Department of Political Science, Major in Global Studies

Thesis in” International Public Policies”

The Asian Infrastructure Investment Bank: Why Did the European Countries Join the AIIB?

SUPERVISOR
PROF. Arlo Poletti

CANDIDATE
Manfredi ValerianI
MATR. 625632

CO-SUPERVISOR
PROF. Giuseppe De Arcangelis

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ABSTRACT

International Financial Institutions seek for reforms. This is particularly clear in institutions such as Multilateral Development Banks. China and other developing Countries have promoted several reforms to change a system that is mainly ruled by the US and its allies. Now China is launching its own new initiative that proposes itself as a new way to build international institutions: the Asian Infrastructure Investment Bank. The AIIB is the result of a new Chinese foreign policy based on the principle of achieving a "harmonious world" through development, mutual respect and win-win cooperation. Despite Chinese good intentions of proposing a new and efficient institution to reach development in Asia, the AIIB was early seen as mere challenge to pre-existing institutions. However, the AIIB managed to contradict these perceptions. Since its negotiations the AIIB was able to convince an incredibly high number of countries to become founding members. This success was not limited only to the Asian Region, it expanded in the west managing to convince many European Countries to join the initiative. Despite the negative opinion of the US many of its allies got involved in the project. The aim of this research is to investigate factors that may have affected these Countries' decision. The hypothesis is analysed with the lenses of the socialization theory. Therefore, the thesis introduces the Chinese foreign policy, the AIIB and its competitors and finally it tries to enlighten qualitative and quantitative variables that may have played an important role in the European countries' decision making process.

Keywords: Socialization, AIIB, Multilateral Development Banks, Chinese Foreign Policy, European Countries
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Introduction

Research Background

This thesis will present and analyse in detail the realization of the new China’s initiated Multilateral Development Bank: The Asian Infrastructure Investment Bank.

China’s foreign policy has changed during the years towards a more open and active role in the international arena. Since the adherence to the World Trade Organization in 2001 China has increased its participation in international organizations. However, the growing Chinese economic power and its global influence were not followed by a growing relevance within these institutions. China, and many other developing Countries, has been trying for years to propose reforms of the Institutions created under the Bretton Woods System. Their attempts to reform the system have never succeeded leaving the United States and its allies as major international players. Therefore, China and other Developing countries have started promoting their own institutions, namely the New Development Bank and the Asian Infrastructure Investment Bank. The two initiatives were launched almost simultaneously. However, while the New Development Bank has remained an institution that sees 5 countries as founding and only members, the AIIB had a great success in being able to push even Non-Regional countries to join it. At the time of writing, the AIIB counts 57 Prospective Founding Members and many other Countries have shown interested in joining it. Among these prospective members there are even many European countries. When the AIIB was initially launched nobody would have expected such a success. The initiative was highly criticized by the US that exhorted its allies not to join it. However, following the initial UK’s adherence to the Bank many other European Countries joined the Bank as well. It is difficult to analyse all the factors that influenced European Countries’ decision of joining the AIIB but this research will try to enlighten the major ones analysing different aspects of the socialization theory.
Research Purpose

The purpose of this research is to present the facts that will help understanding the European Countries choice of joining the AIIB. This research will also analyse the Bank’s political and financial implications, its history and the possible influence it may have on the international order. Eventually it would be possible to elaborate some conclusions helpful to understand and predict Countries behaviour in a period in which the international order is seeking for reforms.

Research question

Why Did the European Countries Join the Asian Infrastructure Investment Bank?

Research Significance

(Special audience) This research has been conducted for the Chinese audience and the European one as well. The Chinese audience can benefit from the contents of this thesis understanding the winning factors to conduct political and economic relations with western Countries. The European audience may be interested in the detailed analysis of the new initiative and of Chinese foreign policy.

(Contribution to the field) The AIIB is such a new institution that there is not much literature about it. It was recently created, It is innovative in its structure and in its implications and finally it created unpredicted reactions many Countries had. This research paper aims at understanding these reactions providing at the same time a detailed analysis of the Bank that at the moment is not available anywhere else.

(Contribution in materials) The research has been conducted with different materials. To reach an answer to the research question it has been needed to review statistical data, academic papers and official institutional and governmental documents. Data have been merged and organized creating a unique dataset on the European Country participation in international political and financial institutions.
Literature Review

In order to properly answer the research question, it was needed to identify an explanatory theory and to check whether or not it was verified by the study in analysis. I decided to take into consideration the socialization theory and its use in International Relations. Socialization is a central concept for different areas of the social sciences, from the individual level up to the Country level. In IR socialization is mainly used by constructivists and it is used to justify the behaviour of the newcomers and to understand how international organizations can shape Countries’ preferences. During the early stages of the research different academic papers and books were reviewed in order to obtain clear theoretical basis for the development of the thesis.

This thesis starts from the historical and political background that led to the establishment of the AIIB. The research started gathering information on facts and events related to early launch of the initiative. In this phase the research was conducted using mainly newspaper articles, leaders’ interviews and speeches as well as early official documents emerging from the negotiations for the Bank. The second stage of this thesis is to understand Chinese foreign policy and to see how the AIIB will allow China to reach credibility and good reputation on the international stage. To produce this part, it was necessary to review Chinese scholars’ papers as well as Chinese government’s announcements. In these sources the AIIB was often referred to as an innovative institution that will help to satisfy the Asian region needs for founding in order to foster development. International media didn’t payed much attention to the initiative until the US manifested their opposition to it. Even more attention was payed when US allies started to join the Bank expressing positive reviews on its negotiations and on the Chinese role in them.

The Articles of Agreement of the AIIB was used to develop the detailed analysis of the Bank’s purpose, shares and voting distribution as well as its governance and structure. Similar documents were used when comparing the Bank with similar institutions. Official documents establishing international institutions are the primary source to gather accurate data on their functioning.
These documents usually come in the form of international Treaties, presenting similarities but leaving space for differences that lead to the unique characterization of each institution. Reports by international financial institution and scholars’ papers were used to understand the financial and political implications of the Bank. Financial reports from the Asian Development Bank on the Asian Region have been a precious resource. They allowed for both a quantitative analysis on the region development status and a qualitative research of multilateral development banks’ main operation and functions.

Statistics released by the PEW Institute were reviewed for the analysis of the European perspective on China and US’ role in the international balance of power. The PEW Institute is an American statistical institute that provides data using samples of people from different countries around the world. Unfortunately not all the European countries taken into consideration in this research were questioned by the institute. However, data concerning European major economies were published. These countries behaviour is the most interesting since they are usually seen as the US major allies and therefore the most inclined to follow their instructions. Another dataset was created to understand financial links between European Countries and China. Data have been gathered from Eurostat (the European statistical institute) and were accurately organized to fit the purpose of this research. Further reviews of international media and scholars’ opinions were used during the whole research to strengthen the thesis conclusions.

Hypothesis

Reviewing the literature and the data concerning the AIIB and its European members there seem to be a series of reasons that have brought to the final outcome. The fact that, in the years they have been members of other MDBs, European Countries have developed a growing interest towards the promotion of development seems to be a primary reason. However, the choice of joining the bank seems to have been influenced by other and different factors. As often, political and economic implications have to be take into consideration. On one side there is the growing political interest in strengthening relation with an
emerging power like China; on the other one there is the willingness not to meet
series of opportunities for internal firms and economy.

The AIIB is theoretically not different from other similar institutions and
therefore there should be no surprise in seeing so much interest by advanced
countries. Practically the AIIB is a new and unique experiment that has no
precedents. The Bank will affect the current international order and the results of
this shock will be visible only in some years’ time. However, the early response of
many of the countries that could usually be considered in favour of the status quo
has been positive.

Research Methodology

This research is based on a mixed-methods approach. Due to the complexity
of the issue it was necessary to merge both qualitative and quantitative analysis. A
descriptive and analytical approach was used to understand the Chinese foreign
policy and to introduce the new MDB. A more comparative approach was used to
compare the different institutions. In this section great importance has been given
to the practice and law of these institutions providing comparisons of their
establishing treaties. In the end, a more quantitative approach was used. The final
chapter focused on the analysis of data and on the observation of surveys in order
to verify the validity of the different hypothesis.

Research Structure

The research is structured as follows:

Chapter One introduces the socialization theory and its implications for the
research. Following this introduction, the Chapter analyses the role of China as a
“newcomer” taking into consideration Chinese internal and foreign goals. The
Chapter moves from the analysis of the Chinese “new normal” to a presentation
of the One Belt One Road initiative (OBOR or Belt & Road or B&R).

Chapter Two tries to understand whether or not the AIIB is in line with the
principles of its predecessors. In doing so, the Chapter looks into the functioning
of the AIIB reporting a detailed analysis of the Bank’s Articles of Agreement, the
Financial needs of the Asian Continent and the political and financial implications of the bank, giving special attention to the status and the role of Non-Regional members.

Chapter Three draws the conclusions on the choice of the European Countries to join the AIIB. The Chapter introduces the dataset used to empirically demonstrate the argument of the thesis, it proceeds with the analysis of the results of the research and it ends considering different factors that could have influenced the European decision aside from the Socialization theory.

Research Limitations

The Asian Infrastructure Investment Bank is such a new institution that not many data and comments are available on it. At the beginning of this research the Bank website was almost empty and the Bank itself had a different logo.

While conducting the research more and more data and document came out. This was useful on one side but frustrating on the other. New data often were not in line with what had been previously written, forcing for a review of the whole research. However, this led to the attempt of maintaining an objective point of view, reporting data and comparing documents. Comments are made on facts and not on opinions or general belief.

This research does not make any forecast on future developments. It takes the information from a specific time, sees how they have changed in this period and tries to understand what happened. Being able to follow the different steps of the Bank’s creation helped understanding the importance of the negotiations themselves. It is in the time of negotiations that most of the innovative features of the Bank were introduced.

In conclusion, the initial lack of research material has revealed to be a strength more than a weakness. It pushed for a deep research of the literature concerning previous institution allowing at the same time for a better understanding of the AIIB itself.
CHAPTER ONE

Theoretical, Political and Economic Background of the Establishment of China-initiated AIIB
1.1 Why the AIIB? Introduction to the socialization theory.

There are several theories that can be used to investigate the research question of this thesis. Among them I decided to use the international socialization theory. I opted for this theory for a series of reasons. First, once proved right it allows for general conclusions on a group of countries rather than considering individual preferences. Second, it helps understanding not only the European perspective towards the Bank but even the Chinese one. Third, it is not too difficult to retrieve data needed to verify the thesis, allowing for smooth and clear proceedings of the research work.

Socialization is a relevant area of inquiry in several social sciences. Originating in sociology and social psychology and theories of in-group identity formation and compliance with group norms; it is also a core concept in studies like linguistics. “It ought to be a vibrant area in world politics as well since socialization would seem to be central to some of the major topics in international relations theory today: the formation and change of preferences; national identity formation; the creation, diffusion of, and compliance with international norms; and the effects of international institutions, for example”.

When considered within the international Relations theories, socialization is a central concept in social constructivism. Due to the different social sciences that uses and analyse socialization, it can be hard to identify a unique definition that fits the IR environment. Different perspectives over the topic may lead to

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different uses of socialization theories. In IR. Socialization can become an explanatory fact to understand both newcomers’ behaviour and society’s members’ attitudes. For the purpose of this research both these points of view can be useful. Socialization becomes suitable to understand both the Chinese perspective (newcomer) and the Europeans’ one (members of the society) over the new Bank. Starting from the Chinese perspective, we can take socialization as the “process by which social interaction leads novices to endorse expected ways of thinking, feeling, and acting.”⁶ “From this perspective, socialization is aimed at creating membership in a society where the intersubjective understandings of the society become taken for granted.”⁷ But why would a subject decide to conform to society’s behaviour? There are different answers to this question, among these the most interest one to understand China’s behaviour is related to reputation. Reputation is a key concept in many IR’s areas. Reputation is strictly related to credibility and credibility on the international theatre helps achieving durable and profitable agreements with other players. In sum, “the desire to establish a trustworthy reputation for future exchanges can be an incentive to engage in norm-conforming, pro-social behaviour.”⁸ For new countries aiming at playing an important role internationally, it may be hard to develop a good reputation. This is especially true for China. First, with a final aim of not seeking hegemony, China is getting out of the usual theories of power. Second, China’s reputation on many issues is not good. With the general prejudice of the lack of respect of human rights, the poor attention to the environment and the slowing of its economy (just to cite some of the international worries towards China) the Communist Party needs to show that China is aware of its problematics and it is hardly trying to overcome them. Therefore, to improve its reputation worldwide, China is promoting a series of initiatives that are universally recognizable as legit and socially-acceptable, with the AIIB among them all. The new Bank is not only an

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⁶ Ibid
⁷ Ibid
institution to promote development, it is also proposing to conduct its operations with particular care respect to the environment, efficiency and mutual respect. In short, the AIIB can be the proof for the sceptics that China, as a newcomer, is able to understand and use the principles that the international society recognizes as legit.

On the other side, another perspective of the socialization theory can help explaining the European Countries’ choice of joining the AIIB. For some scholars, mainly focussing on the constructivism approach, socialization can result in shaping a Country’s preferences. “Central to constructivism is the argument that institutions shape member-state behaviour through a macro-process often identified in the literature as international socialization: within the social context of IGOs, member-states interact on a regular and sustained basis, taking on new identities and interests”.  

9 “Thus, institutions may ultimately have their greatest effect on unit-level behaviour by shaping state interests.”

But how can we prove that socialization theory is successfully applicable to this case? How can it be demonstrated empirically? As it emerged from the previous paragraph there are some basic features that have to take place in order to verify the effects of socialization, namely the recognition of a pro-social behaviour and the appliance to this behaviour for a period of time. Does the case in analysis present such features? In order to answer this question is needed to consider a series of factors. First, is the AIIB conforming to a well-established pro-social behaviour? Second, did European countries joined institutions that could have shaped their interests and preferences towards the principle incorporated in the AIIB? Third, are there any other concurring factors that may have affected such a decision? It is not too difficult to answer these questions. Development is universally recognized as a fundamental issue, and there are several international institutions that work in order to foster it. The World Bank and the Asian

Development Bank are just two of the many IOs in which a series of countries collaborate and interact in order to provide aids and support to less developed Countries. However, if it is quite easy to see that the AIIB fits in an environment full of similar institutions, it is not so easy to understand if these institutions have influenced Countries’ decision to join the AIIB. To analyse this last query, I decided to elaborate a new and unique dataset that codifies a series of data that can possibly show some kind of relations between the membership of old institutions and the membership of the new one. When deciding to elaborate a dataset I opted for a mixed method of investigation. By mixed method, I mean a method that entails collecting, analysing and merging or integrating both quantitative and qualitative methods at different stages of the research\(^{11}\). The idea behind the choice of mixing the two methods lies in the fact that none of the two is sufficient to fully understand the issue and therefore, both are necessary.

Before working on the dataset, the analysis tried to identify some institutions that may have led to the establishment of a behaviour universally recognized by the global community as legit. Therefore, in the third chapter, I analyse a series of institutions, their scopes and their implications and I check if the AIIB adapts to their funding principles. In the same chapter I introduce the dataset. The dataset analyses the participation of the European Countries in different IOs. I tried to understand if the participation in similar institutions may have led to similar participation in the AIIB.

After observing that the participation in the AIIB has many similarities with the participation in other institutions such as the Asian Development Bank and the World Bank, I decided to investigate other reasons behind the adherence to the AIIB. I took into consideration economic interests and the public opinion’s impressions of China. Therefore, I retrieved data released by Eurostat concerning European investments to China and I took into consideration a survey made by the Pew Research Institute evaluating the Europeans’ perceptions of China’s role

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in the international theatre. Further information concerning the Dataset and the survey will be provided in the Third Chapter.

Before continuing to discuss the European perspective it is needed to provide a series of information about the AIIB, its political background and its scope within the Chinese foreign policy framework.

With the rise to power of the fifth generation Chinese leadership, starting in 2012, Chinese government has developed a new way of looking and having relations with the Asia Continent and with the rest of the World. The “Chinese Dream” vision announced by the leadership has started to be a regional and global vision more than just a national one.\textsuperscript{12}

The new leadership had to face new economic and geopolitical challenges. China’s economic growth has slowed down; therefore, new policies to ensure a regular and safe development have to be put in action. From the very beginning of its mandate president Xi Jinping has developed the term “Chinese Dream” which can be understood as “A promise to the general populace of continual improvement in prosperity”\textsuperscript{13}. This idea of development is not only related to China but it can be extended to its neighbourhood area. China needs to foster regional development for several reasons; firstly, it is in line with its view of “harmonious world”\textsuperscript{14}; secondly, China needs these policies to foster its credibility on the international arena\textsuperscript{15}; thirdly, the Asia-Pacific area is of fundamental importance both economically and geopolitically for China.

In this framework new foreign policies have been theorized and within them the creation of the Asian Infrastructure Investment Bank (AIIB), a new Asian Multilateral Development Bank (MDB).

\begin{itemize}
\item\textsuperscript{12} Zha Daojiong, China’s Economic Diplomacy, Focusing on the Asia-Pacific Region. China Q of Int’l Strategic Stud 2015
\item\textsuperscript{13} Zha Daojiong, China’s Economic Diplomacy,
\item\textsuperscript{14} Hu Jintao, “Nuli Jianshe Chijiu Heping Gongton de Hexie Shijie”[Strive to Construct a Harmonious World of Long-lasting Peace and Common Prosperity],”China.com.cn, September 15, 2005
\item\textsuperscript{15} David Daokui Li, “The AIIB as China’s Pilot Attempt to Reform the Global Economic Governance”. In Foreign Affairs Journal. CPIFA 116\textsuperscript{th} Issue Summer 2015.
\end{itemize}
Before explaining the main features of Chinese foreign policy the next section introduces the new guidelines included in the 13th Five Year Plan to face internal issues. These guidelines refer to the new way to development China is undertaking today namely the new normal.
1.2 The Strategic Importance of the AIIB: Chinese “new normal” and internal policy goals

The new leadership had to face a new era of Chinese development requiring a new policy direction. A brief introduction of the Chinese notion “New Normal” and its implications on the governmental initiatives will help understand the reasons behind the launch of the AIIB.

China has been a fast growing country for the last decades. Recently its economy has started to slow down still maintaining high levels of growth. The progress of Chinese economy has brought with it a new welfare among its people and a new level of development for the Country itself. The distribution of this welfare has become one of the main drivers of Chinese leadership’s policies. It is not surprising then that President Xi and his administration are popularizing terms such as “Chinese Dream”, “harmony”, “new normal” and “better world”. All these phrases summarize the general awareness of the leadership that a new momentum has come for China and that it is not “in China’s interest to make numerical growth targets the driving rationale for governance”.

These expressions even if repeatedly used by the leadership are not always clearly defined. However, they basically sub tend the need for new policies to be prosperity oriented more than merely growth oriented. It’s further important to notice that such words do not only focus on Chinese national policies but have to be considered as guidelines for both China’s own development and China’s relations with the rest of the world.

As a matter of fact China is becoming a major active player in the Asia Pacific development framework. Focusing on this specific area, China is able to reach several goals. First, China is aware of the need of strengthening its credibility on the international stage. Fostering Bilateral Investment Treaties (BIT) with small economies that are not of vital importance for Chinese economy it is a demonstration of the good faith in the realization of that harmonious and better

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16 Zha Daojiong, China’s Economic Diplomacy
17 Zha Daojiong, China’s Economic Diplomacy
world we mentioned before. Second, a strong and developed Asia-Pacific area will strengthen Chinese power of influence even at a global level allowing China to better face challenges coming from other global players such as the United States.

China is facing several internal issues that are addressed both with internal policies and external ones. The new normal is not only a plan or a new way of looking at Chinese economy and development. The new normal is the necessity to create a new way to manage new economic issues. One of the biggest problem within Chinese economy is overcapacity. In economics overcapacity is that condition where the supply is higher than the demand. As a matter of fact, many industries in China are now facing a situation of overcapacity. For instance, the steel production is now more than double the combined production of the four next leading global producers.1819 "In China’s aluminium industry, 60 per cent of production capacity has negative cash flow20; and according to data from China’s National Bureau of Statistics and the US Geological Survey, in just two years—2011 and 2012—China produced as much cement as the US did during the entire 20th century" 21. Another issue that is preventing China to reach a fully development condition is the rural areas problem. China’s territory is wide and each region is different from the others. However, Chinese economic growth didn’t redistribute development and welfare equally among its territory. While eastern cities flourished developing infrastructure and becoming advanced centres for financial and other economic activities the western regions remained mainly agriculture-based and underdeveloped. Chinese authorities are fully aware of this situation and they are ready to take action to foster a more equal development within the Country. The recently released 13th Five Year Plan contains provisions

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18 Japan, India, the United States and Russia
21 The European chamber of Commerce. (2016)."Overcapacity in China: an impediment to the Party’s Reform Agenda."
for these and other issues. Reforms of the State Owned enterprises and guidelines for pushing harmonization of development between regions are only small examples of the many practices the government will undertake in the next five years in order to stabilize the economic situation. However, internal policies are not the only ones that are taken into consideration. There is a strong connection between the internal issues and the external actions and many foreign policies initiative are supposed to have a strong internal impact on internal issues.

In conclusion, the new leadership has successfully promoted new guidelines to efficiently manage the new period China is entering into. These guidelines can be summarized with the expression “Chinese Dream”. The Chinese dream can be expanded to an Asia Pacific dream and finally to a world one. All of these “dreams” don’t have to be interpreted as merely rhetoric expressions; they are, in fact, supported by concrete projects and initiatives. For the national development we may take into consideration policies such as those promoted against corruption or the new usage of monetary policies. For the Asia Pacific dream, we may refer to the AIIB initiative and, for the global action, we may take into consideration the One Belt One Road initiative. All these projects have the same fundamental principles and differ only for the extension of their scopes. In the next sections, where new Chinese international initiatives will be introduced it will be shown how these actions will even help in solving internal issues such as overcapacity or the urbanization issue.
1.2.1 The Launch of Asian Infrastructure Investment Bank

President Xi and Premier Li Keqiang first addressed the project of the AIIB in 2013 during their visits in Southeast Asia. In the following months, steps towards the realization of the bank were taken.

“Representatives from 22 countries signed the October 2014 Memorandum of Understanding (MOU) to establish the AIIB and Beijing was selected to host Bank headquarters. Mr. Jin Liqun was appointed as the Secretary General of the Multilateral Interim Secretariat. The Secretariat was tasked to perform technical preparations for establishing the AIIB and to provide technical support and services for the Chief Negotiators' Meetings. The Prospective Founding Members established the Chief Negotiators Meeting (CNM) as the forum for PFMs to negotiate and agree on AIIB's Articles of Agreement (the Articles) and other issues related to the Bank's establishment. The first CNM was held in November 2014 in Kunming, China. A second CNM in Mumbai, India (January 2015) launched discussions on the draft Articles. It was followed by a third CNM in Almaty, Kazakhstan in March 2015. By the deadline of March 31st for submission of membership applications, the Prospective Founding Members had increased to 57, and the 4th CNM was organized in Beijing in April 2015. The final text of the Articles was adopted by the 5th CNM on May 22, 2015 in Singapore. The Articles were signed by all 57 PFMs between June 29, 2015 and December 31, 2015.”

The Articles entered into force on December 25, 2015, when instruments of ratification had been deposited by 17 Signatories with initial capital subscriptions totalling 50.1% of the shares allocated. The formal structure of the AIIB is the one of a Multilateral Investment Bank such as the Asian Development Bank (ADB) or the World Bank. Therefore, it should not be confused with national development banks that are national banks aimed primarily at fostering development within the borders of the Country they belong to. Lately they have started

22 AIIB official website: http://www.aiib.org/html/aboutus/introduction/history/?show=0 (retrieved on 26/03/16)
supporting and financing international initiative of national actors, this, by the way, doesn’t change their national nature. On the other hand, MDBs are international institutions whose members are States. They have the aim of providing loans to States entities in order to foster specific projects. In the case of the AIIB it is meant to provide finance resources to improve the infrastructure system of the Asian Member States that ask for funds.

The bank is supposed to foster development based on a modus operandi lean, clean and green. The bank is based on the lesson taught by pre-existing MDBs operating in the area and it is not willing to be their competitor. Discussions among the fact that the AIIB may be or not a political move in favour of redesign pre-existent institutions have flourished since the announcement of the project. The final scope of the AIIB is to promote development in a specific region, the Asian Region. However, the bank should not be considered as a merely regional institution since many non-Asian countries have joined the project, namely many European Countries. The Bank is written to have an authorized capital stock of 100,000,000,000 USD. The capital will be divided in shares owned by member states. Shares will not be distributed equally. They will be given following a complex system of proportional distribution, considering differences among Regional and Non-Regional members. This system and the system used for the distribution of the votes will be described in details later.

There are other similar Banks operating in the development field in the same region, namely the previously mentioned ADB. These institutions, by the way, are shaped around the international order that came out after World War II. They see the US and its allies as the major players. The ADB, for instance, is mainly ruled by Japan that, not surprisingly, at the time of writing, hasn’t joined the AIIB yet. These institutions do not provide enough decision power to developing countries creating an environment mainly ruled by the same actors. The AIIB in China’s and in its cofounders’ belief is not meant to compete with such organizations, but it is

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24 AIIB Articles of Agreement Chapter II Article 4.
supposed to act where the pre-existing institutions lack of efficiency. Again, it is shaped around the idea of “Harmonious World” that is currently shaping Chinese foreign policy. A world where more advanced and rich countries help less developed ones not only for economic interests but because it is in their duty to do so.

However, the AIIB means a lot even for China’s Economy and its geopolitical influence regionally and globally. It is said that its economy is “heavily dependent on the security of its supply chains that means that it must win trust and support of international society”\textsuperscript{25}. It is even of great importance for Chinese economy to have a strong and developed Asian region to create a profitable economic environment. This does not mean that China is seeking for hegemony in the region; it means that China is aware of the importance of an equally developed global environment and its key role in realizing it. This is what we may consider as the transposition to the global level of the “Chinese Dream”.

Once we have introduced the general ideas behind the launch of this new institution the final part of this Chapter introducing the Bank is dedicated to analyse in details the how the Bank’s projects fits in the Chinese foreign policy framework looking at its relation with other initiatives.

\textsuperscript{25} 8 Zha Daojiong, China’s Economic Diplomacy
1.3 China as a new comer: the AIIB and the Belt & Road Initiative:

There are several foreign policy objectives that may push China to foster a new Development Bank. However, when it comes to merely economic interests, one initiative above all seems to emerge: the new Belt & Road Initiative (B&R). This section will try to illustrate how the creation of the Asian Infrastructure Investment Bank is strictly related to the B&R. A following section will analyse the political goals that may be achieved with the new institutions and the challenges this new organization brings to China.

1.3.1 The Belt & Road initiative.

China’s has not had always the same attitude towards the international economic system. Due to the several internal changes happening in the XIX and XX century China has gradually moved from a position of isolation towards a more opened one. As far as economic integration with the rest of the world is concerned, the entrance of China in the WTO (11 December 2001) marks a milestone enlightening that China has “involved itself in globalization in an overall way”\textsuperscript{26}. In the last decades, the growing interest of China to be actively part of the international economic system it is not proved only by its adherence to pre-existing multilateral institutions but mostly by its promotion of new ones\textsuperscript{27}. However, multilateral institutions are not the only means China uses to foster its involvement in economic globalization. China is, in fact, promoting some personal initiatives aimed at fostering its integration with neighbourhood and western countries. The B&R initiative is a clear example. The Chinese National Development and Reform Commission (NDRC) first released the initiative details on March 28\textsuperscript{th} 2015\textsuperscript{28}. The initiative was earlier mention several times by president

\textsuperscript{27} Ibid., 337
Xi Jinping in many public speeches since 2013. The initiative consists of two parallel project: the “one belt”, a land-route linking west China to central Asia and finally to Europe and the “one road”, a maritime-route that from Chinese coast will allow goods to travel again toward Europe through the Indian Ocean the Persian Gulf and the Mediterranean Sea. The Silk Road started with the Han Dynasty (206 BC – 220 AD). At that time silk was transported from China to Roman Empire regions where it was exchanged for gold. At that time Camels and horses were used for the transportation. "Over the years, this network of routes was established in different directions for trade in silk and tea in exchange for horses and spices as well as gold, precious metals, jade and ivory." During the Ming Dynasty maritime routes started to be preferred, due to land routes not suitable for ceramics transportation. Following the old patterns, there are now different routes that are planned: three by land and two by sea. The project refers in the name and in the routes to the old Silk Road path that once linked western China to the Mediterranean Sea. The project entails the development of infrastructures and transportation facilities in order to create a favourable economic channel between China and the West. Infrastructure investment will involve 65 Countries covering the 63% of the world's population. The prime objective of the initiative may look to be a merely economic one. However, it entails much deeper political and integration implications. The realization of the B&R will foster financial and political integration among the countries involved in the project, will need agreements on trade and investment barriers and will finally

32 Ibid.
33 Northern route: Beijing-Russia-Germany-Northern Europe. Middle route: Beijing-Xi’an-Urumqi-Kazakhstan-Hungary-Paris. Southern route: Beijing-Kashi-Pakistan-Iran-Iraq-Turkey-Italy-Spain.
34 Starting from south China ports west to Indian Ocean, Europe and Africa. Fujian ports south to South Pacific
35 Tsao, R. (2015) ONE BELT ONE ROAD.
entail a strong cooperation on technological and information issues.\textsuperscript{36} The B&R is not only going to strengthen relations between China and all the countries on the B&R’s route, it is going to achieve important internal goals. China’s last decades’ development has enlightened the deep difference within the country, not only between reach and poor people but even between rich and poor regions. The west side of China has been kept away from the economic growth that led to the economic development of the coastal regions. The land route will start from Xi’an (西安) and will developed towards west passing through those regions that were kept away from the general development of the Country; this entails that in the future years many investments will be directed in those areas and many fundamental infrastructures will be constructed. All the regions and Countries that will take part in the B&R initiative are better displayed by the following picture\textsuperscript{37}.

![Map of the Belt and Road Initiative](http://insight.amcham-shanghai.org/chinas-one-belt-one-road-strategy/)

From this picture it is not hard to understand which the key countries of the project are. Area of interest of Chinese geopolitical actions can be noted too. Even if China has several agreements and good relations with many of the

\textsuperscript{36} Kennedy, S. & D. Parker (2015). “Building China’s ‘One Belt, One Road’

countries involved, the cooperation needed for the implementation of the B&R initiatives strive for more cooperative and multilateral institutions. Chinese authorities, aware of these needs, promoted the creation of the AIIB. The new institution can not only achieve the goal of provide funds to foster development in the Asian region, in doing so it will even found the realization of those infrastructures needed for the accomplishment of the B&R initiative.

1.3.2 The relevance of the AIIB for the Belt & Road initiative: foreign policy goals and multilateral diplomacy.

While the first section introduced the AIIB and its structure the previous part provided a brief analysis of the main characteristics of the B&R initiative. Merging now the two initiatives and understanding how they interact is simple. The B&R is aiming at create a series of routes for goods, services, energy and several other assets, going from China to Europe. The land and the maritime routes will develop mainly in the Asian region. Therefore, there are some basic goals that China has to achieve to allow a smooth realization of the project. Among these goals, stability and infrastructure development in the region are the most important. The AIIB is providing the region exactly with these two features. We enlightened how the first two articles of the Article of Agreement of the Bank uses many of the words that we can find in Chinese officials’ speeches when referring to the B&R initiative. Expressions such as “sustainable economic development”, “infrastructure connectivity”, “regional cooperation”, 38 as previously noted, can be often found when dealing with Chinese foreign policy. There are even references to the “harmonious economic growth” which is an expression that usually China uses for its internal policies 39. In these expressions we can find the Chinese willingness to promote a new sustainable and cooperative

38 AIIB Articles of Agreement Chapter I Articles 1 -2.
development not only within its borders but among its region of interest. What the AIIB will do is to provide a new peaceful institution with no other intents that allowing countries in needs to strengthen their economy and infrastructure apparatus. The B&R initiative is a Chinese project that will firstly benefit China itself. However, the AIIB is demonstrating that Chinese ideas for a new possible international order are based on mutual respect, cooperation and equal development. The B&R is ambitious, not only because it entails linking the two extremities of the Eurasian continent, but mostly because it needs an high level of integration that the region has not developed yet. Similar level of integration at a global level often was achieved on behalf of the need of an hegemon power as the US. China is the main actor in continental Asia so it is expectable that the integration needed will come from the pressure of China itself.

It has been argued that the B&R initiative and the new AIIB have close connections. The B&R initiative is an ambitious project that will connect China and Europe throughout two routes a land and a maritime one. Of great importance for the success of the project are both the development of the Asian region and a good level of integration among Asian countries. These needs cannot be achieved anyway else than through multilateralism. China needs to find a way to both provide funds and a cooperative environment in order to obtain the results it is seeking for. The new AIIB matches these needs. It is going to provide funds, it is going to be a multilateral institution where cooperation can take place and it is even going to allow for integration and investments beyond the simple Asian region. The AIIB is not only a new institution, is a contemporary institution based on the principles of equality and sustainability that in pre-existing institutions cannot always be found.

In conclusion, this chapter has introduced the AIIB initiative, has put it in the Chinese foreign policy framework and has asked the question of how it fits an ambitious initiative such as the B&R. The second section has tried to answer this very last question introducing the B&R, providing an historical background of the

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initiative and finally analysing how the AIIB will support the infrastructures needed to implement it. From the very beginning of the Articles of Agreements of the bank, it is possible to see how the new Bank is based on the Chinese spirit. It is aimed at create a “harmonious economic growth of the region as a whole and having special regard to the needs of less developed members”\textsuperscript{41}. China has a “Chinese Dream” for itself but keeps having a “World Dream” for other countries. The AIIB investment bank is going to cooperate to the B&R initiative that will mostly benefit China. However, why should other countries complain when Chinese initiatives will bring a clean and sustainable development, a high level of integration among countries and the possibility to start creating a fairer and equal international system?

\textsuperscript{41} AIIB Articles of Agreement Chapter I Article 2.
CHAPTER TWO

The AIIB: a compromise between innovation and well-established principles
2.1 The functioning of the AIIB

In the first chapter, it has been argued that the AIIB is the realization of Chinese desire for reforms of the existing International Institutions. China is trying to achieve this result by promoting a series of initiatives that will strengthen its reputation. It has also been stated that, with the AIIB, China is trying to promote the innovations it sees necessary while keeping a series of principles that the PRC and its international partners recognize as right and proper. In its basic structure, mode of operation and scopes, the AIIB is in line with its predecessors. However, the attention given to less developed Countries and some innovative features of its governing bodies, shows the original approach the AIIB will implement. This compromise between new and old is enlighten in this Chapter that, with its detailed description of the AIIB’s Articles of Agreement, the analysis of the Asian Continent’s financial situation and the study over non-regional members’ role in the Bank provides a detailed study of the Bank, its features and the environment in which it will operate. As it emerges from the Bank’s Article of Agreements the similarities with the AIIB predecessors focus mainly on the principles and in the general structure, suggesting that the Bank provides innovations keeping an eye on the general preferences of its public.

The Bank’s legal framework is the one of a usual International Financial Institutions (IFIs). It was established through an international treaty that creates the legal basis for its operations: the “Articles of Agreements” (AoA)42. International Financial Institutions and therefore Multilateral Development Banks are intergovernmental organizations (IGOs).

Purpose and functions of the Bank

The document starts defining the purpose and functions of the Bank. The scope of the Bank is mainly to foster a sustainable economic development in the

Asian region. In doing so it even aims at “promote regional cooperation and partnership in addressing development challenges”\textsuperscript{43}. These words underline that the Bank is not and will not be exclusively an international “financial” institutions. We can expect that fostering developments and promoting institutional cooperation will directly affect regional integration in the area.

What will be the exact functions of the Bank? Art. 2 helps defining them. To implement the purpose mentioned in Art. 1 the Bank will have several functions such as “promote investment in the region of public and private capital for development purposes”\textsuperscript{44}, and “utilize the resources at its disposal for financing such development in the region.

**Membership and Votes**

Members of the Bank can be divided into Regional and Non-Regional. Definitions of Asia and Oceania given by the United Nations are the basis for the division between regional and non-regional members\textsuperscript{45,46}. However as stated in Art 1 paragraph ii there may be exceptions to this definition if decided by the Board of Governors. Non-regional members are twenty, many countries from Western Europe as well as extra-Europe countries namely Brazil Egypt and South Africa.

Voting power has been distributed depending on the amount of shares\textsuperscript{47} acquired by each Country. These “variable” votes are added to the basic votes\textsuperscript{48} and to the additional votes allocated to Funding Members\textsuperscript{49}. The basic and

\begin{itemize}
  \item Articles of Agreement of the Asian Infrastructure Investment Bank. Art. 1 (ii)
  \item Articles of Agreement of the Asian Infrastructure Investment Bank. Art 2 (i)
  \item Articles of Agreement of the Asian Infrastructure Investment Bank. Art 1 (ii)
  \item «Composition of macro geographical (continental) regions, geographical sub-regions, and selected economic and other groupings» (http://unstats.un.org/unsd/methods/m49/m49regin.htm)
  \item Note that shares have been distributed depending on the parameters decided during the negotiations (mainly shares of world GDP for non-regional members. For further details, refer to The text of the Chief Negotiators' Report: http://euweb.aiib.org/uploadfile/2016/0204/20160204112514995.pdf
  \item Resulting “from the equal distribution among all the members of twelve (12) per cent of the aggregate sum of the basic votes, share votes and Founding Member votes of all the members. Articles of Agreement of the Asian Infrastructure Investment Bank. Art 28 (i)
  \item Articles of Agreement of the Asian Infrastructure Investment Bank. Art 28 (iii)
\end{itemize}
eventual Funding Member votes, allocated equally among all the contributors, entail that the voting power of small shareholders compared with the one of the major ones is higher.

**Capital and Operations**

Chapter II of the Articles of Agreements defines the capital, the amount and means for subscriptions, the terms of shares and the ordinary resources of the Bank.

The authorized capital stock of the Bank is 100 billion US dollars. The whole capital is divided into 1 million shares each of them having a value of $100,000\(^50\). The original authorized capital is divided into 20 billion dollars paid-in shares and 80 billion dollars’ callable capital. This is a usual division within MDBs and it is not much different from the capital division of private actors:

“They MDBs’ management of external resource dependence resembles that of private corporations in a number of respects. Like corporations, the MDBs are organizations that are heavily dependent on financial resources: they cannot operate on a shoestring but, rather, need large amounts of capital to carry out their organizational mandates.”\(^51\)

Therefore, "The MDBs raise money on international capital markets by issuing bonds, which consistently receive very high ratings from international bond- rating agencies such as Moody’s and Standard and Poor’s. A very important reason for these high ratings is that, in addition to providing liquid resources, leading shareholder, or donor, governments provide the banks with callable capital—pledges to back up the banks in case of financial distress.”\(^52\)

In short, the paid-in capital composes the liquidity the Bank can use for its operation while the callable capital is used as an accountability. High levels of

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\(^{50}\) Ibid., art. 4


\(^{52}\) Ibid., 35
Callable capital allow MDBs to receive good ratings that foster the image of MDBs bonds as sound investments.

The Board of Governors may increase the authorized capital stock of the Bank by a Super Majority vote. In this case, each member should be allowed to increase its own shares\(^53\). Criteria behind the distribution of shares are explained in the Chief Negotiators’ Report\(^54\) that states:

“Representatives noted that the basic parameter for allocation of capital stock to members would be the relative share of the global economy of members within the regional and non-regional groupings, respectively. Members’ shares of the global economy would be measured by reference to Gross Domestic Product (GDP), with the understanding that GDP share would be indicative only for non-regional members.”

This enlighten how negotiations have played a key role in achieving the final success of the AIIB. This allocation system is similar to the one used by other institutions. In this way the AIIB shows to countries willing to join it that they will granted the same guarantees they have in other IOs.

As far as Members’ liability is concerned, members are accountable only for the unpaid portion of the shares’ issued price and in any case a State “shall be liable, by reason of its membership, for obligations of the bank”\(^55\). Initial subscriptions of capitals shall be covered as reported in Schedule A of the AoA. With a current\(^56\) subscription of 98.2 billion dollars the total amount of capital is almost entirely covered. 73.4 billion dollars of the 75 allocated to regional members have been subscribed while as far as Non-regional members are concerned, 24.8 billion of the 25 have been subscribed. The total amount of not subscribed authorized capital is 1.6 billion dollars. This does not leave much shares for future members. During the 2016 BOAO annual conference held in

\(^{53}\) Articles of Agreement of the Asian Infrastructure Investment Bank. Art 4 (iii)

\(^{54}\) Chief Negotiators’ Report:

\(^{55}\) Articles of Agreement of the Asian Infrastructure Investment Bank. Art 7 (iii-iv)

\(^{56}\) At the time of writing (spring 2016)
Hainan, the President of the AIIB Jin Liqun said that there are more than 30 countries waiting to join the AIIB and that the member issue will be solved by the end of this year\textsuperscript{57}. Therefore, we may expect an enlargement of the Bank’s capital within the first year of its activity.

Chapter III of the AoA describes the operations of the Bank.

“The operations of the Bank shall consist of:

I. *ordinary operations*, financed from the ordinary resources of the Bank.

II. *special operations*, financed from the Special Funds resources.”\textsuperscript{58}

Recipients of the Bank could be: “any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the region.” The Bank could, in special circumstances, provide assistance to a different recipient but only if the Board of Governors, with a Super Majority vote have:

i. “determined that such assistance is designed to serve the purpose and come within the functions of the Bank and is in the interest of the Bank’s membership;

ii. specified the types of assistance under paragraph 2 of this Article that may be provided to such recipient”.\textsuperscript{59}

These words have strong implications. Even if the purpose of the bank is to foster development in the Asia region article 11 allows non regional member to receive financing from the bank. This possible situation must be proved to be direct to Asian region’s interests still, whether this will be the case or not, could create conflicts within the Bank on specific programmes.

\textsuperscript{57} China Daily: http://iosnews.chinadaily.com.cn/newsdata/news//201603/26/383516/article.html (retrieved on 26/03/16)

\textsuperscript{58} Ibid., art. 10

\textsuperscript{59} Ibid., art. 11
The Bank can carry out its operations:

i. “by making, co-financing or participating in direct loans;

ii. by investment of funds in the equity capital of an institution or enterprise;

iii. by guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development;

iv. by deploying Special Funds resources in accordance with the agreements determining their use;

v. by providing technical assistance in accordance with Article 15; or

vi. through other types of financing as may be determined by the Board of Governors, by a Special Majority vote as provided in Article 28”.\(^{60}\)

Furthermore, the bank may provide technical advice and assistance whether this consultancies serve the purpose of the Bank.\(^{61}\)

Limitations to the Bank activities are listed in article 12. Loans, equity investments, guarantees and other types of financing provided by the Bank within the framework of the \textit{ordinary activities} shall not exceed the total amount of the subscribed capital including reserves and profits. However, this “gearing ratio” can be increased up to a maximum of 250\% where allowed by a Super Majority vote of the Board of Governors.\(^{62}\)

In conducting its operations, the Bank has to follow a series of “operating principles” that are listed under article 13. The bank shall therefore:\(^{63}\)

\(^{60}\) Ibid., art. 11
\(^{61}\) Ibid., art. 15
\(^{62}\) Ibid., art. 12
\(^{63}\) Ibid., art 13
i. "operate guided by sound banking principles and the operations shall provide principally for the financing of projects or specific investment programs.

ii. respect the principle of not interfering within a member country sphere of competence, any operation in the territory of any member state should not be undertaken if that member objects it.

iii. Conduct operations in compliance with the Bank’s operational and financial policies checking if the recipient has access to other forms of financing from elsewhere at conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors.

iv. Provide guaranteeing and financing taking into account all the possible risks. Once the risk has been identified the Bank should proceed listing adequate conditions (such as rate of interest and other charges) to cover it.

v. Not place any restriction upon the procurement of goods and services form the proceeds of any financing undertaken under the framework of ordinary or special operations and should ensure that the proceeds of any activity the Bank undertake are used only for the purposes for which the financing was granted and with due attention to considerations of economy and efficiency.

vi. pay attention not to favour any member state with allocations of a disproportionate amount of the Bank’s resources. The Bank should then diversify its investments in equity capital."

Chapter IV disciplines the finances of the Bank. The powers article 16 recognizes to the bank are:

i. ” The Bank may raise funds, through borrowing or other means, in member countries or elsewhere, in accordance with the relevant legal provisions.
ii. The Bank may buy and sell securities the Bank has issued or guaranteed or in which it has invested.

iii. The Bank may guarantee securities in which it has invested in order to facilitate their sale.

iv. The Bank may underwrite, or participate in the underwriting of, securities issued by any entity or enterprise for purposes consistent with the purpose of the Bank.

v. The Bank may invest or deposit funds not needed in its operations.

vi. The Bank shall ensure that every security issued or guaranteed by the Bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any Government, unless it is in fact the obligation of a particular Government, in which case it shall so state.

vii. The Bank may establish and administer funds held in trust for other parties, provided such trust funds are designed to serve the purpose and come within the functions of the Bank, under a trust fund framework which shall have been approved by the Board of Governors.

viii. The Bank may establish subsidiary entities which are designed to serve the purpose and come within the functions of the Bank, only with the approval of the Board of Governors by a Special Majority vote as provided in Article 28.

ix. The Bank may exercise such other powers and establish such rules and regulations as may be necessary or appropriate in furtherance of its purpose and functions, consistent with the provisions of this Agreement”.

The AoA foresees then, under article 17 provisions for Special funds:

64 Ibid., art 16
i. “The Bank may accept Special Funds which are designed to serve the purpose and come within the functions of the Bank; such Special Funds shall be resources of the Bank. The full cost of administering any Special Fund shall be charged to that Special Fund.

ii. Special Funds accepted by the Bank may be used on terms and conditions consistent with the purpose and functions of the Bank and with the agreement relating to such Funds.

iii. The Bank shall adopt such special rules and regulations as may be required for the establishment, administration and use of each Special Fund. Such rules and regulations shall be consistent with the provisions of this Agreement, except for those provisions expressly applicable only to ordinary operations of the Bank.

iv. The term "Special Funds resources" shall refer to the resources of any Special Fund and shall include:

   (i) funds accepted by the Bank for inclusion in any Special Fund;

   (ii) funds received in respect of loans or guarantees, and the proceeds of any equity investments, financed from the resources of any Special Fund which, under the rules and regulations of the Bank governing that Special Fund, are received by such Special Fund;

   (iii) income derived from investment of Special Funds resources; and

   (iv) any other resources placed at the disposal of any Special Fund”.

The Board of Governors should determine at least annually what part of the net income shall be allocated, after making provisions for reserves, to retained earnings or other purposes and what part, if any shall be distributed to the members. Any decision of allocating the Bank’s net income to different purposes
from the one discussed above should be supported by a Super Majority vote. The
distribution shall be made in accordance with the number of shares each Member
State holds. 65

There should not be limits or restrictions on currencies for payments in any
country but, conversions’ conditions shall be released by the Bank.66 In case of
losses arising from the Bank's operations, the Bank may undertake a series of
provisions. The losses should be charged against the callable capital only as a last
resort.

2.1.5 Governance structure of the AIIB

The governance structure of the AIIB is one of the most interesting point of
the new institution. The AIIB take example from the structure of other MDBs:
governing organs are the usual ones but they have some peculiar characteristics.

The Articles of Agreement define the governance structure in Articles 21-31.

The Bodies governing the AIIB are: the Board of Governors (BoG), the
Board of Directors (BoD) and the President plus one or more Vice-Presidents.
Other officers and stuff may be considered if necessary.67 The great innovation of
the AIIB is with this dual board arrangement, and delegated authorities from the
larger BoG to the smaller BoD68. Each member has the right to appoint one
Governor (and one Alternate Governor with voting power only in case of
Governor's absence) that "shall serve at the pleasure of the appointing member".69
Therefore, there is a strong link between the member and its Governor that has
to be able to support its appointing member's position in the Board of Governors.
The Board of Governors shall meet annually and "shall serve without

65 Ibid., art.18
66 Ibid., art. 19
67 Ibid., art. 21
68 Chin, Gregory T. (2016). " Asian Infrastructure Investment Bank: Governance Innovation and
69 Articles of Agreement art. 22
remuneration from the bank" aside from "reasonable expenses incurred during meetings".\textsuperscript{70}

The powers of the BoG are listed in article 23 and are that at its first comma recites: "All the powers of the Bank shall be vested in the Board of Governors".\textsuperscript{71} Any or all the powers of the BoG may be delegated to the Directors. However, the BoG is not allowed to delegate the power to:

i. "admit new members and determine the conditions of their admission;

ii. increase or decrease the authorized capital stock of the Bank;

iii. suspend a member;

iv. decide appeals from interpretations or applications of this Agreement given by the Board of Directors;

v. elect the Directors of the Bank and determine the expenses to be paid for Directors and Alternate Directors and remuneration, if any, pursuant to paragraph 6 of Article 25;

vi. elect the President, suspend or remove him from office, and determine his remuneration and other conditions of service;

vii. approve, after reviewing the auditors' report, the general balance sheet and the statement of profit and loss of the Bank;

viii. determine the reserves and the allocation and distribution of the net profits of the Bank;

ix. amend the Agreement;

\textsuperscript{70} Ibid., art22 (iii)
\textsuperscript{71} Inbid., art 23(i)
x. decide to terminate the operations of the Bank and to distribute its assets; and exercise such other powers as are expressly assigned to the Board of Governors in the Agreement."72

However, even if the matter has been delegated to the BoD the BoD shall retain any authority on it.73 The BoG shall meet annually or can be called in by the BoD whenever requested by five members of the Bank. The quorum for the meetings should be constituted by a majority of the Governors " provided such majority represents not less than two-thirds of the total voting power of the members".74 Decisions in the BoD should be usually passed with a simple majority of the votes75. However, in case of important decisions it is required a specific majority that can be of two kinds:

- **special majority**: majority of the Governors and majority of the voting shares;
- **super majority**: two thirds of the Governors and three quarters of the voting shares.76

The members of the BoD are twelve and they are elected by the BoG. 9 members should be elected by regional representatives in the BoG and the other 3 should be elected by the non-regional ones.77 The Directors should be experts in economic and financial matters and shall represent members whose Governors have elected them as well as members whose governors assign their votes to them".78 The size and the composition of the BoD shall be reviewed from time to time by the BoG. The Board of Directors:

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72 Ibid., art 23 (ii)  
73 Ibid., art 23(iii)  
74 Ibid., art. 24(ii)  
75 Ibid., art. 28  
76 Ibid., art. 28 (ii-iii)  
77 Ibid., art 25 (i)  
78 Ibid., art 25
"shall be responsible for the direction of the general operations of the Bank and, for this purpose, shall, in addition to the powers assigned to it expressly by this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular:

i. prepare the work of the Board of Governors;

ii. establish the policies of the Bank, and, by a majority representing not less than three-fourths of the total voting power of the members, take decisions on major operational and financial policies and on delegation of authority to the President under Bank policies;

iii. take decisions concerning operations of the Bank under paragraph 2 of Article 11, and, by a majority representing not less than three-fourths of the total voting power of the members, decide on the delegation of such authority to the President;

iv. supervise the management and the operation of the Bank on a regular basis, and establish an oversight mechanism for that purpose, in line with principles of transparency, openness, independence and accountability;

v. approve the strategy, annual plan and budget of the Bank;

vi. appoint such committees as deemed advisable; and

vii. submit the audited accounts for each financial year for approval of the Board of Governors."\(^{79}\)

In short, the BoD is in charge of monitoring the management of the bank and of deciding upon the policies and the operations of the Bank. As the BoG could delegate to the BoD some of its powers the BoD can delegate decisions to the President if approved with a majority of at least three quarts of the voting shares.\(^{80}\) The new peculiarity of the Board of Directors is its non-resident nature.

\(^{79}\) Ibid., art 26
\(^{80}\) Ibid., art 25-27)
In other institutions such as the World Bank or the Asian Development Bank. This feature is not present. A non-resident and unpaid board will allow for both cost savings and efficiency. In institutions such as the World Bank or the IMF the prominent member states have representatives holding seats in a resident executive board. These representatives are actively involved in the institution's activity programmes and decisions.

"The in-residence board representatives act as a check on management and can influence the lending decisions of the global multilaterals at the Country Program level. The idea of a non-resident board was first posed in the early AIIB discussions by China’s minister of finance Jiwei Lou suggested that the new bank should be informed by the good practices of the existing multilateral lenders in the areas of environmental policy, governance structure, and loan assessment; however, the new bank should also strive to go a step further, by improving on these practices, cutting costs, and improving on efficiency."\(^{81}\)

The chairman of the BoD is the President of the Bank who is even its legal representative. The President should be elected with a Super Majority vote of the BoG through an open, transparent and merit-based process and he must be citizen of one of the Regional Member. The Vice-President is elected with a procedure similar to the President but he has not to be citizen of a Regional Member. The president should not be a Governor or a Director or an Alternate while in office. The term of office is five years and he can be elected for a second mandate. The president has no voting power either in the BoD\(^{82}\) he presides over or in the BoG whose meetings he can attend.\(^{83}\)

Article 31 is a specific article that can be found even in other MDBs. It remarks the political independence of the Bank and its staff and the duty of the Bank to not interfere with the internal matters of its members. More specifically:

\(^{82}\) The President is allowed to vote in case of an equal division.
\(^{83}\) Articles of Agreement art. 29
"The Bank, its President, officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the Bank."\textsuperscript{84}

\textsuperscript{84} Ibid., art 31
2.2 The Asian Continent: a Financial Outlook

The Asian Continent development has been driven mostly by major economies in the region that in the last decades have been the engine for the economic growth. The Asian economies are nowadays strictly interdependent with the Global economy. The last years’ crisis has affected Asian economies, having both positive and negative consequences.

The recovery of major industrial economies will help developing Asia to grow at a steady 6.3% in 2015-2016 almost like in 2014. While oil’s low prices are fostering developing Asia growth, a change in the price levels may lead to high disequilibria in the regional economies. Low oil prices slowing inflation and hence creating a favourable environment for lower interest rates, positively affects the economic dynamism. In time of low oil prices, policy makers should implement several policies in order to exploit the benefits of this situation85. Oil importers have a window of opportunity to “eliminate costly fuel subsidies or even raise fuel taxes with minimal disruption to household and business budgets”86. A new increase in oil prices would heavily affect developing Asia. “Simulations using a global macroeconomic model show that the impact of a sharp rebound in oil prices would be stronger in Asia than elsewhere”87. Furthermore, similar to the challenge that China is facing, developing Asia’s political leaders are challenged with the need to create a favourable financial sector to sustain economic growth88.

On the other side, new policies launched in China (such as the “new normal”) and in India (such as structural reforms to remove structural bottlenecks) highly affect neighbouring Countries. The growth moderation that China has experienced in 2015 will affect East-Asian Countries that are estimated to slow from a growth of 6.6% in 2014 to a growth of 6.3% in 2016. In the South-Asia Region the situation is slightly different. With India expected growth in 2016 of 8.2% and with

87 Ibid., 4
88 Ibid., 1
Countries such as Pakistan and Bangladesh implementing a series of beneficial economic reforms the South-Asia region is expected to grow of 7.6% in 2016⁸⁹. As on the international stage, the US growth is expecting to stabilize the mixed sings of growth and crisis that seem to come from the euro area and Japan. With the United States leading the major industrial economies these are expected to expand by 2.2% in 2015 and by 2.4% in 2016⁹⁰. Being the majors importers and investors for developing Asian Countries outside the region, a steady economic growth in the major industrialized States is expected to bring beneficial effects on the region. Furthermore, the growth in economies such as India and in most members of the Association of Southeast Asian Nations (ASEAN),” could help balance gradual deceleration in the region’s largest economy, the People’s Republic of China (PRC)”⁹¹. Structural reforms and new policies have been adopted all around Asia, yet the region lacks of a stable and developed financial sector. After having seen how questionable financial practice and products have led to the 2008-2009 financial crisis, many policymakers in Asia have been cautious in expanding the financial sector. The links between the financial markets and the global economic crisis are not the only reasons why policy makers find hard to trust the financial world, it is believed that developing the financial sector may lead to a worsening in inequalities. “Developing Asia’s deposits equal only 60% of regional GDP, compared with the average of 110% among members of the Organization for economic Co-operation and Development, and its bond markets equal less than half of GDP, a third of the 140% found in the advanced economies”⁹². Despite all this, however, since the beginning of the global financial crisis, developing Asia has been the main source of global growth. It could be argued that such a boost as come mainly by the development of the two major countries in the region: India and China. However, eight economies in the region

⁸⁹ Ibid., 6
⁹⁰ Ibid., 2
⁹¹ Ibid., 2
⁹² Ibid., 8
in almost every year since 2009 reached levels of growth exceeding the 7.0% percent including the Lao People’s Republic and Sri Lanka\textsuperscript{93}.

In a report published by the ADB institute in 2010 the Asian region requires USD 8,000 billion in the 2010-2020 decade to maintain economic growth and to actively fight poverty\textsuperscript{94}. The AIIB itself has an authorized capital of $100 billion the ADB of $150 billion and the World Bank around $200 billion. assuming they will invest all their capital in the Asian region, these institutions, could cover almost half of the region needs.

\textsuperscript{93} Ibid., 3
2.3 Financial and Political Implications of AIIB

Chapter I has introduced the fundamentals of the AIIB from both an ideological point of view. A brief analysis of the change in the Chinese leadership and ideology was followed by an analysis of the contents of the “Articles of Agreement”. This Section will discuss the political and financial implications of the Bank. It will first synthetize the Asian financial outlook and then will try to report some political issues related to the new Institution. In order to do so, both the Chinese and the European perspectives and objectives towards the bank should be introduced. While the Chinese implications will be introduced in this chapter the European once will be analysed in the next chapter that will be entirely focused on trying to understand the non-regional countries', especially the European ones’ behaviour.

2.3.1 The Challenges of the AIIB

The AIIB is itself a challenge. Launching a new institution within the existing international system is not easy. And in order to be efficient and to demonstrate that it can be a succeeding institution the AIIB need to find large consensus all over the world. Looking at what the AIIB is today, at the very early stages of its life it seems to have won this challenge. The AIIB is receiving positive feedbacks from different countries, regional and non-regional ones, developed or underdeveloped. It has all the right characteristic to be a solid alternative to the usual models. However, many challenges are still on Chinese shoulders. China has been successful in launching the Bank and in enlarging its members outside of Asia. However, many observers will look closely to the activities of the bank after the beginning of its works. China and other emerging economies have rightly complained for years that many international institutions (i.e. the WB) do not offer fair and equals right to all their members. They are further accused to work on procedures that are slow and inefficient and eventually they are addressed

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complaints due to the long-time requests for loans take to be accepted. China, supported by other BRICS Countries, heavily worked to reconstruct and reform within those institutions. In doing so China claimed to be able to propose a fairer style of global leadership. In the first chapter it was said that China is fostering the idea of an international system that does not see a hegemony power on its top. In the last decades the US have been the major power in the world and this affected the structure and the power-balancing within international institutions. China does not seek hegemony; it seeks a system based on mutual respect where any country has the right to achieve its “core interests”.

"Now that China has launched the AIIB has the duty to demonstrate that this new institution is coherent with the ideas China has been expressing in the international system for years."

In the previous chapter, while describing the AIIB's governance system, it was underlined the innovative power of having a non-resident Board of Directors. The resident board of directors of the world bank has an annual cost of around 70 million USD. However, a resident Board of Directors is not only expensive, bringing more layers of management it also slows down procedures and creates a general inefficiency over the Bank's operations. Another difference in governance between the AIIB and the WB the ADB or the IMF is in the presidency.

"The fact that the president of the World Bank has always been an American, the director of the IMF a European, and the governor of the ADB from Japan has generated controversy, questions about the fairness and transparency of the

selection process (merit vs. nationality of the candidate), and the even-handedness of the senior management in carrying out their duties."99

The appointed president of the AIIB is now the Chinese Jin Linqun. However, many observers seems to consider reasonable the choice of appointing a Chinese as the first president100. After all, China is the promoter and the main contributor of the Bank.

The main challenge China will have to face will be the usage of its "de facto" veto power. While analysing the Articles of Agreement it was enlightened that some decisions will need to be accepted by a super majority vote101. The super majority vote sets a threshold of 75% which means not only that Non-regional countries (accounting for a maximum of 25% of total shares) are not able to form a veto-block but, it also means that china (holding more than 30% of the total shares) will be able to have a strong impact on those decisions. China potential veto-power could have scared many countries preventing them to join the institution. Especially European countries could have feared an excessive influence from China. However the German ambassador to China, Michael Clauss, noted that using veto-power, even if possible, will be against China own interests.102 This is absolutely true. The purpose of the AIIB is to show that a new way of ruling international organizations is possible. If China will play the same role US plays in previous institutions, it will be China's big failure. The President of the bank himself stated that China will not try to dominate or politicize the decisions and the activities of the Bank103. On these lines the Minister of Foreign Affairs emphasized that the Chinese goal is to create an "inclusive and transparent bank and that "important idea is to achieve common development". Furthermore,

99 Ibid., 14
100 Ibid., 14
101 Among these we have issues related to the structure of the bank, membership, capital increases. (Art. 28 AoA)
103 Izumi Nakagawa and Manoj Kumar, “China’s Influence over AIIB a Concern Ahead of Founders’ Meeting,” 13 April 2015, http://in.reuters.com/article /2015/04/13/asia-aiib-shareholding-idINKBN0N40T620150413. (retrieved on 08/04/16)
the creators of the AIIB must ensure that the new bank adheres to strict guidelines on corruption prevention. Chinese officials emphasize that the AIIB will aim for “clean governance,” with a “zero tolerance” stance."104

Another huge challenge for the new Bank will be to meet the environmental and sustainable standards of the pre-existing institutions. The World Bank has imposed rules and restriction on loans when it comes to projects with a high ecological impact. There could be many projects that can be rejected for these reasons. For example, the WB since 2013 started lending money for coal-fired electricity projects only in "rare circumstances"105. Such a decision, while it could be satisfactory for developed Countries, often represent an obstacle for emerging economies such India. Indian authorities hardly criticized this decision arguing that these restrictions would have not allow a Country in extreme need of energy such as India with a cheapest and fastest way of producing it. Now India, having the first-largest coal reserves in the world and using coal in order to generate three-fifths of the nation’s power supply, is looking to the AIIB for 100 billion USD in loans for coal energy projects106. Some countries look at this as the demonstration that the AIIB will complement the other financial institutions, some others, look at this as the demonstration that the AIIB will fail in addressing environmental and social impacts.


2.4 Non-Regional Members

Regional Development Banks (RDBs) are usually aimed at fostering development in a specific region, yet many non-regional members join these institutions as financer of the banks activities. Why non-Regional countries join RDBs is an interesting question. Several answers may be given. It could be because the major RDBs act under the sphere of action of the United Nations or other major international organizations therefore members of these organizations are often pushed to join them to maintain a high level of integration with the institutions themselves. Alternatively, it may be because industrialized countries are interested in the development of poor countries notwithstanding the fact that do not have direct returns in terms of economic profits\textsuperscript{107}. The more plausible answer seems to be that countries, even non-regional ones decide to adhere to RDBs depending on political choice. Political choices may vary from State to State.

In the last Chapter these reasons and choices will be largely discussed taking as example the European Countries and their relations with the AIIB. However, as far as the AIIB is concerned we still can identify some differences with pre-existing RDBs. The new Bank operates outside of the sphere of pre-existing IOs. Even if the AIIB membership is opened to members of the International Bank for Reconstruction and Development or the Asian Development Bank\textsuperscript{108} there are no other linkages with other MDBs. The AIIB propose to collaborate with multilateral and development institutions but again, this does not imply any kind of legal relations with such institutions. Furthermore, the AIIB sees a great absent within its members: the US.

The US has driven the creation of most of the post WWII international institutions and, after their creation, has always been the main actor to operate within them. As shown from the following table\textsuperscript{109} up to 2006 whether the US do

\begin{footnotesize}
\textsuperscript{108} AIIB Articles of Agreement Article 3 (i)
\end{footnotesize}
not hold enough shares to actually control the operation of the institutions the G7 countries together do.

The AIIB has a new main player: China. China is taking the legal design of pre-existing institutions to create its own new way to international cooperation. It is then clear why non regional members such as Brazil and South Africa have joined the Bank. Brazil and South Africa, together with China, India and Russia are also referred altogether as the BRICS. BRICS countries are those major emerging countries that usually stick together in trying to create a unique block. More than this the BRICS, contemporarily to the launch of the AIIB have launched their own MDB the New Developing Bank, this institutions, its structure and its implications will be analysed later.

The Governance of the Multilateral Development Banks, 2006

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<tbody>
<tr>
<td>World Bank</td>
<td>42.9</td>
<td>16.4</td>
<td>Washington</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>IDB</td>
<td>45.7</td>
<td>30</td>
<td>Washington</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>AsDB</td>
<td>40.4</td>
<td>12.9</td>
<td>Manila</td>
<td>Yes (with Japan)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>AfDB</td>
<td>27.5</td>
<td>6.5</td>
<td>Tunis</td>
<td>No (second after Nigeria)</td>
<td>No</td>
<td>No</td>
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<tr>
<td>EBRD</td>
<td>62.6</td>
<td>10</td>
<td>London</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Annual Reports, World Bank, IDB, AsDB, AfDB, and EBRD.

The G7 is a group of industrialized countries currently consisting of: the United States, the United Kingdom, France, Germany, Japan, Canada and Italy. Annual meetings of the G7 are held regularly since the 1970s.

CHAPTER THREE

The European Countries’ choice of joining the AIIB
3.1 Defining a Socialized Behaviour: The AIIB and Other International Organizations

Due to the political and financial implications that have been analysed in the previous chapter, it is not easily understandable why the European Countries joined the AIIB. Firstly, the new bank represents a new step in reshaping global governance and the US, historically allied with European Countries, seems to oppose to that. Second, the new bank doesn’t allow non regional country to play a great role within its institutional framework leaving, on the other side, great power to China with its almost 30% of shares and voting power. Third, financial requests from the bank even if not too large still have some risks and could affect national accounts. In order to better investigate this issue, it could be interesting to start comparing the participation of the Countries in analysis in other international institutions. In order to do so, researches on the topic have been synthetized in a dataset taking into account several variables. Institutions taken into account are very different. It’s very hard to analyse Countries' behaviour and several explanatory variables should be considered in order to see which could really be valuable for the analysis. Institutions put in the dataset are mainly of three kinds: financial ones, those fostering integration and a possible common behaviour on the international stage and finally those promoting security cooperation. These were chosen because of the three main reasons that may affect Countries behaviour: finance, cooperation and security.

As mentioned in Chapter one, this research is based on a socialization theory and in order to verify it, it is needed to define and codify some concepts. The socialization theory affirms that institutions can affect its member behaviour and preferences homologating them to general principles and socially approved attitudes. Bringing this assumption to the case in analysis, is it possible that the membership in institutions similar to the AIIB has brought European Countries to join the new Bank? In order to answer this question, the dataset synthetizes available data on Countries membership in different IOs. The different
institutions taken into consideration are described and compared the AIIB in the next section of this Chapter.

To understand the choice of countries from the European continent to join the AIIB it is first important to understand these countries general behaviour towards similar institutions. The dataset that has been created tries to summarize the participation of these Countries in other international organizations. The organizations taken into account are either financial institutions similar to the AIIB or International Organization whose participation to could be an explanatory fact of a common political behaviour. Data have been gathered mainly from the treaties establishing the different institutions.

Not Financial Institutions taken into consideration are:

- The European Union (EU)
- The Schengen Agreement
- The Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF)
- The North
- Organisation for Economic Co-operation and Development (OECD)
- Atlantic Treaty Organization (NATO)

Multilateral Development Banks taken into consideration aside from the AIIB are:

- The Asian Development Bank (ADB)
- The World Bank Group (WB)
- The European Bank for Reconstruction and Development (EBRD)
- The African Development Bank (AfDB)

Introducing these institutions will not only help understanding why European countries joined them. This wide and detailed introduction will allow for a better comparison of some of these institutions with the AIIB itself. Political
institutions reported here can be an example of how institutions created to foster economic cooperation may evolve in highly integrated organisms. This is the case of the EU. Presenting pre-existing financial institutions will enlighten their internal issues and their inability to face many of the challenges of the today international system. We will start focusing on international institutions that are not MDBs. We will proceed in this way for two main reasons. First, being part of an integrated community of countries can imply a common behavior by its members; for example, we may expect countries member of the EU to act in a similar way. Second, in the academic debate the AIIB is often referred to as more than a simple financial institution. Analyzing how economic institutions fostered integration in a specific region (i.e. The European continent) could provide examples of how the AIIB may develop in the future. The chapter will then list a series of financial institutions that are very similar to the AIIB. While introducing these institutions it would be easy to compare them to the AIIB looking at the specific innovations the New Bank will provide.

3.1.1 Excluding Variables: The AIIB and Non-Financial International Organizations

Many of the non-regional members of the bank are actively members of several other international institutions and agreements. Could that help explain their interests in the AIIB?

The belonging to the European Union, for instance, could be of great interest for the current research due to the peculiar institutional framework and high level of integration this institution provides. The EU has nothing in common with the AIIB, but its member states have many relations and common behaviours. The EU has not an effective common foreign policy; even though with the Lisbon Treaty there has been an attempt of fostering a more integrated foreign policy, Countries decisions on international relations issues are still mainly
in the hands of their governments. As it is clear from the dataset many countries that are members of the EU have not joined the AIIB. However, many of these EU countries that have not joined the Bank are minor EU members and as other data show they usually are not members of other MDBs. These early results seem to enlighten the importance of participation in AIIB’s similar institution more than in International organization that may foster integration and common behaviour among their members. The fact that major EU economies joined the bank enlightened the lack of a common foreign policy. There has been no coordination among the different EU countries and everyone mainly followed the UK Decision. By rushing to apply to the AIIB in the last two and a half weeks of March, European countries displayed a remarkable lack of foresight and coordination in dealing with China, a skilful counter-party. It is not possible to know now whether the EU Countries will be able to join forces or not during the workings of the Bank. It is important to notice that major European Countries are even among the most developed worldwide. They have often been interested in development and have played an important role in financing and ruling MDBs in the last decades.

Furthermore, the EU is interesting due to its integration process. Today, the EU is such a peculiar institution that often scholars have difficulties in finding a proper categorization. The European integration started back in 1951 when six Countries launched the European Coal and Steel Community (ECSC) with the Treaty of Paris (entering into force in 1952). From that initial Community that had no other means that creating an integrated access and exchange of specific resources the integration proceeded leading to what we know today as the EU. Therefore, it could be a mistake to affirm that the AIIB has only financial implication. Using a long term perspective, we may expect that the AIIB (with the

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114 Belgium, France, Italy, Luxembourg, the Netherlands and West Germany
help of other initiatives such as the one belt one road) may lead to a more integrated Asian Continent.

We saw in the first Chapter that the AIIB has strong links with the One Belt One Road initiative. It was further said that the integration needed to reach the ambitious goals posed by the B&R may imply economic and political agreements creating common regulatory standards and free trade zones. Following the dual scope of identifying possible explanations for European countries membership of the AIIB and at the same time better understand the new institution we choose to take into consideration the Schengen agreement. Reasons why the belonging to the Schengen area was chosen are similar to those valid for the EU. The Schengen agreement creates a free borders’ control area\footnote{The Schengen Area (2008). European Commission.}. Being member of such a treaty should not affect the behaviour of member states since it is meant to be only a free visa zone. However, we can expect that countries that are able to abolish controls at their common borders may be such integrated to take some common and predictable decision in foreign policy. Results arising from a very early comparison between memberships of the AIIB or of the Schengen Area seem to suggest a conclusion alike the one valid for the EU. Belonging to the Schengen Area seems not to be an important variable. On the other side, there is a very important institution on which it could be interesting to quickly focus: the OECD. The OECD was established between September 1960 and September 1961 when the new institution officially superseded the Organization for Economic Co-operation and Development (OEEC). The OECD’s mission is to promote policies that will improve the economic and social well-being of people around the world\footnote{OECD official website. \url{http://www.oecd.org/about/} (Retrieved on 21/03/16).}. The OECD is then more a political institution than an economic and financial one. It is an intergovernmental institution with a low level of supranationalism\footnote{Fabbrini, S. (2007). Compound democracies: why the United States and Europe are becoming similar. Oxford University Press.}. As an intergovernmental forum the OECD allows for cooperation among members’ government on several topics such as economic...
social and environmental ones. Members of the institutions are currently 34; 21 Countries from the EU plus other 13 countries. Among these last ones it is important to mention countries such as Australia, South Korea, New Zeland and Turkey. These countries are important because while they are members of the OECD they are also regional members of the AIIB. If it is true that non regional members are not allocated enough votes within the AIIB to create a block it is even true that all the OECD member that joined the Bank hold more than 25% of the votes. The AIIB could not allow for the usual blocks that we have within other international institutions but we can still expect new form of cooperation and cartels to be born within it. Furthermore, being part of the AIIB’s preliminary discussions, OECD members were able to influence its rules and procedures. In doing so they cooperated to provide the new institution with the OECD principles of economic and social well-being. The AIIB is therefore the result of the merge between the Western and Chinese principles of cooperation and development. The result of mixing new principles and past experiences was even stressed by the Bank’s President-designate Jin Liqun. In December 2015 President Jin noted:

“our shareholders have worked tirelessly and collegially over the past year to articulate the foundational principles that will underpin the Bank – transparency, openness, accountability and independence—and to develop a state of the art charter and robust policy and governance framework to guide its operations. It is enormously gratifying to see their vision realized. AIIB will offer an innovative financing platform tailored to Asia’s infrastructure financing needs today, and those of future generations. The Bank looks forward to joining the family of multilateral development partners in contributing to broad-based economic and social development in Asia through sustainable infrastructure investment”.

120 AIIB – official website: http://www.aiib.org/html/topic/President-designate/
In these words, the president recalls the participation of all the shareholders to create something new based on the sound principles and endowed with a valid governance structure. The collaboration between developed and developing Countries since the early stages of the creation of the AIIB suggest that the bank can represent a new forum for constructive discussion between these two entities. This will be one of the greatest innovation brought by the AIIB. In an international framework that seeks for reforms the Bank could be a first step towards changes that have been impossible within pre-existing institutions.

We will now keep on investigating possible factors that have affected the European Countries decision. It was previously stated that there could be security reasons behind the choice of joining the AIIB. Even if the Bank has nothing to do with security issues, fostering specific kinds of development and integration may lead to new security frameworks. The NATO is an intergovernmental military alliance established with the North Atlantic Treaty signed on April the 4th 1949. However, NATO is more than a simple military alliance, since NATO’s essential purpose is to safeguard the freedom and security of its members through political and military means. Political issues are also addressed. This means that from the members of NATO we could expect a common behaviour. Furthermore NATO is usually considered to be under the strong influence of the USA. Considering the US negative attitude towards the new Chinese Bank how did NATO members behaved? Looking at the data the answer to this question seems to be similar to the one given for the EU members. Not all of the NATO members joined the AIIB; still the major players after the US (i.e. Germany and France) joined it careless of the American Opinion.

Aside from NATO another institution that has been considered is the Association of Southeast Asian Nations is an International Organization. The

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ASEAN is aimed at promoting economic and political cooperation. It was founded on the 8th of August 1967. Its founding members were Indonesia, Malaysia, the Philippines and Thailand. From that date the membership status has been enlarged to Brunei, Cambodia, Laos Myanmar and Vietnam's. The Association's scope is to foster economic growth, social progress and socio-cultural development among its members. In addition, the Association provides a Forum for the protection of the regional stability and for the peaceful settlement of disputes. The purposes of the Association are better explained in the ASEAN Declaration and they should be:

1. "To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations;

2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;

3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;

4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;

5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement

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124 "The Asean Declaration (Bangkok Declaration) Bangkok, 8 August 1967".
of their transportation and communications facilities and the raising of the living standards of their peoples;

6. To promote South-East Asian studies;

7. To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves".¹²⁶

Therefore, ASEAN is an organization of specific regional members. There should be no utility in linking it with the AIIB's Non-regional members and their decisions. However, the ASEAN is connected with a series of other organizations and Forums that are more interesting for the aim of this research. Above them all there is the ASEAN Regional Forum that, despite the name, sees the participation of many Non-Regional Countries. The ARF was established during the 26th ASEAN Meeting and Post Ministerial Conferences held in Singapore on 23-25 July 1993. ARF’s inaugural meeting took place in Bangkok one year later.¹²⁷ The objectives of the ASEAN Regional Forum are outlined in the First ARF Chairman's Statement (1994), namely:

1. to foster constructive dialogue and consultation on political and security issues of common interest and concern; and

2. to make significant contributions to efforts towards confidence-building and preventive diplomacy in the Asia-Pacific region"¹²⁸

The ARF is an expansion of the ASEAN involving key global players such as the US and The European Union. Their adherence to the ARF may be an indicator of their great interest for the Asian Region that could be related to the choice of joining the AIIB. However, it is important to enlighten that China is not part of ASEAN. Instead, it is part of the ASEAN Plus Three. Therefore, the AIIB,

¹²⁶ The Asean Declaration.
¹²⁸ Ibid.
gathering regional and non-regional members of the ASEAN and its Forums, may be able to affect dialogue and cooperation of these Countries. If the AIIB will manage to do so, it may be a further goal scored in favour of a more harmonious and cooperative Asian region.

3.1.2 Identifying Explanatory Variables: The AIIB and its similar institutions.

Now we will proceed comparing the AIIB with its direct competitors. It was interesting to introduce some of the major international institutions since their membership may have affected the choice of joining the AIIB. However, this section will focus on the membership to other MDBs. This membership has a dual implication. On one side being member of another MDB may be the proof of one Country’s interest in development. On the other side it may enlighten a lack of desire of innovating these institutions. As we will see reporting the results, the analysis seems to confirm the first hypothesis more than the second one. Moreover, all these institutions have several weaknesses. From the lack of representation of new developing countries to their high level of democracy that often leads to lack of efficiency and high operational costs.

We will start Asian Development Bank. The ADB is the most similar institution to the AIIB. Established on December the 19th 1966 it is a Regional Multilateral Development Bank129. As the AIIB some Non-regional members are part of the organization for a total of 19 countries outside the Asia and Pacific Region. Voting power is distributed depending on members’ capital subscription. Different categorization of the members can be made depending on whether countries are borrowers or not. Among the Non-borrowing shareholders, we see the predominance of the US and Japan that together hold 31.1% of the total shares’ amount (Japan 17.6% and US 15.6%). Among the borrowing countries we find China holding 6.4% of the total shares and India holding 6.4%. Non-

129 ADB official website. http://www.adb.org/about/history (retrieved on 25/03/2016)
borrowing countries hold a total of 66.9% of shares and consequently almost 70% of the voting power\textsuperscript{130}. The purpose of the bank is similar to the AIIB’s one. In the ADB’s founding agreement we can read:

The purpose of the Bank shall be to foster economic growth and cooperation in the region of Asia and the Far East (hereinafter referred to as the "region") and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually.\textsuperscript{131}

In addition, even the functions of the bank are similar to the AIIB’s:

To fulfil its purpose, the Bank shall have the following functions:

i. "to promote investment in the region of public and private capital for development purposes;

ii. to utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to those regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less developed member countries in the region;

iii. to meet requests from members in the region to assist them in the coordination of their development policies and plans with a view to achieving better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their foreign trade, in particular, intra-regional trade;

iv. to provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals;

\textsuperscript{130} Ibid., http://www.adb.org/site/investors/credit-fundamentals/shareholders.
\textsuperscript{131} Agreement Establishing the Asian Development Bank. Art. 1
v. to co-operate, in such manner as the Bank may deem appropriate, within the terms of this Agreement, with the United Nations, its organs and subsidiary bodies including, in particular, the Economic Commission for Asia and the Far East, and with public international organizations and other international institutions, as well as national entities whether public or private, which are concerned with the investment of development funds in the region, and to interest such institutions and entities in new opportunities for investment and assistance; and

vi. to undertake such other activities and provide such other services as may advance its purpose"

The ADB has many similarities with the AIIB, the governmental structure is similar too. The only main difference is the absence of the US and Japan within the AIIB’s members. The decision of joining the AIIB could then be seen as a choice made by countries deciding to follow either China or the US. However, from the analysis of the data, it emerged that there is not a real difference in members between the ADB and the AIIB. Maybe developed countries are really moved in this kind of decision by the mere interest of helping developing countries. It is however true that the AIIB opens a series of business opportunities for these countries.

As described in the previous chapter the ADB is an old institution, with the incapacity to represent equally developing countries and developed countries and without enough resources to properly address the financial needs of the Asian region. However, a new MDB that even if it has some features similar to the AIIB did not have the same success worldwide. The New Development Bank is a new Development Bank promoted by the BRICS. Due to the fact that is has been promoted by the BRICS that for the moment are the only members, it is also referred to as the BRICS Development Bank. The NDB was not included in the dataset since it none of the Countries taken into consideration has joined or has expressed the willingness to join the Bank. The institutionalization of the NDB has been almost contemporary with the launch of the AIIB. The idea of the NDB was born from the proposition advanced by India in 2012 during the fourth
BRICS summit held in New Deli. However, the final decision of launching the NDB was taken in 2013 during the fifth BRICS summit held in Durban (South Africa). The article of Agreement was signed in the following summit (the sixth BRICS summit) on July the 15th 2014. Similar to the AIIB and other MDBs the Article of Agreement of the NDB sets the legal basis for the new institution. The authorized capital was set at 100 billion USD. Similar to the AIIB the capital has been divided into one million shares having a par value of 100,000 USD. The NDB may look similar to the AIIB due to China playing an important role in establishing it and due to the fact that it is a new institution operating outside of the Bretton Woods system. However, the NDB is very different from the AIIB. The NDB is more exclusive than the AIIB. While the AIIB is opened to different countries’ contribution, the NDB is dominated by the BRICS both in its governance and in its purposes. This can be demonstrated by a series of arguments. First, the purpose of the NDB is slightly different from the AIIB intent. While the AIIB focuses on development in the Asian region, the purpose of the NDB is:

To mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging market economies and developing countries to complement the existing efforts of multilateral and regional financial institutions for global growth and development.

The purpose of the NDB is then more restricted than the AIIB’s one. Second, there are some limitations even as far as membership is concerned. Even if the NDB is opened to members of the United Nations the founding members of the Bank are only BRICS countries. This could explain why western countries didn’t join the Bank. One of the reasons why European countries joined the AIIB, as said by many officials, was to influence and participate in the creation of the Bank itself, providing expertise and experience. Third, the exclusiveness of the NDB can be seen even in its presidency, the president of the NDB has to be

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133 NDB Agreement on the New Development Bank – Fortaleza July 2015. Art 2
elected from one of the founding members\textsuperscript{134} (therefore among BRICS Countries). This remarks that there is not much spaces for other countries to efficiently affect the new institution. The AIIB seems to have all the characteristics to propose a new way of ruling international institutions, on the other side the NDB seems just to propose the old order with new leaders.

When describing the MDBs system, it is impossible not to consider the WB. The World Bank Group is a family of international organizations specialized mainly in loans and activities related to funds for countries. It operates within the United Nation legal framework and it consists of five agencies:

- \textit{The International Bank for Reconstruction and Development (IBRD)} that lends to governments of middle-income and creditworthy low-income countries\textsuperscript{135}

- \textit{The International Development Association (IDA)} that provides interest-free loans — called credits — and grants to governments of the poorest countries\textsuperscript{136,137}

- \textit{The International Finance Corporation (IFC)} that is the largest global development institution focused exclusively on the private sector. It helps developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments\textsuperscript{138}.

- \textit{The Multilateral Investment Guarantee Agency (MIGA)} that was created in 1988 to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people’s lives.

\textsuperscript{134} Ibid., Art. 13 (i)

\textsuperscript{135} WBG official website. \url{http://www.worldbank.org/en/about}. (Retrieved on 22/03/16).

\textsuperscript{136} WBG official website. \url{http://www.worldbank.org/en/about}. (Retrieved on 22/03/16).

\textsuperscript{137} The IBRD and the IDA together make up the World Bank

\textsuperscript{138} WBG official website. \url{http://www.worldbank.org/en/about}. (Retrieved on 22/03/16).
MIGA fulfils this mandate by offering political risk insurance (guarantees) to investors and lenders.\(^{139}\)

- The International Centre for Settlement of Investment Disputes (ICSID) that provides international facilities for conciliation and arbitration of investment disputes.\(^{140}\)

With 194 members and having provided almost USD61 billion in loans and assistance services to developing countries in 2014\(^{141}\) it is the largest multilateral development bank in the world. The WBG became operative after the ratification of the Bretton Woods Agreements. The Group has received many criticisms on several levels. From the efficiency of its operation to the effective contribution to developing countries.\(^{142}\) Aside for the complaints related to its modus operandi many members moved critics to the distribution of the voting power and the following capacity for emerging countries to modify the institution. Within IBRD The United States and Japan have together 23,05% of the voting power while China holds only the 4.71% and India the 3.10%; countries of the BRICS together hold 13.42% of total votes shares\(^{143}\). With these percentages, that are similar in all the other agencies of the Group it is very hard for any number of developing countries to actively influence the activities of the WBG.

A special institution included in the dataset to remark the pitfalls of the current international system is the European Bank for Reconstruction and Development. The EBRD is an international financial institution that operates since the 90s. It is not a proper Multilateral Development Bank since from the


Agreement Establishing the European Bank for Reconstruction and Development 71 we find references to foster transition to market-oriented economy more than to foster development. As a matter of fact, the EBRD was founded in 1991 and it was initially aimed at financing development in those European Countries that during the cold war were under the influence sphere of the Eastern Block. In the years the EBRD expanded its area of interest operating in Central Asia and in Southern and Eastern Mediterranean regions. The global character of the EBRD is given even by its 65 owner countries and the participation in the ownership of international organizations such as the EU and the European Investment Bank. In spite of its name the main shareholder of the Bank is the US. While other financial institutions are usually quite generic when it comes to identify recipients of their operations, the EBR is quite strict on this. The strictness of the Bank is clear since the very beginning of its constitutive agreement. Article 1 recites:

"In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics."

The aim of the Bank is further explained in Article 2 paragraph one:

“To fulfil on a long-term basis its purpose of fostering the transition of Central and Eastern European countries towards open market-oriented economies and the promotion of private and entrepreneurial initiative, the Bank shall assist the recipient member countries to implement structural and sectoral economic reforms, including demonopolization, decentralization and privatization, to help their economies become fully integrated into the international economy by measures:

144 Agreement Establishing the European Bank for Reconstruction and Development. Article 1
145 EBRD official website: http://www.ebrd.com/where-we-are.html (retrieved on 16/03/2016)
146 Agreement Establishing the European Bank for Reconstruction and Development. Article 1
i. to promote, through private and other interested investors, the establishment, improvement and expansion of productive, competitive and private sector activity, in particular small and medium-sized enterprises;

ii. to mobilize domestic and foreign capital and experienced management to the end described in (i);

iii. to foster productive investment, including in the service and financial sectors, and in related infrastructure where that is necessary to support private and entrepreneurial initiatives, thereby assisting in making a competitive environment and raising productivity, the standard of living and conditions of labour;

iv. to provide technical assistance for the preparation, financing and implementation of relevant projects, whether individual or in the context of specific investment programmes;

v. to stimulate and encourage the development of capital markets;

vi. to give support to sound and economically viable projects involving more than one recipient member country;

vii. to promote in the full range of its activities environmentally sound and sustainable development; and

viii. to undertake such other activities and provide such other services as may further these functions

The EBRD is clearly an institution with strong political implication. Differently from the AIIB that has a neutral political nature, the EBRD was launched with the specific purpose of influencing the political and economic framework of the countries it financed. While the ADB and the WBG present limits due to the large amount of shares hold by Japan, US and other western countries the EBRD presents limits arising from its political nature.

To gather the largest amount of information on the research question one last institution was included in the dataset, the African Development Bank. Similar
to the ADB this MDB is regionally focused. However differently from the ADB it
sees a better distribution of importance among less developed countries members
of the Bank. The AfDB is a MDB founded to contribute to the economic
development and the social progress of the African Region. The AfDB was
founded in 1964 and, like the WB is composed of three main agencies.

The African Development Bank. The AfDB is the parent organization of the
Group. Its Agreement147 was adopted and opened for signature in 1963. The
Agreement entered into force one year later in 1964 and the Bank started
being operative in 1966. The aim of the bank is to support and to foster
development in its regional members individually or as a whole.148 In 2011 the
total members of the bank were 78 divided in 53 regional members and 25
Non-regional ones. As many other MDBs the resources come from ordinary
as well as special resources. Ordinary resources comprise:

1. the subscribed shares of the authorized capital, a portion of which is
   subject to call in order to guarantee ADB borrowing obligations;
2. funds received in repayment of ADB loans;
3. funds raised through ADB borrowings on international capital markets;
4. income derived from ADB loans; and
5. other income received by the Bank, e.g. income from other
   investments.

In line with the provision of article 8 of the Agreement establishing the AfDB149
the African Development Found and the Nigeria Trust Found were created.

147 Agreement Establishing the African Development Bank. Khartoum 04/08/1963
148 Afdb official website http://www.afdb.org/en/about-us/corporate-information/african-
development-bank#afdb/. Retrieved on 16/04/2016
149 Under this article the bank is authorized to establish or be entrusted with administrating and
managing special founds which are consistent with its purpose and functions.
**The African Development Fund:** the ADF was established in 1972 and started being operative in 1974. It was established to support Regional members’ governments that were unable to access the ADB loans. Non-Regional participation is wide and it counts 24 Countries. Among them the largest shareholder is the United Kingdom holding around 14% of the total shares. The USA and Japan follows with 6.5% and 5.4%.

**The Nigeria Trust Fund:** the NTF was established in 1976 with an agreement between the Bank group and the Nigerian Government. The NTF is a self-sustaining revolving fund. Its objective is to assist the development efforts of the Bank's low-income regional member countries whose economic and social conditions and prospects require concessional financing. Its initial capital of US$ 80 million was replenished in 1981 with US$ 71 million. In 2008, the Federal Republic of Nigeria and the Bank agreed to a ten-year extension of the NTF. NTF resources can co-finance operations with the ADB and the ADF, as well as fund stand-alone operations, in both the public and the private sector. Supplementary loans for Bank Group financed projects can also be considered. NTF resources are allocated to projects, and not to countries (unlike the African Development Fund). Proposals concerning the poorest ADF countries, countries with small ADF allocations, and fragile states are particularly encouraged.

In conclusion, it is clear that today’s international institutions are not facing efficiently the challenges brought by current times. IOs are shaped on a past international system and now are failing to satisfy the needs of the current one. There are several issues that IOs are not able to address properly; among them we can recognize the need for developing Countries to see their influence increased. Each year developing Countries hold more and more shares of the total global economy. However, the growth in economic power is not followed by a growth in

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Indeed, developing Countries have some advantages in being member of these institutions; still they seek for a position that enables them to have a greater voice. David Dollar, a senior fellow at Brookings Institution and former World Bank treasury official in China, who worked as a consultant for the AIIB said:

“China benefited a lot from multilateral organizations, but it was also frustrated in a lot of ways that they didn’t increase the weight of China and other developing markets, that they are often slow and bureaucratic”.

These words summarize the great debate around existing IOs. We can therefore identify some major issues that IOs have today:

- Unbalanced distribution of Power
- Low efficiency.
- High level of bureaucracy.
- High management expenses.
- Political drivers.

The unbalanced distribution of power was addressed mostly in Chapter one, it benefits western countries damaging the emerging ones. It is particularly clear in institutions such as the ADB or the WB. Furthermore, these institutions are often unable to cover with their budget the financial needs of the regions they operate in. This lack of resources leaves shares of investment to new projects. The AIIB may look to have a restricted budget compared to all the other MDBs together. However, due to the wide needs of financial investments the New Bank will be allowed to propose itself as a good competitor of those institutions. Pre-existing organizations furthermore are often characterized by high levels of bureaucracy and therefore high management costs. On this side the AIIB present a series of innovation among them the non-resident BoD. Last but not least the AIIB is unleashed from political influences. While institutions as the EBRD have political aims in their very original structure, other institutions such as the ADB may politicize their operations in different ways; an example could be represented by strict requirements when providing loans. The AIIB in this will try to follow the Chinese principles of not interference and mutual respect. Both in principles and structure the AIIB appear to be innovative.
3.3 Applying the Socialization Theory: Empirical evidences

The Dataset was created in order to compare the participation of European countries in the AIIB with the European participation in similar institutions. Following the socialization theory, are Countries affected by institutions they are members of? In the case study, do European Countries maintain a similar behaviour when it comes to similar institutions? Among all the different institutions composing the dataset, some institutions are really similar to the AIIB for structure and purposes. The following table summarizes the membership of the AIIB, the ADB and the AfDB. Three different combinations are shown: membership in the AIIB and ADB, AIIB and AfDB and the in three institutions together. Following these combinations, there is a division depending on the country’s behaviour: number of countries having the same behaviour (member/member – non-member/non-member) and number of countries having different behaviours (i.e. non-member/member).

<table>
<thead>
<tr>
<th>Combination</th>
<th>Same Status</th>
<th>Different Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIIB + ADB</td>
<td>29</td>
<td>82,90%</td>
</tr>
<tr>
<td>AIIB + AfDB</td>
<td>29</td>
<td>82,90%</td>
</tr>
<tr>
<td>AIIB + ADB + AfDB</td>
<td>28</td>
<td>80,00%</td>
</tr>
</tbody>
</table>

As it emerges from the table, around the 80% of the countries has the same status in the three institutions while only the 20% changes it preferences depending on the specific institution. In other words, countries that are members of the ADB and the AfDB joined the AIIB as well, while Countries that are not part of the two previous institutions remained out of the Chinese initiated bank as well. This result seems to be in favour of the socialization theory.

Creating two categories, or two societies, A and B where A is filled with Countries members of MDBs and B is filled with countries that remains outside these institutions, the choices of these States becomes predictable. Therefore, we can expect that Countries members of the society A see the participation to MDB as a reasonable choice and will act in line with this concept. On the other hand,
countries member of the society B are not influenced by the membership in other MDBs, their attitude has generally been of indifference towards this kind of institutions and the new Bank doesn’t change their past choices. In sum, the two categories define two different societies in which member Countries maintain a common behaviour that persist in time and towards new institutions.

Proceeding now with an in depth analysis of the society A we can see that similarities are not limited to the status of member but are extended to the quality of this membership. Here there is a small graph synthetized by portion of the total dataset. The graph shows the percentage of shares hold by the European major Countries 152 in the AIIB, in the ADB and in the WB 153.

![Shares % by Country](image)

Figure 1

From the graph it is easy to understand that there is not a significant difference between the different amounts of shares acquired in every single institution. The number of shares held in the AIIB does not vary too much from the one in the

152 FRA = France, DEU = Germany, ITA = Italy, NLD = The Netherlands, ESP = Spain, CHE = Switzerland, GBR = Great Britain
153 In this case we have the WB instead of the AfDB because AfDB’s shares’ data were not found
ADB or WB. There where the AIIB’s shares exceed the ADB’s they do not exceed the WB’s. Usually the amount of shares acquired within the AIIB is between the ones acquired within the other two institutions. Some may argue that this happened simply because for the shares’ distribution the institutions have used similar methods. However, the ADB and the WB have existed for more time and several new members have joined. Due to this and to the fact that members of the pre-existing institutions are larger than AIIB ones, in the old institutions we can have a highly different distribution from the original one. On the other side, it is true that many Countries whose share present several differences in these institutions (namely China, India and, in case they would join the US and Japan) have not been taken into consideration since they are either AIIB’s non-members or regional ones. Moreover, even if the distribution is equal, European countries may have been willing to subscribe for amounts different from the one imposed by the Articles of Agreement. However, this seems not to be the case. At least as far as Switzerland is concerned, from what can be understood from the message regarding the adherence of Switzerland to the Asian Infrastructure Investment Bank\textsuperscript{154} the current distribution is adequate.

3.2.1 Alternative Perspectives

As often happens one only factor may not be exhaustive in explaining an hypothesis. There are indeed some variables that the socialization theory doesn’t include. Which of them could be interesting to analyse? Usually when referring to China’s relations with other Countries the stress is given to economic relations. It could be interesting to see whether or not incentives of economic nature have played a role in this case. Quantifying economic interests is not easy and it may need a whole different research. However, to try to provide this work with wider conclusions, another small dataset was created including 29 countries from the European continent (28 EU countries plus Norway). This smaller dataset allows for a more efficient and rapid analysis since data are available on the Eurostat website for all of these Countries. In this new dataset, States were listed considering the amount of shares – voting power held by each of them. Non-member countries were given a value of zero. Economic data, which could give a general picture of the economic interest of these countries in China, were added to the list. Three indicators were taken into consideration:

- Turnover ECU/EUR:
- Numbers of persons employed (in China)
- Number of enterprises (operating in China)

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155 1 = Germany 2 = France 3 = United Kingdom 4 = Italy 5 = Spain 6 = Netherlands 7 = Poland 8 = Sweden 9 = Norway 10 = Austria 11 = Denmark 12 = Finland 13 = Portugal 14 = Malta 15 = Belgium 16 = Bulgaria 17 = Croatia 18 = Cyprus 19 = Czech Republic 20 = Estonia 21 = Greece 22 = Hungary 23 = Ireland 24 = Latvia 25 = Lithuania 26 = Luxembourg 27 = Romania 28 = Slovakia 29 = Slovenia
Plotting the data on a graph it seems to be some kind of relation between the different variables:

![Graph showing the relation between different variables](image)

**Figure 1**

Shares are listed in a decreasing order; other variables are decreasing too. It seems that to a minor economic activity or interest in China corresponds a minor amount of acquired shares. However, elaborating strong conclusions out of this graph could be a mistake. We have to remember how shares have been distributed in the AIIB. Shares have been given proportionally depending on the shares of world GDP held by each country. In short, this means that larger economies have received larger amount of shares. We can therefore expect that larger economies will have more economic interest ongoing in China. The previous graph should be considered more as a hint that as a true explanatory factor.

Another limit of the socialization theory is that it mainly considers States as unitary actors, while other theories take into consideration different elements that may affect the final choice of a Country on the international stage.

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156 Respecting all the requirements and differences between Regional and Non-Regional members
157 AIIB Chief Negotiators' Report.
For democratic countries in particular, an important factor affecting the policy-making process is the public opinion. In these Countries representatives holding the legislative and the executive power usually care about public opinion in order to achieve a re-election. It was previously mentioned that the choice of joining the AIIB or not was mainly a political one. It was said that the decision of becoming part of this new Chinese initiative could be seen as a result of the Europeans’ awareness of the Chinese growing role in the international system. Measuring this perception may not be easy but there could be some researches useful to elaborate some hypothesis. Assuming that policymakers are influenced or at least take into consideration the public opinion, analysing the public opinion towards a specific topic may then be helpful in order to understand policy makers’ behaviours. In order to get a general idea of which is the European public opinion when it comes to China we will report and comment here the results of a survey conducted by the Pew Research Center. The Pew Research Center is a nonpartisan fact tank that informs the public about the issues, attitudes and trends shaping America and the world. It does not take policy positions. It conducts public opinion polling, demographic research, media content analysis and other empirical social science research.\textsuperscript{158} The institute even if focuses mainly on the U.S.. However, in 2014 it released an interesting survey on the US global image. It the survey it is possible to find questions on the Balance of Power in the International System. Questions were asked all over the world; however, only the Europeans countries will be reported here. The survey unfortunately does not include all the countries used in the previous dataset that were created on purpose for this research. However, opinions were polled in the European major economies and can allow for some brief considerations. The report is based on 48,643 interviews in a total of 44 countries that means that the sample size in each country was around 1000 units. The margin of errors usually varies from 3 to 4 percentage points.

\textsuperscript{158} Pew Research Center. July, 2014. “Global Opposition to the U.S. Surveillance and Drones, but Limited Harm to America’s Image”
Major European Countries are important allies of the US and it is hard to imagine that they could see the US leading economic power as declining. Surprisingly enough this is not quite true. As shown in the graph on the right, in the last years more and more people seem to see China overtaking the US as leading economic power. Just in 2008 across the US’ major allies in Europe a median of 44% considered the US as the world’s leading economy while only 29% was seeing China as the leader. In 2012, China was seen as the world’s top economy by a median of 57 % leaving the US with a poor 28%. In the most recent years the trend has changed but, China is still seen as the major economic power.

However, in Europe, not only the majority seems to see China as the current or future leading economy but this result is even higher than in other world’s regions.

Even when it comes to defining the US or China as the leading superpower results may be unexpected. With a median percentage of 60% in Europe there seem to be the largest number of people believing that China will replace/has replaced the US as superpower.
Looking at more detailed statistics Spain, France the UK and Germany (the last three are Europe’s major economies and powers) seem to have the minor belief that the US will keep having a leading role in the international arena while a large number of the interviewed seem to believe in China's growing importance.

And results do not change even when the question was asked concerning the economic power.

However, even if many countries recognize the power of Chinese economy not as many positively look at it. Especially in countries such as Italy were Chinese products are often strong competitors of local ones the fear of Chinese growing economy is strong.

On the same line even opinions towards President Xi are generally not very positive. Only the UK seems to have more people having confidence in the Chinese president than those who haven’t. This last perception strictly relates to the challenges that China is facing worldwide and that were briefly discussed in the previous chapters. China need to improve its image in other countries. Even if its power and importance is generally recognized by other countries, gaining this Countries’ trust is still far to be achieved. However, coming back to the research question we may affirm that
the choice of joining the AIIB could be influenced by the perception of Chinese growing role in the international economy. This condition is putting other countries in the position of facing the choice whether or not strengthen their relation with the PRC.

In short, this chapter started introducing a series of international organization. The intent was to look for possible linkages with the member status in the AIIB. Two main categories of institutions were taken into consideration: political and military organizations and financial organizations. Being a member of political or military agreement doesn't seem to be an explanatory factor for our research question. Due to the lack of organization and common behaviour in these institutions being members of them didn't really affect the attitude towards the AIIB. Even in the EU, an institution with a high level of integration, there is still a lack of coordination on foreign policy issues. The chapter further investigated European Countries' economic interests in China. The data revealed that to higher economic interests corresponds a higher amount of shares held within the AIIB. However, since AIIB's shares have been distributed depending on economic power this correspondence may not be significant. Further research following this line may be needed. The last section focused on the analysis of European citizens' perception of the role of China and of the US in international politics. Due to the democratic structure of the Countries considered in the study we may expect policy makers to be influenced by public opinion. Surprisingly enough major European Countries citizens seem to strongly believe in the Chinese growing role on the international stage. However, the surveys used for the research showed that there is still a lack of trust in Chinese economy and in Chinese authorities. The main challenge of the AIIB will be then to demonstrate the goodness of Chinese intentions.
Conclusion

The Launch of the AIIB is a great innovation for the international order. It is the first Multilateral Financial Institution created outside the Bretton woods system to have a good success at least in its preliminary phases. The AIIB was strongly opposed by the US and Japan. Therefore, commentators would have expected US' allies as well to oppose it. Instead the AIIB had a great success even among developed Countries. Following the UK many European Countries joined the Bank. Reasons why this happened may not be simple to understand. The aim of this work was to analyse possible factors that affected these Countries decisions.

In order to conduct in depths research on the topic, I started from the assumptions of the Socialization Theory and I developed the research following a mixed-methods approach. I investigated two main features of the socialization theory: how the society shapes the new comer behaviour (China) and how institutions affect Countries’ choices (European perspective). In order to verify the hypothesis, it was first necessary to review the law of the AIIB to understand its principles and functions. Second, it was needed to check if these principles are in line with values globally recognized as pro-social. Third, it was useful to provide the reader with an analysis of the current Chinese foreign policy. Fourth, a comparison with pre-existing organizations clarified the institutional framework in which the new bank is going to operate. Finally, with the help of a completely new dataset it has been possible to check the empirical validity of the hypothesis. The work was concluded with some insights on European interests and perceptions of China. The research resulted in an analytical work providing details on a new topic on which there is not much literature yet. Giving an answer to the research question was not simple. The current literature on the AIIB focuses mainly on the governance structure and on the future implications of the Bank. Not many authors have focused on explaining why non regional members joined the new institution with the support of valid IR theories. Many factors have been taken into account in order to provide satisfactory answer to the question. However, even if the propositions of the socialization theory seem to be mainly verified,
there seem to be other influencing factors that have a relevant value. As it often happens when researching on political matters there are several variables shaping a single decision. Anyway, this thesis has to be considered as an early stage for future works. The conclusions reached allow for restricting the field of analysis. Participation in institutions different from the AIIB (political, regional or military organizations) seems not to be a significant variable. On the other side participation in organizations in line with the AIIB could justify a general interest of advanced Countries in promoting development. Therefore, European Countries may have joined the Bank because, being member of pro-development institutions, they have grown an interest towards development and they see it as a core interest no matter of allies' opinion. However, it must be said that there seem to be strong economic interests behind the same choice. Not only the AIIB will create opportunities even for Non-regional members to benefit from its operations, but it will also strengthen the relations these Countries have with China. Moreover, in major Europeans countries China is seen as an emerging Country that will eventually substitute the US as the leading global power. For this reason, China will face huge challenges. With the AIIB China has to demonstrate that it is ready to take responsibility and to evolve for playing a more important role internationally. Furthermore, China has to show that once it will be an international and developed power, it will be able to fund international relations on the basis of that harmonious world it is seeking right now. A world in which Countries help each other based on a win-win cooperation. Whether China will succeed in doing so is not really predictable. However, the great success that the AIIB had even with Non-Regional Countries seems to suggest that China is on the right path.
Appendix

<table>
<thead>
<tr>
<th></th>
<th>AIIB</th>
<th>ADB</th>
<th>WB</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUT</td>
<td>0.51</td>
<td>0.342</td>
<td>0.69</td>
</tr>
<tr>
<td>DNK</td>
<td>0.38</td>
<td>0.342</td>
<td>0.84</td>
</tr>
<tr>
<td>FIN</td>
<td>0.32</td>
<td>0.342</td>
<td>0.54</td>
</tr>
<tr>
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<td>2</td>
<td>4</td>
</tr>
<tr>
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<td>4</td>
<td>5</td>
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<td>2.62</td>
<td>2</td>
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</tr>
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Dataset for Figure 1

Complete Graph for Graph 1
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ABSTRACT
Introduction

Research Background

China’s foreign policy has changed during the years towards a more open and active role in the international arena. Since the adherence to the World Trade Organization in 2001 China has increased its participation in international organizations. However, the growing Chinese economic power and its global influence were not followed by a growing relevance within these institutions. China, and many other developing Countries, has been trying for years to propose reforms of the Institutions created under the Bretton Woods System. Their attempts to reform the system have never succeeded leaving the United States and its allies as major international players. Therefore, China and other Developing countries have started promoting their own institutions, namely the New Development Bank and the Asian Infrastructure Investment Bank. The two initiatives were launched almost simultaneously. However, while the New Development Bank has remained an institution that sees 5 countries as founding and only members, the AIIB had a great success in being able to push even Non-Regional countries to join it. At the time of writing, the AIIB counts 57 Prospective Founding Members and many other Countries have shown interested in joining it. Among these prospective members there are even many European countries. When the AIIB was initially launched nobody would have expected such a success. The initiative was highly criticized by the US that exhorted its allies not to join it. However, following the initial UK’s adherence to the Bank many other European Countries joined the Bank as well. It is difficult to analyse all the factors that influenced European Countries’ decision of joining the AIIB but this research will try to enlighten the major ones analysing different aspects of the socialization theory.

Literature Review

In order to properly answer the research question, it was needed to identify an explanatory theory and to check whether or not it was verified by the study in analysis. I decided to take into consideration the socialization theory and its use in International Relations. Socialization is a central concept for different areas of the social sciences, from the individual level up to the Country level. In IR socialization is mainly used by constructivists and it is used to justify the behaviour of the newcomers and to understand how international organizations can shape Countries’ preferences. During the early stages of the research different academic papers and books were reviewed in order to obtain clear theoretical basis for the development of the thesis.

The research started gathering information on facts and events related to early launch of the initiative. In this phase the research was conducted using mainly newspaper articles, leaders’ interviews and speeches as well as early official documents emerging from the negotiations for the Bank. The second stage of this thesis is to understand Chinese foreign policy and to see how the AIIB will allow China to reach credibility and good reputation on the international stage. To produce this part, it was necessary to review Chinese scholars’ papers as well as Chinese government’s announcements.

The Articles of Agreement of the AIIB was used to develop the detailed analysis of the Bank’s purpose, shares and voting distribution as well as its governance and structure. Similar documents were used when comparing the Bank with similar institutions. Reports by international financial institution and scholars’ papers were used to understand the
financial and political implications of the Bank. Financial reports from the Asian Development Bank on the Asian Region have been a precious resource. They allowed for both a quantitative analysis on the region development status and a qualitative research of multilateral development banks’ main operation and functions.

Statistics released by the PEW Institute were reviewed for the analysis of the European perspective on China and US’ role in the international balance of power. Another dataset was created to understand financial links between European Countries and China. Data have been gathered from Eurostat (the European statistical institute) and were accurately organized to fit the purpose of this research. Further reviews of international media and scholars’ opinions were used during the whole research to strengthen the thesis conclusions.

Research Methodology

This research is based on a mixed-methods approach. Due to the complexity of the issue it was necessary to merge both qualitative and quantitative analysis. A descriptive and analytical approach was used to understand the Chinese foreign policy and to introduce the AIIB. A more comparative approach was used to compare the different institutions. In this section great importance has been given to the practice and law of these institutions providing comparisons of their establishing treaties. In the end, a more quantitative approach was used. The final chapter focuses on the analysis of data and on the observation of surveys in order to verify the validity of the different hypothesis.

Research Structure

The research is structured as follows:

Chapter One introduces the socialization theory and its implications for the research. Following this introduction, the Chapter analyses the role of China as a “newcomer” taking into consideration Chinese internal and foreign goals. The Chapter moves from the analysis of the Chinese “new normal” to a presentation of the One Belt One Road initiative (OBOR or Belt & Road or B&R).

Chapter Two tries to understand whether or not the AIIB is in line with the principles of its predecessors. In doing so, the Chapter looks into the functioning of the AIIB reporting a detailed analysis of the Bank’s Articles of Agreement, the financial needs of the Asian Continent and the political and financial implications of the bank, giving special attention to the status and the role of Non-Regional members.

Chapter Three draws the conclusions on the choice of the European Countries to join the AIIB. The Chapter introduces the dataset used to empirically demonstrate the argument of the thesis, it proceeds with the analysis of the results of the research and it ends considering different factors that could have influenced the European decision aside from the Socialization theory.

CHAPTER ONE - Theoretical, Political and Economic Background of the Establishment of China-initiated AIIB

1.1 Theoretical Background
There are several theories that can be used to investigate the research question of this thesis. Among them I decided to use the international socialization theory. I opted for this theory for a series of reasons. First, once proved right it allows for general conclusions on a group of countries rather than considering individual preferences. Second, it helps understanding not only the European perspective towards the Bank but even the Chinese one. Third, it is not too difficult to retrieve data needed to verify the thesis, allowing for smooth and clear proceedings of the research work.

When considered within the international Relations theories, socialization is a central concept in social constructivism. Due to the different social sciences that uses and analyse socialization, it can be hard to identify a unique definition that fits the IR environment. Different perspectives over the topic may lead to different uses of socialization theories. In IR, socialization can become an explanatory fact to understand both newcomers’ behaviour and society’s members’ attitudes. For the purpose of this research both these points of view can be useful. Socialization becomes suitable to understand both the Chinese perspective (newcomer) and the Europeans’ one (members of the society) over the new Bank.

But is the socialization theory successfully applicable to the case study? There are some basic features that have to take place in order to verify the effects of socialization, namely the recognition of a pro-social behaviour and the appliance to this behaviour for a period of time. Does the case in analysis present such features? In order to answer this question is needed to consider a series of factors. First, is the AIIB conforming to a well-established pro-social behaviour? Second, did European countries joined institutions that could have shaped their interests and preferences towards the principles incorporated in the AIIB? Third, are there any other concurring factors that may have affected such a decision?

Answers to these questions will be developed in chapters two and three.

1.2 History and Implications of the AIIB

President Xi and Premier Li Keqiang first addressed the project of the AIIB in 2013 during their visits in Southeast Asia. In the following months, steps towards the realization of the bank were taken. The Articles entered into force on December 25, 2015, when instruments of ratification had been deposited by 17 Signatories with initial capital subscriptions totalling 50.1% of the shares allocated.

The bank is supposed to foster development based on a modus operandi lean, clean and green. It is based on the lesson taught by pre-existing MDBs operating in the area and it is not willing to be their competitor.

However, the AIIB means a lot even for China’s itself. The Bank, together with other initiatives (like the One Belt One Road), will affect both the PRC’s Economy and its geopolitical influence regionally and globally. But why China promoted this specific initiative? It is said that Chinese economy is “heavily dependent on the security of its
supply chains that means that it must win trust and support of international society. Here the discussion goes back to the idea of China as a new-comer. China’s ambition of playing an important role on the international stage is putting the Middle Kingdom in the condition of requiring credibility of its good intentions. The Bank, especially if run properly in the next years, will show that China is able to both promote and manage an initiative that is socially acceptable for the whole international society.

CHAPTER TWO - The AIIB: a compromise between innovation and well-established principles

Is the AIIB in line with socially acceptable principles? Reviewing the Bank’s Articles of Agreement, the negotiations, and the comments given to the new institution, the answer seems to be positive.

Aside from the innovations in governance and the important role that China plays in it, the Bank is generally in compliance with the standards given by its predecessors. Innovations such as a non-permanent Board of Directors or the veto power exclusively in China’s hands are intelligently mixed with a series of proved winning features. The distribution of shares and voting power, the **modus operandi** and again, the basic principles of the Bank revive standards the international society is already used to. The success of this strategy is enlighten also by the fact that the New BRICS development bank, not providing the same compromises, didn’t gather so much participation by external Countries.

China has been successful in launching the Bank and in enlarging its members outside of Asia. However, the PRC is now under the attention of many observers that will look closely to the activities of the bank after the beginning of its works.

Furthermore, the main challenge China will have to face will be the usage of its "de facto" veto power. Some decisions within the Bank will need to be accepted by a super majority vote. The super majority vote sets a threshold of 75% which means not only that Non-regional countries (accounting for a maximum of 25% of total shares) are not able to form a veto-block but, it also means that China (holding more than 30% of the total shares) will be able to have a strong impact on those decisions. China potential veto-power could have scared many countries preventing them to join the institution. Especially European countries could have feared an excessive influence from China.

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159 8 Zha Daojiong, China’s Economic Diplomacy


161 Among these we have issues related to the structure of the bank, membership, capital increases. (Art. 28 AoA)
However, using veto-power, even if possible, will be against China’s own interests. The purpose of the AIIB is to show that a new way of ruling international organizations is possible. If China will play the same role US plays in previous institutions, it will be China’s big failure.

Another huge challenge for the new Bank will be to meet the environmental and sustainable standards of the pre-existing institutions. The World Bank has imposed rules and restriction on loans when it comes to projects with a high ecological impact. For example, the WB since 2013 started lending money for coal-fired electricity projects only in "rare circumstances". Such a decision, while it could be satisfactory for developed Countries, often represent an obstacle for emerging economies such India. Indian authorities hardly criticized this decision arguing that these restrictions would have not allow a Country in extreme need of energy such as India with a cheapest and fastest way of producing it. Now India, having the first-largest coal reserves in the world and using coal in order to generate three-fifths of the nation’s power supply, is looking to the AIIB for 100 billion USD in loans for coal energy projects. Some countries look at this as the demonstration that the AIIB will complement the other financial institutions, some others, look at this as the demonstration that the AIIB will fail in addressing environmental and social impacts.

CHAPTER THREE - The European Countries’ choice of joining the AIIB

3.1 Defining a Socialized Behaviour: The AIIB and Other International Organizations

The socialization theory affirms that institutions can affect its member’s behaviour and preferences homologating them to general principles and socially approved attitudes. Therefore, European’s Countries choice to join the AIIB or not should be connected to these Countries’ participation in other IOs. But are all IOs valid variables? The answer is no. At the beginning of this research I took into consideration a series of IOs both financial and non-financial ones. Non-financial Institutions I considered are: The European Union (EU), The Schengen Agreement, the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF), the Organisation for Economic Co-operation and Development (OECD), and the North Atlantic Treaty Organization (NATO).

Multilateral Development Banks taken into consideration aside from the AIIB are: The Asian Development Bank (ADB), The World Bank Group (WB), The European Bank for Reconstruction and Development (EBRD), The African Development Bank (AfDB)

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After a first comparison of the non-financial institutions with the AIIB, it appeared clear that the relations between them are limited. Non-financial institutions such as the EU can help to understand the possible developments of a new institution. However, it is hard to state that being members of institutions so different from the AIIB affected the Countries in analysis behaviour. Patterns arising from the comparison of the membership within these institutions and the membership in the AIIB are scattered, they don’t present any observable scheme and they generally appear unrelated.

On the other side, comparing the AIIB with its direct competitors produces better results. The following table summarizes the membership of the AIIB, the ADB and the AfDB.

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As it emerges from the table, around the 80% of the countries has the same status in the three institutions while only the 20% changes it preferences depending on the specific institution. In other words, countries that are members of the ADB and the AfDB joined the AIIB as well, while Countries that are not part of the two previous institutions remained out of the Chinese initiated bank as well. This result seems to be in favour of the socialization theory.

Creating two categories, or two societies, A and B where A is filled with Countries members of MDBs and B is filled with countries that remains outside these institutions, the choices of these States becomes predictable. Therefore, we can expect that Countries members of the society A see the participation to MDB as a reasonable choice and will act in line with this concept. On the other hand, countries member of the society B are not influenced by the membership in other MDBs, their attitude has generally been of indifference towards this kind of institutions and the new Bank doesn’t change their past choices. In sum, the two categories define two different societies in which member Countries maintain a common behaviour that persist in time and towards new institutions.

Proceeding now with an in depth analysis of the society A we can see that similarities are not limited to the status of member but are extended to the quality of this membership. Here there is a small graph synthetized by a portion of the total dataset. The graph shows the percentage of shares hold by the European major Countries in the AIIB, in the ADB and in the WB.

165 FRA = France, DEU = Germany, ITA = Italy, NLD = The Netherlands, ESP = Spain, CHE = Switzerland, GBR = Great Britain

166 In this case we have the WB instead of the AfDB because AfDB’s shares’ data were not found
From the graph it is easy to understand that there is not a significant difference between the different amounts of shares acquired in every single institution. The number of shares held in the AIIB does not vary too much from the one in the ADB or WB. There where the AIIB’s shares exceed the ADB’s they do not exceed the WB’s. Usually the amount of shares acquired within the AIIB is between the ones acquired within the other two institutions.

3.2.1 Alternative Perspectives

As often happens one only factor may not be exhaustive in explaining an hypothesis. There are indeed some variables that the socialization theory doesn’t include. Which of them could be interesting to analyse? Usually when referring to China’s relations with other Countries the stress is given to economic relations. It could be interesting to see whether or not incentives of economic nature have played a role in this case. Quantifying economic interests is not easy and it may need a whole different research. However, to try to provide this work with wider conclusions, another small dataset was created including 29 countries from the European continent (28 EU countries plus Norway).\(^{167}\) This smaller dataset allows for a more efficient and rapid analysis since data are available on the Eurostat website for all of these Countries. In this new dataset, States were listed considering the amount of shares – voting power held by

\(^{167}\) 1 = Germany 2 = France 3 = United Kingdom 4 = Italy 5 = Spain 6 = Netherlands 7 = Poland 8 = Sweden 9 = Norway 10 = Austria 11 = Denmark 12 = Finland 13 = Portugal 14 = Malta 15 = Belgium 16 = Bulgaria 17 = Croatia 18 = Cyprus 19 = Czech Republic 20 = Estonia 21 = Greece 22 = Hungary 23 = Ireland 24 = Latvia 25 = Lithuania 26 = Luxembourg 27 = Romania 28 = Slovakia 29 = Slovenia
each of them. Non-member countries were given a value of zero. Economic data, which could give a general picture of the economic interest of these countries in China, were added to the list. Three indicators were taken into consideration: Turnover ECU/EUR, Numbers of persons employed (in China), Number of enterprises (operating in China).

Plotting the data on a graph it seems to be some kind of relation between the different variables:

![Graph showing data relationship]

Shares are listed in a decreasing order; other variables are decreasing too. It seems that to a minor economic activity or interest in China corresponds a minor amount of acquired shares. However, elaborating strong conclusions out of this graph could be a mistake. We have to remember how shares have been distributed in the AIIB. Shares have been given proportionally\(^\text{168}\) depending on the shares of world GDP held by each country\(^\text{169}\). In short, this means that larger economies have received larger amount of shares. We can therefore expect that larger economies will have more economic interest ongoing in China. The previous graph should be considered more as a hint that as a true explanatory factor.

Another limit of the socialization theory is that it mainly considers States as unitary actors, while other theories take into consideration different elements that may affect the final choice of a Country on the international stage.

For democratic countries in particular, an important factor affecting the policymaking process is the public opinion. In these Countries representatives holding the legislative and the executive power usually care about public opinion in order to achieve a

\(^{168}\)Respecting all the requirements and differences between Regional and Non-Regional members

\(^{169}\)AIIB Chief Negotiators' Report.
re-election. Therefore, the decision of becoming part of this new Chinese initiative could be seen as a result of the Europeans’ awareness of the Chinese growing role in the international system. Measuring this perception may not be easy but there could be some researches useful to elaborate some hypothesis. Assuming that policymakers are influenced or at least take into consideration the public opinion, analysing the public opinion on a specific topic may be helpful to understand policy makers’ behaviours. In order to get a general idea of which is the European public opinion when it comes to China here are reported and commented the results of a survey conducted by the Pew Research Center. The survey unfortunately does not include all the countries used in the previous datasets. However, opinions were polled in the European major economies and can allow for some brief considerations. The report is based on 48,643 interviews in a total of 44 countries that means that the sample size in each country was around 1000 units. The margin of errors usually varies from 3 to 4 percentage points.

Major European Countries are important allies of the US and it is hard to imagine that they could see the US leading economic power as declining. Surprisingly enough this is not quite true. As shown in the graph on the right, in the last years more and more people seem to see China overtaking the US as leading economic power. Just in 2008 across the US’ major allies in Europe a median of 44% considered the US as the world’s leading economy while only 29% was seeing China as the leader. In 2012, China was seen as the world’s top economy by a median of 57% leaving the US with a poor 28%. In the most recent years the trend has changed but, China is still seen as the major economic power.

However, in Europe, not only the majority seems to see China as the current or future leading economy but this result is even higher than in other world’s regions.

Even when it comes to defining the US or China as the leading superpower results may be unexpected. With a median percentage of 60% in Europe there seem to be the largest number of people believing that China will
replace/has replaced the US as superpower.

Looking at more detailed statistics Spain, France the UK and Germany (the last three are Europe’s major economies and powers) seem to have the minor belief that the US will keep having a leading role in the international arena while a large number of the interviewed seem to believe in China's growing importance.

And results do not change even when the question was asked concerning the economic power.

However, even if many countries recognize the power of Chinese economy not as many positively look at it. Especially in countries such as Italy were Chinese products are often strong competitors of local ones the fear of Chinese growing economy is strong.

On the same line even opinions towards President Xi are generally not very positive. Only the UK seems to have more people having confidence in the Chinese president than those who haven’t. This last perception strictly relates to the challenges that China is facing worldwide and that were briefly discussed in the previous chapters. China need to improve its image in other countries. Even if its power and importance is generally recognized by other countries, gaining this Countries’ trust is still far to be achieved. However, coming back to the research question, it is possible to affirm that the choice of joining the AIIB could have been influenced by the perception of Chinese growing role in the international economy. This condition is putting other countries in the position of facing the choice of whether or not strengthening their relations with the PRC.

**Conclusion**

This thesis has the aim of understanding the reasons behind the European Countries’ choice of joining the AIIB. The AIIB is a new Multilateral Development Bank that sees China has promoter and main player. The Choice has been a surprise for many observers, especially after the US invited its allies not to join the new Bank.

In order to understand the factors that influenced this choice I opted for applying the socialization theory. Socialization is a core concept for different areas of the social sciences and when brought to the IR environment it is a largely discussed topic within social constructivists’ theories. Socialization applied to this specific case study is interesting since it can justify both the Chinese decision to launch the bank (China as a
newcomer) and the European choice of joining it (European Countries as a society). Checking the validity of these assumptions it emerged that China has launched this initiative (strictly related to other initiatives such as the One Belt One Road) to achieve both internal and external goals. As far as the external ones are concerned, with the AIIB China is trying to increase its credibility (newcomer seeking good reputation), showing that it is ready to handle greater responsibilities on the global stage. Deciding to join the Bank, European Countries seem to have accepted to trust China. However, empirical analysis have shown that the main factor influencing the European decision may have been these Countries participation in IOs similar to the AIIB. Other factors such as economic interests in China or the public opinion’s ideas towards the PRC may have influenced the Choice as well.

In conclusion, the thesis proved that the socialization theory could be empirically verified when applied to the case study. It helps understanding both the Chinese and European perspective over the AIIB. However, this theory leaves some space for further analysis that may take into consideration other variables such as economic interests or political influence.