

# Chinese Bridge-Building

## The AIIB and the Struggle for Regional Leadership

By John H.S. Åberg

On the surface, the unveiling of the China-led Asian Infrastructure Investment Bank in October 2014 could be seen as a welcome addition to a region in desperate need of infrastructure to support growth. But much more was at stake.

The AIIB represents a significant milestone in China's emergence as a regional leader, and Washington's ham-fisted opposition to its creation dismayed its allies in Asia and even Europe and played into China's hands, writes John H.S. Åberg.

IN LATE OCTOBER 2014, as the first batch of Asian countries signed the Memorandum of Understanding on Establishing the Asian Infrastructure Investment Bank (AIIB), Chinese Finance Minister Lou Jiwei confidently predicted that more would join the bandwagon. "AIIB is an open, inclusive institution," he said, adding that "all countries that are committed to regional development in Asia and global economic development can join [the] AIIB. We believe there will be more countries joining it in the future."<sup>1</sup> Lou's statement is more important than it might look at first glance, particularly because it was made against the backdrop of fierce American lobbying against the bank.<sup>2</sup> In a bid to prevent its friends from joining, Washington temporarily

succeeded in persuading its most important regional allies not to participate. But that triumph was short-lived. After the UK broke ranks and said it would join the AIIB, all significant US allies except Japan rushed to join, as Lou had predicted. It dealt a humiliating blow to Washington, battered its diplomatic standing and left the US sidelined from the grand signing ceremony in the Great Hall of the People.

As China continues to repeat the fact that the AIIB is an open and inclusive institution, it puts pressure on the US to explain why it has decided not to join. Lou's statement about the openness of the AIIB and its role in promoting economic development implicitly questions US credibility, for what country is not committed to economic

development? When US President Barack Obama claimed that US opposition was all a "misunderstanding," it squared badly with the facts and common understanding.<sup>3</sup> Washington's late and reluctant support for the AIIB, conditioned by big "ifs" concerning governance practices, is also beside the point. Because US credibility in Asia rests on its promise to maintain peace and prosperity, the AIIB debacle gives the impression that the Obama administration only comes with weapons and warships but not dollars, especially so when staunch ally Japan and the US-led Asian Development Bank (ADB) both claim that Asia is facing an unsustainable US\$8 trillion infrastructure funding gap.<sup>4</sup> Beijing's initiative to help generate the necessary development capital for the



Jin Liqun, inaugural president of the Asian Infrastructure Investment Bank, at a press conference on Jan. 17, a day after the bank formally opened. Photo: Andy Wong/AP

1 Quoted in Xinhua, "Chinese finance minister says AIIB open to countries committed to Asian, global development," Oct. 24, 2014, at [news.xinhuanet.com/english/china/2014-10/24/c\\_133740398.htm](http://news.xinhuanet.com/english/china/2014-10/24/c_133740398.htm)

2 See Bob Davis, "U.S. Blocks China Efforts to Promote Asia Trade Pact," Nov. 2, 2014, at [www.wsj.com/articles/u-s-blocks-china-efforts-to-promote-asia-trade-pact-1414965150](http://www.wsj.com/articles/u-s-blocks-china-efforts-to-promote-asia-trade-pact-1414965150)

3 See Andrew Browne, "Obama on the Beijing-Led AIIB: All Just a Misunderstanding," April 29, 2015, at [blogs.wsj.com/chinarealtime/2015/04/29/obama-on-the-beijing-led-aiib-all-just-a-misunderstanding/](http://blogs.wsj.com/chinarealtime/2015/04/29/obama-on-the-beijing-led-aiib-all-just-a-misunderstanding/)

4 For the report see Asian Development Bank, *Infrastructure for a Seamless Asia* (Tokyo: Asian Development Bank Institute, 2009).

5 On China's grand strategy see Yan Xuetong, "From keeping a low profile to striving for achievement," *The Chinese Journal of International Politics*, Vol. 7, No. 02 (2014), pp. 153-184; Dingding Chen and Jianwei Wang, "Lying low no more? China's new thinking on the Tao Guang Yang Hui strategy," *China: An International Journal*, Vol. 9, No. 02 (2011), pp. 195-216; Yong Deng, "China: The Post-Responsible Power," *The Washington Quarterly*, Vol. 37, No. 4 (2014), pp. 117-132; Zhang Feng, "Rethinking China's grand strategy: Beijing's evolving national interests and strategic ideas in the reform era," *International Politics*, Vol. 49, No. 3 (2012), pp. 318-345; Zhang Baohui, "Xi Jinping, 'Pragmatic' Offensive Realism and China's Rise," *Global Asia*, Vol. 9, No. 2 (2014), pp. 71-79.

6 See Yan Xuetong, "From keeping a low profile to striving for achievement," *The Chinese Journal of International Politics*, Vol. 7, No. 02 (2014), pp. 153-184.

7 For Xi's remarks see "Xi Jinping: Let the Sense of Community of Common Destiny Take Deep Root in Neighboring Countries," at [www.fmprc.gov.cn/mfa\\_eng/wjzb\\_663304/wjzb\\_663308/activities\\_663312/t1093870.shtml](http://www.fmprc.gov.cn/mfa_eng/wjzb_663304/wjzb_663308/activities_663312/t1093870.shtml)

8 Ibid.

9 Ibid; emphasis added.

10 Ibid.

11 Elisabeth C. Economy, "The AIIB Debacle: What Washington

Should Do Now," Council of Foreign Relations, March 16, 2015, at: <http://blogs.cfr.org/asia/2015/03/16/the-aiib-debacle-what-washington-should-do-now/>

12 Daniel Drezner, "Anatomy of a whole-of-government foreign policy failure," *Washington Post*, March 27, 2015, at [www.washingtonpost.com/posteverything/wp/2015/03/27/anatomy-of-a-whole-of-government-foreign-policy-failure/](http://www.washingtonpost.com/posteverything/wp/2015/03/27/anatomy-of-a-whole-of-government-foreign-policy-failure/)

13 Francis Fukuyama, *The origins of political order: from prehuman times to the French Revolution* (Profile books, 2011), p. 456.

14 For Obama's speech see "Remarks by President Obama to the Australian Parliament" at [www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament](http://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament)

region has helped it make friends and contributed to its image as a benevolent nation bent on undertaking the arduous task of regional modernization. In this respect, China could be building bridges that bridge minds.

As China re-evaluates its grand strategic outlook — altering its posture from "keeping a low profile" to "striving for achievement" — its priorities are changing.<sup>5</sup> When "striving for achievement" is conceptualized as "making friends,"<sup>6</sup> it moves the definition of achievement from the direct attainment of objects of gratification, such as money or socio-economic development, to the intersubjective — achievement becomes measured in terms of recognition. By this definition, previously, if China made money, China achieved; now, if China makes friends, China achieves. The most significant friends are primarily found in China's immediate neighborhood, and the AIIB is an important mechanism for creating lasting friendships.

#### MAKE FRIENDS WITH YOUR NEIGHBORS

At the October 2013 Conference on Diplomatic Work with Neighboring Countries, which was intended to "identify the strategic goals, fundamental policies and general diplomatic work with neighboring countries in the coming five to 10 years," Chinese President Xi Jinping expressed his desire to see a "Community of Common Destiny" take "deep root" in the neighboring environment.<sup>7</sup> Some of what Xi articulated is worth quoting at greater length:

China needs to develop closer ties with neighboring countries, with more friendly political relations, stronger economic bonds, deeper security co-operation and closer people-to-people contacts ... The basic principle of diplomacy with neighbors is to treat them as friends and partners, to make them feel safe and to help them develop. The concepts of friendship, sincerity, benefit and inclusiveness should be highlighted. ... China needs to make

neighboring countries more friendly, stay closer to China, more recognizing and more supportive, and increase China's affinity, magnetism and influence. China needs to treat neighboring countries with sincerity so as to win more friends and partners. China needs to carry out co-operation with neighbors based on mutual benefit, create a closer network of common interests and bring the converging interests to higher levels.<sup>8</sup>

Importantly, Xi also indicated "that the strategic goal of China's diplomacy with neighboring countries is to serve the realization of the two 'centenary goals' and the great rejuvenation of the Chinese nation." These statements are not insignificant slogans or superfluous diplomatic rhetoric; they reflect the fundamental direction of China's grand strategy. For China's neighbors to stay closer and gain affinity for China, and so increase the country's magnetism and influence, China must lead. A powerful, strong, and advanced nation cannot ride solo — it must provide public goods, and to do so, it needs a "circle of recognition" that acknowledges its leadership. This circle of recognition, as Xi points out, is primarily regional:

We should make joint efforts with relevant countries to accelerate infrastructure connectivity, to build the Silk Road economic belt and the Maritime Silk Road of the 21st century. We should speed up the implementation of the free trade zone strategy, on the basis of neighboring countries, to build a new pattern of regional economic integration.<sup>9</sup>

Hence, the AIIB was created in order to advance China's strategy for its relations with its neighbors. Setting up an institution for the provision of public goods was a decisive move toward regional leadership and is a significant feature of China's regional integration project. The "One Belt, One Road" policy to increase regional infrastructure connectivity gives the project its tangible dimension, while the Community of Common Destiny serves as the overarching vision

of regional togetherness. The ambition is that the various regional free-trade initiatives will become centered on China as it gradually climbs the global value chain and becomes the true regional center instead of just a hub for intermediate goods ready to be shipped to the US and Europe. China's desire is to become a center of innovation and services, and thus a rule-maker. That is a tall order indeed, yet the AIIB will surely be of value to "clearly tell China's story" and "spread China's voice."<sup>10</sup> As China successfully assembled a significant "circle of recognition" in launching the AIIB to provide much-needed public goods, the US utterly failed by lobbying its allies not to join — for no apparent reason. At least, that is how most commentators see it.

#### DYSFUNCTIONAL POLITICS?

Elisabeth C. Economy at the Council on Foreign Relations has sharply critiqued Washington's "ill-considered" AIIB strategy. She outlines two rational reasons why it would have been a good idea for the US to join: by being inside the club, the US would assure 1) "best governance practices," and 2) "fair access to the bidding opportunities." She concludes that if the US does not join, it should cast aside its irrational opposition to the AIIB and view it as a "welcome addition to the world of development financing."<sup>11</sup>

Furthermore, Daniel W. Drezner, a professor of international politics at Tuft University's Fletcher School of Law and Diplomacy, accuses the US Congress of disarming the "Obama administration's best weapon to halt the AIIB's existence" — reform of the Bretton Woods institutions, the International Monetary Fund and the World Bank. The argument goes that had Congress not blocked the reforms, China would have increased its institutional power within the existing multilateral institutions and would thus have refrained from creating the AIIB. Instead, Con-

gress maintained its resistance and the Obama administration "compounded the error" by adopting a "wrong-headed approach."<sup>12</sup>

What Drezner describes is a situation where entrenched stakeholders block institutional change due to irrational politics and contribute to the emergence of a "dysfunctional equilibrium."<sup>13</sup> Yet, Drezner's narrative is flawed and unconvincing — China would have gone ahead with the AIIB anyway. First, the reforms would not have been enough to satisfy China and wouldn't have stopped its desire to shape the multilateral architecture; second, the argument largely underestimates China's grand strategy to restore its former glory atop the regional hierarchy; and third, the immediate reason for the AIIB is found in the exclusionary nature of the US pivot to Asia.

#### CHINA AND THE US PIVOT

At the time the US pivot was announced, America, as leader and defender of the established world order, engaged in forceful politics of boundary-maintenance to preserve the inside/outside demarcation of its progressive liberal project. The representational force of Barack Obama's famous speech to the Australian parliament in November 2011 made this vividly clear:

The currents of history may ebb and flow, but over time they move — decidedly, decisively — in a single direction. History is on the side of the free — free societies, free governments, free economies, free people. And the future belongs to those who stand firm for those ideals, in this region and around the world. ... This is the future we seek in the Asia-Pacific — security, prosperity and dignity for all. That's what we stand for. That's who we are. That's the future we will pursue, in partnership with allies and friends, and with every element of American power.<sup>14</sup>

When former US National Security Adviser Tom Donilon explained the significance of Obama's speech, he clearly stated that "it is a defini-

15 See Tom Donilon, "Remarks by National Security Adviser Donilon: The United States and the Asia-Pacific in 2013," Council of Foreign Relations, March 11, 2013, at [www.cfr.org/asia-and-pacific/remarks-national-security-adviser-donilon-united-states-asia-pacific-2013/p31440](http://www.cfr.org/asia-and-pacific/remarks-national-security-adviser-donilon-united-states-asia-pacific-2013/p31440)

16 See "Working Together Toward a Better Future for Asia and the World," Boao Forum for Asia, April 7, 2013, at <http://english.boaoforum.org/mtxxxwzxe/7379.jhtml>

17 Compare Yoichi Kato, "Interview/Yan Xuetong: China, U.S. should seek co-operation without trust," *The Asahi Shimbun*, Dec. 24, 2012, at <http://ajw.asahi.com/article/asia/china/AJ201212240012>; Zheng Wang, "Not Rising, But Rejuvenating: The

"Chinese Dream", *The Diplomat Magazine*, Feb. 5, 2013, at <http://thediplomat.com/2013/02/chinese-dream-draft/1/>; Orville Schell and John Delury, *Wealth and Power: China's long march to the twenty-first century* (Hachette UK, 2013); Michael Pillsbury, *The Hundred-year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (Henry Holt and Company 2015).

18 Compare Michael D. Swaine, "Chinese leadership and elite responses to the US Pacific pivot," *China Leadership Monitor*, Vol. 38 (2012), pp. 1-26; Liao Kai, "The Pentagon and the Pivot," *Survival*, Vol. 55, No. 3 (2013), pp. 95-114; Kevin Rudd, *US-China 2: The Future of US-China Relations Under Xi Jinping — Toward a new Framework of Constructive Realism for a Common*

tive statement of US policy in the region; a clarification call for freedom; and yet another example of how, when it comes to the Asia-Pacific, the United States is 'all in.'"<sup>15</sup> Manifestly, the US pivot did not endorse China's often repeated call for countries to respect "the right of a country to independently choose its social system and development path."<sup>16</sup>

China's self-conception, embodied by the domestic political and intellectual elite, is that of being a returning power, not a rising one; a country destined to restore its past glory and bent on regaining its "natural" leadership role. In view of that, China is pervaded by one overarching state *telos*: to amass wealth and power, and to regain global respect.<sup>17</sup> Imbued with this self-understanding and sense of mission, China experiences the US pivot as an identity threat. The Chinese political and intellectual elite perceive the US pivot as going against what they view as the prevailing regional trend toward peace, stability and co-operation. Announcement of the pivot was widely experienced in China as a hostile move that stepped up military encirclement and economic containment of a rising China. The high-profile speeches, announcements, and diplomatic performances by the Obama administration were seen as evidence that a Cold War mentality still dominates American strategic thinking.<sup>18</sup> The American vision that was projected onto the regional political stage would leave China's restorationist ambitions thwarted. As a result, the Chinese elite view the US pivot as an attempt to "lock out" China. In the regional security and economic order outlined by the US pivot, China is being deprived of a legitimate leadership role and its identity as a returning power is being threatened. Thus, the exclusionary mechanism of the thesis (the US pivot) triggered the rise of the antithesis (China's alternative regional project).

After three decades of a continuous increase in China's power status, the US pivot showed that China would not be awarded the role it so eagerly desires and feels it deserves. The pivot would leave China punching below its weight. Yan Xuetong makes this sentiment clear: "China's economic status has risen, but the country has yet to garner *commensurate* respect from the international community."<sup>19</sup> The perceived disproportionate standing in the *prestige hierarchy* relative to China's impressive status in the *power hierarchy* leads many in the Chinese elite to experience a sense of status contradiction. To overcome that contradiction, in contrast to the hopes of liberal internationalist engagers, China does not necessarily have to become more democratic in order to play a legitimate leadership role. Instead, it has to fight for the elimination of Western-style democracy and neoliberal market principles as prestige attributes that validate leadership recognition. The ongoing "contest over the international order,"<sup>20</sup> as put forward by President Xi Jinping, endows China with agency to shape the world into becoming the very world China would like to see. The viability of any alternative criteria can only be judged against the success or failure of the materialization of the very international order it seeks to create.

#### THE AIIB AND INCREMENTAL CHANGE IN THE INTERNATIONAL ORDER

Let us use Princeton University international relations expert John Ikenberry's apt conceptual apparatus to analyze the success of the AIIB. Ikenberry emphasizes three important components within a multilateral rule-based order: provision of public goods, "voice opportunities" for lesser states, and that states "buy into" the project normatively.<sup>21</sup> First, the AIIB at the initial stage is set to provide US\$100 billion for infrastructure funding. How, and to what good, it will

*Purpose*, Summary Report (Cambridge: Belfer Center for Science and International Affairs, 2015).

19 Quoted in Koichi Furuya, "Interview/Yan Xuetong: 'Conflict control' is key to U.S.-China relations in a bipolar world," *The Asahi Shimbun*, May 14, 2014, at <http://ajw.asahi.com/article/views/opinion/AJ201405140005>; emphasis added.

20 See "Xi eyes more enabling int'l environment for China's peaceful development," *Xinhua*, Nov. 30, 2014, at [http://news.xinhuanet.com/english/china/2014-11/30/c\\_133822694\\_2.htm](http://news.xinhuanet.com/english/china/2014-11/30/c_133822694_2.htm)

21 John G. Ikenberry, *Liberal Leviathan: The origins, crisis, and transformation of the American world order* (Princeton University Press, 2011)

be used is still uncertain, yet there is money to be spent. Second, Chinese Finance Minister Lou made it clear that since the AIIB is "mainly led by developing countries, the AIIB must consider their appeals."<sup>22</sup> The extent and influence of such appeals is uncertain, yet it ties the appraisal of the AIIB to the promise of what Ikenberry calls "voice opportunities." Third, despite frequent US criticism concerning governance practices, China has done well in branding the AIIB. The interim director Jin Liqun said that the AIIB is going to be lean, clean, and green: "Lean is cost-effective; clean this bank will have zero tolerance on corruption; green means it's going to promote the economy."<sup>23</sup> An approach to economic development without ideological straitjackets charms any country in desperate need of investment. In sum, the appeal of the AIIB has proven significant, with more than 50 countries joining, many of them US allies.

Historically, new international orders have been built upon the ruins of war, but in a world of nuclear deterrence, international orders change incrementally through the creation of parallel governance structures. The launch of a parallel multilateral structure such as the AIIB equips China with a leading role in the provision of development finance that previously was the exclusive domain of the US, Europe and Japan. It does not imply a change in the rules of the game, but it unequivocally marks China's positional ascendance. In front of a skillfully assembled circle of recognition, China is boosting its international prestige as it successfully performs the role of a responsible great power. China's institutional position reflects its structural leadership as well as its success in making its power position commensurate with the much-wanted respect it desires from the world.

In this light, Washington's AIIB strategy certainly played on emotions and anxiety, yet for a

22 Quoted in Bloomberg, "Defector to Communist China Revolutionizes Development Lending," April 30, 2015, at [www.bloomberg.com/news/articles/2015-04-30/defector-to-communist-china-revolutionizes-development-lending](http://www.bloomberg.com/news/articles/2015-04-30/defector-to-communist-china-revolutionizes-development-lending)

23 Quoted in *Xinhua*, "AIIB to be lean, clean and green, Chinese officials say," April 11, 2015, at [http://news.xinhuanet.com/english/2015-04/11/c\\_134142959.htm](http://news.xinhuanet.com/english/2015-04/11/c_134142959.htm)

24 Randall L. Schweller, "Realism and the present great power system: growth and positional conflict over scarce resources," in *Unipolar politics: realism and state strategies after the cold war* (1999): 28-68.

superpower bent on maintaining and strengthening its regional leadership role, it made perfect sense. In a world characterized by a struggle for positional goods such as leadership,<sup>24</sup> the AIIB challenges the US leadership position and Washington's blueprint for regional order. In a China-created organization, the US would at best be an equal, but more likely, it would play second fiddle. The AIIB might, indeed, be complementary to the Bretton Woods institutions and the TPP, in addition to being good for capitalist development and economic growth. Yet, maintenance of the capitalist system would go on irrespective of who the leading actors are. It is not about complementarity, but about positional indivisibility. Unless the US changes its superpower identity, the cognitive dissonance of joining the AIIB would be unbearable, and the emotional strain too painful.

Together with the BRICS institutions and the Shanghai Co-operation Organization, the AIIB represents another significant change to the multilateral architecture that unequivocally displays China's rising power and influence. That IMF Managing Director Christine Lagarde and World Bank President Jim Yong Kim have both given their thumbs up to the AIIB, just makes the ride much smoother.

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