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**Normative Power China: Process Tracing the Dynamics  
Behind the Asian Infrastructure Investment Bank**

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## **Abstract**

In the midst of a global shift in world politics induced by the rise of emerging powers, the outdated and unequal international financial institutions (IFIs) that were set up after World War II are increasingly being challenged and scrutinized. International actors can use IFIs in numerous ways to enhance their position in the world system. For instance, they can be used as a vehicle to launder state interests with the ultimate goal of pursuing or enhancing normative power, allowing an actor to define what is considered ‘normal’ in international relations. This thesis seeks to investigate such an example, and analyzes the newly established Asian Infrastructure Investment Bank (AIIB) pioneered by China to shed light on how emerging powers create IFIs to pursue normative power. The main argument is that creating IFIs is ‘sufficient’ but not ‘necessary’ to enhance an actor’s normative power. Grounded in constructivist literature with a focus on ideational factors such as norms, ideas, and values, this thesis uses process tracing to capture the underlying dynamics that played the biggest role in establishing the AIIB. In doing so, it aims to demonstrate how China has imbued the bank with its own norms in the hopes of projecting them out into the world, which ultimately enhances China’s normative power. Material factors including economic gains and improved security will equally be considered in order to properly address the multiple causal pathways that led to the bank’s creation. The findings reveal that the economic aspect of material factors can be ruled out as an alternative explanation, a revelation that induces the likelihood that ideational factors played an important part in the creation of the AIIB. However, the study was unsuccessful at ruling out the security dimension. As such this thesis finds that given the complexity of international actors and that their goals and actions are seldom one-dimensional, ideational factors were important in China’s normative power pursuit, but ultimately both factors played a part in creating the AIIB.

**Key words:** AIIB, normative power, ideational factors, material factors, China

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## **Acronyms and Abbreviations**

|       |   |
|-------|---|
| ADB   | Asian Development Bank                                |
| AFC   | Asian Financial Crisis                                |
| AIIB  | Asian Infrastructure Investment Bank                  |
| AOA   | Articles of Agreement                                 |
| APEC  | Asia-Pacific Economic Cooperation                     |
| BRI   | Belt and Road Initiative (Previously OBOR)            |
| BRICS | Brazil, Russia, India, China, South Africa            |
| CCIEE | China Center for International Economic Exchange      |
| DTC   | Developing and Transition Countries                   |
| EU    | European Union  |
| GDP   | Gross Domestic Product                                |
| GEFC  | Global Economic and Financial Crisis                  |
| IBRD  | International Bank for Reconstruction and Development |
| IFI   | International Financial Institution                   |
| IMF   | International Monetary Fund                           |
| IO    | International Organization                            |
| IR    | International Relations                               |
| MDB   | Multilateral Development Bank                         |
| MDG   | Millennium Development Goals                          |
| MOU   | Memorandum of Understanding                           |
| NGO   | Non-Governmental Organization                         |
| OBOR  | One Belt One Road                                     |
| RMB   | Renminbi  |
| SDR   | Special Drawing Rights                                |
| SOE   | State Owned Enterprise                                |
| SRF   | Silk Road Fund  |
| UNSC  | United Nations Security Council                       |
| U.S.  | United States   |
| WB    | World Bank  |

# 1. Introduction

“In this new world, ideas will matter more than money and solutions and these will move across the new South; not just from the North to the South...A new development paradigm is emerging in the New South in which a Hand-Shake will replace a Hand-Out.” (Chhibler 2015:12)

The current International Financial Institution (IFI) architecture illustrates a suitable example of an anachronism. Built by the powerful North, IFIs operate on the idea that voting power should depend on the economic size of a member state. As such, it is no surprise the richer, more developed economies call the shots at these institutions, those of which are engrained with ideas and traditions of western influence. But the world is undergoing fundamental changes where the rise of new emerging powers such as Brazil, Russia, India, China and South Africa – known together as the BRICS - is challenging the outdated dogmatic ways of these IFIs and encouraging more flexibility in their approach.

Frustrated with the triggering and handling of the Global Economic Financial Crisis (GEFC), and with painfully slow reforms in the existing financial architecture, several new banks have sprung to life in the last couple of years. Of the most noteworthy ones are undoubtedly the Asian Infrastructure Investment Bank (AIIB) created by China and the New Development Bank (NDB) created by the BRICS. These IFIs give a larger voice to the South and have their own mechanisms of channeling funds for development outside the existing IFI framework. This paper focuses on the case of the AIIB, as it is first and foremost a Chinese initiative where China is the main stakeholder, but also because the bank has come further in its development than the NDB.

The West were initially highly skeptical of the new institution, as there was a fear it would undermine the work of institutions like the World Bank (WB), the International Monetary Fund (IMF) and the Asian Development Bank (ADB), with its supposed lack of transparency, good governance, and social and environmental safeguards. The legitimacy of the AIIB was recognized, however, when several European heavy-hitters decided to join the bank, despite various warnings and outcries from countries like the

United States and Japan. The AIIB is now a global IFI because of the diverse membership that it has managed to accrue, but the US and Japan still remain on the sidelines.

Similar to how the West created IFIs and imbued them with their own norms to further their agendas and influence in world politics, there is justified reason to expect China will do the same.

Therefore, this paper argues that emerging powers like China create IFIs as a way of enhancing their normative power in world politics. I will illustrate this by showing how China has used ideational factors like norms, ideas, values and beliefs to construct the AIIB, which will serve as a vehicle to carry and project these out into the world. There is as such an underlying assumption in this paper that emerging powers want to become normative powers in the first place, and I argue that creating IFIs is ‘sufficient’ for enhancing an actor’s normative power, but not ‘necessary’ in that sense.

## **1.1 Aim & Significance**

The aim of this paper is to contribute to the discussion on the strategies that states in international relations use to enhance their influence in the world. Specifically, this paper aims to investigate and trace how ideational factors mattered the most in the creation of the AIIB and how its distinct features will be used to enhance China’s normative power in world politics.

So far, much academic and policy-oriented debate on emerging powers have focused primarily on China, which makes sense given its superior economic and military strength in comparison to the other BRICS members. These debates tend to focus on exactly these two aspects of China’s ascent, in other words material factors, as they are easy to study and to trace, and they also serve as straightforward indicators of the position of a country in the world system. However, oftentimes the debates are too narrow and jaundiced to adequately shed light on the changing dynamics of the international system that we are witnessing today as a result of rising powers like China, because to a large extent they are outdated. Overlooked for a long time but now finally taken seriously is the role of ideational factors like norms and ideas in analyzing the decisions that states make,



a result of the tireless efforts of constructivists. Although this is indeed a welcoming shift to the study of international relations, constructivists have had a difficult time in dealing with causality and causal mechanisms since ideational factors are difficult to trace.

This paper tries to add to their important work and to shed light on the causal role that ideas play in the study of phenomena in world politics.

## **1.2 Research Question**

To that end, the research question that this paper tries to answer is:

**Why do emerging powers create IFIs?**

## **1.3 Disposition of Thesis**

The thesis is divided up into five chapters and will first proceed with a literature review in order to examine how previous research has evolved and approached the study of international organizations and normative power, and to situate the aim and significance in this wider context. The theoretical section serves as a backbone of the study in which a framework that facilitates the study of China and the AIIB will be used. This is followed by a section on methodology, which explains the application of process tracing in approaching the empirical material and it subsequently lays out the logic of the two competing hypotheses: ideational factors and material factors. A chapter on analysis ensues which traces the two hypotheses. Lastly, the conclusion will discuss the results and suggest where future research should be headed.

## **2. Literature Review**

### *2.1 How do IOs influence world politics?*

According to Barnett and Finnemore (1999:702) in the social sciences, there are two main ways of theorizing about organizations: “One is economic and rooted in

assumptions of instrumental rationality and efficiency concerns; the other is sociological and focused on issues on legitimacy and power.” This rationalist versus constructivist divide continues to shape current debates over the influence of IOs on world politics to this day.

Barnett and Finnemore’s main argument in their article is that IOs have power independent of the states that created them (1999:699). They create rules and they also create social knowledge (ibid). They argue that global organizations do more than just:

“...facilitate cooperation by helping states to overcome market failures, collective action dilemmas, and problems associated with interdependent social choice. They also create actors, specify responsibilities and authority among them, and define the work these actors should do, giving it meaning and normative value. Even when they lack material resources, IOs exercise power as they constitute and construct the social world.” (Ibid)

Where my research differs from Barnett and Finnemore’s is that theirs is more descriptive. Barnett and Finnemore try to understand what an IO is in a constitutive sense, and they specifically note that in conceptualizing IOs in this way it “does not allow us to offer law-like statements such as ‘if X happens, then Y must follow’.” (Barnett and Finnemore 1999:701) By joining forces with process tracing and by providing causal mechanisms that logically connect my dependent and independent variable, I can hypothesize “law-like” statements and then test them out. An example would be: if an actor engages in normative entrepreneurship, then they will engage in normative diffusion. I therefore go beyond simply describing and understanding what the AIIB is.

Both Barnett and Finnemore (1999) and Checkel (2014) articulate an important shift in the study of IOs starting from around the mid 1990s. Prior to this shift, students of IOs tended to draw their assumptions from the rationalist camp. This led to a less sophisticated study of IOs where research hypotheses only studied some aspects of IOs such as why they were created as opposed to what they mean for world politics (Barnett

and Finnemore 1999:702; Checkel 2014:75-76). From the mid 1990s, however, constructivist scholars began documenting the social role of IOs, hence there was a shift from studying why they were created to what they were created for (Checkel 2014:76).

This research wants to combine the focus from both before and after the shift, and as such address the problem outlined by Finnemore (1996 in Checkel 2014:76) namely that political scientists have focused too much “attention on the problem of how states pursue their interests,” rather than “figur[ing] out what those interests are”. By focusing on the dynamics driving the establishment of the AIIB, that is how it was created, we can then seek to determine what its establishment means for world politics, why it was created.

## **2.2** *How do states use IOs to launder their interests?*

International institutions like IFIs are central features of modern international relations. From a rationalist perspective, states are the principal actors in world politics and they create and organize themselves in IOs to reduce transaction costs, produce collective goods, and solve coordination problems. Constructivists on the other hand tend to focus more on the fact that IOs play a vital role in spreading global norms. Whatever camp one adheres to, some facts stay the same. States fight over institutional designs because they inevitably affect how the organization will function and who has a say. Once an organization is created it cannot swiftly be changed to adapt to changing realities of international power. Just look at Japan and Germany who play a relatively modest role in the UN today because they were not able to reverse the decisions made around the 1950s to exclude them from the Security Council (Koremenos *et al.* 2001:762).

Lim and Vreeland’s (2013) study tries to highlight Japan’s influence over the ADB and the UN Security Council (UNSC). They suggest that regional hegemons can use their power in regional organizations to gain influence at the global level (Lim and Vreeland 2013:35). What they found in the case of Japan was that Japan has used its influence in the ADB, where it is the undisputed leader, to facilitate favorable loans to countries useful to further their foreign policy goals at the UNSC (*ibid.*). The bottom line of their

findings is that states use IOs to further their domestic and foreign policy goals, but this hinges to some degree on the consensus among the most powerful members of that IO (ibid). Lim and Vreeland's study differs from mine because their focus is regional whereas mine is global. At the end of their article they hint at where future research should be headed (Lim and Vreeland 2013:67): "The systematic manipulation of international organizations by rising regional powers such as China, Brazil, and India may not be apparent for some years to come, but their time may already be on the horizon." This is where my research enters the picture.

McKeown (2009:269) and Kilby's (2013) separate studies are also relevant to my research because they both explore how "the actions of international organizations are shaped to serve the parochial interests of influential member national governments". They both focus on informal influence at the major IFIs in the world. Kilby (2013:459) finds "quantitatively and statistically" there are "significant links between UN voting and World Bank disbursements, primarily reflecting US informal influence". He concludes that informal donor influence has at least as much impact on the allocation of WB resources as formal donor influence (Kilby 2013). McKeown (2009:269) does not disagree with Kilby but he explains how one cannot only rely on quantitative statistical analyses to study the relationship between the interests of powerful states and the lending patterns of IFIs because "they do not illuminate influence processes that give rise to these patterns". Given these insights, this research will use a qualitative approach to study both formal and informal influence that shaped the establishment of the AIIB.

### *2.3 The rise of emerging powers*

The global financial architecture that exists today was set up after World War II when America enjoyed uncontested hegemonic power. Several institutions sprung to life with the mission to govern the global economy, and even to this day they remain heavily dominated by the US and the West in general. The last couple of decades have witnessed a shift in global power relations. In response to the shift, a large and increasingly growing body of literature has arisen seeking to study it. In particular, these studies delve into the

agendas informing the emerging powers in hopes of determining whether they are trying to compliment the existing international economic structures or whether they are trying to undermine them. A shortcoming of this literature is the almost unilateral focus on economic factors as the main, and sometimes only, reason for explaining their ascent to power. In a way, Hopewell (2015), like McKeown, also stresses the problem of overreliance on one model.

Hopewell's article (2015:312) attempts to show that these underlying forces are much more heterogeneous and complex than explained by a simple economic determinism. She does so by using the WTO as a case to illustrate how emerging powers like India and Brazil who arguably do not harness the same economic prowess as actors such as China, the US or Japan, to name a few, have had to rely on other factors. Her reasons for explaining why the focus so far has been so economy-heavy is because of an overwhelming focus on China, which, with good reason, is widely seen as the key rising power (Hopewell 2015:313). Additionally, these power shifts have been heavily influenced by traditional realist conceptions of IR, where material factors are used to determine a state's power (ibid). These overly simplistic views cannot adequately address the complex and multifaceted dimensions of power in contemporary international relations, and this is where constructivism has entered the picture.

Hopewell essentially argues that the rise of emerging powers like India and Brazil has been made possible because of their mobilization and leadership of developing country coalitions. China's rise on the other hand has been closely tied to its economic might. What this means in the case of India and Brazil is that they successfully managed to exercise influence, not just in the WTO that Hopewell focuses on, far beyond their economic weight (Hopewell 2015:314).

In sum, similar to the way McKeown's article illustrates that simply relying on econometric analyses to study relationships between international actors and IFIs can be too limited, Hopewell's article illustrates that power and influence do not stem from material capabilities only. Overreliance on one model or strain of thought "risks missing important aspects of the rise of new powers in global economic governance." (Hopewell 2015:332)

Hopewell's study is insightful in illuminating the complex and manifold ways that emerging powers can increase their influence beyond mere material capabilities. Nevertheless, her focus is mostly on India and Brazil. I contend that the same argument she makes for India and Brazil can be extended to the Chinese case as well where I argue that ideational factors, as opposed to material factors, mattered more in the creation of the AIIB.

Brantley Womack's article (2008) does not follow the usual rationalist-constructivist divide in explaining Chinese behavior and action in the world. Womack argues that China is a unique actor whose action has always been structured in terms of norms (Womack 2008:265 in Tocci 2008). Instead of following the black and white view of a realist "logic of consequences" versus a liberal "logic of appropriateness", China follows a "logic of relationships" (ibid). Womack argues that this makes more sense because if: "international actors are located actors and have their own perspectives, and if they are located in a matrix of unequal interrelationships, then their individual perspectives will generate sets of particular relationships." (Womack 2008:297 in Tocci 2008) Hence China approaches other actors in international relations based on the distinct features of that particular relationship. He traces this back to Confucian thought, where "the focus is neither on the universal nor on the individual, but rather on proper behavior in relationships." (Womack 2008:268 in Tocci 2008) Womack adds that "the cardinal virtue of normative interaction is respect for the other". So whenever China speaks about "mutual benefit", "win-win cooperation", and "proper behavior", etcetera, in relation to Chinese interests, they are guided by deep-rooted Chinese values. Womack's article is important to consider in order to fully understand what type of foreign policy actor China is. He provides novel guidance in how to approach this research, especially in illuminating the potential dynamics that could have been instrumental in driving the establishment of the AIIB.

#### **2.4 *The AIIB***

Wang's (2016) article tries to place the new development banks, the AIIB and the NDB,

in the wider global governance structure, and to probe into the opportunities and challenges that they pose. The creation of the AIIB and the NDB represents the third and latest wave of IFIs, and they represent the current power shifts that are taking place at the global level due to the rise of emerging powers (Wang 2016:2). He essentially argues that the rationale for creating these banks is threefold: (1) to address the massive infrastructure gap that exists in Asia, (2) to reform the existing system of financial governance, and (3) to be used for specific national interests of the emerging powers (Wang 2016). It is difficult to argue against this because he casts his reasons very broadly, especially his last point. Throughout his article, he seems to side with the explanation that the AIIB was created mainly for material reasons and ends. He especially makes this clear when he links the creation of the AIIB to President Xi's One Belt One Road (OBOR) Initiative – a colossal network of connectivity to expand Chinese trade and investments overseas (Wang 2016:4). Wang rightly connects the dots and provides a strong impetus for looking more closely into the material side of the AIIB's construction. What he fails to take into consideration, however, is that the OBOR initiative is more than physical connectivity - it is equally about the soft power connectivity of ideas. And if the AIIB and OBOR are connected, then the role of ideas needs to be taken much more seriously.

Callahan's (2016) article does exactly that. Arguing from a constructivist perspective, he analyses Xi's foreign policy and tries to show how ideational factors are guiding Chinese interests. Callahan argues that from reading into Xi's commonly used slogan of "community of shared destiny", we can understand how Beijing has "integrated ideas, institutions, and behavior for a new grand strategy as a norm-maker" (Callahan 2016:238). The conclusion of his article is that Xi's ultimate goal with using slogans such as "community of shared destiny", "win-win cooperation", and "peripheral diplomacy" on one hand, and creating the AIIB and OBOR on the other is to "weave neighboring countries into a Sino-centric network of economic, political, cultural, and security relations". (Callahan 2016:227) He adds that "Beijing's grand strategy thus is to re-constitute the regional order – and eventually global order – with new governance ideas, norms, and rules...which will make China a normative power that sets the rules of the

game for global governance.” (Callahan 2016:227-228)

Thus Callahan makes the same argument that runs through this paper, that the ultimate goal is for China to be able to decide what constitutes as ‘normal’ in international relations. Our approaches in arriving at this conclusion however differ as I focus much more on the AIIB, and go in-depth into the dynamics that gave rise to its establishment and how its specific institutional setup allows China to use it to launder its own interests. Two authors that have looked more specifically into how and why the AIIB was set up are Yang (2016) and Peng and Tok (2016).

Yang (2016) takes an interesting approach in analyzing the creation of the AIIB. He contends that “the overriding consideration and leitmotif for China to build the AIIB is political and ideational...” and he makes his case by using a social identity theory (SIT) framework. (2016:756) The SIT framework posits that states resort to three status-seeking strategies to enhance their international status: social mobility, social competition, and social creativity (2016:755). He argues that China has opted for the latter, which means that China is “attempting to achieve prestige on a new dimension” in establishing the AIIB (ibid). Yang thus predicts that the AIIB will be a legitimate addition to the current governance structure rather than an attempt at replacing it, but this remains to be seen (ibid, 773). He argues that the AIIB differs from the existing IFIs on three accounts: its focus on infrastructure, its much “leaner” institutional structure, and the fact that it provides ownership to the global south (Yang 2016). It is difficult to argue against Yang’s findings as they are logical. His contributions are novel, but at the end of the day, the creation of the AIIB is much more than a simple attempt at improving Chinese status.

Lastly, Yang’s insights into how the AIIB differs from existing institutions could be expanded much further. For instance he never mentions how the AIIB will inherit several distinctly Chinese foreign aid principles such as ‘un-conditional’, ‘mutual benefit’ and ‘non-intervention’.

Peng and Tok’s (2016:736) article comes closest to my study. They too examine the role of the AIIB in China’s emerging normative power. They go about it differently in the



sense that they look at the AIIB's normative principles, norm diffusion, and external perception to try to understand China's emerging normative power. They conclude that the AIIB will in fact "significantly enhance China's normative power in international society" (ibid).

My study seeks to expand on Peng and Tok's framework and to map out, in more detail, the causal mechanisms that connect China's ideological basis to the establishment of the AIIB. And there is definitely room for expansion. For instance, Peng and Tok do not apply norm diffusion to its full potential. They merely scratch the surface, and could have utilized the works of Ian Manners (2002, 2006) on norm diffusion since Manners' normative power theory constitutes a big part of their theoretical framework. Their article was also written in 2016, and a lot has happened since then. The AIIB is now up and running, and there is also a lot more information and additional studies that have been done on the topic now.

To sum up, my contribution to these debates is using process tracing to consider, equally, ideational versus material incentives. Whereas existing research has mainly focused on one of those things, this paper properly addresses the complexity of international actors who are seldom driven by one-dimensional motives, by accounting for both aspects. It also goes more in-depth into the construction of the AIIB, and tries to show that, despite widespread critique, constructivism is in fact suited to investigate causal forces and make causal arguments.

### **3. Theory**

The upcoming section starts with a definitional chapter to make the main concepts as clear as possible. This is followed by a chapter discussing the key contributions to normative power theory and the theoretical framework that will be used for this paper, in this case Peng and Tok's (2016) framework. A final chapter lays out the main categories of the theoretical framework.

## **3.1 Definitions**

### **3.1.1 *On norms***

As a theoretical building block of the paper, it is necessary to define what norms are. A commonly agreed upon definition is that they are a “standard of appropriate behavior for actors with a given identity.” (Finnemore and Sikkink 1998:891) Scholars across various disciplines have identified different types or categories of norms. Most often, the juxtaposition between regulative norms, which enable and prevent behavior, and constitutive norms, which create new actors, interests, or categories of action, is discussed or employed in research (ibid). A third category, one that is often ignored even though the key tenet of this particular category is what sets norms apart from other rules, is evaluative or prescriptive norms (ibid). These deal with the aspect of “appropriateness” or “oughtness”. Indeed, unlike some scholars who perceive norms “as a result of common practices among states” that create “regularity and consistency”, Björkdahl (2004:8) finds that regularity and consistency do not necessarily translate into a norm of conduct that identifies actual behavior. She too argues that norms define “what appropriate behavior ought to be”. (Ibid)

### **3.1.2 *On normative power***

The concept of normative power was championed by Manners (2002) who developed it under the name Normative Power Europe. Essentially, Manners defines normative power as the “ability to shape conceptions of ‘normal’ in international relations” and doing so through peaceful means (2002:239). Under such an interpretation, norms and power are thus closely interlinked as “only major international actors have the power to shape or determine what is considered ‘normal’.” (Tocci 2008:4)

The end of the Cold War created a power shift in Europe around 2000. Up until then, states placed greater emphasis on the use of hard power capabilities to reach their goals, and the traditional theories of IR reflected this fact. Indeed, international relations during the Cold War made assumptions about the “fixed nature of the nation-state”, “the importance of direct physical power”, and “the notion of national interest” (Manners

2002:238). It is my contention that the concept of normative power seems to have developed out of the scholarly debates about what Europe *is* and what Europe's place in the world should look like. It has developed largely due to the contributions by Hedley Bull, Francois Duchene, and Joseph Nye.

Bull held the view that in order for Europe to regenerate, Europe had to pay greater attention to military power (Manners 2002:238). Duchene on the other hand considered Europe to be a "civilian power", and stressed the importance of non-military means such as the use of economic power (ibid). Although they disagree on the means for Europe to regain its prominence in the world, they were both inevitably concerned with "the strengthening of international society, not civil society." (Ibid) As such, they both also agreed on the "maintenance of the status quo in international relations which maintained the centrality of the Westphalian nation state." (Ibid)

Nye enters the picture because of his concept of "soft power", which I argue is relevant to the development of normative power and necessary to discuss in order to distinguish between the two concepts. Nye's soft power concept was related to "forms of foreign policy influence which relied on cooptation, multilateral cooperation, institution-building, integration and the power of attraction." (Nye 2004:5 in Tocci 2008:2) Evidently, soft power, like Manners' normative power, places emphasis on non-coercive means. The two concepts are related in many ways, but they differ in the sense that just because an actor uses soft power to obtain its goals does not mean that it can be classified as a normative power. Normative power, as will become evident later on, makes more sense for the purpose of this paper because it is broader and fits more neatly with China's role in international politics.

### **3.1.3** *On emerging powers*

Using Hunt's (2016:761) definition of emerging or rising powers, they are: "formerly peripheral players that have gained greater international prominence in recent years." Such emergence can be due to a multitude of factors such as greater economic weight, larger military capabilities, or political sway in regions of greater international importance (ibid). Naturally, then, states that immediately come to mind are the BRICS.

Yes, there will always be heated debate over which actors are emerging and which ones have already emerged, such as China and Russia for instance who some would argue already have emerged since they both have a permanent seat in the UNSC. But if one abides by Hunt's simple and straightforward definition we can lay those debates to rest for now. As only powerful actors are able to define what is considered 'normal' in international relations, the rise of these powerful new actors presents an ample opportunity to investigate how they strive to become normative powers and how they use IFIs to do so.

### **3.2 Theoretical Framework**

In recent years, the concept of norms in the field of international relations has become a frequently revisited topic, and it has spawned a rich body of literature (to name a few: Carr 1962; Duchene 1973; Galtung 1973, Finnermore and Sikkink 1998; Kavalski 2012, 2013; Bower 2017; Peng and Tok 2016; Björkdahl 2002; Manners 2002, 2006, 2013). As states on the global stage rely less on the distribution of power through hard power capabilities to reach their goals, the 'soft' power of ideas, values and norms have emerged as a more attractive option. According to Björkdahl (2002:9), the question whether norms still matter is no longer controversial, as they are highly relevant and serve as a useful analytical tool to investigate how states are guided by and use them as motivation to take action. Arguably, the debates surrounding norms is being steered by one branch of IR theorists in particular: constructivists (ibid, see also Checkel 1998; Adler 1997; Hunt 2016; Acharya 2011). One explanation for this development could be the fact that we are witnessing a world that is becoming increasingly globalized and multipolarized. The traditional theories of IR like realism, neorealism, and neoliberalism cannot adequately capture "the influence of ideas, values and norms on the interests and identities of actors" in part also because they do not attach significant value to them (ibid). As such, there is a need to reevaluate certain theories and concepts in IR like the nature of power itself and 'actorness' in the 21<sup>st</sup> century to account for these new realities (Manners 2013).

Constructivism has several branches that proceed in slightly different directions. There are, however, chief assumptions common to all of them. One is that in constructivist research, “norms are central to explanation” (O’Brien and Williams 2013:263). Another one according to Hopf (1998:182 in Broome 2014:25) is that “the intersubjective bases of everyday social reality shape political processes, practices and outcomes.” In terms of how constructivism contrasts to other IR theories, it probably differs the most from rationalist approaches like realism and liberalism. Essentially, this is due to the difference in the “specific role they assign to ideational factors in the process of institutional change, policy reform and political contests, which constitute political practices and political power.” (Checkel 1998 in Broome 2014:25) Whereas constructivists emphasize that actors follow a “logic of appropriateness” meaning “socially acceptable rather than selfishly optimizing behavior” (Sharman 2006:52 in Broome 2014:25), rationalists contend that actors follow a “logic of consequences” meaning that specific actions are linked to material costs and those actions seeks to “produce an outcome that maximize(s) the interest of the individual unit.” (Broome 2014:5; Fierke in Dunne *et al.* 2013:190) As such, constructivism questions the individualist ontology of rationalist theory because it views the relationship between the individual and social structure, and puts forward a social ontology instead (Fierke in Dunne *et al.* 2013:190). Since human beings are fundamentally social beings, “individuals and states cannot be separated from a context of normative meaning which shapes who they are and the possibilities available to them”. (Ibid) Clearly, given the differences outlined above, constructivism adds “a social dimension that is missing from rationalist approaches.” (Ibid)

Another difference between constructivism and rationalist theories is “how much causal significance is attached to the role of norms, identities, or ideas in shaping actions and outcomes.” (Broome 2014:25) For instance, some rationalist theories view norms as “by-productions of strategic calculation by rational actors” whereas constructivists hold that “social mechanisms are understood to have a constitutive effect on norms, ideas and identities.” (Abdelal *et al.* 2009:18-19 in Broome 2014:25). Seabrooke (2006:7 in Broome 2014:25) puts it in other words: “norms saturate the determination of material interests rather than competing against interests as alternative motivations for actors’ behavior.” In fact, realists argue that norms “carry little independent causal weight”

because states comply with norms when it serves their interests and violate them when it does not (Shannon 2000:296). Ruggie (1998:883 in Shannon 2000:294) argues along similar lines and states that “even constructivists concede that the work has lacked the specification of causal mechanisms and scope conditions.” But as Shannon (2000:296) argues, norms do have causal weight because they “play an independent role in foreign policy behavior” highlighted by the fact that states oftentimes do act on normative concerns without there being any material interests present or are constrained by norms. And in regards to Ruggie’s criticism, as Barnett (1999 in Payne 2001:43) notes: “Constructivists look to frames to provide causal mechanisms for the influence of ideas on policy and politics.” Finnemore and Sikkink (1998:897 in Payne 2001:43) also specify that framing is the ultimate goal of normative entrepreneurs in the first stage of their norm life cycle.

Despite these dissimilarities, the two theories also share some similarities. One is the epistemological adherence to positivism: “Constructivists embrace an intersubjective ontology, emphasizing norms, social agents, and structures, and the mutual constitution of identity, but accepts an epistemology indebted to positivism, which includes hypothesis testing, causality and explanation.” (Ibid) Indeed, this “middle ground” that constructivism rests on, basically the fact that the theory falls in between rationalism and post-structuralism, is often the reason why constructivism is criticized for being “inconsistent” (Fierke in Dunne *et al.* 2013:192).

Another similarity between them is the difficulty they both experience in explaining change (Finnemore and Sikkink 1998:894). So far, constructivists have provided good explanations on how norms shape social order and imbue it with a sense of stability. In an ideational international structure, “idea shifts and norm shifts are the main vehicles for system transformation.” (Ibid) Explaining this transformation, however, has proven difficult for both constructivists and rationalists alike (ibid).

Although normative power has arguably been around for some time, it was not until Ian Manners’ work that it was brought to the forefront of IR debates through a series of articles (2002, 2006, 2013). Up until that point, Manners argued that the debate had not

taken off because the focus was on the dichotomy between civilian and military power, often applied to analyze the European Union (EU), which took credence over normative power debates. Whereas civilian power refers to non-military means and goals of an actor, military power refers to the hard power capabilities. Normative power on the other hand refers to the ideational impact of an actor's identity. As mentioned before, in Manners' view, the definition of normative power is the "ability to shape conceptions of 'normal' in international relations" and doing so through peaceful means (2002:239). Manners centered his discussion on the EU and argued that the EU "embraces norms such as human rights, democracy, and the rule of law" (Manners 2002:241 in Peng and Tok 2016:738). These are the internal norms at the center of the EU's relations with its member states. He takes his argument one step further by advancing that the EU then diffuses these norms to other countries and regions outside of Europe, and does so through economic and political interactions (Manners in Peng and Tok 2016:738). But in order for Europe to be recognized as a normative power, it has to be perceived as such by other actors. Thus Kavalski (2013) takes the argument yet another step further by advancing that external perception is another crucial ingredient in normative power because normative power "emerges in relation to the inter-subjective environment to which its agency is applied" (Kavalski 2013:250 in Peng and Tok 2016:738). Peng and Tok (2016) sum up the existing literature on norms and normative power and form a framework which can be utilized to analyze IFIs. This framework consists of three parts: "normative principles, norm diffusion, and external perception." (737)

This report will use Peng and Tok's theoretical framework and apply it to one specific case: the AIIB. The framework will not be used in its entirety, and it will be modified. For instance, 'external perception' will not be used because we are not interested in how other actors are responding to the rise of China and the creation of the AIIB beyond how they are responding to China's attempt at diffusing its norms.

Constructivism, Manners' theory (with contributions) of normative power and Peng and Tok's framework are applicable to my research for several reasons. The use of constructivism as the main source of theoretical literature is straightforward as we are dealing with ideational factors. But also, constructivism makes theoretical sense because

it can deal with “new forms of power” that have emerged as a result of globalization, and a reassessment of “old dichotomies” of “hard power vs. soft power” (Manners 2013:305). The research question sets out to analyze the rise of emerging powers by investigating how they pursue normative power, and their use of IFIs to facilitate this pursuit. As Manners explains, “our globalizing, multipolarizing era” has empowered emerging actors such as the BRICS who are shaping international norms of IFIs (ibid). As such, constructivism and normative power are needed to rethink the nature of power and ‘actorness’ in the 21<sup>st</sup> century.” (Ibid) Furthermore: “A state may strive for a higher status in the international hierarchy of decision making through the employment of various tools.” (de Coning *et al.* 2015:90) One such tool is to engage in coalition building, hence the BRICS, and to create new governance institutions like IFIs that serve as vehicles for states to project their normative power. Manners’ theory, with contributions, captures and explains what normative power entails and the various forms it takes in world affairs such as Normative Power Europe and Normative Power China. Seeing as he is the undisputed champion of normative power theory, using his insights makes sense. There is also a distinct need in international relations, as highlighted by several authors (Peng and Tok 2016, Larsen 2014,) to look beyond Europe as the only normative power in the world. The fact that we are witnessing the emergence of several powerful states on the global stage today presents us with an ample opportunity to do just that.

Constructivist theory and Manners’ normative power theory provide the bigger picture. China created the AIIB to further its normative power, and this can be observed through four specific mechanisms that have been identified using Peng and Tok’s framework. Using their framework allows us to zoom into the nooks and crannies of the AIIB by looking at how norms are constructed within it and how they are diffused to other actors.

### **3.3 Peng and Tok’s Categories**

#### **3.3.1 *Internal norm construction***



Internal norm construction refers to matters such as: does the new IFI follow the norms that already exist in the IFI network? Is the IFI a successor of a particular actor or actors' norms? How are the membership structures set up? Do they reflect already established structures? How is the institution set up to facilitate eventual norm diffusion? etcetera. Internal norm construction is similar to 'norm emergence' advocated by Finnemore and Sikkink (1998), which is the first step in their proposed norm 'life cycle'. It deals with matters such as how do norm entrepreneurs, like China in the case of the AIIB, "attempt to convince a critical mass of states (norm leaders) to embrace new norms." (Finnemore and Sikkink 1998:895) Indeed, the authors argue that two elements stand out in the norm emergence research that has already been conducted: "norm entrepreneurs and organizational platforms from which entrepreneurs act". (Ibid) An example of this would be the US as a norm entrepreneur, diffusing the Washington Consensus to IFIs like the IMF and the WB. Norm entrepreneurs are the main drivers of norm emergence because they "call attention to issues or even 'create' issues by using language that names, interprets, and dramatizes them." (Finnemore and Sikkink 1998:897) But in order to construct these new norms they need a platform to do so: "All norm promoters at the international level need some kind of organizational platform from and through which they promote their norms." (Finnemore and Sikkink 1998:899) Norm promoters sometimes even create new institutions for the specific purpose of promoting the norms, which this paper seeks out to investigate.

### **3.3.2 Normative diffusion**

Accepting the internal norm construction of IFIs is not enough to conclude that the actor behind that institution is a normative power. Thus, there is a need to see how these norms are diffused to other actors (Manners 2002:244). Some scholars, like Manners (2002) argue that there are several stages in normative diffusion. A key component of norm diffusion is persuasion. According to Finnemore and Sikkink (1998:914) and Klotz (1995:29-33) in Payne (2011:38), persuasion is: "the process by which agent action becomes social structure, ideas become norms, and the subjective becomes intersubjective." The persuasion of norms is not transmitted in a vacuum but in a highly

contested context where “ideas must compete with other norms and perceptions of interest” (Finnemore and Sikkink 1998:897 in Payne 2011:38).

## **4. Methodology**

### **4.1 Case selection**

There are several reasons why the AIIB was selected as a case. Most notably, it was deliberately chosen because it is a case-in-point in how China is seeking a global role and status commensurate with its growing economic, political, and cultural clout. It was also selected as a response to a comment by Lim and Vreeland written in 2013: “The systematic manipulation of international organizations by rising regional powers such as China, Brazil, and India may not be apparent for some years to come, but their time may already be on the horizon.” The AIIB represents the tremendous power shift that is taking place in the world. It illustrates the discontent with the current financial governance structure set up by the US after World War II, which has not managed to keep up with these power shifts, and which was largely to blame for the Asian Financial Crisis (AFC) in 1997 and the GEFC in 2008. There are several motives behind the establishment of the bank. Whichever ones played the biggest role is interesting and speaks to the type of role the AIIB will play, whether it is to serve as a vehicle for carrying and diffusing Chinese norms to other actors, or to pursue material factors and gains. By focusing on the specific case of the AIIB, this research seeks to trace the birth of a bank to some of these dynamics to shed light on why emerging powers create IFIs. Tracing these dynamics: “can enable us to understand what exactly underpins the ongoing institutional proliferation breaking away from western-dominated development banks in development finance.” (Hecan 2017:159)

### **4.2 Research Design**

The research is a qualitative within-case study that will proceed with a deductive theory testing approach. ‘Process tracing’ constitutes the main methodological tool to be used to

analyze the empirical material. According to Collier (2011:823), process tracing is “an analytical tool for drawing descriptive and causal inferences from diagnostic pieces of evidence – often understood as part of a temporal sequence of events or phenomena.” If employed correctly, process tracing can shed light on political and social phenomena and evaluate causal claims (Collier 2011:823). As such, invoking process tracing makes sense in this research paper as the concern is to investigate the process of why emerging powers create IFIs, and which factors matter most in that process. In Collier’s own words, process tracing is “often invoked by scholars who carry out within-case analysis based on qualitative data” (ibid). That is exactly what this research aims to do.

Process tracing has been interpreted by many commentators, thus it can proceed in numerous directions. This particular research will follow David Waldner’s contribution, which he calls the “completeness standard”, as it clearly lays out each step in the process (Waldner in Bennett and Checkel 2014:128). In Waldner’s own words, process tracing that successfully yields causal and explanatory adequacy starts off by making a causal graph (ibid; See **Figure 1**).

$X \rightarrow M1 \rightarrow M2 \rightarrow Y$

**Figure 1** A causal graph

The graph has an independent variable, X, and moves towards the dependent variable Y. In between them, there are individual nodes that are “connected in such a way that they are jointly sufficient for the outcome.” (Ibid) These nodes constitute variables or events, which brings us to Waldner’s next point: making an “event-history map” (ibid). An event-history map essentially requires the researcher to find a set of events that will represent each node in the causal graph: “the set of events are equivalent to a random variable realizing a particular value.” (Waldner in Bennett and Checkel 2014:132) The arrows that run between the nodes are causal mechanisms. These are the key ingredients in the successful operation of process tracing, and they are not the same thing as events. Causal mechanisms are the underlying logic that explains why X leads to Y. They “[open] the black box of the cause-effect relationship...and [provide] an explanation for

the cause effect observed.” (Elster 1989:3-10; King *et al.* 1994:85-7 in Gehring *et al.* 2009:129) The researcher thus makes theoretical statements, in essence hypotheses, about the causal mechanisms that eventually lead to the outcome.

The last step in Waldner’s approach is ruling out alternative explanations. This can be done by employing “causal process observations”, or CPOs for short. According to Collier *et al.* (2010), CPOs are: “diagnostic pieces of evidence that yield insights into causal connections and mechanisms”. (Collier *et al.* 2010:506) Punton puts it in other words: they facilitate “assessing the inferential weight of evidence” (Punton and Welle 2015:6). Essentially, they are tests that help the researcher distinguish between different alternative explanations. CPOs are produced by asking questions such as: “if causal mechanism M exists, what observables would it leave in a case?” (Beach 2017:4-5)

But finding evidence alone is not adequate. It needs to be evaluated in order to establish reasonable degree that each part of the mechanism exists or not (Punton and Welle 2015:6). A suitable way to do that is to follow Baynesian probability logic and counterfactual reasoning (*ibid.*). To that end, four tests can be used: ‘hoop’ tests, ‘straw-in-the-wind’ tests, ‘smoking gun’ tests, and ‘doubly decisive’ tests (*ibid.*). In short, these tests help the researcher evaluate the validity of the evidence by assessing whether they are necessary or sufficient for inference (*ibid.*). Counterfactual reasoning asks ‘what if?’ questions to test the validity of the causal mechanisms and their claims.

This paper will test out two competing hypotheses. The first hypothesis is the preferred argument of the paper, which in this case is ideational factors such as norms, ideas and values. The second hypothesis will test out the alternative explanations, which are material incentives such as economic gains and security interests.

### **4.2.1 Hypothesis 1**

The preferred hypothesis is that ideational factors such as norms, values, and beliefs and ideas mattered the most in the creation of the AIIB.

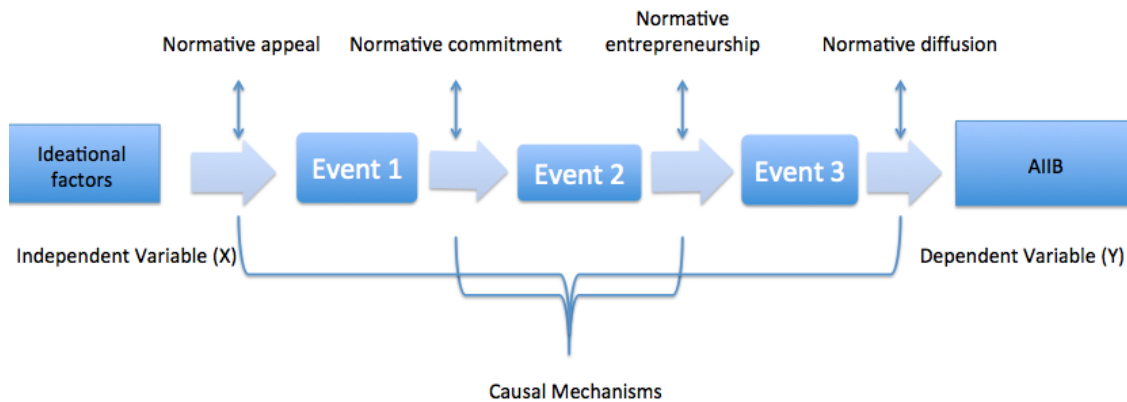
Ideational factors are the main reason for the establishment of the AIIB because ultimately, whether China's normative power pursuit is fuelled by material or security-related incentives, they are all based on an intellectual philosophical pool of certain norms, values and beliefs from the outset (Kavalski 2012:103). An example of a main philosophical tradition that still influences and shapes Chinese foreign policy is Confucianism.

China knows that if it wants to be seen as a legitimate and credible actor, it cannot bypass international structures of governance and act as a rogue state. China, which does not ascribe to an often-western zero-sum logic of international relations, realizes that material incentives will not be enough for China to alter the existing western led world of today. That can only happen if an actor is able to define what is considered normal in international relations by constructing a community of shared practices based on shared norms, beliefs, and values.

The predictions for the causal mechanisms for hypothesis 1 are as follows: I first expect there to be a normative appeal from China prior to the establishment of the AIIB in terms of discontent with the current system of international financial governance, especially in regards to the AFC and the GEFC, and a desire to improve and complement it. This will be closely interlinked with a phase of normative commitment, where President Xi lays out the ideational foundation that underpins Chinese foreign policy. Furthermore, I subsequently hypothesize that China engaged in normative entrepreneurship, followed by actively trying to diffuse Chinese norms through mechanisms such as socialization. These mechanisms, organized as such, eventually led to the creation of the AIIB.

Keeping the above in mind, then, the causal graph will look like this:

Figure 2 Hypothesis 1: ideational factors



(Source: author's own contribution)

#### 4.2.1.1 Causal Mechanisms

This section explains what each of the mechanisms mean. The first mechanism, *normative appeal*, refers to explicit discontent with the current financial governance system where China for instance would blame the west for the triggering and handling of the AFC and the GEFC, and complain about the institutional setup of the Bretton Woods institutions such as the voting structures.

The second one, *normative commitment* refers to Chinese state officials or official state correspondence committing to an ideological basis or vision that the Chinese ascribe to or that lays out China's place in the world. Evidence suggests that this could be a "grand strategy" or "vision", a Chinese or Asian "Dream", a "Community of Shared Destiny" (*gongtong mingyun ti*), "Confucian Pacifism", and Zhou Enlai's "Eight Principles for Economic Aid and Technical Assistance to other Countries", etcetera.

*Normative entrepreneurship* refers to instances where we see that China actively speaks out about appropriate or desirable behavior in the international community (Finnemore and Sikkink 1998:897). It would also be instances where China would "call attention to issues or even 'create' issues by using language that names, interprets and dramatizes them." (Ibid) Finnemore and Sikkink (ibid) state that it can be difficult to

explain the motivations of norm entrepreneurs without making a reference to, among other things, an ideational commitment. Fortunately, then, we account for this pitfall with the normative commitment aspect mentioned above. In addition, normative entrepreneurship is also inextricably linked to normative appeal. For instance, in the case of emerging powers, normative entrepreneurship sometimes “expresses dissatisfaction with limited influence on the agenda of existing international institutions” (Ruland 2012:260). Thus the fact that we are witnessing a dissatisfaction with the current international financial governance that has led to the creation of alternative IFIs is evidence that the mechanisms of hypothesis 1 follow a causal logic. Normative entrepreneurship in this case is also the distinct and innovative way that the AIIB has been set up by China.

Fourth, *normative diffusion* entails instances where we see that China is attempting to spread norms to other actors through mechanisms such as socialization or persuasion. To that end, we could look for particular ways in which China has attempted to structure the AIIB. There are several ways that a state can diffuse its norms, and Manners (2002) goes through five such steps. In short, a state can lead by “virtuous example”, strategically diffuse norms through creating new initiatives, creating new institutions on an inter-regional or regional sense, using “carrots or sticks” methods like imposing a standard of norms through financial interaction, or by physically being present in a third parties’ domain, such as establishing embassies or delegations (Manners 2002:244-245).

#### **4.2.1.2 CPOs**

This section tries to answer the question: what are we looking for in the empirical material? To confirm my hypothesis, two things should be done. The first one is to look for CPOs in my preferred mechanisms. The CPOs for the preferred argument are outlined below. The second thing is to look for CPOs that rule out the alternative explanations.

For casual mechanism *normative appeal*, we should find evidence of Chinese officials demanding the restructuring of voting shares at existing IFIs and that officials

criticize specific issues with the existing IFIs, like the lack of infrastructure-focused projects and the issue of rising delays in approving projects (Chin 2016:18). We should also find that Chinese officials explicitly blame the west for the triggering and handling of the AFC and the GEFC.

For casual mechanism *normative commitment*, we should find Chinese officials making explicit references to ideational beliefs such as philosophical traditions and the future they envision for China's role in the world.

For *normative* entrepreneurship, we should find that Chinese officials state that the AIIB is a bank and not a political organization. This could be strengthened further by statements explaining that AIIB loans are not attached to conditionality. Additional evidence could be pointing out how the structures of the AIIB are different from existing IFIs. These could include voting shares, membership and management structures, and how bidding for procurement works (Chin 2016:21). A more specific piece of evidence could for instance be if we see China "sending a message" by taking legal action, imposing economic sanctions, or deliberately doing some "inappropriate" act (ibid).

For *normative diffusion*, we should find Chinese officials trying to socialize and persuade actors to become members of the bank by using carrots and sticks. A piece of evidence for the carrot approach would be if China agrees to forego a favorable aspect that it enjoys in the bank to attract other members.

## **4.2.2 Hypothesis 2**

Hypothesis 2 argues that material incentives mattered the most in the creation of the AIIB. The AIIB's *modus operandi* is to support sustainable economic growth and long-term development by heavily investing into infrastructure projects and pumping investments into the poorest Asian economies. On an important note, development and economic growth are synonymous in Chinese terms. If the term development is invoked, one can be sure that the way to get there is economic growth, and the key in achieving that is a focus on hard infrastructure.

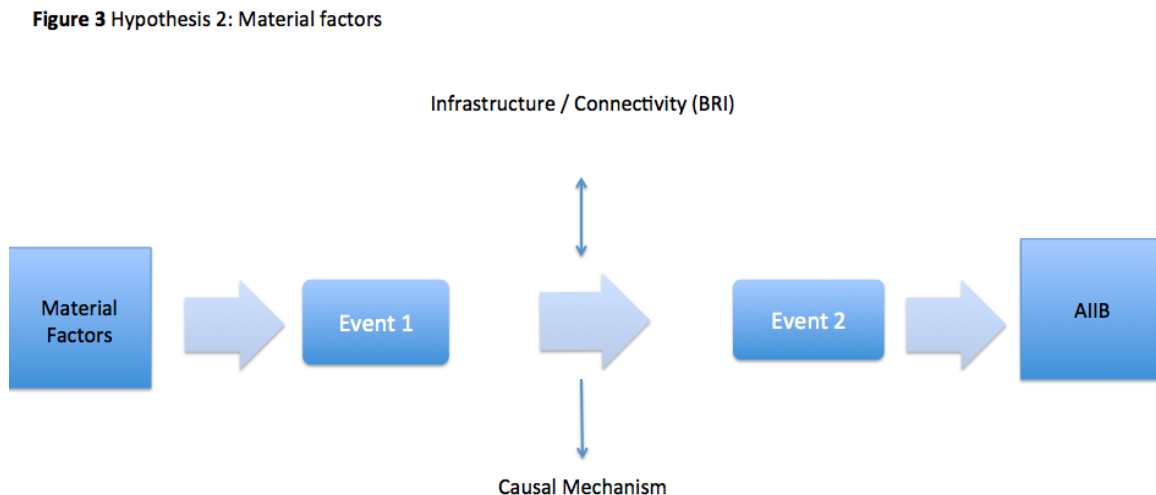
The AIIB was also established in large part to finance the 1 trillion dollar behemoth of an initiative called the Belt and Road Initiative (BRI), with the goal of



acting as an economic belt of connective infrastructure linking Asia to Europe and Africa, and as of late even Latin America. On a cautionary note, the term connectivity is more than just a focus on hard infrastructure. It also has a soft power dimension, so there is a need to be careful in keeping the explanations separate.

#### 4.2.2.1 Causal Mechanisms

The predictions for the causal mechanisms that connect material incentives to the establishment of the AIIB are a focus on infrastructure and connectivity, particularly in reference to the BRI. The causal graph looks like this:



(Source: author's own compilation)

#### 4.2.2.2 CPOs

The CPOs that we are looking for to strengthen or confirm the validity of model 2 are finding evidence of officials stating that infrastructure and connectivity will be the primary focus of the AIIB and its projects to bring about economic gains such as market access, increased investments and trade, and to improve regional security. We are also looking for instances where officials have stated that the AIIB will run more like a business whose purpose is to get a return on investments as opposed to being used for a

specific development related purpose such as poverty alleviation or for political purposes.

### **4.3 Empirical material**

The empirical data will principally come from publically available primary sources including official documents and media outlets and secondary literature such as scholarly and policy-oriented works. Given the oftentimes inductive way that process tracing proceeds, a large part of the material will be discovered on an ad hoc basis, meaning literature will be added as the research proceeds. Thus far, a few critical texts and moments have been identified. In the case of the AIIB, in order to build the foundational base of preexisting Chinese norms, values, and ideas, Chinese White Papers serve as a natural starting point for this research as they lay out the foreign policy goals. Alongside that, speeches and summaries from two key diplomatic moments will be considered as well. These are: Chinese President Xi Jinping's speech at The Work Forum on Peripheral Diplomacy in 2013 and his speech at the Central Conference on Foreign Affairs in 2014. Furthermore, the AIIB's Articles of Agreement (AOA) will comprise a key text in the analysis as it lay out the norms, values, ideas, and practical inner workings of the institution. The AOA are important because as Bower points out: "great powers have historically built in preferential rights in the design of new global institutions, so as to safeguard their interests." (Bower 2017:17) Seeing how those corroborate with the individual foreign policy goals in the White Papers will be essential for the success of this research.

### **4.4 Methodological Strengths, Limitations and Delimitations**

The biggest strength of this paper is that it seeks to address the failure of constructivist IR literature to pay closer attention to the causal mechanisms that connect ideological factors to specific outcomes such as the establishment of a new institution. As such, I find the theory and the methods to compliment and support each other well. Peng and Tok's framework acts as a magnifying glass that allows us to zoom in to the AIIB and facilitates

the discovery of stronger CPOs. And process tracing helps in causally tracing the steps and providing the logic that connects the independent and dependent variable.

There are numerous limitations to this study, especially since we are dealing with such a complex actor where information can be hard to obtain and is often heavily biased.

First, given that the research is proceeding as a within-case study, it is unable to generalize findings to other causally similar cases. From the inception of this research, the findings of the AIIB case study was supposed to be compared to that of the New Development Bank (NDB), also a recently established emerging power-led multilateral bank where China is the main actor. As Hopewell points out in the literature review, most studies on emerging powers tend to focus on China because it is the most advanced actor out of the BRICS. My hope with including the NDB - and therefore by extension India and the other BRICS actors – was to not fall victim to the same problem. But I quickly realized that including the NDB was too ambitious due to time and space constraints.

Second, tracing ideological factors is a difficult task because they are often highly correlated with other plausible causes of political outcomes. Ideational and material factors are known to overlap constantly, so trying to keep the two separate will be challenging. The best way to deal with this is to be as honest and clear as possible when gathering evidence and evaluating it.

Third, there is a lack of information surrounding this topic and it mainly due to two things.

One, the AIIB is such a recent initiative so there is not as much scholarly information as one would hope. The literature that does exist is repetitive and most often tries to predict how the bank is going to operate. Reviewing its impact on global financial governance is almost impossible since the projects have barely even begun.

Two, a large part of the literature is in mandarin and has not been translated. Also, most of it comes from the Chinese newspaper ‘Xinhua’ and is therefore highly biased.

In order to delimit the scope of this study, several measures have been taken. The biggest one is the cutting down on numerous alternative explanations and instead contextually expand the two main ones. Successful research that employs process tracing tends to be longitudinal, more comparative, and exhaust a large list of possible alternative explanations. Due to time constraints, this was not possible. In addition, the ‘external perception’ part of Peng and Tok’s framework has been disregarded for the same reason.

## **5. Analysis**

The analysis is divided up into three different chapters. The first chapter gives an overview of the process leading up to the bank’s establishment. The remaining chapters each test out a different hypothesis. Each hypothesis chapter is organized after the causal mechanisms that I theorize and predict. The events flow logically in chronological order, and are included into the mechanisms depending on the relevance to that particular mechanism. This is to ensure that they follow the causal path.

### **5.1 AIIB Background**

The AIIB was first proposed by Xi Jinping in October 2013 on a State visit to Indonesia, with the stated intent of developing infrastructure in Asia (Callaghan and Hubbard 2016:118). A year after that and five consultation meetings with interested parties later, 21 Asian countries signed a memorandum of understanding on October 24<sup>th</sup> 2014 (ibid). Less than a year after that following five chief negotiators’ meetings, the AOA were signed, and at that time the prospective founding members had increased to 57 (ibid). 53 of those countries had signed the AOA a year later, and the bank was scheduled to be up and running before 2016. Its official launch date was on January 16, 2016 with 57 founding members, including 37 Asian countries and 20 non-Asian countries. With a capital base of US100 billion, the AIIB falls within the medium-mark in terms of size, and is as such considerably smaller than the WB and the ADB. China dominates the bank as its largest shareholder due to its contribution of 30 % of the capital base, and it enjoys

a voting power share of 26% (Kawai 2015:5 in Bob *et al.* 2015). Its headquarters are located in Beijing and its president Jin Liqun is of Chinese origin (ibid).

### 5.1.1 Official timeline of the AIIB (see Figure 4)

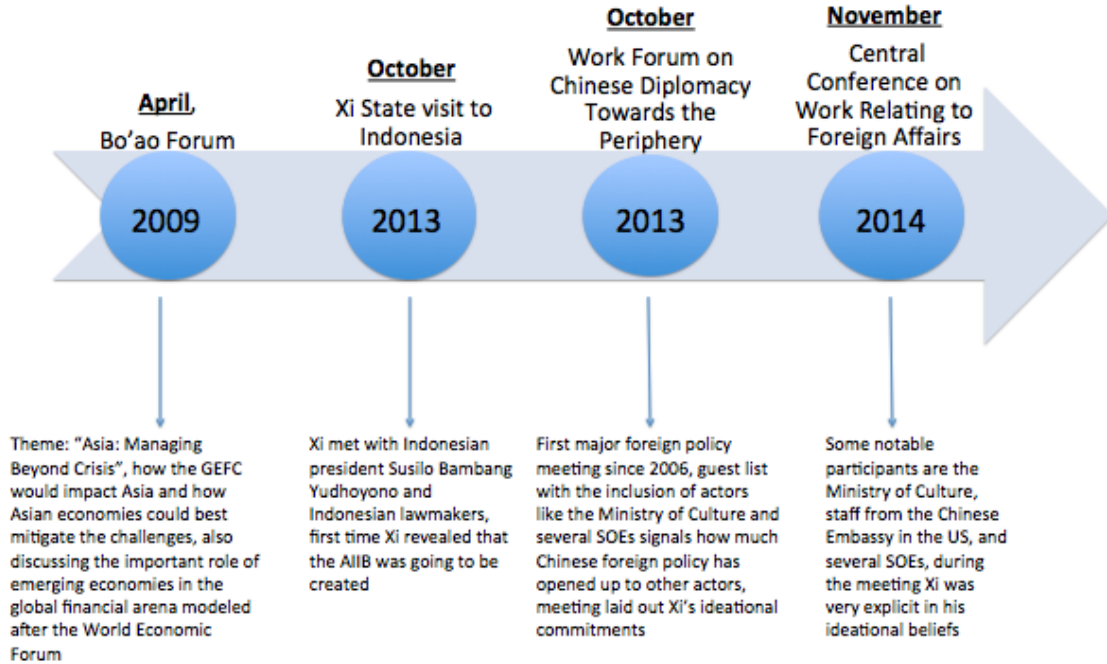


(Figure 4 Official timeline of the AIIB, source: AIIB 2018)

### 5.1.2 Event-history map

Following Waldner’s advice of establishing an event-history map, below I try to do so (see Figure 5). The benefits of making one is to show how each event flows in a chronological order, which may help with determining the causal mechanisms. It also serves as a more in-depth alternative to the official timeline of the AIIB above. If we consider events outside of this timeline, the context of the events and the participants at them, it could reveal much more about how the AIIB came to be established and the underlying dynamics that influenced this.

**Figure 5** Event-history map



(Source: author's own compilation)

## 5.2 Hypothesis 1

### 5.2.1 Normative appeal

As some scholars have noted (Moshirian 2011:505 in Schuller and Wohart 2017:487; Larionova and Shelepov 2016:701), from a historical perspective, regional and international institutions have often been born out of major shifts in the global economic or political landscape, such as crises. A prime Asian example of that would be the establishment of the Chiang Mai Initiative (CMI) established at the ASEAN+3 Finance Ministers' Meeting in May 2000 after the 1997 AFC. CMI's *raison d'être* was to offer liquidity in case of financial crises (ibid).

The same argument of a response to a change in the system could be extended to the AIIB, which was a direct response to the GEFC of 2008. At the same time, the AIIB is also a response to the limitations in current global governance institutions like the IMF, the WB and the ADB (Schuller and Wogart 2017:484; Weaver 2015:419; Hecan

2017:159; Fues 2007 in Ruland 2012:258). Although the crisis did not affect Asian economies as it did North American and European ones, “the knock-on transmissions through trade and financial channels still caused a slowdown of export demand and economic growth in many Asian countries.” (Schuller and Wogart 2017:489) Several Asian countries managed to get out of the crisis relatively unharmed in a matter of 2 years, radically different from other parts of the world (ibid). In fact, several communiqués that have been released annually after the BRICS summit in 2009 have credited the BRICS with the speeding up of the global economic recovery after the crisis, and as such argue that the voting structure of the IMF and WB should reflect this fact (de Coning *et al.* 2015:40).

#### **5.2.1.1 2009 Bo'ao Forum**

In the same year as the BRICS summit 2009 was held, the Bo'ao Forum was held in the Hainan province of China. The Bo'ao Forum is modeled after the World Economic Forum and is a significant event for bringing together countries and experts around the world to discuss the time's most pressing economic issues. The underlying purpose of the 2009 meeting was to “meet and exchange views and ideas on the way ahead for the global economy, and the role of Asian economies” (BOAO Forum 2009 Report). The 2009 report mirrored the argument that the communiqués made about accrediting Asian economies for their global economic recovery function. The forum led to the publishing of a Washington Post article titled ‘China uses Global Crisis to Assert its Influence’ (Cha 2009) where a speech that unofficially suggested the creation of the AIIB was summarized in one line: “a new Asian bank to compete with Western-dominated institutions” (Cha 2009 in Callaghan and Hubbard 2016:123). This could well be the first time the creation of a China-led multilateral bank was hinted at, and that is why the Bo'ao Forum was such an important event.

But the biggest normative appeal that has come from emerging powers is the restructuring of voting shares at the IMF and the WB (Weaver 2015:421). After the 1997 AFC, many developing countries demanded change. None came. This created a stigma

around the IMF's credibility, and during the 2008-2009 GEFC, Asian countries were reluctant to borrow from the institution (Schuller and Wogart 2017:488). There was a new attempt by the developing countries of the world to try and pressure the IMF to adjust the quota system. Although the IMF promised to cooperate, and they did by increasing South Korea and China's quotas, the changes were minimal and the ASEAN+3 still only possessed 14.44 % of all the votes compared to the US' 16.77 % (ibid; see **Figure 6**). The pressure on IMF continued to mount, and in 2010 the 14<sup>th</sup> General Review of Quotas was held (Schuller and Wogart 2017:489). A final consensus was reached and dictated that the quotas were to be expanded by 100 % (ibid). 6 % was assigned to emerging powers, and China gained the largest share in this distribution: from 3.81 % of shares to 6.16 %, making China the third largest member country after the US and Japan (ibid). These decision were made in 2010, and although they headed in the right direction, they were not de facto implemented until 2016 due to a deadlock in the US Congress, enabled by the fact that the US holds the veto power (ibid).

**Figure 6** Changes in IMF voting shares

|                    | Before reform (%) | After reform (%) |
|--------------------|-------------------|------------------|
| USA                | 16.73             | 16.73            |
| Japan              | 6.23              | 6.23             |
| Germany            | 5.80              | 5.39             |
| France             | 4.29              | 4.09             |
| United Kingdom     | 4.29              | 4.09             |
| Italy              | 3.15              | 3.06             |
| Canada             | 2.55              | 2.25             |
| Rest of OECD       | 20.51             | 21.25            |
| China              | 3.81              | 6.16             |
| India              | 2.34              | 2.67             |
| Russian Federation | 2.39              | 2.63             |
| Brazil             | 1.71              | 2.25             |
| Rest of World      | 26.21             | 23.2             |

Source: IMF (2016); Weisbrot and Johnston (2016, p.2)

The same discontent with the IMF also extended to the World Bank (WB) and the Asian Development Bank (ADB). From 2009 to 2015, the share of developing and emerging economies increased from 47.19 % to 52.76 % in the WB (Schuller and Wogart



2017:491). China’s shares saw the biggest increase, and as it currently stands China is the third largest shareholder (ibid). Once again, however, “China’s voting power of 4.64 % is by no means representative of its actual position within the global economy.” (Ibid)

As for the ADB, it is dominated by the US and Japan who respectively hold roughly 16 % of the shares, compared to China’s meek 6.5 % (Nair 2015:52). Amidst China’s growing economic and diplomatic clout, China’s demand for a bigger say cannot easily be dismissed (see **Figure 7** for an overview of current IFIs).

**Figure 7** Key indicators of various development funding institutions

|  | World Bank   | ADB  | NDB   | AIIB  |
|--|--|--|---|---|
| Subscribed capital (USD billion)                   | 268.9 (June 2017)  | 142 (2016)   | 50 (100)*   | 100 (2016)  |
| Number of shareholders                             | 189 (2017)   | 67 (December 2016)   | 5 (2016)  | 70 (March 2017)   |
| Headquarter locations                              | Washington   | Manila   | Shanghai  | Beijing   |
| Voting power (in percentage of total voting power) | USA 16.3<br>Japan 7.03<br>China 4.64<br>Germany 4.12<br>UK 3.86<br>(in 2010) | Japan 15.6<br>USA 15.6<br>China 6.4<br>India 6.3<br>Australia 5.8<br>(December 2016) | Brazil 20<br>China 20<br>India 20<br>Russia 20<br>South Africa 20<br>(2015) | China 27.5<br>India 7.9<br>Russia 6.2<br>South Korea 3.7<br>Australia 3.6<br>(2017) |

\*The NDB has an initial authorized capital of USD 100 billion; its initial subscribed capital amounts to USD 50 billion

Source: World Bank (2017); ADB (2016, p.15); Deloitte (2016, p. 8); AIIB (2017)

Let us consider the CPOs for the first mechanism of normative appeal. In the same year as the Bo’ao Forum 2009, Vice Minister of Finance Li Yong made several statements at the 79<sup>th</sup> Development Committee of the WB and IMF (Xinhua 2009). He urged the restructuring of voting shares at both the WB and the IMF to properly reflect the new era of rising economies and he made an explicit connection to the GEFC:

“We expect that all member countries demonstrate their political will in advancing the reform...Achieving parity voting power between developing and transition countries (DTC) on the one hand and developed countries on the other hand should be the ultimate and overarching target of the Voice and Participation

reform...Based on this, we are willing to actively participate in discussions on all options for reforming shareholding structure and voting mechanism...The current financial crisis has impeded the poverty reduction in most developing countries and threatened realization of MDGs on time”.

He then expanded on the last quote by saying that: “Strengthening support for developing countries is not only an obligation of the World Bank, the International Monetary Fund and other international financial institutions (IFI) within their development mandate, but also an imperative to stabilize the global economy”. Li also urged the international community to work together to “prevent the current crisis from escalating into a development crisis.” (Xinhua 2009)

These quotes pass a hoop test by showing that there is in fact a normative appeal coming from China, hence there is proof to determine that the causal mechanism exists. As such, this evidence is necessary for the validity of hypothesis 1 but not sufficient on its own.

### **5.2.2 Normative commitment**

The discontents with the international state of affairs were further carried forward through Xi Jinping’s adherence to normative commitments.

Callahan (2016:230) outlines the previous normative ideas held by China in the recent history of the country starting with Mao Zedong. The goal of foreign policy under Mao Zedong was “national liberation and world revolution” (Callahan 2016:230). This was followed by Deng Xiaoping’s foreign policy of “bide their time and hide their strength”, in essence a much needed peace-and-development-centered foreign policy where the main focus was on economic cooperation as opposed to security competition (ibid). Deng’s ideas, put simply, discouraged Chinese leaders to take the lead in world affairs, something that stuck with the coming leaders Jiang Zemin and Hu Jintao (ibid). Xi however, like Mao in a sense, is not afraid to dream big. What differentiates them is mainly that while Mao wanted revolution, Xi wants rejuvenation (ibid).

Through a series of state visits, events, and forums, Xi made the normative commitments that underpin Chinese foreign policy known to the world.

#### **5.2.2.1 2013 Chinese State Visit to Indonesia**

On the 3<sup>rd</sup> of October 2013 Xi Jinping met with the Indonesian president Susilo Bambang Yudhoyono and Indonesian lawmakers. His speech emphasized several key Chinese normative understandings, and it started off with a wish for China to build closer ties and a community of “common/shared destiny” with members of ASEAN (Xinhua 2013a). As Kavalski points out, normative powers like China “are in the business not of enforcing orders over other actors, but of engaging other actors in shared practices.” (Kavalski 2013:249) This is exactly what Xi tries to achieve with this commitment, and “Common/shared destiny”, which will become even clearer at a later stage, is one of the key ideological foundations that underpins Xi’s foreign policy. To that end Xi outlined some steps of how to achieve this.

The first step stressed building trust and “good-neighborliness”, and Xi emphasized that ASEAN states should respect each state’s right to independently choose its own path to development (ibid). The latter especially is another key feature of China’s normative beliefs, and can be traced back to the philosophical tradition of Confucianism. China does not believe in imposing its own model of development upon others. Instead, China “asserts the practice of interaction through its ‘logic of relationships’”. (Kavalski 2013:249) As a point of illustration, Europe in contrast “tends to prioritize compliance with rules through its ‘logic of appropriateness’” (ibid). What this means is multifold. Instead of inflicting China’s success story upon others by force, China tries to lead by example and by making “Beijing attractive” (Kavalski 2013:253). This mentality comes from a famous Confucian saying that “You may learn from me, but I won’t force you” (Xuetong in VPRO Backlight 2016). It also means that critical to understanding Chinese socializing propensities is “respect for the other” (Womack 2008 in Kavalski 2013:254). In a world of asymmetric relationships, China does not require symmetry of partners or equality of exchanges but believes far more in reciprocity and engaging in shared practices of “doing together” (Womack 2008:295-297 in Kavalski 2013:254). According

to Zhang (2011:8 in *ibid*) this borrows from the Confucian line of “harmony with difference” (*he er butong*). As such, China’s interaction with other actors is highly contextual: it depends on who they interact with and when (Rosemont 2006:14 in *ibid*). Confucianism actually has a special place in Xi’s heart. According to Xiang (2016), as a young man, Xi was a “scholar of Confucianism”, and it “appears that his views on political legitimacy are heavily influenced by Confucian thought.” (Xiang 2016:55)

The second step in Xi’s plan laid out the goal of “win-win cooperation” where China vowed to open up more to ASEAN countries on the basis of “equality and mutual benefit”. Both “win-win cooperation” and “equality and mutual benefit” are two additional key Chinese normative beliefs that have been around since the 1960s when Chinese Premier Zhou Enlai adopted them to guide China’s foreign aid (Peng and Tok 2016:740). Interestingly, Xi’s father was Zhou Enlai’s right hand man, so it makes sense that he would carry on the same principles (Xiang 2016:54). Following these norms would lead to Xi’s second part of the second step, namely the establishment of the AIIB (*ibid*). Xi explained that the AIIB would be set up for improving the “connectivity” between ASEAN countries by providing financial support (*ibid*). The hint at establishing a Chinese-led bank has been made prior to the state visit to Indonesia, but this was the first time the AIIB was officially announced and that it was explicitly suggested as a vehicle to carry the Chinese norms laid out by Xi during his State visit.

Xi’s remarks at the meeting in Indonesia are laden with Chinese ideational beliefs, and the fact that the AIIB was suggested after going through the most vital underpinnings of his foreign policy provides strong evidence in favor of a connection between the two. His remarks about “a community of shared destiny” hints at the type of order China wants to establish in world politics. It passes a hoop test because the piece of evidence is necessary to prove the existence of the mechanism and the validity of the hypothesis. He also made several remarks that stem from and follow a Confucian logic, although he does not overtly state this.

But how does the normative commitment mechanism relate to the normative appeal mechanism? Xi’s remarks do not prove that there is a connection, even though his

proposed steps seek to address the challenges and appeals coming from China about the state of the international financial governance system. There is as such not an explicit connection between the two causal mechanisms, which marginally lowers the validity of hypothesis 1. But just because no concrete evidence has been found linking the two it does not mean that none exists or that it is untrue. There is a need to conduct further research.

#### **5.2.2.2 2013 *The Work Forum on Chinese Diplomacy Towards the Periphery***

The Work Forum on Chinese Diplomacy Towards the Periphery was held in 2013 between the 24-25<sup>th</sup> of October in China. The event had a huge significance for Chinese foreign policy under Xi because it laid out the ideational commitments for the next 5-10 years (Callahan 2016:229). In official words, the stated purpose of the event was “to establish the strategic objectives, basic principles, and overall setup of the peripheral diplomatic work in the next five-to-ten-years, and define the line of thinking on work and the implementation plans for resolving major issues facing peripheral diplomacy.” (Xinhua 2013b) The main message this sends is that ideational commitments take the center stage in Chinese foreign policy under Xi as evident from the part about “basic principles”.

Furthermore, the event was also significant because it was the first major meeting on foreign policy since 2006, and it emphasized a clear shift away from Deng’s modest principles of maintaining a low profile to a Chinese grand vision seeking a more prominent global role for China (Swaine 2014:43).

The participant list at the meeting is also a striking feature. Alongside the usual suspects, stakeholders from the Ministry of Culture, financial institutions, State Owned Enterprises (SOEs), and the Ministry of Foreign Affairs were invited (Xinhua 2013b in Callahan 2016:229). This guest list is an indicator of how much Chinese foreign policy has opened up to a broader range of actors beyond traditional hard-power focused actors (Callahan 2016:229). Notable is, of course, the Ministry of Culture in that regard, which specializes among other things in soft-power policy.

### *5.2.2.3 2014 The Central Conference on Work Relating to Foreign Affairs*

The Central Conference on Work Relating to Foreign Affairs was held in Beijing in 2014 between the 28<sup>th</sup> to the 29<sup>th</sup> of November (Xinhua 2014). Its stated goals are similar to the Work Forum, but the difference between them is that this time Xi was more explicit in wording the ideas that underpin the new Chinese foreign policy. He framed the foreign policy goals “in terms of realizing the China Dream of the great rejuvenation of the Chinese nation” (Callahan 2016:233). Two other themes stand out in his address: the emphasis on interdependence and connectivity. Xi stressed China’s dependence on the world, but also vice-versa. But rather than viewing globalization as the west socializing China with liberal values, Xi explained how the world could benefit from China socializing it with Chinese values (Callahan 2016:233; see also Wang 2015:29; Zhao 2016; Zheng 2015:197-200). Connectivity, as explained before, is more than economic exchange and improving hard infrastructure, it is equally concerned with “[influencing] the ‘software’ of global governance’s ideas, norms and rules.” (Xinhua 2014 in Callahan 2016:233) Hence Xi invokes the notion of connectivity to move beyond the narrow focus on material incentives to stress the importance of altering global governance norms.

Another important theme that Xi raised was “China’s distinct style of diplomacy” (Callahan 2016:234). Elaborating on that point, Xi said: “China should develop a distinctive diplomatic approach benefitting its role as a great power” which aims to dismantle the Cold War mentality often held by Western powers of zero-sum relations, and instead promoted a “new type of international relations underpinned by win-win cooperation”. Instead of building a region propped up by military alliances, China should “build a network of partnerships” that “abides by the principle of non-alignment” (ibid). Although the last part resonates to some extent with Deng’s principles, Xi’s distinctive diplomacy always views China as the referent object, and envisions a world led by “salient Chinese features and a Chinese vision”. (Ibid) This closely ties in with the ideas in the Work Forum on Chinese Diplomacy Towards the Periphery because employing notions of a periphery assumes that there is a center, and China sees itself as the center of that order (Callahan 2016:231).

By stressing China's distinct cultural values and invoking notions of nationalism, Xi has constructed a new Chinese foreign policy ideology, which combines Deng's focus on socialism with his newly imbued, more aggressive, notion of nationalism. As Callahan (2016:234) points out, Chinese intellectuals often refer to the three traditions when trying to solve China's domestic problems: Reform, Revolution, and Chinese Civilization. Xi in every way seems to adhere to these traditions, but he does not just apply these to the domestic sphere, he intends to spread them globally under the banner "China Dream": "We should increase China's soft power, give a good Chinese narrative, and better communicate China's message to the world" in order to "highlight the global significance of the China Dream." (Xinhua 2014 in Callahan 2016:234).

The evidence obtained from the forum passes a hoop test because it constitutes evidence that specifically lays out China's ideational commitments, vision and place for China in the world. The evidence has probative value to establish that the mechanism exists, and it is necessary but not sufficient for the validity of hypothesis 1.

To sum up the existing normative commitments that Xi has made apparent, these are: a "community of common/shared destiny", "mutual respect" or "respect for the other", "win-win cooperation", "equality and mutual benefit", "connectivity" in a 'soft' sense, "China/Asian Dream", and "China's distinct style of diplomacy". Now when China's ideological base has been established, let us consider how China has relied on these to construct the AIIB and imbued it with Chinese values.

### **5.2.3 Normative entrepreneurship**

As previous sections have demonstrated, the key diplomatic events from 2009 to 2014 established the distinct ideational foundation guiding foreign policy under Xi's tenure, and it set out the goals of fulfilling the China Dream, and in the long run an Asian Dream, by building a community of shared destiny. The commitments and events were informed by China's normative appeal, exemplified through matters such as dissatisfaction with the current state of affairs in the international financial architecture. The normative

entrepreneurship of China builds on both the normative appeal and the normative commitments.

This section will mainly consider the distinct way that the AIIB is set up to highlight how China is engaging in normative entrepreneurship. This is where Peng and Tok's (2016) framework comes in handy as it allows us to zoom into the nooks and crannies of the organization. A good place to start is the membership and voting structures because as Martens (2007 in Ruland 2012:258) points out, they are "particularly important mechanisms influencing the material and symbolic output of institutions" and they "predetermine whether an institution is inclusive or exclusive".

### **5.2.3.1 *Voting and membership structure***

To start off, according to the AOA, regional members will always hold at least 75 percent of the total capital stock (Callaghan and Hubbard 2016:129). China holds more than 30 percent of the stock, and as such has significant control of the policy making of the bank (Peng and Tok 2016:740). In effect, China will have single unilateral veto power as the AOA states that the Board of Directors need a total of 75 percent of votes to "take decisions on major operational and financial policies and on delegation authority to the President under bank policies." (AIIBa 2015, Peng and Tok 2016:745) However, Chinese influence will be checked by the equal voting rights of the founding members (Liao 2015). As Liao (ibid) notes: the AIIB is set up as an experiment for China's vision of multipolarity: Beijing remains firmly in control of the organization, but does not mind giving a greater voice to its neighbors – as long as it still profits." The door remains open for the West to join at any time, but if so on Asia's terms.

Furthermore, unlike other IFIs, the AIIB allows non-sovereign entities to join the organization (Callaghan and Hubbard 2016:129). This means that Taiwan could join, although China has said that it would only be feasible if it joined under an "acceptable" name (Xinhua 2015 in ibid). Most importantly, though, is that the rule allows for other countries' institutions to join the bank (ibid). This could mean that the AIIB will run more like a business, but that remains to be seen.

Another norm that the bank will inherit from China is the "lean, clean, and green"



motto. “Lean” refers to the staffing of the bank, which China is trying to revolutionize and even attempting to diffuse to international institutions (Peng and Tok 2016:744).

The first noticeable difference from other IFIs like the ADB or the WB is that the AIIB’s workforce is significantly smaller and will only start off with about 50 staff members, which might expand up to around 150 in the first year (Magnier 2015 in Chin 2016). In contrast, the WB has over 12000 staff in over 120 offices around the world and the ADB has 3000 (ibid; Wang 2016).

Second, the AIIB will also abandon a resident board of directors and will instead use the board of directors on a non-resident basis that will meet up only when business requires it to (AIIB 2015a in ibid). The resident board of the WB costs around some 70 million dollars annually, and as such, the AIIB will be saving quite a bit of money and perhaps be able to approve projects in a more time-efficient manner (Magnier 2015 in ibid; Humphrey *et al.* 2015:6).

Third, the AIIB’s financial policy dictates that “all public sector loans under 300 million dollars and private sector loans under 200 million dollars will be approved by the president directly, without requiring board consultation” (Humphrey *et al.* 2015:7). This signals a major break from existing IFIs and should allow the AIIB to further streamline the approval process of projects.

In sum, the overall bureaucratic structure and approval process of the bank is considerably “leaner” than those of existing IFIs and exemplifies how China has engaged in normative entrepreneurship.

Moreover, the “clean and green” refers to responsible investments and project funding in environmentally sound ways. This is an area where the AIIB possibly has been criticized the most by countries like the US and Japan. A point of contention is the fact that the president of the bank Jin Liqun went out and said that the AIIB has no plans of funding coal projects (Chow 2017), but according to the bank’s new energy strategy, “carbon efficient oil and coal-fired power plants would be considered” in specific conditions (AIIB 2017 in Chow 2017). The AIIB is by no means the only IFI that employs this approach, but it nevertheless does shed skepticism over the bank’s “clean and green” commitments. However, as Humphrey *et al.* (2015:6) point out, the AIIB, unlike other

IFIs, has emphasized using a country systems-approach to their projects whenever possible to ensure environmental and social safeguards: “This has been a major failure of existing MDBs, which often seem more concerned with protecting their own projects against criticisms from NGOs and domestic politicians than in achieving development goals.” (ibid) Also, according to the Zedillo report, a large review commissioned in 2009 to scrutinize the World Bank, in terms of the importance of environmental and social safeguards: “the World Bank has become so risk averse that the implementation of these policies imposes an unnecessary burden on borrowing countries.” (Chhibler 2015:13) In contrast to these facts then, the AIIB seems to be headed in the right direction regarding its commitments to being “clean and green”.

Next let us consider the decision-making procedures, which is another important area where we can see Chinese normative entrepreneurship at play.

Chinese norms can be found in the AIIB’s foreign aid programs, and they include: ‘no strings attached’, ‘mutual benefit’, and ‘non-intervention’. (Peng and Tok 2016:740) These principles have existed since the 1960s when Chinese Premier Zhou Enlai adopted them to guide Chinese foreign aid (ibid). The essence of these principles is the adherence to unconditionality, the idea that lending by IFIs is not attached to any political conditions. This is a major difference from the way western-dominated IFIs operate, which often “spearhead liberal democracy and their own institutional frameworks” (Liao 2015:). Zhou Enlai’s words, even though they were made half a century ago, are still being repeated today, as can be seen from the 2014 Chinese Foreign Aid White Paper:

“When providing foreign assistance, China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development. The basic principles China upholds in providing foreign assistance are mutual respect, equality, keeping promise, mutual benefits, and win–win.” (State Council 2014 in Peng and Tok 2016:740)

According to the normative commitment CPOs, if we find evidence of officials

and official policy documents stating that the AIIB adheres to the principles of unconditionality, it proves that the causal mechanism is present.

In April 2015 at a forum in Singapore, Jin Liqun, stated that the “AIIB is a bank, not a political organization or political alliance” (Nakagawa and Kumar 2015 in Chin 2016:20). His statement, however, also raises some questions about the validity of hypothesis 1. Although there is evidence to suggest that the bank will not impose any political conditionalities, Jin’s remarks suggest that the AIIB will operate as a commercial bank with the aim of making profit. This lends credence to the alternative explanation of material incentives. This CPO passes a straw-in-the-wind test in the sense that the evidence is weak or circumstantial and several of these would be needed to increase the confidence of hypothesis 1.

#### **5.2.4 Normative diffusion**

Essential to understanding normative diffusion is interaction: “it is by engaging in interaction that definitions of the ‘normal’ gain their causal effect.” (Kavalski 2013:261) Since norms do not emerge in a vacuum but in a community, the fact that interaction is a central tenet of normative diffusion is self-explanatory. So to the extent that an actor like China can influence other actors rests on China’s “willingness to initiate, and [its] ability to maintain...a deliberate practice of interaction” (Kavalski 2013:262).

There are several things Chinese officials had to do in order for the AIIB to spring to life in such a short period of time and in the fashion that they wanted. Initially, the AIIB was pitched with a regional perspective in mind as it would operate only in Eastern Asia. According to Yan Xuetong (in VPRO Backlight 2016) the AIIB became a global institution because countries like Britain, Germany, France, Australia, and Canada decided to join it, and not necessarily because China wanted them to join. In other words, the west turned the AIIB into a global institution. Although his argument is true to some extent, the part about China not wanting nations outside of the region to join is plain wrong. China actively did several things to “mitigate the doubt of the West and boost the legitimacy of the bank” to make it look more attractive and accrue as big a membership base as possible (Yang 2016:754).

First, from early on, China declared that the AIIB would seek to complement already existing IFI architecture, and focus its energy and resources on what it believed was a neglected focus area: infrastructure (Peng and Tok 2016:742). By making such a commitment, China knew that in order for that to be feasible, the AIIB had to comply with several norms that already established IFIs upheld. As Yang (2016:756) notes: “In the still-ongoing institution-building process, China has abided by multilateral procedures and confidence building, working together with other stakeholders and adapting its positions to assuage fears of the skeptics and reinforce legitimacy of the bank.” Evidence of this can be found in the process right after the signing of the MoU: “A select group of seasoned international experts and MDB veterans were asked to prepare the draft AOA and map out the policy framework.” (Jin 2015 in Yang 2016:764) Additionally, eight Chief Negotiators Meetings were held with all the prospective founding members, in regards to the AIIB’s “shareholding, governance arrangements and future lending activities” (AIIB 2015b in *ibid*). This goes to show that the fact that the AIIB allowed itself to get enmeshed in “a network of international norms and standards” demonstrates that it is indeed compatible with international practices (Sun 2015 in *ibid*).

An additional aspect of the doubt of the West was the assumed inter-organizational rivalry that the AIIB would pose. However, out of the seven projects that the AIIB has proposed so far, four of them are co-financed with peer institutions (AIIB 2016 in Yang 2016:756). Some of these are the WB, the ADB, and the UK Department for International Development (AIIB 2016 in *ibid*). Parallel to this, in 2016, AIIB officials had been “studying the feasibility of co-financing eighteen projects submitted by the WB and eight by the ADB (Orr 2016 in *ibid*).

In regards to China’s veto position in the AIIB, China has opted for the carrot instead of the stick in its approach to attract a broader membership base to diffuse its norms. According to Sun (2015 in Yang 2016:763), initially, China planned to build a commercial regional bank where China would be contributing up to 50 % of the total capital, giving China complete veto power over any decision. But according to Jin Liquan, China is not planning on exercising its veto right and is waiting for the entry of new members so that its voting power is diluted (Fu 2016 in *ibid*). This might well be true, because China has for years now tried to get Japan to join the AIIB, and given Japan’s

economic size, it would considerably dilute China's share. Xi Jinping has continuously invited and welcomed Japan to join the bank, and has held several high-level meetings with Japanese officials to try to socialize Japan into joining (Yongsheng 2017). A Chinese-led IFI where China does not have a de facto veto power would undoubtedly be more attractive to most nations around the globe. The fact remains that China is opting for the carrot instead of the stick to socialize outside actors into joining the bank. Jin's statement passes a hoop test, lends probative value to the existence of the diffusion mechanism, and is necessary for the validity of hypothesis 1.

An area where the AIIB has perhaps been criticized the most is in maintaining good environmental and social standards, good governance, and transparency. In response to these criticisms, the AIIB has "gone out of its way to allay concerns" (Humphrey *et al.* 2015:6). In 2016, the AIIB added an "Environmental and Social Framework" to its core policy. Humphrey (2015:6) points out that a positive sign of the draft is that it places a great deal of emphasis on using country systems wherever possible. Using country systems has several benefits such as promoting greater borrowing capacity, streamlining loan approval, being able to better absorb and share risks when working with fragile states, making more long-term commitments, and hence improve the overall development impact (*ibid.*). This is a positive step in the right direction, and indeed not opting for country systems has been a major failure of existing IFIs which tend to focus too much on their own projects and fending off criticisms from NGOs and domestic politicians as opposed to achieving development goals (*ibid.*).

In terms of evidence that the all the causal mechanisms brought up so far follow the same causal logic, there are three pieces of empirical evidence that point to this fact.

First is the fact that in 2015 "the ADB decided to raise the annual fund for infrastructure and other projects by nearly 40 % to 18 billion US dollars." (Peng and Tok 2016:749) Although no explicit correspondence has been made whether this is a direct response to China and the AIIB's norm of infrastructure construction, the timing of the decision and the sharp increase is strong evidence in favor of that view.

Second is the fact that after half a decade, in 2015 the U.S. Congress finally decided to increase the voting rights of China and other emerging countries in the IMF (ibid). This is undeniably a response to the pressure of emerging powers on the West to make IFIs more equal. The process of creating the AIIB could have been the last push Congress needed to pass the proposal.

Third, a month from Congress' decision, the IMF agreed to add the Chinese currency Renminbi (RMB) to the Special Drawing Rights (SDR) basket (ibid). Changes to the SDR have not occurred in 15 years, and the US has stated that it hopes the inclusion of the RMB will make the SDR more diverse and representative of the international society (IMF 2015 in ibid). This could once again be a direct consequence of Chinese attempts at making IFIs more equal and inclusive. It is a victory for China because this means that the RMB gains "greater clout as a currency for global investment and trade" as it is now placed alongside dollar, euro, yen, and pound sterling in the SDR basket (Nair 2015).

At this point it makes sense to engage in counterfactual reasoning to ask whether these three changes in the existing IFIs would have occurred were it not for China's engagement in normative entrepreneurship and diffusion.

If we take the first example, the ADB would most likely have increased their focus on infrastructure in any case, because years prior to the establishment of the AIIB, it released a significant report outlining the massive infrastructure needs that existed in Asia (ADB 2009 in Ren 2016:436). It would only make sense that the ADB would follow up on its own suggestions, whether the Chinese lobbied for a greater focus on infrastructure or not (Chhibler 2015:8). However, another piece of information needs to be considered. The president of the AIIB, Jin Liqun, actually used to be in charge of the ADB's infrastructure projects during the 1980s and 1990s (Schuller and Wogart 2017:495). It is possible therefore that the Chinese have lobbied for greater focus on infrastructure for a long time, even from within existing institutions. And on an additional note, it could also be argued that China socialized other countries to join the AIIB because of the way they staffed the organization with credible members like Jin who has an extremely high reputation (ibid).

For the second example of Congress passing reforms, it is difficult to say whether it would have occurred if China had not put pressure on them. This is due to the convenient timing of the decision, which was right before the launch of the AIIB. Congress had deliberated the reforms for circa five years. Therefore one could make the argument that Congress was finally swayed by Chinese lobbying and the establishment of the AIIB. The same logic can be applied to the third example of the inclusion of the RMB into the SDR.

Hypothesis 1 has made a convincing case for the importance of ideational factors in creating the AIIB. The causal logic that flows through the mechanisms was only interrupted once between normative appeal and normative commitment. No evidence could be found linking the two, but I do not think there is any need to revise them. With more time and research, evidence could surely be obtained. In terms of the robustness of the CPOs, most evidence passed hoop tests at best. Consequently, this increases the validity of hypothesis 1 but there are not sufficient grounds to make absolute claims that ideational factors mattered more than material ones. Next we consider the material factors behind the creation of the AIIB.

## **5.3 Hypothesis 2**

### **5.3.1 Background**

China has been growing extremely fast for a long time. According to Dollar (2016:162) even though China and other Asian countries managed to get out of the GEFC relatively unscathed, it still took a toll on the Chinese economy. The six years prior to 2007, China's GDP grew at a remarkable 11 percent annually, with investments standing at 41.5 percent of GDP (ibid). However, after the crisis, China suffered a 4 percentage-point loss of the GDP for the next coming years (ibid). To address this issue, China has continuously increased investments, and this has led to a couple of problems. One significant such is that the marginal product of capital is dropping (ibid). Essentially, this means that China is now dependent on investing more, but at the same time it takes more

investment to produce less and less growth (ibid). As one can imagine then, one sector has especially been targeted in this regard - infrastructure. Real world empirical indicators of the marginal product of capital falling are all the empty apartment buildings, unused airports, and even cities, but also a serious excess capacity in important manufacturing sectors (ibid). Another problem, which is more internal, is that domestic consumption is very low (ibid). To address this issue, and the aforementioned ones, China is undergoing a restructuring process, and the country “needs to find new markets for its capital goods.” (Ren 2016:440) This is especially true in the issue of the vast foreign reserves that China has accumulated for the last decade or so (Ren 2016:435).

Since Xi has come to power, he has been blatantly clear that he wants a Chinese rejuvenation. Against the backdrop of these economic challenges that are slowing down the Chinese economy, it is no coincidence that such large and expensive initiatives such as the AIIB and the BRI have been proposed. There is therefore an economic side of material incentives that needs to be considered in relation to these initiatives.

On a security note, China has reasons to be concerned. China has been facing increasing tensions with neighboring states for some time, most notably in maritime disputes in the East and South China Seas. This is closely linked to the Chinese economy and its inherent problems. To fuel its economic development, China has a tremendous energy thirst that has increased in the last couple of years. Territorial disputes with its neighbors are making China concerned about its energy supply line and about its trade with other countries.

Furthermore, some non-authoritative sources have suggested that economic and security factors are inextricably linked because of a “dual structure” or “Asian paradox”, that dynamic economic growth coexists alongside “geopolitical, cultural, and historical complexities and tensions that make Asia one of the most fragile regions in the world for security” (Swaine 2014:8). This has created a situation where Asian countries depend on China for economic development, but then they depend on the US to receive security assistance, hence the paradox (ibid).



As a reminder, the CPOs that we are looking for to strengthen or confirm the validity of hypothesis 2 are: finding evidence of officials stating that infrastructure and connectivity are the two mechanisms and the primary focus of the AIIB and its projects to bring about economic gains such as market access, increased investments and trade, and to improve regional security. We are also looking for instances where officials have stated that the AIIB will run more like a business whose purpose is to get a return on investments as opposed to being used for a specific development related purpose such as poverty alleviation or to increase Chinese diplomatic clout. On the security side of material incentives, we are looking for evidence of officials suggesting that the creation of the AIIB is specifically tied to addressing the security threats in China's immediate neighborhood such as the territorial disputes in the East and South China Seas.

### **5.3.2 2009 Bo'ao Forum**

At the Bo'ao Forum in April 2009, the Vice Chairman of an influential Chinese think tank called the China Center for International Economic Exchanges (CCIEE) proposed three initiatives that would address the deteriorating confidence in the world economy: (1) "the US should peg its sovereign debt to the rate of inflation so as to protect China, India, Japan and other large holders of foreign exchange reserves from the loss in the face of quantitative easing", (2) "Asian countries should use Special Drawing Rights, not the US dollar as the reserve currency", (3) "to step up the development of Asian countries" by establishing the Asian Infrastructure Investment Bank. (CCIEE 2009 in Callaghan and Hubbard 2016:121) The proposed AIIB would be a commercial bank that would compete with the ADB to improve efficiency, and the "demand for equipment and raw materials generated by infrastructure spending would contribute to global economic recovery and prosperity and development of Asia." (Ibid)

We can in fact single out several moments where Jin Liqun has verbally confirmed the material rationales outlined in the quote above. At a forum in Singapore in 2015, Jin said that the "AIIB is a bank, not a political organization or political alliance." (Nakagawa and Kumar 2014 in Chin 2016:20) At a media briefing that same year, Jin said that the bank

would follow a “more business-like approach” in its operations (Xinhua 2015a in Chin 2016:20). He repeated the same thing again at the meeting when he said that the development projects of the AIIB would “follow business lines like private companies.” (Ibid) At a later point, Jin was quoted saying that the AIIB would help global economic recovery, boost infrastructure construction in Asia and help China’s economic development” (Paradise 2016:157 in Strand *et al.* 2016:63).

The first quote is the most vague and does not necessarily validate hypothesis 1 or 2. It passes a straw-in-the-wind test since it does not really favor any model as stand-alone evidence. It could either be interpreted that the bank will inherit the Chinese norm of unconditionality since the bank will not impose any political conditions on their loans, making the case for hypothesis 1, or that the bank was established to seek profit, not to boost China’s political influence since it is the biggest stakeholder in the bank. This would make the case for hypothesis 2.

The second quote is much more straightforward, and its consequences for the validity of model 2 can be strengthened by considering the context of his quote. After Jin’s remarks, the Chinese deputy finance minister Shi Yaobin added that in order to make sure the AIIB runs more like a business, private capital will also be mobilized alongside state capital to fund these infrastructure investment missions (Xinhua 2015a in Chin 2016:20). In terms of necessity and sufficiency, the second quote gets the same results as the first one.

The third quote is even more specific than the second one, and confirms the information provided by the Vice Chairman of the CCIEE. If taken together, the three CPOs constitute straw-in-the-wind evidence that together increase the validity of hypothesis 2.

However, according to an article published in the *Financial Times*: “Not all projects financed by Chinese policy banks are driven by commercial logic...Chinese officials privately admit they expect to lose 80 percent of their investments in Pakistan, 50 percent in Myanmar and 30 percent in Central Asia.” (Kynge 2016) If this is in fact true, this is a huge discovery that significantly weakens hypothesis 2 since it would suggest that role of the AIIB is beyond profit seeking. Not only that, this CPO passes a

doubly decisive test, meaning that the economic aspect of material factors can be ruled out completely. This type of evidence shows that ideational factors are sufficient for the establishment of the AIIB, and sufficient to say that emerging powers create IFIs to enhance their normative power. It also says that material factors are not necessary. This is no doubt important evidence, but material factors cannot be ruled out as an alternative explanation just yet, because there is still a security dimension to it that has yet not been disproven.

### **5.3.3** *2013 Chinese State Visit to Kazakhstan*

Some scholars have argued that the creation of the AIIB can best be explained in the context of the ‘Silk Road Economic Belt’ and ‘21<sup>st</sup> century maritime Silk Road’ (now rebranded to Belt and Road Initiative, BRI) that Xi proposed on a visit to Kazakhstan in September 2013, just a month before the state visit to Indonesia when the AIIB was revealed (Callaghan and Hubbard 2016:119). The stated purpose of the BRI is to “achieve connectivity between China, Central Asia, the Middle East and Europe (and as of last month even Latin America) by enhancing road, rail and seaborne transportation” (Hecan 2016:164). Empirically, we can establish that the BRI and the AIIB are causally linked because of two CPOs.

The first CPO has to do with the timing of the announcement of the two proposals. They were revealed one month apart when Xi was planning meetings all over Asia and Central Europe early in his tenure. This is strong evidence that they are causally related.

The second CPO is verbal evidence: “Xi explicitly instructed policymakers that the ‘primary task’ of the AIIB is to provide capital for these initiatives.” (Xinhua 2015 in Callaghan and Hubbard 2016:119) This quote passes a smoking gun test because it explicitly connects the BRI to the AIIB. As such, this strongly affirms the explanation that the motives behind the creation of the AIIB are material in the hard infrastructure and connectivity sense.

However, there are additional important pieces of information that need to be considered as well. If this explanation is true, then why did Xi Jinping also establish the

Silk Road Fund (SRF), which is a state owned investment fund whose sole purpose is to fund BRI-projects? Xi also recapitalized the China Development Bank, the China Exim Bank and the Agricultural Development Bank of China with 62 billion USD and is the biggest stakeholder in the new BRICS bank, the NDB (Chhibler 2015:4). The SRF is backed by 40 billion dollars, in other words 40 percent of the AIIB's ascribed capital (Jiang 2016:1). Chhibler (2015 in Zhang 2018:4) argues that the SRF is designed to operate "as a private equity venture, but with a smaller group of investors committed for longer terms", so as to "help avoid riskier politically-driven deals that are not always in the best economic interests." It sounds like the material connection is more between the SRF and the BRI as opposed to the AIIB and the BRI, since the SRF is actually designed to make profit. This suggests that the motivations behind the creation and future role of the AIIB could go beyond material incentives in an economic sense because it was created alongside multiple other institutions and initiatives.

Moreover, during his speech in Kazakhstan, Xi outlined 5 areas that would benefit from the BRI. 2 out of these were strictly economic: "promote unimpeded trade" and "enhance monetary circulation" (Xinhua 2013). When discussing trade, Xi said that the areas where the BRI would operate represents "the biggest market in the world with unparalleled potential" and that "We should discuss a proper arrangement for trade and investment facilitation, remove trade barriers, reduce trade and investment cost, increase the speed and quality of regional economic flows..." (Ibid) When talking about monetary issues, Xi said settling trade should be done in local currencies as it would "significantly lower circulation cost, increase our ability to fend off financial risks and make our region more competitive economically in the world." (Ibid)

Although we can and have proven that the AIIB and the BRI are empirically connected, the above remarks were still made a month before the AIIB was even revealed. As such let us fast forward to that time to see how the remarks from Kazakhstan relate to the ones from Indonesia when Xi first revealed the AIIB.

#### 5.3.4 2013 Chinese State Visit to Indonesia

The same Vice Chairman who accompanied President Xi to the Bo'ao Forum 2009 also accompanied him on his state visit to Indonesia. He explained that the establishment of the AIIB was not just about speeding up the development of Asian countries but also about promoting the recovery of the global economy and recycling Asian savings within Asia (Wang 2013 in Callaghan and Hubbard 2016:121). His colleague, Wang Jun (ibid), described the establishment as: “a once in a millennium opportunity to build a multilateral Asian Financial Institution which would not only finance infrastructure at lower cost, but place China at the centre of ASEAN connectivity and act as a vehicle for the internalization of the renminbi.”

If we take together the remarks from both Kazakhstan and Indonesia, a couple of things could be inferred. We can trace the idea that the BRI was established to promote infrastructure and connectivity, and that the AIIB was established as a complement to the BRI that would provide funding to, among other things, BRI-projects. We can also trace the linkage between using infrastructure and connectivity to increase trade and monetary circulation in the world's biggest market with unlimited potential because it lowers barriers like high circulation costs. The evidence at best passes hoop tests because it is necessary to prove that infrastructure and connectivity is the main mechanism of hypothesis 2, and the evidence is also necessary but not sufficient to show how hypothesis 2 is definitely relevant.

However, using the AIIB and the BRI to address some of these economic goals that Xi outlines during both the visits has its flaws. Dollar (2016:163) argues that the “contribution that these initiatives together make to China's demand are likely to be too small to be macro-economically meaningful.” He adds that at best if the AIIB is very successful, then it could be lending 20 billion dollars per year in five years making it equivalent with the WB's IBRD lending (ibid). But China has vast problems with excess capacity and it has been suggested by some (see Ren 2016 and Chhibler 2015) that China needs access to new markets to absorb some of that and in order to make the transition

from an investment-led into a consumption-led model. But on this point, Dollar (2016:165) argues that the AIIB and the BRI are not economically viable to address these issues. In just steel alone, China would need 60 billion dollars of extra demand to absorb its excess capacity, and that is without including the demand of cement construction and heavy machinery (ibid). The AIIB's lending capacity is simply put too small to even make a tiny dent in China's demands even if the AIIB would be the sole supplier of BRI-projects, which it will not be (ibid).

He thus confirms what some Chinese officials privately admit about the economic viability of the two initiatives.

### *5.3.5 2013 The Work Forum on Chinese Diplomacy Towards the Periphery*

The Work Forum is no doubt a key event in understanding Xi's foreign policy. While the forum reflected the growing significance of Chinese national security and economic development (Swaine 2014:1), it was also presumably held because Xi realized that he needed a new strategy to manage the relations on China's periphery because China was faced with increasing tensions with the neighboring states (Callahan 2016:230). In large, this had to do with the maritime disputes in the East and South China Seas (Swaine 2014:1).

The Work Forum is a fitting event to investigate how the mechanisms of infrastructure and connectivity could be used to tackle some of China's security challenges, if this is indeed the case. After reading several accounts of the Work Forum, some official (CCICED 2013; FMPRC 2013) and others scholarly (Swaine 2014; Callahan 2016; Heath 2013), the roadmap for achieving the rejuvenation of China can be split up into three parts based on what Xi discussed: "the creation of a stable and beneficial environment to enable China's rise", "the consolidation of control over China's core interests", and "strengthening China's leadership role in Asia." (Heath 2013) To this end, Xi provided guidance that spanned all elements of national power. On a political note, Xi spoke about "enhancing political good will" so that neighborhood countries could "identify more with us". This would be achieved by closer diplomatic work such as an increase in the frequency of state visits.

No CPO evidence could be found on this aspect in favor of hypothesis 2. On the contrary, “enhancing political good will” and “identify more with us” sounds more ideological as it evokes notions of Chinese norms such as improving the image and status of China by following a logic of relationships.

On an economic note, Xi called for the “rendering mutual aid and assistance”, to “accelerate the pace of infrastructure and connectivity construction”, and to that end build the BRI (Heath 2013; Xinhua 2013). This evidence passes a weak hoop test by showing that the causal mechanism is tied to material incentives. It is necessary but not sufficient evidence to validate hypothesis 2.

On a security note, Xi called for a new security approach to take form, and he made many references to the maritime disputes in terms of achieving China’s “core interests”. In a meeting earlier that year, Xi stressed that although China will “stick to the road of peaceful development”, it will “never sacrifice our national core interests” (Heath 2013). Several commentators have noted that “core interests” is a reference to China’s “bottom line principle”, essentially that China will abide by its core interests of state sovereignty, territorial integrity, and access to natural resources no matter what (Callahan 2016:231). But Xi in fact argued for a new security approach that looks beyond material measures of hard power (ibid; Heath 2013). He tied the new security to “mutual trust, benefit, equality and cooperation”, in other words along the lines of Chinese norms and ideals (Heath 2013). Thus his approach to peripheral diplomacy entails a mix of carrots and sticks, its partly ideological and partly material.

Hypothesis 2 has made the case for material factors. The findings reveal that the economic side of the hypothesis can be ruled out because doubly decisive evidence was obtained where Chinese officials admit that AIIB-funded projects do not operate on a profit maximizing logic. However, the security dimension remains intact, even though Xi employed notions of security in a normative power sense. More research is needed addressing the security dimension further.

## 6. Conclusion

This paper has endeavored to answer the research question of why emerging powers create IFIs through investigating the underlying dynamics behind the creation of the AIIB. The main argument that China created the AIIB to further its normative power cannot decisively be proven, but the findings reveal that normative considerations were indeed an important reason behind the creation of the AIIB. Using process tracing, two rival hypotheses were proposed: one focusing on the preferred theory of this paper, namely that ideational factors were the main drivers behind the creation of the AIIB, and the other on material factors such as economic gains and improved security.

Hypothesis 1 predicted that through 4 causal mechanisms, these being: normative appeal, normative commitment, normative entrepreneurship and normative diffusion, China could set up the AIIB in a particularly preferred way so as to serve as a vehicle to launder Chinese interests and project Chinese norms into the world. The biggest flaw of hypothesis 1 was that despite being able to prove the mechanisms exist, there was a lack of CPO-evidence linking normative appeal to normative commitment. As such, the validity of hypothesis 1 was reduced marginally. However, the lack of evidence does not translate into abandoning the hypothesis altogether. Simply put there is a need to do more research because I am confident that evidence exists but was not able to be obtained due to time constraints. The strongest evidence acquired in favor of hypothesis 1 and in discrediting hypothesis 2 was the revelation that Chinese officials privately admit that the goal of Chinese projects financed by the AIIB under the BRI is not to make profit. Substantial losses are expected, which points to the conclusion that the motives behind them are most likely different. Hence, the economic aspect of hypothesis 2 can effectively be ruled out, because making economic gains is necessary but not sufficient to acquire or enhance an actor's normative power. However, the security aspect of hypothesis 2 could not be ruled out, which means that material factors still need to be considered. Nonetheless, more research is needed on the security dimension.

Two main conclusions can be drawn from the results.



First, process tracing ideational factors was overall effective and there is more evidence to back up hypothesis 1 than there is to back up hypothesis 2. The findings reveal that we were able to prove that ideational factors played an integral part in creating the AIIB, but that we were not adequately able to rule out material factors completely. Consequently, we can assume that under similar conditions as this case, emerging powers can create IFIs to increase their normative power. Employing the language of sufficient and necessary proved too grandiose for this research case.

Second, this paper has succeeded in demonstrating that constructivism is in fact able to trace ideational factors and make causal claims. This can be achieved if process tracing is used properly, where equal amounts of attention is spent on the alternative hypotheses.

Future studies that want to improve on this paper should do several things. They should approach the research with a longitudinal approach, because process tracing is extremely time-consuming but also because the AIIB is such a recent initiative so seeing its real impact will take time. They should also dedicate more time to the security dimension of creating IFIs, but also to as many alternative explanations as possible. Additionally, they should evaluate and compare similar initiatives such as the NDB as it would allow more generalizations to be made about emerging powers. Lastly, they should undoubtedly look more closely into the BRI, as the more this research proceeded, the clearer it became that the AIIB seems to just be a tiny cog in the grand scheme of Chinese goals, and that the BRI is Xi's centerpiece.

Whatever direction future studies head, they should operate with the knowledge that China is an extremely complex actor that we do not really know much about, and that only time will tell what China's true intentions are in the world.

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