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**China's initiative in emerging international
institutions**

**The Asian Infrastructure Investment Bank and the
BRICS New Development Bank cases**

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Abstract

In terms of foreign policy and engagement in global governance, China has shift from a low-profile actor to a prominent one under Xi Jinping's government. There are two important elements on this shift; on the one hand, its growing voice in existing international organizations and, on the other hand, the creation of its own institutions and initiatives of international reach. This work analyzes in detail this last pattern with the case study of the Asian Infrastructure Investment Bank and the BRICS New Development Bank. The work will discuss the possibility of these initiatives being an alternative or a certain challenge to the current world order or rather a complement to it, taking this issue in the frameworks of multipolarity debate and Chinese foreign policy.

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Dades del TFG

Títol: La iniciativa de la Xina en les institucions internacionals emergents. Els casos del Banc Asiàtic d'Infraestructures i Inversions i el Nou Banc de Desenvolupament del BRICS
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Resum del TFG

En termes de política exterior i participació en la governança global, la Xina ha passat de ser un actor menor a un més proactiu sota el govern de Xi Jinping. Hi ha dos elements importants en aquest canvi; per una banda el seu creixent paper en les organitzacions internacionals ja existents i, per altra banda, la creació de les seves institucions i iniciatives de caire internacional. Aquest treball analitza en detall aquesta darrera tendència a través de l'estudi de cas del Banc Asiàtic d'Infraestructures i Inversió i el Nou Banc de Desenvolupament dels BRICS. El treball discutirà la possibilitat de que aquestes iniciatives puguin significar una alternativa o un cert desafiament a l'ordre mundial actual o, més aviat, un complement a aquest, prenent aquesta qüestió des dels marcs del debat sobre la multipolaritat i la política exterior xinesa.

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Datos del TFG

Título: La iniciativa de China en las instituciones internacionales emergentes. Los casos del Banco Asiático de Infraestructuras e Inversiones y el Nuevo Banco de Desarrollo del BRICS

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Palabras clave

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Resumen del TFG

En términos de política exterior y participación en la gobernanza global, China ha pasado de ser un actor menor a un más proactivo bajo el gobierno de Xi Jinping. Hay dos elementos importantes en este cambio; por un lado su creciente papel en las organizaciones internacionales ya existentes y, por otro lado, la creación de sus instituciones e iniciativas de alcance internacional. Este trabajo analiza en detalle esta última tendencia a través del estudio de caso del Banco Asiático de Infraestructuras e Inversión y el Nuevo Banco de Desarrollo de los BRICS. El trabajo discutirá la posibilidad de que estas iniciativas puedan significar una alternativa o un cierto desafío al orden mundial actual o, más bien, un complemento a éste, tomando esta cuestión desde los marcos del debate sobre la multipolaridad y la política exterior china.

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Introduction

The present work will analyze the existing dynamics of China's foreign policy consisting in developing, for the first time, its own international multilateral institutions as well as increasing participation with the emerging and existing ones. A lot of debate has rose concerning this question and it is still difficult to conclude which are China's real intentions behind initiatives such as the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund or the BRICS New Development Bank.

While some think that its ultimate goal could be settle the basis of an alternative model to the current global governance system, the main trend states that this initiatives are complementary to this current system, a system which China does not want to overthrow. This last argument is also defended by the Chinese elites and is constantly stated by the current Chinese Minister of Foreign Affairs, Wang Yi, in speeches and debates.

These institutions cannot be explained without the framework of Xi Jinping's foreign policy agenda, specially the 'One Belt One Road initiative', in which the AIIB plays a major role. The question this work seeks to answer, then, is if this dynamics and this new Chinese foreign policy can be framed under the transition to multipolarity and the challenge to the existing global order.

The work is structured as it follows: the first chapter will introduce a theoretical framework, considering, specifically multipolarity theories and the role of China and the emerging powers within it. The second chapter will discuss China's role in global governance by doing first a brief review of its transition from isolation to engagement with these institutions. This section will be followed by another one which will argue Chinese place in this organizations and the source of the dissatisfaction with this system. Then, chapter 2 will consider Xi Jinping's foreign policy and the 'One Belt One Road' initiative as its central element. Finally, the last chapter will consider the case of the Asian Infrastructure Investment Bank in detail as well as the BRICS initiatives.

The information and data compiled in order to develop the analysis of this

work comes, mainly, from academic journals and working papers. Some of the information was also taken from newspapers, either from articles, news or opinion columns, as well as from books and websites, especially those coming from the institutions themselves.

1. China in multipolarity debate

China is usually treated as a leading actor within the existing debate among scholars and politicians about current world order's transition (or not) to multipolarity. In fact, there are some academics upholding that we are already living in a multipolar world order, whereas other voices are still skeptical and claim that the unipolar system will still last for some decades, being this last argument the most defended one. On the other hand, some other scholars argue that instead of walking onto a multipolar world order, we could be returning to 'bipolarization' or even in a transition to a 'non-polarized' world' (Glosny, 2010 p.101).

In any case, nobody doubts that China is playing an important role in this debate, and its growing ambitions in emerging international institutions as well as its role in the existing ones (within the framework of its foreign policy) are a recurrent point of discussion. That is why, before going deeper into the analysis of these international institutions and its political strategy behind them, it is convenient to make a brief introduction to the theoretical framework concerning the new world order and China's role within it.

1.1 China and the world's polarity after the Cold War era

The end of the Cold War due to the Soviet Union's collapse brought an unprecedented and anomalous unipolar world order that many theorists believed to be fleeting and transitional, contemplating the future global order as a multipolar system. In 1992, Chinese former Foreign Minister Qian Qichen, defended in these terms that “the old power configuration, which was characterized by the confrontation between the two military blocs [...] is entering into a new historical stage of development heading toward multipolarity” (Xiao, 2010 p.107).

These theorists relied on realism theoretical framework's ideas and claimed that the unipolar system as a consequence of the previous bipolar world order's disappearance, would be transitional and emerging great powers would face United States hegemony (Glosny, 2010 p.101). As previously

pointed out, Chinese strategists during the 90s decade would follow these theories. The 15th Congress of the Communist Party of China held in 1997, still defended that the main trend in the configuration of a new world order was going to be multipolarity, and, in this context, China had to develop a strategy focusing “both globally and regionally, and in both politics and economics” (Xiao, 2010 p.108). Or, in other words, develop a *balance of power* strategy.

However, by mid-90s the main trend began to shift towards the 'unipolar stability' theory as the United States hegemony remained incontestable (Glosny, 2010 p.103). What does it mean in terms of China's foreign policy? As Randall L. Schweller and Xiaoyu Pu point out, a strategy consisting on *balance of power* in the context of bipolar or multipolar systems must be considered as a conservative one (Schweller, Pu 2011 p.46). In other words, it is a strategy that looks upon preserving the status quo instead of making any substantial change.

In contrast, in the current unipolar world order, a *balance of power* policy is, by definition, a revisionist strategy as its main goal is to “overthrow the established order of unbalanced power and replace it with a balance of power system” (Schweller, Pu 2011 p.46). As a consequence, the unipole develops a 'hipersensitivity' to emerging powers or alliances, which can be seen as potential challenges. In this context, “balancing is not only futile but also counterproductive, as such attempts would likely lead the dominant state to retaliate. Structural constraints limit the potential strategic choices for other states and incentivize them to cooperate with the unipole” (Glosny, 2010 p.103).

China defines nowadays global order within the concept of 'one superpower, many great powers' (*yichaoduoqiang*), which establishes a unipole (United States) as well as four major powers (which include China) (Xiao, 2010 p.108). One way to understand this 'superpower's hegemony is by approaching the international organizations which emerged from the Bretton Woods system, being the International Monetary Found (IMF) and the World Bank the most important ones, as well as the World Trade Organization (WTO).

In this international system, China is a latecomer and must play a series

of rules which come imposed by, mainly, the United States as well as other western countries such as the United Kingdom, Germany or France. China's strategy within this international system, is being considered as 'accommodation' to it while readjusting and configuring its power. But also, China is dealing to take advantage of it, in order to gain visibility and power as a global actor.

At the same time, China is developing a successful strategy of resistance in these institutions. Some of the tactics employed by China, include gradually reforming these international institutions (while creating its own ones), setting the agenda of these institutions, voting against US interests on them and developing a strategy of *soft power* towards emerging powers through foreign aid and economic cooperation (Schweller, Pu, 2011 p.54). But this is a subject which will be fully discussed in further sections.

Concurrently, we shall not overlook the indications showing American decline. Although it remains to be the hegemonic superpower and the gap is still huge, some theorists point out that the financial crisis of 2008 as well as 2003's Iraq's war, have seriously damaged the global image and legitimacy of the United States as world's hegemon (Chan, 2013 p.5). The influence of the United States and G7 in global economy is also being diminished as the share of G7 countries in global GDP has fallen from 72% in 2000 to 53% in 2011 (Wade, 2011 p.351).

However, two final considerations need to be made. First, as pointed out before, the unipole still have the hegemonic power and the gap between it and the emerging powers is still huge despite this gap has been reduced. Second, China does not seek instability within the system and its relations with the United States. Furthermore, it has been the key for its growth and the United States is also seeking for complicity.

1.2 Emerging powers in unipolarity; China and the BRICS

This section will briefly discuss about the emerging powers in this context

of unipolarity, specially on the BRICS (Brazil, Russia, India, China and South-Africa) framework and China's role within them. Robert H. Wade, argues that one indicator of growing multipolarity in nowadays global order, is the shift from a North – South trade and investment pattern to an emerging South-South one (Wade, 2011 p.351). This can be seen as a consequence of the financial crisis of 2008 but it is mainly a result of the growing cooperation between the emerging powers, in which China and the BRICS are playing an important role.

There was an eight year period between the first time the BRIC term was presented and their first formal summit in 2009 (without South Africa, which would join a year later). Michael A. Glosny, argues that China's process of joining the BRICS was developed as a step-by-step process, increasing slowly its grade of cooperation. This was a consequence of China's mistrust on this kind of initiatives “as any attempt to turn the BRICS into an anti-U.S. alliance would backfire and damage China’s interests and its prospects for development” (Glosny, 2010 p.110).

In fact, we must also consider that China rejected in 1998 a Russian initiative of a “strategic triangle” between both countries and India, claiming the same fear of seeming too much challenging against the United States. The truth is that it is difficult to find clear evidences which point out that the BRICS are really balancing against the United States. Given the fact that China is playing the rules of the existing world order, its role in the BRICS should be discussed on another terms, specifically those referring to its global and regional economic and political interests.

While is true that China is not interested in disturbing the existing stability in its relations with the United States, it is also true that China is concerned about reducing its big dependence on the United States as well as a hypothetical lose of freedom and sovereignty due to the unipole's hegemony. But Chinese cooperation within the BRICS countries goes further than just seeking less dependence on US; as Glosny points out, China has build an identity as a developing country, and this identity is another key to understand

its foreign policy and its strategy within the BRICS (Glosny, 2010 p.114).

Economic cooperation and financial aid towards developing countries through initiatives such as the AIIB (Asian Infrastructure Investment Bank) and the 'One Belt One Road' policy, help China to enforce its own development while working for the interests of the Global South (Pagán, 2016 p.93). This can be seen, of course, as a reflection of the Chinese 'soft power' agenda that was previously discussed about.

2. China's strategy on global governance

Before going deeper into the Chinese role in emerging international institutions, this section will discuss how China has been acting towards global governance from an historical point of view and, also, from the framework of its nowadays foreign policy agenda. Despite all the considerations previously discussed concerning Chinese interests in not endangering the current system, we cannot underestimate that its rise represents one of the biggest challenges which this unipolar system, presented in the previous section, is going to face in its more than 20 years of history.

This chapter is structured as it follows: first, a brief historical context will explain China's entry to global international organizations. Following, China's role and performance in these institutions will be considered in order to present the third section of the chapter, an analysis of Xi Jinping's foreign policy and the One Belt One Road initiative as a key element of it. This chapter will create the foundations on which the forthcoming analysis of emerging political and economic international institutions will be settled.

2.1 – China enters the international order

We can identify three great breaking points in China's transition from an isolated nation to a deeply engaged nation within the international institutions of nowadays world order. This transition was a result of the Open Door Policy led by Deng Xiaoping in 1978, which intended to end the protectionist economy of the Maoist era by opening the Chinese markets and joining international economic systems and international economic regimes.

But the first of these three breaking point make reference to the People's Republic of China's (PRC) entry to United Nations (UN) in 1971 (Shahwar, Khalid, 2015 p.46). Despite the fact that the Republic of China (ROC) was an attending nation at the 1945's United Nations Conference on International Organization in San Francisco and even signed the founding UN treaty (the United Nations Charter), their 1949's defeat forced the ROC government to

settle in the island of Taiwan while in mainland China the communist regime under the rule of the Chinese Communist Party (CCP) was established.

However, this regime was isolated within the international system as the United States, and also, the United Nations only recognized the ROC as the only legitimate Chinese government. In 1972, the United States carried out a major shift in this policy giving recognition to the PRC as the legitimate Chinese government. A year before, the PRC had obtained its seat at the United Nations, meaning, this way, the isolation of the ROC's government. The same year, the PRC entered institutions such as the Food and Agriculture Organization (FAO) and the International Labour Organization (ILO). In 1972 it would do the same with the World Health Organization (WHO).

A second breaking point was the Chinese entry in two of the biggest Bretton Woods system's international institutions. In 1980 the People's Republic of China joined the World Bank as well as the International Monetary Fund (IMF). Joining the World Bank allowed China to borrow billions of dollars which would be used "for economic development and structural reform" (Hempson-Jones, 2005 p.708). In exchange, China had to devalue yuan, remove quantitative import restrictions and adjust interest rate.

Regarding IMF, China also became benefited from measures which allowed the country to balance its payment problems and gain technical assistance. However, as Hepson-Jones points out, "its 1985 currency devaluation, the elimination of restrictions on international payments, and insistence on achieving current account convertibility" (Hempson-Jones, 2005 p.709) supposed the PRC's acceptance of several demands of the IMF. This demands as well as those of the World Bank, brought a certain loss of autonomy for China.

The third major breaking point was the Chinese entry in 2001 into the World Trade Organization (WTO), previously known as General Agreement on Tariffs and Trade (GATT), whose negotiations started back in the mid-1980s (Wang, Rosenau, 2009 p.8). As part of these negotiations, and just as we just

saw in the cases of IMF and the World Bank, China had to engage with some WTO's key commitments. But, as Marcia Don Harpaz discusses, "China was also asked to undertake commitments that far exceeded those of other WTO members" (Harpaz, 2016 p.127).

Harpaz refers to unusual rules such as anti-dumping duties or high pressures in areas like transparency which were not applied to another countries. Moreover, Hempson-Jones in his article also refers to accession reforms which "emphasize the PRC's shifting to rule of law through the introduction of an independent legal system" which is quite important "with regard to the company and civil law that will be required to protect and encourage foreign investors and traders" (Hempson-Jones, 2005 p.710).

Despite these measures, we cannot underestimate the fact that its entry in the WTO accelerated the growth and economic expansion of China which has "ultimately underpinned its subsequent challenge to the prevailing status quo" (Beeson, 2014) in this hypothetical transition to a multipolar world. Zhang Yunling summarizes the benefits of China's entry in the WTO in mainly four: "(1) achieving a high economic growth rate; (2) enhancing competitiveness; (3) promoting reform of the economic system; and (4) nurturing the consciousness of opening and rules-based behavior" (Tellis, Mirski, 2013 p.65). It created, also, the bases for the so-called 'Go out policy', which developed strategies concerning foreign investment.

It is also important in this historic context section to take into account the strategy which China has been developing towards this international governance, specially under the former president Hu Jintao and Jiang Zemin. After Tiananmen events in 1989, China embraced the 'tao guang yang hui' doctrine, which meant that the country should have a low-profile in the international relations. As Peter Ferdinand, citing the retired PLA's (People's Liberation Army) general Xiong Guangkai in an article wrote in 2010, points out, China "should coldly observe, secure our positions, cope calmly, conceal our capabilities and bide our time, keep a low profile, never take the lead and make

a contribution” (Ferdinand, 2016 p.941).

However, what it is now clear that this strategy is starting to change, and the roots of this shift can be witnessed specially in Hu Jintao's legislature, when China's rise achievements like the 2008 Olympic Games were presented alongside with a more proactive role within the international community. This attitude, which was developed during his legislature, included a growing contribution with UN's peacekeeping operations, the creation of the Shanghai Cooperation Organization (SOC), its own security multilateral organization, in 2001 (previously known as the Shanghai Five from 1996 to 2001) and the engagement with the BRICS that was discussed previously (Ferdinand 2016 p.942). Once presented how China joined the international institutions, it is interesting to see which role has been developing within them.

2.2 – China's place in global governance

When the People's Republic of China was founded back in 1949, its attitude to international institutions was mainly hostile. But as I just exposed, the Open Door Policy and its entry in the United Nations brought a new vision of the international system, which started to be seen as a sea of opportunities. China's view hold that integration within this global system was inevitable in order to reach modernization. Furthermore, it has been proved that this integration brought China benefits which strengthened its national interests.

Moreover, its entry in the World Trade Organization “consolidated the influence of liberal economic ideas in China” and also “made internal opposition to the new world order more difficult” (Beeson, Li 2016). As previously remarked, this ultimately brought the material conditions with which China would hypothetically challenge the current status quo.

However, China could not play a big role in this institutions during the first decades since its entry. Wang and Rosenau argue that three factors explain this trend:

“First, at the time when China returned to the international system, it

was a relatively poor and weak nation. It sought to benefit from the resources of international organizations rather than to reshape them. Second, as a relative newcomer the Chinese government lacked knowledge of the existing rules and mechanisms of various international regimes, let alone the capacity to reshape them. Finally, in the shadow of the so-called “China threat” perception that rose in the 1990s, Chinese leaders were reluctant to take an active position on many international issues” (Wang, Rosenau, 2009 p.23)

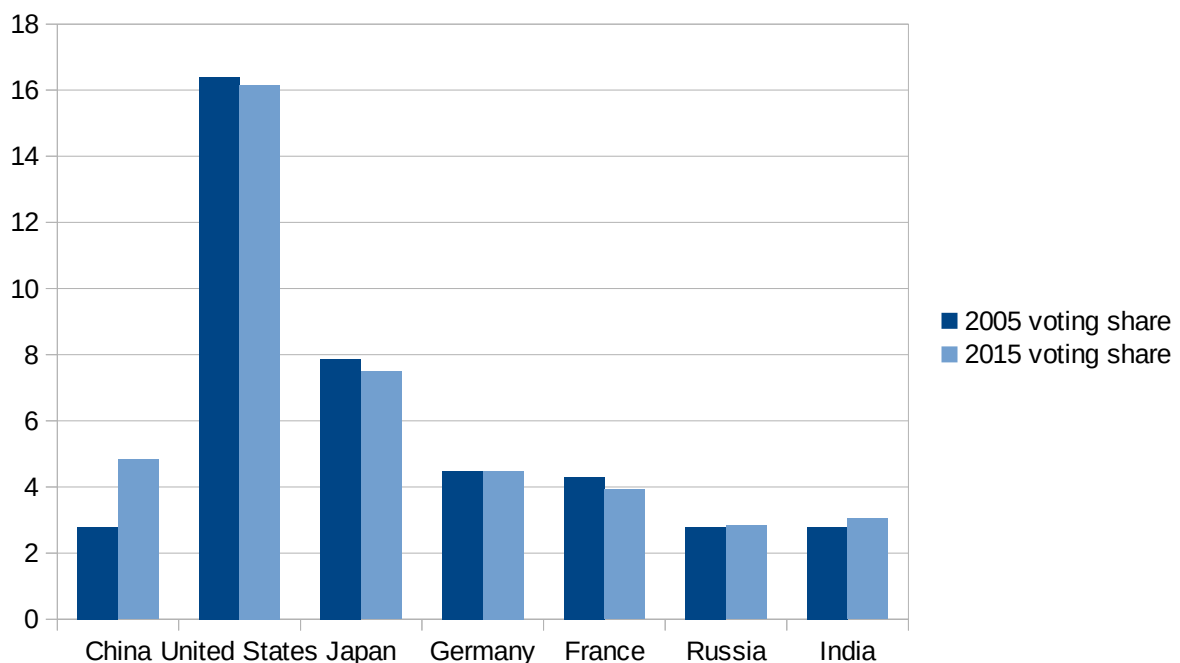
But the years following its entry has been being defined in another terms. Some scholars (Strand, Flores, Trevathan, 2016) (Ferdinand, 2016) (Beeson, Li, 2016) point out a certain frustration of the country towards global governance, being this one of the factors which ultimately explain this recent leadership in creating its own institutions. In this terms, a study presented by Jonathan R. Strand, Eduardo M. Flores and Michael W. Trevathan exposes some interesting data regarding Chinese voice in institutions such as the World Bank and the Asian Development Bank, led by Japan.

What these scholars consider, is that while there is little doubt about the importance of China in the global economy, this has not been matched with a growing importance within these institutions. China is nowadays the world's second largest economy but this status is not reflected in its power within the World Bank and the Asian Development Bank. Specifically, the study shows an unequal voting share system which is still favorable to the United States and its western allies throughout data covering a period from 2005 to 2015 (Strand, Flores, Trevathan, 2016).

In this period, China's GDP rose from 2,269 billion dollars (2005) to 10,87 billion dollars (2015) (World Bank, 2017), which is almost five times the GDP from 2005. In an institution like the World Bank, which gives voting share according to its member's status in global economy, it would be expected that China's voting share multiplied by five in this period. But as Figure 1 shows, China does not even doubled its 2005 voting share.

What stands out in this graphic is that from all the countries considered, China presents the major change in its voting share but it does not reflect the overall changes in its domestic economy and, ultimately, in global economy. While China's GDP has “surpassed that of Germany, Japan, the UK and France, its voting share in the WB does not fully capture this systemic change” (Strand, Flores, Trevathan, 2016 p.59). It also keeps the United States *de facto* veto power in the bank (given the fact that major decisions must be approved with an 85% of votes) as well as a big role to Japan and little changes for other emerging powers such as Russia or India.

Figure 1: Changes in World Bank's voting shares from 2005 to 2015



Source: Author's. Adapted from Strand J.R., Flores E. and Trevathan, M. (2016) *China's Leadership in Global Economic Governance and the Creation of the Asian Infrastructure Investment Bank*, *Rising Powers Quarterly*, 1 (1) p.59 Copyright 2016 by Marmara University

We can see this same pattern in the Asian Development Bank's voting share system in the same period. In the Asian Development Bank, in fact, China has reduced in a 0,11 % its voting share, going from a 5,57% in 2005 to a 5,45% (Strand, Flores, Trevathan, 2016 p.61). Japan and the United States hold, each one, a 12,79% of the voting share, which is a 0,25% less than 2005,

when they had a 13,04%.

There is little doubt, then, that Chinese voice in these international organizations does not have the weight that China considers it should have. Moreover, it does not seem to fully guarantee the financial aid that China would need to develop its foreign policy agenda. Of course, we could think about reforming the existing system in order to give more voice to China within it. But nowadays this seems like a remote option given the fact that the US Congress, for instance, has failed to pass reforms which would have given China more voice within the IMF (Callaghan, Hubbard 2016 p.123). At the same time, the World Bank approved reforms concerning the voting share system in 2010 which, as we have just seen, does not reflect the evolving global economic system (Strand, Flores, Trevathan, 2016 p.57)

However, Callaghan and Hubbard conclude that despite the US Congress would have approved this measures, “it is highly likely that China would still have proposed the establishment of an institution like the AIIB” (Callaghan, Hubbard 2016 p.123). What is clear is that a certain degree of frustration in China concerning these international organizations has been settled. If this is the main factor which explain the growing interest in China in global governance and its leadership creating its own institutions, or just one more among many other arguments is something that will be discussed subsequently.

2.3 – Xi Jinping's foreign policy; the 'One Belt One Road' initiative

This chapter's section would consider the Chinese shift in foreign policy under Xi Jinping and the major initiative it has started to develop, the 'One Belt One Road' initiative, which would settle the basis of the forthcoming analysis. An important issue which was previously remarked, is the material accumulation of China due to its economic development and its consequences in reshaping the international system in terms of power. Mearsheimer, one of the strong theorists of the realist paradigm in International Relations theory, also considers that this reshaping will have “ideational and policy making consequences” (Beeson, Li, 2014 p.491)

As a consequence of this accumulation of material power, we can witness two phenomenons: the growing engagement in international multilateral organizations that was presented previously, and the foundation of its own institutions. We have taken into account the possible dissatisfaction of China towards existing international organizations, but now it is necessary to study Xi Jinping's foreign policy and how these institutions match within it.

One central issue is the domestic debate among scholars and policy makers about the approach which China would have to develop in the global system. While there is a consensus on the unjustified influence which the US keeps in the global governance, the main trend is to keep strengthening its role within it (Beeson, Li, 2014 p.493). In June 27th of 2015, in a speech at the 4th World Peace Forum, the Chinese Minister of Foreign Affairs Wang Yi, shed light on key foreign policy ideational questions, which can be summarized into three:

a) The idea of China as a 'contributor' and 'facilitator' when talking about China in the regional and international order. Yi even highlighted the role of China in the creation of the United Nations and claiming that they “wouldn't overturn what we had helped to build” (Ministry of Foreign Affairs of the People's Republic of China, 2015).

b) The need to reform international order and system in order to give developing countries the place they deserve and thus “make it more fair and equitable, and better serve the aspirations of the international community” (Ministry of Foreign Affairs of the People's Republic of China, 2015). Yi also pointed out that China “should embrace three basic principles in the evolution of international relations, namely, more multilateralism and less unilateralism; stronger rule of law, not the law of the jungle; and greater democracy, not power politics” (Ministry of Foreign Affairs of the People's Republic of China, 2015)

c) The idea of breaking the so-called 'law of history' on which states accumulating power also seek hegemony.

Nevertheless, it cannot be ignored the implications in the regional and international order of China's growing involvement in the territorial disputes in the South China Sea as well as its conflict with Japan concerning the

Diaoyu/Senkaku islands, could have. As Ferdinand points out, China has hardened its line in these terms but, at the same time, he observes that there is a contradiction between this conflict dynamics and a certain moderation and cooperation with the US. Specifically, China has been acting like a diplomatic moderator in issues concerning US and its crisis with Iran, Syria or North Korea (Ferdinand, 2016 p.949). Moreover, the One Belt One Road initiative could appease these conflict dynamics in favor of mutual economic benefits.

But, at the same time, China's foreign policy, specially through the One Belt One Road initiative, is certainly challenging the US strategy towards the region, the so-called 'pivot to Asia'. However, this strategy's future is quite uncertain due to Donald Trump's apparent different visions of it in contrast with Barack Obama's and Hilary Clinton's, being also uncertain the proliferation of the Trans-Pacific Partnership (TPP) initiative. What can be witnessed, then, is a quite complex network of interests that China is facing with the logic of 'win-win' cooperation, which is highlighted by the One Belt One Road initiative. But also, a future full of doubts and challenges that these initiatives will have to face.

2.3.1 – 'One Belt One Road'; global and regional implications

In October 2013, Xi Jinping announced his central economic foreign policy initiative, the creation of the so-called 'Silk Road Economic Belt' and 'Maritime Silk Road of the Twenty-First Century', conforming both what we know as the 'One Belt, One Road' initiative. This Silk Road Economic Belt would connect China with Central Asian republics as well as Russia, Iran, Turkey, Mongolia, the Balkans, Center and eastern Europe and ultimately Germany and the Netherlands (Ferdinand, 2016 p.950).

The Maritime Silk Road would link south-east China with south-east Asian countries, Bangladesh, India, the Persian Gulf and the Mediterranean, ending, as well as the Belt Road, in Germany and the Netherlands (Ferdinand, 2016 p.450). Strategically, this development of infrastructure and facilities through the connection with Europe, will help to boost and consolidate Chinese

economic growth, which, must be noted, it is sustained by an economy depending on exportation. giving China facilities to expand its market as well as “improving security for its energy imports via overland routes, increasing China’s soft power through greater cultural and tourism exchanges, contributing to regional economic integration and improving China’s regional security” (Callaghan, Hubbard 2016 p.121) as well as its geopolitical influence.

Hong Yu points out four major motivations which help to explain the origins of this initiative within the framework of the previously considered strategic implications. On the one hand, China will settle bilateral and multilateral economic integration through building infrastructures in these countries and creating, this way, a connectivity which will also help the country to relocate stock from its export-oriented manufacturing industries (Hong, 2016).

Some argue that China seeks to change its traditional export-led economy and growth system towards consumption and demand boosting reforms (Tellis, Mirski 2013 p.65), but Chinese exports are still crucial. In the previously discussed Chinese logic of ‘win-win’ cooperation, this is also seen as beneficial for, for example, South-east Asian countries which depend on Chinese materials to boost their industries (Hong, 2016).

A second major motivation for China according to Hong, is the strategy for some Chinese companies which will be benefited from the OBOR initiative, specially those of the building sector, which suffers from a certain stagnation in the country. (Hong, 2016) This factor alongside with the previous one, will also help to boost Chinese economy and consolidate its growth and its economic power.

The third major motivation is the development of the western regions of the country through the initiative, specially Xinjiang and Yunnan (Hong, 2016). Regions which still lack from good infrastructures and, as Ferdinand points out, by 2015 it is estimated that will going to need between 30 or 50 years to catch the development level of the rest of China. Then, the OBOR initiative is also a tool for accelerating this process (Ferdinand, 2016 p.951).

Moreover, regions such as Yunnan could improve its prosperity by taking

advantage from its geographical position given the fact that it borders three ASEAN countries (Myanmar, Laos and Vietnam) and it is also close to India and Bangladesh, Thailand and Cambodia. As Hong argues, “implementing these initiatives will improve inter-regional connectivity of the land-locked western regions and allow them direct access to port facilities in neighboring countries” (Hong, 2016) .This situation could give the region prosperity by acting like an international gateway for China in the One Belt One Road initiative.

The final major argument presented by Hong is that of achieving the so-called ‘China dream’ and increasing its position within the global system (Hong, 2016). Many readings of this argument can be made and some of the most supported ones will be presented; starting with Hong, he argues that the OBOR initiative would act as a Chinese analogue to the United States Marshall Plan, through which the US helped Europe to reconstruct after World War II through investment (Hong, 2016).

Another analogy is presented by Ferdinand, which points out that the OBOR possess some of the logic under which the European Coal and Steel Community was created, specifically that of building shared cross-border infrastructure in order to boost foreign policy cooperation and reduce possible conflict dynamics. What Ferdinand also argues, is, however, that this cooperation is made in different terms than in Europe; while European cooperation was made in terms of integration, this Asian cooperation is made in terms of connectivity (Ferdinand, 2016 p.950). Beeson and Li go deeper into the regional implications, arguing that the OBOR initiative help consolidating China as a leader in a region in which nowadays is already playing a central role (Beeson, Li 2016 p.496).

Two final considerations about the One Belt One Road initiative shall be made. First, it has to be considered that the OBOR initiatives is also helping to integrate the existing regional cooperation systems and improving its connectivity. As Hong points out, “these cooperation mechanisms include the Shanghai Cooperation Organization (SCO), ASEAN Plus China (10+1), China-ASEAN (Association of Southeast Asian Nations) Expo, Asia-Pacific Economic

Cooperation (APEC), and Greater Mekong Sub-region Economic Cooperation (GMS)” (Hong, 2016). This is very important in order to seek support for the initiative from these countries, something is successfully developing.

Finally, the OBOR initiative will have to face several challenges. Ferdinand argues that political instability of some of the supporting countries and the fears of a growing profile of China in the global order from some other countries are two of the most significant ones. In this context, the importance of institutions like the AIIB being multilateral is a key element as Callaghan and Hubbard point out, given the fact that some of these countries would find more easy to accept financing from this multilateral institution despite being dominated by China, than from China itself (Callaghan, Hubbard 2016 p.119).

But also, China will have to face the US ‘pivot to Asia’ strategy, despite it is likely to be changed, as well as the Russian worries about the OBOR initiative being stronger than its ‘Eurasian Customs Union’ and ‘Eurasian Economic Community’ initiatives, which link Russia to central Asia (Ferdinand 2016, p.952).

In sum, domestic and international interests can be witnessed in this One Belt One Road initiative. Regarding the former, China wants to stimulate its State Owned Enterprises as well as private companies which suffer from overcapacity in the context of a certain stagnation in domestic market, especially in economic sectors such as building. Also, the OBOR initiative acts as a ‘natural expansion’ for China’s ‘Go West’ policy, which aimed to the development of the Western regions of the country such as Xinjiang, a region whose inequalities remain as one of the main factors which ultimately explain its ethnic tensions.

The third domestic implication for OBOR concerns to China’s economic model, preserving its export-led economy at the same time it develops policies which boost internal demand and consumption. Regarding the international interests, China is engaging in infrastructure investment to reinforce its regional leadership while developing policies which ultimately benefit the country in geopolitical terms.

3. Study cases

Which stands out in nowadays Chinese foreign policy is the fact that, it is not only willing to play a bigger role in the existing international institutions, but also creating, for the first time, its own multilateral international organizations. It seems that China cannot trust in reforming the existing international system as well as having its projects financed by the World Bank or the Asian Development Bank. In this context, China seems to prefer leading the way and creating structures which fully reflect its importance in the global economy.

At the same time, the BRICS also started to create its own institutions and China is playing a proactive role within them, being one of these the New Development Bank, which can complement the Asian Infrastructure Investment Bank in serving the foreign interests of China.

It is interesting to see how the AIIB, the NDB and the OBOR initiative fit with a major change in development policies in the global context. In an article wrote in May 17th 2017 by Branko Milanovic in the British newspaper 'The Guardian', it was stated that the development model supported by the Western countries in the last decades is deciduous and no longer valid for the emergent markets.

This model, which started in 1989 as the so-called Washington consensus, aimed to political and institutional reforms in these countries rather than investment, loans and building. The theory behind this model holds that these political and institutional reforms would allow the private sector of these countries to develop this investment, loans or building policies. In these terms, the OBOR initiative and the institutions presented in this work, represent, in words of Milanovic, a development model previous to the Washington Consensus (Milanovic, 2017).

This final chapter will consider the most significant one of this Chinese institutions, the Asian Infrastructure Investment Bank, which represents one of the key elements under which the OBOR initiative will be developed. It will also discuss the New Development Bank creation and China's possible interests

from this institution as well as from the BRICS themselves.

3.1 – The Asian Infrastructure Investment Bank

In the context of an economy strongly dependent from exports and trade, the difficulties in the Asian region regarding infrastructures are a big barrier for China. These difficulties are specifically due to infrastructure deficit in some regions. A study published by the Asian Development Bank in 2009, shed to light that a huge investment of \$8 trillion should be made between the period from 2010 to 2020 in national infrastructure. Additionally, \$290 billion dollars should be also invested in regional projects. (Xiao, 2016). The same study, remarked that the ADB has “less than \$80 billion in capital, and the World Bank's member states have subscribed to \$223 billion of subscribed capital. In practice, the latter can only loan some \$50 billion per year to different parts of the world, including Asia” (Xiao, 2016).

These investment should be made in a variety of sectors including electricity (49%), transport (35%), information and communication technologies (13%) and water and sanitation structures (3%) (Pagán, 2016 p.94). This context of infrastructure deficit is both a barrier to Chinese economic interests as well as negative to APEC and ASEAN countries. China faces this challenge with the One Belt One Road Initiative as an opportunity to build railway networks, ports and highways to reduce this barrier. However, it seems to lack investment and financing, something improved by the financial crisis of 2008.

China wants to solve this financing issue with its Asian Infrastructure Investment Bank, which is closely related to the OBOR initiative. This multilateral bank was presented in October 2013 and, just a year later, 21 Asian nations already supported the institution. Nowadays more than 70 countries¹ has signed the agreements, some of them close US allies such as the United Kingdom, and key allies also, in the Asia-Pacific region, such as Australia or

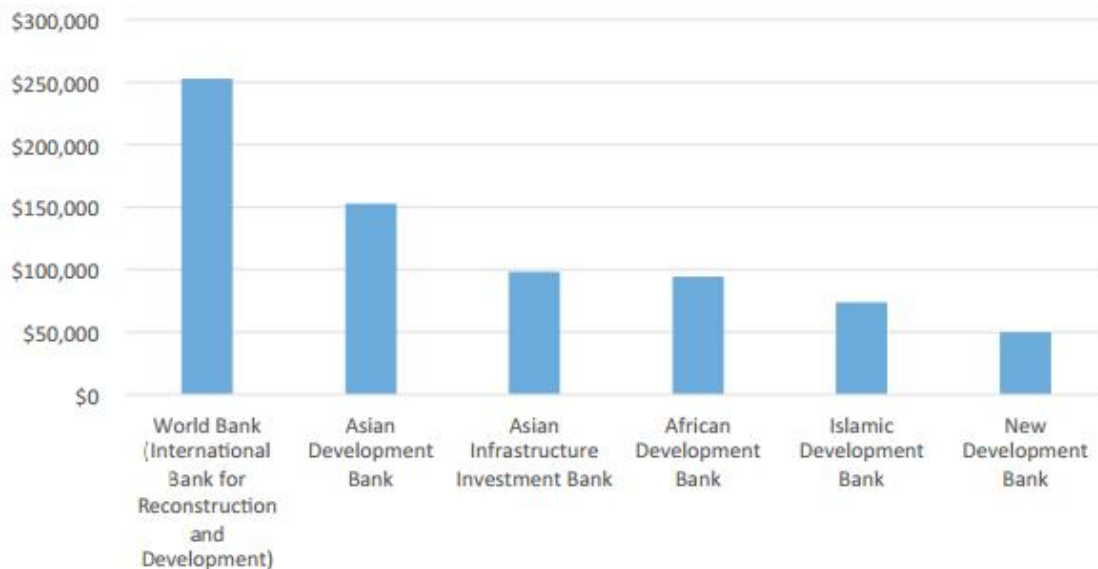
1 The last membership expansion until date (June 2th 2017) was approved in May 13th and it included as prospective members regional actors such as Bahrain or Cyprus, as well as non-regional ones like Bolivia, Chile and Romania. This brings AIIB's membership total number to 77 (China Daily, 2017).

South Korea (Callaghan, Hubbard, 2016 p.120).

Regarding to its cooperation with the existing institutions, it can be found that the bank, in fact, is working alongside with the World Bank and the Asian Development Bank, which, in both cases, even signed a memorandum of understanding for better cooperation between institutions. Thus, and returning to previous considerations made in this work, seems clear is that China does not want to derail the system without which it could not have achieved its power.

The capital base settled was \$100billion dollars, making the bank a medium-sized one, smaller than the World Bank and the Asian Development Bank but bigger than, for instance, the African Development Bank or the Islamic Development Bank. Callaghan and Hubbard, in their work, show an interesting (Figure 2) which help to witness its relative power comparing it to the banks previously described in terms of capital base (Callaghan, Hubbard, 2016 p.121).

Figure 2: Multilateral Bank's Subscribed Capital (\$US million)



Source: Adapted from Callaghan, M., & Hubbard, P. (2016). *The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road*. *China Economic Journal*, 9(2) p.121

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One remarkable issue regarding to the founding members of the bank, recalls in the lobbying that United States did to some of its allies in order to not join the bank. One of these countries was the United Kingdom, being also the first G7 country which joined the bank as a founding member. Hong sees this decision as primary based on its national economic interests (Hong, 2016).

“Britain wants a share of the potentially huge infrastructure construction market in Asia, and seeks to strengthen London’s role as a key international financial center by tapping into the rapid economic growth of China and the other emerging Asian economies” (Hong, 2016)

This pattern was followed by France, Italy and Germany as well as other US key allies such as Israel, challenging then America’s opposition and becoming founding members (Xiao, 2016). This move apparently meant a major change in China’s strategy within bank, being initially an Asian bank and with a 50% of voting share in Chinese hands as 50% of the base capital would be, in fact, Chinese. But increasing the number of founding members, meant that voting shares structured by capital lending ultimately decreased China’s power in its bank, leaving the country with a voting power of 26.1%.

This does not removed the veto power from the hands of China, given the fact that major decisions need a 75% of total votes, but as more countries join the bank, the more will decrease this voting share (Pagán, 2016 p.97). In these terms, Pagán shows that a hypothetical incorporation of Japan to the bank would leave China with a 22.7%, which means that it would loose its veto power. But Pagán argues that China would not deliberately try to keep it, and this could be seen as part of a ‘soft-power’ strategy in order to not make an authoritarian image of itself (Pagán, 2016 p.97).

Voting share system is not the only interesting thing regarding to the bank’s structure. It is shaped in order to give more power to the Asian regional actors, holding the 75% of the total capital stock. Also, 9 of the 12 members of

the Board of Directors will be members from this regional membership, even with the possibility of a non-Chinese member being the President (Callaghan, Hubbard 2016 p.131). Despite this regional benefits and different voting share according it, the AIIB is shaped like the Multilateral Development Banks we already know.

The first projects the bank has approved seem to consolidate it as a true multilateral institution and not just a “cover for a Chinese dominated body” (Callaghan, Hubbard, 2016 p.134) which ultimately serve to Chinese interests. Figure 3 shows all the approved projects hitherto (June 2th 2017) as well as its sector and loan value. What we can see is that, in fact, investment in countries which need aid in infrastructure, energy and transport sectors is being approved, showing that the bank intentions go beyond those regarding exclusively to defend Chinese interests.

Moreover, Figure 3 shows clearly how the AIIB is working closely to the World Bank and the Asian Development Bank, co-financing almost all of these projects, like the Pakistan Tarbela 5 Hydropower Extension Project or the Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP). It is coherent then with the bank policy and also with the Chinese foreign policy discussed previously, with some of these projects also fitting with the ‘One Belt One Road’ initiative goals. But it is also coherent with its business plan and other Chinese-led initiatives such as the China–Pakistan Economic Corridor (CPEC).

Figure 3: Projects approved by the AIIB

| Name of the project | Country | Sector | Loan |
|---|------------|-----------|--|
| Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project | Tajikistan | Transport | Co-financed with EBRD ² Development \$27.5 million (total loan) |

² European Bank for Reconstruction and Development

| | | | |
|--|------------|------------------------------|---|
| Bangladesh: Distribution System Upgrade and Expansion Project | Bangladesh | Energy | \$165 million (total loan) |
| Pakistan: National Motorway M-4 Project | Pakistan | Transport | Co-financed with ADB \$100 million (total loan) |
| Indonesia: National Slum Upgrading Project | Indonesia | Solid Waste Management (60%) | Co-financed with WB \$216,5 million (total loan) |
| Pakistan: Tarbela 5 Hydropower Extension Project | Pakistan | Hydropower (Energy) | Co-financed with the WB. AIIB: \$300 million (total loan) |
| Myanmar: Myingyan Power Plant Project | Myanmar | Energy | Co-financed with ADB \$20 million (total loan) |
| Oman: Railway System Preparation Project | Oman | Transport | \$36 million (total loan) |
| Oman: Duqm Port Commercial Terminal and Operational Zone Development Project | Oman | Transport (port) | \$265 million (total loan) |
| Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP) | Azerbaijan | Energy (oil and gas) | Co-financed with the WB. AIIB:\$600 million (total loan) |

| | | | |
|---|------------|--|---|
| Indonesia: Regional Infrastructure Development Fund Project | Indonesia | Multi-sector | Co-financed with the WB. AIIB: \$100 million (total loan) |
| Indonesia: Dam Operational Improvement and Safety Project Phase II | Indonesia | Dams and Water Resource Management | Co-financed with the WB. AIIB: \$125 million (total loan) |
| Bangladesh: Natural Gas Infrastructure and Efficiency Improvement Project | Bangladesh | Energy – natural gas production and transmission | Co-financed with ADB. AIIB: \$60 million (total loan) |
| India: Andhra Pradesh 24x7 – Power For All | India | Energy - Power | Co-financed with WB. AIIB: \$160 million (total loan) |

Source: Author's. Adapted from Asian Infrastructure Investment Bank (2017) – Approved projects Retrieved: 26 April 2017 <https://www.aiib.org/en/projects/approved/index.html>

As Callaghan and Hubbard expose, the function of the AIIB could not be clear in its origins pointing out that it will have to deal with “whether its focus will be primarily assisting the development of low income countries in the region and help them reduce poverty, or whether it will have a broader remit and focus on the ‘development’ of all countries in the region” (Callaghan, Hubbard 2016 p. 135). Concluding that if it is truly a multilateral institution, it will have to promote the interests of the full region, not only in countries related to its interests, something that Figure 3 does not fully answers.

And there is also the question discussed previously regarding if whether

the AIIB is a useful tool for development and investment in the region or just a cover to develop the 'One Belt One Road' and serve to internal politic issues. This is something that Pagán believes to be a central question regarding the future of the bank, because, as previously remarked, China could also use the AIIB to deal with the question of what to do with its big foreign exchange reserves, investing them abroad (Pagán, 2016 p.96).

It was also exposed that China seeks to open new market opportunities for its companies at the same time it develops and consolidates a growth model still led by exports but slowly shifting towards the domestic demand stimulation reforms. Pagán also argues that Chinese domestic interests are also in stimulating domestic employment opportunities (while at the same time alleviating the problem of overcapacity in certain sectors Of the Chinese economy) and, finally, to contribute to the internationalization of the yuan, being this factor a key element to be considered together with the foundation of the AIIB because “the AIIB founding and RMB internationalization are interlinked vectors driving economic integration between Asia and the rest of the world” (Mercy, Tang, 2015).

3.2 – The BRICS New Development Bank

Despite its clear implications in development policies, the Asian Infrastructure Investment Bank is not properly a 'Development' bank as its main goal is investment in infrastructures and serving as well as a key element on Chinese foreign policy agenda. But this bank will likely join another initiative led, in this case, by the BRICS which is settled as a Development Bank helping with poverty issues and in which China is playing also an active role. China's interests in the bank, however, are not fully economic ones; as stated in the first section of the work, it is also part from a *soft power* agenda carried out towards the 'Global South' countries.

In the same way as China seemed to show frustration and dissatisfaction with the current global governance system, other emerging powers have shared this view. The BRICS countries which were presented in the first chapter of the

work, are five emerging powers and emerging economies which host more than 2.8 billion people, which is the 40 percent of the world's population. In terms of economic weight, the BRICS countries account for more than 25 percent of global GDP (BRICS, 2017).

But, as previously discussed in the Chinese context, the BRICS possess just 11% of the votes in IMF, despite accounting for more than 20% of global economic activity. Despite these facts, the BRICS together only have a 13.24% of World Bank voting share and a 14.91% of IMF voting shares (BRICS, 2017). In these terms, it was exposed the failure and difficulties to reform the system through the case of the US Congress voting against World Bank's reforms.

But, also, the US Congress denied reforms regarding to the International Monetary Fund. This situation was indicated in the press note with which the BRICS presented the New Development Bank.

“The Leaders also reaffirmed their disappointment and serious concern at the non-implementation of the 2010 IMF reforms, and its impact on the Fund's legitimacy and credibility. Undue delays in ratifying the 2010 agreement are in contradiction with joint commitments by the G20 Leaders since 2009. In the event that the United States fails to ratify the 2010 reforms by the year-end, they called on the G20 to schedule a discussion of the options for next steps that the IMF has committed to present in January 2015. They also emphasized the need to continue the IMF reform processes”.

(Sarkar, 2015)

In July 2014 the BRICS announced the creation of the New Development Bank as its own institution regarding development and fighting against poverty, as well as the Contingent Reserve Arrangement (CRA), its institution for monetary and balance of payments issues. The bank will be operating from Shanghai and its membership, as the AIIB, is open to countries which do not necessary belong to the BRICS (as long as the BRICS total vote share remains,

at least, in 55%) (Epstein, 2015). One of the sources of China's interests for this bank is the fact that it will be prioritizing infrastructure building in contrast with "other priorities (such as education, healthcare, women's rights, etc.) towards which the World Bank has been drawn in recent decades" (Khanna, 2014 p.47).

The bank reached the AAA credit rating in March 22th 2016, starting its first loans on the next month (BRICS Post, 2016). These firsts projects in which the New Development Bank will be engaged show an interesting pattern, focusing on renewable energy projects in 6 of the 7 projects it is currently involved to date (June 2th 2017) (New Development Bank, 2017).

A common point of discussion regarding the New Development Bank and the Contingent Reserve Arrangement is that they are analogues and rival institutions to the World Bank and the International Monetary Found respectively. But, in the same way as the AIIB, it is not clear that these BRICS-led institutions seek to overthrow the current system. As well as the AIIB, the New Development Bank has signed memorandums of understanding for collaboration with institutions such as the World Bank and the European Investment Bank (Maswanganyi, 2016).

Moreover, this discussion seem to ignore one truly interesting pattern presented by this bank as well as the BRICS itself and the CRA, that is the developing of South-South cooperation, in which China plays a big role as discussed in the first chapter. This is another source of interest for China regarding this bank and its foreign policy agenda.

And, also, the financing needs of countries which belong to this 'Global South', as we just saw in the previous section. The European Comission, in a strategic note published in April 24th 2015, stated that the AIIB, the NDB and the CRA represents a combined capital base of 250\$ billion which "would be equivalent to over 40% of the current stock of MDB loans to emerging markets (estimated at \$693 billion) and over 90% of the current stock of MDB loans to Asian emerging markets (worth around \$328 billion)" (European Political Strategy Center, 2015). This note concluded that there is little doubt about these institutions to be acting as a global economy and development accelerators.

It remains to be known if this initiative, as well as the BRICS themselves, will keep playing the role of the last years given continuous disagreements between these five countries as well as the big changes regarding to Brazil's political situation as a consequence of Dilma Rouseff's impeachment and the nowadays government of Michel Temer. Regarding the former, Epstein, on the contrary, states that this can be seen as a strength rather than a weakness, arguing that "as they transcend regionalist restrictions and become a kind of cosmopolitan non-West, champion of sorts for those weary with the state of things" (Epstein, 2015). And also, as previously discussed, as a tool which ultimately reinforces their domestic economies in a South-South cooperation pattern.

4. Concluding remarks

The economic crisis of 2008 was also a certain crisis for the global governance system led by the United States since the end of the Cold War. In the 'Global South' countries, certain measures approved by the IMF delegitimized this system at the same time that terms like 'sovereignty' started to lose its meaning. This process of loss of legitimacy was followed by, also, a loss of credibility within the framework of Chinese creation of its own institutions.

United States pressures towards ally countries such as the United Kingdom for not joining the AIIB are a good example, specially if it is considered that these countries ended up ignoring the US and joining the bank. The fact that the United States themselves acted this way can be seen as a reaction to what they could consider to be a certain threat to its interests and the current *status quo*.

Moreover, as argued in the first sections of this work, it is clear that China shows a certain frustration towards this system given the fact that it does not have the power it should have in the system's institutions according to its growth and material power. In these terms, this frustration towards the system may be pointed out as one of the reasons which ultimately led the country to the creation of its own institutions and initiatives in order to develop more effectively its foreign agenda.

However, this work has shown that there is little evidence which states that China's ultimate goal could be reshaping or overthrowing this system; on the one hand, it has to be considered that institutions from this global governance system such as the World Trade Organization have helped China to reach the place in global economy that enjoys nowadays. On the other hand, the initiatives and institutions presented in this work show clearly patterns of collaboration with the existing international order.

Chinese frustration within the international order, then, is not being channeled through direct confrontation to it; instead, China is developing its

foreign agenda by combining the creation of its own institutions while, simultaneously, growing its participation and collaboration with the existing ones. Moreover, in Xi Jinping's speech at the World Economic Forum in Davos in January 2017, he even stated, in reference to Donald Trump's protectionist views of the economy, that China is ready to take the lead as a free trade champion nation, at the same time that defended globalization in terms of 'inclusive globalization' (Elliot, Wearden, 2017).

However, this foreign agenda in which the One Belt One Road plays a major role, cannot be totally explained without taking into account the domestic interests that China seeks to solve through it. Especially those concerning to overcapacity of State Owned Enterprises and private companies but also the development of the western regions of the country, structural changes in its economy in order to boost demand and, in the global context, the internationalization of the yuan.

This process is also framed within the South-South cooperation patterns, in which China is taking the lead, strengthening this way the country as a model and close ally (due also to its 'soft power' agenda) for developing nations as well as a regional leader. It is here where the BRICS might play a big role through initiatives and institutions such as the New Development Bank, since it means, for the first time, that the 'Global South' is developing its own formal structures. However, the BRICS shall face important challenges concerning constant disagreement between countries and the recent political instability in one of its majors members, Brazil.

The unipolar system that the end of the Cold War originated is facing now the biggest challenge in its more than 20 years of history. And while China is not looking to overthrow the system, either with its own initiatives or the BRICS ones, the country is focusing on increasing its status within global governance and enhancing its diplomatic approaches from a 'soft-power' agenda which, ultimately, will improve its sovereignty and legitimacy within its own frontiers.

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