

China's Relationship with the Liberal International Order: The Case of the Asian Infrastructure Investment Bank

Çin'in Liberal Uluslararası Düzen ile İlişkisi: Asya Altyapı Yatırım Bankası Üzerinden Bir İnceleme

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Abstract

As the world enters the third decade of the 21st century, the liberal international order founded in the aftermath of the Second World War and has since provided a framework within which world affairs take place, is experiencing a crisis of sustainability, because while on the one hand the Western world that has created the system is going through a period where its own liberal values and norms are eroding, on the other hand the very order has not been able to accommodate the rise of non-Western powers most of which are governed by authoritarian regimes. One of these powers, China, merits greater attention, not only because it has reached the status of a global economic behemoth seeking to making rules rather than taking them by becoming an integral part of the system rather than conflicting it, but also because there is an inherent paradox to its relationship with the liberal international order: China has benefited from the liberal international order for its economic rise, yet at the same time this rise is also said to be a challenge against the very order itself. In an attempt to tackle this paradox, this essay focuses on an institutional form of this country's involvement in the governance of the international economic order, the Asian Infrastructure Investment Bank (AIIB), a Chinese-led multinational development bank that commenced operations in 2016, and investigates whether AIIB complements the structures of the existing order or aims to substitute them, in order to contribute to a better understanding of China's relationship liberal international order.

Keywords: China, Liberal International Order, Global Governance, Asian Infrastructure Investment Bank, Multilateral Development Banks.

Öz

Dünya 21. Yüzyıl'ın üçüncü on yılına girerken, İkinci Dünya Savaşı sonrasında kurulan ve bugüne değin dünya meselelerini şekillendiren bir çerçeve oluşturan liberal uluslararası düzenin bir sürdürülebilirlik krizi yaşamakta olduğu görülmektedir ve bunun da sebebi olarak bir taraftan söz konusu düzenin kurucusu olan Batı dünyasında liberal değer ve normlar zayıflamakta iken diğer yandan mevcut düzenin çoğu otoriter rejimler tarafından yönetilmekte olan Batı-dışı güçlerin yükselişi karşısında yetersiz kalması gösterilmektedir. Bu güçlerden biri olan Çin'in yakından incelenmesi gerekir, çünkü

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bu ülke günümüzde küresel düzeyde kural yapıcı konumuna ulaşmak isteyen büyük bir ekonomik güç seviyesine bu düzenin dışında kalarak veya bu düzenle çatışarak değil, söz konusu düzenin bütüncül bir parçası olarak geldiği gibi, liberal uluslararası düzenden fayda sağladığı halde yükselişi ile bu düzene karşı bir tehdit oluşturduğu gibi söylemlere de hedef olarak bir paradoks da yaratmaktadır. Söz konusu paradoksu inceleyen bu makalenin amacı, Çin'in uluslararası ekonomik düzen ile ilişkisinin kurumsal bir formu olan, 2016'da faaliyetlerine başlayan çok taraflı kalkınma bankası Asya Altyapı Yatırım Bankası'nın (AIIB) ele alarak bu bankanın mevcut düzeni tamamlayıcı mı olduğunu yoksa bu düzeni değiştirme amacı mı taşıdığını sorgulayarak bu suretle Çin'in liberal uluslararası düzenle olan ilişkisini anlama çabalarına bir katkı sunmaktır.

Anahtar Kelimeler: Çin, Liberal Uluslararası Düzen, Küresel Yönetişim, Asya Altyapı Yatırım Bankası, Çok Taraflı Kalkınma Bankaları.

1. Introduction

Chinese president Xi Jinping's speech at the World Economic Forum summit in the Swiss town of Davos in January 2017, where he made a case for the world to “remain committed to developing global free trade and investment, promote trade and investment liberalization and facilitation through opening-up and say no to protectionism” (State Council, 2017), was hailed by many as an indication of China becoming “*the* responsible global citizen” (italics added by the authors) and taking over “the role of defending the global trading system in the teeth of protectionist war cries from the world's most developed nation”, i.e. the United States of America, under its then-newly elected president, Donald Trump (Luce, 2017). Several pundits asked the question of whether China was becoming the champion of liberal globalization at a time when the United States was retreating from global leadership (e.g. Xuan, 2017; Kellogg, 2017) and developments in the following years have only reinforced this question as the Trump Administration continued to implement illiberal economic positions under the banner of “America First” and contested the multilateral institutions and agreements that are at the heart of the liberal international order that the United States helped to create and sustain since the end of Second World War, whereas China appeared to be pursuing a more liberal international agenda as hinted in Xi's Davos speech. While, in the meantime, the great power competition between the two countries reached an unprecedented scale including battles fought over technological supremacy and diplomatic attacks including mutual closures of consulates, the novel coronavirus (Covid-19) pandemic did little, if anything, for the United States and China to overcome their differences in the face of a humanity-wide health crisis vitally necessitating open and transparent global cooperation. On the contrary, the pandemic is actually observed to exacerbate the trends of and the challenges related to both localization and regionalization, as well as the decoupling between the two largest economies of the world (Heisbourg, 2020, p.15).

Is the world facing, as in the words of Xuan Loc Doan (2017), an “unreal reversal of roles” between the United States and China, where the former is adopting nativist and isolationist policies to bring down the liberal international order it has built itself, while the latter, which is led by the single-party regime of a communist party, is defending global openness and cooperation? While it may be too early to definitively answer this question, it has to be noticed that there is a remarkable paradox inherent in the

position it proposes. China is not only said to be defending the liberal international order, but there is also a strong and widely-shared view in the opposite direction, as will be discussed below, that China and its rise within the global economy have been a major dynamic behind the alleged demise of the said order itself. How can China be the champion of a certain kind of international order, when its own record has undermined the very essence of this order in the first place?

This essay hopes to contribute to the ongoing debates around this paradox by making an effort to understand China's relationship with the existing liberal international order through the investigation of a specific case of this country's involvement with global governance, i.e. the Asian Infrastructure Investment Bank (AIIB), a multilateral development bank (MDB) led by China. The essay will first inquire into debate on the state of the liberal international order and China's part in it, after which it will turn its focus to the AIIB and analyze what this bank's identity and operations reveal about China's relationship with the existing international order. While it has to be acknowledged that the AIIB is only one component of China's much broader engagement with the international order and the governance of it, this bank as a multilateral institution led by China deserves close scrutiny.

2. The Liberal International Order and China

Any effort to understand China's, or any country's, place in the liberal international order needs to begin by defining what the international order is and how its liberal version came into being and was sustained until the current day. Defining international order can be complicated, not only because the concept of "order" in international relations is examined from different vantage points resulting in a plethora of definitions of both descriptive and normative kind, but also because concepts such as "international order", "global order", and "world order" are often used interchangeably (Acharya, 2018, p.4). An appropriate starting point for the purpose of this essay would be to adopt the definition offered by Hedley Bull, who has distinguished between "world order", which in his view applied to "(the) patterns or dispositions of human activity that sustain the elementary or primary goals of social life among mankind as a whole", and "international order", which he deemed as "(the) order among states" (Bull, 2002, p.19), and defined as "a pattern of activity that sustains the elementary or primary goals of the society of states, or international society" (ibid, p.8), with those goals being the preservation of the system and society of states itself, maintaining the independence of individual states, maintenance of peace, limitation of violence, the keeping of promises and the stabilization of possession by rules of property (ibid, pp.16-19). What Bull cited as "a pattern of activity" to sustain the goals of the international society, is captured in a more nuanced way by Hal Brands who defined international order as "the body of rules, norms, and institutions that govern relations among the key players in the international environment" (quoted in Mazarr et al., 2016, p.7).

At this point, a distinction needs to be made between "order" and "governance". As discussed above, international order is about a pattern of activity and/or a set of rules, norms and institutions at a

given time, whereas governance, or “global governance” in this respect, refers to the management of issues relevant to the international order. Amitav Acharya (2016) defines global governance as the “formal or informal management of cross-border issues affecting a significant proportion of the international system by states, international institutions and non-state actors, through power, functional cooperation, laws, regimes and norms” (p.6). In other words, international order and global governance are two closely interrelated concepts, with the latter referring to the processes of managing and sustaining the former by creating norms and mechanisms to deal with cross-border issues.

The liberal international order is a highly contested concept as well. The above given definitions would suggest that it is a set of open and liberal rules, norms and institutions governing international affairs, however there is no agreed upon definition or a document laying out the basis of this concept. Nonetheless, it is widely referred to as the multifaceted order that emerged in the aftermath of the Second World War, under the leadership of the United States in partnership with its allies, as “organized around economic openness, multilateral institutions, security cooperation and democratic solidarity” (Ikenberry, 2018, p.7). According to an accurate typology provided by Hans Kundnani (2017), the multifaceted liberal order encompasses the elements of: i) a security order, in which what states can and cannot in this realm do is determined not by their relative power, but by the boundaries drawn by international law; ii) an economic order, wherein economic relations between states are organized through liberal principles enabling them to conduct their economic and financial relations on the basis of mutual benefits; iii) an human rights order, which promotes universal respect for human rights and fundamental freedoms for all (pp.3-6).

Several authors have convincingly discussed that the liberal international order is now experiencing a serious crisis (Ferguson and Zakaria, 2017; Luce 2017; Ikenberry, 2018; Duncombe and Dunne, 2018; Mearsheimer, 2019; Porter, 2020). Although different authors have approached this issue from different angles, they have in common the argument that the crisis of the liberal international order is related to its agency. As stated by Barry Buzan et al (1993) the definition of agency as “the faculty or state of acting or of exerting power” broadly captures the essence of the term in social theory (p.103) and it offers a good starting point for its use with reference to international order. As discussed above, the liberal international order as it stands today is a product of the agency of Western actors, and particularly the United States.¹ However today, seventy-five years after the end of the Second World War, the liberal international order is experiencing a crisis of sustainability, because: i. the agency of the Western actors is eroding; ii. the ongoing shift of global economic power toward non-Western powers requires the recognition and participation of the agency of these actors, which is so far hardly the case.

Despite earlier successes, particularly during the Cold War and the hey-days of globalization during the 1990s and the early 2000s, the agency of the Western actors in liberal international

1 Defining the liberal international order as “an international system created and managed by the United States after the Second World War to promote capitalism and democracy through building alliances and multilateral institutions”, Amitav Acharya (2018, July 10) goes so far, and accurately so, to call this order “a club of the West”.

order is eroding. According to John J. Mearsheimer (2019), this was inevitable because the order itself was flawed in the first place: Spreading the liberal project around the globe in the post-Cold War period by trying to turn countries governed by illiberal regimes into democracies significantly backfired and undermined the legitimacy of the liberal order itself; the liberal international order created serious political problems regarding sovereignty and national identity within the liberal democracies themselves; the economic side of the liberal international order has not only left most of the developing world behind, but also produced significant economic costs for people inside the developed liberal democracies. A number of subsequent global crises have served to exacerbate these problems and facing with instability at a global scale and economic uncertainties, governments in the liberal democracies of the West opted to close their borders, solidify their power often through populist means, and hoarding wealth. In these countries, liberal projects led inadvertently to illiberal results, which, in turn, adversely affected the liberal international order itself. The path taken by the United States under the Trump Administration is often associated with the decline of liberal values in the West, however the process had begun long before Donald Trump, although he “pushed the liberal order closer to the precipice” (Acharya, 2018, July 10) through unilateral, protectionist, and populist policies, weakening American commitment to the multilateral global order.

The proposition that “(l)iberal orders can arise only in unipolar systems where the leading state is a democracy” (Mearsheimer, 2019, p.7) held well in the early post-Cold War years with the liberal hegemon United States providing public goods through the liberal international order it had created. Today, however, there are doubts on whether the “state” in question is actually “leading”, and whether it is a real liberal democracy. Under these conditions, liberal norms are nothing more than “simply organized hypocrisy, a disguise for underlying national interests” (Kahler, 2016, p.58).

The other globe-wide change that plunged the liberal international order into a crisis is the gradual diffusion of global economic power from the West to the East. Despite the growing weight of non-Western actors, not only in global economy, but in almost all areas of global governance, a real non-Western agency in the liberal international order has not yet materialized. The leadership of institutions responsible for managing the international order continues to reside with the West (Gilpin, 2001, p.386); in these institutions the voting power structure does not reflect the actual balance of power at the global level with the non-Western actors, such as those newly rising powers such as China and India having less than proportionate say in matters that are also affecting them, creating a “gap between the authority of existing institutions and the changing distribution of power in the international system” (ibid, p.381); and the benefits of the liberal international order, such as market access, aid, investment, and collective security, are offered to non-Western actors only selectively and conditionally (Acharya, 2018, July 10). The world has become not only more integrated but also more complex with new issue areas and actors, both state and non-state, continuing to arise; however the liberal international order failed to keep up with the changes, which would have necessitated a pluralized conception of agency that has so far not been the case.

China's relationship with the liberal international order should be seen through this prism. It is crucial to acknowledge at the outset that China's emergence as an economic behemoth was possible thanks to the liberal international order, and not despite it. Beginning with the reforms of the late 1970s, China gradually liberalized its economy (although a similar liberalization did not take place in the political realm), integrated with the global markets, joined the World Trade Organization (WTO) in 2001, achieved large market shares all around the world particularly in low-value added, labor-intensive products and achieved double-digit growth rates, at least until the global financial crisis of 2007-8. Today, China is not only the second largest economy in the world, but also a major driver of change in the global economy. Robert Muggah and Yves Tiberghien (2018, January 30) draw attention to five facts of the global economy which are triggering "seismic shifts", and all of these facts are related to China:

1. China is in the process of surpassing the United States economically. Over 2017-19, China accounted for 32.5 percent of growth in real global GDP, while the United States' share was 17.9 percent.
2. With the Belt and Road Initiative (BRI), China is leading the largest urbanization and infrastructure development scheme on earth.
3. China is becoming a global green powerhouse, with the intention to take the lead on climate change reduction.
4. China is setting the global pace on a digital economy, including cashless payments.
5. Chinese universities are vaulting to the top of the international rankings.

China has risen to this level of influence and continues to rise "within an order not of its own making" (Zhang, 2016, p.797), and this should be precisely the departure point for debates around China's relationship with the liberal international order. China's particular state-society model based on the authoritarian single-party rule of the Chinese Communist Party and a hierarchical form of state-society relations based on Confucian values, and its particular model of economic governance, which is defined by many as "state capitalism", where the market exists alongside with a strong degree of state ownership and control, are far from representing liberal values subscribed by the free market economies of the West. Indeed, China's illiberal political economy model has risen within, and by making use of, a liberal international order; and this process has shaped both China and the international order itself.

The question is then, which side is emerging as the more dominant side in this interaction? Is China becoming more liberal and adapting itself to the liberal international order? Or is China's rising influence leading the rest of the world and the order itself to become more illiberal in? In other words, is China a champion of the liberal international order, or a challenge against it?

There is a wide range of academic literature on both prepositions. Several scholars, mainly from the realist strand of International relations, regard China's rise as a threat against the liberal international order due to its differences with American/Western norms and values. Accordingly,

China “pose(s) the greatest challenge to the relatively peaceful and prosperous international order created and sustained by the United States” (Kagan, 2017, January 24), and as China’s rise is challenging and threatening the incumbent hegemon, i.e. the United States, and its region, conflict is inevitable (eg. Mearsheimer, 2010; Yan, 2010; Allison, 2017).

Others, predominantly scholars subscribing to the liberal paradigm of International Relations, observe China’s gradual adaptation and integration into the liberal international order (eg. Kahler, 2016; Ikenberry, 2018). The keyword here is “gradual”, as this argumentation refers to a partial and eclectic adaptation of the liberal order by China. Acharya (2018, July 10) draws attention to the fact that “(w)hile China has pledged to support the liberal order, this is likely only in reference to some of its economic and institutional aspects, especially the flow of trade and investment. China will not support the political foundations of the liberal order, such as democracy and human rights”. For Kahler (2016), China’s support for the liberal international order is not a normative commitment, but a pragmatic reading of its interests (pp.68-70); and a corollary of this argument is that China’s support for the liberal order can reverse if and when its interests change. China’s partial and gradual adaption of the liberal international order means that it also resists the call for liberalization to a certain extent and holds on to the distinctive (read, illiberal) aspects of its state–society model and governance (De Graaff et al, 2020; Weinhardt and Ten Brink, 2020).

Regardless of whether China is a threat against the liberal international order or gradually becoming part of it, how can one define China’s interaction with this order at the policy level? In other words, in what ways does China take part in global governance? Until recently, China kept a low profile when dealing with the institutions of the liberal international order, such as the United Nations (UN) or the WTO, which made sense because as a newcomer to the liberal order, making a gradual adoption of it while at the same time maintaining its own illiberal tenets of economic and political governance, China had neither the experience nor the resources for getting actively involved. With continued high growth of the Chinese economy and China’s deeper integration with the international system, however, this began to change. In other words, as China emerged as a major power, with the early 2000s, it became more assertive in international affairs, seeking centrality in the system in proportion with its economic and military power.

As its economy grew, however, Beijing assumed a more active role in global governance, signaling its potential to lead and to challenge existing institutions and norms. The country boosted its power in four ways: it took on a bigger role in international institutions, advertised its increasing influence, laid the groundwork to create some of its own organizations, and sometimes subverted global governance rules. China started to create Beijing-dominated institutions, a process that would expand in the 2010s (Huang and Kurlantzick, 2020, June 25).

China supported, and continues to support, international institutions and agreements aligned with its own interests, yet on issues in which it diverged from the norms of the liberal international order it refrained from greater involvement. Again, one can see this approach through the lens of

China's gradual engagement with the liberal order, while another view in the opposite direction can be evaluated through the prism of the "China threat" discourse, wherein "(China's) efforts appear to be deepening divides with other countries, particularly democracies that are committed to existing norms and institutions. Ultimately, this divide could make it harder for states to collaboratively address major international challenges, such as global health and development finance" (ibid).

While the outside world sees China's approach to and involvement with the liberal international order in different ways, what is actually the role China is considering for itself in this area for future? To start with, the Chinese government emphasizes the shortcomings of the liberal international order in its current shape, and demands a reformation of the system. Under the banner slogan of "building a community for the shared future of mankind"², the Chinese government proposes to build a new framework of international relations and to promote and improve global governance. A vital component of this proposal is a greater role for China in global governance. Chinese government emphasizes the shortcomings of the current liberal international order, and points to an urgent need for reform, a reform that will also bring more non-Western agency into the order. President Xi Jinping takes every opportunity to underline this conceived role for China at the global, like in his address at the Central Conference on Work Relating to Foreign Affairs in June 2018 where he stated the importance of "making contributions to the building of a community with a shared future for humanity" and the need to "take an active part in leading the reform of the global governance system, and build a more complete network of global partnerships, so that new advances will be made in major country diplomacy with Chinese characteristics to create a favorable environment for, and make due contributions to, building a moderately prosperous society and a great modern socialist country in all aspects" (Xinhua, June 24).

China has benefited and continues to benefit from the existing order as long as its interests aligned with the norms and values underpinning the order, whereas in areas where they do not and where China sees a need for improvement, China wants not only reform to be undertaken, but also to lead the reform process itself. As Wang Honying and James N. Rosenau (2009) wrote after a detailed study of Chinese policymakers' and scholars' positions on this issue: i. "(W)hile China is a stakeholder in the current international system, it must nonetheless play a role in reforming global governance, by addressing the unreasonable and unjust components of the existing order" (p.24), with these unreasonable and unjust components referring to issues related to lack of non-Western agency in the liberal international order; ii. China does not aspire to create an alternative global governance (p.23), meaning that China will continue to benefit from the existing order as

2 This slogan first appeared in a report delivered by the then president of China, Hu Jintao, to the 18th National Congress of the Chinese Communist Party in November, 2012, where he said "China will continue to keep in mind both the interests of the Chinese people and the common interests of the people of all countries, get more actively involved in international affairs, play its due role of a major responsible country, and work jointly with other countries to meet global challenges" and "China upholds the principle of balancing rights with obligations. We will take an active part in global economic governance, promote and facilitate free trade and investment, and oppose protectionism in all its forms" (China Daily, 2012, November 18). Subsequently, the concept was adopted by Hu's successor, Xi Jinping.

long as it serves its interests, thus it does not want to replace it with a new one of its own making, rather reform and complement it.

Within this context, China has launched a number of new multilateral initiatives over the past decade, such as the AIIB, BRI, the Silk Road Fund, and the New Development Bank, presenting them not as alternatives to the existing system, but as complements to overcome the shortcomings and improve the efficiency of the current international order. These initiatives are unsurprisingly subject to a debate on whether they are really intended to reinforce the existing order or pose a challenge to it. This essay will inquire into one of those initiatives, the AIIB, with the aim of establishing an informed position on this debate in order to provide a better understanding of China's relationship with the liberal international order and the way it is governed.

3. Evolution of the Asian Infrastructure Investment Bank (AIIB)

AIIB is a newly established international finance institution led by China and it has been actively involved in financing development projects in the larger Asian continent. It is an MDB³ that has officially stated its mission as “improving social and economic outcomes in Asia”, which it materializes by providing support in three main areas, which are sustainable infrastructure, cross-border connectivity and private capital mobilization (AIIB, 2020).

The bank commenced operations as of January 2016, with a total subscribed capital of \$100 billion.⁴ In this essay and elsewhere the AIIB is often referred to a “China-led” bank, although it is an international institution, and with good reason, as the idea for establishing the bank originated from within China, the bank was initiated, encouraged and realized by China. The idea was first brought forward by the think tank China Center for International Economic Exchanges (CCIEE), during the Boao Forum for Asia held in China in April 2009. Pointing to the large and widening infrastructure gap in Asia, CCIEE proposed that investments in infrastructure in Asia were going to be beneficial in the sense of not only narrowing this gap, but also, from the investors' perspective, for obtaining high yields in return of their investment (Callaghan and Hubbard, 2016, p.121). A few years later in 2013, the idea resurfaced, this time at a higher level, as President Xi Jinping carried on with the suggestion and announced, during an address to the Indonesian parliament in Jakarta, that “China proposes to prepare for the construction of Asian Infrastructure Investment Bank so as to promote connectivity, construction and economic integration process in the region” (MFA, 2013, October 2). In this vein, the first public announcement of the AIIB was done by the president of China and it was highlighted that this

3 Multilateral development bank (MDB) is defined as “an international financial institution chartered by two or more countries for the purpose of encouraging economic development in poorer nations. Multilateral development banks consist of member nations from developed and developing countries. MDBs provide loans and grants to member nations to fund projects that support social and economic development, such as the building of new roads or providing clean water to communities” (Kenton, 2020, April 15). The AIIB perfectly fits the definition of an MDB.

4 For the purpose of comparison, this amount equals roughly to two-thirds of the capital base of the Asian Development Bank (ADB) (\$160 billion) and less than half of the capital base of the World Bank (\$223 billion) (The Economist, 2014, November 11).

new institution “will work with the existing multilateral development banks outside the region to make full use of their respective advantages and jointly promote the sustained and stable growth of the Asian economy” (ibid).

Following the Jakarta address by Xi, the Chinese side has begun with preparations for the establishment of the new MDB, and more details about the project were shared with the international community. In another Boao Forum for Asia summit, in 2014, the then Deputy Minister of Finance of China, Jin Liqun, provided the following insights:

The concept of AIIB derives from China’s new administration that intends to establish a new multi-lateral financial organization to enhance Asia’s infrastructure development and connectivity. It originates in China, but in my view, as a new multilateral financial organization, it will migrate to an important platform for Asian countries to build partnership, and for countries around the world, developed countries and developing ones, Asia and other regions alike. It will play an important role in fostering connectivity, financial cooperation and many other fields. I believe in the end it will also stimulate the world’s economic recovery (Boao Forum, 2014, July 31).

Following Jin’s remarks, the first chief negotiators’ meeting that was going to pave the way towards the establishment of the AIIB was held in Kunming, China in November 2014 with the participation of delegates from 22 countries.⁵ It was not surprising that this meeting was held on Chinese soil, since the idea behind this bank was developed and promoted by China. In May 2015, 21 regional countries from the Asian continent signed the Memorandum of Understanding on Establishing the AIIB in Beijing, followed by another round of a chief negotiators held in Singapore where the final text of the articles of the bank was adopted and the AIIB Charter was finalized. On June 29, 2015 the articles were signed by 57 prospective founding members, and finally, on December 25, 2015 the articles entered into force with 17 signatories⁶ holding a total of 50.1 percent of the initial subscriptions of the authorized capital stock depositing their initial capital subscriptions, making the signatory countries all founding members.

With the inaugural meeting of the AIIB Board of Governors held on January 16, 2016 in Beijing, AIIB commenced its operations. The Board of Governors elected the Board of Directors in the following days and Jin Liqun was elected as the President of AIIB. During the establishment process, AIIB included both regional and non-regional countries as charter members. Taiwan and North Korea approached China for joining the AIIB but they were denied membership and few great powers, such as the United States and Japan chose not to take part in the establishment of AIIB.

5 These countries were, in alphabetical order, Bangladesh, Brunei Darussalam, Cambodia, China, India, Indonesia, Kazakhstan, Kuwait, Lao PDR, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan and Vietnam.

6 The signatories are, in alphabetical order, Australia, Austria, Brunei, China, Georgia, Germany, Jordan, Luxembourg, Mongolia, Myanmar, the Netherlands, New Zealand, Norway, Pakistan, Singapore, South Korea and the United Kingdom. Later they were joined by 35 more countries that also became founding members.

AIIB held its first annual meeting on June 24, 2016 in Beijing, China where the headquarters of the bank is located, and during this meeting the Board of Governors approved the first four projects that AIIB would finance. As the bank's aim is to support infrastructure development in Asia, these first projects had indeed a focus on infrastructure, and three of them were decided to be co-financed with other international financial institutions, i.e. the World Bank, ADB, and the European Bank for Reconstruction and Development (EBRD). In June 2017, the second annual meeting was held in Jeju, South Korea, where the Sustainable Energy for Asia Strategy was approved by the bank in order to support energy projects promoting sustainability. Subsequently, the very first loan to China was approved in December 2017 for a project supporting the reduction of coal use in the country.

Following the third annual meeting held in Mumbai, India, in 2018, the AIIB held its fourth annual meeting on European soil, in Luxembourg, in 2019. This meeting aimed to improve dialogue among stakeholders and to that end, it hosted the Asian Infrastructure Forum, a business development event focused on creating connections, developing project pipelines and sharing insights on the bank's corporate procurement policies and procedures. Moreover the Luxembourg meeting also set the stage to promote the bank's commitment to drive a green economy through environmentally sustainable, adaptable and innovative infrastructure investments.

In 2020, the bank's annual meeting was held as a virtual online forum, due to the measures taken against the global Covid-19 pandemic. The bank has developed a Crisis Recovery Facility in order to support its members as well as existing and prospective projects against financial and public health related risks caused by the pandemic. Covering the period between April 2020 and October 2021, AIIB's Crisis Recovery Facility will provide \$5-10 billion for projects impacted by the Covid-19 pandemic, within both the public and the private sector.

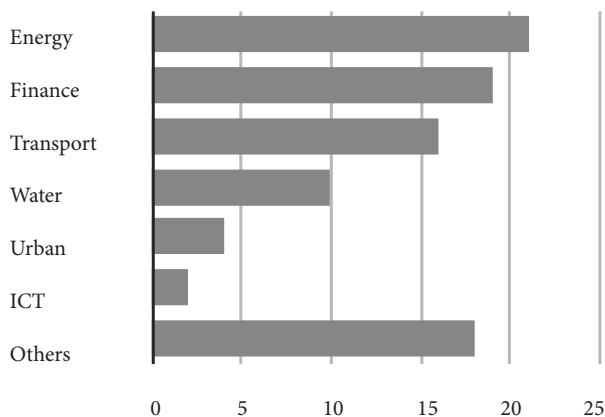
According to its Articles of Agreement, AIIB "provides or facilitates financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the Asia region" and the financing is made through a variety of channels "including, inter alia, making loans, investing in the equity capital of an enterprise, and guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development" (AIIB, 2020).

As of July 2020, there have been 90 approved projects of AIIB in 26 countries, with a total of \$19.8 billion approved financing.⁷ As seen in the figure below, the majority of these projects are in the energy sector, followed by financial infrastructure and transportation. Additionally, there are 11

⁷ Eight projects were approved in 2016, 15 in 2017, 12 in 2018, 28 in 2019, and 27 in the first seven months of 2020. The largest project for which the AIIB has provided funding so far is the Tuz Gölü Gas Storage Expansion Project in Turkey, which aims to increase the reliability and security of gas supply by expanding underground gas storage capacity, and the total financing amount provided by the AIIB is \$600 million, within a total project value of \$2.74 billion.

projects approved as a part of AIIB Project Preparation Special Fund, and 48 projects proposed to AIIB and that have not received approval yet as of the time of writing.

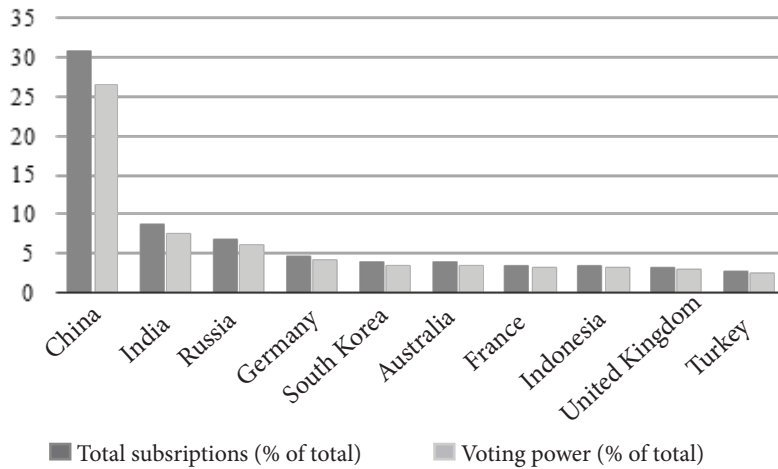
Figure 1: Sectoral distribution of projects approved by the AIIB (as of July 2020)



Source: Compiled by the authors using official AIIB data (AIIB, 2020).

Currently the AIIB has 103 members, of which 82 are full members with subscribed capital and voting rights, whereas 21 are prospective members that will reach the full membership status once they submit their subscriptions. The members are categorized in two groups and there are 45 regional (i.e. from Asia) and 37 non-regional members.

There are three levels of governance in AIIB, which are the Board of Governors, Board of Directors and the President of AIIB. The Board of Governors is the main source of power within the bank. According to the Articles of Agreement every member selects a governor and an alternate governor for the Board of Governors, which then selects the Board of Director that carries out the operational work of the bank by executing decisions on strategy, preparing annual planning, and carrying out all related actions to budget including financing of projects. The Board of Governors also elects the President, which has two roles as the principal executive of the AIIB and the chairman of the Board of Directors. The hierarchical formation of these levels suggests that the role of Board of Governors is highly important in forming other decision-making roles of the AIIB.

Figure 2: Ten largest members of the AIIB (as of July 2020)

Source: Compiled by the authors using official AIIB data (AIIB, 2020).

Figure 2 shows the ten countries that hold the most power in the AIIB. As a founding member, China has the highest amount of subscriptions with \$29.8 billion, which corresponds to 30.8 percent of total subscriptions. As voting power is proportionate with the amount of subscribed capital, China holds the greatest voting power with 26.6 percent of total votes in the bank, which yields in control over the governance of the bank, and this explains why the AIIB is commonly called a “Chinese-led” MDB. India ranks second in the list, yet it has less than one third of China’s power. Another important information arising from Figure 2 is that the ten largest shareholders of the AIIB include a balanced number of both regional and non-regional members.

Table 1: Comparison of subscriptions and voting power among AIIB members (as of July 2020)

	Number of member countries	Subscriptions		Voting power	
		Amount (US\$ million)	Share in total	Number of votes	Share in total
China	1	29,780.40	30.78%	300,055	26.60%
Regional members (other than China)	44	44,075.40	45.56%	527,491	46.76%
Non-regional members	37	22,888.10	23.66%	300,562	26.64%
Total	82	96,743.90	100%	1,126,108	100%

Source: Compiled by the authors using official AIIB data (AIIB, 2020).

Table 1 provides a more in-depth insight into the membership structure of the AIIB. China is evidently the largest shareholder and has the most power in the bank. It is interesting to notice that China’s voting power is almost the same as the voting power of all 37 non-regional members

combined. In the meantime, when brought together, the 44 regional members (excluding China) have much larger power than both China itself and the non-regional members. These are cumulative figures, and one should keep in mind, as seen in Figure 2, there are non-regional members with significant influence over the bank.

In sum, the AIIB is an MDB founded and brought to life as a Chinese initiative, one where China is the most powerful shareholder. It is a regional bank, operating globally with a significant number of non-regional member countries. The question is then, what can the AIIB tell us about China's relations with the liberal international order? Is AIIB a contribution to this order and the way it is governed, a complement rather than a substitute for existing institutions? Or is it a threat against the liberal order, a tool for China to modify the international order in its own image, an effort, as in the words of Bradley A. Thayer and Han Lianchao (2020, April 19), to “establish a new model of global governance that would be defined by firm hierarchical relationships between states, with China on top of that hierarchy”?

4. What does the AIIB Mean for the Liberal International Order?

A good starting point for tackling the question posed above in the title of this subsection is to inquire into the extent to which the AIIB is “liberal” itself. Is the AIIB managed and is its *modus operandi* compatible with the liberal values that underpin the existing international order?

By the time the AIIB was being founded, there were concerns cited in the West, and mainly by the United States, which had chosen not to join the institution, about the lack of clarity about the AIIB's governance and that “the China-led bank may fail to live up to the environmental, labor and procurement standards that are essential to the mission of development lenders” (The Economist, 2014, November 11). In those early years, academic observers of the AIIB were also drawing attention to “China's non-commitment on transparency and the absence of sufficient information on the AIIB”, which some regarded as tactics to keep the Americans outside the institution (Hamanaka, 2016, p.290). In the following time, the AIIB made improvements in this respect, strengthening relevant policies, including the launch of well-defined reporting and performance guidelines and the Policy on Public Information, which aims to promote transparency in operations through a policy on the disclosure of information, while at the same time assuring the international community that the AIIB will be rigorous in adopting the best practices of the established international financial institutions such as the World Bank. AIIB is now said to be “largely follow(ing) the governance features and decision-making procedures of these two, existing institutions”, referring to the World Bank and the ADB (Wei, 2020, p.7).

The decision making system at the AIIB also need to be subjected to greater scrutiny if one is to understand how liberal the bank when conducting operations. To start with, “consensus” is an important concept when it comes to making decisions at the AIIB. As it is the case with both the World Bank and the International Monetary Fund (IMF), consensus, i.e. decision making without a vote and without objection by any of the parties involved, is sought wherever possible

despite formal provisions of majority vote in the articles of the bank. Naturally consensus gives maximum legitimacy to the decision and makes easy for the decision to be implemented. When a consensus fails, a 75 percent affirmative vote is required for the decision to be ratified, and in this sense, AIIB's system is similar to those of the World Bank and the IMF, where the quorum is two thirds of the total voting power for the former and 85 percent for the latter. Again, similar with the World Bank and the IMF, and unlike the UN and the WTO, AIIB implements a system linking the voting right to capital subscriptions.

As discussed in the preceding section, China has the largest share in the bank, and has a voting power of 26.6 percent, which gives it *de facto* veto power due to the 75 percent quorum required, just like the United States having an effective veto power with its 16.52 percent share in total voting power in a system where 85 percent approval is required.⁸ China's position at the AIIB in this respect is similar to the United States' position at the IMF, however there are also some differences between the two institutions. As Gu Bin (2017) explains in detail: i. AIIB uses the GDP of a country as the only benchmark to decide that country's capital to be subscribed in the bank, unlike the IMF which uses other criteria as well such as openness, economic variability and international reserves, and therefore AIIB's system is pro-development and more advantageous for developing countries; ii. AIIB allocates roughly three-fourths of its capital shares to regional countries and one-fourth to non-regional members, thus retaining the Asian character of the institution; iii. China has so far shown no intention to seek veto power (pp.149-151). In other words, the leading member of the AIIB has veto power, but other international financial institutions have the same thing, while at the same time the system at the AIIB is providing greater advantage for developing economies, which is not often the case with other international financial institutions.

The question of how the China-led AIIB relates to the liberal international order also requires a discussion on the relationship between the AIIB and the institutions of that order, i.e. the Western-led MDBs. China has "supported the development of the multilateral character of the AIIB by supporting the Bank to work within the 'family' of MDBs, including the World Bank, ADB, ERBD, and other MDBs, to co-finance projects, and conducting by human resources exchanges (Zhu, 2019, p.653).⁹ This support has been bearing fruit, as more than half of the approved infrastructure projects supported by the AIIB (i.e. 53 out of 90 as of July 2020) have been co-financed with other MDBs.¹⁰ Working together with other MDBs generates greater legitimacy for the AIIB, which is a relatively new institution, increases the socialization of the bank into

8 Unlike the UN, MDBs do not have a defined veto power, but if a member holds a significant voting power, then that member could have the power to veto a decision in a *de facto* way. Basically if minimum majority required for the vote is "x" percent, then a voting power of at least "100-x" percent gives the member in question the right to veto any decision.

9 In 2016, the AIIB signed a memorandum of understanding regarding jointly financing sustainable development projects with the ADB and a co-financing framework agreement with the World Bank.

10 For instance, the project that has received the largest amount of AIIB funding so far, the Tuz Gölü Gas Storage Expansion Project in Turkey (see footnote 9), was co-financed by the AIIB, World Bank, Islamic Development Bank, as well as the Turkish government itself and commercial loans.

the existing system and the international order, and it is beneficial for all the parties involved as it helps to “prevent wastefulness and ‘race to the bottom’ scenarios in relation to the social and environmental impacts of infrastructure projects they finance” (Ong, 2017, p.559). In other words, rather than excluding itself from and posing a threat against the liberal international order, the AIIB is working within the boundaries of the order, cooperating, coordinating and collaborating with its institutions, creating greater value together than what can be achieved by the AIIB or any other MDB on its own. Moreover, governance arrangements of the AIIB are almost identical with those of other MDBs, which certainly facilitates cooperation, helps integrating the AIIB into the system and refuting claims that with the AIIB, China wants to create a new system of its own.

The AIIB is often portrayed as an instrument for China to further its strategic goals at the geopolitical level, which, of course, would not mean a positive development for the liberal international order. It is not unprecedented that leading powers in international organizations are using their position to further their own foreign policy goals, and while the Trump Administration’s record with international organizations provides a good illustration for this point, China’s position in the AIIB in this respect does not appear too different than the United States’ role in the World Bank, European role in the IMF and Japan’s role in the ADB. While it is true that the AIIB was established as a part of China’s ambitious international agenda, it is also important to note that recently, especially since 2017, the Chinese government has been rather restrained in its dealings with the AIIB, providing greater policy and operational autonomy for the bank, and maintaining distance between the bank and China’s other initiatives such as the BRI (Chin, 2019; Andornino, 2019).

Another question that begs an answer is, if the AIIB is a threat posed by China against the Western-led international order, why have so many Western countries, including allies of the United States, have been so keen to join the bank, and why are some of them, as shown in Figure 2, among the largest shareholders of the AIIB? One answer to this question relates to the nature of MDBs, where borrowing member countries benefit by obtaining access to funding on better terms than they could from commercial lenders, while at the same time donor countries primarily have political benefits as they can use the MDBs as a vehicle to promote their interest and influence in the area (Delikanlı et al, 2018, p.22). Since the Western countries are mainly donors rather than borrowers, the AIIB provides them a valuable opportunity to increase their influence in Asia and also to build a mutually beneficial relationship with the world’s second largest economy, China. Moreover, AIIB has been attractive for Western countries, because, as discussed by Jan Knoerich and Francisco Urdinez (2019), China has granted them agency in the process of creating the organization and deciding about its memberships. In other words, Western countries joined the AIIB because they would have a significant say in it. This pluralism at the roots of the AIIB is certainly evidence for the bank’s purpose of integrating with the existing order, rather than challenging it and building a new one.

The AIIB as a newly established MDB supports the current international order and its governance in multiple ways. First of all, it was created as a response to a global need. According to the ADB,

the cost of building the infrastructure that developing Asia will need in order to maintain the economic growth that lets people out of poverty is estimated at \$8 trillion (ADB, 2013, September 30). While the AIIB cannot close this gap on its own, its contribution is undeniably vital. Moreover, the AIIB brings a strong impetus for reform of the existing MDBs that have long been deemed insufficient by offering a credible alternative, and the novel governance features adopted by the AIIB, such as the emphasis on efficiency, less formality and legality, streamlined decision making with equal participation by borrowing countries, a non-resident board, and detailed oversight arrangements can be of great value in this respect (Wang, 2017; Lichtenstein, 2019). In other words, instead of challenging the liberal international order, AIIB actually has the potential to contribute to its reform process.

5. Conclusion

As the world enters the third decade of the 21st century, the Western-led liberal international order, established in the middle of the previous century, is facing troubled times, a crisis of unsustainability. While liberal values themselves are eroding in the Western world, and the United States is forfeiting its position of a liberal hegemony, the liberal order has also failed to respond to ongoing shift of global economic power toward non-Western powers, most of which are governed by illiberal, authoritarian regimes. A more pluralistic world is certainly emerging, but with heavy growing pains and an unprecedented level of uncertainty.

China's rise to the status of an economic superpower is a key component of this process and informs the debates around the future of the liberal international order. China has risen within and by making efficient use of the liberal international order, however, is its illiberal mode of governance becoming now a threat against the same order? China does not propose a direct and opposite alternative for the existing liberal international order, and it will continue to benefit from it, albeit eclectically, in the sense that China embraces the liberal economic order, it still maintains distance with other elements of the liberal system, which are the security order and the human rights order.

It is not about China attempting to replace the liberal order with a new and illiberal one. Instead, China rejects political and economic uniformity in the shape of the liberal international order, which is considered as imposed by the West as an universal, one-size-fits-all model, and its aims with regards to the development of the existing international order is twofold: i. Reform the existing system, make it more suitable for meeting the needs of an increasingly interdependent global economy, and, as China, have a greater say in the affairs of global governance proportional to the country's actual weight in the global economy; ii. Create competing institutions that would complement, not substitute the existing system.

As a newly established MDB, the AIIB is such an institution. It can surely be seen as part of a Chinese effort to improve its relative power in the world order by creating a competitive institution against the Western-dominated MDBs, and expanding Chinese influence within

existing institutions by showing that it offers a solid alternative. However, that does not necessarily mean that AIIB is a challenge against the existing liberal order. In fact AIIB has so far adopted norms, rules, and procedures that are in line with global standards. AIIB collaborates with other MDBs, its institutional and operational format is similar to established banks, it has an inclusive membership base, its lending practices are in line with global norms, and it has even developed a social and environmental framework.

China is neither a threat against nor a completely integral part of the liberal international order. It is partly adapting to this order, its institutions, networks and the rules of the game, demanding reformation of parts of the order that are deemed outdated or insufficient, playing a role in the reformation process, while at the same time adhering strictly to its own distinctive aspects of its state–society model and governance, which can in many cases be defined as being illiberal and authoritarian. The AIIB can be seen through this lens. It is China’s institutional answer to the existing order, and in many ways it is similar to the established institutions of that order, but it also brings novelties, which can help to reform and improve the competencies of the system rather than overturning it.

The future of AIIB will depend on China’s political and economic interests and develop with the support of Chinese government; and at the same time “as AIIB’s membership spans the globe, a broad range of regional and global frictions and friendships will doubtless influence its path forward” (Lichtenstein, 2018, p.203). There already are global frictions, mainly in the form of reactions against China’s perceivably illiberal handling of issues of global importance, with a recent example being the American-led call for international inquiry into the origins of the Covid-19 pandemic and China’s responsibilities in its outbreak, and there surely will be more in the future, which can negatively affect the AIIB. Nevertheless the more AIIB contributes to the improvement of the global economy in real terms, the greater will be the legitimacy of China as a rising power and the more will be its share in reshaping the international order, where China will be a major rule-maker, rather than a rule-taker.

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