

Power, Ideas and Institutions:

China's Emergent Footprints in Global Governance of Development Aid

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Lai-Ha Chan and Pak K. Lee

Abstract

This paper investigates whether China possesses normative power to determine what passes for 'normal' in the politics of foreign aid in the context of an ongoing debate about whether China will soon replace the United States as the global hegemon. It proceeds from a proposition that a hegemon, backed by material power preponderance, wields global power through socially recognized norms, rules and institutions. The competing social norms and institutions under study are political conditionality and tying of aid, and the OECD's Development Assistance Committee (DAC) and the China-based Asian Infrastructure Investment Bank (AIIB). We argue that there is a tendency towards a coalescence of Chinese and Western norms and practices, albeit not predicated on good governance. With pressing concerns over security threats, Beijing is re-interpreting its non-interference norm and practice into accepting tacitly a political conditionality approach. China's ability to project its own norm on tied aid is, however, restrained by the multilateralism of the AIIB. The real machine that China would use to espouse normative changes in international development is its 'One Belt, One Road' (OBOR) initiative. However, while OBOR is institutionally shielded from international scrutiny and thus grants China more autonomy to operate, it will give China less normative power to set global standards and to define what passes for 'normal' in world politics.

Keywords: Asian Infrastructure Investment Bank, Development Assistance Committee (DAC), political conditionality, tied aid, normative power, 'One Belt, One Road' (OBOR)

'The Western-centred world order dominated by the US has made great contributions to human progress and economic growth. But those contributions lie in the past. Now that same order is like an adult in children's clothes. It is failing to adjust' (Fu 2016).

'We have to make sure America writes the rules of the global economy ... Because if we don't write the rules ..., guess what, China will' (Obama 2015).

In the wake of China's rapid economic rise and the relative decline of the US and Europe since 2007, there has been growing concern over whether China would likely become a substitute for the US as the next hegemon and rewrite global rules for the rest of the world (Beeson 2009; Clark 2011; Golub 2016; Ikenberry 2011).¹ Among Western state leaders, US President Obama (2015) was likely the most outspoken when he expressed warily in his State of the Union address in January 2015 that 'China wants to write the rules for the world's fastest-growing region....Why would we let that happen?' China scholars also point out that from 2010 onwards, China's national discourse on foreign policy has shifted to call on the country to 'strive for achievement' (奮發有為). An implicit implication of this new discourse is that China de-emphasises its previous self-identity as a 'low-profile', 'responsible great power' (負責任大國) which highlighted the need to eschew confrontation with the US and to conform to Western/international norms in order to emerge as a well-respected great power. Now as a 'post-responsible power', China behaves more assertively, if not aggressively, in defending its own interests and promoting its norms and practices abroad (Deng 2015; Yan 2014; Q. Zhang 2015).

However, what remains unaddressed in the existing literature are: What does China want to rewrite? What is the normative logic behind the Chinese rules? Can its rules prevail over the existing ones established by Western powers? How and why do they (not) prevail? And, what

¹ Throughout this paper, hegemony is understood differently from primacy, which is primarily based on material preponderance. Instead hegemony rests on legitimacy and the social power to have one's norms and rules widely accepted by subordinate states. Power is said to be legitimate if it meets three conditions: (1) it conforms to established rules; (2) the rules are justifiable by the beliefs shared by both dominant and subordinate actors; and (3) there is demonstrable evidence of consent by the subordinate actors to the power relation (Beetham 1991: 15-16). See Finnermore 2009, Ikenberry and Kupchan 1990, Kupchan 2014 for studies of normative foundations of hegemony; and Lee 2010 for a comparison between material and normative approaches to hegemony.

would be the implications for the West? This working paper attempts to answer these crucial questions by scrutinizing global development aid governance through the contrasting operations of the Asian Infrastructure Investment Bank (AIIB) and the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD-DAC). The focus is on hegemonic contestations between China and the West on the normative front over how development assistance and cooperation should be done. Claiming that a great power is one which is not only rich in hard power resources but also one which has “the ability to define what passes for ‘normal’ in world politics” (Manners 2002: 236)² and to apply it to the operation of international institutions, this research represents a significant departure from earlier studies by illustrating how Chinese ideas affect the rules and norms of global development aid governance, and whether or not Chinese norms matter in global development aid governance.

It hypothesizes that through the newly established China-led AIIB, China attempts to play the role of a norm entrepreneur to convince other like-minded states and actors to embrace its norms in global development aid governance and to put them into practice. This conceptual framework facilitates a structured examination of China’s ability to define what passes for ‘normal’ in global development aid governance by raising the following questions that study the interplay of power, ideas and institutions:

1. How will China, armed with growing material resources and a new institution, become a significant new player in global development aid governance?
2. What norms will China introduce or what is it planning to introduce? Can China re-write the prevailing neo-liberal norms and practices of aid giving by reshaping the conception of what passes for ‘normal’ in global development aid governance?

This paper will proceed as follows: Sections 1-3 discuss the growth of China’s foreign aid, the emerging Chinese norms in the area of international development assistance, and the

² Peter van Ham refers ‘social power’ to a similar ability. He defines social power as ‘the ability to set standards, and create norms and values that are deemed legitimate and desirable, without resorting to coercion or payment’ (van Ham 2010: 8).

establishment and operation of the AIIB respectively. Section 4 explores whether a 'Normative Power China' begins to emerge in international development.

Power: The Rise of China as a Re-emerging Donor

Power always matters in foreign aid, which, as it is understood today, started as an expedient product of Cold War rivalry and diplomacy (Lancaster 2007: 25-33). After the end of the Second World War, the US led in the provision of foreign aid by offering assistance to both Turkey and Greece, which were facing imminent Communist threats from the USSR and Yugoslavia respectively. Aid to the two countries was followed by the famous \$13-billion Marshall Plan (1948-52) and the US also pressed its Western European allies to establish their respective aid programmes (Lancaster 2007: 28-29). Communist countries countered with major aid actors with the bulk of their aid going to communist countries or friendly non-communist countries in strategic regions such as India, Egypt and Syria. Both the Soviets and the Chinese used much of their foreign aid budgets to build infrastructure projects in developing countries. The most famous Chinese aid project was the 1,860-km Tanzania-Zambia railroad, built between 1970 and 1975. The project was financed by a Chinese loan of \$286 million and a grant of \$28.6 million plus a dispatch of close to 1 million tonnes of equipment, material, goods and more than 50,000 engineers, technicians and workers to the construction sites in the two countries (Bräutigam 2009: 40-41; Lancaster 2007: 31-32; Trinidad 2013: 28; S. Zhang 2014: 120).

Foreign aid can be generally defined as 'a voluntary transfer of public resources, from a government to another independent government, to an NGO [non-governmental organisation], or to an international organization (such as the World Bank or the [United Nations] Development [Programme]) with at least a 25 percent grant element, one goal of which is to better the human condition in the country receiving the aid' (Lancaster 2007: 9).³

³ Similar definitions abound. It can be defined as 'financial flows, technical assistance and commodities given by the residents of one country to the residents of another country for development purposes, either as grants or as subsidized loans' (Perkins et al. 2013: 501). Grants and subsidized loans are often referred to as 'concessional assistance'. A loan counts as 'concessional' if it has a 'grant element' of at least 25%, according to the OECD-DAC. That is, the present value (or the total cost) of the repayment of the loan must be at least 25% lower than that of a comparable loan at market interest rate, which is arbitrarily assumed by the OECD-DAC to be 10% with no grace period (Bräutigam 2009: 165; OECD-DAC n.d.; Perkins et al. 2013: 502). According to Lumsdaine (1993: 33), foreign aid is 'gifts and concessional

Official development assistance (ODA), a term used by the OECD-DAC (n.d.), comprises grants and concessional loans which have at least a 25 percent grant component, provided by the member states of OECD-DAC to developing countries or multilateral agencies for development purposes. Foreign aid can also be interpreted politically as ‘unreciprocated giving’, which arises in the first place from material inequality between donor and recipient, and secondly serves to mark and express such an underlying social hierarchy euphemistically (Hattori 2001: 639). Seen in this perspective, the meteoric rise of China in recent decades inevitably propels China to transform itself from its original ‘dual’ position of being both a donor and a recipient to a re-emerging and yet net donor in global development aid governance. In the sections to follow we will discuss how China employs the means of norm projection and institution to ‘naturaliz[e] the material inequality between [recipient countries and it] as the normal order of things’ (Hattori 2001: 640). Below we focus firstly on the growing size and preferred form of Chinese foreign aid.

Deborah Bräutigam (2008, 2009, 2010, 2011) is a pioneer in the study of China’s foreign assistance, and her research has spurred continual studies on the interrelationship between aid and other forms of government-sponsored development finance in China (e.g. Wolf, Wang and Warner 2013), and China’s foreign aid policy towards Africa (e.g. Kiala 2010; Samy 2010; Tan-Mullins et al. 2010). Although not all of Chinese foreign aid disbursements qualify as ODA according to the definitions of the OECD-DAC,⁴ China’s foreign aid has increased rapidly in the last decade in absolute terms. Bräutigam (2009: 317; 2014: 136) estimates that China’s annual foreign aid has grown exponentially from \$410 million in 1996 to \$3,149 million in 2009, and to around \$6.3 billion in 2012. According to Kitano and Harada (2014: 16),

loans of economic resources, such as finance and technology, employed for economic purposes provided to less developed countries by governments of the developed democracies, directly or through intermediaries such as [United Nations programmes] and multilateral development banks.’ ‘Developed democracies’ refer to the member states of the OECD-DAC.

⁴ Chinese foreign aid is composed of three main elements: external assistance expenditure reported by the Ministry of Finance, China Export and Import Bank (Eximbank)’s concessional loans (plus the interest subsidy for the loans by the central government), and debt relief. The first item includes grants and interest-free loans and is reported annually in *China Finance Yearbook* and *China Statistical Yearbook*; however the figure also includes the funds used to support joint ventures between Chinese companies and their business partners in recipient countries and military aid. China Eximbank does not publish its concessional lending regularly either (Bräutigam 2009: 166-69). According to Kobayashi and Shimomura (2013: 48), the Eximbank ceased to disclose the amount of concessional loans in 2002

China's net foreign aid has increased from \$741 million in 2001 to \$3,109 million in 2009, to \$5,710 million in 2012 and to \$7,092 million in 2013.⁵ The same report also points out that China's net foreign aid was merely ranked 16th in the world in 2001. However, just slightly over a decade later, it moved up swiftly and became the sixth largest donor in 2012 and 2013, only behind the US, the UK, Germany, Japan and France (Kitano and Harada 2014: 17). However, we should not overestimate China's political clout despite an ever-growing Chinese aid budget. Its official aid to Africa is still small compared with the traditional donors of the US and Europe (Bräutigam 2009: 172).

That being said, China's increased foreign aid budget and the capacity to establish a China-led development bank are fed by the rapid growth of the country's foreign exchange reserves since the 1990s. One of the mechanisms for developing countries to reduce International Monetary Fund (IMF) influence in domestic affairs is to increase their international reserves in order to provide necessary liquidity during economic downturn, instead of requesting the IMF for financial assistance. Many of the countries in Asia (i.e. China, India, Indonesia, Malaysia, the Philippines, South Korea, and Thailand) and Latin America (i.e. Argentina, Brazil, Colombia, Chile, Mexico and Peru) have accumulated substantial foreign exchange reserves since the end of the last century. This has been done by maintaining current account surpluses.⁶ The build-up of sizable foreign exchange reserves has provided them with a financial buffer against the adverse impacts of global financial crises on their economies (Garcia 2016). Gradually the growing foreign exchange reserves have endowed middle-income countries of the global South with increasing financial and political clout when the IMF was seeking emerging powers' financial contributions to its coffers following the global financial crisis. With their increasing economic might, developing countries started to demand a greater say in global economic and financial governance. This includes a reform of the IMF's governance structure, including increasing the voting rights of emerging economies and a more representative Executive Board (as discussed below).

⁵ The gross foreign aid figures are \$743 million (2001), \$3,223 million (2009), \$6,003 million (2012) and \$7,462 million (2013).

⁶ For the growth of current account surpluses in China, South Korea, Russia and Saudi Arabia after the Asian Financial Crisis of 1997-98, see Chan, Lee and Chan 2012: 72-73.

The delivery mode of Chinese foreign aid demonstrates its preference for bilateral aid over multilateralism. The setting up of the Forum on China-Africa Cooperation (FOCAC) is clear evidence that China prefers bilateral aid. China initiated and established FOCAC in 2000 and six fora have been held since its inauguration. Between 44 and 50 African countries and representatives from a dozen international and regional organizations participated in each of the fora where China committed billions of loans and grants to the African continent. However, those loans and grants are mainly given through bilateral (state to state) rather than multilateral channels. Between 2010 and 2012, out of China's foreign aid totalling 89.34 billion yuan (US\$14.4 billion), only 2% (1.76 billion yuan) went to multilateral organisations, such as the UN and its various agencies supporting development assistance programmes (Xinhuanet 2014). That may be due to what Hattori (2001: 647; emphasis in original) has said: bilateral gifts are to ensure that 'recipients *know whom to thank*'.

Ideas: Conditionality and Tied Aid

China was not a party to international ideational discourse on foreign aid until it began to re-emerge as a 'non-traditional donor' in the 1990s. Whereas the normative goals of Western ODA policy in the post-Cold War era are widely understood as for poverty alleviation, and the promotion of liberal democracy, good governance and economic growth and development (Smith 2007; van Doeveren 2011), what does Chinese counterpart policy aspire to achieve? How attractive is Chinese ODA to the global South, and why? Zimmermann and Smith (2011: 731) summarise the debates nicely as:

'The emergence of alternative sources of financing and policy models has also intensified debates about the most appropriate modalities for development co-operation. Such debates have revolved around two main questions. First, to what extent should providers of co-operation take an interest in the internal affairs and policies of their partner countries? Second, to what extent ought development co-operation be linked to the commercial and political objectives of its providers?'

In short, should the instruments of political conditionality and tied aid be used? For Smith (2007: 1), political conditionality includes broadly 'requirements to target the aid at specified social groups (such as the poor), the tying of aid to the purchase of goods and services from the donor country, and structural adjustments to the recipient economy (notably public sector reform and trade liberalization)'. There are two waves or generations of aid conditionality; the earlier one centred on the IMF-initiated structural adjustment programme of the 1980s whereas the later refers to the conditionality based on good governance introduced in the early 1990s (Smith 2007: 1-2).

Intrusive conditionality has been increasingly used since the 1980s after the World Bank and the IMF emerged as two major international 'aid-giving' financial institutions. Under the leadership of Robert McNamara, the World Bank saw a sustained rise in International Development Association (IDA) lending; it grew remarkably from \$162 million to \$1.6 billion in the period 1971-1981 (Lancaster 2007: 42). The IMF has since the late 1970s played a greater role in the development of low-income countries when they faced severe balance-of-payments and debt crises (Perkins et al. 2013: 511).⁷

While good governance itself is a contested concept (see also van Doeveren 2011), one may identify four major areas or aspects in which reforms are needed on the part of recipient countries in order to attain good governance. At the constitutional level, reforms have to be done to enhance the accountability of political leaders to the electorate, to strengthen the rule of law, to give due respect to human rights, and to decentralise political authority. At the second, political level, it demands political pluralism and extensive political participation and combatting official corruption in the civil service. Transparent and effective public sector management with the competence to design and implement good policy is needed at the third, administrative level. Finally at the policy content level, good governance embraces

⁷ The only part of the funding provided by the World Bank group that meets the definition of foreign aid is those from the IDA, and much of the lending of the IMF is not foreign aid either. IMF funds are for maintaining macroeconomic stability by providing the countries under crises with foreign exchange but not for financing development projects (Perkins et al. 2013: 508-09, 511). It is their lending principles that affect the running of foreign aid by other state donors. In the wake of the Asian financial crisis of 1997-98, a debate centred on whether the IMF 'should be in the "development business"' (Vreeland 2007: 112).

neoliberal economics and politics (Smith 2007: 6). In short, contemporary understanding of political conditionality, as interpreted and implemented by the Western powers, entails ‘the linking, by a state or international organization, of perceived benefits to another state (such as aid, trade concessions, cooperation agreements, or international organization membership) to the fulfilment of conditions relating to the protection of human rights and the advancement of democratic principles’ (Smith 2001: 37). Accordingly, part of the ODA provided by the leading Western donors is also known as ‘governance assistance’, used to give support for policy measures or projects designed to improve particular aspects of governance and disbursed to civil society organisations (Smith 2007: 8-11).

Tied aid was once used to be the norm in the foreign aid regime of the Western world. In 1968 only 25% of all OECD-DAC aid was untied, 19% partially tied and 56% fully tied. Since the late 1960s, aid from OECD-DAC countries has become less tied to procurement in donor countries (Lumsdaine 1993: 48, 262-63). Beginning in the 1970s, the OECD took steps to lay down the rules to restrict the use of tied aid, resulting in the Helsinki Arrangement and Package,⁸ and the OECD-DAC Recommendations for Untying of Aid to the Least Developed Countries (2001).⁹ Although the OECD-DAC is formally committed to eliminating the practice of tied aid and its member states offer less tied aid in terms of the share in their total ODA, many members continue the use of *de facto*, informal tied aid that falls outside the purview of formal audit, partly because of an understanding that they would lose the external markets to Chinese companies if tied aid was entirely ruled out.¹⁰

The rise of China coincides with the legitimacy crisis of aid conditionality. The use of structural adjustment programme, ‘good governance’ standards, and ‘political conditionality’ are not

⁸ The official name of the Arrangement is ‘Arrangement on Guidelines for Officially Supported Export Credits’, which came into being in April 1978. It was later strengthened by the 1992 Helsinki Package. According to the Helsinki Package, tied aid can be used to the least developing countries and to development projects that are commercially unviable. See <http://www.oecd.org/trade/xcred/49212943.pdf> (accessed 11 September 2016); Lammersen and Owen 2001; Lancaster 2007: 54-55.

⁹ The OECD-DAC revised the Recommendation in 2008 to extend its application to the remaining Highly Indebted Poor Countries (HIPC)s that were not covered by way of their status of the least developed countries. See the entry of ‘untied aid’ in OECD-DAC n.d.

¹⁰ For a detailed study of the use of informal tied aid by European Union member states, which form the bulk of OECD-DAC membership, see Carbone 2007, 2014.

without controversy. They are argued as the contemporary forms of the colonial ‘standard of civilisation’ imposed by liberal Western states on the developing world (Buzan 2014). The advocate of ‘good’ governance implies that governance in many developing countries is ‘bad’ (Kapoor 2008: 28). The Western-centric ODA policy and its normative foundation are premised on and rationalise a hidden condescending assumption that there exists a non-material hierarchy of states, based on the Western standard of ‘civilisation’ (Kapoor 2008: 25-33). This hierarchical structure has, at least up to the outbreak of the global financial crisis of 2007-08, legitimised both the concentration of the decision-making power in the IMF and the World Bank at a handful of more advanced states, and the conceptualisation of the development ideology originating in policy elites in Washington, D.C, as ‘normal’, universal and orthodox.¹¹ This approach has generated resentment, particularly among developing and emerging powers. With the belief that the IMF imposed too taxing policy conditions on those which sought its lending, developing countries have tried to rebalance the influence of the IMF since the financial crises in Asia and Latin America towards the end of the 20th century (Garcia 2016).

The growing attractiveness of (re)-emerging donors – notably China, the United Arab Emirates, Saudi Arabia, South Korea, Venezuela, India, Kuwait and Brazil – can also be attributed to the discredited policy of conditionality. According to a worldwide survey done by Killick (1998), among the 305 IMF programmes between 1979 and 1993, the implementation failure rate, where failure was defined as a country not implementing 20 per cent or more of the IMF programme’s conditions, was 53 per cent (also see Woods 2008). In addition, in the first-ever independent evaluation report, conducted by delegates who were appointed by the board of the IMF in 1996, concluded that ‘three-fourths of the ESAF (Enhanced Structural Adjustment Facility) programs collapse or are interrupted’ (IMF 1998: 32). Developing countries have long called for investment and growth but their demand seems to fall on deaf ears. Little progress has been made by the established OECD-DAC donors. On the other

¹¹ There are unwritten rules that an American heads the World Bank, a European manages the IMF and a Japanese leads the Asian Development Bank.

hand, alongside with their aid, re-emerging donors offer technological advice and professional assistance, which recipient countries find more useful to their national needs (Woods 2008).

China's ascendancy seems to cause affront to this hierarchical normative principle, as evidenced by its calls for South-South Development Cooperation (SSDC) which considers both providers and recipients of development assistance as equal partners or peers. China is also a prospective challenger to OECD-DAC's norms and practices. It does not conform to the Helsinki Arrangement and Package and continues to employ tied aid, e.g. requiring recipient states to use their contracting service or labour, and to blend aid, trade and investment together (Mawdsley 2012: 135-140; as discussed further below). Its past experience with the Soviet aid in the 1950s, notably in the country's First Five-Year Plan (1953-57), also informed it that project aid would be a powerful stimulant for rapid economic growth and transformation. Armed with increased economic clout, it goes on safari to invest in other developing countries.

In giving aid, China often emphasises the solidarity of the global South, stressing the principles of SSDC and mutual development under a self-proclaimed win-win strategy. Two major implications are noteworthy. First, as noted above, differing from the OECD-DAC, China includes flows of private funds into recipient countries for commercial purposes into its definition of foreign aid; and the share of tied aid in Chinese development assistance is high (due to the emphasis on 'mutual development' and 'win-win' cooperation). Second, it also claims that since the 1960s when then-Premier Zhou Enlai enunciated China's eight principles on foreign aid, it has attached few political conditions to aid-giving other than requiring recipients to adhere to its 'One China' policy with regard to its claims to sovereignty over Taiwan, Tibet and Xinjiang. Observers often echo that China promotes the norm of 'non-conditionality' in its provision of development assistance for principled, strategic and pragmatic reasons (Mattlin and Nojonen 2015: 701-702; Wang, Ozanne and Hao 2014). Fuelled by the Chinese rhetoric, conventional wisdom often has it that China is a strong proponent of non-conditionality.

Does China really offer an obviously non-Western model of development aid? In debunking this received wisdom, Mattlin and Nojonen (2015) point out that China's lending by state-owned policy banks is in fact full of conditions. The difference between OECD-DAC countries and China may simply rest with the fact that they adopt different forms of conditionality: while the former emphasizes certain binding political conditions, e.g. 'good governance' and democracy, the latter attaches non-political 'conditions' to its development assistance packages. Tied aid rests on non-political 'conditions' that China insists in providing aid, requiring recipient countries to purchase Chinese products or to use China's contracting service or labour (see Table 1). Accordingly, about 70% of China's infrastructure development aid to Africa was indeed used to buy goods or services from Chinese, mostly state-owned, companies. The rest, 30%, was theoretically passed on to local firms, many of which were, however, joint ventures with Chinese firms (Anderlini 2007). Shu Guang Zhang (2014: 120-121), a noted economic historian on China's economic statecraft, also points out the hidden political conditionality behind the aforementioned Tanzania-Zambia railroad project. China in 1964 was seeking Tanzania's assistance in coordinating with other nonaligned members to stem India from condemning China's nuclear weapons programme.¹²

¹² Tanzania in August 1965 invited Chinese railway engineers to visit the country to explore the feasibility of the railway project (S. Zhang 2014: 120).

Table 1: A dichotomy between OECD-DAC and China’s ODA norms and practices

OECD-DAC	China
High political conditionality	Low political conditionality
Non-commercial use of aid <ul style="list-style-type: none"> • Helsinki Arrangement and Package; OECD-DAC Recommendations for untying of aid to the Least Developed Countries (2001) 	Aid tying: linking to trade and investment; stressing South-South Development Cooperation
Programme aid for general development purposes <ul style="list-style-type: none"> • e.g. budget support and debt relief (see Hayman 2011) 	Project aid

Institution: China’s Brainchild - the AIIB

In October 2014, 21 Asian countries signed a Memorandum of Understanding to establish the AIIB with initial capital of \$100 billion to finance infrastructure and sustainability projects in the region. In June 2015, it was officially launched with 57 founding country members. The Obama administration had tried to lobby American key allies, especially the UK, against joining the AIIB, but to no avail (Donnan 2015a; Keck 2014; Lipsy 2015). There are concerns among academic and policy makers about whether the existing Bretton Woods institutions’ international influence and clout will be accordingly diminished (Nelson 2015: 17-18). The UK, France, Germany and Australia eventually decided to join. In addition, China decided to mirror the predominant position of the US in the Bretton Woods institutions by making the single largest contribution to the development bank, accounting for 33.3% of its capital share and holding 28.7% of the voting rights. This provides China with *de facto* veto power over issues that would require a 75% majority, e.g. its structural reform; but not on issues that only need simple majority, i.e. ordinary loan decisions or the acceptance of new members (Sun 2015).

Jin Liqun, the president of the AIIB, vowed that he would run the Bank with the aim of ‘clean, lean, green’¹³ (China Daily 2016), and indicated that it would seek the opportunity to work with other multilateral development banks, i.e. the World Bank and the ADB, on joint projects.

Discussions have been largely focused on why China established a development bank, especially on the strategic reasons for it, and on its lending practices to examine whether the establishment of the AIIB is part of a Chinese project to rebuild international order.

Why China initiated the AIIB?

China initiated the multilateral development bank for a few reasons, with both economic and geostrategic rationales.

Infrastructure as a tool for economic development

Since 1949, and particularly in the reform period, Chinese leaders have recognized the importance of infrastructure building and its contribution to economic development. For China, a key blueprint for development is to set infrastructure construction as the priority and foundation for its national economic growth (Ren 2016: 436). In other words, infrastructure serves as a tool for economic development. However, in many developing countries, especially those in the Asian region, infrastructure facilities are under-invested and under-supplied, which poses a serious bottleneck for development. The AIIB is designed to support regional infrastructure building, such as roads, railways, and electricity, and project aid is its preferred aid modality (Ren 2016; Huang et al. 2013). As seen from its nine inaugural lending projects totalling \$1.73 billion approved during its first year of operation, they are all related to power, transport and urban investments (see Table 2).

¹³ This means the bank will have a small professional staff and non-resident board of governors (lean) that will be not corrupt (clean) and will concern about the impact to environment (green) (Anderlini 2016).

Table 2: Summary of the AIIB's Approved Loan Projects

Borrower (country)	Project Name	Financing plan (in US\$ million)	Lead administrator	Implementation period
Pakistan	National Motorway M-4 Project	AIIB (\$100); ADB (\$100); DFID (\$34); Recipient (\$39)	ADB	6/2016 – 6/2020
Tajikistan	Dushanbe-Uzbekistan Border Road Improvement Project	EBRD (\$62.5); AIIB (\$27.5); Recipient (\$15.9)	EBRD	12/2016 – 12/2020
Bangladesh	Distribution System Upgrade and Expansion Project	AIIB (\$165)	AIIB	7/2016 – 6/2019
Indonesia	National Slum Upgrading Project	AIIB (\$216.5); World Bank (\$216.5); Recipient (\$1310)	World Bank	9/2016 – 6/2021
Pakistan	Tarbela 5 Hydropower Extension project ¹⁴	World Bank (\$390); AIIB (\$300); Recipient (\$133.5)	World Bank	10/2016 – 6/2022
Myanmar	Myingyan 225 MW Combined Cycle Gas Turbine (CCGT) Power Plant Project	AIIB (\$20); International Finance Corporation (IFC) (\$45); ADB; Commercial lenders	IFC	1-3/2016 – 1-3/2018
Oman	Duqm Port Commercial Terminal and Operational Zone Development Project	AIIB (\$265); SEZAD (\$88.33)	AIIB	1/2017 – 12/2010
Oman	Sultanate of Oman Railway System Preparation Project	AIIB (\$36); Oman Global Logistics Group SAOC (OGLG) (\$24)	AIIB	1/2017 – 12/2018
Azerbaijan	Trans Anatolian Natural Gas Pipeline Project	AIIB (\$600); World Bank IBRD Loan (\$800); EBRD & EIB (\$1,800); BOTAS, Turkey (\$1,000); BP (\$1,000); Private Commercial Sources (\$2,000)	World Bank	N/A

Source: Authors' compilation based on the AIIB's official website, <http://www.aiib.org/html/PROJECTS/> (accessed 4 January 2017).

¹⁴ This is an Additional Financing to Pakistan Tarbela Fourth Extension hydropower Project (T4HP) for installation of a power house on the fifth tunnel at the Tarbela Hydropwer Project that was constructed in the 1970s under the Indus Treaty Fund. T4HP was originally approved in 2012 by the World Bank; and its financing included an IBRD loan of US\$400 million and IDA credit of US\$440 million.

In early 2013, the China Centre for International Economic Exchange, a Chinese think-tank led by former Vice Premier Zeng Peiyan, proposed to the leadership for financing an institution for infrastructure in Asia (Ren 2016: 437). This proposal was accepted by President Xi and his government. It has been positively welcomed by many stakeholders, including developing and developed countries, which argue that the region desperately needs more infrastructure funding and the new bank can at least narrow that gap. According to an ADB study in 2009, Asian countries would need infrastructure investment worth US\$750 billion annually between 2010 and 2020 to sustain its economic growth. HSBC also estimated that between 2015 and 2030, the region would require US\$11 trillion on infrastructure development (ADB and ADBI 2009; French 2014). However, the region's total capital base, combining the World Bank (\$223 billion) and the ADB (\$160 billion), is merely \$383 billion. This funding pool is not purely for infrastructure, but also includes other development projects, such as environmental protection or gender equality (The Economist 2014). There is a massive infrastructure-funding gap in the region. Even with its initial capital of \$100 billion, this newly established multilateral development bank is unable to meet the enormous demand for infrastructure investment but at the very least it will be a helpful boost. In addition, China's unilateral \$40-billion Silk Road Fund, established in 2014, will also complement this effort.¹⁵

Countering American hegemonic 'containment': Promoting Asian solutions to Asian economic needs

US strategic rebalance to the Asia-Pacific has been a major foreign policy priority of the Obama administration, and the Trans-Pacific Partnership (TPP) is the economic plank of the American strategic policy.¹⁶ That policy is widely understood in China as a policy to contain the rise of China, and to exclude China from any rule-making role in the Asia-Pacific (Ratner 2013; Z. Zhang 2014).

¹⁵ The Silk Road Fund was established in December 2014 with funding coming from China's state-owned institutions. They are: the State Administration of Foreign Exchange (SAFE), China Investment Corporation (CIC), Export-Import Bank of China and China Development Bank. In its own words, it is 'dedicated to supporting infrastructure, resources and energy development, industrial capacity cooperation and financial cooperation in countries and regions involved in the Belt and Road Initiative'. See its official website at: <http://www.silkroadfund.com.cn/>.

¹⁶ Heritage (2017) gives us valuable insights into the American strategic rebalance strategy.

With its decision to winding down its troop levels in the Middle East, the Obama Administration announced in the fall of 2011 that it would be intensifying the US role in the Asia-Pacific, predominantly in the southern part of the region. The ultimate goal of this initially known as 'pivot to Asia' is to promote Washington's interests 'by helping to shape the norms and rules of the Asian-Pacific region', particularly when China emerges as an influential regional power (Manyin et al. 2012: 1). As part of this pivot to Asia policy, the US has deployed more troops and equipment to Australia and Singapore; and further expanded its military cooperation with Japan, the Philippines and the Republic of Korea. Economically, Washington has also tried to maintain its dominant position in the regional economic order by setting up the TPP trade agreement, a 12-country pact. The TPP will be the largest pact governing international commerce, encompassing 40% of the world's economic output, but China, the second largest economy, is excluded. Although China had expressed interests in joining the TPP negotiation, however, the standard that the US has set for China, i.e. human rights, transparency, and crackdowns on hacking and cyber industrial espionage, 'are so high as they have effectively precluded [China's] participation' (Etzioni 2016: 183). On the other hand, despite Hanoi's equally dismal human rights record, Washington invited Vietnam, seen as a strategic counterweight to the rise of China, to join the TPP (Nakamura 2015). As admitted by US Senator Charles E. Schumer, the centrality of the TPP project for the Obama Administration is all about 'geopolitics, not economics' and preventing China from developing a growing sphere of influence in the Asia-Pacific region (Bradsher 2015).

In fact, the US's strategic rebalance and its oppositional position on the AIIB has showed Washington's hidden reservation about integrating China into the existing liberal international order. As early as 2005, the then Deputy Secretary of the States Robert Zoellick asked China to be a 'responsible stakeholder', one that is supposed to abide by and contribute to the prevailing US led-liberal international order. In spite of the call, as argued by Amitai Etzioni (2016), the US has continued to pursue a multifaceted containment policy, which includes economic and ideational containments targeting China, and precluded China's integration into the liberal international order. Within the established international financial and trading institutions, Washington has made it difficult for China to join (e.g. its 15-year-long negotiation to gain the membership of the World Trade Organization) or to exercise its power

commensurate with its economic status (e.g. the reluctance to accept the IMF and World Bank structure reforms proposals, as discussed below).

The rebalance to Asia and the exclusion of China from the TPP were viewed by Beijing as an unfriendly move and an attempt to contain China. To counter US ‘encroachment’ from the Western Pacific, China shifts its focus to the Eurasian region and to foster regional integration. The “One Belt, One Road” (OBOR) initiative (i.e. a ‘Silk Road Economic Belt’ and a ‘Twenty-First Century Maritime Silk Road’, linking China and Eurasia together) is part of Beijing’s geo-political strategy to manage Washington’s rebalance policy.

China has been also dismayed by the slow pace of reform of the liberal financial order. Emerging powers, China in particular, expressed frustration with the stalled restructuring of the existing multilateral financial institutions, whose voting structures are stacked against emerging countries.¹⁷ For example, while the five BRICS countries together account for a quarter of global economic output, their combined voting shares at the IMF, until the end of 2015, was merely 10.3%, not commensurate with their growing economic prowess (Dove 2016). On the other hand, Japan, Germany, France, and the UK, each held greater voting shares than China, despite China being the second largest economy in the world since 2010. This disconnect and the growing dissatisfaction with the global financial regime have pushed emerging powers, China in particular, to call for an IMF structural reform and to increase the representation of developing countries in global financial institutions.¹⁸

During the global financial crisis of 2007-08, it was clear that China has become a crucial player along with the United States in resolving the economic crisis. The IMF requested emerging economies to contribute more to the institution. Since then, there was an accompanying call for a structural reform of the IMF at the representation level. Emerging

¹⁷ It is speculated that a reason why emerging powers ask for more voting power in the IMF is that they would expect that the post-reform IMF would not attach onerous conditionality to the loans it offers to them at times of emergency (Prasad 2014: xiii).

¹⁸ In 2009, Zhou Xiaochuan, the Governor of the People’s Bank of China, published a paper on the central bank’s website, attributing bluntly the outbreak of the global financial crisis of 2007-08 to the inherent vulnerabilities and systemic risks of the prevailing international monetary system. He called for a structural reform to address these inherent deficiencies. See Zhou 2009.

powers, China in particular, actively lobbied for a redistribution of the percentage of the quota share. Instead of G7/G8, of which China is not a member, the G20 has since then become a new venue for addressing global financial issues. In September 2009 during the G20 Leader's Summit in Pittsburgh, leaders agreed to review the possibilities to shift at least 5% of the quota shares from overrepresented to underrepresented countries. This review was completed and confirmed in the next G20 Summit in 2010 (Kastner et al. 2016: 171-172). Based on a G20 consensus in 2010, IMF quota shares – and voting rights - should be adjusted to reflect individual countries' current contributions to the world economy whereby China's quota shares and voting rights should be adjusted to 6.46% and 6.14% respectively from 3.7%, making China the third-largest shareholder in the IMF. With 16.66% voting rights, the US continues possessing a de facto veto power over any IMF structural reform that would require a qualified vote of 85% to approve. In January 2014, however, the US Congress declined to ratify the IMF reform package, as some members argued that emerging economies would not likely support the existing norms of the IMF and that their financial and trade policies would not align with the US's either. Only months after the launch of the AIIB, did Congress finally approve the IMF reform package in December 2015 (Donnan 2015b).

The rebalance to the Asia-Pacific, the exclusion of China from the US-led TPP, and the tardiness in embracing China into international financial institutions were collectively perceived by Chinese leaders as concerted action to block China's rise to prominence in Asia. As a countermeasure, China shifted its policy focus to Eurasia with an aim of leading the vast region.

Breaking out of the Dollar Trap

While China's foreign exchange reserves have been growing as a result of its export-led economic growth, the bulk of them are used to buy American dollar-denominated assets, especially US Treasury bonds. The huge purchase of US Treasury bonds helped Washington to finance its budget deficits and public debts, enabling the Federal Reserve to keep the American interest rate low. The global financial crisis of 2007-2008 incurred substantial loss

of Chinese investment in US dollar assets, especially in both Fannie Mae and Freddie Mac.¹⁹ There have been concerns inside the country about the adverse impacts of this ‘dollar trap’ policy, pointing out the low return and the risk of the financial investment, and the concomitant need to press down inflationary pressure inside China. Accordingly there are mounting pressures on the country’s leaders to take steps to reduce accumulation of foreign exchange reserves as well as exposure to US dollar assets. A measure to do so is to internationalise the Chinese currency by encouraging the use and circulation of the *renminbi* outside China. The new development bank is such an institution that helps re-direct China’s foreign exchange reserves away from the US into investment in infrastructure in neighbouring countries. It is even envisaged that eventually the AIIB would offer loans in the *renminbi* rather than in US dollars and part of the loans would be used to purchase China’s equipment and labour services (Mallaby and Wethington 2012; Ren 2016; Yu 2011; X. Zhang 2015; Zhou 2015).

In short, few will dispute that the AIIB is founded to serve a grand strategy of China’s economic statecraft. It is one of the institutional means to give support for the ‘One Belt, One Road’ initiative and to counter US hegemonic influence in the Asia-Pacific as well as international finance. OBOR, as discussed further below, is to be achieved by promoting a non-liberal, state-led model of economic development, stressing the role of infrastructure investment in the commanding heights of the Asian economy by state-owned or -controlled enterprises.

Lending decisions and practices: Geostrategic foci of the AIIB and its partnerships

To examine whether China possesses normative power in foreign aid governance, we should shift our attention away from its internal governance structure, which have been discussed in Chin (2016), Callaghan and Hubbard (2016), and Ren (2016), to the emergent lending practices of the new bank. Is it merely a financial tool to meet China’s geostrategic goals in

¹⁹ The Chinese State Administration of Foreign Exchange (SAFE) in February 2011 refuted a local media report that the country suffered a financial loss of up to \$450 billion in the investment in Fannie Mae and Freddie Mac, even though it was widely speculated in society that there was a substantial loss in the investment in US dollar assets during the global financial crisis of 2007-2008 (*Shanghai Daily* 2011; *Wall Street Journal* 2011).

Central Asia that makes non-conditionality and ownership exist on paper only? And, does it continue employing aid tying in procurement?

Economic development in Eurasia is believed to be essential to preserving socio-political stability there, especially in the volatile and restive 'stans': Afghanistan, Pakistan and Central Asian states. These geostrategic foci can be seen from the Bank's first batch of loans (see Table 2). For example, the first project went to Pakistan for its National Motorway M-4 (Shorkot-Khanewal Section) Project, a 64-km stretch of motorway connecting Shorkot to Khanewal in Pakistan. The ADB and the AIIB openly invited bidders for this four-year co-financing project, which is to be administrated by the ADB and to follow the ADB's procurement guidelines and procedures. Untied aid should be the principle that purchaser's country needs to comply with throughout the project. As the AIIB's procurement policy indicates, '[t]he Bank shall place no restriction upon the procurement of goods and services from any country from the proceeds of any financing undertaken in the ordinary or special operations of the Bank' (Asian Infrastructure Investment Bank 2016; Morris 2015).²⁰ The ADB had originally restricted participation to bidders from its member nations; however, in order to allow the AIIB to participate, the ADB revised its project terms to the effect that it becomes a joint project between China, the ADB and the British Government's Department of International Development (DFID), in which the ADB remains as 'the lead financing partner for the project and administers it on behalf of the other co-financiers' (Mitchell and Farchy 2016).

In fact, the ADB approved a project to help Pakistan to improve its connectivity between the country and Central Asia as early as April 2014 and the AIIB was a latecomer in this regard. The ADB approved a grant worth \$327 million to finance an infrastructure project, National Trade Corridor Highway Investment Programme (NTCHIP), in Pakistan in June 2014.²¹ NTCHIP aims to build the E35 (Hasanabdal-Havellian Expressway), a 59 km-long project in Pakistan, connecting with the existing M1 at Hassanabdal (Burhan) to Havelian. The project

²⁰ See also http://euweb.aiib.org/html/2016/Investment_Projects_0411/98.html (accessed 20 June 2016).

²¹ For details, see <http://www.adb.org/projects/documents/national-trade-corridor-highway-investment-program-tranche-2-pp> (accessed 4 September 2016)

will lead to a better connectivity between the country and Afghanistan, China, and other central Asian countries (ADB 2016). With a total contribution of \$121.6 million, the United Kingdom will co-finance with the ADB, enabling the ADB to fund the extension of the expressway to Abbottabad and Mansehra to the north, which are situated on the ancient Silk Road (Rana 2015a, 2015b). Nevertheless, the two British grants to Pakistan are supplementary to China's 'One Belt, One Road' project.

Another funding application of Pakistan to the AIIB, awarded by the Board in September 2016, is its Tarbela 5 Hydropower Extension Project. The estimated cost of this co-financing project is \$823.5 million and the financial sources will come from three parties – the World Bank (\$390 million), the AIIB (\$300 million) and the Government of Pakistan (\$133.5 million) respectively. With the purpose of enhancing Pakistan's electricity generation capacity, this project comprises the installation of a powerhouse at the fifth tunnel of the Tarbela Dam, and the construction of a transmission line that will connect it to the national grid.

Another loan recipient from Central Asia is Tajikistan for its Dushanbe-Uzbekistan Border Road Improvement Project. In May 2016, Tajikistan submitted its application for a project to rehabilitate a 5-km section of the road connecting its capital and the largest city, Dushanbe, to its border with Uzbekistan. This \$105.9 million-project is a joint financing project between the AIIB and the European Bank for Reconstruction and Development (EBRD). Accordingly, the EBRD is not only the lead co-financer but also the main administrator for the project on behalf of the AIIB. The executing agency will be the Ministry of Transport of Tajikistan.

Normative Power China in global development governance?

How far can China (re)shape the conception of 'normal' in global development aid governance? By looking at the inaugural lending projects of the AIIB, two issues are particularly noteworthy. First, it seems that the AIIB's lending is heavily focused on Central Asia, especially Pakistan and Tajikistan; and second, it is inclined to co-finance with other MDBs. We will study below how China exerts normative power through the institution of the AIIB and its norms.

The AIIB is an institutional means of larger Chinese project to transform regional order. The projects it is going to finance in Pakistan and Tajikistan are supplementary to China's 'One Belt, One Road' initiative. Pakistan has been one of a few staunchest allies of the PRC since 1949. Tajikistan is a member of the Shanghai Cooperation Organisation (SCO), a Eurasian organization with Central Asian security-related concerns.²² One cannot rule out the strategic reasoning behind the AIIB's decision to give Central Asia high priority. Central Asia is culturally and geographically close to the north-western region of Xinjiang, a restive area allegedly plagued by the tripartite threats of terrorism, (religious) extremism and separatism, and bordering Tajikistan and Pakistan. Thus far the most violent conflicts in and related to Xinjiang in the twenty-first century took place in Urumqi in July 2009 and in Kunming, Yunnan in March 2014. The East Turkistan Islamic Movement (ETIM), which was allegedly active together with other Taliban groups in the Pakistani tribal region of North Waziristan, was accused by Beijing of lying behind the alleged terrorist attacks (Trédaniel and Lee 2017).²³

With the belief that 'prosperous people are less likely to rebel than poor ones' (cited in Mackerras 2015: 28), in April 2015, China and Pakistan signed an agreement to commence their \$46-billion China-Pakistan Economic Corridor (CPEC), as the 'flagship project' of the 'One Belt, One Road' macro-initiative (see Map 1). The corridor aims to build an 887-km-long highway, N35, to connect the port of Gwadar in south-western Pakistan with Kashgar in Xinjiang, China (Tiezzi 2015a, 2015b). CPEC was financed by China's Export-Import Bank and the \$40-billion Silk Road Fund and negotiated on a government-and-government basis, with Beijing selecting the Chinese firms under a highly closed bidding process. Pakistan has set up a security force of 10,000 people to protect CPEC from Islamic militant attacks (Panda 2016a; Tiezzi 2016). CPEC is politically designed to run through the restive Pakistani province of Balochistan, where Gwadar is located, *because of*, in spite of, security concerns. Beijing

²² China, Russia and four 'stans' (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) are full members. Pakistan is an observer to the organisation.

²³ A group of ethnic Uyghur militants, based in Syria, were reportedly behind the suicide bombing of the Chinese embassy in Bishkek, Kyrgyzstan on 30th August 2016. According to the Kyrgyz state security service, the suicide bomber was a member of the East Turkistan Islamic Movement (ETIM) which called for an independent Xinjiang. He received an order to attack from Uyghur militants active in Syria, and financial support from Nusra Front, a militant group (Shepherd 2016). Kyrgyzstan (and four other 'stans') share a border with Xinjiang.

hopes that by bringing economic development to the restive province in Pakistan, the area will become stable, giving peace dividends to Xinjiang (Tiezzi 2015a; emphasis in original).²⁴ In addition, a Chinese state-owned firm also signed a lease with Pakistan in November 2015 to allow it to manage and control Gwadar for 43 years. Gwadar is a gateway to oil exporting Gulf countries. It is only 120 km away from the Iranian border. As the largest crude oil importer in the world, China brings in from the Middle East 80% of its oil imports and currently the majority of them go to China through the 12,000-km Malacca Strait route in Southeast Asia. Accordingly if the shipping route goes from Gwadar to China's inland cities, it will shorten the shipping times by as much as 85% (Zhen 2015). The importance of CPEC to China's strategic and economic interests can be seen from its inclusion in Beijing's 13th five-year economic and social development plan for the years 2016-2020. The Plan was endorsed in the 5th plenary session of the 18th CCP Central Committee in October 2015 (Pakistan Today 2015). However, for Indians, Gwadar would likely become a naval base in the Indian Ocean for Chinese navy rather than a mere business port (Markey and West 2016). This India factor may explain why China supplements CPFC with AIIB-financed infrastructure projects, which themselves have no direct bearing on the building of CPEC.

²⁴ Balochistan is called the 'troubled heart' of CPEC (Shahid 2016). For studies of the unrest in Balochistan, see Samad 2014, Siddiqi 2012.

Map 1. China-Pakistan Economic Corridor (CPEC)

Proposed China Pakistan economic corridor



Source: *BBC News*, 22 April 2015; <http://www.bbc.co.uk/news/world-asia-32400091> (accessed 12 September 2016).

All of the joint projects between the AIIB and other multilateral development banks are linked to China's OBOR, which aims to create six transnational China-centric economic corridors. Apart from CPEC, the other five economic corridors are a new Eurasian land bridge of freight trains connecting the port of Lianyungang in the eastern province of Jiangsu (江蘇) to Rotterdam; a Mongolia-Russia corridor; a Central Asia-West Asia corridor; an Indochina peninsula corridor; and a Bangladesh-China-India-Myanmar corridor (Leung 2016). All of them will not only strengthen China's commercial ties but also reflect Chinese geopolitical priorities in line with the 'One Belt, One Road' initiative to expand infrastructure and connectivity to China's west. The lending practices of the AIIB are driven by broader security concerns of China. Given the presence of Chinese geostrategic and security interests in the volatile region, it is open to dispute as to whether China does not attach any political conditions to the infrastructure investment. To put it another way, could China afford to let Pakistan and Tajikistan 'own' the projects by adhering to its long-standing cherished norm of non-conditionality? For a long time, China has framed itself as a staunch proponent and supporter of South-South Development in which it differs from the West by not interfering into the domestic affairs of aid-recipient countries. However, as seen from the AIIB's list of priorities and CPEC, security concerns over Central Asia, in which terrorists are rampant, rather than voracious hunt for natural resources (as in the case of Chinese aid to and investment in Africa) may render China reduced room for being indifferent to how Chinese funds would be used in the host countries and to whether the host countries can deliver the political fruits China seeks in offering the loans. Because of the hidden strategic goals and broader agenda behind the loans, the AIIB is less likely to promote open market access to the loans; instead they are likely in the longer run embedded in a China-dominated tied aid architecture with the services provided by well-connected China's state-owned enterprises. One cannot rule out the possibility that China may quietly drop its own norm of non-conditionality from the AIIB's lending practices while keeping tied aid intact. But the logic behind this policy change is primarily to enhance Chinese security by delivering economic development to the host countries. In such a less security-sensitive country as Bangladesh,

the AIIB is the only donor and so far there has been little mention that there will be any conditionality or that the AIIB will require Bangladesh to use China's labour and services.

Second, as mentioned above, most of its lending projects are co-financed and led either by the ADB, the World Bank or the EBRD. In addition, the AIIB indicates that it will follow the lending principles of Western-led MDBs. One of the main reasons is to allay concerns, particularly from the US, over whether the AIIB is primarily a Chinese-dominated bank that competes with other MDBs. Another reason is that Beijing has yet to have the managerial skills and competence to vet carefully all applications and has to rely on the existing MDBs in that aspect. Co-financing is a means of minimising financial risks to the nascent bank (Panda 2016b).

In the area of economics and trade, American hegemony is by and large predicated on neoliberalism that promotes a reduction of barriers to the entry of American private firms into the domestic markets of the host countries as well as a (Washington) rules-based global economic governance. State capitalism and mercantilism are portrayed as inimical to American interests and universal values.²⁵ The establishment of the AIIB, in contrast, represents a Chinese move to advocate its own vision of economic governance that emphasises the positive role of large-scale project aid, undertaken by state-owned enterprises in the form of tied aid, in stimulating aggregate economic growth of recipient countries. To counter a threatening American 'containment', China attempts to create a China-led regional economic order in Eurasia. Paradoxically this intended outcome will likely shape China to transform its non-interference principle into a political conditionality approach that is not predicated on the rule of law and good governance but on regional security and stability.

As soon as the operation of the AIIB becomes more mature, offering more and larger loans and with less co-financing with other MDBs, there are more grounds for us to observe whether

²⁵ The US has undertaken a 'discursive demolition' of the Asian development model in the wake of the Asian financial crisis of 1997-98. See Hall 2003; Heritage 2017: chapter 5.

it stands for an approach to foreign aid that is antithetical to the OECD-DAC's.²⁶ Now apparently the new 'normal' is a juxtaposition of neoliberalism and state capitalism in which both political conditionality and tied aid coexist with each other.²⁷ The Chinese notion of South-South Development Cooperation, as seen from our analysis, differs little from the Western approach to foreign aid for its role of euphemising power asymmetry and status hierarchy. Behind the persistence of Chinese preference for tied aid is a hidden assumption that local workers and firms are less competent than Chinese ones in meeting the Chinese targets.

Concluding Remarks

Power, ideas and institution all matter when we follow China's emergent footprints in the global governance of development assistance. This paper has posited that the establishment of the AIIB is not entirely due to a discovery by Chinese officials of lucrative business opportunities in Asia where there is a considerable funding gap in infrastructure investment. Rather, the AIIB should be conceived of as a China-led multilateral financial institution that serves the purpose of China's restructuring of the Eurasian regional order to counter American 'containment' from the Pacific. As a subject of international political economy, it is an – but not the – instrumental tool of China's Great Game of the twenty-first century, the 'One Belt, One Road' macro-initiative, which includes bilateral development assistance projects.

With growing material power at hand, China has considerable incentive to be a normative power in the area of foreign aid and the potential for being so. It shares the belief in non-political conditionality with the key non-Western members of the AIIB, who jealously guard their sovereign prerogatives, contributing to an international legitimisation of the norm. The attractiveness of China development model is also evidenced by the lure of joining the AIIB.²⁸

²⁶ The total amount of its inaugural loans, \$508.5 million, is very small, compared to its capital base of \$100 billion.

²⁷ For a major study of state capitalism, see Bremmer 2010; for recent studies of China's state capitalism, see Du 2014, Haley and Haley 2013, Hubbard 2016, Lin 2011, Lin and Mihaupt 2013, McNally 2012, and Schweinberger 2014.

²⁸ Sixty percent of OECD members joined the Bank as founding members. With the exception of the US, Japan and Canada, all major industrialised Western countries were founding members. Canada indicated that it had applied for joining it when its Prime Minister Justin Trudeau was visiting China in late August 2016 (Perlez 2016).

However, this paper has simultaneously pointed out the possibility that China may only pay lip service to the rejection of any form of political conditionality in the provision of development aid. Situated in an increasingly insecure geopolitical environment, caused by the alleged American 'containment' from the Pacific and by the rise of terrorist groups in China's West, China will likely be behaving like other Western countries in giving aid to developing countries. Its primary concern is security from existential threats; foreign aid programme and political conditionality are for the promotion of national security and the pursuit of economic wealth. We are observing a coalescence of Chinese and Western norms and practices in the global governance of development aid behind the façade of divergent rhetoric.

Despite the considerable attention it has attracted from the mass media and policy analysts, the AIIB, according to this paper's analyses, is less likely to be equally influential as the Bretton Woods institutions and the OECD-DAC in initiating and promoting normative changes at the global level. To prove the American critics, who assert that the AIIB is merely a Chinese-dominated bank that would contravene the norms and rules of the established multilateral development banks, wrong, China goes to great pains to lay stress on its multilateral operation bounded by the established Western rules. This is paradoxically reflective of American continuing normative power in world politics. The real machine that China would use for norm advocacy in international development is the overarching master plan of the 'One Belt, One Road' initiative, which offers tied and bilateral, project aid, as CPEC indicates. Through the grand strategy and the associated instrument of the Silk Road Fund, it proffers to the developing world and consolidates one of its preferred norms, namely tied aid backed by the ideology of state capitalism. While OBOR is institutionally shielded from international scrutiny and thus grants China more autonomy to operate and manoeuvre, it will give China less normative or social power in setting global standards and in defining what passes for 'normal' in world politics. As far as international development is concerned, China thus far fails to de-legitimise the key norms espoused by the United States. At best it only succeeds in uploading its norm onto a non-Western, Eurasian level. It is rather fair to assume that American global hegemony will survive the challenge relatively unscathed.

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