

The Institutional Power In The Asian Infrastructure Investment Bank And The Way It Works: Is China Questing For Absolute or Relative Gains?

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ABSTRACT: Since the foundation of the Asian Infrastructure Investment Bank (AIIB) there have been a lot of debates amongst politicians and academics on the Bank's objectives. Although these debates inform a lot about the AIIB, they lack a theoretical support and therefore sequential explanation. This is to say those criticizing the AIIB as a China's tool to carry out relative gains anchored on China's great institutional power assumption cannot demonstrate evidence that it is really funneling its objectives through the AIIB. In turn, those praising China's initiative of creating the AIIB as an indication of its willingness to participate in the international system under the current rules as a way to ensure absolute gains, also present shortcomings to explain why China controls the organization more than would be expected if it really wanted to be constrained. Then, both the accusations against the AIIB and praises to it do not stand up to close scrutiny. This article finds out that there is an alternative offshoot of realism, here called realism institutional that narrow this gap by handling a very important concept - institutional power -, which is neglected by the mainstream theories, neorealism and neoliberal institutionalism. From this theoretical account, China possesses the institutional power in the AIIB contrary to the neoliberal institutionalism prospect, albeit is not using it in the way would be expected by neorealism assumptions. This finding throws some theoretical light on the apparent contradiction on why China is seeking for bigger institutional power and at the same time is embracing self-constraint in the AIIB. In fact, the AIIB makes part of China's charm policy of backing the absolute gains while seeks for relative gains.

KEYWORDS: *The AIIB, institutional power, realism institutional, absolute and relative gains.*

I. INTRODUCTION

The AIIB is becoming one of the most notable international institutions in Asia and beyond. Currently, it has 103 member states worldwide. It was created in January 2016 by China's initiative to bridge the infrastructure investment gap in Asia. It has since grown toward many other parts of the world as the loans to Rwanda and Egypt demonstrate. Despite its big attractiveness that led even NATO's member states such Great Britain, German, France, Italy and others to joint it, the United States (US) and Japan distrust openly the AIIB and attempted unsuccessfully to dissuade its closest allies from joining it (Chow, 2016:1258). The US accuses the AIIB of being a China's tool to extend its power, this is to say that the holder of institutional power of the AIIB is China and that the Middle Kingdom will use it as its tool to expand its power at expense of other members, and that this institution will disrupt the existing international financial order ruled by International Monetary Fund (IMF) and World Bank (WB). Nonetheless, it seems that other states, even American allies do not agree with the US on this regard, and therefore they have chosen to adhere to it. These criticisms place the AIIB under intense debate and as a much polarized institution.

However, most of the related researches do not address the major concern regarding the AIIB directly. They focus on the margins. Whether the AIIB represents China's strategy to balance American multilateral power, or the rational that have pushed the other states into the bank, there are those debating to what extent the AIIB represents a challenge to exiting liberal multilateral order and still there are those worried about the environmental impact that the AIIB could have (Stephen and Skidmore, 2018:62; Weiss, 2017; Etzoni, 2016; Chow, 2016). These topics constitute the massive part of AIIB related research. Instead, this article approaches the main concern surrounding all the related researches from an angle that had not been done yet – who is the holder of the AIIB institutional power and how it work? By raising this question and handle it theoretically, with eyes on empirical facts, much of what involves the AIIB grows clearer since it will disclose the holder of AIIB institutional power and the way it works. The institutional power is a key element in understanding any international institution as a concept of power is still central to understand world politics. By doing so, it grows

clear the real objectives of the AIIB and it offers worth insights to research about the likely implications of the AIIB to the existing international liberal financial order.

The international institution power is a matter for a long-standing and high controversy between the major theories of international relations, neoliberal institutionalism and neorealism. I distinguish neorealism from other streams of realism because a little later it will be indicated that neither all offshoots of realism have the same thought regarding international institutions. Among the different branches of realism, neorealism is that one which explicitly argues international institutions matter rather little (Waltz, 1979; Mearsheimer, 1994, Shweller and Priess, 1997). This has been the most popular realism approach over time. This branch argues that states invariably care more about relative gains (Mearsheimer, 1994). By placing things this way, neorealism has to some extent ignored the necessary study of institutional power. Neoliberal institutionalism, in turn, posits that states sometimes mind further on absolute gains therefore they create international institutions (Keohane and Martin, 1995). Neoliberal institutionalism considers that when states seek for absolute gains they are not worried about the dynamics of power politics. In fact, the international institutions can be considered a victory against power politics. This approach also limits the understanding of power in institutional settings. Yet, there is an alternative way to approach international institutions and institutional power particularly. This alternative way is proposed by Shweller and Priess (1997) and Cho (2017) that retrieve insights both from realist tradition and neoliberal institutionalism. Both theories from Cho and Schweller and Priess argue that states create and maintain international institutions because they are relevant as institutional groups. International institutions can be devices for states to maximize power and thus institutional formation and change are functions of strategic interaction between states in competition to maximize relative gains (Cho, 2017). Both Cho and Schweller and Priess claim that if international institutions creation is a function of power politics, this is to say, it does not surpass power politics, rather than international institutions can be captured by and create the very powerful political pathologies that they were designed to mitigate in first stance.

This article's major contribution to the existing scholarship is to narrow the theoretical approach on AIIB institutional power. It examines the AIIB since its first mention in 2013 to today (2022). It then checks which theory properly explains the tendency of institutional power and the way it works within the AIIB so far. By doing so, it will contribute to clarify the key question related to the AIIB – its institutional power and the way it works. From this point grows clear also the objective of the AIIB between absolute and relative gains.

The purpose of this article is to identify the AIIB's institutional power and how it works from a theoretical perspective. By doing so, this article finds out that the holder of AIIB institutional power is China as expected by neorealism, yet realism institutional appears to be in a better stance to explain how institutional power works in the AIIB. Neoliberal institutionalism is not altogether useless, rather it offers a wider context in which is possible to locate the institutional constraints, though it falls short to explain how power works in the AIIB due to the peculiarities from the AIIB that is to some extent different from others Multilateral Development Banks (MDBs) or International Financial Institutions (IFIs).

With regard to the methodology, this research is above all a theoretical exercise. Because I regard myself much more influenced by the American tradition studies of IRs which is overwhelmingly positivist (Jordan R, Maliniak D, Oakes A et al. 2009), this article follows a positivist and rationalist approach. Therefore, the article's focuses are actor-oriented theories. Actor-Oriented theories encompass neorealism, neoliberalism and realism institutional because they are engaged in analysis in the sense of specifying cause-and-effect, instead of constructivism or sociological approach (Krasner, 1999). Moreover, other labels such as constructivism and English school, for instance, define the study of international institutions so broadly as to make all international relations institutional (Stein, 2008:208). Furthermore, sociological theories are engaged in understanding in the sense of imputing underlying institutional structures, which cannot be directly observed, from manifest behaviour and the justifications that are offered for it (Krasner, 1999).

The article proceeds as follows. The introduction presents the general backdrop, the motivations, the major arguments and the contributions of the article. The second section discusses two key concepts of this article – international institution and institutional power. The third section presents the shortcomings of neoliberal institutionalism and neorealism and how realism institutional appears in better stance to address international institutions dynamics. The fourth section shows the AIIB institutional power and dynamics. The fifth section explores the avenues for future researches with respect to the AIIB and international institutions overall. The last and sixth section presents the final considerations by retrieving the major findings of the article.

II. DEFINING INTERNATIONAL INSTITUTIONS AND INSTITUTIONAL POWER

The meaning of international institutions and institutional power is central on this article, therefore is important to make clear the way both are understood throughout the text.

International Institutions

Douglas North (1990:03) defines institutions as “the rules of the game in a society, or more formally, [the] humanly devised constraints that shape human interaction”. This definition of institution offers the

foundation of whatever concept of international institution. Therefore there is no notable difference between definitions of international institutions among the traditional theories of IRs even considering that it lacks a widely accepted definition (Duffield, 2007:01). Mearsheimer (1994:08) defines international institutions as a set of rules that stipulate the ways in which states should cooperate and compete with each other. They prescribe acceptable forms of state behaviour and proscribe unacceptable kinds of behaviour. In turn, Keohane (1989:03) defines international institutions as persistent and connected sets of rules (formal and informal) that prescribe behavioural roles, constrain activity, and shape expectations.

International institution is a loose concept that over time has been used to refer to a broad range of phenomena (Simmons and Martins, 2001:192). It usually is used to refer to other concepts like international organizations and international regimes (Duffield, 2007:01; Simmons and Martin, 2001:194). It depends on the fashion of the moment debate. This is to say when one applies different terminologies to refer to international institutions it is just reflecting some historical phase of the debate in IRs.

Institutional Power

With regard to the concept of institutional power, the apparent negligence of neorealism with respect to institutionalism agenda has led to the lack of definition of institutional power. A short review around the most popular works in this field one realizes there is no single mention of institutional power as a concept. From Edward Carr (1939 quoted by Wilson, 2009), through Hans Morgenthau (1948), Kenneth Waltz (1979), Gilpin (1981) to further contemporary texts like by John Mearsheimer (1994, 2001) and Taliaferro et al (2016), only to quote some of them, they reproduce the classical concept of power as A's control or influence over B. These books encompass much of realism theoretical body.

The neoliberal scholars though focus on the institutionalism agenda, they do not address the meaning of institutional power. They focus on the power constraints and not upon the struggle of power in opposition to realism approach (Cho, 2017:05). Neoliberalism, in its long-standing tradition on international institutions' agenda, does not define institutional power. Keohane and Martin (1995:40) assert that states themselves seek to reduce the struggle for power by their own will. Therefore they might have regarded that a concept of institutional power was needless since the international institutions mean the victory over power politics competition.

Barnett and Duvall (2005) might have defined institutional power consistently for the first time through their typology of power. They have built a typology of power split in: (i) compulsory power, the most known form of power which represents the direct power like A having control over B; (ii) institutional power represents power exercised into the institutional environments, this form of power is unlike of the former one because is diffuse, that is to say A does not have direct control over B, rather than between them there are norms and rules mediating their relations; (iii) structural power basically means that power is exercised by social capacities and interest determined by the position within the structure; (iv) productive power is essentially the production of subjects through diffuse social relations, it means due to position that A occupies in the structure their power through discourse over the time influence the behaviour of the B and in the most of the time reinforce their positions of domination and subordination respectively on the structure. To this extent,

In turn, Cho (2017:11) defines institutional power "as the ability to set the rules, agendas, norms and customs of international institutions to get other states to do what they would otherwise not do." Although Cho (2017) praises the endeavor done by Barnett and Duvall (2005), as the most consistently before his definition, he criticizes them in some points wherein I consider relevant shedding light on. After a literature review about institutional power in world politics, he claims to have done a step forward in the concept of institutional power presented by Barnett and Duval (2005). Those authors present logical contradictions between their forms of power which makes their taxonomy less valuable. One of them has to do with the possession of an institution. Those authors argue that once states possess an institution it is no longer institutional power, rather that it is compulsory power (Cho, 2017:12).

Cho (2017) purports to have moved beyond Barnett and Duvall contradiction by adopting institutional power as both resource-based and relational. This definition enables us to understand that the more state A controls the organization, the more state B experiences A's institutional power and vice-versa. States are conceived of having varying degrees of institutional power to the extent that they "possess" the international institution to varying degrees. He goes further and argues that institutional power has four dimensions: (i) nature, (ii) scope and domain, (iii) outcomes, and (iv) sources. The nature of institutional power is non-coercive like the soft power concept by Joseph Nye (2004). Defined as 'the ability to get what you want through attraction rather than coercion or payment'. In terms of scope, institutional power is only about international institutions. Relatively to outcomes, those who possess institutional power seek material and non-material benefits. The institutional power source is both coercive and non-coercive (Cho, 2017:15-18).

This concept presented by Cho is of much help for the purpose of this research. It leaves little doubts about the holder of institutional power in the AIIB. Neither neorealism nor neoliberalism has defined consistently institutional power. Through this definition, it grows clear that since China controls the

organization it is the holder of power into the AIIB.

III. THEORETICAL PERSPECTIVE ON INTERNATIONAL INSTITUTIONS AND INSTITUTIONAL POWER

With respect to institutional power and international institutions account broadly, neoliberal institutionalism, neorealism and realism institutional present different approaches. This section shows the limitations of neoliberal institutionalism and neorealism, and then presents how realism institutional appears in better stance.

Limitations of Neoliberal Institutionalism and Neorealism

International institutions' role, importance, and effects have been a long-standing tradition in international relations theory since the early years of this science. However, it is still hard to find a single theory in international relations that can account for the stunning complexity of international institutions though the massive contributions from the traditional theories. Even when one of the existing theories addressing this topic purport of having moved beyond one another, they still privilege only one dimension of institutional dynamics – either as an instrument to constrain power concerned with absolute gains (neoliberal institutionalism) or as an instrument used by the major power to rule other states concerned with relative gains (realism). Since the AIIB entails this two dimensions, this is to say for one side it represents China's tool carry its goals, and for another, it is arguably constraining China, both neorealism and neoliberal institutionalism are short for the purpose of this article. This research assumes that international institutions may be both objects of strategic choice and constraint on state behaviour (Martin and Simmons, 1988:729) as stated by realism institutional (Cho, 2017).

With regard to neoliberal institutionalism account, although Keohane (1984) and Keohane and Martin (1994; 2012) and their followers claimed to have incorporated important elements of neorealism on their approach and moved beyond it, actually their work was about how to create and maintain international regimes and how these devices work out above the dynamics of international power politics to promote cooperation. In fact, later, Keohane and Martin (2012:65-66) acknowledge this tendency in the following terms: “[...] Institutional theory recognizes distributional conflicts but, unlike neorealism, is not obsessed with them. It has been fairly criticized for not integrating distributional politics into its analysis: for taking such conflict for granted rather than developing theories about it. [...]”. In this regard, neoliberal institutionalism theory cannot provide us with a full portrait of the dynamics of international institutions and institutional power that cover state's concern with relative gains. On another side, neorealist scholars have placed international institutions only to be established by dominant power in hegemonic periods (Krasner, 1991:337 and Strange, 1983 quoted Simmons and Martin, 2001:195). The traditional view of realism posits institutions largely mirror the distribution of power in the system. To this regard, Mearsheimer (1995:13) posits that NATO provides a good example of realism thinking about institutions: “[...] “NATO was basically a manifestation of the bipolar distribution of power in Europe during the Cold War, and it was that balance of power, not NATO per se, that provided the key to maintaining stability on the continent. NATO was essentially an American tool for managing power in the face of the Soviet threat [...]. From here, one should keep in mind that grows clear International Organizations (IOs) do not have independent power, their influence over states' behaviour is marginal, and the source of institutional power is the major institutional power, (Mearsheimer, 1995; Ripsman, 2016:97; Krasner, 1991:337, Abbott and Snidal, 1998:04). States are jealous of their power and deeply concerned with the consequences of their interactions to abdicate part of its power to other entities. In fact, few international institutions restrain state power (Abbott and Snidal, 1998:08- 22).

Neorealist scholars advocate cooperation in a world politics that is intrinsically competitive so naturally, states will use this pretext to take advantage of others and it does not alter the self-interested anarchic system of states (Yu, 2002 quoted by Chan et al, 2008:07). IOs are often subject to enormous influence and even manipulation by powerful states. Mearsheimer (1995:47) does not reject that international institutions exist; rather he argues that the most impressive fact about international institutions is how little independent effect they seem to have had on states' behaviour. International institutions do not alter states concern for relative gains.

Both neorealism and neoliberal institutionalism account with regard to international institutions were constructed with juxtaposition with one another. For the purpose of the current research, what I propose is a theoretical nuanced position in between the two extremes of neorealism and neoliberal institutional. This alternative view is realism institutional that get insights from neoliberal institutionalism and realism appearing in better stance to achieve this article goals. Realism institutional shows how the international institutions represent states' concerns to balance between relative and absolute gains as none of the previous ones does.

Realism institutional

As pointed out earlier, there is a competing alternative realism that challenges Mearsheimer's (1995) view of international institutions. This alternative realist view of international institutions is systematised by

Schweller and Priess (1997) and Cho (2017). I call this approach realism institutional due to its attention to institutionalism agenda. It gets insights on classical realism, neorealism and structural modified realism. Therefore it does not fit within the classical division of different streams of realism (classical realism, neorealism and neoclassical realism or offensive realism and defensive realism). This is just an early attempt to conciliate all realism streams with regard to institutionalism agenda. Therefore I call it realism institutional.

These authors have followed the same line of Krasner (1991) and Abbott and Snidal(1998) in pointing out the relevance of realism to enrich institutionalism agenda and explain better off the reality that revolves around international institutions creation, importance and effects. Schweller and Priess (1997) posit that Mearsheimer's approach to international institutions has prompted neoliberal institutionalists as Keohane and Martin (1995) to (mis)characterise realism as a theory that entirely neglects institutions.

Schweller and Priess purport to have reviewed more accurately realism's approach to international institutions. They argue that Mearsheimer (1995) misleads the international institutions due to the Waltz's (1979) approach. To this extent, realism institutional posits international institutions enable Great Powers to rule others and to manage regional and world affairs more effectively and efficiently than would be possible in their absence (Scheweller and Priess, 1997:04; Krasner, 1991:362). Different from Mearsheimer's (1995) version or neorealism version of international institutions, Scheweller and Priess (1997:05) argue that Great Powers either conform to the institutional rules and norms or risk suffering the consequences for noncompliance. Great powers have fought precisely the most destructive war in history to the right to create and control international institutions. States or groups of states have an incentive to capture international institutions because they can generate power for those that control them (Scheweller and Priess, 1997: 08-13).

Scheweller and Priess (1997:16) differentiate the features on the source of institutional power according to the number of poles on the international system. Institutions under unipolarity can be imposed and negotiated, and exhibit a high level of independent effect on state behaviour. They are more effective in the beginning of the hegemon's reign and can resist hegemonic decay. The international institutions when imposed arrangements are often undeveloped because they do not involve cooperation, but rather submission and adaptation to stronger powers. This is to say when they are based on coercion and brute force is generally perceived as illegitimate by the subordinate states which make them costly and inefficient. Therefore, even in hegemonic periods, dominant states can negotiate institutional arrangements to make it more profitable and acceptable for other states. Yet the dominant state does not give up mixing both carrots and sticks strategy to get from others what it wants to.

In a unipolarity system the institutions can have one source of power; it is the hegemon power regardless of the method the hegemon power uses to rule the institutional arrangements, through imposed rules (naked power) or through its negotiation (power of socialisation). In the bipolar system the institutional arrangements are also negotiated as in NATO and imposed as in the Warsaw Pact (Scheweller and Priess, 1997:19). In turn, in a multipolar system, international institutions are more likely to be spontaneous and negotiated because states under this order have a myriad of options to adhere to international institutions. Although Scheweller and Priess (1997) insists that their approach is different from that presented by Mearsheimer (1995), it seems that both as all other realist scholars argue international institutions represent the extension of states' arms to manage their power. What might be different among them is how they perceive how international institutions matter, the number of institutional poles and what kind of method states use to set the institutional arrangements. The way that the institutional arrangements are set will inform much of institutional power. When the institutional arrangements are negotiated it is expected that the institutional power might be further independent from states whereas when the institutional arrangements are imposed then the source of institutional power ends to be the dominant power. But in this case the international institution seems to be less effective. Yet, even in negotiated institutional arrangements it is not to say that the dominant power or other group of states is not using the international institutions to forward its own interest. They are just doing it in a way that induces weaker states to participate and to appease other peer powerful states' suspicion (Abbott and Snidal (1998:08).

1. Table Difference of the perspective on the institutional power between neorealism, realism institutional and neoliberal institutionalism

International Institutions	NeoRealism	Realism Institutional	Neoliberal Institutionalism
Actor	NO	YES	YES
Initiative of creation	Dominant power	Dominant power or dominant powers	Complementary interest
Motive	Expedience for dominant power	Expedience for the dominant power	Foster cooperation
Maintenance	Only to be maintained by dominant power interest and capacity to hold it	Only to be maintained by dominant power interest and capacity to hold it	Its maintenance can resist hegemonic power decay
Duration	While last the reason of its creation	It will endure longer than the factors that led to its creation	It will endure longer than the factors that led to its creation
Importance	Epiphenomenal	It really matters Because enable great power to rule others states	It really matters because helps to foster cooperation
Institutional arrangements	Imposed	Imposed/Negotiated as collusion among great powers	Negotiated Process
Agenda	Low politics Issues	High and Low politics Issues	High and Low Politics Issues
Interest	Relative gains	Relative gains	Absolute Gains
Operations	Autocratic	Autocratic or democratic	Democratic
Variable	Dependent	Dependent	Dependent/Independent
Effects	Epiphenomenal	Can have a high degree of independence	Independent - it shape states' behaviours in favour of cooperation by creating incentives
Number of poles	Reflects the distribution of power in the system	Reflects the distribution of power in the system	None
Holder of power	Dominant power	Dominant power	Independent

Source: adapted by the author

IV. OVERVIEW OF THE AIIB

The Asian Infrastructure Investment Bank is a multilateral development bank (MDB) whose mission is financing the Infrastructure in Asia and beyond. The very first public mention of the AIIB was done in October 2013 during Xi Jinping maiden trip to Southeast Asia, at the Asia-Pacific Economic Cooperation Summit in Bali, Indonesia (Weiss, 2017). On the occasion he stated the *raison d'être* of the AIIB is to "help fund the infrastructural development of the Association of Southeast Asian Nations (ASEAN) and other developing countries in the region" (Hai Yang, 2016:769). Later in 2014 during the Asia-Pacific Economic Cooperation summit President Xi Jinping proposed its establishment (Mark Beeson and ShaominShu, 2018:352). Following that Premier Li Keqiang delivered a keynote speech at the opening ceremony of the Boao Forum for Asia in April 2014, where he indicated China's willingness to consult with relevant parties across Asia and beyond regarding the formal establishment of the AIIB. Two months later, the Chinese government announced it would double the registered capital of the AIIB from \$50 billion to \$100 billion (AIIB, 2019).

The AIIB was formed as a multilateral institution and states were invited to participate by providing funds for the new bank and participating in its management (AmitaiEtzioni, 2016:174). China invited India to be a founding member of the AIIB and even Western countries and its neighbor Japan. Although the US campaign against the Bank, the United Kingdom, Germany, Italy and France joined it, apart from Japan that remains with the US out of the Bank (Etzioni, 2016:174). Membership in the AIIB is open to all members of the World Bank or the ADB and is divided into regional and non-regional members. Regional members are those located within areas classified as Asia and Oceania by the United Nations. Thus, negotiations and consultations culminated in 21 countries signing a Memorandum of Understanding (MOU) for the establishment of the AIIB in Beijing on 24th October 2014 (Ren, 2016; Li, 2014; Xinhua, 2014 quoted by Beeson and Shu, 2018:353). By late October 2014, twenty-one Asian states had signed a memorandum of understanding to establish the bank (Reisen 2015¹;

¹Reisen, Helmut. 2015. "How the New AIIB Dwarfs the Asian Development Bank." The Globalist, April 8, www.theglobalist.com;

Runde et al. 2015², quoted by Etzioni, 2016:174). Within five years the member countries of the AIIB grew to 103 approved members worldwide (45 regional, 38 non-regional and 20 prospective)³. In 2016, the AIIB began its operations (AIIB, 2019 and Weiss, 2017).

The AIIB is based in Beijing and its mission is financing infrastructure in Asia and beyond. It is the single international institution with solely focus on infrastructure and related projects. Its major focuses on infrastructure projects are energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics.

The AIIB has a governance structure like the other MDBs with two key differences: it does not have a resident board of executive directors and the AIIB's articles give a larger degree of decision-making authority to regional countries and the largest shareholder country, China (article of agreement and Gallagher and Hubbard, 2016⁴ quoted by Weiss, 2017). Members are formally organized into two groups: regional and non-regional members (Article of agreement, 2015). Rules deliberately vest the regional members with control of key bank decisions. A minimum of 75% of the capital stock must be held by regional members. This means that governance decisions required a 75% super-majority vote, this reservation rule creates a system of asymmetric veto powers. By this way, regional members can carry a governance decision whereas non-regional members are unable to collectively exercise votes (Wilson, 2017:175). In this arrangement, China appears to be well ahead of other members. China owns 30.89 per cent of the shares, and holds 26.65 per cent of the voting power. The second-largest shareholder of the bank is India, with 8.67 per cent Hubbard, "The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road," *Economic Journal*, vol. 9, no. 2 (2016). of the shares and 7.65 per cent of the voting power, followed by Russia, Germany, South Korea and France (Ergun, 2019).

The creation of the AIIB falls within China's growing role in IOs in the last decades, mainly after the Global financial crisis in 2008 (Olson and Prestowitz, 2011). Since then China's is demanding for new status in multilateral setting (Yang, 2016). During this stage, China's growing influence in IOs involves two major trends. First, China is in many instances displacing the U.S. as a major trade partner of many countries both in East Asia as well as worldwide. Moreover, China is increasing its contributions to aid and development assistance. Secondly, the U.S. came out weaker from the Global financial crisis in 2008 and did not provide the necessary support for many countries as it was expecting, instead of it the U.S focus on its own recovery. These two systemic trends lead China to perceive an opportunity and demand for more proactive role in IOs. Needless to say though the unprecedented role that China is pursuing in almost all IOs worldwide, China's role in IOs varies to some extent from issue-areas being more active in international financial and trade institutions (Bratersky&Kutyrev, 2019; Xie, 2011)

V. THE HOLDER OF AIIB INSTITUTIONAL POWER

Both neorealism (Mearsheimer, 1995) and institutional realism (Schweller and Priess, 1997, and Abbott and Snidal, 1998) are arguably correct that the holder of institutional power is the major institutional power if we consider the case of the AIIB. The AIIB is to all intents and purposes China's leading international institution. In fact, China has proposed the creation of the AIIB and is its largest shareholder with 30.89 per cent of the shares, as it holds 26.65 per cent of the voting power.

China also holds the Presidency, and currently enjoys a veto power over governance matters; the super majority required to elect the AIIB President ensures China nearly unlimited control over the President, which is significant considering the AIIB's lack of a resident Board of Governors (BD). It favors states control over the institution (Ransdell, 2018:139). The governors elect the AIIB President for a five-year term by super majority vote which China holds 26.65 per cent of the voting power and can dismiss it. This is different from other international institutions where the governors rarely provide for dismissal, so as to safeguard the secretariat's independence (Ransdell, 2018:142).

Moreover, China has significant capacity to shape who receives AIIB loans and on what terms (Wilson, 2017:158). Therefore it is not surprising that it is exerting political influence in the AIIB over any other member (Weiss, 2017). Putting it in a naked way is to say that China possesses the power and influence to rule the institution according to its interests. There are those positing that the AIIB will ultimately be under the control of the Chinese Communist Party (CCP) since the very idea of creating the AIIB came from the Party and the true power source of the government member is their party position (Chow, 2016:1286-7).

China is acting as the material, ideational and institutional centre of the AIIB, as it does to Belt and

²Runde, Daniel F., Matthew P. Goodman, Conor M. Savoy, and Amy Jean Studdart. 2015. "The Asian Infrastructure Investment Bank." Center for Strategic and International Studies, March 20, <http://csis.org>.

³ <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>

⁴Mike Gallagher and Paul Hubbard, "The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road," *Economic Journal*, vol. 9, no. 2 (2016).

Road Initiative (BRI) project (Yilmaz and Changming, 2019). China proposed the creation of the AIIB thinking from the very first to exercise the dominant role (Chow, 2016:1259). Unlike the initiative of the creation of other international institutions that involved many consultations, the AIIB was China's initiative regardless of the willingness of other states. China set the deadline for expressing interest in becoming a founding member of the AIIB for the end of March 2015 (Weiss, 2017).

China's interest in creating the AIIB was more than an initiative to fill the financing projects infrastructure gap in the Asia region. The AIIB represents partly China's claim for recognition, legitimation, and more prominent international status, and above all it was China dissatisfaction with the status quo in multilateral setting (Bello 2015⁵, Jakupec and Kelly, 2015:33; Chow, 2016:1258).

China has always expressed discontent with its vote shares in the WB and IMF. In response the US has permitted very limited reforms of voting shares. The US exercised veto power to prevent attempts to amend the bank's charter (Etzoni, 2016:178, Stephen and Skidmore: 2019:69). In 1944, the US had a 35 per cent share of the voting shares of the WB, based on its capital contributions and overall economic strength. Currently, the US has a 17.48 per cent voting share in the World Bank and has a 16.21 per cent voting share in the IMF. By tradition, the President of the World Bank is an American and the Managing Director of the IMF is a European. Likewise, the President of the ADB is Japanese and Japan holds more than twice (12.80 per cent) the voting power in the ADB compared to China (5.477 per cent) and the US holds a 12.752 per cent voting share in the ADB, a little below to Japan (Chow, 2016:1270).

Although the WB has verified some reforms in favor of China and other emerging powers, the US did not lose any of its voting shares. China has a voting share of only 4.42 per cent despite being the second largest economy, compared to 16.4 percent for the US and 7.9 of Japan in the WB. Likewise, it has a 6.09 per cent voting share in the IMF. The change was just "symbolic" (Wroughton, 2015⁶ quoted by Etzoni, 2016:179; Chow, 2016:1272). According to some authors it was due to the US resistance in reforming the WB and IMF to reflect China's growing international financial importance (Chow, 2016:1256). In fact, Krasner (1985) asserts that third world countries will always try to recreate their own international regimes as a way to achieve power and wealth, since the current international regime only benefits the western countries. The AIIB can be matched in this context.

In geopolitical terms, the AIIB is more than a regional institution as its progressive enlargement in Africa with loans to Egypt and Rwanda shows up. It started with loans to Egypt in 2017, and in June 2021, the AIIB announced loans to Rwanda as well. The Rwanda project was co-financed from Rwanda (\$101 million), the WB (\$150 million), and the AIIB (\$100 million). In Egypt, three projects have been invested by the Bank, all worth \$600 million. Yet in terms of decision-making procedures the AIIB is successfully using the character of the regional institution to prevent the western power to hold veto power in the governance decision and ensure that China will keep being the single-largest shareholder and the major institutional power holder of the Bank with no rivalry. A state not only prefers more institutional power, but prefers to have more than its rival (Cho, 2017:22). China's position is only compared to the US position at the IMF (Ransdell, 2018:136). Thus, with the character of a regional institution it can ensure institutional leadership to the regional members and to itself without much controversy.

Furthermore, the AIIB serves China's goal to prevent both the ADB and WB from expanding further within China's primary geo-political sphere of influence, Asia-Pacific (Rudolf, Huotari and Buckow, 2014⁷ quoted by Jakupec and Kelly, 2015:34). Moreover, the AIIB reflects China's desire to maximise its power and influence within the international development finance regime (Stephen and Skidmore: 2019:70).

Considering this account, the article posits realism institutional is in better stance about the holder of the institutional power in the AIIB. This is to say the major institutional power is the holder of the power. China matches this assumption when it comes to the AIIB case. Further, China's incentive to capture the AIIB lay on the need for power that the AIIB can generate. China intends to set the agenda and influence the distribution of benefits and costs among members (Shweller and Priess, 1997:08).

VI. THE WAY INSTITUTIONAL POWER WORKS IN THE AIIB: ABSOLUTE OR RELATIVE GAINS?

China holds the power in the AIIB, yet it is not using its institutional power the way had been initially expected by neorealism theory that support criticisms made by the US. Realism institutional provides the most nearest explanation on how power is evolving in the AIIB because it sets difference between power and interest: "Power tells us how much influence a state will have over others; interests tell us when and for what purposes

⁵Bello, Walden. 2015. "China's offering a World Bank Alternative—and U.S. Allies Are Signing Up." Foreign Policy in Focus, April 23, <http://fpif.org>

⁶Wroughton, Lesley. 2015. "China Gains Clout in the World Bank Vote Shift." Reuters, April 25, www.reuters.com.

⁷Rudolf, M., Huotari, M., and Buckow, J. Chinas Schatten-Aussenpolitik: Parallelstrukturenfordern die international Ordnungsheraus. In MERICS China Monitor, No. 19; Berlin 23rd September

that influence will be used” (Shweller and Priess, 1997:10). This difference is captured neither by neorealism nor by neoliberal institutionalism.

The US sees that the AIIB loan aims at fostering regional interconnectivity between China and Asian economies through Belt and Road Initiative (BRI) (Wilson, 2017:148). Moreover, the US argues that the AIIB will not observe “the best practices” in terms of high standards related to governance, environmental, social safeguards, unhealthy debt build-ups, human-rights abuses, and environmental risks diluting their efforts to promote transparency and social and environmental standards in development financing. The AIIB approved a \$1 billion loan for projects including coal-fired power plants to Indonesia projects blocked by the World Bank for their harmful environmental impact (Chow, 2016: 1290). This might contribute to further suspicions and criticism against the AIIB. Besides, the US sees the AIIB as a competing institution to the IMF, World Bank, and ADB. Etzoni (2016:176 quoting Chakravorti 2015; Kahn and Albert 2015) still refers that the US worries the AIIB will funnel infrastructure projects to Chinese contractors and become a way to twist the arm of Asian states that need infrastructure funding to suit “Chinese political objectives”.

However the accusations against the AIIB and China do not stand up to close scrutiny (Etzoni, 2016 and Wilson, 2017). With regard to membership - procedural provisions, eligibility provisions, and classes of membership the AIIB largely resembles ADB and other MDB (Ransdell, 2018:127). Regarding the environmental risks, AIIB approved a \$1 billion loan for projects including coal-fired power plants to Indonesia. Despite being blocked by the World Bank for their harmful environmental impact, it should be seen within the wider context of AIIB policy of non-interference. In terms of doctrine it performs non-interference which diverges from IMF and WB doctrine of conditionality. And China’s position that issues related to environmental risks should be determined in accordance with a country’s economic and political stage of development (Chow, 2016:1282). This cannot be seen as a direct challenge to WB policies.

With respect to its focus it is not a competing international institution since it specializes in infrastructure whereas the other organizations do not. The Asia Pacific’s need for infrastructure funding is huge - by some estimates, as high as \$800 billion a year (Talley 2015a⁸ quoted by Etzoni, 2016:176) another sees it a little above estimated to be between \$1and \$2trillion annually, up to 2030 (Ransdell, 2018:129). The WB currently has only \$252 billion of available capital—far short of what is needed (Chow, 2016:1274). Besides, China did not reduce its investment stake to WB and ADB; rather it has increased its contribution which reveals that it has no intention to undermine the WB and ADB (Stephen and Skidmore, 2019:80).

Jin Liqun, founding president of the AIIB, has repeatedly denied suggestions of rivalry, pledging that the AIIB would cooperate with the other MDBs through knowledge-sharing and co-financing. Article 35 of the Article of the Agreement specifies that the AIIB will cooperate with international financial institutions, and international organizations concerned with the economic development of the region or the Bank’s operational areas. In fact, it mostly has been happening since the inception of the institution in 2016. The AIIB has mostly been loaned with support from, and under the direct policy supervision of, the established MDBs mostly the WB and ADB (Wilson, 2017:165). The AIIB is benefiting from WB’s countries presence for aspects such as analysis of environmental and social risk and surveillance of implementation. Likewise it welcomed WB staff as consultants on the new bank’s design and hired many former WB and ADB employees (Stephen and Skidmore, 2019:80).

Furthermore, other international organizations have used their funds to provoke political changes and this is well known, yet the US has ever criticized it. In the 1980s when about 30 African countries turned to the IMF and WB seeking for balance of payment assistance, in consequence they had their economic policies shaped by those institutions’ conditionality. There is no record of such conditionality from the AIIB. In fact, the AIIB’s Articles of Agreement stipulate that, ‘The Bank, its President, officers and staff shall not interfere in the political affairs of any member (article 31 of the article of the agreement, 2016; Stephen and Skidmore, 2019:86).

Adjusting to IMF programs which constituted the American liberal values, the so called - Washington consensus - were fundamental to get other forms of foreign assistance available to African countries (Loxley, 1987). So the WB and IMF serve to promote U.S. policies in recipient countries (Chow, 2016:1262). Yet, China’s leaders deny the idea of a ‘Chinese model’ of development or the so-called ‘Beijing Consensus’ (Beeson and Xu, 2018:349), which is indicative that China is not seeking to use the AIIB to shape political systems. On another hand, the recipient states often are rather hostile to their benefactors. This has been the US experience in much of Latin America (Etzoni, 2016:177). To this extent, providing assistance to a state does not grant compliance from the assisted state to the assistant state in terms of policies.

Still on this regard, China has announced that though having veto rights it will not exercise veto power at the AIIB. The AIIB is fulfilling all international goods practices to this kind of international institution (Wilson, 2017:168). In terms of voting, China’s position at the AIIB is akin to the US position at the WB and, due to the limited de facto veto power enjoyed by each (Ransdell, 2018:136). It seems to be consensual that the

⁸Talley, Ian. 2015a. “U.S. Looks to Work with China-Led Infrastructure.Fund.”Wall Street Journal, March 22, www.wsj.com.

Chinese very idea on the Bank design and in terms of voting shares was quite different from what have been founded as AIIB particularly in terms of decision-making procedures and loan policies. This shift represented the accommodation of the interests of developed western economies. Chinese negotiators ultimately agreed to these demands, withdrawing many of the more controversial proposals in favour of a governance model that closely conformed to that in other MDBs. China had to accept other members' preferences which were not always aligned with China's in order to secure their membership mostly to those Western countries (Wilson, 2017:151-160). Initially, China wanted regional members for the bank, governance arrangements vesting considerable authority in the hands of the Bank President, with reduced Director oversight relative to other MDBs, minimalist environmental, social, and transparency safeguards, which fell short of the 'best practices' applied by the World Bank and ADB, and proposals for loans to be issued either in RMB or an 'AIIB basket' with mixed denomination; A preference for using Chinese construction contractors in AIIB funded projects; China to contribute over 50% of the capital stock, and thus hold a formal veto power over all loan decisions (Xinhua, 2015d; New York Times, 2014; Japan Times, 2015; Devex, 2014; SCMP, 2015; Sun, 2015, Reuters, 2015a quoted by Wilson, 2017:160).

Nevertheless, at the final configuration of the Bank, China's shareholding was diluted to 29%, and non-regional members held 23% of the voting power. China was willing to reduce its voting share to below the 25% veto threshold if the US and Japan agreed to join as founding members (Stephen and Skidmore, 2019:79). The AIIB now is using the same tripartite governance system of other MDBs, which vests the Board of Directors (rather than management team) with authority over loan decisions. It explicitly adopted a commercial orientation, with loan decisions to be made against objective criteria and projects required to pay commercial interest rates. Loans were to be issued in USD (Article of Agreement, 2015). China also shelved its request for a formal veto power over loan decisions, and agreed to reduce its shareholding to 28% of the voting stock (Wilson, 2017:162).

In fact, there is no evidence that the AIIB is competing with the ADB or other MDBs projects. Nor is there evidence of revisionist approach in governance procedures (Etzoni 2016:177, Wilson, 2017:168; Beeson and Xu, 2018:355). China redoubled its efforts in global economic governance by undertaking a series of high-profile institution-building actions. So far, the AIIB does not represent a visible competition or a revisionist institution attempting to replace the international financial world order as neorealist scholars could suggest. Rather than, it is showing China's willingness to be constrained by the existing international financial order by adopting the current baselines in terms of principles and practices as pointed out by neoliberal institutionalism. All this account on how power is involving in the AIIB contradicts the neorealist assumptions on how institutional power works. This makes the neorealist assumptions not suitable to explain how the power works at the AIIB. Neorealism would expect China to use the AIIB to foster its geostrategic and geo-economics interests without that much self-restraint which China is imposing to itself. China has exercised a degree of restraint patently incompatible with the assumptions of relative-gains seeking (Stephen and Skidmore, 2019:81). The AIIB has in many respects (so far) conformed to the global norms and practices of existing MDBs. This fits the overall picture of China's socialization into the established liberal international order (2019:83).

In this regard it could seem that neoliberal institutionalism could offer better explanation. In fact it provides a wider context in which international institutions shape member states behaviour by creating incentives for states. It posits that to deal with the challenges that have led them to construct international institutions in the first place, states have demanded and accepted unprecedented levels of intrusiveness in their domestic affairs (Stein 2001a quoted by Stein, 2008:216). Chinese authorities ended up to be more concerned about the reputation and legitimacy of the AIIB more than using it as a vehicle to serve its geostrategic interest at all costs.

Nevertheless, neoliberal institutionalism fails to explain how China is being constrained. Neoliberal institutionalism, by borrowing insights from theory of agency and organizational theory, would expect the agents (secretariat) that are delegated functions from principal (states) to have some degree of independence from member states. Because agents have superior information than the principals they can use it to pursue their own agendas. Agents' actions have effects on the principals' behaviour. (Keohane and Martin, 2012:74). Both theory of agency and organizational theory are anchored on the idea that an international organization from their very existence implies centralized secretariat and some operational autonomy as pointed out earlier (Abbott and Snidal, 1998:09). Moreover, relative gains still are the priority of state even their action seems to indicate in that direction.

In the case of the AIIB, China also holds the Presidency, enjoys a veto power over governance matters. China has nearly unlimited control over the President, which is significant considering the AIIB's lack of a resident BD. It favors states control over the institution (Ransdell, 2018:139). This is different from other international institutions where the governors rarely provide for dismissal, so as to safeguard the secretariat's independence (Ransdell, 2018:142). Therefore one cannot see constraints to China under viewpoint of the theory of agency or organizational theory.

In face of this limitation, realism institutional provides arguably a better explanation to China's seeking for

bigger institutional power and its self-restraint. Despite its institutional power in the AIIB, China's interest is to achieve relative gains through success in the long term, and then it will not undermine these goals for short-run. China's long term goals involve international legitimation to shape states behaviour. Some say China does not interfere in internal affairs, but the question is not about today albeit about the future. Therefore it is doing as much as it can to appease tensions without undermining its institutional power and make the AIIB an alternative to fill the gap in infrastructure investment. Power is important to China since it considers that it is the force behind institutional effectiveness; however, naked power has proved ineffective as a means of achieving international organization (Shweller and Priess, 1997:17). If one observes around the range of institutions will see that when there is no strong power behind the institution it tends to be weak. Therefore China's interest is to find a suitable equilibrium between the need of bigger regional institutional power to set the rules of the game on its region and the need to appease the dominant powers and other minor states. China argues that the current rules of international trade and global finances are not fair for developing states. To address its demands China is undertaking two approaches with different strategies, adhering to the multilateral institutions and creating new ones in different issue-areas as the case of the AIIB.

VII. VENUES FOR FUTURE RESEARCHES

This article holds key theoretical insights on the institutional power of the AIIB and the way it works. It demonstrates how the AIIB institutional power dynamics revolves according to different theoretical assumptions. Yet it was realism institutional that appears in better stance to explain why China holds the institutional power within the AIIB, albeit it is imposing self-constrained to itself. These findings open lines for future researches with respect to potential implications of the AIIB anchored in a causal storyline. The future researchers could inquire the following questions consistently: What implications the AIIB will have on the international liberal financial order? Will China manage to balance between absolute and relative gains through the AIIB? What kind of institutional power competition China and the US will entail through their led-international institutions? This article offers sound insights to approach these very timely questions to understand the shifts occurring in the world politics.

VIII. CONCLUSION

The AIIB has been under intense debate. China's initiative of creating the AIIB led both the AIIB and China to very high suspicion. Despite the many criticisms around the AIIB, it also sparked praise. Therefore the debates on the AIIB can be split into two groups. Those accusing it of being China's tool to manage its power in order to defy the current international financial order led by the US without respecting the financial international practices. And those that see it as a part of China's seek for filling the gap in Asia infrastructure investment respecting the current rules of the international system. Both approaches present irredeemable flaws to understand the AIIB because they are anchored on neorealism and neoliberal institutionalism tradition that do not address about institutional power, the key concept to understand any international institution.

This article offered an alternative way to surpass this apparent problem involving the AIIB by placing it under the glance of a theoretical lens. By doing so, one realizes how China, despite controlling the organization, is equally employing self-constraint. Neorealism theory presents shortcomings to address the international institutions. The best neorealism can do with regard to the AIIB case is to anticipate that China would have a dominant role, but because of its negligence over the institutionalism agenda its contributions are very limited. Neoliberal institutionalism, despite offering a wider context of the creation of international institutions, its effects and how they shape the behaviour of member's states, fails to account to the AIIB reality with respect to some peculiarities such as for instance the independence of the secretariat. Neoliberal institutionalism by borrowing insights from theory of agency and organizational theory would expect that the institutions grow stronger than the member's states due to superior information. Yet it is not happening in the case of the AIIB because China controls the organization as set forth earlier. China holds the presidency, and currently enjoys a veto power over governance matters. The AIIB's lack of a resident Board of Directors which favours states control over the institution. Moreover, neoliberal institutionalism would inaccurately suggest that the AIIB will limit the usage of power politics from China. On the contrary it is the expression of power politics.

In this regard, the realism institutional provides the most consistent scheme of why China is the holder of the institutional power of the AIIB and even so it is constraining itself without it means the independence for the AIIB. China holds the power in the AIIB because it creates it as a reflection of its growing power and as a way to set the financial regional agenda. International institutions matter to an extent that enables great powers to rule other states more effectively. International institutions ease the usage of power and influence by appeasing suspicions from other states. They serve states' interest in increasing its relative gains. When other states trust that a certain state minds on absolute gains by creating international institutions this state is closer to achieving relative gains. Relative gains are the most important goal of any great power, yet suggesting and even seeking the absolute gains seems to be the most consistent strategy that powerful states can employ. China is doing through the AIIB and other international institutions either by creating or increasing its participation on them.

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