China's Policy of "Going Out" 2.0: Ideas, Interests, and the Rise of the Asian Infrastructure Investment Bank (AIIB)

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The rise of the Asian Infrastructure Investment Bank (AIIB) under Chinese leadership has fueled debate on how it will affect existing regional and global economic governance. Yet, little attention has been paid to the *internal* impetus that actually motivates China to design a new regional development bank that focuses on infrastructure. Aiming to fill this gap, this study focuses on domestic ideas and political-economic interests China is seeking to achieve. I argue that the AIIB has been part of China's consistent policy of "going out (*zouchuqu*)" since the early 2000s. This study suggests that China has strong interests in sharing not only its financial and political burdens with member countries, but also its development experiences centered on infrastructure investments with developing countries. Moreover, the AIIB's high standards of governance help the Chinese leadership gain legitimacy for mobilizing substantial reform of domestic economic governance.

Key Words: AIIB, China, Domestic forces, Ideas, Interests, Multilateral development institution

The subject of China's creation of the Asian Infrastructure and Investment Bank (AIIB) is important to consider for several reasons. First, China's AIIB initiative may promote the integration of Asian countries in terms of trade, investment, and finance under Chinese leadership. Second, the creation of a China-led multilateral development bank may signal an important departure

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from its past preferences for bilateral arrangements with developing countries, particularly in Africa, when making infrastructure investments. Moreover, while Asia's large population, rapid growth, and deep integration with the global economy demand a sound infrastructure, existing multilateral financial institutions, such as the World Bank and the ADB, certainly remain deficient (Mun 2015; Ren 2016, 436). China addresses such needs and plans to focus primarily on 'infrastructure building' through the AIIB rather than poverty reduction in Asia as emphasized in existing multilateral institutions (Ren 2016, 437). Lastly, the creation of global-scale multilateral development bank in terms of membership is a remarkable shift for China, indicating its strong commitment to a responsible leadership role in international development and finance. Since its formal emergence in 2015, most attention and analyses on the AIIB have largely focused on its potential impacts on the existing regional and global governance and institutions (Lipsy 2015). For example, how will China maneuver the AIIB as an institutional tool to project its political influence in Asia where China's geopolitical clout is potent?; is the AIIB ultimately designed to help China set international rules and norms on its own terms?; to what extent will the AIIB challenge or complement the legitimacy of existing multilateral financial institutions, such as the World Bank or the Asian Development Bank (ADB)? There are also some studies on institutional design, governance, and performance of the AIIB (Chin 2016; Gutner 2018).¹ Yet, domestic political-economic impetus that actually mobilize the Chinese leadership remain understudied. By examining *internal* origin and driving forces that give rise to the AIIB, this study aims to fill this gap.

To this ends, this study first points to the policy of "going out (*zouchuqu*)," which highlights the pursuit of secure resources and markets for export, as well as attempts to nurture Chinese firms in overseas competition, as the ideational continuity that gave rise to the AIIB. In the following section, the article elaborates why China is shifting toward multilateral institutions from the past bilateral approach for overseas infrastructure investments. This study argues that China has strong interests in sharing not only its financial and political burdens with member countries, but also its development experiences centered on infrastructure investments with developing countries through projects from the AIIB. Moreover, I explain how the AIIB's high standards of governance would help the Chinese leadership gain legitimacy for pushing for substantial reform of domestic economy, such as state-owned enterprises (SOEs). The article concludes with

¹ We might need more time to evaluate and analyze the performance and reputation of the AIIB given that only three years have gone by.

some implications for future multilateralism and global economic governance with China's rising leadership roles.

LITERATURE AND ARGUMENTS

Arguments on China's desire and potential impacts on global governance and order can be largely grouped into two camps: the contentious and functional perspectives. Scholars who emphasize the *relative* nature of power in international relations take the contentious approach, arguing that a China-led AIIB will ultimately challenge existing institutional order and norms by providing the world, particularly developing countries, with the alternative institutions that better meet the demands from the rest of the world (Subacchi 2015; Liao 2015; Jonge 2017; Deng 2014; Weiss 2017; Sun 2015). The logic is straightforward: the growing power of China in Asia and beyond cannot but undermine the leadership role of the US because a hegemon never allow peers (Ikenberry, Wang, Zhu 2015, 2). According to Robert Gilpin, "when powerful states have opportunities to shape the rules and institutions of global order, they do so in ways that advantage themselves" (Ikenberry, Wang, Zhu 2015, 2). Indeed, the notion of a Sino-centered hierarchical order in Asia, such as the idea of a middle kingdom, exactly reflects how China wishes to place itself at the center of the region (Kang 2007). To some extent, this historically embraced hierarchical order in Asia enables China to project its ideas and traditions as a global leader. In this regard, scholars and analysts who take the contentious approach claim that the rise of AIIB itself will eventually undercut the normative value of social and environmental standards from the World Bank or the Asian Development Bank (ADB) because the AIIB offers number of developing countries that desperately need infrastructure building an alternative exit (Lipsy 2015, 3; Jonge 2017). In the long-term, the development of infrastructure in Asia would contribute to promoting trade integration of the region with China, while weakening its dependence on trade with the US (Chen 2015, 28). In other words, further enhancement of Sino-centric patterns of infrastructure, investment, and finance would strengthen "China's importance as an economic partner as well as its diplomatic leverage in the region" (Kennedy and Parker 2015). By representing the interests of developing countries that have been often dismissed in the World Bank or the ADB, China-led AIIB may accelerate a decline in the status of the US in Asia and beyond, leading to a substantial change in the post-World War II architecture of global economic governance (Chen 2015, 28). Whether intended or not, this will

ultimately escalate geopolitical tension in the region (Kennedy and Parker 2015; Lipsy 2015, 3).

On the other hand, from the functional perspective, scholars who emphasize the role of international institutions in regional and global governance argue that the AIIB would incur more mutual interests for both China and advanced democratic economies than threats or challenges to existing institutions and orders (Ikenberry and Lim 2017; Ren 2016; Dollar 2015). Sound infrastructure in Asia, therefore, would encourage vibrant economic activities and business opportunities, not only for Asian developing countries and Chinese firms, but also for American, European, and Japanese firms. Such highly interconnected markets and active global supply chains would discourage the limited spillover effects to a single country. Moreover, participation of advanced Western economies in the AIIB enables Chinese officials and firms to learn substantially by consulting with experienced staff in the World Bank and the ADB (Chen 2015, 20). Indeed, the membership of the AIIB largely overlaps with that of the World Bank and the ADB. In this sense, the AIIB itself is “nested in the World Bank and the ADB firmly situated within the existing international financial order as a functional equivalent to existing international financial institutions” (Wan 2016, 86). Therefore, the AIIB would run in parallel with incumbent banks rather than challenge them.² At the same time, because multilateral institutions are also inherently constraining, the decision and operation of projects cannot be dominated or manipulated by China alone, as in bilaterally managed projects (Hung 2015; Cozzi 2015). Besides multilateralism, Ikenberry and Lim (2017, 15) also point out international financial markets that will discipline the AIIB’s lending and the broader challenge of competitive order building as major constraints on China’s pursuit of a counter-hegemonic institutional strategy (Ikenberry and Lim 2017). Above all, China’s institutional statecraft by external innovation, such as the AIIB, is bounded by the existing institutional architecture and order, in that China is the major stakeholder within them (Ikenberry 2008). Chinese behavior, therefore, is likely to be constrained by accommodating with rules and agreements as in any other multilateral institutions. In this regard, by engaging China in a self-designed multilateral institution, the AIIB would contribute to the further development of multilateral finance institutions, focusing on Asia’s infrastructure build-up.

These types of questions tend to highlight global or regional ambition and

² The majority view is that the AIIB will not be a threat to the US and existing international institutions. For more details, refer to the debates, “Should Washington Fear the AIIB?,” *Foreign Affairs* (June 2015).

impacts of the AIIB, while little attention has been paid to *domestic forces* that actually mobilize China's new initiative for a multilateral financial institution, the AIIB. An often overlooked but important element is that China's foreign economic policies are primarily driven by internal impetus rather than external power relations. In other words, domestic ideas and interests significantly mold the direction of China's foreign policy thinking and making across areas such as security, economy, and the environment.³ Hence, we need to ask: What are the underlying internal ideas and interests that mobilize China to initiate the AIIB? Why does China want to make overseas infrastructure investment through a multilateral institution beyond the past regional and bilateral channels? As noted earlier, while existing analyses tend to focus on the external goals and impacts of the rise of AIIB on regional and global governance, this study attempts to examine the *internal* ideas and interests that motivate the top Chinese leadership.

Table 1. Stakeholder Distribution

	World Bank	ADB	AIIB
United States	15.85%	15.65%	Not member
Japan	6.84%	15.65%	Not member
China	4.42%	5.47%	30.34%

Source: Chen (2015), "Yatouhang: zhongmei yatai quanshi gengti de fenshuiing? [AIIB: A Watershed in Power Transition between China and the US?]" *Meiguo Yanjiu [American Studies]*, p. 20.

IDEAS: GROWING OUT OF THE POLICY OF "GOING OUT" (*zou-chuqu*)

Although China's overseas direct investment (ODI) remains tenuous when compared with its vast inward foreign direct investment (FDI), Chinese firms in overseas markets have been clearly "gaining momentum in moving international capital as well as investing across a broad spectrum of sectors ranging from natural resources to manufacturing to telecommunications and many others" (Salidjanova 2011, 1). Such overseas direct investment has rapidly expanded since the official introduction of the "going out (*zouchuqu*)" policy in the early

³ The dominance of internal impetus in China's foreign policy strategy has been observed from its early engagement in major international institutions. See, Pearson (1994). Other scholars also emphasized the primacy of domestic factors that drove China's foreign policies. See Fravel (2005); Sutter (1999); Carlson (2005).

2000s (See Figure 1). In fact, the idea of a “going out” strategy was first initiated by the former general secretary of party Jiang Zemin at the government report of the 14th National People’s Congress (NPC) in 1992. Jiang emphasized the importance of and need for pioneering international markets, promoting diversification of trade and developing an outward economy (*waixiangxing jingji*) as well as enhancing the experiences of Chinese firms by absorbing advanced technology (Chen 2009, 63). The ultimate aim was to make Chinese firms competitive in global markets (Chuang 2010, 6). Indeed, Jiang further elaborated on his idea of “going out” during his state visit to African countries in 1996, stressing the cooperation of economy and technology using existing markets and resources there (Chuang 2010, 6). As a key vision of long-term economic development, this indicates that China’s top leadership turned his eyes to developing countries, such as those in Africa, the Middle East, Latin America, and Central Asia, where both markets and resources are ample (Jiang 2006, 385). During this time, China already suffered from saturation of home markets and had confronted many difficulties digesting its products since the mid-1990s (Chen 2009, 65). Growing concern about this overcapacity has further mobilized the leadership to seek a long-term solution, even though overseas markets and

Figure 1: China’s Overseas Direct Investment, 1982-2014

Source: United Nations Conference on Trade and Development (UNCTAD), “Inward and Outward Foreign Direct Investment Flows, Annual,” UNCTAD Stat Database, <http://unctadstat.unctad.org>.

Note: the UNCTAD figures include only non-financial ODI.

investments are not enough to resolve China’s overcapacity problem (Dollar

2015).⁴ As a result, the increase in ODI has been remarkable, from less than USD 100 million in the 1980s to USD 56.5 billion in 2009 (Salidjanova 2011, 1). This tremendous increase in China's ODI since the early 2000s suggests not only its deep integration into the global economy with its WTO membership, but also its rising demand for overseas direct investment to expand markets in order to address overproduction as well as make use of local resources.

In fact, China's "going out" policy initially aimed to make some selected large state firms the national champions in global markets under the supervision and financial support of the central government. In doing so, overseas direct investments, particularly infrastructure building, have been highly encouraged and promoted. Ideally, it was expected that this would provide Chinese major state firms with opportunities to advance as global corporations (Salidjanova 2011, 2). To this end, the central leadership designated some selective state firms as "national champions" in 1997, encouraging them to invest and obtain resources from overseas markets and enhance their global competitiveness by acquiring advanced technology and know-how. Moreover, during this early stage of enterprise going out (*qiye zouchuqu*) over the 1990s and 2000s (Yang, Wu, and Wang 2012, 81-82), China supported its state firms with investment capitals for overseas infrastructure building, but such investment projects were largely *bilaterally* arranged. For example, the most representative case, the Angola model, is a bilaterally signed agreement between China and Angola allowing China to access the natural resources of Angola in return for infrastructure building there. While in an internal speech Jiang Zemin encouraged overseas investments, particularly in developed countries between 1993 and 1996 (Shambaugh 2010, 175), after consecutive state visits to Africa, Central, and Southeast Asia, he realized the significance of developing countries for overseas infrastructure investments and shifted his attention to such countries (Chen 2008, 65).

In this regard, this study argues that the AIIB is designed as China's new version of going out by extending, not replacing, focus in the following three dimensions: (1) means (from bilateral and regional-level agreements to global-level multilateral institutions), (2) agents (from corporate-centered to industrial-centered), and (3) scope (from primacy for state firms to partnership with private capitals). First, the AIIB exhibits China's desire to better channel the investment capitals and enhance the returns on investment, which was

⁴ For more accounts on China's overcapacity and overseas investments, refer to: "Mainland Firms Eye Asian Projects," *South China Morning Post* (July 21, 2014); "With Friends Like These," *Financial Times* (March 17, 2015); Lelyveld (2015).

significant problem in the past infrastructure investments in Latin America or Africa, through multilateral institutions. According to Chinese references, only 50 percent of Chinese firms autonomously procure capital in ODI only; 15 percent rely on loans from domestic banks while external financing accounts for 35 percent of the firms (Wu and Bian 2016, 24-25). Since most projects of China's ODI incur high costs, there are growing financial difficulties with its own capital and domestic bank loans. Moreover, few Chinese banks do business in overseas markets, and their job performance for external finance has not been systematically managed (Wu and Bian 2016, 24-25). In order to consistently invigorate going out of Chinese firms and their capacity for ODI, the AIIB is expected to not only help Chinese firms access external finance, but also provide them with more opportunities for overseas investments. Hence, the sources of finance for infrastructure investment of Chinese firms can be supplemented by multilateral institutions, such as the AIIB, beyond past own capital or bilateral arrangements with host countries.

Second, while the primary stage of China's going out initiative between 1990s and 2000s has focused on "enterprise going out (*qiye zouchuqu*)," the weight is shifting to "industry going out (*chanye zouchuqu*)" centered on relatively competitive industries such as infrastructure, including railway, highways, and harbor construction (Yang, Wu, and Wang 2012, 81-82). To some extent, this shift to "industry going out" contributes to finding a way out for its worsening industrial overcapacity, regardless of its complete resolution (Liu 2016, 59-60). In this sense, the AIIB initiative shows China's resilient instrumental and reactive approach to multilateral institutions for facilitating its more than two decades long "going out" strategy. Lastly, unlike the early stage of the "going out" policy that was dominated by large state firms, the new version encourages private capitals to engage in overseas infrastructure investments for promoting "industry going out" under their public-private partnership. The AIIB is expected to act as a vehicle to mobilize all resources, including private capitals, to fund its infrastructure projects, which will ultimately invigorate Chinese future economic growth. In short, although there has been gradual evolution in terms of the means and focus of China's going out policy, the AIIB shares its core elements such as a great emphasis on infrastructure building and overseas direct investment through corporations. What is notable, however, is that China's going out policy has been significantly reinvented/reformulated from a bilateral and regional approach to a multilateral and cross-regional one, as presented in the AIIB's governance mechanism, membership, and projects (Chin 2016).

INTERESTS: WHY "GOING OUT" THROUGH MULTILATERAL INSTITUTIONS?

It is often said that "global governance and the design of international institutions depend on *incentives* that are compatible with such incentives" (Stein 2008, 21). The creation of the AIIB as a China-led multilateral development institution is no exception. By learning from the incumbent hegemon, the US, and its own past experiences, China desires to share its financial and political burdens with other countries. In so doing, it will not only globally mobilize its own infrastructure-centered growth model across continents, but also legitimately enhance domestic economic governance by pushing for the toughest areas such as financial sector or state-owned enterprise (SOE) reform. In the following sections, three major interests that mobilize China's creation of the multilateral development institution for Asian infrastructure building are examined.

SHARING MATERIAL AND POLITICAL COSTS

Given China's strong capacity for lending through its own policy banks, such as the China Development Bank or the China Export-Import Bank, as well as bilateral aid loans, what are the incentives for China to envision a new multilateral development bank for infrastructure projects? Material and political interests offer sound explanations for China's preference for a multilateral institution. First, China has strong material interests for relieving the difficulty that Chinese firms face regarding the shortage of investment capitals by sharing financial burdens with other member states (Wu and Bian 2016, 24). The lesson learned from the Angola model is that China took the risk for excess debts over infrastructure investments (Lin 2015, 47). Moreover, the fact that overseas investment projects are often accompanied by high risk and cost limits the willingness of firms to make investments with only their own funding or loans. Therefore, it is crucial for China to secure smooth external capital financing. Rather than relying on bilateral investment agreements, a multilateral institution for investment such as the AIIB enables China to share its firms' burden for capital financing for overseas infrastructure investment with those of other member states.

Second, in terms of political interests, multilateralism is often favored as "an effective way of mobilizing support in international institutional development" (Gu 2017, 138) in that it heeds the voices of small economies while putting more disciplines and responsibility on great powers. Just as multilateralism was a

crucial tool for expanding the US-led international trade and investment over the post-war period, it is significant in the eyes of Chinese leadership to construct infrastructure in developing countries to achieve a remarkably integrated global economy and connectivity. Moreover, multilateral institutions hold incentive for collective action when conflicts occur with local interest groups, including workers or farmers. In fact, despite new economic opportunities or sound infrastructure building that provides developing countries in Africa or Asia with better material conditions for development, China's assertive investments have been increasing tensions, frustration, and protests against the massive influx of Chinese immigrants and Chinese-manufactured products. After more than two decades of bilateral investments, China has recently faced a mounting political backlash resulting from the issues of labor exploitation, environmental degradation, and new inequalities on the ground (Cardenal and Heriberto Araújo 2013; Rone 2003; Driessen 2015, 3-7). Some cases in Africa are particularly notable. Although the precise causes for confrontation vary across countries including Zambia, Nigeria, and Ethiopia, they commonly share the sense of resource exploitation as well as mistreatment of local labor (Driessen 2015; Hung 2015). As such political backlash has recently become more frequent, China had to rethink appropriate and effective means for its overseas infrastructure investments. Beijing seems aware that "multilateral financial institutions are useful for controlling risks and managing disputes, and that foreign intervention is seen as far more legitimate if it is undertaken collectively as the representatives of the international community" (Chin 2015, 219). In this regard, the AIIB offers China strong incentives to gain more legitimacy but less financial and political burdens by making overseas infrastructure investment projects through a global, rather than regional, multilateral institution for overseas infrastructure investment.

SEEKING LEGITIMACY OF CHINESE DEVELOPMENT MODEL: STATE-LED INFRASTRUCTURE INVESTMENTS

From a study of multilateralism's dominance in the years of post-World War II, Ruggie (1992, 593) earlier noted that "a pronounced shift toward multilateralism in economic and security affairs requires a combination of fairly strong international forces and compatible domestic environments; that is, it was the fact of an American hegemony that was decisive after the Second World War, not merely American hegemony." Multilateral economic institutions, such as

the Bretton Woods system, remain central in not only spreading and sharing political and economic burdens, but also promoting values such as democracy, liberal market economy, and human rights that center on the American foreign policy. Such an observation still reverberates around the rising power. On the Chinese side, infrastructure investment-led growth can be considered one of the core beliefs to promote, particularly toward developing countries where a great share of China's overseas direct investment has been heading. Indeed, the primacy for infrastructure investment features China's own experiences of economic development. During the early stage of economic reform (between the early 1980s and the early 1990s), foreign capital and advanced technologies were crucial sources of China's remarkable economic growth (Kroeber 2016). Thanks to foreign capital investments and advanced technologies, infrastructure industries that require intensive capital input, such as telecom equipment or transportation sectors, flourished (Yin 2014, 85). By targeting developing countries that suffer from poor infrastructure but own rich natural resources, China has sought opportunities to access the resources in return for investment in infrastructure building during its initial period of the "going out" policy over the 2000s. In this way, infrastructure investments in developing countries

Figure 2. China's GDP and Domestic Infrastructure Investments, 1988–2014

Sources: National Bureau of Statistics of China, *Zhongguo tongji nianjian* (China Statistical Yearbook, Beijing: Zhongguo tongji chubanshe, various years; Huang Shaoqing et. al., *Jichu sheshi touzi zijin lai yuan, touzi xiao lv yu difang zhengfu caizheng fengxian* (Infrastructure investment: funds source, investment efficiency and local government financial risk), Shanghai: Gezhi chubanshe, 2014, p.20; Wang Yanzhong, *Jichu sheshi yu zhizaoye fazhan guanxi yanjiu* (The relation between infrastructure investment and industrial development), Beijing: Zhongguo Shehui Kexue Chubanshe, 2002, pp. 164–165.

(particularly Africa and Latin America) have come to be mutual incentives for both China and developing countries. Indeed, since China itself heavily relied on infrastructure investment to build up solid ground for economic development (See Figure 2), infrastructure investments are highly recommended as benchmarks for sustainable development in developing countries. And the AIIB, which focuses on investment for infrastructure building, would serve as a vehicle for promoting China's state-led infrastructure development.

Unlike former leaders who adopted Deng's *taoguang yanghui* ("keeping a low profile") strategy of foreign policy, Xi Jinping clearly signals the desires to project China's growing material and political muscle into regional and global governance. Such efforts have been already underway, as reflected by the increase in Chinese engagement in developing countries since the early 2000s with pursuit of the policy of "going out." This "going out" (*zouchuqu*) strategy has been promoted most actively in developing countries, propelling China to export its development experiences to these countries with a great emphasis on infrastructure investment. China's engagement in developing countries has been evident across sub-Saharan Africa and Latin America over the past decade. According to data that measure China's overseas direct investments by state firms, Africa, Latin America, Asia, and the Middle East together accounted for 61% of China's ODI between 2005 and 2014 (see Figure 3). What is new here is that the focus of Xi's administration pays more attention to Asia, as evidenced by the rise of the AIIB. Based on its own experiences and pathways, Chinese leadership highlights the importance of building infrastructure as a foothold for economic development and industrialization (Anderlini 2016).

Here, China's development model particularly refers to two elements: growth by infrastructure investment, and heavy state involvement as a consequence. While the Chinese scholar Pan Wei argues that the China model does not promote a specifically clear and coherent growth model, but rather presents an alternative to the West-centered one (Pan 2010, 5), this study makes somewhat different observations. As noted earlier, infrastructure investment and the active role of the state in China's remarkable growth are clear components of China's development model. By designating 120 central state-owned enterprise groups as 'national champions' since the mid-1990s, these central state firms received "high-level political support, financial subsidies, more management autonomy, greater profit retention rights, and information from the government on possible foreign investment targets" (Shambaugh 2010, 177). According to data from China's Ministry of Commerce, central SOEs accounted for 73.5% of China's total ODI in 2003, 86.4% in 2006, and 71% in 2010 (Ministry of Commerce 2011, 50-51; 143). Likewise, the dominance of central SOEs in China's overseas

direct investment indicates heavy state involvement in engineering overseas investments, which composes the Chinese development model with the growth by infrastructure investment. Moreover, as more Chinese companies work with local firms on the ground, there are additional opportunities for China not only to invest in infrastructure building, but also to share its own development and trial-and-error experiences with other developing countries. Moreover, the 2008 global financial crisis paved the way to rethinking the validity of the Western model of development, while state developmentalism and proponents of a strong state model gain more attention and legitimacy (Breslin 2015, 240; Williamson 2010; Stubbs 2010). The creation of China's overseas special economy and trade zones (*duiwai jingji maoyi tequ*), which encourage overseas infrastructure investment of Chinese firms in specified projects with local partners, also shows how the state-led infrastructure investment of the Chinese development model

**Figure 3. Geographical Distribution of Chinese Outbound Investment
By State Firms, 2005-2014**

Sources: Derek Scissors, *China's global investment and construction 2005–2015*, The Heritage Foundation/American Enterprise Institute, <http://www.aei.org/china-global-investment-tracker/>.

Notes: (1) Geographical distribution of Chinese outward investment is based on statistics from Chinese state-owned enterprises, joint ventures with Chinese and foreign investment firms, and multinational enterprises' overseas investment and construction approved by central government. (2) The scope of China's overseas direct investment in foreign countries and Taiwan province excluding Hong Kong SAR, and Macao SAR. (3) Commonwealth of Independent States = Russia, Belarus, Ukraine, Latvia, Estonia, Lithuania, Georgia, Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Albania. (4) Asia excludes advanced economies such as Japan, South Korea, and Singapore.

goes global (Brautigam and Tang 2011: 30). In 2015, the number of overseas special economic and trade zones reached twenty-one (Yeo 2016), and the involved actors are not limited to state firms, although these remain dominant. Particularly in Africa, the rise of overseas special economic and trade zones enables companies and individuals in African countries to directly gain know-how or ideas on the ground, facilitating the sharing of the experiences and lessons of China's development (Brautigam and Tang 2012, 815). In this way, the extension of China's development model, such as "growth by state-led infrastructure investment," into developing Asian countries through the AIIB projects would lead to a gradual but irreversible departure from West-centered economic governance in the near future (Fukuyama 2016).

Mobilizing Domestic Reforms: SOEs and Economic Governance

According to the Articles of Agreement of the AIIB,⁵ AIIB's leadership claims to build up the rule-based governance of this multilateral finance institution, stressing transparency in managing projects and accountability for the member states. Above all, just as the US tried to project the ideas of the New Deal policy in designing the Bretton Wood system, Chinese leadership, as the largest stakeholder of the AIIB, may gain legitimacy in pushing for structural and governance reform of large SOEs where the vested interests are concentrated in order to win bidding in the near future (Lo 2015). It is clearly addressed that AIIB-funded projects have strong preferences for qualified corporate entities whose business management is transparent and binds to the global rules and norms. Particular emphasis is placed on anti-corruption, offering good incentives for China's major infrastructure-related state companies to move forward for successful bidding. According to the official statement from the AIIB, "like the World Bank Group and other regional development banks, the AIIB addresses four practices it will not tolerate: fraudulent, corrupt, collusive, and coercive practice."⁶ The AIIB openly declares that it will prohibit firms and individuals that are involved in any of those practices from participating in AIIB projects either permanently or for several years.⁷ Accordingly, China's rigorous commitment to the Articles of Agreement of the AIIB is likely to function as an effective vehicle for cracking obstacles in domestic economic reform, as well as granting legitimacy for the resistant (Gu 2017). Indeed, it is often said that the

⁵ It can be accessed at www.aiib.org/html/2015/NEWS_0629/11.html (July 22, 2018)..

⁶ "AIIB says no to doing business with corrupt bidders," (March 7, 2017), AIIB official website, https://www.aiib.org/en/news-events/news/2017/20170307_001.html (July 22, 2018)..

⁷ *Ibid.*

reform of major SOEs or financial sectors has been not very successful because of their sticky ties to the upper hand in the Chinese party-state. Given China's enduring system of a 'revolving door' between bureaucracy and key state firms, any official, not surprisingly, would be in a difficult position to undertake substantial reforms of SOEs (particularly in financial and infrastructure sectors) toward good governance because anyone is hardly free from such client-related networks. However, in order to win the bid for projects funded by the AIIB, 'good governance' accompanied with zero tolerance for corruption and accountability are important criteria. According to the Articles of Agreement, all member states should "conform to the high standards, which apply to all phases of the project" (Gu 2015). Therefore, Chinese state firms have a strong incentive to comply with globally recognized rules and standards, and this in turn contributes to enhanced economic governance of the state sector, providing timely justification for the Chinese top leadership who wish to make substantial reform.

Moreover, private capital mobilization is one of the key themes that the AIIB aspires to achieve together with infrastructure building and connectivity across Asia. As Jin Liqun, the president of the AIIB, highlights, a "more business-like approach" in developing projects as well as dealing with their operation and all resources including private capital will be mobilized by the AIIB to fund various infrastructure investments (Chin 2016, 20). Hence, this will be a win-win game for both lethargic state firms and innovative and competitive private ones in China to win the bidding for infrastructure investment projects. In effect, the so-called "private-public partnership (PPP)" was officially addressed in the 18th Party Congress as of 2012, although this PPP approach has been contemplated among officials and scholars in China's leading state research institutions as a gradual strategy to reform and strengthen major state firms since the late 2000s (Interview in Beijing, May 2010). In this way, China can obtain not only the opportunities to enhance economic governance, but also legitimacy to push hard SOE reform.

CONCLUSION

Given that China's foreign economic policies largely originate in internal desires and needs (Yao 2015; Jia 2016), this study focuses on examining domestic policy ideas and interests in accounting for China's initiative of the AIIB. Stemming from its decade-long "going out" strategy, China attempts to maintain its infrastructure investments in developing countries with a further expanded

approach. That said, whereas bilateral arrangements were mainly employed in the past, China now desires to share not only financial and political burdens in expanding and promoting infrastructure investments in developing countries through multilateral institutions like the AIIB, but also its growth experiences that have been driven by state-led infrastructure investments. Besides, the high standards of the AIIB in choosing corporate partners for operating projects would certainly mobilize the toughest part of China's economic reform, such as large SOEs, where the infrastructure and financial sectors are concentrated. Indeed, even though AIIB projects cannot be monopolized by Chinese firms, opportunities for overseas infrastructure building would provide Chinese firms and sectors with great opportunities to help them remain in business.

More importantly, the creation of the AIIB shows that China intends to gradually expand, not replace, its approach to overseas infrastructure investment with a shift from bilateral-centered arrangements to multilateral ones. As noted, by learning from its past tough experiences in Africa and Latin America, China is attempting to enhance infrastructure building in Asian developing countries without taking on all of the financial burdens. This study also suggests that the financial clout of the AIIB would not only enhance China's political leverage over the region, but would also promote the export of China's remarkable growth experiences through infrastructure investments in developing countries (Breslin 2015). To some extent, China's initiative of the AIIB reflects a remarkable departure from its past practices, in that China no longer seeks to play within existing multilateral mechanisms in pursuit of more stakes and influence to exert. Instead, China chose to create a new multilateral mechanism that may gradually challenge the norms and rules embedded in existing ones. Indeed, up until the proposal of AIIB in 2013, China was actively engaged in the ADB projects for infrastructure building in Asia and trying to strengthen the ADB by financial assistance and cooperation. For example, in May 2009, the China Export and Import Bank and the ADB made an agreement to prepare at least \$3 billion dollars for projects in developing Asia, particularly in the area of infrastructure (Chin 2011). China's move to set up the AIIB rather than working within the ADB, however, sends an important signal that China under Xi Jinping's leadership is likely to change gears in order to establish a more parallel international order with multiple stakeholders. It is believed that such an order, which China has tried to enhance, would better reflect the interests of developing countries, as well as provide institutional safeguards for sustainable growth of the global economy. Ultimately, such efforts will realign global economic governance toward more diverse, multi-layered, and multi-centered global governance and institutions in the near future.

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