

**China and the Asian Infrastructure Investment Bank:  
the Influence-Legitimacy Tradeoff**

*Ayse Kaya (Swarthmore College)*

&

*Byungwon Woo (Hankuk University of Foreign Studies)*

**I. Introduction**

The global institutional landscape has recently experienced significant change with the addition of the New Development Bank (NDB) and the Contingent Reserve Arrangements (CRA) in 2014 and the launch of the China-led Asian Infrastructure Investment Bank (AIIB) in 2015. The most institutionalized and extensive of these arrangements, the AIIB, was initially considered as a threat by the Obama Administration, which discouraged its allies from joining the institution (e.g., Perlez 2015). In fact, when the UK's membership in the AIIB was announced, a US official was reportedly dismayed: "We are wary about a trend toward constant accommodation of China, which is not the best way to engage a rising power" (*Financial Times* 2015). Yet, while the institutional features of the AIIB are well-known and the Chinese motivations for setting it up have been explored (e.g., Dollar 2015; Chin 2016; Hamanaka 2016; Wan 2016), there is scant analysis that provides a systematic picture of Chinese behavior in the AIIB.

The International Relations literature on international organization suggests that the setting up of the AIIB presents China with opportunities as well as tradeoffs. From a power-based

perspective, the AIIB putatively points to underlying shifts in economic power leading to increased demand for political goods by the rising state, which disturbs the existing institutional equilibrium (e.g., Gilpin 1981). In this respect, the new institution can be seen as an instrument for the rising state to project influence (Mearsheimer 1994/5). Power-based approaches, then, would predict the AIIB to provide China with opportunities to spread its influence. This perspective is buttressed by the literature's extensive findings that the USA has managed to pursue its geo-strategic goals through the Bretton Woods institutions, partially thanks to its disproportionate formal political power in these institutions and partially due to its informal influence stemming from factors such as the institutions' geographical location in Washington DC and the (ideational and political) proximity of the institutions' staff to the American government (e.g., Dreher, Sturm, & Vreeland, 2015; Stone 2008; Steinwand & Stone, 2008).

From a relatively more institution-based approach, if China exerts too much power, it risks the AIIB being de-legitimized, i.e. not widely accepted. Stone (2011) emphasizes the potential damage to legitimacy when great powers use multilateral institutions in a self-interested manner, and notes that risks to legitimacy are reduced when great powers reserve self-interested behavior for exceptional circumstances. Smaller states recognize this exceptional behavior as a cost that is necessary to bear to keep the great power interested in the institution.<sup>1</sup> Similarly, pointing to constraints on the exercise of power, Ikenberry (2001) argues that (post-war) institutional creations reflect moments of "strategic restraint", when the dominant power aims to lock-in its

---

<sup>1</sup> Even in these exceptional circumstances, however, great powers need to worry about the institution's legitimacy, given exceptionality could be in the eye of the beholder and legitimacy could regardless be damaged.

power into a rules-based order. If the order is perceived as uncompromising and non-rules based by other states, it does not allay their fears of about the powerful state's domination or abandonment (see also Ikenberry 2012). To be sure, this does not suggest that the institution-leading state gives up its power wholly, but that it faces a delicate walk—not exerting so much power that it will undermine the acceptability of the institution and its leadership.

Additionally, structural constraints faced by war victors creating a new system, as in the case of the USA at Bretton Woods conference, are arguably lower than those confronted by rising states, which by definition face a well-established international system with a reigning leader, if not an outright hegemon. Indeed, some ongoing discussions about China's rise emphasize that China's room for maneuver is constrained by the existing order's rules and oversight mechanisms (i.e. Foot 2006; Ikenberry 2012; Cohen 2015). Put differently, rising states may be facing close scrutiny from the leaders of the existing system, which could potentially restrict their pursuit of power.

Essentially, it may be difficult for the state leading the creation of an institution to completely set aside power considerations – after all, this may reduce the incentives for the creation of the institution in the first place. At the same time, however, exerting too much influence undermines the rules-based nature of the institution and may draw unwanted attention from the leaders of existing institutions. Hence the state leading the construction of a new multilateral institution faces, in our words, *an influence-legitimacy tradeoff*. How these institutional leaders mediate this tradeoff remains an open empirical question, which this paper investigates.

The paper explores the influence-legitimacy tradeoff in the context of the AIIB with a particular focus on whether states politically-economically proximate to China have joined this new institution on relatively better terms. Here, the key interest is in seeing the association between the initial subscription shares of the new members of the AIIB and a vector of variables that capture Chinese interests. Member state representation in the AIIB is asymmetric based primarily on the number of shares subscribed in the institution—akin to the Bretton Woods institutions. How the shares will be determined, however, is not specified in the institution’s Articles of Agreement, providing room for China to exert influence to favor certain states.<sup>2</sup> Membership shares, thus, constitutes a good proxy for assessing whether China is using the institutional framework to give some states relatively larger shares and thus larger political power in the institution. Do political and commercial interests lead China to dole out relatively better terms of membership to some countries? The answers to this question help assess the extent to which China is pursuing the “influence” side of the influence-legitimacy tradeoff.

While the finding of no connection between Chinese interests and membership shares in the AIIB would be strongly suggestive of China emphasizing the legitimacy aspect in the tradeoff, the paper also examines whether there is evidence of China pursuing strategies that attempt to conceal its influence. Such strategies could include, for instance, favoring certain members based on a criterion, such as regional membership. “Group favoring” of this sort could help

---

<sup>2</sup> Notably, existing works on the Bretton Woods institutions suggest a similar flexibility, where despite the presence of economic formulae to calculate shares, the USA has been able to exert influence over IMF quotas, which determine the countries’ shares and thus voting power (Kaya 2015).

dampen the potential complaints by one or two states that others are getting better treatment. Obfuscation strategies constitute an important aspect of states' attempts to pursue power through multilateral institutions while limiting the damage to the legitimacy of the institution (e.g., Abbott and Snidal 1998; Stone 2011; Lim and Vreeland 2013).

Empirically, we find that Chinese political interests, captured with 1) the distance in foreign policy ideal points between China and a member country based on United Nations General Assembly (UNGA) voting and with 2) the nature of the country's diplomatic relationship with Taiwan, significantly influence how many membership shares a member receives relative to the size of its economy. In comparison, we find that Chinese economic interests play little role in allocating membership shares. Our simple regression results are further corroborated by CMP (conditional mixed process) models, taking into account the non-random nature of the AIIB membership.

The paper makes a number of contributions. It advances the debate on China's approach toward the new multilateral institutions. It moves the discussion beyond explorations of Chinese rationale for setting up the institution, which are multifold and difficult to pin down precisely, to unpacking China's behavior in and vis-a-vis this new institution. For instance, while it has been commonly argued that China is using the new multilateral institutions "to enhance its power in the international system" (Paradise 2017, 79), more research is necessary to evidence how exactly this exercise of power manifests itself. This paper discusses both the opportunities and the limitations of Chinese influence in the new institutional settings. And, it provides a

cautionary warning that if China continues to put heavy influence over the AIIB, legitimacy of the AIIB might be eroded in the future.

More broadly, the paper contributes to the understanding of the interaction of power and institutions – a long-standing question in International Relations. On the question of great power influence over multilateral institutions, most of the literature has focused on the grants and loans given out by these institutions (for different institutions, see, e.g.: Dreher, Sturm, and Vreeland 2009a; Dreher, Sturm, and Vreeland 2009b; Vreeland and Dreher 2014). While undoubtedly that is a critical area over which great powers exercise influence, this paper extends the literature by analyzing a different tool of great power influence over multilateral institutions (for an exception, see Kaya 2015).

Furthermore, the paper's findings complement a burgeoning literature on Chinese behavior in the provision of foreign aid (e.g., Lancaster 2007; Naim 2009; Dreher and Fuchs 2015; Dreher et al 2015). Earlier works in this literature have tended to see China's behavior as significantly different from the traditional donors, which provide aid through The Organization for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC). Indeed, China's aid was seen as "rogue" with a particular emphasis on resource extraction and support for authoritarian regimes (Lancaster; Naim). More recent works, however, provide quantitative evidence that Chinese behavior may not diverge radically from the traditional donors and that there is not enough evidence for some commonly assumed rationale in Chinese behavior, such as support for undemocratic regimes. To be sure, there is evidence of Chinese foreign aid being linked to Chinese interests (as in the case of the traditional donors). The broad implication of

this new literature on Chinese aid, however, is that nuances to Chinese behavior are critical to teasing out China's impact on the multilateral economic order. This paper shares a similar ethos but investigates a previously unanalyzed area.

Finally, the paper offers insights into states' point of entry into institutions. Particularly, differential entry into multilateral institutions has been shown to affect the country's subsequent relationship with(in) the institution (e.g., Pelc 2011; Allee and Scalera 2012). We agree with these earlier works that unpacking the "black box" of accession matters for advancing the understanding of the design of institutions as well as their uneven effects across different actors. We, however, advance this research agenda, which has primarily focused on the World Trade Organization, by extending it to a new multilateral institution and examining the role of great powers in facilitating differential entry.

The remainder of the paper proceeds as follows. Section 2 emphasizes the importance of formal political power in multilateral economic institutions as well as the motivations and the limitations leading states face in using it as a tool, with a focus on the legitimacy-influence tradeoff. Section 3 provides a brief description of the AIIB to address how China might be simultaneously pursuing power and legitimacy as a prelude to Section 4's quantitative analysis. Section 5 concludes by drawing the broad implications of the paper.

## **II. Opportunities and Risks of Great Power Influence over Institutional Accession**

Since the paper analyzes the influence-legitimacy tradeoff with a focus on great power influence over members' formal political power at the time of joining the multilateral institution, we first discuss the importance of formal political power and the potential motivations leading states have in exerting this kind of influence.

Formal political power, defined as voting power and/or representation on key bodies of the institution, matters significantly for voice (e.g., Koremenos et al 2001). It has also been seen a source of “prestige among peers” in the Bretton Woods institutions (Boughton 2001, 857).<sup>3</sup> Marking its significance, even though states could relatively easily agree to the necessity of weighted voting in the IMF and the World Bank – given some countries would make higher financial contributions than others – the actual distribution of formal power was subject to considerable debate, with states being sensitive about their exact position vis-à-vis other countries (Kaya 2015, Chapter 3). The importance of political power should not, however, merely be thought of as indicating the influence of a country on its own, but also the potential of that country to contribute to constituencies that vote as a bloc. Since only a small number of countries have enough voting power to appoint/elect their own Directors in multilateral financial institutions, including the AIIB, the rest of the membership need to coalesce in groups, known as constituencies. Countries with middle power (those not as large and influential as the dominant

---

<sup>3</sup> For a general discussion of states' concerns with their relative positions in institutions, see Lake (2013).



states but bigger than small states) could have the hopes of leading these constituencies (e.g. Vreeland 2011). Formal political power matters, however, not just to the middle states, but also to the relatively smaller states, who could leverage their small position into more influence through groups. Moreover, although informal power is distinct from formal power (e.g., Stone 2013), the two are plausibly correlated, as it is difficult to imagine a country with little formal voice wielding tangible informal influence.<sup>4</sup> Additionally, even when decision-making procedures do not resort to formal voting, decisions tend to occur in the shadow of formal power. In the IMF, for instance, although the Executive Board decides by “consensus”, consensus means “a position supported by executive directors having sufficient votes to carry the question if a vote were taken” (Gold 1972, 198; see also Pauly 1997). In short, formal political power in an institution confers tangible advantages in terms of voice, but also symbolic benefits such as status-signaling.

Given the importance of formal political power, dominant states in multilateral institutions could be motivated to dole out better terms of membership to some countries for a number of reasons. To begin with, the leading state can be rewarding friendly countries, namely states that are politically or economically proximate to it. Through giving these friendly countries relatively larger formal voice in institutions with asymmetric representation, the dominant state can bolster

---

<sup>4</sup> Since informal power is highly correlated with structural power (Stone 2011), which also plays a key role in determining formal political power, it is difficult to fathom a state with no formal political power exerting informal influence, though having formal political power does not automatically translate into informal power.

support for itself. Put differently, the leading state can protect its political-economic interests in influencing membership terms of states joining the institution.

The carrot of better membership terms could also be used to establish more friendly relations with states are not are not particularly proximate to the leading state creating the institution. In other words, it could be used as an attempt to buy friendship or influence. Further, the institutionally dominant state can use the better membership terms to undercut the influence of its rivals. In this case, states that have close political-economic ties to (potential) rivals, but not to the leading political state would get significantly better terms of membership (i.e. higher formal political power). Alternatively, the institutionally-dominant state could be using its influence over membership in the opposite manner—it could be disadvantaging the rival's friends joining the institution. Whether as a reward for political-economic proximity, or an enticement for future cooperation, or a means to maintaining and extending a sphere of influence, the dominant state in the multilateral institution faces a number of potential incentives to influence membership terms. Table 1 below provides a brief outline of these discussions along with their plausible manifestations in the data.

[Table 1 here]

While the dominant state faces a number of motivations for exerting influence, it also has a number of reasons to refrain from using the institution as a tool for power, especially at the moment of its creation. As noted earlier, prominently, such exertion could undermine the legitimacy of the institution—the very asset that can help the leading state to lock in its power.

Moreover, the more the balance between “power-based” and “rules-based” tilts in favor of the former, the lower the leading state’s ability to obfuscate its exercise of influence. This obfuscation is crucial as it is well-acknowledged that overt influence over institutional platforms is unwelcome both by other state leaders as well as publics (see Lim and Vreeland 2013, 36). Similarly, Abbott and Snidal (1998, 19) highlight that states’ abilities to covertly pursue normally contentious policies, such as lending for political ends, through multilateral institutions faces a “tension between immediate advantages of dirty laundering [pursuing controversial political ends] versus the long-run costs of jeopardizing IO independence.” Put simply, there are costs to exercising power over institutions.

Notably, some of these costs may be contingent upon where the state leading the institution sits vis-à-vis the existing system – for instance, is the institutional leader considered as an ally or a rival to the systemically dominant state? In the case of China, there is an ever-growing literature on whether or not China is a status-quo state (e.g., Johnston 2003; Schweller and Pu 2011; Kastner and Saunders 2012), and our intention here is not to revisit that literature. Rather, we wish to emphasize that the very nature of China as a rising state in the American-led order but outside of the American alliance system, boosts questions about China’s intentions regarding the system and whether it intends to engage in “institutional balancing” (He 2009). It is perhaps such sensitivity to Chinese intentions that has led the Chinese leaders to emphasize the professionalism of the AIIB. For instance, AIIB President Jin Liqun has remarked that, with the AIIB, “China needs to do something which can help it be recognized as a responsible member of the international community and maybe in the future be recognized as a responsible leader...but

if the institution does not follow the international best practice, who will believe the Chinese leaders in the future?” (Liqun quoted in Kynge 2017).

The critical spotlight on China’s actions suggests that the institutionally leading states’ ability to exercise influence over membership may be relatively more constrained due to structural factors. Although differentiating how structural factors versus endogenous motivations of the leading state impact the influence-legitimacy tradeoff may be infeasible, it is nonetheless important to recognize these structural factors’ potential effects on the tradeoff.

In any case, the point that exercising influence may be tempting but have costs suggests that states may need to employ a number of different strategies to conceal their favoring of certain states over others. Two possible strategies are *group favoring* or *shared influence*. Under group favoring, the leading state does not favor particular countries, but rather it chooses a *group* of states based on their shared characteristics, though the nature of these characteristics demands empirical analysis. Under shared influence, the leading state allows other countries to exert influence also, or considers their interests in its impact, both of which would manifest themselves in more than one state’s interests being related to institutional outcomes. For example, whether G5 countries other than the USA affect policy outcomes in the Bretton Woods institutions is a prevalent question, with a number of works finding great powers other than the USA having influence over IMF loans (e.g. Stone 2004; Copelovitch 2010). Similarly, Kilby (2006) finds both American and Japanese influence over Asian Development Bank (ADB) loans. Shared influence is more likely when a group of cooperating states set up institutions than in cases, where one state’s leadership and resources is preeminent. An example to collective institutional

creation would the ADB, with American and Japanese leadership, or the New Development Bank set up by the BRICS together, both of which contrast with the construction of the AIIB under nearly sole Chinese leadership. In short, both group favoring and shared influence could be ways in which the leading state aims to obfuscate its influence by attempting to dull any negative reactions. Table 1 focuses on motivations, which may be combined with these concealment strategies.

We now turn to examining whether and to what extent China has exerted influence in accession of states to the AIIB, starting with a brief overview of this new institution. The theoretical expectation is that although there should be some evidence of Chinese influence over joining countries' membership terms, this influence should not be all-pervasive, as in appearing across every single dimension of Chinese interest, given the concerns with legitimacy.

### **III. Asian Infrastructure Investment Bank**

At the end of 2016, the AIIB consisted of its 57 founding members, 37 of which were from Asia, and reportedly twenty-five more countries were in line to join it (Kynge and Pilling 2017).<sup>5</sup> The AIIB's main mission is to "promote investment" for the "development of infrastructure". While

---

<sup>5</sup> While seven more members (Afghanistan, Ethiopia, Fiji, Hong Kong, Hungary, Ireland, and Timor Leste) have joined the AIIB in the later part of 2017, given the data unavailability for the explanatory variables, we exclude these countries from this analysis.

there is much to say about the AIIB's functions, the focus here is on the influence-legitimacy question.<sup>6</sup>

China's efforts to, on the one hand, lock-in its influence, and, on the other hand, render the AIIB rules-based and acceptable to others is apparent in a number of different design features of the institution. On the first point of power, the AIIB, as in the World Bank, embodies asymmetric representation of members, with the Chinese having a de facto veto power. Asymmetric representation in international financial institutions has been justified by unequal capital subscriptions, where larger countries contribute more to the institution—the AIIB is no exception to this. The institution has a Board of Governors composed of all members and a smaller Board of Directors (12 members, with 9 from regional members). Similar to the Bretton Woods institutions, as the numbers would suggest, while some members have their own Directors, other members share a Director under a constituency system. Again similar to the Bretton Woods institutions, voting power in the institution is weighted based on the member's capital subscriptions plus founding member votes and basic votes distributed equally to all states (Morris and Higashikokubaru 2015). China is the largest contributor (about 33% of the total capital) with the greatest formal voice (about 28% of the voting power).<sup>7</sup> Although noted as unparalleled in the governance of multilateral development banks (Weiss 2017), China's asymmetric voice is not unprecedented. The USA had 41.4% of the total shares of the International Bank for Reconstruction and Development (IBRD) at its inception. On most critical decisions, which require a "Super Majority" (two thirds of the vote representing at least

---

<sup>6</sup> For a descriptive account of the AIIB, see, e.g. Weiss (2017).

<sup>7</sup> As of September 22, 2016 as reported by the institution.

three-fourths of the total voting power), China so far has a de facto veto power. Most significantly for the purposes of this paper, China has had great sway over countries' (terms of) membership. Such influence was probably most obvious when Beijing made Taiwan's joining of the institution conditional on Taiwan using "an appropriate name", which met with Taiwanese contestation and rejection of membership (e.g., Reuters 2015). All in all, the design of the AIIB adopts the asymmetric representation of the Bretton Woods institutions, allowing China to attempt to lock-in its power at the advantageous moment of institutional creation.

There is, however, some evidence that China is concerned about seeming to veer too much in the direction of "influence". As already noted, similar to the Bretton Woods institutions, the AIIB also has "basic votes", which are distributed to members equally. Currently, the basic votes constitute 12% of the member's total voting power. Additionally, by distributing an equal number (600) of founding member votes to countries involved at the commencement of the institution (Article 29 of the AIIB), Chinese officials have attempted to smooth representation asymmetries to some extent (Morris and Higashikokubaru 2015). Furthermore, regarding China's veto power, recent statements by the AIIB President, Jin Liqun, have emphasized that China does not intend to use its veto and expects to lose it, as new members join the institution (Kynge and Pilling 2017). This would be a novel development, since the US veto power has been retained in the Bretton Woods institutions over time. Further, implicitly responding to the contestations over top leadership in the Bretton Woods institutions, the AIIB's Articles of Agreement foresee the President being chosen through voting by the Board of Governors, though with a special majority (ibid, Article 29). Until 2012, the World Bank did not hold interviews for the selection of the Presidency. The current top management of the AIIB, aside from the

president, contains nationals of the UK, Germany, France, India, and Indonesia, which naturally aims to present the AIIB as an international (not Chinese) organization. Similarly, Chinese officials have emphasized that the staff will be recruited based on merit, as foreseen by Article 30 of the institution's constitution. While these may be seen merely as overtures to restraining Chinese formal power within the institution, they nonetheless demonstrate Chinese awareness of what we call the influence-legitimacy tradeoff.

Moreover, by combining open membership with a two-tiered membership structure, the AIIB's constitution permits China to favor some members over others in a rules-based manner. The AIIB is open to members of the IBRD and the ADB, and since the IBRD is a near-universal institution, the AIIB can be considered to have open membership (Article 3 of AA). Yet, at the same time, countries from the Asia-Pacific region have a different status in the Articles of Agreement, similar to the ADB. Beyond the representation of regional members on the Executive Board, which has already been noted, regional members' total shares cannot decline below 75%. In this manner, there is group favoring embedded in the rules. Empirically, then the question is whether regional members get a relatively higher share in the AIIB than what their GDP would indicate.

These discussions of the AIIB suggest that at its creation, China has combined both power-based and institution-based pursuits. Through its asymmetric governance features (including voting and representation on the Board), the AIIB aims to lock in a moment where China has some economic advantage. Yet, seemingly aware of the negative effect of these asymmetries, the Chinese officials have also pursued ways to both tame them to some extent and also render them



rules-based (basic votes and regional membership being examples here). Having qualitatively established the importance of the influence-legitimacy tradeoff in the AIIB, we now turn to examining whether there is any quantitative evidence of China favoring certain states at the time of these states joining the institution.

#### **IV. Quantitative Analysis of Chinese Influence over the AIIB**

In order to systematically investigate to what extent the China-led AIIB's allocation of shares at its inception is driven by China's desire for more influence versus to what extent it reflects concerns about China's desire to forge a legitimate institution, we run a series of regressions on the members' AIIB subscriptions shares. Our dataset consists of 57 founding members' subscription shares at the time of each member's joining.<sup>8</sup> Appendix A lists the countries that are included in the analysis as well as the summary statistics for the variables.

Our dependent variable, *REPRESENTATION*, is obtained by dividing the share of total subscription of a member by the member's GDP.<sup>9</sup> *REPRESENTATION* intuitively captures how much more or less a country is represented in the AIIB compared to the benchmark of the size of economy, which is a good indicator of country's capacity for capital subscriptions. Additionally, it is the most appropriate variable for analyzing Chinese influence, as how these shares are determined is not constitutionally clarified. *REPRESENTATION* has the mean of 2.843 with the

---

<sup>8</sup> This was the entirety of the membership indicated on the institution's website as of Fall 2017. See also footnote 6 on this point.

<sup>9</sup> We use GDP measured in constant 2010 U.S. dollars in year 2014.

standard deviation of 1.394 and varies from 0.296 to 5.111. Given the nature of our dependent variable as a continuous variable and given all the countries joined the AIIB in the same year, to begin with, we run OLS regressions. Table 2 presents the main results.

[Table 2 here]

For our baseline model, we only use a dummy for regional membership on the right hand side. As discussed in the previous section, regional membership would be an example to China both exerting influence, but also reducing any potential backlash against this influence through *group favoring*. Model 1 in Table 1 confirms that indeed, relative to their GDP, regional members get higher subscription shares.

We next begin to add a number of variables that aim to capture Chinese interests. As Kilby (2011) notes, the literature has examined dominant states' interests in three primary ways: using voting similarity between the state and others in the UNGA; using trade ties between the state and others; and using bilateral aid from the great power to others. We follow the literature in operationalizing Chinese interests and thus political-economic proximity to China using these three measures, each of which captures a different type of proximity.

Model 2, Table 2 focuses on political interests through a variable that measures voting similarity with China in the UNGA (IDEALPOINT DISTANCE) as well as a variable that examines the

member's relations with Taiwan (TAIWAN RELATION). The literature on the Bretton Woods institutions have long used the United Nations General Assembly voting data, where voting similarity is taken to indicate "donor strategic interests" and thus "political self-interests" (Dollar and Alesina 2000, 37; Fuchs and Dreher 2015, 1002). In turn, this similarity has commonly been used as a proxy of friendship between the most powerful country, the USA, and other countries. The literature generally agrees that the USA provides more favors to countries more friendly to it (e.g., Thacker 1999). This is interpreted as the USA using its influence at the Bretton Woods Institutions for its own foreign policy objectives. If China behaves similarly to the USA and tries to maximize its influence, we should observe that the similarity of voting at the UNGA between a member and China should positively affect *REPRESENTATION*. Our voting similarity variable comes from a newly assembled data of foreign policy ideal points of UN members based on UNGA voting records (Voeten, Strezhnev, and Bailey 2017). Based on this dataset, we calculate the absolute distance between China's and the member's foreign policy ideal points. The higher the distance between the two ideal points of countries, the lower the affinity between the two countries. Model 2 suggests that this variable is indeed significantly and negatively related to *REPRESENTATION*.

The other variable in Model 2, TAIWAN RELATIONS, measures the nature of the joining member's relation with Taiwan, where 0 indicates no relationship with Taiwan, 1 stands for non-diplomatic relations, and 2 constitutes formal diplomatic connections. We gathered these data for all 56 countries for the year 2014, and the classification of relations with Taiwan is in keeping with the literature (Rich 2009). As noted earlier, Taiwan's joining of the AIIB became infeasible due to One China policy, and Dreher et al (2015) find that countries that recognize

Taiwan receive fewer aid projects from China. Therefore, the expectation is that as the member's relationship with Taiwan becomes more significant, *REPRESENTATION* declines. Model 2 indeed shows this to be the case. Overall, Model 2 provides evidence for “rewarding friends” hypothesis in Table 1.

Model 3 examines whether there is any evidence for “buying friends”, “undercutting the rival”, and “punishing the rival’s friends” by including the member’s voting similarity with the USA and including a dummy for the EU.<sup>10</sup> If China is undercutting the rival, then, we would expect to find that as the voting similarity between the USA and the county increases, then *REPRESENTATION* decreases. Since European countries are allied with the USA and since, as noted at the onset, their joining of the AIIB was rather contentious from the US perspective, a positive relationship between the EU dummy and *REPRESENTATION* is suggestive of “buying friends” and “undercutting the rival.” Model 3 results produce a significant and negative relationship between voting similarity with the USA and the dependent variable – countries that are closer to the USA in UNGA voting receive lower *REPRESENTATION*. In other words, this result does not back undercutting the rival (see Table 1). That is, China is not trying to lure US allies away from the USA. Rather, it looks like China punishes those countries that are closer to the US – more like a strategy to maintain the status quo. This finding could also plausibly be

---

<sup>10</sup> Again based on Voeten et al’s UNGA dataset, we use the voting similarity with the USA on the issues marked as “important” by the U.S. State Department, where 1 = “yes” or approval for an issue; 2 = abstain, 3 = “no” or disapproval for an issue. This variable captures US interests on most critical issues and provides a straightforward interpretation.

interpreted as buying friends, as countries with voting dissimilar to the USA indicate potential political supporters in the UN or “punishing the rival’s friends”, though these interpretations warrant caution as countries that vote like the USA also tend to vote dissimilarly to China.<sup>11</sup> The EU variable has the positive sign, but is insignificant, which bolsters the lack of evidence for China trying to lure US friends or attempting to punish them.

Model 4 includes a range of variables that capture China’s political-economic interests—the country’s trade ties to China, the level of oil exports from the country to China, and the two types of aid the country receives from China. Specifically, trade ties suggest commercial interests at stake. Further, differentiating between imports and exports provides a more nuanced picture of commercial interests (e.g., Kilby 2006) – imports could indicate the country’s dependence on certain countries for critical items, whereas export markets indicate business interests. The inclusion of oil exports from the member to China allows for a more specific way of examining the widespread point that Chinese foreign economic policy in the realm of aid giving could be related to access to natural resources (Lancaster 2007; Naim 2009). Dreher et al (2015), for instance, find limited evidence of Chinese foreign aid following Chinese interest in natural resources.<sup>12</sup> Moreover, we include the two types of Chinese aid outlined by the extensive AidData project on China foreign economic assistance: ODA-like aid, which is relatively concessional in nature, and the relatively less concessional assistance, marked as other official

---

<sup>11</sup> The correlation between IDEAL POINT DISTANCE and US voting similarity is high – about 0.7.

<sup>12</sup> They find evidence for non-concessional lending, but not ODA-type concessional lending.

assistance (OOF) (Dreher et al 2015).<sup>13</sup> We sum the annual ODA and OOF amounts for each country from 2010 to 2014, so that we can reduce the volatility of annual data. These variables are then logged to mitigate their skewedness. Foreign aid flows reflect a mixture of both economic and political considerations, alongside humanitarian ones. There is good evidence that DAC and non-DAC owners provide aid to countries of strategic importance to them, and they also see aid important in maintaining or creating export opportunities or access to critical markets (e.g., Dollar and Alesina 2000; Tuman and Ayoub 2004; Fleck and Kilby 2006). Specific to China, Dreher and Fuchs (2015) find that Chinese aid, over the course of a number of different aid regimes since the 1950s, has followed China's political goals (quite similar to DAC ODA). They also find some evidence of Chinese aid being commensurate with China's commercial goals. Additionally, we also include the member's level of oil exports to China to capture a country's importance in terms of natural resources. Finally, we include the country's GDP per capita variable, in order to identify its importance as a potential consumer market. We do not include GDP, however, as it is already used to make the dependent variable.

Most of the variables included to capture Chinese economic interests are not statistically significant (Column (4)). The one exception here is import shares. Although the sign on import shares is counter-intuitive, this variable loses significance in the comprehensive model in Column (5). Lastly, when we include polity2 to assess the country's level of democracy, it is not

---

<sup>13</sup> To quote directly from Dreher et al (2015): "We thus rely on a second-best definition of Chinese "ODA-like" flows, which consists of all grants, technical assistance and scholarships, loans with large grant elements, debt relief, and military aid under the condition that these projects are provided with development intent."

statistically significant in any of our specifications and also leads to a reduction in the number of observations due to data availability, so we do not report the results with polity2. In any case, the non-significance of the country's level of democracy is line with the recent findings from the literature on Chinese aid. In both the case of aid and here, China does not appear to have a positive inclination toward (negative tendency against) less democratic states (more democratic states).

Next we turn to addressing a potential selection issue—countries that have certain economic and political attributes might be more likely to join the AIIB. These factors that increase the likelihood of the AIIB membership might also be associated with REPRESENTATION. Thus, failure to correct for such possible selection effects could bias our statistical analysis. To address this issue, we estimate selection models using a conditional mixed-process recursive (CMP) estimator. It is a two-equation econometric model that jointly estimates the covariates of the AIIB membership and REPRESENTATION with a correlated error structure (Roodman 2011). The first equation of the models (REPRESENTATION) is comprised of the outcome and explanatory variables discussed above. The second equation of the model (MEMBERSHIP) includes a binary variable for the membership as the outcome variable. It is coded as one for all countries that are members of the AIIB and zero otherwise. We include a range of economic and political variables that might be relevant to estimate the AIIB membership, including regime type (polity2), ideal points distance between China and the country at the UNGA (IDEAL POINT DISTANCE), the country's relationship with Taiwan (TAIWAN RELATIONS), GDP per capita and whether or not the country is in the Asia-Pacific region.

[Table 3 about here]

The results from the CMP models are consistent with the OLS results discussed above. When REPRESENTATION is concerned, most of Chinese political interests variables remain statistically significant while Chinese economic interests variables are not after controlling for the systematic membership selection process. In terms of selection into membership, countries that are more democratic are less likely to join the AIIB. In addition, richer countries are more likely to join. Countries in the Asia-Pacific region and EU members are also more likely to join the AIIB.

## **V. Conclusions**

Through a focus on China's behavior in the AIIB, this paper has analyzed how great powers leading the creation of multilateral institutions juggle the conflict between the temptation to exert influence at the moment of the creation of the institution and the need to show restraint and shore up the legitimacy of the institution. In this respect, the paper has explored how China manages the influence-legitimacy tradeoff.

The theoretical expectation was that China would not be able to pass up the opportunity to exert some influence in the creation of the AIIB—specifically, we expected to find some evidence that China would be following its interests in influencing joining states' membership terms (measured as subscription shares relative to the country's economic size). Yet, at the same time, we expected this influence to be not unhinged. Again theoretically, the literature on established



powers suggests that institutions that are too tilted in favor of power considerations by great powers suffer from reduced legitimacy. Furthermore, the paper discussed China's concerns with creating well-accepted, rules-based institution in the construction of the AIIB.

The paper bears the theoretical expectations – there is some evidence of Chinese influence, but this influence is not apparent in all aspects of Chinese interests. Most importantly, it is Chinese political interests that are more critical; Chinese economic interests appear to exert little influence over the terms of AIIB membership.

Chinese pursuit of power in the form of rewarding some states joining the AIIB is not surprising –as noted earlier, existing research finds that established powers utilize the multilateral institutions to suit their self-interests. In future studies, it would be interesting to probe whether Chinese behavior at the moment of institutional construction was more or less constrained than other powers generating multilateral institutions. Specifically, given China's rising state status outside of the US alliance, China may be relatively more limited in pursuing influence – the scrutiny it faces given its rise as a (potential) rival to the USA may increase the risks to legitimacy. While the specific causes of restraint are likely to be multifold and implausible to pin down statistically, comparing Chinese behavior outlined here to Japanese behavior at the construction of the ADB would provide a good comparison.

What does this paper's discussions suggest for ongoing debates about the future of the US-led multilateral order? The evidence of relatively restrained Chinese influence over states' membership terms could, from one perspective, be interpreted as good news for the current

system. After all, it seems that China is acting with restraint. However, from a different perspective, for those wishing to see a continuation of an American-led order, one could say that the evidence presented here is bad news. Krasner (1981) argues that states with systemic ambitions may need to forgo pursuing short-term political-economic goals, whereas “normal powers” with relatively small systemic ambitions cannot afford to pass opportunities of pursuing such long-term strategies. Interestingly, this is how Krasner explains his finding of Japanese influence over ADB loans in contrast to his finding of lack of significant evidence for US influence over these loans. From this angle, then, the lack of evidence for more extensive Chinese influence over the AIIB could be taken as evidence of Chinese officials keeping the eye on the prize—legitimacy of leadership and longer-term systemic plans. With future studies that couple this examination with Chinese influence over AIIB loans, more light will continue to be shed on Chinese behavior. More broadly, the nuances of Chinese behavior discussed in this article suggest that strict characterizations of China based on it being either revisionist or status quo, or “rogue” (Naim 2009), in behavior may miss the more complicated developments underway. In this regard, the piece joins others calling for a more close-up analysis of Chinese behavior toward economic institutions and tools.

## REFERENCES

Abbott, Kenneth W. and Duncan Snidal. (1998). “Why States Act through Formal International Organizations?” *The Journal of Conflict Resolution* 42(1): 3-32.

- Allee, T., & Scalera, J. (2012). The Divergent Effects of Joining International Organizations: Trade Gains and the Rigors of WTO Accession. *International Organization* 66(2): 243-276.
- Alesina, Alberto and David Dollar. (2000). “Who Gives Foreign Aid to Whom and Why?” *Journal of Economic Growth* 5: 33-63.
- Bailey, Michael Anton Strezhnev and Erik Voeten. (2017). “Estimating Dynamic State Preferences from UN Voting Data” *Journal of Conflict Resolution*
- Boughton, J. M. (2001). *Silent revolution : the International Monetary Fund 1979-1989*. Washington, D.C.: International Monetary Fund.
- Chin, Gregory (2016). Asian Infrastructure Investment Bank: Governance Innovation and Prospects, *Global Governance* 22: 11-26.
- Cohen, Benjamin (2015). *Currency Power: Understanding Monetary Rivalry*. Princeton University Press. Princeton, NJ.
- Copelovitch, M. S. (2010), Master or Servant? Common Agency and the Political Economy of IMF Lending. *International Studies Quarterly* 54: 49–77.
- Dollar, D. (2015). Lessons for the AIIB from the experience of the World Bank, Brookings Institution Article, April 27, 2015. <https://www.brookings.edu/>
- Dreher, Axel, Jan-Egbert Sturm, and James Raymond Vreeland. (2009a). Development aid and international politics: Does membership on the UN Security Council influence World Bank decisions? *Journal of Development Economics*.
- Dreher, Axel, Jan-Egbert Sturm, and James Raymond Vreeland. (2009b). Global horse trading: IMF loans for votes in the United Nations Security. *European Economic Review*.

Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin M. Strange, Michael J. Tierney. (2015).

“Apples and Dragon Fruits: The Determinants of Aid and Other Forms of State Financing from China to Africa.” AidData Working Paper 15, October.

Dreher, Axel, Andreas Fuchs, Bradley Parks, Austin M. Strange, and Michael J. Tierney. 2017.

Aid, China, and Growth: Evidence from a New Global Development Finance Dataset. AidData Working Paper #46. Williamsburg, VA: AidData.

Dreher, Axel and Andreas Fuchs. (2015). “Rogue Aid? An empirical analysis of China’s aid allocation.” *Canadian Journal of Economics* 48(3): 988-1023.

Fleck, Robert K. and Christopher Kilby. (2006). “How Do Political Changes Influence US Bilateral Aid Allocations? Evidence from Panel Data.” *Review of Development Economics* 10(2): 210-233.

Foot, Rosemary (2006). “Chinese strategies in a US-hegemonic global order: accommodating and hedging.” *International Affairs* 82(1): 77-94.

Gilpin, R. (1981). *War and Change in World Politics*. Cambridge ; New York: Cambridge University Press.

Gold, J. (1972). *Voting and decisions in the International Monetary Fund; an essay on the law and practice of the Fund*. Washington,DC: International Monetary Fund.

Hamanaka, S. (2016). Insights to Great Powers' Desire to Establish Institutions: Comparison of ADB, AMF, AMRO and AIIB, *Global Policy* 7(2): 288-292.

He, Kai. (2009). *Institutional Balancing in the Asia-Pacific: Economic Interdependence and China’s Rise*. London: Routledge.

Ikenberry, G.J. (2001). *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars*, Princeton: Princeton University Press.

- Ikenberry, G.J. (2012). *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order*, Princeton: Princeton University Press.
- Johnston, Alastair I. (2003). “Is China a Status Quo Power?” *International Security* 27(4): 5-56.
- Johnston, Alastair I. (2007). *Social States China in International Institutions, 1980-2000*. Princeton: Princeton University Press.
- Kastner, S. L. and Saunders, . P. C. (2012), Is China a Status Quo or Revisionist State? Leadership Travel as an Empirical Indicator of Foreign Policy Priorities. *International Studies Quarterly* 56: 163–177.
- Kaya, Ayse (2015). *Power and Global Economic Institutions*. Cambridge, New York: Cambridge University Press.
- Krasner, Stephen D. (1981). “Power Structures and Regional Development Banks.” *International Organization* 35(2): 303-328.
- Koremenos, B., Lipson, C., & Snidal, D. (2001). The rational design of international institutions. *International Organization* 55(4), 761-+.
- Kilby, Christopher (2006). “Donor influence in multilateral development banks: The case of the Asian Development Bank.” *Review of International Organizations* 1: 173-195.
- Kynge, J. and D. Pilling. (2017). China-led investment bank attracts 25 new members, *The Financial Times*, January 24.
- Kynge, J. (2017). “AIIB chief unveils aim to rival lenders such as ADB and World Bank”, *The Financial Times*, May 3.
- Lake, David A. (2013). “Great power hierarchies and strategies in twenty-first century world politics”, in Carlsnaes, W., Risse T., and Simmons, B. (eds.), *The handbook of*

- international relations* (2<sup>nd</sup> edition). Newbury Park: Sage, pp. 555-77.
- Lim, Daniel Y. and James R. Vreeland. (2013). "Regional Organizations and International Politics: Japanese Influence over the Asian Development Bank and the UN Security Council." *World Politics* 65: 34-72.
- Mearsheimer, J. (1994/5). The False Promise of International Institutions. *International Security* 19(3): 5-49.
- Morris, Scott and Mamoru Higashikokubaru. (2015). "Doing the Math on AIIB Governance." Center for Global Development, July 2.
- Naim, Moises. (2009). "Rogue Aid." *Foreign Policy*, October 15.
- Paradise, James F. (2017). "Power Through Participation: The Case of China and the New Multilateral Development Bank." *Korean Political Science Review* 51(6): 75-105.
- Pauly, L. 1997. *Who elected the bankers?: surveillance and control in the world economy*. Cambridge: Cambridge University Press.
- Pelc, K. (2011). Why Do Some Countries Get Better WTO Accession Terms Than Others? *International Organization* 65(4): 639-672.
- Perlez, J. (2015). China Creates a World Bank of Its Own, and the U.S. Balks, *The New York Times*, December 4.
- Rich, Timothy S. (2009). Status for Sale: Taiwan and the Competition for Diplomatic Recognition. *Issues & Studies* 45 (4): 159-188.
- Schweller, Randall and Xiaoyu Pu. (2011). After Unipolarity: China's Visions of International Order in an Era of U.S. Decline. *International Security* 36(1): 41-72.
- Steinwand, M., & Stone, R. (2008). The International Monetary Fund: A review of the recent evidence. *The Review of International Organizations*, 3(2), 123-149.

- Stone, R.W. (2002). *Lending credibility: The International Monetary Fund and the post-communist transition*: Princeton University Press.
- Stone, R.W. (2004). "The Political Economy of IMF Lending in Africa." *American Political Science Review* 98 (4) (November 2004): 577-92.
- Stone, R.W. (2008). "The scope of IMF conditionality." *International Organization*, 62(4), 589-620.
- Stone, R.W. (2011). *Controlling Institutions: International Organizations and the Global Economy*, New York: Cambridge University Press.
- Stone, R.W. (2013). "Informal governance in international organizations: Introduction to the special issue. *Review of International Organizations* 8(2): 121-236.
- Strand, Jonathan R. (1999). "State power in a multilateral context: voting strength in the Asian Development Bank." *International Interactions* 25(3): 265-286.
- The Financial Times* (2015). "US attacks UK's 'constant accommodation' with China", March 12.
- Vreeland, James Raymond. (2011). Foreign Aid and Global Governance: Buying Bretton Woods - The Swiss-bloc case. *Review of International Organizations* 6(3-4):369-391.
- Vreeland, James Raymond and Axel Dreher. (2014). *Political Economy of the United Nations Security Council*. Cambridge University Press.
- Wan, Ming. (2016). *The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order*, (Palgrave Macmillan).
- Weiss, Martin (2017). "Asian Infrastructure Investment Bank (AIIB)." Congressional Research Service, R44754.

**Table 1: Great Power Influence over Membership Terms**

<b>Possible Motivation</b>	<b>Plausible Observation</b>
Rewarding friendly states	Finding of states with political-economic proximity to the leading state to have significantly higher formal political power at the time of joining the institution
Buying friends	While political-economic proximity to the leading state does not matter, other systematic qualities of countries stand out, though what these qualities are is an empirical question
Undercutting the rival	Political-economic proximity to the rival state translates into significantly higher formal political power for the state at the time of joining
Punishing the rival's friends	Political-economic proximity to the rival state translates into significantly lower formal political power for the state at the time of joining



**Table 2. Relationship between AIIB Representation and Chinese Interests (OLS)**

<b>DV: REPRESENTATION</b>	<b>(1) Basic</b>	<b>(2) Political Interests</b>	<b>(3) Political Interests 2</b>	<b>(4) Economic Interests</b>	<b>(5) Political+ Economic</b>
RegionalMember	2.38*** (0.18)	1.90*** (0.15)	1.99*** (0.25)	2.30*** (0.39)	2.23*** (0.27)
UNGA Ideal Points Distance t-1		-0.27*** (0.09)			-0.33*** (0.11)
Taiwan Relation t-1		-0.58** (0.25)			-0.46* (0.24)
UNGA voting similarity with USA t-1			-0.87*** (0.24)		
EU			-0.02 0.20		-0.14 (0.30)
Import Share (log) t-1				-0.59* (0.32)	-0.36 (0.40)
Export Share (log) t-1				0.02 (0.48)	-0.07 (0.48)
Cumulative ODA 2010-2014 (log)				0.12 (0.34)	-0.01 (0.32)
Cumulative OOF 2010-2014 (log)				-0.20 (0.68)	-0.33 (0.68)
GDP per capita (log) t-1				0.04 (0.11)	0.06 (0.11)
Oil Exports (log) t-2				-0.07 (0.05)	0.03 (0.05)
Constant	1.30*** (0.09)	2.36*** (0.17)	1.25*** (0.18)	2.81 (10.72)	9.70 (9.71)
R2	0.67	0.75	0.70	0.72	0.76
Number of Observations	57	56	57	56	56

Notes: Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

**Table 3. Relationship between AIIB Representation and Chinese Interests (CMP)**

<b>Representation</b>	
RegionalMember	2.11***
	(0.37)
UNGA Ideal Points Distance t-1	-0.40***
	(0.15)
Taiwan Relation t-1	-0.52**
	(0.26)
Import Share (log) t-1	-0.30
	(0.28)
Export Share (log) t-1	0.06
	(0.37)
Cumulative ODA 2010-2014 (log)	0.12
	(0.45)
Cumulative OOF 2010-2014 (log)	-0.39
	(0.78)
GDP per capita (log) t-1	0.06
	(0.09)
Oil Exports (log) t-2	0.05
	(0.07)
Constant	8.09
	(12.02)
<b>Membership</b>	
Polity2	-0.07**
	(0.03)
UNGA Ideal Points Distance t-1	-0.21
	(0.22)
GDP per capita (log) t-1	0.47***
	(0.08)
Taiwan Relation t-1	0.36
	(0.25)
RegionalMember	1.80***
	(0.35)

EU	0.95** (0.40)
Constant	-12.35*** (2.06)

Notes: Robust standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

## Appendix A: List of AIIB Members Included in the Analysis

Australia; Austria; Azerbaijan; Bangladesh; Brazil; Brunei Darussalam; Cambodia; Denmark; Egypt; Finland; France; Georgia; Germany; Iceland; India; Indonesia; Iran; Israel; Italy; Jordan; Kazakhstan; Korea; Kuwait; Kyrgyz Republic; Lao; Luxembourg; Malaysia; Maldives; Malta; Mongolia; Myanmar; Nepal; Netherlands; New Zealand; Norway; Oman; Pakistan; Philippines; Poland; Portugal; Qatar; Russia; Saudi Arabia; Singapore; South Africa; Spain; Sri Lanka; Sweden; Switzerland; Tajikistan; Thailand; Turkey; United Arab Emirates; United Kingdom; Uzbekistan; Vietnam.

### Summary Statistics:

Variable	Obs	Mean	Std. Dev.	Min	Max
Representation	57	2.84	1.39	0.30	5.11
RegionalMember	57	0.65	0.48	0.00	1.00
UNGA Ideal Points Distance t-1	56	1.32	0.99	0.02	3.78
Taiwan Relation t-1	57	0.67	0.48	0.00	1.00
Import Share (log) t-1	57	0.52	0.59	0.00	2.43
Export Share (log) t-1	56	0.49	0.46	0.01	1.70
Cumulative ODA 2010-2014 (log)	57	25.19	0.98	23.67	26.13
Cumulative OOF 2010-2014 (log)	57	26.62	0.56	25.61	27.20
GDP per capita (log) t-1	57	26.01	1.87	21.78	29.75
Oil Exports (log) t-2	57	0.90	1.81	0.00	7.11
EU	57	0.25	0.43	0.00	1.00