"Crossing the River by Feeling the Gold": The Asian Infrastructure Investment Bank and the Financial Support to the Belt and Road Initiative

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Abstract

China's Belt and Road Initiative (BRI) is, above all, a connectivity project. As connectivity requires financial support, in the past few years China has undertaken several institution-building activities at the national and international level, mainly in the financial and economic sector, showing a new propensity to influence global economic governance. In particular, the establishment of the Asian Infrastructure Investment Bank (AIIB) has drawn attention worldwide. How does this institution-building process connect with BRI? Are these institutions just a vehicle for exporting China's capital and overcapacity, or do they signal a potential wider challenge to the post-World War II liberal international order? By analyzing the first loans approved by the bank, the present paper argues that far from representing a China-led challenge to the Western-led liberal order, the AIIB, while promoting Chinese commercial and geopolitical interests, shows the resilience of the global financial regime created by the West.

Key words: Asian Infrastructure Investment Bank, Belt and Road Initiative, China, international economic order

JEL codes: F02, F55, F63

I. Introduction

Starting from ancient times and stretching well into the middle ages, the Old Silk Road was mainly the path travelled by merchants carrying their trade across Eurasia. Today, many view the New Silk Road proposed in 2013 by President Xi Jinping as all about projecting China's power into Eurasia. A lot of media fuss has been generated about the increased assertiveness of Beijing in the global political economy, juxtaposed to the

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relative decline of the USA: a vast array of journalists, commentators and editors have written pieces on how new Chinese initiatives in foreign economic policy would be challenging (either dangerously or fruitfully) the US-led liberal economic order. Now that the dust has settled, and the media circus has moved to "the next big story," it is time to step in and reflect on the deep meaning of the New Silk Road and of Beijing's new activism in the world economy.

Undoubtedly, the fact that China has become recently – especially after Trump's victory in the US Presidential elections – the main advocate of globalization even though it does not share all the liberal values usually attached to it (Kynge, 2017) is a puzzle that is yet to be solved (Agamennone, 2017). This has prompted a crucial debate on world order which is finally catching the attention of distinguished international relation scholars (e.g. Ikenberry and Lim, 2017). Since it joined the World Trade Organization in 2001, China has benefited a lot from the international trade regime it did not contribute to creating in the first place. At the same time, it has never given up some mercantilist policies, which are also related to the presence in its economy of powerful state-owned enterprises (SOEs). Robert Keohane once elaborated the view that as soon as states learn about the usefulness of institutions, they support them even when the liberal hegemon which designed them loses interest in their correct functioning (Kehoane, 1984). Back then, he probably had Japan in mind as the new kid on the block. However, can the same logic work with China, a formally socialist regime which does not accept the Western liberal concept of democracy? Is China's behavior in multilateral economic institutions so different from that of other great powers?

This paper explores the relationship between the New Silk Road project – initially presented under the "One Belt One Road" (OBOR) label, and then officially dubbed the "Belt and Road Initiative" (BRI) – and one of its main financial arms, the China-initiated Asian Infrastructure Investment Bank (AIIB) (often referred in this paper as "the bank"). The BRI is above all a connectivity project (Lim, T. W., 2016, p. 155). The construction of new transport infrastructures, the creation of new channels where goods and services can be traded freely, and the opening of cross-border economic zones lie, in fact, at the core of the geoeconomic and geopolitical vision proposed by President Xi Jinping. As connectivity requires financial support, China has undertaken several institution-building activities at the national and international level, mainly in the financial and economic sector, showing a new propensity to influence and shape global economic governance. In particular, the foundation of the AIIB has drawn attention worldwide, especially since many Western states have joined the bank as founding members. How does this institution-building process connect with the BRI? Are these institutions just a vehicle for exporting China's capital and overcapacity, or do they signal a potential wider challenge to the post-World War II liberal international order? With these questions in mind, the paper evaluates if and how financial support to the BRI through AIIB can really be defined as a win–win opportunity as stated in the official BRI documents, or if the money flows are just supporting Chinese interests to spread across Eurasia and beyond.

Much of the discourse on the AIIB has concentrated until now on "macro" issues like the role of governments, either in promoting (China), joining (the European states) or opposing (the USA and Japan) the new institution (Ren, 2016). Much less has been written on "micro" operational aspects of the bank, where China could actually develop its influence. Regarding the World Bank and the Asian Development Bank (ADB), there is, indeed, a body of literature that has proved that the USA (for the World Bank) and USA and Japanese (for the ADB) interest and domestic politics have affected the activities of the two multilateral banks (Krasner, 1981; Wan, 1995; Woods, 2003; Fleck and Kilby, 2006; Kilby, 2006, 2011; Kersting and Kilby, 2016). As the AIIB commenced its operations only in 2016, and just 12 projects have been financed until May 2017, it is clearly too early to conduct any meaningful statistical analysis on the relationship between the approved loans and China's foreign (economic) policy. Nonetheless, reflecting on the connection between these first projects, the BRI, and trade flows between China and the loan recipients could help to put these Chinese initiatives in the right perspective, beyond the frequent hype of the media covering this story.

The first section of the paper reviews the debate on the BRI, looking at Chinese and Western narratives of the new initiative, and setting the stage for any discourse on China and the (new?) global economic order. The second section looks at the brief history of the AIIB and its governance, and China's power within it. Then, we analyze the first projects approved by the bank, and relate them both to BRI corridors and China's trade flows and commercial interests. Finally, we conclude with our tentative thoughts on the nature of these initiatives and the future of the global economic order, suggesting some further questions in relation to the bank enlarging its basket of disbursed loans.

II. The Belt and Road Initiative: Connecting the Eurasian Continent

The idea of the "Silk Road Economic Belt" was first announced by President Xi Jinping in Astana, Kazakhstan in September 2013. He proposed the "21st century Maritime Silk Road" in Jakarta, Indonesia in October of the same year. The Chinese Government had worked on the idea since 2010 (Chan, 2016), after an ADB working paper advocating a new "Silk Road" for Asia (Bhattacharyay and De, 2009) was published in Chinese (Callaghan and Hubbard, 2016). The BRI is a connectivity and cooperation project involving more than 60 countries across Eurasia, the Middle East, South-East Asia and part of East Africa. Officially presented at the Boao Forum in 2015 (Tiezzi, 2015), it is a systemic project of integration of national development strategies, aimed at exploiting all market potentialities, through promoting investment and consumption, creating demand and employment, and encouraging people-to-people exchanges (National Development and Reform Commission et al., 2015). The BRI is based on the presumption of the maintenance of a global free trade regime and an open world economy. The BRI will expand and strengthen China's opening and mutually beneficial cooperation with countries involved. The official document presenting the BRI to the world underlines five pillars of the project: adherence to the "five principles of peaceful coexistence," the cornerstone of China's foreign policy since at least the Bandung Conference in 1955;[1] openness to cooperation with all willing states and international organizations; harmonious and inclusive character, because respect of different national strategies lies at the core of its conception; conformity to market rules and international norms; and mutual benefit, as it pursues the maximum common denominator (National Development and Reform Commission et al., 2015). Indeed, a content analysis of the official document shows that the words "common" and "co-operation" appear 25 and 136 times, respectively (Ke, 2015, p. 2). The "Belt" revolves around six economic corridors (Strategic Comments, 2015a): China–Mongolia–Russia; Bangladesh–China–India–Myanmar; China–Indochina; China–Pakistan; China–Central and West Asia (and on to Europe; see e.g. Pavlićević, 2015); and China–Kazakhstan–Russia (the "New Eurasian Land Bridge"). The curiously-named "Maritime Road" connects coastal China to the South China Sea and the Pacific Ocean, the Indian Ocean and the Mediterranean. The New Silk Roads do not neatly correspond to the old Silk Road routes, which were more a web of different paths rather than straight lines across land and sea.

Cooperation priorities would entail policy coordination, facilities connectivity (by building transport, energy and communication infrastructure) and unimpeded trade (by promoting all sorts of agreements and initiatives aimed to reduce barriers, creating free trade areas, and encouraging foreign companies to invest in China and Chinese enterprises to participate in the construction of infrastructure abroad) (National Reform Commission et al., 2015).

The BRI would also promote better integration of China's coastal and inner provinces (Economist Intelligence Unit, 2015), in pursuance of the "go west" policy initiated by former President Hu Jintao at the end of the 1990s. Indeed, the BRI would

[1]The Five Principles are mutual respect for each other's sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.

transform the "go west" policy to "march west" (China's response to President Obama's "pivot to Asia"), an idea first conceived by prominent scholar Wang Jisi (Sun, 2013). In fact, foreign economic policy serves here as a leverage for a more open China: in the north, Xinjiang would be the "window" to the West, with Inner Mongolia and Heilongjiang being the "bridge" to the Russian Far East; in the southwest, Yunnan would become an economic "pivot" towards South and South-East Asia; on the coast, the Pearl River Delta would represent the maritime hub; and in the west, cities like Wuhan would be the starting point for all railway connections to Central Asia and Europe (National Reform Commission et al., 2015).[2] The internal dimension of the BRI does not stop here. In fact, the creation of demand abroad would help to solve the overcapacity problem affecting Chinese industry in steel, solar panels, cement and construction, coal, railway equipment and port infrastructure. It would also increase the use of gas in the energy mix, reduce the upward pressure of labor costs on the coast, and promote the diffusion of the renminbi as international currency (Garcia and Ng, 2015). China's huge foreign exchange reserves (over 30 percent of total global official reserves) could be finally allocated to projects with presumably a higher return than US Treasury bonds (Callaghan and Hubbard, 2016; Chan, 2016).

It is then difficult to downplay the ambition of the BRI, for at least two reasons: (i) it encompasses countries producing 55 percent of world GDP, representing 70 percent of the world population and sitting on 75 percent of energy reserves; and (ii) it is a long-term project, forecasting US$1400bn of investment and a yearly increase of US$2500bn worth of Chinese trade for 10 years from its launch. In more theoretical terms, a report of The Charhar Institute portrays the BRI as a project of "collaborative modernization," led by a coalition of the willing: "An international community first comes into being among those countries with common interests. Driven by common interests, they carry out extensive and in-depth cooperation and further form a community of interests." (Ke, 2015, p. 17). This idea of a different kind of modernization, which would consist of mutually advantageous cooperation, sustainable development and connectivity, is forwarded by the think tank in opposition to the European modernization, considered to be based on outright competition, intensive exploitation of resources, and industrialization. "Inclusive globalization" would then describe Beijing's distinctive contribution to global governance (Liu and Dunford, 2016). The BRI, in other words, would be "a catalyst to rejuvenate the global economy" (Lim, W. X., 2016, p. 114), and, together with the AIIB, a "force for good in the world" because the infrastructure sector has been underfunded since the Great Recession (Sender, 2014), and Asia would need to

[2]For a first report on China's provinces' involvement in the BRI's initiatives, see Renmin University of China (2016).

invest US$8tn in national infrastructure (Asian Development Bank, 2009).

So much so for the optimistic and benevolent view of the BRI, which has been otherwise met with scepticism for various reasons. For some, the BRI would repeat abroad the same mistakes of the domestic economy; that is, too much reliance on public finance and SOEs in low-return projects in high-risk countries (Godement, 2015). Within the BRI narrative, there is also an inner tension between geoeconomics and geopolitics (Wong and Lye, 2014), masked by scarce attention to political, credit and operational risks, which tend to be high in the area: sometimes extremely high, like in Iraq, Syria or Afghanistan (Economist Intelligence Unit, 2015).[3] Many of the BRI countries in Central Asia and in the Middle East are just "spaces" ruled by rent-seeking elites, presenting least-developed internal markets, located far from global trade routes and where operational costs are excessive. The whole BRI project is based on the "assumption" that a "lack of economic connectivity and regional integration" impedes development in Eurasia, as if "large-scale infrastructure will somehow magically mitigate internal conflicts and sources of instability," while the real factors inhibiting growth in these countries would be corruption,[4] inefficiency, absence of rule of law, internal strife and violence, and insecurity in general (Cooley, 2015a, pp. 5–6);[5] in other words, the region should improve its "software," not its "hardware" (Cooley, 2015b, p. 4). Indeed, security and trade agendas are not integrated in Eurasia and, as a consequence, "without security development remains fragile, and without development security is not sustainable" (Kortunov, 2015, p. 9). Getting the relationship with the countries along the BRI route right would also be crucial (Peking University scholar Jia Qingguo, quoted in Lim, W. X., 2016, p. 127), as "there is also a deficit of trust between China and the regional and peripheral powers" (Lim, W. X., 2016, p. 129), with South-East Asia in the frontline fearing it will become "China's backyard, all in the name of progress" (deAlwis, 2014, p. 5). In fact, even though the BRI is "a powerful illustration of China's growing capacity and economic clout," the mistrust (often based on Chinese companies' "poor track record" abroad) and the absence of real benefits for local economies could result in a serious backlash (Kennedy, 2015, p. 4). China does not always understand the local

[3]In fact, "most of the countries under BRI are either unrated or rated below investment grade" (Chan, 2016, p. 172).

[4]In Transparency International's corruption perceptions index 2016, for instance, Kazakhstan, Russia and Iran rank 131st out of 176 countries, Kyrgyzstan ranks 136th, Tajikistan 151st, Turkmenistan 154th, Uzbekistan 156th and Afghanistan 169th. By contrast, the People's Republic of China finds itself in position No. 79. Source: https://www.transparency.org/news/feature/corruption_perceptions_index_2016, accessed 19/04/2017.

[5]Cooley (2015a, p. 5) reports an interesting story: After completion of a highway in Taijikistan financed by China, a company registered in the British Virgin Islands started to collect revenues through road tolls, which were unaffordable for the ordinary Tajiks.

conditions, and the needs and concerns of people in other countries, a skill which is fundamental for the success of development financing and investment (Ferchen, 2015). Finally, some are crucially questioning the core “win–win claim” at the heart of the initiative, showing that with the BRI China is just marking the shift from “defensive mercantilism” to “offensive mercantilism,” in search of foreign markets and opportunities for (big) Chinese companies, at the expense of European and US business (Holslag, 2017; Levesque, 2017). However, China’s offensive posture could also be seen simply as a defensive reaction to the domestic economic slowdown, the US pressure in the Asia-Pacific, and the deterioration of the relationship with its neighbors (Wang Y., 2016).

III. Asian Infrastructure Investment Bank: Too Much Ado about Nothing?

The idea of the AIIB as an international financial institution (IFI) to be established and driven by China was first submitted to the leadership in early 2013 by the China Center for International Economic Exchange (Ren, 2016). In Beijing in October 2014, 21 countries signed a memorandum of understanding. Originally meant to be a regional institution, the bank obtained global status when on 12 March 2015 the UK (followed soon by Germany, France and Italy) decided to join the AIIB as a founding member (Kamal and Gallagher, 2016). While criticizing the UK, Washington declared that the USA would not join due to serious concerns about the lack of transparency and global standards in the operation of the bank, but in particular because of fears that the AIIB could become a rival of the World Bank, representing a new Chinese challenge to the US-dominated liberal economic order (*The Economist*, 2015). In addition, Japan, equally if not more suspiciously, decided not to participate in the new financial venture. All ASEAN countries, likely contrary to US expectations, joined the bank (Strategic Comments, 2015b). In the end, by March 2015 (with the deadline set by Beijing) the AIIB counted 57 founding members (37 regional members and 20 non-regional members), with 25 new members expected to join the bank by December 2017, many of them from Africa (Kynge and Pilling, 2017).

During 2014 and 2015, the AIIB worked in close connection with the IMF, the World Bank and the ADB (Chan, 2016), and by 2015 the bank had in place its Article of Agreements, allowing the AIIB to start operations in 2016. The bank has capital of US$100bn (making it a medium-sized multilateral development bank [MDB]),[6] is headquartered in Beijing (after Indonesia lobbied unsuccessfully for Jakarta), and is

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[6]In comparison, the World Bank has a capital base of more than US$250bn, and the ADB a capital of more than US$150bn.

headed by Jin Liqun, a former vice minister of finance, a veteran of the World Bank and a former vice president of the ADB. China has the largest voting share (26.6 percent), holding a veto power in major AIIB decisions requiring a 75 percent supermajority,[7] even though it seems that with the admission of new members Beijing would be ready to accept a dilution of its vote (Kynge and Pilling, 2017). The Articles of Agreements of the AIIB are much in line with statutes of other IFI, even though China has a far larger voting share than the USA in the World Bank or Japan in the ADB (Callaghan and Hubbard, 2016). As for geographic representation, regional members hold at least 75 percent of the total capital stock (unless the provision is changed with a supermajority vote), and 9 of the 12 members of the Board of Directors represent regional members. Capital allocations are set in Schedule A of the Articles of Agreement and are based on "the relative share of the global economy of members (based on GDP) within the regional and non-regional groupings, with the understanding that GDP share is indicative only for non-regional members" (Callaghan and Hubbard, 2016, p. 129). Voting arrangements are as follows (Art. 28.1): founding members each have 600 votes, while all members have basic votes (consisting of an equal share of 12 percent of total votes) and share votes (in line with their capital share). India (with a 7.51-percent voting share) and Russia (5.93 percent) sit at a great distance from China as second-largest and third-largest investors, with other countries of the Asia-Pacific and Europe in the range of 3–4 percent (Callaghan and Hubbard, 2016).

From a first glance at the website of the AIIB (www.aiib.org), it is clear that the bank intends to operate as a true MDB, with policies and loan conditions decided by a non-sitting (like in the European Investment Bank) board of governors, and based on the highest social and environmental standards among MDB. The AIIB will invest in five areas: energy, transportation, rural development, urban development and logistics, and in projects not necessarily related to the BRI. Indeed, some studies have pointed out that the bulk of the funds for the BRI will come from bilateral lending by the Chinese policy banks (Kynge, 2016). According to the bank's president, the AIIB should have a lean and efficient structure (Miller, 2016), with no more than 500–600 staff for an annual loan approval volume of US$15bn (in comparison, to disburse the same amount of funds, the ADB has approximately 3000 staff, while for approving US$40bn in yearly loans the World Bank needs approximately 10 000 staff) (Chan,

[7] Decisions would include: "increasing the bank's capital [or] the capital subscription of a member; expanding the operations of the bank; changing the size [or] the structure of the Board; appointing or removing the president; suspending a member; terminating the bank and distributing its assets; and amending the Articles" (Callaghan and Hubbard, 2016, pp. 129–30).

2016). Although the BRI will have other financial lifelines,[8] the AIIB undoubtedly is a landmark for the entire project; indeed, it will be "an acid test for China's soft power," and its success or failure will "determine the fate" of the New Silk Road's grand strategy (Chan, 2016, p. 184).

The establishment of the AIIB has been a great diplomatic success for China (Hsu, 2017), probably beyond Beijing's expectations. In fact, if originally China had ever conceived the bank as an instrument to serve just Beijing's interest in the BRI implementation, in the end it firmly embedded the AIIB in the global financial architecture for development, thanks to the warm response of the Europeans, thereby becoming another "boring bank" like all the others (Miller, 2016). Playing by the global rules paradoxically became a necessity, especially after the USA's refusal to join, as Europe would have supported only an institution with credible commitment to the highest (Western) standards (personal communication in 2017). After Australia and South Korea joined the bank, the USA and Japan ended up in full isolation, suffering a clear diplomatic knockout: it was Washington, not Beijing, that "turned the AIIB into a battle for global influence" (Callaghan and Hubbard, 2016, p. 116). As one consultant to the bank made clear, as the AIIB would rely on the World Bank or the IMF for "general economic reporting information," it would need to be conservative in lending (as it has to establish its rating on the global financial market) and it would simply do things in a more flexible and efficient way (Huang, 2015, p. 2; Chin, 2016). Rather than representing an alternative to the Western-dominated IFI, the AIIB and the BRI would represent an "emerging 3rd pillar in Asian architecture," together with the US system of "collective security" based on bilateral alliances and with the ASEAN-led "cooperative security" grounded in regional values and norms (Kuik, 2015, p. 1). Will the AIIB really live up to its promise to be a new multilateral vehicle for development finance, or will it be a multilateral façade for a promotion of mere Chinese commercial interests? Operationalizing multilateralism is the "hard part" of the story (Callaghan and Hubbard, 2016, p. 132), and to this crucial aspect we now turn.

IV. "Crossing the River by Feeling the Gold": Asian Infrastructure Investment Bank and the Belt and Road Initiative in Action

Multilateral development banks exist because they solve information asymmetry

[8]Major financial institutions supporting the BRI are: the New Development Bank (BRICS Development Bank), the Silk Road Fund, the China Development Bank, the Export-Import Bank and the major Chinese state commercial banks. The China Development Bank alone has "eight times the outstanding loans of the WB" (Humphrey et al., p. 13) and holds more assets than the sum of the assets of the Western-backed MDB (Kamal and Kevin, 2016).

problems, they offer a monitoring agent to overcome freeriding behaviors of the prisoner's dilemma kind, and, being more autonomous from political pressure by single creditors, their operations and conditionalities tend to be more easily accepted by recipient countries (Rodrik, 1995). Of course, this does not mean that great powers within the MDB are neutral. There is, in fact, ample evidence in the literature of a "systematic influence" of the USA and Japan over allocation of funds by the ADB (Kilby, 2006, p. 193), whose degree varies depending on domestic political cycles and priorities (Fleck and Kilby, 2006; Kersting and Kilby, 2016). Dominant countries do not necessarily focus on economic gains only, as long as they can recur to their authority to structure the organization, to set the agenda and to initiate programs, as proven by the history of Japan in the ADB (Wan, 1995). Moreover, changing IFI *formal* rules (sometimes to give more "voice" to emerging countries) does not necessarily mean reducing the Western dominance of the organizations themselves through *informal* channels (Kilby, 2011; Wade, 2013).

As emerging powers like China increase their capabilities, they exercise their statecraft on the global stage, also by establishing new institutions (Ikenberry and Lim, 2017). In fact, Beijing faces a series of institutional choices relating to international organizations: on a continuum presenting the options of status-quo stakeholder and opposition at the extreme ends, authority-seeking stakeholder, institutional obstruction and external innovation are choices in between (Ikenberry and Lim, 2017). For these authors, the AIIB is precisely a case of the latter, offering an "alternative node of cooperation," which is, however (contrary to their expectations that it would revolve around new rules), embedded not only in the liberal order but also (Ferchen, 2015) in China's longstanding tradition of a foreign policy based on mutual respect and cooperation. In fact, how "innovative" China is being with the establishment of the AIIB can be questioned, but certainly Beijing is sending a signal of increasing willingness to contribute to global governance.

In this sense, Beijing's offer of public goods through the AIIB has more a political than an economic significance, as a way to promote China's interests and expand its influence on a global stage, because China's development banks already disburse greater funds on a bilateral basis (Wang H., 2014, p. 15). A look at the first year of activity of the bank confirms this intuition. Table 1 regroups all 12 loans approved by the AIIB at the time of writing (May 2017). They involve seven countries: Indonesia (3 projects), Bangladesh (2), Azerbaijan (1), Oman (2), Myanmar (1), Pakistan (2) and Tajikistan (1). Loans are granted essentially in two sectors: energy (Bangladesh, Azerbaijan, Myanmar and Pakistan) and transport (Oman, Pakistan and Taijikistan). However, the three projects in Indonesia are multi-sectoral, reflecting a certain degree of complexity.

Table 1. Loans Approved by the Asian Infrastructure Investment Bank, June 2016–May 2017

Approval date	Country	Project	Sector	Loan (US$m)	Co-financing[a] (US$m)	BRI corridor (author's classification)
22.03.2017	Indonesia	Dam Operational Improvement and Safety – Phase II	Multi-sector	125	WB (125)	Maritime Road
22.03.2017	Indonesia	Regional Infrastructure Development Fund	Multi-sector	100	WB (100)	Maritime Road
22.03.2017	Bangladesh	Bangladesh Natural Gas Infrastructure and Efficiency Improvement	Energy	60	ADB (167)	Bangladesh–China–India–Myanmar
21.12.2016	Azerbaijan	Trans Anatolian Natural Gas Pipeline	Energy	600	WB (800) EBRD, EIB (2,100)	China–Central and West Asia
08.12.2016	Oman	Duqm Port Commercial Terminal and Operational Zone Development	Transport	265	SEZAD (88.33)	Maritime Road
08.12.2016	Oman	Railway System Preparation	Transport	36	OGLG (24)	Maritime Road
27.09.2016	Myanmar	Myingyan Power Plant	Energy	20	ADB (N.A.) IFC (N.A.)	Bangladesh–China–India–Myanmar
27.09.2016	Pakistan	Tarbela 5 Hydropower Extension (T5HEP)	Energy	300	WB (390)	China–Pakistan
24.06.2016	Indonesia	National Slum Upgrading	Multi-sector	216.5	WB (216.5)	Maritime Road
24.06.2016	Pakistan	National Motorway M-4	Transport	100	WB (100)	China–Pakistan
24.06.2016	Bangladesh	Distribution System Upgrade & Expansion	Energy	165	–	Bangladesh–China –India–Myanmar
24.06.2016	Taijikistan	Dushanbe–Uzbekistan Border Road Improvement	Transport	27.5	EBRD (62.5)	China–Central and West Asia

Source: www.aiib.org.

Notes: [a]Excluding governments and commercial borrowings. ADB, Asian Development Bank; EBRD, European Bank of Reconstruction and Development; EIB, European Investment Bank; IFC, International Finance Corporation; OGLG, Oman Global Logistics Group; SEZAD, Special Economic Zone at Duqm; WB, World Bank.

The first thing to note is that all countries involved are BRI countries, and all projects can be related to one of the six BRI corridors. The development of Duqm Port and the preparation of the railway system in Oman aim to create transport facilities in a country that could become the gateway of the Persian Gulf to the Indian Ocean section of the Maritime Road. With the intention to consolidate a crucial country sitting on the Maritime Road between the South China Sea and the Indian Ocean, the loans to Jakarta target structural environmental fragilities of the country, with a focus on a dam, on slums and on the creation of an appropriate national institutional framework for infrastructure development, making Indonesia the second-largest recipient of AIIB so far, after Azerbaijan. Projects in Myanmar and Bangladesh are related to energy (natural gas and electricity grid), and clearly have the goal of strengthening the Bangladesh–China–

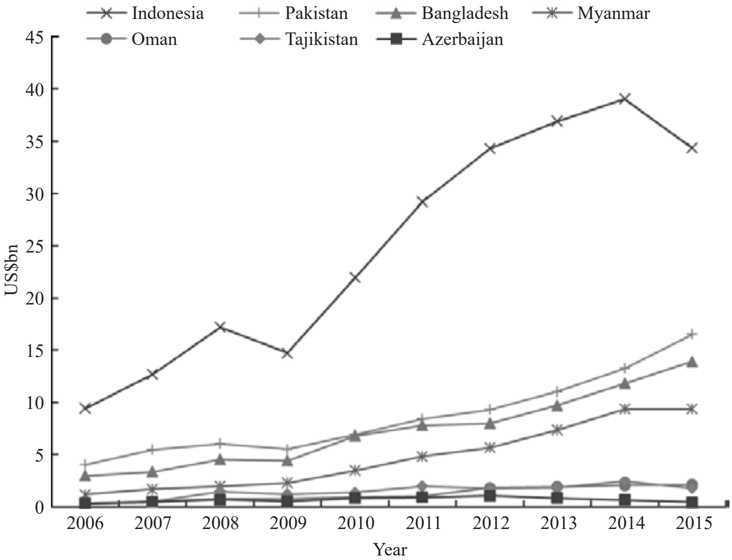
India–Myanmar corridor in the two fragile states. The China–Pakistan Corridor is vital for China to connect the restive province of Xinjiang with the port of Gwadar in the Indian Ocean, and in the area AIIB finances a hydropower plant and a national motorway. Finally, the Trans-Anatolian Natural Gas Pipeline and the Dushanbe–Uzbekistan Border Road Improvement supported by the bank are connectivity projects in the Central Asia–West Asia corridor.

The second point to stress is rather straightforward: apart from the energy distribution system in Bangladesh, all projects are co-financed by other MDB (i.e. the World Bank, the ADB, the European Bank for Reconstruction and Development, the European Investment Bank, and the International Finance Corporation, itself an arm of the World Bank). In total, this co-financing amounts to US$4.061bn, with the European Banks taking up the lion's share (US$2.163bn), followed by the World Bank (US$1.732bn). Therefore, if we consider that allocated AIIB funds for these projects amount to US$2.015bn (i.e. only half the money provided by MDB), as a whole the AIIB loans were generously supported by Western-led MDB, showing that these projects were not dominated by China's narrow interest only, and were based on international credit standards.

The second step of the exercise requires looking at trade relations in goods between China and these seven countries to see if they represent meaningful partners for Beijing. Here, a clear picture seems to emerge. For a start, Chinese exports to these countries increased by more than 17 percent year-on-year between 2006 and 2015, reaching US$78.5bn (Figure 1). In the same period, Chinese imports from the same countries rose by a yearly rate of almost 11 percent, up to US$43.6bn in 2015 (Figure 2). By comparison, in the same period, China's world exports and imports grew in the same period by 10.0 and 8.2 percent, respectively (Figure 3). In fact, with the sole exception of exports to Azerbaijan (2.7 percent), all trade between China and the seven markets has been growing at a higher rate than China's trade with the rest of the world (Tables 2 and 3).

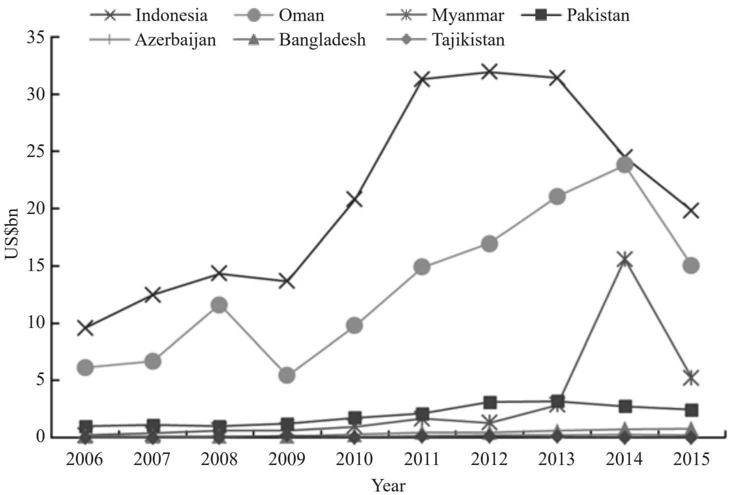
These trade partners have historically registered a trade deficit with China. China's main export partners in the group are Indonesia (US$34bn), Pakistan (US$16bn), Bangladesh (US$13bn) and Myanmar (US$9bn). Myanmar, Oman, Taijikistan and Bangladesh have grown as China's export markets by 25, 22, 21 and 18 percent annually, respectively, with Oman and Tajikistan starting from a very low level. As for China's imports from these countries, Indonesia and Oman clearly stand out, as expected because of the importance of these countries as sources of fuel (see Figure 4). Imports from Azerbaijian, Bangladesh and Taijikistan have had a year-on-year growth rate of 29, 26 and 12 percent, respectively, but flows have always remained at very low levels.

Figure 1. China Exports: Trade Partners, 2006–2015



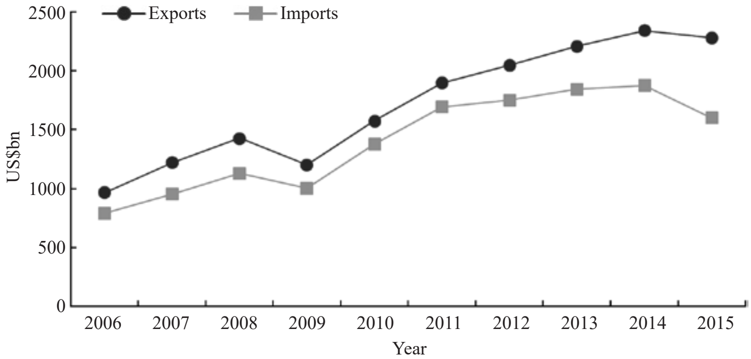
Source: World Integrated Trade Solution on COMTRADE data.

Figure 2. China Imports: Trade Partners, 2006–2015



Source: World Integrated Trade Solution on COMTRADE data.

Figure 3. China: Total Trade in Goods, 2006–2015



Source: World Integrated Trade Solution on COMTRADE data.

Table 2. Export Growth Rate, Seven Recipient Countries, 2006–2015

Country	Export growth rate (%)
Azerbaijan	2.7
Bangladesh	18.8
Indonesia	15.4
Myanmar	25.7
Oman	22.6
Pakistan	17.0
Taijikistan	21.8
World	10.0

Table 3. Import Growth Rate, Seven Recipient Countries, 2006–2015

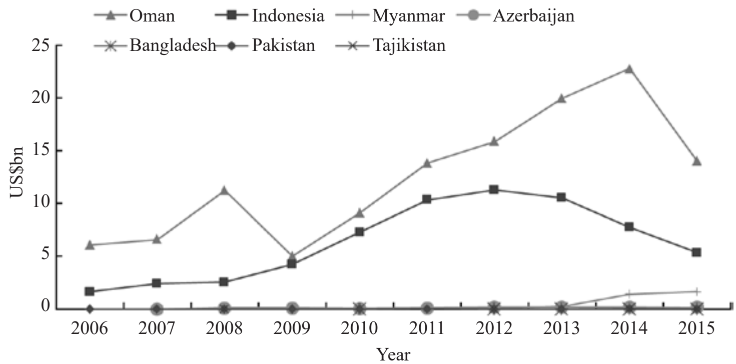
Country	Import growth rate (%)
Azerbaijan	29.6
Bangladesh	26,2
Indonesia	8.4
Myanmar	40.1
Oman	10.5
Pakistan	10.5
Taijikistan	12.1
World	8.2

Exports to the seven countries mostly consist of industrial supplies (US$36bn, 46.6 percent), growing by a yearly average of 17.8 percent since 2006, and capital goods (excluding means of transportation) (US$22bn, 29 percent) (+18 percent), with consumer goods in third place (US$10bn, 13 percent) (+20 percent) (Table 4).[9] In

[9]According to International trade standard definitions, industrial suppliers are raw or processed primary resources to be transformed into final goods (they include construction materials, electric materials, and metals like steel and copper). Capital goods include accessories and components to be incorporated in instrumental goods (e.g. electronic circuits and components of industrial and agriculture machines).

contrast, almost half of China's imports from the seven countries in 2015 are fuels and lubricants (48.4 percent), equal to more than US$21bn, whereas industrial supplies now represent one-third of imports (US$14bn).

Figure 4. Imports of Fuels and Lubricants: Trade Partners, 2006–2015



Source: World Integrated Trade Solution on COMTRADE data.

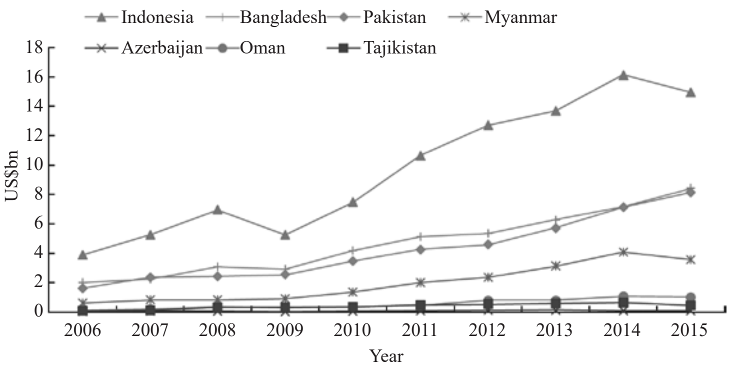
Table 4. Composition of Exports and Imports from Recipient Countries

Industrial sector	Exports (%)		Imports (%)	
	2006	2015	2006	2015
Industrial supplies	45	47	36	33
Capital goods (except transport equipment)	27	29	12	3
Consumer goods	10	13	1	4
Transport equipment	7	6	1	1
Food and beverages	4	3	5	10
Fuels and lubricants	7	2	45	49

Source: World Integrated Trade Solution on COMTRADE data.

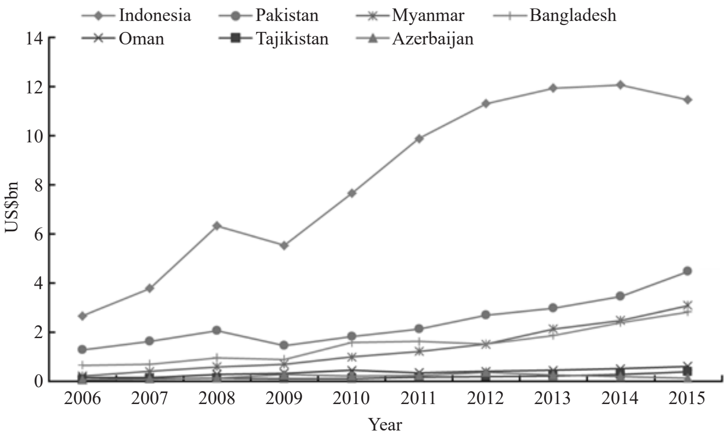
As far as the destination of industrial supplies is concerned, Indonesia (more than US$14bn), and Bangladesh and Pakistan (US$8bn each) are the main export markets (Figure 5). The importance of Chinese industrial supplies for these trade partners can hardly be underestimated: they represent 60 percent of Chinese exports to Bangladesh, 49 percent to Pakistan and 43 percent to Indonesia. Markets for Chinese industrial supplies have especially expanded in Oman (+27 percent year-on-year), Myanmar (+21 percent) and Pakistan (19 percent). In this group, the main markets for China's capital goods have been Indonesia (US$11bn) and Pakistan (US$4.4bn), with a share of all Chinese exports to these countries of 33 and 23 percent, respectively (Figure 6). The collapse of imports from Myanmar between 2014 and 2015 (Figure 7) was mostly due to the contraction of imports of jadeites, subject to high tariffs put in place by the Chinese Government (Pye, 2016).

Figure 5. Exports of Industrial Supplies: Trade Partners, 2006–2015



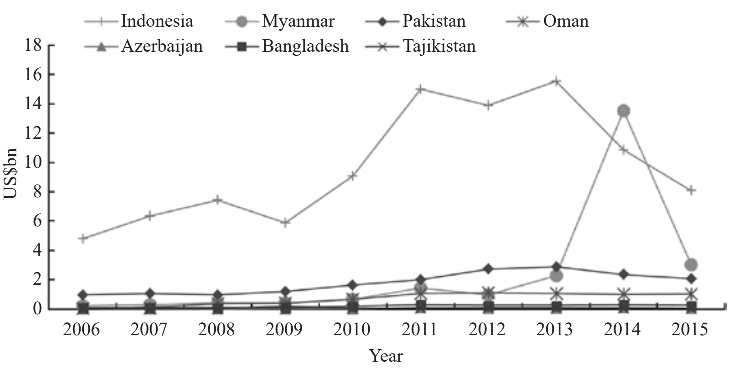
Source: World Integrated Trade Solution on COMTRADE data.

Figure 6. Exports of Capital Goods (Except Transport Equipment): Trade Partners, 2006–2015



Source: World Integrated Trade Solution on COMTRADE data.

Figure 7. Imports of Industrial Supplies: Trade Partners, 2006–2015



Source: World Integrated Trade Solution on COMTRADE data.

In sum, from the analysis of the first loans approved by the AIIB in relation to China's trade flows with recipient countries, we can infer that the bank is, indeed, promoting Chinese geopolitical and commercial interests. In fact, first, all loans are granted to BRI countries which have seen their trade relationship with China grow constantly over the past few years, as "China has been pumping money into [...] regional economies in order to expand their ability to spend on Chinese manufacturing goods" (Wang, Z., 2015, p. 18). Moreover, these seven countries are all fast-growing markets for Chinese exports of industrial supplies. Second, among them there is a crucial ally (Pakistan), a strategic country in the South China Sea (Indonesia), an important source of oil (Oman) and a key partner (Myanmar, which China apparently "lost" in 2011 when President Thein Sein presided over a transition to a semi-civilian government, opening up the country to Western investments). As we have seen, increasing the use of natural gas in the energy mix is also a government's priority and one project in Bangladesh and the huge project in Azerbaijian are, in fact, related to natural gas infrastructure. Finally, in the construction sector, Pakistan has been the first investment destination since 2005, and Indonesia and Bangladesh are in the top 10.[10] However, these features of the relationship between China and the recipient countries are not unique in the context of MDB, as the USA and Japan have always promoted their national interests in the World Bank and in the ADB. However, from this observation to reach the conclusion that China is challenging the liberal order while promoting only the interests of Chinese companies seems to be a step too far. Quite the contrary: The generous MDB co-financing of the AIIB projects is evidence not only of the Chinese support of a global liberal regime, but also of a "lock-in" effort of the West, to "discipline" and embed China's activism in development finance.

V. Conclusion

The role of the AIIB as a potential Chinese instrument ready to challenge the liberal international order has been overemphasized. It is, in fact, necessary "to put the minilateral arrangements in perspective," because these new institutions compete with long-established, high-rated MDB, and to build their credibility they have to apply rules and procedures already in place for the latter (Wang H., 2014, p. 6). The AIIB has easy access to the large Chinese capital market, and it seems likely to be a valuable contribution of China to the new governance and shape of multilateral financing

[10] The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker [online; cited May 2017]. Available from: https://www.aei.org/china-global-investment-tracker/.

(Humphrey et al., 2015). However, it is a complement, not a challenger, to the current system of MDB already in place. The AIIB has contributed, for instance, to placing infrastructure back at the center of development finance regimes. However, if the BRI and the AIIB combined are signaling Beijing's new activism and growing influence on the global scene and a shift of the world center to East Asia, this move would not necessarily precipitate a decline of the liberal order. Far from it: the liberal order seems to be rather resilient (maybe more resilient than we would expect), as this paper has shown how the AIIB is fully integrated in the global development finance regime and it is operating in strict cooperation with other MDB, even when pursuing China's geopolitical and commercial interests. In this sense, the win–win rhetoric of the BRI might be well grounded, but the real winner could be the global finance regime, which is reinventing itself by co-opting new actors in the liberal order, be they Chinese SOEs or China's Party-state itself (which would be accepted as a *respectful stakeholder*). I doubt that the AIIB would represent a "discreet contestation" of the global economic order (Nicolas, 2016); rather, it is a confirmation of Kehoane's (1984) take on institutions' resilience after the hegemon's decline. In many issues, in fact, the resilience of the Western-led global liberal order has been documented, sustained either by Western countries' prominence (and ability to offer bilateral deals to overcome resistance) or to divisions among developing countries (Wade, 2013). The same BRI could well be seen more as a mere "spatial fix" (a Chameleonic adaptation?) of the networks that characterize today's global political economy (Summers, 2016). Indeed, Chinese finance and global finance networks and institutions are working in tandem (paraphrasing Deng Xiaoping's famous dictum on experimentalism) to cross the rivers of Eurasia by feeling and grasping the golden opportunities laid out by networks of the global political economy in the 21st century.

This does not mean that it will always be the case. The AIIB is a recent addition to MDB, and much of the effectiveness and "developmental value-added" of the bank will depend also on its staffing policy (Humphrey et al., 2015, p. 7), because staff are crucial in IFI to counter principal–agent problems: in particular, the AIIB should hire fewer economists to avoid "intellectual monocropping" (Malkin and Momani, 2016). The problem is that they could even come from different professions, but if, as it happens, almost all of them are former World Bank staff (personal communication, 2017), organizational and operational monoculture will be the likely final result. This aspect is all the more relevant because in an organization with a non-resident board (setting the policy guidelines), major operational decisions will be in the management's and in the president's hands. Finally, as the number of approved loans increases, a close look at the actual implementation of the procurement policy (which should let companies play on a level-playing field, irrespective of their nationalities) will allow testing of China's win–win rhetoric, as well as any potential real challenge to the liberal economic order historically grounded on fair competition and open markets.

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