Changing Security Environment Around the Korean Peninsula

: Power Transition Theory's perspective on the AIIB

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I. Introduction
The combination of the collapse of the Soviet Union and China's policy shift led by Deng Xiao Ping has brought China unprecedented economic boom and an influential status in the international system. The so-called rise of China stirred international system. Scholars and experts of Asian international relations have treated China's rise as a threat to the current international system for almost three decades. Not everyone agrees with the China threat perception, but all agree that the power transition is on the way.

Lately, the creation of the Asian Infrastructure Development Bank (AIIB) in 2015 has been described as symbolizing Chinese dissatisfaction with not only existing international economic organizations, but also the current international order. In line with the China threat perception, this prevailing argument that the AIIB represents a challenge to the international economic order has not been thoroughly analyzed considering the information available.

Is Asia becoming more dangerous because of China's rise? Is China challenging the international order? What do the changes over the last three decades mean to the security of the Korean peninsula? This paper seeks to diagnose the current security situation of East Asia based on the Power Transition theory. The case this research investigates is the creation of the Asian Infrastructure Investment Bank. By investigating the AIIB case through an analytical framework developed by power transition theory, this research hopes to find answers for the questions posed here. It also attempts to analyze the implication of structural environmental change for the security of Northeast Asia.

In the following section, I will discuss how China's rise is viewed by scholars and experts around the world and I will briefly discuss the theoretical framework. Section I review U.S. foreign policy toward Asia under the Obama administration. In 2011 the Obama administration laid out its specific Asian policy called 'Pivot to Asia' policy. The 'Pivot to Asia' policy clearly implied a check and balance against the rise of China by the U.S. and its allies in the region. In the following section, I analyze the Obama administration's 'Pivot to Asia' policy from three different levels: monadic, dyadic and multilateral & regional.
II. Power Transition Theory and the Changes in Asia

1. Power Transition Theory and the source of major power conflict.

Power transition theory provides useful insights in understanding the changes in Asian international order for the last three decades. Power transition theory, originally introduced by Organski and further developed by Organski and Kugler, is a system level, dynamic international relations theory designed to explain nations' behavior in the international system. It assumes a hierarchical order in the international system with a dominant power residing at the top of power pyramid, great powers below the dominant power, middle powers below great powers, and small powers at the bottom. It also assumes that the dominant power designs the rules and norms of international system based on its own domestic rules and norms. Therefore power transition theory views the rules governing the domestic and international system as fundamentally similar.

The theory also assumes that nations are rational actors and their object is to maximize national satisfaction from the surrounding environment. Nation's decision to choose conflict or cooperation with other nations is driven by the desire to maximize its own satisfaction. In this regard, power transition theory believes that conflict and cooperation with other nations are policy tools chosen by nations based on rational calculation.

What exactly influence nations' choice between conflict and cooperation with other nations? Two variables are important in power transition theory. First, it believes the distribution of national power in the international system is the structural variable of conflict and cooperation. The second variable is the degree of satisfaction with the international system. In other words, a country's level of satisfaction with the international status quo influences its policy decision. Using these two variables, power transition theory argues that war among major powers are more likely to occur when a dissatisfied rising challenger reaches power parity with the dominant power and desires to change the norms and rules of the international system.

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1 Organski, World Politics(1958); Organski and Kugler, The War Ledger (1980)

system in its favor. On the other hand, cooperation among nations is more likely when the
distribution of power is hierarchical and major powers prefer to maintain the international
status quo.

The core argument of power transition theory provides us useful criteria in making judgement
on China's behavior. The second variable, (dis)satisfaction with the current international
system, is the critical variable. Dissatisfied rising state, according to power transition theory,
will attempt to replace the current system while satisfied rising state will attempt to protect
and even reinforce the

2. The rise of China and the reaction from the United States

i. China's Rise : Threat or Opportunity

The collapse of the Soviet Union marked the end of a bipolar international system that
had defined the world order since 1945. The end of a bipolar era led some to believe in a
victory of liberal democracy over a non-liberal, non-democratic bloc. It was also the
beginning of a new world order described as the unipolar system ruled by through US
supremacy. However, there was another country with a non-liberal and non-democratic
political system rising from the East. From the late 90's, the rise of China was perceived as
the rise of another non-democratic country, which potentially poses a threat to the democratic
world order.

Despite the fact that the Clinton administration defined the relationship between the
United States and China as "strategic partnership" in 1998, the perception of China as threat
frequently appears on the US government's official documents such as the Department of
Defense's Annual reports, US Congressional speeches and debates, and the US-China
Economic and Security Review Commission's reports from the late 20th century. Richard
Bernstein and Ross Munro argued China was becoming more aggressive in its behavior as a
consequence of growing economic strength. They said, “China’s more modern economy and
its greater economic influence are already giving it the power to enhance its authoritarianism
at home, resist international dissatisfaction with its policies and practices, and expand its
power and prestige abroad."\(^3\)

Some were concerned that the way China uses its economic influence may undermine the US's national interests even in its own backyard.\(^4\) Chinese government's military spending and behavior regarding maritime disputes with multiple countries have also raised concerns. Robert Ross suggested that whether China is a threat should be judged not based on "Chinese military and economic power per se, but its effect on the US presence in the western Pacific and Maritime Southeast Asia."\(^5\)

Bernstein and Munro claimed that there would be a conflict between China and the US, and that the US must change its China policy priority from human rights and democracy to economic and strategic interests.\(^6\) The Tiananmen Square incident of 1989 and the 1995–96 Taiwan Strait crisis contributed significantly to the spread of the China threat perception. Many of western experts and policy-makers started to believe that China's rise will disturb the Western rules and norms. They also thought that China will challenge the US if it continues its rapid development.

Aaron Friedberg pointed out that the post-Cold War Asian international system is characterized by power battles and uncertainty because of the differences in domestic political structures, economic status, and institutional arrangements of regional actors.\(^7\) He also argued that China might be the major source of trouble because of its rapid economic growth and its non-democratic political system. Richard Betts also claimed that the difference in political system between China and the West could cause security trouble.\(^8\) The proponents of the China threat perception use power transition theory's explanation of major war to support their arguments of how and why the rise of China is dangerous. According to

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\(^6\) Richard Bernstein and Ross Munro, op. cit., pp. 22.


this line of logic, the governing rule of the current international system is set by the West and composed of two principles; liberal democracy and liberal market economy. China is gaining power due to rapid economic growth but is becoming more and more dissatisfied with the Western-oriented international rules and norms. China's growing national power and increasing dissatisfaction with international system is a lethal catalyst that could transform the tension with the US, the current dominant power of the international system, into a systemic war.

There are scholars, on the other hand, claiming that China's rise is not as much of a threat as the previously mentioned scholars argue. For example, Robert Ross dismissed China as a threat because China is "too weak to challenge the balance of power in Asia and will remain weak too well into the 21st Century."\(^9\) Chinese scholar Yan Xuetong also asserted that a ‘strong’ China will be a ‘benign’ China.\(^{10}\) However, these voices were overwhelmed by the voices of the concerned.

ii. Pivot To Asia

In this section I review U.S. foreign policy toward Asia under the Obama administration. In 2011 the Obama administration laid out its specific Asian policy called 'Pivot to Asia' policy. The 'Pivot to Asia' policy clearly implied a check and balance against the rise of China by the U.S. and its allies in the region. In the following section, I analyze the Obama administration's 'Pivot to Asia' policy from three different level: monadic, dyadic and multilateral & regional.

**MONADIC LEVEL**

In conjunction with Obama’s “pivot to Asia”, drastic measures were taken by US defense secretaries regarding foreign policy and security especially in the Pacific region. In addition to long-lasting alliances with nations such as Japan, South Korea, the Philippines, Thailand, Australia, and New Zealand, the United States began attempting to strengthen their

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presence in the Southeast Asia region. Former US Defense Secretary Leon Panetta formally announced this refocus to Asia at the 2012 Shangri-La Discussions held in Singapore. To improve American presence in the region, Panetta announced a plan to improve its air force and shift 60% of its naval fleet to Pacific and Indian Ocean waters by 2020.\textsuperscript{11} Previously, the 285-ship U.S. Navy fleet had been evenly split between the Atlantic and Pacific Oceans thus proving this change to be a significant shift in US foreign policy.\textsuperscript{12} With agreement from Singapore’s Minister of Defense Ng Eng Hen, former Defense Secretary Leon Panetta also announced the dispatch of four littoral combat ships to be stationed on rotation in Singapore. Approximately 160-300 sailors would be on rotation in the region, an act that would truly enhance American presence in the region.\textsuperscript{13} This announcement was questioned with suspicion that the United States was acting to contain China, a claim that the US rejected. Panetta insisted that the move was “in no way aimed at China” and that China’s growth and development could benefit from American presence in the region.\textsuperscript{14} However, as successor former Defense Secretary Chuck Hagel oversaw these changes and implemented more aggressive policies, suspicions continued to increase. Two years later in August 2014, Hagel announced the placement of 2,500 marines in Darwin, Australia under the US-Australia Force Posture Agreement (FPA).\textsuperscript{15} The FPA signaled not only renewed connection between Australia and the United States but fortified US commitment to the region and a trilateral alignments between Australia, the US, and Japan as well. With over 360,000 military uniformed personnel stationed in the Pacific alone and a lack of consensus regarding conflicts in the East and South China Sea, whether the U.S. aimed to counteract China remained debatable.\textsuperscript{16} This debate was only spurned by American action to strengthen forces in Guam and allow Japan to use training areas in Guam under the Guam International Agreement of


DYADIC LEVEL

The U.S. has been making great measures in forming stronger ties with counterparts in the Pacific region. Although relationship-building with Vietnam has been slow, the U.S. has made way in discussing options for further cooperation. During the sixth U.S.-Vietnam Political, Security, and Defense Dialogue in October 2013 both parties discussed expanding cooperation regarding maritime law enforcement and defense under the 2011 Memorandum of Understanding on Advancing Bilateral Defense Cooperation. Following the October dialogue, the President Obama and President Sang announced the U.S. Vietnam Comprehensive Partnership for advancing the bilateral relationship in December 2013. Included in the partnership were specific promises to support maritime capacity building in Vietnam as well as promises for further economic ties and cooperation. These consequent agreements have led to joint naval engagements, cooperation in search-and-rescue operations, and the exchange of Vietnam military officers to U.S. military institutions and schools. It is suspected that these military ties have been strengthened by Thailand’s weak relationship with China and worries of China’s rising military and economic prowess.

During his most recent visit to Vietnam in May 2016, President Barack Obama held joint news conference with Vietnamese President Tran Dai Quang and said that the United States is fully lifting a ban on the sale of military equipment to Vietnam. President Obama dismissed suspicions the removal of the ban on lethal weapons was aimed at countering growing threats from China in the region and claimed that it is a deeper defense cooperation with Vietnam.

Similar to Thailand the U.S.-Indonesia bilateral agreement also became stronger with Obama’s administration as former Secretary of State Hillary Clinton formally accepted a U.S.-Indonesia partnership on her February 2009 Asian tour and Presidents Obama and

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21 Ibid
Yudhoyono officially introduced the U.S.-Indonesia Comprehensive Partnership in 2010. These measures introduced a Defense Planning Dialogue as well as provided Indonesia with missiles and equipment necessary for self-defense. These mutual benefits have only expanded as the U.S. has financed Indonesia from their Foreign Military Financing to aid Indonesian military expertise and various humanitarian relief joint exercises have taken place since.

Thailand, unlike Vietnam, maintains strong ties with both the United States and China. The U.S. values Thailand’s strategic position as they have been cooperative in providing security assistance and military exercises as well as allowed U.S. personnel on military facilities such as the Utapao air base. The two nations hold approximately 40 joint military exercises every year and received U.S. military equipment, supplies, and assistance since the 1950s. Although the United States does not provide foreign assistance to Brunei, the two nations have maintain strong military ties since the 1994 Memorandum of Understanding on Defense Cooperation. Since then Brunei and the U.S. have executed various joint exercises, training programs, and efforts to further military cooperation. The U.S. has shown greater interest in security ties with Malaysia as well. As the first president to visit Malaysia in 48 years during his 2014 tour, Obama saw and showed great commitment to U.S.-Malaysia military cooperation. At the meeting, both nations agreed to maintain Malaysia-U.S. Strategic Talks and the Bilateral Training and Consultative Group. Furthermore, Malaysia announced support towards the Proliferation Security Initiative State of Interdiction Principles, a move highly backed by the U.S.

The United States has also been furthering strategic ties with the Philippines in drastic ways. On April 28, 2014, the United States and the Philippines signed the Enhanced Defense Cooperation Agreement, a 10-year defense agreement and the first significant

military agreement between the two nations since 1992. Although the United States was not allowed to establish permanent military presence or bases in the Philippines, the agreement did promise increased joint trainings, joint use of facilities in “agreed locations” and a greater commitment to long-term military cooperation. These developments have caused concern from China while some other regional powers who have struggled against China in territorial dispute in the South China Seas have applauded the act. The US and the Philippines have only added to the buildup by executing Exercise Balikatan 2014 in May, shortly after the signing of the agreement. Approximately 2500-3000 Philippine service members participated in the joint training under senior leaders from both the United States and Philippines military.

Security cooperation is also seen in the East Asian region throughout Obama’s administration. A great, and possibly dangerous, commitment was made to Japan in the 2015 Guidelines for U.S. Japanese Defense Cooperation on April 27, 2015. The new guidelines allowed Japan the right to collective self-defense and both countries promise of aid and support in case of attack. Furthermore, the document strengthened the alliance through coordination of operations and planning as well as greater reliance on one another. Significantly, the Japan reaffirmed their territorial right to the Senkaku Islands and both countries attempted to demonstrate their roles of protecting security in the Asia-Pacific Region.

**MULTILATERAL & REGIONAL LEVEL**

In February of Obama’s first year in office, former Secretary of State Hillary Clinton spoke with ASEAN Secretariat and expressed the US’ intention to accede to the Treaty of Amity and Cooperation in Southeast Asia. This action coincided with the administration’s

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“pivot to Asia” and hopes to strengthen ties with nation of Southeast Asia. By July 22, 2009 Clinton signed the United States’ Instrument of Accession to the Treaty of Amity and Cooperation in Southeast Asia which was accepted by the ASEAN foreign ministers. US accession to the region was significant because it showed the US’ interest in Asia which was a change from the past. Furthermore, accession to the Treaty was a requirement in joining the East Asian Summit which President Obama later participated in. Symbolically, the Treaty also held significance as not only a constitutional document for ASEAN members, but also as guiding principles for necessary conduct of members. The accession of the US became a major step in launching the administration’s “pivot to Asia” and gaining the trust of its potential allies. The acceptance of the Treaty allowed the US to interact with ASEAN countries in an official setting and Obama would continue to push foreign policy towards these nations militarily, politically, and economically.

III. The Controversies Over the Creation of the AIIB

The creation of the Asian Infrastructure Investment Bank generated controversies for many countries both domestically and internationally. South Korea, in particular, was at the center of the controversy. Despite the fact that many Western countries including U.K. and Australia joined the AIIB from the beginning phase, much more attention was given to South Korea's decision to join the AIIB for two reasons. First is South Korea's decision not to participate in the TPP. The creation of TPP was considered an economic bloc built by the U.S. to check the rising China's economic influence and further the liberalization of international trade. Countries signed TPP includes Canada, Mexico, Australia, Japan, and Vietnam. These are countries either close allies of the U.S. and/or having conflict with China. That is part of the reason some experts raised eyebrows when South Korea decided not to join TPP.

South Korea defended its controversial decision by arguing that the government is focusing on the RCEP and cannot afford to divert resources to other economic bloc building

such as TPP. South Korean government's defense begot another suspicion because China is included in RCEP. For skeptics, South Korea seems to moving toward China centered circle and moving away from the US led bloc. For this reason, it is important to understand what the creation of the AIIB means to the changes of international environment. Understanding the meaning of the AIIB will help us understand whether South Korea's choice will enhance its security.

Bilateral competition between the US and China has clouded the debate over the AIIB. There is a consensus that the US and China represent two vastly different visions for the future, that they are fundamentally irreconcilable and that the AIIB inherently is an attempt to challenge not only comparable institutions, but the US and the entire global financial system. Many experts and foreign policy makers around the world have taken the China threat theory for granted and use it as a crutch to explain any and all Chinese foreign policy decisions. Khalid R. Al-Rodhan has rightly pointed out that “the view of an all-menacing China is often exaggerated by academics, pundits, and politicians.”35 The view that the creation of the AIIB is the first step taken by China to challenge the current international order stems from the perception that the rise of China will inevitably lead the world to the confrontation between two major powers and their allies.

This paper will not attempt to argue what factors are leading China to create the AIIB in depth, instead the AIIB is treated as an organization that is “nested” within a larger system, the international economic order. Similar structure was found in the controversial debates over the China threat arguments. Therefore, in order to accurately comprehend the logic of the debates over the creation of the AIIB, it is necessary to trace the China threat debates.

IV. Analysis

As we have shown through our literature review there are significant reasons for China to want to create its own MDB. The rules set in place for the ADB do favor the existing members and their interests.36 The interests of China and its increased economic

capacity have allowed it to create a new MDB where it will pursue its own interests more directly, less encumbered by the traditional economic powers in East Asia; Japan and the US.

However, there are two veins of analysis focusing on the creation of the AIIB. The first is more closely related to political analysis about what the creation of the AIIB means to the existing economic order or regime. This group of research has stated that the AIIB represents part of China's larger challenge to the international order. The other line of research has focused on why China decided to create the AIIB. This line of research has focused on China's dissatisfaction with existing organizations. Research arguing that the AIIB, as an organization, will promote Chinese national interest and potentially compete with and attempt to replace the ADB is somewhat persuasive. However, the major weakness of the first line of research is the lack in-depth analysis to date. Rather than analyzing the information available on the AIIB, scholars have relied on assumptions about China's intentions.

We plan to look more closely at how the AIIB is structured and how it differs from the other financial institutions. In the following sections, we will analyze the stated purpose and governing structure the AIIB and the ADB. Furthermore, we analyze the voting power of member countries in relation to their political affinity and trade dependence on the founding countries of the two banks. We will compare the current membership configuration of the AIIB to that of the ADB in terms of voting power and trade dependence and inclusiveness in terms of political affinity. By doing so, we believe we can test whether the AIIB seeks to usurp the current economic order or it acts as an extension of it.

Purpose and Governing Structure

The purposes of each MDB are clearly stated in the preambles of the AIIB Articles of Agreement and the ADB Charter. Both center on the need to utilize funds “from inside and outside” East Asia and “the importance of…cooperation” in order to further the economic development or growth in the region. It is clear that the AIIB Agreement took care to mimic the language of the ADB Charter in the stated purpose included in the preamble. There

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37 “AIIB Articles of Agreement,” Preamble; “Agreement Establishing the ADB,” Preamble.
are also explicit promises to “complement the existing” MDBs.\(^\text{38}\) The language in the preamble is an obvious attempt by China and the other founding members to signal that the AIIB’s purpose is not to replace the ADB as an organization, let alone usurp the existing economic regime.

At the same time the stated purposes are not carbon copies. The AIIB has clearly pushed infrastructure as central to its *modus operandi*, both in its name and in the preamble to the Agreement. The ADB never explicitly states infrastructure as its goal and instead has been associated more with promoting trade.\(^\text{39}\) However both MDBs state that their purpose is to finance “projects and programs which will contribute most effectively to the harmonious economic growth of the region as a whole and having special regard to the needs of less developed members in the region.”\(^\text{40}\) The stated purposes of the AIIB and ADB both follow a common principle. Both purposes recognize the fact that there are less developed nations and that a lack of economic growth causes this situation. In order to rectify this situation and improve economic outcomes for less developed nations, MDBs should promote economic growth by financing projects and programs that act on this principle.

Analysis of the founding documents in their entirety finds that whole portions of the AIIB Agreement text are lifted directly from the ADB Charter. The layout of the two documents, while not exact is again a clear indication that the AIIB negotiators intended to replicate the ADB Charter in form and character. Chapters and articles often match up exactly and set out common "standards of behavior in terms of rights and obligations."\(^\text{41}\) Even when the exact structure of the ADB is not copied by the AIIB, the language and content matches, simply placed in a different location within the easily comparable documents.

This is not to say that the rules and procedures of the two MDBs are the same. In fact there are many differences. Where the ADB has an internationalized setting for its headquarters, trustee, or banking location for original financial contributions and depository, or holding location for the founding document, all three are China-centric for the AIIB.\(^\text{42}\) The

\(^{38}\) "AIIB Articles of Agreement,\" Preamble.

\(^{39}\) Christopher Kilby, *op. cit.*, pp. 173-95.

\(^{40}\) "AIIB Articles of Agreement,\" art. II, para. ii; “Agreement Establishing the ADB,” art. II, para. ii.


\(^{42}\) "AIIB Articles of Agreement,\" art. 32, para 1., art. 6, para. 4., art. 57, para 1; “Agreement Establishing the ADB,” art. 37, para. 1, art. 6, para. 7, art. 63, para. 1.
AIIB’s headquarters are in Beijing, the trustee and depository are both the Chinese government. The AIIB will also be responsible for deciding whether members’ currencies are under or overvalued in terms of structuring contributions.\textsuperscript{43} For the ADB, the IMF decides the valuations of member’s currencies.\textsuperscript{44} Another significant difference is that China’s dominant share position and therefore voting position in the AIIB is greater than Japan’s position ever was in the ADB. China holds 29.78\% of all capital shares of the AIIB, while Japan’s original position of 21.114\% has diminished to its current 12.84\%.\textsuperscript{45} The AIIB also includes “Founding Member votes,” which means that even as other nations become members of the AIIB, the likelihood of diminishing Chinese dominance decreases even further.\textsuperscript{46} The AIIB also furthers the regional character of the bank by having only 3 of 12 Directors represent nations outside of Asia compared to the ADB’s current 4 of 12 and original 3 of 10.\textsuperscript{47}

The decision to use Beijing as the center of the AIIB both politically and financially does not follow the mold set out by the ADB which uses Manila as its headquarters, the UN as its trustee and depository, and the IMF as a currency valuation monitor. China’s dominance of the AIIB in voting power structure will likely mean that Chinese nationals will lead the AIIB as President for the foreseeable future. At the same time, Japanese nationals have always been at the helm of the ADB and that also looks unlikely to change.\textsuperscript{48} Japan and the other dominant founding member, the US, internationalized the ADB financially, but certainly historical mistrust of Japan weighed heavily in this decision. The ADB was founded in 1966 just 21 years after the end of WWII. Housing an international institution as politically and economically important as the ADB in Tokyo was anathema to members because of ongoing lack of trust in Japanese leadership.\textsuperscript{49}

Researchers following the China threat perception tend to use blanket statements

\textsuperscript{43} “AIIB Articles of Agreement,” art. 19, para. 1.
\textsuperscript{44} “Agreement Establishing the ADB,” art. 25, para. 1.
\textsuperscript{45} “AIIB Articles of Agreement,” Schedule A; “Agreement Establishing the ADB,” Annex A.
\textsuperscript{46} “AIIB Articles of Agreement,” art. 28, para. 1.
\textsuperscript{47} “AIIB Articles of Agreement,” Schedule B, para. 4; “Agreement Establishing the ADB,” Note V; art. 30, para. 1.
\textsuperscript{49} Joel Rathus, op. cit., pp. 87-99.
about China’s economic capacity as a *fait accompli* for China’s desire to replace the current economic system. They ignore the structure and process of the AIIB, both where the AIIB appears to have different rules and procedures from comparable MDBs and where the AIIB conforms. While the rules and procedure changes are real and should be considered as evidence of China’s growing economic clout and desire to potentially politicize that ability in the region, nothing in the AIIB Articles of Agreements signals an attempt to usurp the current economic order. Instead the near carbon copy language and imitation of the structure of the ADB signals that the AIIB is in fact an extension of the current economic order.

The differences in rules stand out, but the rule conformity overwhelms these changes, which do not in fact affect the principles and norms of the regime. For the AIIB the US dollar is the currency of reference as it is in the ADB.\(^{50}\) English is the only language to be used for interpretation of the document as it is in the ADB.\(^{51}\) The AIIB Articles of Agreement explicitly state that, “Membership in the Bank shall be open to members of…the Asian Development Bank.”\(^{52}\) The AIIB also allows the procurement process for its projects to source materials and expertise from outside its membership body, something the ADB requires a two-thirds vote to allow.\(^{53}\) The AIIB is an open membership MDB that follows the principles, norms and overwhelmingly conforms to the rules and decision-making procedures of the most similar MDB.

*Membership Configuration*

Scholars who argue that the AIIB represents a significant threat to the international economic regime ignore not only the stated purpose and legal structure of the bank, but also the membership configuration. If an MDB’s voting power were concentrated among states that are politically similar to the founder and have high levels of trade dependence on the founder, it could be assumed that the membership would acquiesce to the will of the founder.

\(^{50}\) “AIIB Articles of Agreement,” art. 4, para. 4; “Agreement Establishing the ADB,” art. 4, para. 1.

\(^{51}\) “AIIB Articles of Agreement,” art. 34, para. 1; “Agreement Establishing the ADB,” art. 39, para. 1.

\(^{52}\) “AIIB Articles of Agreement,” art. 3, para. 1.

\(^{53}\) “AIIB Articles of Agreement,” art. 13, para. 8; “Agreement Establishing the ADB,” art. 14, para. ix.
If the AIIB is composed of lackey states willing to go along with China’s supposed interest in usurping the international economic order, then the AIIB may indeed pose a clear threat to that order. Our analysis shows that this is not the case, or at least it is no truer of the AIIB than the ADB. The two MDBs’ membership configurations are comparable when looking at trade dependence and voting power. Moreover the AIIB gives more voting power to states that are politically different to the founder than does the ADB.

The current membership configuration of the AIIB itself also signals an openness that conforms to the modern principles and norms of an MDB. The founding members of the ADB in 1966 were overwhelmingly aligned against the communist bloc with few non-aligned exceptions like India. It even included states like the Republic of Vietnam, the Kingdom of Laos, the Republic of Korea and the Republic of China that had ongoing military disputes with communist aligned nations. In comparison, the AIIB includes Australia, New Zealand and the United Kingdom, which are three-fifths of the Five Eyes created by the UKUSA Agreement of 1946. The intelligence-sharing network was set-up by the major English speaking nations during the Cold War to counter the communist bloc, explicitly including China. The AIIB membership includes many other staunch allies of the US and other firmly democratic nations that at least politically do not align themselves with China in any meaningful way.

The ADB’s membership has changed dramatically from 1966 to today. The ADB now includes many states like People’s Republic of China, the People’s Republic of Vietnam and the Lao People’s Democratic Republic, which are all officially one-party communist states. Membership of modern MDBs centers on pluralism with stated respect for all forms of domestic political structure. The AIIB and the ADB use shared language to explain,

The Bank, its President, Vice-President(s), officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic

54 “Agreement Establishing the ADB,” Annex A.
55 “AIIB Articles of Agreement,” Schedule A.
considerations shall be relevant to their decisions.\textsuperscript{56}

While the ADB originally had a \textit{de facto} ideological litmus test for its membership, the extreme nature of this aspect of membership configuration has faded and conformed to the stated respect of “political character,” that its rules require. The AIIB has conformed to this norm of openness in regards to its membership.

Figure 1 – Political Affinity and Voting Power in the AIIB

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\includegraphics[width=\textwidth]{AIIB_Political_Affinity_Voting_Power.png}
\caption{Political Affinity and Voting Power in the AIIB}
\end{figure}

Source: AIIB Articles of Agreement, Correlates of War Polity IV Dataset\textsuperscript{57}

Figure 2 – Political Affinity and Voting Power in the ADB

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\includegraphics[width=\textwidth]{ADB_Political_Affinity_Voting_Power.png}
\caption{Political Affinity and Voting Power in the ADB}
\end{figure}

\textsuperscript{56} “AIIB Articles of Agreement,” art. 31, para. 2; “Agreement Establishing the ADB,” art. 36, para. 2.

\textsuperscript{57} “AIIB Articles of Agreement,” Schedule A; Center for Systemic Peace, Correlates of War Polity IV Dataset.
Figures 1 and 2 describe the relationship between a member of a given MDB’s voting power and its level of political affinity with the founder of respective MDB. The voting power is the actual percentage of votes the member will have in the process of electing officials of the bank that will make policy decisions. Political affinity is the difference between the founding member’s Polity IV score and that of the given member. We assume that members that have higher levels of political affinity with the respective founder receive more voting power because the member would be more likely to follow the interests of the founder. The figures clearly show that the AIIB has given a great deal of voting power to members that have very low levels of political affinity with China, while the opposite is true for the ADB.

Figures 2 shows that members of the ADB that are more democratic, and therefore politically similar to Japan and the US, have higher levels of influence on the bank through their voting power. Figure 1, in fact, shows the opposite for the AIIB. Countries that are less similar to China tend to have higher levels of voting power in the bank. China made a

Figure 3 – Trade Dependence and Voting Power in the AIIB

Source: adb.org, Correlates of War Polity IV Dataset

diplomatic effort to have democratic nations from around the world join its MDB in order to demonstrate conformity with the existing international economic regime.

Figure 4 – Trade Dependence and Voting Power in the ADB

Source: AIIB Articles of Agreement, UN Comtrade

Figures 3 and 4 describe the relationship between a member of a given MDB’s voting power and its level of trade dependence on the founders of the respective MDB. The level of voting power is the same as in Figures 1 and 2. Trade dependence is the total amount of the member’s imports and exports with the founding nations divided by the total trade of that member. For both MDBs the respective founding members were excluded from their respective graph, as each would be 100% trade dependent on themselves. We assume that if a member has a higher level of trade dependence with the founders, that member is more likely to vote in line with the will of the founders and therefore would control a greater share of the voting power.

In both MDBs higher levels of trade dependence are associated with slightly higher levels of voting power. That is, if a member is more trade dependent on the founders, that member is likely to have a higher level of voting power. Figures 3 and 4 show that both MDBs appear to give more voting power to nations with a higher level of trade dependence and therefore the AIIB’s membership configuration conforms to the norms of the most similar existing MDB. Membership in the AIIB, and more importantly voting power, is no more a result of higher levels of trade dependence on China than in the most similar ADB that is understood to be part of the international economic regime. In fact the average level of trade dependence on the founder(s) among members of the AIIB is less than that of the ADB, 10.53% and 12.65% respectively. While members with higher levels of trade dependence on China received more voting power, the same is equally true of the membership configuration in the ADB.

Through our analysis of the membership configuration it is apparent that the AIIB is in no way an organization made up of members who will automatically acquiesce to the will of China. The members are in no way unduly dependent on China and in fact appear to be slightly less dependent than members of the ADB are on Japan and the US.

Sources: adb.org, UN Comtrade

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Equally worrying for the existing international economic order would be a MDB composed

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of members who are politically aligned with China. Our analysis again shows that this is not
the case for the AIIB. While there are many autocratic members of the AIIB, Figure 1 shows
that democratic members are equally represented and actually have more voting power within
the bank. Figure 2 shows that the ADB membership configuration leans heavily democratic
and gives those nations most politically aligned with the founders greater voting power.
China, however does retain a level of voting power in the AIIB, 26.1%, that would allow it to
veto any decision. While this may be a fair criticism of the governing structure of the MDB,
this criticism rings hollow while Japan and the US also retain veto power in the ADB with a
combined voting power of 25.6%.

V. Concluding Remarks

The question of how to interpret the rise of China has dominated both the scholarly
world and the policy world for almost two decades. In recent years, there seems to be
agreement that China's dissatisfaction with the current international system has been
increasing and it will eventually become a revisionist state. The creation of the AIIB was
considered as China's step toward challenging the international system built by the West.

The purpose of this research is to provide more in-depth and accurate analysis of the
implications of China's creation of the AIIB. To do that, we compared the stated purpose and
governing structure of the AIIB and the ADB. We also analyzed the voting power of member
countries in relation to their political affinity and trade dependence on the founding countries
of the two banks.

The result of our research has shown that the current consensus in both media reports
and academic scholarship imparts an image of an aggressive China challenging not only
existing institutions, but also the international economic system itself. This line of analysis,
representative of the China threat theory, mirrors previous scholarship on the international
order in general and in particular the regional security order in East Asia. Much of this
discussion has been sensationalized, based on arguments that China’s economic rise in of
itself requires China to challenge the existing economic regime through the creation of institutions like the AIIB.

Our research finds the opposite. By considering the stated purpose and process of the creation in terms of the written agreement and membership, we have argued that China’s creation of the AIIB is not a challenge to the international economic system in of itself. While its creation may in some ways be a challenge to the influence of pre-existing organizations and traditional economic leadership, it is in fact an extension of the existing international economic regime and signals China’s desire to further integrate. China’s AIIB is emblematic of its lack of satisfaction with existing organizations and conflicting interests not of its discontent with the economic regime underpinning these organizations.

The primary limitation of this paper is the fact that though AIIB has entered into force, only time can tell whether further collective actions under the organization or unilateral Chinese actions will attempt to usurp or replace the existing international economic regime. Behaviorists can rightly argue that our analysis of the written purpose and terms of agreement is no promise that actors will adhere to the prescribed rules and procedures. We have attempted to make up for this by comparing the level of political affinity and trade dependence of the membership configurations of the AIIB and the most similar institution that, by consensus, is part of the current international economic order. These quantitative measures, along with the qualitative analysis of the stated purpose and governing structures of the two MDBs, shows clearly that by any measure the AIIB does not represent an attempt by China to usurp, replace or otherwise challenge the current international economic order.

This analysis has only compared the AIIB to the ADB and while we believe that the ADB is clearly the most similar organization, the ADB is not necessarily the organization that most closely adheres to the principles, norms, rules and decision-making procedures that define the existing international economic regime. Certainly further case studies comparing the AIIB with other regional MDBs could yield varying results.

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