12. Limitations on ordinary operations		Not exceeding 100% of unimpaired subscribed capital, reserve and surplus of the bank	4
		Article 12.1		0	Article 12.1			0
		Article 12.2.		0	Article 12.2			0
		Article 12.3.		0	Article 12.2			0
Section 4.	Seven Conditions on which the bank may guarantee and borrowing of the bank	Article 15. Terms and conditions for direct loans and guarantees		2.5	Article 14. Terms and conditions for financing		Equity investment not exceeding total unimpaired paid-in capital and general reserves	2

Section 5. Use of loans guaranteed, participated in or made by the bank	Article 14. Operating principles	Article 14 (ix). Provisions for member countries only	4	Article 15. Technical assistance	0	0
Section 6. Loans to the International Financial Corporation	Article 19. Special funds	Article 19 (x). Provisions for member countries only	0	Article 13. Operating principles	1.5	2
	Article 20. Special funds resources	Article 20. Special funds resources	0	Article 17. Special funds	0	3.5
			0	Article 17.1, 17.2, 17.3 Article 17.4	0	3.5
ARTICLE IV	Operations	Chapter IV.	Chapter IV.	Chapter IV		Finances of the bank
Section 1. Methods of making or facilitating loans	Lend, guarantee and borrow	Article 21. General powers	3	Article 16. General powers	3	3
Section 8. Miscellaneous operations		Borrowing and other miscellaneous powers Detailed, more than AIBB		Detailed		

IBRD			ADB			AIIB		
Articles	Content	Articles	Content	Similarity to IBRD Articles	Content	Similarity to IBRD	Similarity to ADB	
		Chapter V	Currencies					
		Article 23. Determination of convertibility	IMF definition	2.5*	Article 19. 2	0.5	0.5	
Section 2. Availability and transferability of currencies	Four items	Article 24. Use of currencies	Five items, and members shall not impose restrictions on currencies	3	Article 19.1 Members shall not impose restrictions on currencies	1.5	1.5	
Section 3. Provision of currencies for direct loans	Provide currencies other than that of the member in whose territory the project concerned is carried out. May provide local currency for local expenditure	Article 13. Provision of currencies for direct loans	Provide currencies other than that of the member in whose territory the project concerned is carried out. May provide local currency for local expenditure	4	Article 14.4 The bank may finance its operation in the currency of the country concerned	1	1	
Section 4. Payment provisions for direct loans	1%–1.5% commission	Article 16. Commission and fees	1% commission, guarantee fee, other charges	3.5		0	0	
Section 5. Guarantees	Guarantee commission	Article 16.2	Guarantee fee	3.5		0	0	
Section 6. Special reserve		Article 17. Special reserve		3.5		0	0	
Section 7. Methods of meeting liabilities of defaults		Article 18. Methods of meeting liabilities of the bank	Far more detailed than the IBRD and AIIB versions	2.5	Article 20. Methods of meeting liabilities of the bank	3	2.5	
Section 8. Miscellaneous operations	See Article IV. Section 1							

Section 9. Warning to be placed on securities	Conspicuous statement that it is not an obligation of any government	Article 22. Notice to be placed on securities	Conspicuous statement that it is not an obligation of any government	4	Article 16.6	Conspicuous statement that it is not an obligation of any government	3.5	3.5
Section 10. Political activity prohibited	No interference in political affairs	Article 36.2.	No interference in political affairs	3.5	Article 31.2	No interference in political affairs	3.5	3.5
ARTICLE V	Organization and management	Chapter VI	Organization and management		Chapter V	Governance		
Section 1. Structure of the bank	List of positions	Article 26. Structure		4	Article 21. Structure		4	4
Section 2. Board of governors and one alternate from each member state, five-year term	(a) One governor and one alternate from each member state, five-year term	Article 27. Board of governors: composition	One governor and one alternate from each member state Bank may pay expense for attending meetings	3	Article 22. Board of governors: composition	One governor and one alternate from each member state Bank may pay expense for attending meetings	3	4
	(b)	Article 28. Board of governors: powers		3.5	Article 23. Board of governors: powers		3.5	4
	(c) through (h)	Article 29. Board of governors: procedure		3.5	Article 24. Board of governors: procedure		3.5	4
Section 3. Voting	1. Basic votes: 5.5% of all votes distributed equally 2. One vote for one share of authorized capital	Article 33. Voting	1. Basic votes: 20% of all votes distributed equally 2. One vote for one share of authorized capital	2.5	Article 28. Voting	1. Basic votes: 1.2% of all votes distributed equally 2. One vote for one share of authorized capital (\$100,000 a share) 3. 600 votes each for founding members	3	2.5

IBRD			ADB			AIIB		
Articles	Content	Articles	Content	Articles	Content	Similarity to IBRD	Similarity to ADB	Similarity to ADB
Section 4. Executive directors	(b) Five from five largest share holders each, seven elected by governors Two-year term	Article 30. Board of directors: composition	Seven regional governors and three nonregional, elected nonregional governors Two-year term	Article 25. Board of directors: composition	Nine regional elected by regional governors and three nonregional elected nonregional governors Not-paid Two-year term	2		2.5
	Responsible for general operation of the bank	Article 31. Board of directors: powers	Four specific powers	Article 26. Board of directors: powers	Seven specific powers	3		3.5
	(c) Resident at principal office, meet as often as required	Article 32. Board of directors: procedure	resident in headquarters, meet as often as required	Article 27. Board of directors: procedure	Nonresidential and not paid	1.5		1.5
Section 5. President and staff	No mention of vice president. But vice presidents operate by practice	Article 34. The president	Five-year term	Article 29. The president	Five-year term	3		3
		Article 35. Vice president(s)	One or more vice presidents appointed by board of directors	Article 30. Officers and staff of the bank	One or more vice presidents appointed by the board of directors	1		4
		Article 36. Prohibition of political activity: the international character of the bank	President and staff own duty entirely to the bank and no other authority	Article 31. The international character of the bank	President and staff's own duty entirely to the bank and to no other authority	0		4
Section 6. Advisory council						0		4
Section 7. Loan committees						0		4

Section 8. Relationship to other international organizations	Cooperation	Article 2 (v)	1.5	Article 35. Cooperation with members and international organizations Chapter VI Article 32. Office of the bank Article 32.1	4	1.5
Section 9. Location of offices	Principal office in the country with the largest number of shares	Article 37. Office of the bank Article 37.1.	2	General Provisions Principal office in Beijing	2	4
Section 10. Regional offices and councils	Bank may establish offices elsewhere	Article 37.2.	3.5	Article 32.2	3.5	4
Section 11. Depositories	Each member designates its central bank or such other entities as depository for bank holdings of its currency. The bank may hold other assets in depositories designated by the five members having the largest number of shares	Article 38. Channel of communications, depositories for bank holdings of its currency.	2	Article 33. Channel of communication: depositories	2	2.5
Section 12. Forms of holdings of currency	Annual report, etc.	Article 39. Working language, reports	0	Article 34. Reports and information	0	4
Section 13. Publications of reports and provision of information	Working language is English Annual report, etc.	Working language is English Annual report, etc.	3	Working language is English. Annual report, etc.	3	4

IBRD			ADB			AIIB		
Articles	Content	Articles	Content	Articles	Content	Similarity to IBRD	Similarity to ADB	Similarity to ADB
Section 14.4.	Allocation of net income	Article 40.	Allocation of net income	Article 18.	Allocation and distribution of net income	4	4	4
ARTICLE VI	Withdrawal and suspension of membership; suspension of operations	Chapter VII	Withdrawal and suspension of members, temporary suspension and termination of operations of the bank	Chapter VII	Chapter VII	4	0	0
Section 1. Right of members to withdraw		Article 41.	Withdrawal	Article 37.	Withdrawal of membership	2.5	2.5	4
Section 2. Membership suspension		Article 42.	Suspension of membership	Article 38.	Suspension of membership	2.5	2.5	4
Section 3. Cessation of membership in International Monetary Fund						0	0	4
Section 4. Settlement of accounts with governments ceasing to be members		Article 43.	Settlement of accounts	Article 39.	Settlement of accounts	4	4	4

<p>Section 5. Suspension of operation and settlement of obligations</p>	<p>(a) Article 44. Temporary suspension of operations</p>	<p>Chapter VIII Article 40. Temporary suspension of operation</p>	<p>Suspension and termination of operations of the bank</p>	<p>3-5 4</p>
<p>(b)</p>	<p>Article 45. Termination of operations</p>	<p>Article 41. Termination of operations</p>	<p>3-5</p>	<p>4</p>
<p>(c) (d)</p>	<p>Article 46. Liability of members and payment of claims</p>	<p>Article 42. Liability of members and payment of claims</p>	<p>3-5</p>	<p>4</p>
<p>(e) through (i)</p>	<p>Article 47. Distribution of assets</p>	<p>Article 43. Distribution of assets</p>	<p>3-5</p>	<p>4</p>
<p>ARTICLE VII Status, immunities and privileges</p>	<p>Section 1. Purpose of the article</p>	<p>Chapter VIII. Article 48. Purpose of chapter</p>	<p>Status, immunities, exemptions and privileges</p>	<p>3 3</p>
<p>Section 2. Status of the bank</p>	<p>Article 49. Legal status</p>	<p>Article 45. Status of the bank</p>	<p>4 4</p>	<p>4 4</p>
<p>Section 3. Position of the bank with regard to judicial process</p>	<p>Article 50. Immunity from judicial proceedings</p>	<p>Article 46. Immunity from judicial proceedings</p>	<p>3 3</p>	<p>4 4</p>
<p>Section 4. Immunity of assets from seizure</p>	<p>Article 51. Immunity of assets</p>	<p>Article 47. Immunity of assets and archives</p>	<p>4 3-5</p>	<p>3-5</p>
<p>Section 5. Immunity of archives</p>	<p>Article 52. Immunity of archives</p>	<p>Article 47.1 Article 47.2</p>	<p>4 3-5</p>	<p>3-5</p>

IBRD			ADB			AIIB		
Articles	Content	Articles	Content	Similarity to IBRD	Articles	Content	Similarity to IBRD	Similarity to ADB
Section 6.	Freedom of assets from restrictions	Article 53. Freedom of assets from restrictions		4	Article 48. Freedom of assets from restrictions		4	4
Section 7.	Privilege for communications	Article 54. Privilege for communications		4	Article 49. Privilege for communications		4	4
Section 8.	Immunities and privileges of officers and employees	Article 55. Immunities and privileges of bank personnel		4	Article 50. Immunities and privileges of officers and employees		4	4
Section 9.	Immunities from taxation	Article 56. Exemption from taxation		4	Article 51. Exemption from taxation		4	4
Section 10.	Application of article	Article 57. Implementation						
		Article 58. Waiver of immunities, exemptions and privileges		0	Article 52. Waivers		0	4
ARTICLE VIII	Amendments	Chapter IX	Amendments, interpretation, arbitration		Chapter X	Amendments, interpretation and arbitration		
Amendments		Article 59. Amendments		3	Article 53. Amendments		3	4
ARTICLE IX	Interpretation (a) (b)	Article 60. Interpretation of application		3.5	Article 54. Interpretation		3.5	4

(c)	Article 61. Arbitration	3.5	Article 55. Arbitration	3.5	4
ARTICLE X	Approval deemed given	4	Article 56. Approval deemed given	4	4
ARTICLE XI	Final provisions	3	Chapter XI	Final provisions	3
Section 1. Entry into force	Above 65% of authorized capital	3	Article 59. Entry into force	At least 10 signatures, above 50% authorized capital	2.5
Section 2. Signature	Open to signatures, deposited with US government	1	Article 57. Signature and deposit	Open to signatures, deposited with Chinese government	3
Section 3. Inauguration of the bank	Article 64. Ratification or acceptance	0	Article 58. Ratification, acceptance or approval	0	4
SCHEDULE A	Subscriptions	3.5	Article 60. Inaugural meeting and commencement of operations	Shall elect the president Else is the same as ADB	3
SCHEDULE B	Election of executive directors	3.5	SCHEDULE A	Initial subscriptions	4
		2.477=215.5/87	SCHEDULE B	Election of directors	4
		2.241=195/87			3.098=269.5/87

Note: *The IBRD AOA does not mention who defines convertibility. But it is safe to assume that the IBRD follows its sister institution IMF.

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