

The BRI and AIIB: A Challenge to the Liberal International Order?

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Abstract

First announced in 2013, the Belt and Road Initiative (BRI) has become a central component of Chinese foreign policy under the presidency of Xi Jinping. Given the scope and vision of the BRI, several fundamental questions have been raised by the policy. Is the BRI threatening? Will it strengthen the system? Will it supplement it? In order to explore this puzzle, the thesis undertakes empirical analyses of the BRI and the accompanying Asian Infrastructure Investment Bank (AIIB). These analyses will be placed within a container of the Liberal International Order (LIO). This framework, derived from the writings of G. John Ikenberry, is based around four elements: Open Multilateral Trade, International Institutions, Liberal Democracy and Neoliberal World Economy. The findings show that the BRI and AIIB have combined to create a disorientating picture in which elements of the LIO are both strengthened and undermined. This allows China to sit benignly within the order while constructing the infrastructure needed to break from the system - if and when required.

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Introduction

In 2013, President Xi Jinping of China first mentioned the Belt and Road Initiative (BRI) during the course of two speeches at Astana and Jakarta. While initially nebulous in design and scope, the project has since come to sit at the centre of Chinese foreign policy. While the BRI has been carefully messaged in terms of “infrastructure connectivity,”¹ the vision of the policy reaches much more broadly and into the realms of institutional and societal underpinnings. While much literature has fallen to narrow conceptions posed by the challenge of the Chinese state and the BRI, this thesis will attempt to resolve the frequent ‘silencing’² of the current order by employing a framework derived from the work of American scholar G. John Ikenberry.

The first chapter will begin with a broader literature review of the rise of China before narrowing to map Ikenberry’s writings over the past ten years. This will both build towards a framework of the liberal order he describes and point towards a shift in his work that reflects Beijing’s growing power. The framework consists of a dual definition of the order, which takes into account the structural shifts since the collapse of the Soviet Union. This framework will be used to situate the two empirical analyses in the following chapters.

The second chapter explores the BRI from its inception in 2013 to its present state in early 2018. Drawing from news reports, official documents and academic articles, a range of countries and regions will be covered to reflect its scope and ambition. The chapter finds that while there is risk attached, the manner in which the policy is being pursued reflects clear objectives. This ranges from the use of Chinese companies and labour to the selection of projects and their location. It is argued that despite Beijing’s attempts to isolate and promote the economic element, the policy, when additional elements are included, poses a sustainable threat to the current order.

The third chapter focuses on the Asian Infrastructure Investment Bank (AIIB), an institution that sits within the BRI’s ecosystem. Particular attention will be paid to the degree to which it aligns with the structures of the existing multinational development banks (MDBs). This chapter finds that the AIIB has kept conspicuously and strategically within the boundaries of the LIO. In doing so, it has been able to ingratiate itself with several Western countries and

¹ “Articles of Agreement,” *Asian Infrastructure Investment Bank*, accessed April 26, 2018, <https://www.aiib.org/en/about-aiib/basic-documents/articles-of-agreement/index.html>.

² This concept will be explored in the literature review.

important regional actors such as India. In this way, the AIIB can be presented as a ‘friendly face’ to the fundamental challenge of the BRI.

The fourth chapter moves to the discussion and conclusions drawn from the two empirical analyses. It is argued that China is challenging the liberal international order in a strategically disorientating manner which is difficult to identify and to resist cogently. While Beijing supports and strengthens some aspects of the order, which it attempts to highlight, the fundamental challenge to the Liberal Democratic component of the order cannot and should not be divorced. This allows China to sit benignly within the order while constructing the infrastructure needed to break from the system, if and when required.

Chapter 1: The Liberal International Order

Introduction

This chapter builds towards the framework in which the BRI and AIIB will be analysed in the following chapters. The chapter is divided into three main components which have the dual aim of not only constructing the framework but also in providing historical depth in which to help ground the discussion and conclusions chapter.

The first part of the chapter will be a broader literature review focusing on the ‘rise of China’ and the challenges it places on the system. The section will also include some useful analytical tools that will be returned to in the discussion and conclusions section. The section finishes with a brief literature review of the BRI and AIIB, in order to situate existing scholarship.

The second part of the chapter defines the LIO through a framework derived from Princeton University’s G. John Ikenberry. Firstly, the historical background to the formation of this system will be traced from its origins in the traditions of liberal internationalism. This will be followed by a historical overview of the Bretton Woods system and the emergence of the institutional environment from the latter stages of the war. This section will conclude with a narrow literature review of selected writing from Ikenberry from the period between 2008 and 2018. As well as building towards the framework, this section will map a shift in Ikenberry’s conceptions of the order.

The third part of the chapter moves to the framework itself which is comprised of a dual definition of the LIO. This is adapted from Ikenberry’s article *The End of Liberal International Order?* in which he evaluates the pressures to the system. The first definition covers the period following the Second World War until the collapse of the Soviet Union. The second definition takes into account the pressures that have been placed on the system in two vital areas: the democratic basis of the order and economically, where Ikenberry sees a neoliberal influence as having taken hold.

The chapter will conclude with a short section reflecting on the limitations of the framework and some final observations before the thesis turns to the first of the two empirical sections.

Literature Review

Since the beginning of the market reforms under Deng Xiaoping in the late 1970s, China has achieved sustained economic growth rates of around 10%, with some 800 million people being lifted from poverty in this time.³ Despite this economic growth, the Chinese state has continued to maintain tight political control with values and norms that conflict fundamentally with those of Western states. This situation has produced a broad range of comment and reaction from within the academic community.

Within the dominant neorealist school of international relations, China's growing strength and power has often been triumphantly stated, following the apparent demise of realism at the end of the Cold War.⁴ Among the more prominent of these voices has been offensive realist John J. Mearsheimer, who sees increasing security competition as the PRC attempts to gain, or regain, regional hegemony. He argues that this will mirror the United States as it gained regional hegemony over the Western Hemisphere in the 19th century.⁵ As the transition from the current ahistorical unipolarity to multipolarity takes place, the potential for instability and potential conflict is high.⁶ Given the underlying anarchic logic, for Mearsheimer the future is bleak as the United States and China perceive each other as possessing "significant offensive capability and unknowable intentions."⁷ The regional competition and need to accept the power shift has long been noted by others such as Christopher Layne, who have argued for offshore balancing in order to more efficiently confront China's growing regional strength as unipolarity expires.⁸ Defensive realists such as Charles Glaser have sought to argue that the mutual accommodation of interests is possible and that while intense competition is certain, this does not mean that conflict is inevitable.⁹

³ "The World Bank in China," *World Bank*, access April 27, 2018, <http://www.worldbank.org/en/country/china/overview>.

⁴ For an outstanding review essay see: Richard K. Betts, "Conflict or Cooperation: Three Visions Revisited," *Foreign Affairs* 89, no. 6 (November 2010): 186-194.

⁵ John J. Mearsheimer, "The Gathering Storm: China's Challenge to US Power in Asia," *Chinese Journal of International Politics* 3, no. 4 (2010): 389.

⁶ Mearsheimer, *The Tragedy of Great Power Politics*, (New York: Norton, 2001): 339.

⁷ Mearsheimer, "The Gathering Storm," 387.

⁸ Christopher Layne, "The Unipolar Illusion Revisited: The Coming End of the United States' Unipolar Moment," *International Security* 31, no. 2 (Fall 2006): 7-41.

⁹ Charles Glaser, "Will China's Rise Lead to War? Why Realism Does Not Mean Pessimism," *Foreign Affairs* 90, no. 2 (March 2011): 81.

Meanwhile, liberal institutionalists, while accepting the core of realist logic, have sought to point to the role of institutions in mitigating anarchy and insecurity. Robert O. Keohane has been particularly prominent within this subfield, with his emphasis on cooperation in the system as being able to produce outcomes that are also ‘rational’.¹⁰ Ikenberry is situated from within this sphere, and this will be returned to in greater depth shortly.

Challenge to the Order

Robert Gilpin’s conception of order as a state-led hegemonic political formation has been influential on Ikenberry’s writing and will be used as a theoretical marker in which to return to in the discussion section.¹¹ Gilpin saw a cycle of powers rising and falling due to uneven rates of growth among states, with the new powers seeking prestige as they grow in power. This process inevitably ends in hegemonic war and a new order is created in its aftermath – a process of renewal and the creation of new settings. These wars help to “resolve the question of which state will govern the system, as well as what ideas and values will predominate.”¹² This pursuit of prestige, particularly given China’s different cultural and historical foundations is particularly important.

Randall Schweller and Xiaoyu Pu, in an article entitled *After Unipolarity: China's Visions of International Order in an Era of U.S. Decline*, argue that China will increasingly engage in delegitimising behaviour due to the unique unipolarity of the system. Any shift in the system is labelled revisionist and therefore various delegitimation strategies are being considered in order to return to a balance of power system.¹³ They see three possible roles a power can take: supporters, spoilers or shirkers. A supporter would seek to cooperate with the order, a spoiler would seek power transfer and a shirker would take benefit from the current order, while also diffusing power.

¹⁰ Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

¹¹ G. John Ikenberry, “The logic of order: Westphalia, liberalism, and the evolution of international order in the modern era,” in *Power, Order, and Change in World Politics* (New York: Cambridge University Press, 2014), 87.

¹² Robert Gilpin, *War and Change in World Politics*, (Cambridge; New York: Cambridge University Press, 1981), 203.

¹³ Randall L. Schweller and Xiaoyu Pu, “After Unipolarity: China's Visions of International Order in an Era of U.S. Decline,” *International Security* 36, no. 1 (2011) 41-72.

The China Model

The sustained economic growth which has averaged around 10% over the past 30 years is largely unprecedented and has taken China into a formidable position. A recent Australian Foreign Policy White Paper estimated that by 2030, the Chinese economy would be worth \$42t compared to \$24t for the United States.¹⁴ During the 1990s and early 2000s, there was an expectation from scholars such as Alastair Iain Johnston that China would absorb and learn from Western institutions and in doing so be integrated into the system through a process of socialisation.¹⁵ However, from the early 2000s, there was a discernible shift in Chinese actions and policies towards greater autonomy and independence.¹⁶ This was furthered by the Global Financial Crisis from 2007-2008 which saw a challenge to Western strength and leadership.¹⁷

A further reflection has been the manner in which security and economic literature has diverged in its treatment of the rise of the PRC. Matt Ferchen provides a further useful frame in his observation that academic and institutional ‘silos’ are a primary issue in constraining understanding of Chinese policy objectives and the broader regional environment.¹⁸ The resulting bifurcations – between politics and economics, between development and security – have left an unbalanced and limited perspective of the situation. Ferchen argues that there must be a “reinvigorated effort to link questions of economic development to issues of security.”¹⁹ While this thesis will not concentrate on the security aspect of the picture, Ferchen’s observations will remain central to the underpinnings of the thesis.

Meanwhile, scholars such as David Shambaugh who had previously identified the strength of China’s resilient authoritarianism began to shift course and prescribe that China required political liberalisation if it was to escape the middle-income trap.²⁰ One alternate avenue to

¹⁴ “2017 Foreign Policy White Paper,” *Australian Government*, accessed April 23, 2018, 42, <https://www.fpwhitepaper.gov.au/files/2017foreignpolicywhitepaperpdf>. USD 2016, converted in PPP.

¹⁵ Alastair Iain Johnston, *Social States: China in International Institutions, 1980–2000* (Princeton, N.J.: Princeton University Press, 2007).

¹⁶ Gregory Chin, “Two-Way Socialization: China, the World Bank, and Hegemonic Weakening,” *The Brown Journal of World Affairs* 19, no. 1 (Fall 2012): 213.

¹⁷ Rosemary Foot and Andrew Walter, “Global norms and major state behaviour: The cases of China and the United States,” *European Journal of International Relations* 19, no. 3 (2013): 329-352.

¹⁸ Matt Ferchen, *China, Economic Development, and Global Security: Bridging the Gaps*, (Beijing: Carnegie–Tsinghua Center for Global Policy, 2016), 4. http://carnegieendowment.org/files/CP_289_Ferchen_China_Final.pdf.

¹⁹ *Ibid.*

²⁰ David Shambaugh, “Contemplating China's Future,” *The Washington Quarterly* 39 no. 3 (Fall 2016): 123.

possibly escaping this plight and in expanding Chinese economic and political horizons has appeared through a new foreign policy initiative that emerged under Xi Jinping.

BRI and AIIB

Several academic studies on the BRI have proven particularly helpful in situating the policy platform. Nadège Rolland's excellent book *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative* pointed to various benefits, such as the ability to spread economic and political influence, the mitigation of overcapacity in certain areas of the economy and in providing insulation against domestic economic slowdowns.²¹ One further notable benefit is that infrastructure building continues an economic model that the Chinese Government and its state-owned enterprises are familiar and comfortable with. Under President Xi, there has been a strong emphasis on political rather than market logic which allows it to carry out long-term strategic decisions.²² Furthermore, the strategy adds to the "going global" outlook of successive Chinese governments since Deng.

Gan Junxian and Mao Yan reflected many of these points and while seeing the short-term political manoeuvrings against the Pivot to Asia and potential domestic economic fragility as motivation, they also placed emphasis on China regaining lost glory.²³ This invocation of the Chinese Dream and the potential economic and political gain from broader regional economic integration by these Chinese academics is particularly telling.

Some Western academics have been particularly critical of the intentions of the strategy. Realist analysts such as Walter Russell Mead see it as a return to great power conflict focused around the ancient Silk Road transport route.²⁴ The Center for Advanced Defense Studies report *Harbored Ambitions* also provided invaluable insight and data into the internal structure of Chinese projects on the MSR. In their concluding remarks, the authors argued that the port

²¹ Nadège Rolland, *China's Eurasian Century?: Political and Strategic Implications of the Belt and Road Initiative*, (Seattle Washington : National Bureau of Asian Research): 102.

²² Ibid.

²³ Gan Junxian and Mao Yan, "China's New Silk Road: Where Does It Lead?," *Asian Perspective* 40, no. 1 (Jan 2016), 106.

²⁴ Mead, Walter Russell, "History Isn't Dead Yet: Asia and the Return of Geopolitics," *Global Asia* 9, no. 3 (Fall 2014), 20–23.

facilities were being utilised to “generate political influence” and establish military footholds.²⁵ The report will be later used to illuminate sections of the empirical analysis.

Meanwhile, the AIIB has been described as an “important vehicle”²⁶ to help in delivering the BRI. Writing in 2016, Mike Callaghan and Paul Hubbard emphasised that Beijing has gained credit and approval from the initial stages of the institution.²⁷ They argued that the shape the institution would take in the following years was of great importance due to Chinese instincts to retain control,²⁸ and that the Western perception that it was being used to further Chinese interests would need to be alleviated. Lastly, they saw that China could benefit greatly from knowledge and expertise from close co-operation with other multilateral development banks (MDBs).

Many scholars have also noted the frustration experienced by countries operating within the Western institutional system. This has seen the United States actively stymying attempts by developing countries to gain greater influence in these organisations. This aspect will be returned to in the empirical analyses where many states have tentatively welcomed Chinese influence.

Ikenberry and the Liberal International Order

The literature review will now narrow and build towards a definition of the liberal international drawing from Ikenberry’s writings. Firstly, a brief historical overview will take place in order to situate the emergence of this order and the integration of liberal internationalism. Then the Bretton Woods system and its accompanying institutions will be covered to lay the fundamentals of the LIO. This will largely reflect Ikenberry’s conception of the emergence although it will be further augmented by other literature in order to reflect the generality of his scholarship. Then focus will shift to Ikenberry’s writings from the period from 2008 to 2018.

²⁵ Devin Thorne and Ben Spevack, *Harbored Ambitions*, (Center for Advanced Defense Studies, 2018), Accessed April 28, 2018.

<https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/5ad5e20ef950b777a94b55c3/1523966489456/Harbored+Ambitions.pdf>

²⁶ Mike Callaghan and Paul Hubbard, “The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road,” *China Economic Journal* 9, no. 2 (2016): 117.

²⁷ *Ibid.*, 137.

²⁸ *Ibid.*, 117.

This period encapsulates a period of significant change in the regional and global environment which, it will be argued, is paralleled in Ikenberry's writing.

Liberal Internationalism

Ikenberry begins by tracing the emergence of liberal internationalism to the modern state system that evolved following the Treaty of Westphalia in 1648. This has helped to establish the norms of state sovereignty, territorial integrity and non-intervention which have evolved over the following centuries.²⁹ In doing so interactions between powers were moderated and co-operation has been enforced that has challenged the apparent axiomatic anarchy of the realist logic. These norms have evolved through a long series of conferences and treaties from Vienna to Yalta and have come to incorporate norms such as self-determination and mutual recognition among sovereign states.³⁰ While this environment co-existed with colonialism and European expansion, Ikenberry sees the acceptance and promotion of these values in the system as ultimately driving the post-war decolonisation.³¹

While some scholars trace the emergence of liberal internationalism in the system to United States President Woodrow Wilson,³² Ikenberry sees its origins in the British Empire, which while practising extensive and aggressive colonisation and imperialism, also promoted the abolition of slavery, free trade and freedom of the seas.³³ It was then Wilson who, in the aftermath of the First World War, attempted to bring about institutionalised multilateralism in the form of the League of Nations.³⁴ While this failed in the interwar vortex, the liberal project was revived by the Roosevelt Administration in the later stages of the Second World War.

While there has been great emphasis on the multilateralism and international institutions aspect, it has been apparent that the use of force and coercion has also been a significant aspect – as in all orders.³⁵ A further element of note was the Universal Declaration of Human Rights which since its implementation in 1948 has become embedded and has created what Ikenberry sees

²⁹ G. John Ikenberry, "The Future of the Liberal World Order: Internationalism After America," *Foreign Affairs* 90, no. 3 (May/June 2011): 58.

³⁰ *Ibid.*, 59.

³¹ Ikenberry, "The Future," 59.

³² Charles Kupchan and Peter Trubowitz, "Dead Center: The Demise of Liberal Internationalism in the United States", *International Security* 32, no. 2 (2007), 11.

³³ Ikenberry, "The Future," 60.

³⁴ Ikenberry, "The Logic of Order," 93.

³⁵ Kupchan and Trubowitz, "Dead Center," 11.

as a “human rights revolution.”³⁶ It continues to exert significant influence in the international bodies through conventions, treaties and notions such as the Responsibility to Protect (R2P).

The Westphalian and liberal internationalist components have come to play an integral role in the current international order. They will be returned to in the latter part of the chapter as it builds towards the definition.

Bretton Woods System

A further foundational element of the post-war order was the trade system established through the Bretton Woods conference in 1944. There was a convergence in opinion between both American liberals and geopolitical strategists who saw that a commitment to open markets would be beneficial in the new order.³⁷ While satisfying broader liberal demands, it would also be highly beneficial for the export sector of the American economy, particularly given the economic and social devastation in Europe. It would also ensure the dispersal of power in both Europe and Asia, an objective not lost on the European colonial powers who wished to retain their former spheres of influence.³⁸

Following concerted negotiations, a mid-point was engineered in which the laissez-faire system was moderated and a ‘managed’ order was arrived at.³⁹ Drawing from lessons of the Great Depression, it was seen that institutions, rules and government oversight were necessary for maintaining economic stability and societal cohesion.⁴⁰ This focus on economic security allowed the creation of a platform that mandated state involvement, welfare state policies, and expansionary Keynesian monetary policy. Ikenberry sees the resulting order as one that was “more or less open” but which also provided many useful “loopholes” in which states could intervene when required.⁴¹ Given the post-war strength of the United States, the moderated system that was arrived at allowed the nascent liberal order to strengthen in time.

³⁶ Ikenberry, “The Logic of Order,” 94.

³⁷ G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars*, (New York: Penguin Press, 2016), 187.

³⁸ G. John Ikenberry, “Creating Yesterday’s New World Order: Keynesian “New Thinking” and the Anglo-American Postwar Settlement,” in *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change*, eds. Judith Goldstein and Robert Owen Keohane (Ithaca, NY: Cornell University Press, 1993), 59.

³⁹ *Ibid.*, 60.

⁴⁰ Ikenberry, “*After Victory*,” 190.

⁴¹ *Ibid.*, 190.

The final element was that of the institutions such as the World Bank and GATT that formed around the economic core and which have come to form a fundamental aspect of the liberal international order. This, along with the other aspects of the previous two sections, will be returned to and expanded upon in the theoretical framework section.

Ikenberry's Literature 2008-2018

The chapter now shifts to Ikenberry's scholarship in the period between 2008 and 2018. This will allow two objectives to be met; firstly, the scholarship of this narrower literature review will be employed in conjunction with the preceding two sections to assist in the construction of the theoretical framework. Secondly, the evolution in Ikenberry's thought will be used as a proxy for the broader shift in dynamics as China has grown and expanded in economic and political power. The timespan specified for this literature review covers a period of significant change in the international system, being bookended by the global financial crisis and Xi's consolidation of power and the rise of Trump. While not exhaustive, the reviewed literature is intended to provide a broad indication of the direction of his scholarship that is built upon the foundations of his previous research.

In a 2008 article *The Rise of China and the Future of the West: Can the Liberal System Survive?* Ikenberry placed great emphasis on the *nature* of the international order.⁴² For Ikenberry, the order is uniquely “accessible, legitimate and, durable” which makes it “hard to overturn and easy to join.”⁴³ Ikenberry sets out three main aspects. Firstly, the order is “built around rules and norms of non-discrimination and market openness” which allows easy and ready access to markets. The sustained economic growth that has followed has further strengthened the order.⁴⁴ Secondly, whereas previous orders were dominated by a single state, the current order's leadership is shared by a coalition of states that are advanced liberal democracies. Thirdly, the order has “an unusually dense, encompassing and broadly endorsed system” of rules and institutions.⁴⁵ This system, which includes political, economic and security institutions on a global and regional level, allows the readier resolution of issues between states and the promotion of co-operation and shared decision-making. For Ikenberry, the order must commit

⁴² G. John Ikenberry, “The Rise of China and the Future of the West: Can the Liberal System Survive,” *Foreign Affairs* 87, no. 1 (Jan-Feb 2008), 27.

⁴³ *Ibid.*, 28.

⁴⁴ *Ibid.*, 29.

⁴⁵ *Ibid.*, 30.

itself to the open and rule-based nature that has typified the order by seeking to allow a more diverse range of countries into decision-making roles in the coming decades.⁴⁶ At this time, Ikenberry saw that China's role within the confines of the system was evidence of this – it was being accommodated and integrated. Furthermore, Ikenberry underlines that the democratic underpinning of the order is a particular strength – a feature that is brought into greater relief in subsequent literature.

In a short contribution as part of a scholarly exchange in *New Perspectives Quarterly* in 2008, Ikenberry plainly states this view, with a contention that “China is more worried that the US will abandon its commitment to the old, Western-oriented global rules and institutions.”⁴⁷ Instead, he sees the PRC as working within the existing parameters and while seeking to impact the creation of rules, Ikenberry argues that the PRC well may be the “greatest supporter” of the post-war order, citing their admittance into the WTO in 2001 as evidence of this.⁴⁸ Once more, Ikenberry suggests that Western resources should be committed to strengthening the underlying fundamentals of the order so that more countries can be accommodated.

In his 2011 article, *The Future of the World Order: Internationalism After America*,⁴⁹ Ikenberry reflects on the continued weakening in the power of the United States. He explicitly states the rise of new powers such as China, Brazil and India as being outside of the cultural, economic and political sphere of the West. However, he sees the liberal international order as strengthening and sees this as its “ultimate ascendance” as the battle is not over fundamental principles.⁵⁰ Rather than seeking the order's decline, the new entrants simply seek to “gain more authority and leadership within it.”⁵¹ Ikenberry goes on to discuss the “Beijing Model”, in which mercantile policies and bilateral ties dominate and which may lead to China acting as a potential spoiler inside the system.⁵² However, Ikenberry sees this path as unlikely, and that any alternative that Beijing could potentially offer would fail to be enticing.⁵³ Meanwhile, “all the leading institutions of the global system enshrine democracy as the proper and just form of

⁴⁶ Ibid., 35.

⁴⁷ G. John Ikenberry, “China and the Rest Are Only Joining the American-Built Order,” *New Perspectives Quarterly* 25, no. 3 (June 2008), 19.

⁴⁸ Ibid. 21

⁴⁹ This article distilled his 2011 book, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order*.

⁵⁰ Ikenberry, “The Future,” 57.

⁵¹ Ibid., 57

⁵² For an overview of China as a potential spoiler in the system see: Randall L. Schweller, Xiaoyu Pu, *After Unipolarity: China's Visions of International Order in an Era of U.S. Decline*.

⁵³ Ikenberry, “The Future,” 64.

governance – and no competing political ideals even lurk on the sidelines.”⁵⁴ Therefore, Ikenberry continues to place the order’s openness as its central strength in his concluding remarks and sees that the order will continue to welcome and adapt to diverse actors.⁵⁵

In 2014, Ikenberry contended that the liberal values that the United States promoted in the aftermath of the Second World War “enjoy near-universal appeal.”⁵⁶ Ikenberry also notes that liberal democracies are struggling with social inequality, political instability and slow economic growth.⁵⁷ This is an early indication of what will be a main element of the framework detailed shortly. Ikenberry goes on to spend a significant portion on the importance and spread of democracies under the liberal international order. He sees that both Russia and China are not fundamentally challenging the order and that “[a]t most, they are spoilers,”⁵⁸ and that he simply does see either state as having the will nor the ability to challenge the current order. Indeed, he sees both states as being firmly entrenched in the system and that both are gaining significant benefits from both the openness of the system (trade, investment, technology) and the rules-based nature.⁵⁹ If they were in fact to attempt to challenge the basic structures of the order, the undertaking would be both “daunting and self-defeating.”⁶⁰ He even goes as far as to say that “revisionist struggles are a fool’s errand” in the current age of the liberal international order.⁶¹

In a second 2014 article, Ikenberry took an interesting detour into security literature in an article with Adam P. Liff, on the security situation in the East Asian region. Liff and Ikenberry identify the escalating military build-up and tensions in the region and see that the rapid rise in Chinese economic power, and the resulting shift in regional material capabilities as the primary forces behind this move.⁶² This is furthered by uncertainties about Beijing’s aims and ambitions in the short and medium term particularly given its increasing military spending.

This engagement with security literature continued in a 2016 article entitled *Between the Eagle and the Dragon: America, China, and Middle State Strategies in East Asia*. Ikenberry states

⁵⁴ Ibid., 64-65.

⁵⁵ Ibid., 68.

⁵⁶ Ikenberry, G. John. “The Illusion of Geopolitics: The Enduring Power of the Liberal Order.” *Foreign Affairs* 93, no. 3 (May/June 2014): 3.

⁵⁷ Ibid.

⁵⁸ Ibid., 5.

⁵⁹ Ikenberry, “The Illusion of Geopolitics,” 6.

⁶⁰ Ibid., 7.

⁶¹ Ibid.

⁶² Liff, Adam P. and G. John Ikenberry. “Racing toward Tragedy?: China’s Rise, Military Competition in the Asia Pacific, and the Security Dilemma.” *International Security* 39, no. 2 (2014): 55.

that China's economic power has continued to increase and that it is now the regional economic centre. As a result, he sees a dual hierarchy, split between the economic order led by the PRC and the security order led by the United States.⁶³ He sees this as resulting in a 'battle of orders', with both providing their own incentive. The rapid and sustained economic growth of China has provoked an increasing security reliance on the United States while also leading to increasing temptation and incentive to hedge.⁶⁴ Ikenberry goes on to state that Beijing will engage in direct competition for regional hegemonic leadership,⁶⁵ with particular attention being paid to middle states and their balancing or bandwagoning options.⁶⁶ After previously deriding the ability of the PRC to successfully draw countries into its orbit, Ikenberry has at this point clearly begun to shift his opinion.

This leads to Ikenberry's January 2018 article, *The End of Liberal International Order?* This article forms the basis of the following definition of the liberal international order. Providing a hardened definition of the order, this has been selected as an excellent platform from which to explore the question: is China challenging the liberal international order?

Elements of the Liberal International Order

The theoretical framework will now be built around Ikenberry's conception of the LIO in the journal article *The End of Liberal International Order?*⁶⁷ This article provided a clear definition of the liberal international order and the operationalised definitions will build from this and Ikenberry's body of work over the past ten years as covered in the literature review. From this, a dual definition of the international order will be constructed which will take into account the evolution of the order since the collapse of the Soviet Union. While two elements of the order – open multilateral trade and international institutions - have remained largely constant, there has been significant impact on the other two elements: Liberal Democracy and the Managed World Economy.

The first definition covering the four elements are based on the post-war era from 1945 to 1989.

⁶³ G. John Ikenberry, "Between the Eagle and the Dragon: America, China, and Middle State Strategies in East Asia," *Political Science Quarterly* 131, no. 1 (March 2016): 10.

⁶⁴ *Ibid.*, 21.

⁶⁵ *Ibid.*, 29.

⁶⁶ *Ibid.*, 34.

⁶⁷ Ikenberry, "The End," 15-17.

They are as follows:

1. Open Multilateral Trade

The first element covers the open nature of the economic system. Whereas previous orders had largely enclosed systems, the liberal world order allows countries to join the economic system and trade freely. For Ikenberry, this strategic decision of the post-war planners was to ensure that the United States could gain greater power by extending its economic access to markets.⁶⁸ The system's sustained economic growth over the past 70 years has further reinforced this and the prestige of the order.⁶⁹

The economic system promotes trade between countries and affords countries access to the system despite them potentially holding divergent political, social and cultural ideals. In this way such countries can be drawn to the order and be moulded by it.⁷⁰ This also means that the order is "hard to overturn and easy to join,"⁷¹ as the states are attracted and sustained by access to the economic system. Through international institutions, open multilateral trade has been further reinforced by mechanisms which allow the resolution of disputes and the promotion of further interaction.

Operationalised:

- Trade promotion: commitment to trade agreements, references in speeches and policy documents
- Trade facilitation and management: support of international economic institutions

2. International Institutions

The second element is that of international institutions. While the state has remained at the core of the system, multilateral institutions have helped to foster interactions between the states, resolve disputes and have allowed input from a broad range of actors. This also allows for the diffusion of power and for the United States to not appear to be overly dominant in the order,

⁶⁸ Ikenberry, *After Victory*, 187.

⁶⁹ Ikenberry, "The Rise of China," 28.

⁷⁰ Ikenberry, "The End," 35.

⁷¹ Ikenberry, "The Rise of China," 28.

a significant shift from previous orders.⁷² Since the war, a range of multilateral institutions have developed at both global and regional level. This has helped to create an order that is “unusually dense, encompassing, and broadly endorsed system of rules and institutions.”⁷³

International institutions such as the United Nations have remained central to the order as they are able to help resolve issues between states. This has helped to reduce instances of discord between states and enable the resolutions. The economic institutional system has also been instrumental in expanding and securing the free trade network. In the current era, the World Trade Organisation (WTO) and the International Monetary Fund (IMF) are the primary components of this infrastructure. Complementing the larger institutions, various regional institutions have formed which have drawn from these institutional foundations such as the Asian Development Bank (ADB) and Association of Southeast Asian Nations (ASEAN).

Operationalised:

- Shared leadership: promotion of multilateral leadership within institutions
- Support: assisting in the proliferation of multilateral institutions
- Rule-based system: support for upholding and enforcing rules attached to institutions

3. Western Liberal Democracy

The third element of the system was the order’s focus on Western liberal democracies and the promotion of this form of government. In the post-war period, this was centred on Western Europe and Japan and the relative political and cultural homogeneity eased the acceptance and promotion of this aspect.⁷⁴ That the order evolved in the context of the Cold War further propelled and hardened this aspect of the system.

Furthermore, tenets such as freedom of speech, freedom of press and rule of law were heavily promoted.⁷⁵ Lastly, there was a strong security aspect to this component and the clearly defined ‘Other’ in the form of the Soviet Union which created cohesion.⁷⁶ These principles and norms were explicitly promoted as universal during this period.

⁷² Ikenberry, “The Future,” 57.

⁷³ Ikenberry, “The Rise of China,” 30.

⁷⁴ Ikenberry, “The End?,” 16.

⁷⁵ Ikenberry, *Power, Order, and Change in World Politics*, 94.

⁷⁶ Ikenberry, “The End?,” 17.

Operationalised:

- Promotion of democratic systems of government: implementation of democratic systems of government, references in speeches and policy documents
- Promotion of freedom of speech, rule of law: legal implementation, references in speeches and policy documents
- Security: promotion of security community in policies

4. Managed World Economy

The final element of the liberal international order was that of a managed open world economy, which sought to find a mid-point between openness and stability. Therefore, while the order did broadly promote free trade, this was to be augmented by an understanding of the need to maintain social stability within the states. As Ikenberry states, “social and economic security went hand in hand with national security,”⁷⁷ with attention paid to the middle classes and trade unions. As such, there was extensive state intervention in aspects of the economy and the promotion of certain industries and companies.

Ikenberry sees this as being grounded in the New Deal era of Franklin Delano Roosevelt which mandated this much closer alignment of the state and the economy. With the economic success of the Soviet Union during the first part of the Cold War, this was reinforced, and the state retained a large degree of economic intervention and control.⁷⁸ While GATT (General Agreement on Tariffs and Trade) did push towards a reduction in tariffs and a promotion of trade liberalisation, this was controlled and initially confined to primarily Western states.

Operationalised:

- Implementation of state planning and co-ordination between economies: promotion of state-controlled industries and companies, management of currency
- Focus on domestic economic and social stability: provision of employment, social security

⁷⁷ Ikenberry, “The End?,” 20.

⁷⁸ Ikenberry, “Creating Yesterday’s New World Order”, 59.

Post-Cold War impacts on the Order

Following the collapse of the Soviet Union, Ikenberry argues that the vacuum and resulting unipolarity led to particular alteration of the final two elements – Western Liberal Democracy and Managed World Economy. The impacts that Ikenberry describes will be fashioned into a dual definition for the third and fourth elements of the order. In this way, the changing nature of the order can be identified and in doing so, greater insight can be reached in the conclusions section. Once more, this will integrate prior work from Ikenberry in order to construct and operationalise the elements.

3a. Liberal Democracy

Following the collapse of the Soviet Union, the previously homogenous composition of the states forming the order was placed under strain as various countries who came from diverse cultural backgrounds were integrated into the order. For Ikenberry, states in the liberal international order prior to the collapse were part of a risk society which helped to forge a community based around security.⁷⁹ As the ‘Other’ of the Soviet Union was removed, this meant that the order lost some of its purpose as well as domestically within the United States.⁸⁰ While this initially focused around the security aspect of the system, the effect on the broader underpinnings of the order has been of greater long-term consequence.

Furthermore, many of the developing countries joining the order have histories of colonisation and Western exploitation that has complicated cohesion.⁸¹ Meanwhile, prominent issues and challenges to the order over the past 30 years such as terrorism and climate change have been complex and nebulous which has meant that unified and unifying responses have been difficult to achieve.

Operationalised:

- Promotion of democratic systems of government: implementation of democratic systems of government, references in speeches and policy documents

⁷⁹ Ikenberry, “The End?,” 20.

⁸⁰ Kupchan and Trubowitz, “Dead Center”, 9.

⁸¹ Ikenberry, “The End?,” 20.

- Promotion of freedom of speech, rule of law: references in speeches and policy documents
- Accommodation of diverse new entrants: willingness to accept difference in cultural, societal and historical background

4a. Neoliberal World Economy

While the post-war order had provided economic and social security to the members of the order, following the collapse of the Soviet Union this ‘managed’ aspect of the system was eroded. This has resulted in what Ikenberry sees as a neoliberal stage of the order.⁸² While this was presaged in earlier work, this explicit invocation of neoliberalism in his 2018 article is particularly striking. Ikenberry sees that this has resulted in economic gains for two groups of people: manual workers in developing countries and the elites in both developed and developing countries.

This has left the middle classes in Western countries much worse off as off-shoring and the erosion of bargaining power in trade unions has seen their incomes decrease. Furthermore, privatisation of state resources and the limiting of the social safety net has seen economic and societal foundations undermined. These policies have been adopted and promoted by some of the multilateral institutions of the order and have therefore fundamentally changed one of the core components of the LIO. The IMF, in particular, has been closely associated with these policies which have often led to highly detrimental impacts on local populations in developing countries.

The result is that the LIO has been identified by many in developing countries as being explicitly neoliberal. Instead of other aspects of the order such as Liberal Democracy, the order is becoming increasingly negatively associated and defined by this aspect. This has been noted by various scholars,⁸³ however, Ikenberry’s explicit acknowledgement of it is particularly striking.

⁸² Ikenberry, “The End?,” 21.

⁸³ For criticism of neoliberalism see scholars such as David Harvey and Slavoj Žižek. Criticism has become increasingly outspoken since the Global Financial Crisis, which is reflected in Ikenberry’s rather late conversion.

Operationalised:

- Implementation of free-market policies: evidence of policies such as the privatisation of state-owned assets, floating exchange rates, labour market reform
- Social cohesion: evidence of growing inequality

Reflections on Framework

A significant weakness of the framework's structure is that it will inevitably leave gaps in the empirical analyses. With complex and multifaceted issues that are resistant to easy categorisation, the approach taken will be pragmatic, with the elements merely intending to provide a general guide and structure. The final chapter will allow these strands to be woven together into a more satisfying and cogent picture as broader conclusions and insights are reached.

One aspect of concern is that due to the nebulous nature of the BRI, some bilateral relations may bleed into the analysis of BRI. This distinction between which policies, trends and outcomes are dependent on the bilateral Chinese policy and which are specific BRI endeavours is clearly troublesome. While attention will be paid to separating them, it should also be noted that many aspects are symbiotic and part of a broader picture that cannot be untangled.

A discussion also needs to be held about the security aspect of the order. While it currently sits in the 'background' of the order, the security component was central to upholding the system initially. And as in all orders, an element of coercion is always present, despite the current apparent absence of this factor. However, overall, the preponderance of this military power and the use and misuse of it does not fall under the purview of this thesis. While security aspects are touched upon in part in the empirical analyses where it pertains to domestic politics and dual-use facilities (namely ports), it is not a focus.

A further reflection is the need to maintain awareness of the broader historical context. As Benjamin Netanyahu is known to pronounce, "people have a historical memory that goes back

to breakfast.”⁸⁴ By the mid-19th century, the European colonial powers had come to exert dominance over most non-European powers, including China and most parts of Asia. This has left deep historical fissures and this aspect figures prominently in the background.

⁸⁴ Jodi Rudoren, "Netanyahu Takes a Lonely Stance Denouncing Iran," *The New York Times*, October 11, 2013. <https://www.nytimes.com/2013/10/12/world/middleeast/alone-and-relishing-it-israeli-leader-presses-case-against-iran.html>.

Chapter 2: The Belt and Road Initiative

Introduction

The Belt and Road Initiative (BRI) first emerged in 2013 and has evolved into a central component of Chinese foreign policy. The first public signs were in the latter half of 2013 when President Xi Jinping made two speeches in Astana and Jakarta that outlined the development strategy. The BRI consists of two parts: the Silk Road Economic Belt (SREB) and the Maritime Silk Road (MSR). Together, it is envisioned that they will create a vast network across the Eurasian region of interconnected infrastructure projects that will enhance economic and cultural interaction among participating countries.

The chapter will begin with an overview of the emergence of the BRI, before moving to an empirical analysis of the past five years of the project. The analysis will follow the four elements of the LIO as laid out in the first chapter: Open Multilateral Trade, International Institutions, Liberal Democracy and Neoliberal World Economy. The analysis will draw from media reports, official governmental and institutional documents and also engage with academic articles. The chapter's empirical analysis will cover a broad range of countries, although there will be particular focus on Pakistan and Sri Lanka due to their considerable early engagement.

The chapter finds that the BRI poses significant challenges due to the depth of the economic integration, the geographic scope and the ambition. Given the ideological foundations of the Chinese state as laid out in the literature review, the embeddedness⁸⁵ of China economically and politically is significant. Various states in the analysis are shown to be wary of Chinese engagement, however, given the dearth of infrastructure spending, this assistance is often welcomed.

⁸⁵ This refers to the actual and potential economic and political integration into these countries as trade and engagement increases.

Emergence

The contours of the BRI were first laid out in two speeches by President Xi Jinping in Astana and Jakarta in 2013. At the initial speech in Astana, five ‘links’ were set out: policy coordination, infrastructure connectivity, unimpeded trade, financial integration, and people-to-people exchange.⁸⁶ With many countries in the areas covered facing severe infrastructure shortcomings, the proposal gained qualified support from many countries in the region. In 2016, the Asian Development Bank estimated that \$1.7t per year in funding is required until 2030.⁸⁷ With other institutions such as the World Bank and Asian Development Bank unable to fill the vast infrastructure gap, the Chinese Government identified this opportunity, often invoking their own path to development as an example.⁸⁸ They argued that transportation costs and connectivity were the major barriers to trade, rather than other concerns such as tariffs.⁸⁹

Where the BRI begins and ends is not clear with no official list of projects, participating countries or funding sources having been provided. The initial conception of the BRI was unclear and it has gradually evolved over time, which is similar to other Chinese projects which often emerge as nebulous entities before expanding and evolving as the situation depends. However, some Chinese sources have noted that the BRI covers around 65 countries.⁹⁰ The apparently undefined nature of the project has been the source of some criticism and concern which will be covered shortly.

In recent years, the importance of the BRI has become increasingly clear in the structure of Chinese foreign policy. In October 2017, it was announced that the BRI was to be officially included in the constitution of the Chinese Communist Party, with the intention to “pursue the Belt and Road Initiative.”⁹¹ The close association of President Xi with the initiative has emphasised its importance and particularly so following the centralisation of power under him.

⁸⁶ Rolland, “China’s Eurasian Century?,” 46-47.

⁸⁷ “Asia Infrastructure Needs Exceed \$1.7 Trillion Per Year, Double Previous Estimates,” Asian Development Bank, 28 February 2017, <https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates>

⁸⁸ This was often explicitly contrasted with export-growth model pushed by Western institutions.

⁸⁹ Callaghan and Hubbard, “The Asian Infrastructure Investment Bank,” 115.

⁹⁰ “Vision and actions on jointly building Belt and Road,” Accessed on April 20, 2018, <http://www.beltandroadforum.org/english/n100/2017/0410/c22-45-3.html>

⁹¹ Brenda Goh and John Ruwitch, “Pressure on as Xi’s ‘Belt and Road’ enshrined in Chinese party charter,” *Reuters*, October 25, 2017, <https://www.reuters.com/article/us-china-congress-silkroad/pressure-on-as-xis-belt-and-road-enshrined-in-chinese-party-charter-idUSKBN1CT1IW>.

Naming

Initially, One Belt One Road (OBOR) was used by the PRC government - a term in that in Chinese sounds considerably more appealing.⁹² The Belt and Road (B&R) has also been employed at times. However, the name Belt and Road Initiative (BRI) has come into more general use and will be used throughout this thesis.

Empirical Analysis

1. Open Multilateral Trade

This section will focus on how China has sought to promote Open Multilateral Trade through the BRI. It is apparent that Beijing is seeking to promote this aspect of the LIO through policy documents, public pronouncements and state interactions.

From the Astana speech in 2013, China has sought to message the BRI as supportive of the current trade system, with one of the five links from the Astana speech being the encouragement of “unimpeded trade.”⁹³ In discussing the Silk Road Fund in May 2017, Xi stated that “We should build an open platform of cooperation and uphold and grow an open world economy.”⁹⁴ Xi also went on to emphasise the importance of “fair, reasonable and transparent global trade and investment rules.”⁹⁵ These public pronouncements have often been met receptively in the West and have taken place within a broader context such as the adulation over Xi’s Davos speech in January 2017.⁹⁶

This public stance has also been reflected in official documents. A March 2015 document, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, which has been seen as a whitepaper on the BRI, states that opening “free trade areas

⁹² Due to the tones: 一带一路, yīdài yīlù.

⁹³ Rolland, “China’s Eurasian Century?,” 46-47.

⁹⁴ Brenda Goh and Yawn Chen, “China pledges \$124 billion for new Silk Road as champion of globalization,” Reuters, May 17, 2017, <https://www.reuters.com/article/us-china-silkroad-africa/china-pledges-124-billion-for-new-silk-road-as-champion-of-globalization-idUSKBN18A02I>.

⁹⁵ Ibid.

⁹⁶ Noah Barkin and Elizabeth Piper, “In Davos, Xi makes case for Chinese leadership role,” Reuters, January 17, 2017, <https://www.reuters.com/article/us-davos-meeting-china/in-davos-xi-makes-case-for-chinese-leadership-role-idUSKBN15118V>.

so as to unleash the potential for expanded cooperation” is of primary importance.⁹⁷ Also included was a desire to ensure that the WTO Trade Facilitation Agreement was implemented within the broader scope of the BRI.⁹⁸

In May 2017, the Belt and Road Forum for International Cooperation (BARF) was held in Beijing which drew attendance from President Xi and various other heads of state including Vladimir Putin of Russia, Joko Widodo of Indonesia and Recep Tayyip Erdoğan of Turkey.⁹⁹ Western countries largely sent ministerial representatives such as the attendance of British Chancellor of the Exchequer Philip Hammond. The two-day summit included a broad range of topics with particular focus on strengthening financial cooperation.¹⁰⁰ A document entitled *Guiding Principles on Financing the Development of the Belt and Road*, which was signed by the finance ministers from countries including China, the United Kingdom and Iran notably sought to “oppos[e] trade and investment protectionism of all forms,” and sought to increase foreign direct investment where possible.¹⁰¹ The juncture between Open Multilateral Trade and Neoliberal World Economy will be returned to extensively in the discussion section due to the divergence in what Beijing promotes through the BRI and the outcomes it is able to garner.

A final element has been Beijing’s willingness to offer the enticement of free trade agreements (FTAs) to many of the countries involved in the BRI.¹⁰² This explicit linkage enables Beijing to tie incentives to integration into the BRI. While there has been some disagreement about the benefits of FTAs for developing countries, their role in increasing trade is apparent.

⁹⁷ “Vision and actions on jointly building Belt and Road,” Accessed on April 20, 2018, <http://www.beltandroadforum.org/english/n100/2017/0410/c22-45-3.html>.

⁹⁸ Ibid. https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm “The TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.”

⁹⁹ “Belt and Road Attendees List,” *The Diplomat*, May 12, 2017, <https://thediplomat.com/2017/05/belt-and-road-attendees-list/>.

¹⁰⁰ “Belt and Road forum agenda set,” *China Daily*, April 18, 2017, http://europe.chinadaily.com.cn/china/2017-04/18/content_28982925.htm.

¹⁰¹ “Guiding Principles on Financing the Development of the Belt and Road,” <http://wjb.mof.gov.cn/pindaoliebiao/gongzuodongtai/201705/P020170515761133537061.pdf>

¹⁰² “Commerce minister Gao Hucheng on China's 'One belt, one road' vision,” *Central Banking*, May 16, 2017, <https://www.centralbanking.com/trade-bodies/2411669/commerce-minister-gao-hucheng-on-chinas-one-belt-one-road-vision>.

2. International Institutions

This section will focus on how the BRI is interacting with the existing framework of international institutions. It is argued that China is currently seeking to work with international institutions while also seeking to create and move towards its own institutional network – the so-called ‘parallel institutions’.

Chinese Multilateral Institutions

The Shanghai Co-operation Organisation (SCO) has become an integral component of the Chinese multilateral efforts since its founding in 2001. In 2017, Chinese Minister of Commerce Zhong Shan noted the improving links between the countries involved in the SCO and that the BRI was vital to enhancing and growing these ties.¹⁰³ The recent accession of India and Pakistan to the organisation has added a further dimension to this. After efforts to explicitly link the SCO to the BRI, there were concerns that India could be wary of this due to long-standing issues over Pakistan and Chinese regional influence.¹⁰⁴ However, in recent months there have been growing signs of rapport between Beijing and New Delhi which suggests the broader use of multilateral institutions to support the BRI and improve both economic and political linkages.

There have likewise been attempts to extend influence and reach into the Middle East. Invoking historical links, Foreign Minister Wang Yi has long promoted greater integration between the China-Arab State Cooperation Forum and the BRI.¹⁰⁵ While the use of these regional forums as a tool in pushing the BRI is evident, the actual decision-making aspect has apparently continued to be exclusively bilateral. With the BRI still in its early stages, the use of multilateralism derived from the LIO has great potential benefit for Beijing if it is able to resist its bilateral impulses.

¹⁰³ “Belt & Road Initiative enhance trade, investment in SCO countries: Chinese Minister of Commerce,” *Xinhua*, June 9, 2017, http://www.xinhuanet.com/english/2017-06/10/c_136354071.htm.

¹⁰⁴ Sutirto Patranobis, “China links Belt and Road plans with Shanghai Cooperation Organisation,” *The Hindustan Times*, June 11, 2017, <https://www.hindustantimes.com/world-news/china-links-belt-and-road-plans-with-shanghai-cooperation-organisation/story-yJerxFqASfY4zFpOIUsveJ.html>.

¹⁰⁵ ““Belt and Road” enhances China-Arab strategic cooperation: Chinese FM,” *Xinhua*, May 10, 2017, http://www.xinhuanet.com/english/2016-05/10/c_135348730.htm.

There has also been the growing significance of the New Development Bank (NDB) within the BRI sphere.¹⁰⁶ While the NDB's interests reflect its founding BRICS members, an official stated that “[t]here will be unlimited opportunities to co-finance projects with the AIIB in the future along the Belt and Road, because we share so much in common while selecting projects.”¹⁰⁷ This is due to both the “spillover” effects of projects such as power generation and the possibility of the NDB admitting new members in the coming years.

The other major component has been the AIIB which has successfully co-ordinated with various MDBs in project selection, funding and staffing. A detailed analysis of the AIIB takes place in the following chapter.

Internationalisation of Renminbi

A further development that has occurred within the BRI context has been the internationalisation of the renminbi. While the IMF added the renminbi to its currency basket in October 2016, the efforts have broadly faltered despite significant investment. Central to this has been the creation the Cross-Border Interbank Payment System (CIPS) which seeks to remain outside the control of international financial institutions such as the Society for Worldwide Interbank Financial Telecommunications (SWIFT). In a report for SWIFT, it was argued that the BRI was seen as a primary conduit for accelerating the internationalisation of the currency.¹⁰⁸ Pakistan has been identified as an early use case and Hong Kong has been used to organise RMB-rupee currency swaps, expanding access to RMB bond markets, and providing favourable loans. With increasing signs that the PRC is seeking greater internationalisation of the renminbi, such integration of the currency and economic institutions could clearly be enhanced.¹⁰⁹

¹⁰⁶ Wang Yanfei and Ma Zhiping, “New Development Bank plans joint investments,” *China Daily*, March 27, 2017. http://www.chinadaily.com.cn/business/2017-03/27/content_28685880.htm

¹⁰⁷ Ibid.

¹⁰⁸ “RMB internationalisation: Can the Belt and Road revitalise the RMB?,” 28 July, 2017, https://www.swift.com/news-events/press-releases/rmb-internationalisation_can-the-belt-and-road-revitalise-the-rmb_ The PDF report is available at this address.

¹⁰⁹ Damon Evans, “IMF warns of looming CPEC bill,” *Nikkei Asian Review*, September 1, 2017. <https://asia.nikkei.com/Markets/Commodities/China-sees-new-world-order-with-oil-benchmark-backed-by-gold>.

3. Liberal Democracy

This section focuses on the how the BRI interacts with the Liberal Democracy component of the LIO. The primary focus of this section is in charting the impact of the AIIB projects on the domestic politics of countries. This is particularly important due to Beijing's explicit rejection of Western democratic structures and norms. This will be followed by sections covering environmental concerns and the underappreciated realm of cultural 'soft power' which Beijing is pushing through the BRI.

Domestic Politics

While China has sought to strenuously distance itself from accusations of domestic interference, it is apparent that increasing involvement in states will lead to political concessions and demands. In Xi's keynote address at the BARF in May 2017, he stated that "China is willing to share its development experience with all the rest of the world, but we will not intervene into other nation's internal affairs, export our social system and development model, nor force others to accept them."¹¹⁰ While Beijing may not be actively pushing its system of government at this point, the absence of the promotion of Liberal Democracy is equally concerning. This section will focus on Sri Lanka and Pakistan, two countries that Beijing has been heavily involved in.

In Sri Lanka, there have been concerns raised over the deepening involvement of Beijing in its domestic affairs.¹¹¹ Following criticism of the Sri Lankan government's conduct in the closing stages of their civil war, Beijing was quick to offer assistance. According to the China Global Investment Tracker, Chinese entities spent some \$14.73b between 2005 and 2017.¹¹² The construction of Hambantota Port on the southern coast from 2008 has become symbolic of the relationship. According to former Sri Lankan President Mahinda Rajapaksa, the project had first been offered to New Delhi, which had declined to become involved.¹¹³ During the Rajapaksa Government, who accepted Chinese involvement with the port, close ties were

¹¹⁰ Jane Cai and Stuart Lau, "Your quick guide to what Xi Jinping said in his 'Belt and Road' keynote speech," *South China Morning Post*, May 14, 2017, <http://www.scmp.com/news/china/diplomacy-defence/article/2094250/your-quick-guide-what-xi-jinping-said-his-belt-and-road>.

¹¹¹ For a more in-depth study see Harbored Ambitions.

¹¹² American Enterprise Institute, "China Global Investment Tracker," <http://www.aei.org/china-global-investment-tracker/>

¹¹³ Ravi Velloor, "A man who loves his country," *Department of Government Information, Sri Lankan Government*, March 18, 2010, <http://archive1.english.news.lk/category-table/14314-qa-man-who-loves-his-countryq.html>.

formed with Beijing but these receded following the election of Maithripala Sirisena in 2015.¹¹⁴ He immediately placed several construction projects on hold and in response Beijing's special envoy, Vice-Minister of Foreign Affairs Liu Zhenmin met with Rajapaksa in a highly irregular move, along with government officials.¹¹⁵ In July 2017, the port was transferred to China Merchants Port Holdings in a deal worth USD\$1.12b following lack of usage and subsequent debt issues.¹¹⁶ The Financial Times noted that the 99-year term was the same as the British were given in Hong Kong.¹¹⁷

In Pakistan, the *Long-Term Plan on China-Pakistan Economic Corridor* report identified "security and politics" as the main risk.¹¹⁸ There was specific mention made of the diverse political parties in Pakistan's chaotic domestic political environment. These security concerns have also evolved into an increasingly active role in Pakistani domestic politics such as in Baluchistan where Chinese officials have been engaged in talks with rebel groups.¹¹⁹ While this is clearly motivated in part by a narrow self-interest in providing security around the corridor and Gwadar Port, it also sets a precedent which is particularly notable given Beijing's professed aversion to involvement in their internal affairs of other states. While it is important not to be given to conjecture over future intentions, it is reasonable to identify the growing intrusion of China into the domestic politics of these countries.

Chinese investment in Greece has also been growing of late, with the acquisition of the port at Piraeus.¹²⁰ The continuing stagnation of the Greek economy and ongoing tensions with the European Union have contributed to its embrace of Beijing. With Greece facing privatisation edicts from international creditors,¹²¹ Chinese company COSCO (China Ocean Shipping Company) has acquired the operating licences for two of the piers and gained permission to

¹¹⁴ Debasish Roy Chowdhury, "China keeps former Sri Lankan president Mahinda Rajapaksa in frame," *South China Morning Post*, October 13, 2017, <http://www.scmp.com/news/asia/south-asia/article/1866692/china-link-keeps-former-sri-lankan-president-mahinda-rajapaksa>

¹¹⁵ Ibid.

¹¹⁶ Ranga Sirilal and Shihar Aneez, "Sri Lanka signs \$1.1 billion China port deal amid local, foreign concerns," *Reuters*, July 19, 2017, <https://www.reuters.com/article/us-sri-lanka-china-ports/sri-lanka-signs-1-1-billion-china-port-deal-amid-local-foreign-concerns-idUSKBN1AE0CN>

¹¹⁷ Kiran Stacey, "China signs 99-year lease on Sri Lanka's Hambantota port," *Financial Times*, <https://www.ft.com/content/e150ef0c-de37-11e7-a8a4-0a1e63a52f9c>.

¹¹⁸ Khurram Husain, "Exclusive: CPEC master plan revealed," *Dawn*, June 21, 2017, <https://www.dawn.com/news/133310>.

¹¹⁹ Farhan Bokhari and Kiran Stacey, "China woos Pakistan militants to secure Belt and Road projects," *Financial Times*, February 19, 2018, <https://www.ft.com/content/063ce350-1099-11e8-8cb6-b9ccc4c4dbbb>.

¹²⁰ Jason Horowitz and Liz Alderman, "Chastised by E.U., a Resentful Greece Embraces China's Cash and Interests," *The New York Times*, August 26, 2017, <https://www.nytimes.com/2017/08/26/world/europe/greece-china-piraeus-alexis-tsipras.html>.

¹²¹ In 2016, Athens was mandated to privatise some \$4b in assets.

open a third.¹²² The original stake in the first pier was at far above the market rate according to *Der Spiegel*.¹²³ This opportunistic investment mirrors that in Sri Lanka, where isolation from Western partners has been adroitly exploited by Beijing.

Cultural Engagement

A further element of interest has been the use of the BRI to expand Chinese soft power. While it should be made clear that this does not directly confront Liberal Democracy, as discussed in the conclusions sections, the *absence* of promotion is equally problematic and particularly so in states with weak or nascent democratic systems. In the *Visions and Actions* document, special attention is paid to the “Silk Road Spirit,” which has apparently existed for centuries and has spread “peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit.”¹²⁴ These saccharine notions have been reflected in a broad array of policies and initiatives.

One area of focus has been the extensive investment in education programmes and the provision of scholarships. In 2016, there were some 207,746 students from 64 BRI countries studying in China, an increase of 13.5% compared to 2015.¹²⁵ Meanwhile, there are some 10,000 scholarships available for those from the BRI countries.¹²⁶ These “inter-cultural” and “people-to-people” linkages have been central to Beijing’s quest to expand its cultural reach. For a country that provides an explicit rejection of Western cultural and political systems, the scope of the BRI provides a perfect vehicle in which to spread and propagate these.

Confucius Institutes have long been an important element in furthering Chinese soft power and BRI countries have been targeted in this. As of March 2017, some “137 Confucius Institutes and 131 Confucius Chinese-language study classes had been established in 53 Belt and Road countries, with more than 460,000 people in these countries studying Chinese,” according to Chinese Vice Minister of Education Tian Xuejun.¹²⁷ This has come amid increasing scrutiny

¹²² Andreea Brînză, “How a Greek Port Became a Chinese 'Dragon Head',” *The Diplomat*, April 25, 2016, <https://thediplomat.com/2016/04/how-a-greek-port-became-a-chinese-dragon-head>.

¹²³ Alexander Smolczyk, “China Seeks Dominance in Athens Harbor,” *Spiegel Online*, April 09, 2015, <http://www.spiegel.de/international/business/china-seeks-gateway-to-europe-with-greek-port-a-1027458.html>.

¹²⁴ “Vision and actions on jointly building Belt and Road,” Accessed on April 20, 2018, <http://www.beltandroadforum.org/english/n100/2017/0410/c22-45-3.html>.

¹²⁵ Katrin Büchenbacher, “Scholarships from the Chinese government attract an increasing number of young students from countries along the Belt and Road, especially Pakistan,” *Global Times*, March 29, 2018, <http://www.globaltimes.cn/content/1095777.shtml>

¹²⁶ <https://tribune.com.pk/story/1558870/1-22000-pakistanis-now-studying-china/>

¹²⁷ Carl Wong, “One Belt, One Road, One Language?,” *The Diplomat*, May 12, 2017, <https://thediplomat.com/2017/05/one-belt-one-road-one-language/>

and questioning over the role of these institutes in limiting the freedom of expression of Chinese students in Western countries.¹²⁸

The spread of Chinese culture has also been targeted specifically at BRI countries through an eclectic range of initiatives that have been dutifully reported by Chinese state media. In 2017, the China Confucius Foundation published Confucius' *Analects*, in five "Belt and Road languages" including Arabic, Mongolian and Spanish.¹²⁹ There has been the establishment of a Silk and Road Film Festival and a memorandum of understanding was signed on "The Belt and Road" Film Culture Exchange by 14 countries including Egypt, Greece and the Netherlands on "a scroll which fully embodied the Chinese characteristics."¹³⁰ There have also been plans for the opening of "Silk Road-themed theatres and museums."¹³¹ While this top-down cultural propagation may seem rather quaint, in conjunction with the influx of other components, this aspect of the BRI may prove fruitful.

4. Neoliberal World Economy

The empirical analysis now shifts to analyse what can be seen as the core of the BRI: the infrastructure projects that the BRI has been based around. This section will start with an overview of some projects undertaken, including ports, railways, motorways and agricultural projects. As in the Liberal Democracy section, due to the sheer scale of the BRI, the selected examples are intended to be representative rather than comprehensive. Whereas the previous section focused on the political component, this section will focus on the Chinese companies involved in their construction. By looking into the detail of selected projects, the manner in which China has departed from the Neoliberal World Economy element will be explored.

¹²⁸ The term "trojan horse" has often featured in headlines, such as: Rachele Peterson, "American Universities Are Welcoming China's Trojan Horse," *Foreign Policy*, May 9, 2017, <http://foreignpolicy.com/2017/05/09/american-universities-are-welcoming-chinas-trojan-horse-confucius-institutes/>. While the United States has long been wary of the institutions, the decision of the UK's Conservative Party Human Rights Commission to investigate the CIs was particularly notable. This coincided with an FBI investigation in the United States, see: Ellie Bothwell, "Confucius Institute crackdown predicted as global inquiries mount," *Times Higher Education*, April 12, 2018, <https://www.timeshighereducation.com/news/confucius-institute-crackdown-predicted-global-inquiries-mount>.

¹²⁹ "China to publish Analects of Confucius for Belt and Road countries," *China Daily*, March 12, 2017, http://www.chinadaily.com.cn/china/2017-03/12/content_28524300.htm.

¹³⁰ "Belt & Road," *Silk Road International Film Festival*, accessed March 18, 2018, <http://silkroadfilmfestival.com/belt-road/>.

¹³¹ "China to promote culture exchanges with Pakistan under BRI," *Pakistan Today*, October 20, 2017, <http://www.chinadaily.cohttps://www.pakistantoday.com.pk/2017/10/20/china-to-promote-culture-exchanges-with-pakistan-under-bri/>.

Ports

There has been significant attention paid over the past several years to the series of port projects that have been built along the MSR. These have been referred to as the ‘String of Pearls’ and much has been made of the security element due to their location.¹³² While this security aspect is important due to the inherently dual-use nature of ports, it is the ‘economic embeddedness’ which is of greater interest for this thesis. In addition to the ports at Hambantota and Gwadar noted in the previous section, China has constructed ports in a broad geographic reach. This has included ports at highly strategic locations such as Djibouti, the Strait of Malacca and in the Maldives.

At Bagamoyo, Tanzania, Chinese company China Merchants Holdings International (CMHI) and Oman's State General Reserve Fund have been involved in a port project since 2015, which will link to nearby Dar es Salaam. Accompanying the port will be an industrial zone that includes a free trade zone, science and technology parks, an international business centre and industrial buildings and a tourism zone.¹³³ At a total cost of \$10b, the project has the potential to provide a significant economic boost for the country and it is hoped that 700 factories will be built on the site.¹³⁴ This level of direct investment into the country cannot be understated and can be seen as reflecting China’s approach of sustained infrastructure building which creates economic potential. However, in October 2017, after the Tanzanian Government failed to raise \$28m to reimburse landowners, CMHI interceded and agreed to provide the funding.¹³⁵ As a result, the Tanzanian Government loses equity in the project and will only benefit from taxes. This continues a worrying trend of debt-addled governments being forced to concede assets to Chinese companies.

Railways

There have also been various high-speed rail networks under construction within the BRI rubric, which has used the expertise gained in the construction of China’s impressive domestic

¹³² There has been extensive literature in this area, with particular focus being paid to the Indian Ocean ‘string’ such as: David Brewster, “An Indian Ocean Dilemma: Sino-Indian Rivalry and China’s Strategic Vulnerability in the Indian Ocean,” *Journal of the Indian Ocean Region* 11, Number 1 (2015): 48-59.

¹³³ Alex Malanga and Janeth Muhizi, “Bagamoyo port project now revived,” *The Citizen*, <http://www.thecitizen.co.tz/News/Bagamoyo-port-project-now-revived/1840340-4200996-15sm1nu/index.html>

¹³⁴ Apolinari Tairo, “Tanzania surrenders Bagamoyo port project to Chinese firm,” *The East African*, October 3, 2017, <http://www.theeastafrican.co.ke/business/Tanzania-Bagamoyo-port-project-to-Chinese/2560-4122244-rxa9wtz/index.html>.

¹³⁵ Ibid.

network.¹³⁶ One such focus has been the Thai-Chinese railway which will pass through Laos. The project finally began in December 2017 after significant delays and may point to further complications in other projects, despite public pronouncements.¹³⁷ There has continued to be concerns about the section through Laos due to the massive debt burden that the construction would entail on the state. The prospect of another indebted state to China is particularly concerning and adds to the pattern.

In Kenya, the construction of a \$3.2b railway between Nairobi and Mombasa was completed in June 2017.¹³⁸ The railway is planned to eventually link Uganda, Rwanda, Burundi, Democratic Republic of Congo, South Sudan and Ethiopia to Mombasa along the eastern coast of Africa. The line was 90% funded by Exim Bank of China, with construction of the line being undertaken by China Road and Bridges Corporation (CRBC), a subsidiary of the China Communications Construction Company (CCCC).

These projects have also extended into Central and Eastern Europe. The Budapest-Belgrade Railway has also been questioned regarding its economic benefits.¹³⁹ Zoltán Vörös, writing for *The Diplomat* reported that Hungarian officials observed that “less involvement by Chinese companies, higher interest; more companies, lower interest.”¹⁴⁰ The Hungarian section of the railway will be funded through Exim Bank.

Funding

There has been substantial attention paid to the funding sources for projects in the BRI due to issues over transparency and debt. While some of the funding will be concessional, such as through the AIIB and Silk Road Fund, a substantial portion must come through other avenues. In 2017, a *Moody's* report noted a major risk to China was being exposed to countries who had “comparatively poor credit profiles, including weak financial strength, high susceptibility to

¹³⁶ For an excellent investigation into the development of Chinese high-speed rail, see Norihiko Shirouzu's report in the *Wall Street Journal* from 2010:

<https://www.wsj.com/articles/SB10001424052748704814204575507353221141616>

¹³⁷ Luke Hunt, “Construction of Thailand-China Railway Finally Gets Underway,” *The Diplomat*, December 28, 2017, <https://thediplomat.com/2017/12/construction-of-thailand-china-railway-finally-gets-underway/>.

¹³⁸ Duncan Miriri, “Kenya inaugurates Chinese-built railway linking port to capital,” *Reuters*, June 1, 2017, <https://www.reuters.com/article/us-kenya-railways/kenya-inaugurates-chinese-built-railway-linking-port-to-capital-idUSKBN18R2TR>.

¹³⁹ Zoltán Vörös, “Who Benefits From the Chinese-Built Hungary-Serbia Railway?,” *The Diplomat*, January 04, 2018, <https://thediplomat.com/2018/01/who-benefits-from-the-chinese-built-hungary-serbia-railway/>.

¹⁴⁰ *Ibid.*

event risk, and an unfavourable business environment.”¹⁴¹ While Chinese policy banks such as the Export-Import Bank of China (commonly Chexim or Exim) and China Development Bank (CDB) have been leading funding along with state-owned banks such as China Construction Bank and Bank of China, it is apparent that other sources of funding are required. This has been partially filled by Chinese SOEs, however, there is a need for more private capital. Some analysts have suggested more PPP (public-private partnerships) although given the risky lending environment this has raised concerns.¹⁴²

Promotion of Chinese state-owned companies

There has been an explicit promotion of Chinese state-owned companies in projects linked to the BRI. In testimony before the U.S.-China Economic and Security Review Commission, Jonathan E. Hillman of the Center for Strategic and International Studies reported that according to their research, 89% of companies involved in Chinese-funded projects were Chinese.¹⁴³ Meanwhile, 7.6% were local and 3.4% were foreign. By comparison, in projects from other MDBs, 29% were Chinese, 40.8% were local and 30.2% foreign. This points to the potential for embeddedness in countries which engage with China as part of the BRI. In the *Long Term Plan on China-Pakistan Corridor*, there was favouring of the Xinjiang Production and Construction Corps which has been linked to the Chinese military.¹⁴⁴ In Laos, a high-speed train network linking Kunming to Bangkok has been criticised for its high debt costs and the usage of Chinese construction firms and labour.¹⁴⁵

Logistics

The expansion in the BRI has also provided opportunities for logistics companies, and several prominent Chinese companies have sought to enter this area. In late 2017, Alibaba Group

¹⁴¹ “China's Belt and Road Initiative is credit positive overall, but challenges evident.” *Moody's*, September 19, 2017, https://www.moody.com/research/Moodys-Chinas-Belt-and-Road-Initiative-is-credit-positive-overall--PR_372698

¹⁴² David Ho, “Cost of funding ‘Belt and Road Initiative’ is daunting task,” *South China Morning Post*, September 27, 2018. <http://www.scmp.com/special-reports/business/topics/special-report-belt-and-road/article/2112978/cost-funding-belt-and>

¹⁴³ Jonathan E. Hillman, “China’s Belt and Road Initiative: Five Years Later,” *Center for Strategic and International Studies*, January 25, 2018, <https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later-0>.

¹⁴⁴ Henny Sender and Kiran Stacey, “China takes ‘project of the century’ to Pakistan,” *The Financial Times*, May 18, 2017, <https://www.ft.com/content/05979e18-2fe4-11e7-9555-23ef563ecf9a>.

¹⁴⁵ Marimi Kishimoto, “Laos merely a bystander as China pushes Belt and Road ambitions,” *Nikkei Asian Review*, October 6, 2017, <https://asia.nikkei.com/Politics-Economy/International-Relations/Laos-merely-a-bystander-as-China-pushes-Belt-and-Road-ambitions>.

announced \$5b in funding in order to create an improved logistics division.¹⁴⁶ Meanwhile, Chinese companies have been acquiring warehouse firms; in June 2017, China Investment Corporation, a sovereign wealth fund bought Logikor,¹⁴⁷ and in October 2017, Gazeley, a major North American logistics company. This targeted acquisition of Western companies continues a trend in which selected companies are incubated before being released into the international market. The new markets that will be potentially opened by the BRI will clearly assist in furthering this trend.

Conclusions

Firstly, the impact of these large infrastructure projects is clearly energising regional trade networks and the actual construction of infrastructure should be noted. For countries which have long felt neglected by Western countries and institutions, the tangible results are very clear. While involvement in domestic affairs is undertaken by all actors, it is the ideological fundamentals of the Chinese state that makes it threatening to these states in what are often emerging democracies.

In developing countries where such systems and norms are fragile, the unstated promotion of alternative systems of governance should be noted. When coupled with the dramatic output in infrastructure projects, in countries that have been buffeted by neoliberal policies, the possible emergence of a parallel development path is apparent.

The interaction with Multilateral Institutions has shown the benefit of building networks with other institutions. China has been able to learn from the LIO and in doing so it has benefited greatly. Given the bilateral preoccupations of Beijing, continued engagement in these forums is likely to bring greater benefit in the coming decades.

China has been careful to promote an image of adherence with the Open Multilateral Trade element by seeking to promote open trade in speeches and official documents, and in this respect is, in fact, strengthening this aspect of the system. The promotion of the trade aspect reflects the great benefit it has derived from access over the past forty years. However, this has been paired with the rejection of significant aspects of the Neoliberal World Economy which

¹⁴⁶ James Kyngé, "China goes on logistics buying spree to support 'new Silk Road'," *The Financial Times*, December 11, 2017, <https://www.ft.com/content/8a0f1296-dc39-11e7-a039-c64b1c09b482>.

¹⁴⁷ Ibid.

allows Beijing to gain significant gain for its own companies. The use of Chinese labour and of Chinese companies point towards a future in which the vertical integration of Chinese state assets in these economies is achieved. While states should welcome the influx of capital and infrastructure, the parallels from European colonialism should echo in the background.

The debt issue that has been a frequent concern may prove to be a “win-win” situation for China: either it extracts political gain from the debt or it engenders goodwill through its generosity in forgoing the debt. Either scenario can be implemented given the situation. For each project, in each country, the question remains: at what cost does this come? At the very least, Chinese companies, and by extension the state, will come to be deeply embedded within the countries they operate in.

Chapter 3: Asian Infrastructure Investment Bank

Introduction

The Asian Infrastructure Investment Bank (AIIB) was founded in 2015 and has come to act as an important component of China's outward facing orientation in the BRI. The AIIB's role has been to provide a variety of financing options for infrastructure projects. The primary focus of this chapter is the AIIB's interaction with the second element of the LIO, that of the International Institutions.

The chapter begins with an overview of the emergence of the AIIB, before moving to an empirical analysis of developments in the past five years. The analysis will follow the four components as laid out in the first chapter: Open Multilateral Trade, International Institutions, Liberal Democracy and Neoliberal World Economy. The analysis will draw from official documents, media reports and engagement with academic articles.

It will be argued that the AIIB is seeking to learn from the liberal international order, and in doing so is able to position itself as an example of China's integration into the order. In this way, the AIIB can be seen as the 'friendly face' to the more fundamental questions that the BRI poses to the LIO.

Emergence

In his October 2013 speech in Jakarta, President Xi Jinping first mooted the idea of a new multilateral development bank. That this was introduced at such an early stage in conjunction with the BRI is particularly notable and points to a degree of strategy. The reaction from developing countries was generally positive with India being a notable early member despite its uneasy relationship with Beijing. Among South-East Asian countries, there was particularly strong support with former Malaysian Prime Minister Mahathir Mohamad stating Western institutions have consistently failed to provide for the region, and that the AIIB presented an excellent opportunity to improve infrastructure.¹⁴⁸ This sentiment was reflected in China, with

¹⁴⁸ "Mahathir urges Japan, other holdouts to join AIIB," *Nikkei Asian Review*, May 14, 2015. <https://asia.nikkei.com/Politics/Mahathir-urges-Japan-other-holdouts-to-join-AIIB2>.

one person involved in negotiations telling the *Financial Times* that “China feels it can’t get anything done in the World Bank or the IMF so it wants to set up its own World Bank that it can control itself.”¹⁴⁹ This tension will form a significant aspect of the analysis.

The AIIB’s *Articles of Agreement* stated that:

The purpose of the Bank shall be to: (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.¹⁵⁰

Despite these overtures to the existing multilateral institutional framework, the AIIB faced initial heavy criticism from the United States¹⁵¹ and uneasiness among others.¹⁵² Following internal discussions that will be covered in the analysis and repeated assurances from Chinese officials,¹⁵³ four of the G7 countries (UK, France, Germany and Italy) were among the 57 founding members. As of January 2018, the AIIB has 84 members, with 64 member states and 20 provisional members.

Empirical Analysis

1. Open Multilateral Trade

This section explores how the AIIB has sought to openly endorse and promote the current trade system with public comments from the outset focused on presenting the bank as complementary to the existing systems. With the AIIB’s focus on improving infrastructure connectivity, it is able to play a role in expanding trade networks and relationships between the countries.

¹⁴⁹ Jamil Anderlini, “China expands plans for World Bank rival,” *Financial Times*, June 25, 2014, <https://www.ft.com/content/b1012282-fba4-11e3-aa19-00144feab7de>.

¹⁵⁰ “Articles of Agreement,” *Asian Infrastructure Investment Bank*, accessed April 26, 2018, <https://www.aiib.org/en/about-aiib/basic-documents/articles-of-agreement/index.html>.

¹⁵¹ Jane Perlez and Yufan Huangmay, “Behind China’s \$1 Trillion Plan to Shake Up the Economic Order,” *The New York Times*, May 13, 2017. <https://www.nytimes.com/2017/05/13/business/china-railway-one-belt-one-road-1-trillion-plan.html>.

¹⁵² Such as Australia.

¹⁵³ “Xi stresses implementing central economic policies,” *Xinhua*, February 10, 2015, http://www.xinhuanet.com/english/china/2015-02/10/c_127481077.htm.

This embrace of the trading system has been prominently conveyed in official documents and by Chinese officials. In the AIIB's *Articles of Agreement*, it states that its purpose is to “complement the existing multilateral development banks.”¹⁵⁴ This has been repeated in public forum with Chinese Minister of Commerce Gao Hucheng arguing that the AIIB is “a supplement to the global financial governance structure,” during an interview in June 2015.¹⁵⁵ AIIB President Jin Liqun has also been at pains to emphasise that “[n]obody could deny that the development of the Asian region owed a lot to these banks,” and that the institution simply seeks to fulfil a “niche.”¹⁵⁶ This has, however, been accompanied by implicit censure of existing institutions as being wholly inadequate in their provision of funding.

In April 2017, World Bank President Jim Yong Kim argued that China set an example for open trade through its promotion of the BRI and its rejection of the rise of protectionism.¹⁵⁷ Kim specifically noted that the relationship built between the World Bank and AIIB was the reason for this. These comments were followed by an announcement three days later of a memorandum of understanding between the two parties.¹⁵⁸ This included staff exchange, analytical work and development funding. This followed an earlier 2016 Co-Financing Framework Agreement which saw the involvement in AIIB projects, an area that will be extensively analysed in the following section.

2. International Institutions

This section is the primary section of the empirical analysis of the AIIB. The section will first review the membership sequence which reflected the growing acceptance of the institution. A further focus will be on the composition of the staff and ownership structure of the AIIB. It will be argued that the AIIB has been specifically modelled after existing MDBs and that this has both enriched its ability and helped to quell fears of Chinese dominance of the institution.

¹⁵⁴ “Articles of Agreement,” *Asian Infrastructure Investment Bank*, accessed April 26, 2018, <https://www.aiib.org/en/about-aiib/basic-documents/articles-of-agreement/index.html>.

¹⁵⁵ “Commerce minister Gao Hucheng on China's 'One belt, one road' vision,” *Central Banking*, June 9, 2015, <https://www.centralbanking.com/trade-bodies/2411669/commerce-minister-gao-hucheng-on-chinas-one-belt-one-road-vision>.

¹⁵⁶ “AIIB to work with Malaysia to support infrastructure in ASEAN region,” *Xinhuanet*, February 6, 2018, http://www.xinhuanet.com/english/2018-02/06/c_136953480.htm.

¹⁵⁷ “China sets example for open trade: World Bank President,” *Xinhuanet*, April 21, 2017, http://www.xinhuanet.com/english/2017-04/21/c_136224403.htm.

¹⁵⁸ “World Bank and AIIB Sign Cooperation Framework,” *World Bank*, April 23, 2017, <http://www.worldbank.org/en/news/press-release/2017/04/23/world-bank-and-aiib-sign-cooperation-framework>

Membership

From the outset and until the present the United States has strongly opposed the institution, which has revealed interesting fissures within the current LIO. New Zealand was the first Western country to join, in a decision that was derided in the *Financial Times* as that becoming of a “vassal state.”¹⁵⁹ Australia, a country traditionally seen as close to the United States, saw internal conflict before deciding to join the AIIB.¹⁶⁰ This also was reflected in South Korea, where similar security ties with the United States were not enough to preclude their joining. Then in a surprise move, the United Kingdom joined on March 12, 2015, which provoked the intense ire of the United States.¹⁶¹ This move was quickly followed by France, Germany and Italy on March 17,¹⁶² and from this point onwards the institution has enjoyed broad acceptance.

By the end of 2015, the United States and Japan were, therefore, the only G7 members to stay outside the institution. Canada initially remained outside of the AIIB but on March 22, 2017, belatedly joined the institution under the leadership of new Liberal Party Prime Minister Justin Trudeau.¹⁶³

Among countries outside of the traditional Western community, there have likewise been interesting contours to observe. There was some dalliance by Russia, perhaps due to concerns over competition in Central Asia, before it joined the AIIB and in 2016 it submitted proposals for project funding.¹⁶⁴ Reference has already been made to India’s enthusiastic response despite their historical tensions, with Indian Finance Minister Shri Arun Jaitley plainly stating that the

¹⁵⁹ Jamil Anderlini, “China will not thank perfidious Albion for joining its new bank,” *Financial Times*, March 17, 2015, <https://www.ft.com/content/870e470a-cbc1-11e4-aeb5-00144feab7de>.

¹⁶⁰ “Govt divided on Asia bank: report,” *The Australian*, October 25, 2014, <https://www.theaustralian.com.au/business/latest/govt-divided-on-asia-bank-report/news-story/1f05087ca96486bff28670ed472d9f15?sv=fa085add7d349bfaaeb3e2688ed1e808>.

¹⁶¹ Geoff Dyer and George Parker, “US attacks UK’s ‘constant accommodation’ with China,” *Financial Times*, March 13, 2015, <https://www.ft.com/content/31c4880a-c8d2-11e4-bc64-00144feab7de>.

¹⁶² “France confirms to join China-led AIIB investment bank,” *Reuters*, March 17, 2015, <https://www.reuters.com/article/europe-asia-bank-france/france-confirms-to-join-china-led-aiib-investment-bank-idUSP6N0VD00P20150317>.

¹⁶³ Nathan Vanderklippe, “Canada joins China-backed Asian infrastructure bank,” *The Globe and Mail*, April 14, 2017, <https://www.theglobeandmail.com/report-on-business/international-business/asian-pacific-business/canada-joins-china-backed-asian-infrastructure-bank/article34393706/>.

¹⁶⁴ “AIIB to look at Russia’s Putin proposals for financing in Russia,” *Reuters*, May 20, 2016, <https://www.reuters.com/article/russia-asean-aiib/aiib-to-look-at-russias-putin-proposals-for-financing-in-russia-idUSR4N18E00A>.

two goals were “infrastructure deficit” and “poverty alleviation.”¹⁶⁵ Other influential regional actors such as Indonesia also joined immediately and were duly rewarded with early projects.¹⁶⁶

Structure

An early area of concern with the AIIB was over the governance structure and the amelioration of these concerns was a factor in the shift in Western sentiment noted in the previous section. Despite this Beijing continues to be sensitive to suggestions that it has undue control over the institution.¹⁶⁷ These concerns have centred around China’s 26.65% vote share within the bank which given the voting structure gives it effective control of many decisions.¹⁶⁸ However, the AIIB’s three-class voting system which provides a simple majority for ordinary decisions, a ‘super majority’ for matters of greater importance and finally a ‘special majority’ for special decisions,¹⁶⁹ provides some degree of restraint.

In an apparent attempt to push back against these concerns, there has been significant focus on the benefits that India has derived from the institution, with AIIB Vice-President Danny Alexander stating that India is the largest benefactor from the AIIB.¹⁷⁰ In this manner, it can continue to mitigate governance concerns.

Project Selection

The AIIB has concentrated on selecting viable projects which have strong fundamentals in order to further its credentials. As of April 2018, the AIIB had 25 approved projects, with many of the early projects having been co-financed with Western institutions such as the World Bank and the European Bank for Reconstruction and Development.¹⁷¹ There were early concerns

¹⁶⁵ Ibid. A speech given at Delivering the Inaugural Address at a Curtain Raiser Ceremony for the 3rd Annual Meeting of Board of Governors of the AIIB.

¹⁶⁶ Prashanth Parameswaran, "Indonesia and China's AIIB," *The Diplomat*, July 26, 2016, <https://thediplomat.com/2016/07/indonesia-and-chinas-aiib/>.

¹⁶⁷ “China does not “control” or “dominate” AIIB: bank president,” *Xinhua*, January 21, 2018, http://www.xinhuanet.com/english/2018-01/24/c_136919332.htm

¹⁶⁸ “Members and Prospective Members of the Bank”, *Asian Infrastructure Investment Bank*, accessed April 21, 2018, <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

¹⁶⁹ Bin Gu, “Chinese Multilateralism in the AIIB,” *Journal of International Economic Law* 20, (2017), 156.

¹⁷⁰ Kiran Stacey, Simon Mundy and Emily Feng, "India benefits from AIIB loans despite China tensions," *Financial Times*, March 18, 2018, <https://www.ft.com/content/da2258f6-2752-11e8-b27e-cc62a39d57a0>.

¹⁷¹ “Approved Projects”, *Asian Infrastructure Investment Bank*, accessed April 21, 2018, <https://www.aiib.org/en/projects/approved/index.html>.

that certain governments could secure easier loans through the AIIB, with some such as Jeffrey Wilson arguing that there has been a desire to select projects seen as non-threatening.¹⁷²

Learning

The AIIB has sought to emphasise its integration with existing multilateral institutions and its willingness to learn from other MDBs. This has resulted in a series of agreements with existing Western multilateral institutions which have sought to reassure sceptical countries. The Indonesian Foreign Minister Sri Mulyani Indrawati noted the effect of the high quality of the Asian Development Bank and the positive effect that this would have on the AIIB.¹⁷³ He hoped for increased co-operation in order to further the efficiency due to the AIIB's lack of staffing and experience in project planning.¹⁷⁴ The other positive benefit is that "this is a good competition,"¹⁷⁵ which points to the broader confrontation between the United States and China that can be exploited by middle actors.

An IMF report saw the AIIB as a welcome addition to the regional MDB scene and reflects the growing use of public-private investment platforms.¹⁷⁶ In April 2016, the World Bank and AIIB signed a co-financing framework agreement and so far there have been five projects jointly financed.¹⁷⁷ In 2016, the Asian Development Bank and the AIIB signed an MOU to work together and this has resulted in co-operation on various projects such as the Green Energy Corridor and Grid Strengthening Project in India that was announced in September 2017.¹⁷⁸ In April 2017, the New Development Bank and the AIIB signed an MOU to enhance existing co-

¹⁷² Jeffrey Wilson, "What Does China Want from the Asian Infrastructure Investment Bank?," *Australian Institute of International Affairs*, July 3, 2017, <http://www.internationalaffairs.org.au/australianoutlook/what-does-china-want-from-the-aiib/>.

¹⁷³ Shotaro Tani, "Indonesia minister: Japan, China rivalry good for Asian infrastructure," *Nikkei Asian Review*, March 18, 2018, <https://asia.nikkei.com/Politics-Economy/International-Relations/Indonesia-minister-Japan-China-rivalry-good-for-Asian-infrastructure>.

¹⁷⁴ Ibid.

¹⁷⁵ Ibid.

¹⁷⁶ Rabah Arezki, Patrick Bolton, Sanjay Peters, Frederic Samama, and Joseph Stiglitz, "From Global Savings Glut to Financing Infrastructure: The Advent of Investment Platforms," *International Monetary Fund*, accessed April 12, 2017, <https://www.imf.org/external/pubs/ft/wp/2016/wp1618.pdf>.

¹⁷⁷ "AIIB and World Bank sign first Co-Financing Framework Agreement," *Asian Infrastructure Investment Bank*, April 14, 2016, https://www.aiib.org/en/news-events/news/2016/20160414_002.html. "Deepening World Bank and AIIB cooperation: Locking in a failed development model?," *Bretton Woods Project*, July 3, <http://www.brettonwoodsproject.org/2017/07/deepening-world-bank-aiib-cooperation-locking-failed-development-model/>

¹⁷⁸ "AIIB, ADB sign MOU to strengthen cooperation for sustainable growth," *Asian Infrastructure Investment Bank*, May 2, 2016, https://www.aiib.org/en/news-events/news/2016/20160502_001.html.

operation.¹⁷⁹ In an extensive interview with *Bloomberg*, AIIB president Jin Liqun stated that “the way we set up the AIIB, I’m so happy to see we are all on the same page even from day one.”¹⁸⁰ While there has been scepticism voiced at their co-operation,¹⁸¹ currently it is helping to enhance multilateral interactions. The concerns over ‘parallel institutions’, or ‘breaking out’ will be covered later.

Staff

A final point of interaction within the LIO’s Multilateral Institutions has been the employment of staff who have experience at Western MDBs. This allows practices from these existing institutions to be subsumed and further allows them to market the institution.¹⁸² A review of the AIIB’s senior staff in March 2018 showed all officials possessing vast experience in existing MDBs. The President Jin Liqun is the only Chinese national among the top tier of officials. Along with his private sector experience, he has experience in the Asian Development Bank as Vice President and within the Chinese Finance Ministry.¹⁸³ The five vice-presidents include Sir Danny Alexander, a former Chief Secretary of the Treasury in the United Kingdom and Thierry de Longuemar, who has extensive experience at both the ADB and the African Development Bank.¹⁸⁴

3. Liberal Democracy

While the AIIB has not directly challenged any aspects of the LIO, there have been some interesting interactions with elements of it. Some Chinese academics have claimed that the AIIB will have the possibility of bringing domestic reforms to China,¹⁸⁵ as part of a broader pattern of socialisation.

¹⁷⁹ “Asian Infrastructure Investment Bank and New Development Bank Sign Memorandum of Understanding to Promote Cooperation,” *Asian Infrastructure Investment Bank*, April 1, 2017, https://www.aiib.org/en/news-events/news/2017/20170401_001.html.

¹⁸⁰ Brian Bremner and Maio Han, “China’s Answer to the World Bank Wants Green, Clean Asian Infrastructure,” *Bloomberg Markets*, April 8, 2018, <https://www.bloomberg.com/features/2018-asian-infrastructure-investment-bank-jin-liqun-interview/>.

¹⁸¹ Jonathan Dove, “The AIIB and the NDB: The End of Multilateralism or a New Beginning?,” *The Diplomat*, April 26, 2016, <https://thediplomat.com/2016/04/the-aiib-and-the-ndb-the-end-of-multilateralism-or-a-new-beginning/>

¹⁸² Callaghan and Hubbard, “The Asian Infrastructure Investment Bank,” 131-132.

¹⁸³ “Senior Management,” *Asian Infrastructure Investment Bank*, <https://www.aiib.org/en/about-aiib/governance/senior-management/index.html>

¹⁸⁴ *Ibid.*

¹⁸⁵ Gu, “Chinese Multilateralism,” 145.

The AIIB has provided support for projects meeting environmental standards and commitments under the Paris Agreement.¹⁸⁶ The AIIB has also engaged with international experts to draft its Environmental and Social Frameworks (ESS).¹⁸⁷ The integration of such principles is useful for Western audiences, particularly given concerns over Chinese environmental practices. It will allow best practices to be internalised in the country. This includes environmental practices and policies and improved bureaucratic performance.

There have however been some differences in the AIIB compared to other Westerns MDBs. The AIIB places no policy of fiscal requirements on states which borrow money. Instead, the only condition is to repay the loan with interest.¹⁸⁸ In a departure from the World Bank and the IMF, the AIIB will not have a full-time or resident board. This is an issue as it may not ensure oversight over all political decisions.¹⁸⁹

4. Neoliberal World Economy

As alluded to earlier, it is clear that the focus on infrastructure has gained the AIIB members such as India that may have otherwise been highly sceptical. This is perhaps reflective of the role of the IMF during the 1997 Asian Financial Crisis which has been cited by some academics as the cause of continuing distrust of the institution.¹⁹⁰ The required structural reforms within these countries that included reduced government spending and the privatisation of assets, in line with the prevailing orthodox economic view, has had long-standing implications. While the states accepting the projects may continue to be leery of potential political entanglement, the strong need for infrastructure is clearly the driving force.

¹⁸⁶ “AIIB Supports Members to Meet Their Commitments Under the Paris Agreement,” *Asian Infrastructure Investment Bank*, June 16, 2017, https://www.aiib.org/en/news-events/news/2017/20170616_001.html.

¹⁸⁷ Gu, “Chinese Multilateralism,” 155.

¹⁸⁸ Subhomoy Bhattacharjee, “Will support 'Made in Asia' projects, says AIIB President Jim Liqun,” *Business Standard*, February 28, 2018, http://www.business-standard.com/article/economy-policy/will-support-made-in-asia-projects-says-aiib-president-jim-liqun-118022800552_1.html.

¹⁸⁹ Callaghan and Hubbard, “The Asian Infrastructure Investment Bank,” 131-132.

¹⁹⁰ Gu, “Chinese Multilateralism,” 140.

Conclusions

It must be emphasised that the focus on infrastructure building has engendered considerable goodwill from the countries which have undertaken projects. The lack of policy requirements on borrowers is also highly significant as it is a departure from Western institutions, which have often been perceived to be overly paternalistic. While this has implications for the Liberal Democracy aspect, the conflation of neoliberal policy with the World Economy element has helped to create this situation.

The AIIB has sought to adhere tightly to the International Institutions element of the LIO. The project selection has been notable for its insistence on projects that are of a high standard. Furthermore, most of these projects have been joint projects with Western institutions and the AIIB itself has clearly benefitted from this interaction. The internal structure of the AIIB has further reflected that of Western institutions and provides the dual benefit of both learning from these institutions and allaying concerns. With many of its senior employees coming from Western international institutions and with the involvement of Western countries it has proven to be an effective tool in which to further the BRI.

In conclusion, the fact that the institution is distinct from Western MDBs gives it a particular advantage due to the historical record of the institutions regionally. For countries seeking extensive infrastructure, the sense of operating with an institution with strong fundamentals that have been learnt from Western institutions is clearly helpful. Finally, and perhaps most significantly, this analysis has shown the manner in which Beijing has used the AIIB as a 'friendly face' within the broader BRI environment.

Chapter 4: Discussion and Conclusion

The discussion section will be structured around the four elements of the liberal international order with extensive engagement with Ikenberry's writing. This will be followed by a short section looking at the possible response to the BRI by the LIO, before a final conclusions section.

Open Multilateral Trade

From the empirical analyses, it is apparent that China is seeking to maintain and enhance the Open Multilateral Trade system. Beijing has prospered greatly from access to this element of the LIO and it is clearly in their advantage to strengthen it. As seen in the *Vision and Actions* document in the second chapter and the AIIB's *Articles of Agreement*, there has been a clear intent to support this component. This has been buttressed by frequent comments from Chinese officials which have sought to reinforce this element. In returning to Ikenberry, it can be argued that while the LIO is "hard to overturn and easy to join," the *great* ease of entry into the order may come to be problematic.

International Institutions

China is using the multilateralism of the International Institutions to expand its reach and efficacy. This has seen organisations such as the Shanghai Co-operation Organisation and other regional bodies employed as a multiplier effect. In this manner, they have learnt and borrowed from this aspect of the LIO and used it to empower the BRI.

The role of the AIIB has been particularly important in presenting a 'friendly face' to the BRI. While bilateral dealings have predominated within the broader BRI framework, the AIIB has helped to assuage some actors. As seen in chapter three, the involvement of India can be seen as an example of drawing wary states into the Chinese orbit. The initial reaction to the AIIB from Western states was also notable due to the very visible split among Western states. This perhaps exemplifies a preferential outcome for Beijing – a future in which states are pulled between the economic opportunities provided by China and that of the current order.

The commitment to environmental standards from the AIIB shows the potential for this institution to act as a friendly face, while it has become apparent that other projects under the BRI banner have not been as rigorous.

Liberal Democracy

While the BRI and AIIB have not actively undermined liberal democracy, the absence of promotion can be seen as just as detrimental to the order. In employing the dual definition of the Liberal Democracy, it is clear that the LIO's failure to react to the new culturally diverse democracies¹⁹¹ has meant that China sits in a position where it can undermine these states if needed. Their extensive involvement in Sri Lanka and Greece can be seen as early examples of this, as it sought to gain influence in states that had been shunned by many of their Western partners.

With the continuing rise of China likely to put greater stressors on the order, it is likely that this trend will only increase. With the growing economic integration into these countries, there will be increasing political interaction at a domestic level and the possibility of concessions. Given the debt issues that are arising already, this is highly concerning.

Neoliberal World Economy

In employing the dual definition from the framework, the World Economy element produces great insight into the BRI. It is apparent that the actions of Western institutions and states have failed to deliver sufficiently over the past 30 years. This failure of the West to engage in sufficient 'heavy-lifting' over an extended period of time has provided the perfect base from which Beijing can offer an alternative. While there are risks to Beijing in terms of lending complications, debt can also be used as a way of gaining political or economic concessions. However, China would be wise to avoid extractive impulses and instead seek to at least appear benevolent.

Meanwhile, the Chinese state has employed many elements of the previous Managed World Economy in promoting its own interests. Chinese 'national champions' such as Huawei prosper

¹⁹¹ Ikenberry, "The End?," 21.

just as companies such as Boeing did so many decades previously. This is shown in chapter two, where the extensive use of Chinese construction and technology firms furthers their expertise, revenue and global reach.

Limitations

A primary weakness of this thesis is the broad and ill-defined scope of the BRI. This was an issue in both understanding the reach of the initiative and selecting cases for analysis. Nevertheless, the empirical research has been able to identify common contours which give some insight. Furthermore, the opaque nature of many of the contracts and interactions between Chinese state-owned enterprises were difficult to parse.

Broader Implications

The interactions of India have been particularly notable during the empirical section. If China is able to prise such large, democratic states away from the LIO then it will be able to place great strain on the order. At the very least there will be increasing hedging behaviour which while beneficial for such countries, will also afflict the core of the order. While the security literature from scholars such as Mearsheimer has placed great focus on material concerns, the threat to the broader democratic core of the order has often been understated.

It has become apparent that the growing strength of China through the BRI has begun to produce a response in Western capitals. This has been complicated by the prevailing domestic economic power structures which have managed to decouple national interest from the state over the past forty years. While the Cold War period bound these two structures together through the Managed World Economy, the benefit derived from cheap imports and labour have made the current Neoliberal World Economy extremely advantageous to certain interests. The resulting inequality has undermined the order in both the developed and developing world.

The much-maligned Trump Presidency has in fact begun to confront some aspects of this growing challenge. The recent announcement of trade investigations and possible tariffs and controls on technology have been gathering momentum. While the election of Trump at the 2016 election has led to many undesirable outcomes, one impact has been that trade and security hawks have been unleashed within the Administration. This has the potential to

accelerate this process of confrontation with China and may presage a return to economic nationalism in order to confront China's economic strategy. When engaging with Gilpin's Theory of Hegemonic War, it is apparent that this battle began some time ago.

The shift in Ikenberry's scholarship between 2008 and 2018 is particularly striking within this context. There was a clear hardening around the Liberal Democracy aspect of the order during this time period, with China's rise bringing this into greater relief. For a Western world which has not only experienced 50 years of American primacy but 500 years of Western dominance, the implications of this potential confrontation and shift cannot be understated. The recent announcement of the removal of term limits has brought this reality into stark relief. By abandoning the ideals of Deng Xiaoping, the PRC broke sharply with any pretence of a democratic future, however distant.

The more prominent role that India and Japan will play in the coming years and decades will be instrumental. As Ikenberry suggests, the diffusion of power within the order is vital to its strength. There were reports in February 2018 in the Australian Financial Review that the United States, Australia and India were going to start a parallel infrastructure project.¹⁹² With an 'Other' restored, the United States and the West may be brought back into a more tightly aligned picture.

The immense shifts that the ongoing challenge could create should not be overlooked. If the order is significantly undermined, then *everything* is in danger and not simply *elements* of the system. In returning to Matt Ferchen's warnings about silos, it is important to recognise that this has been an explicit objective of Beijing. This has also been faithfully relayed by many media outlets, with the Chinese 'economic silo' welcomed enthusiastically and the other 'silos' ignored. Such thinking is of great danger.

Conclusion

This thesis has sought to contribute to the literature by adding an additional lens to the BRI and AIIB through the dual-definition framework. As well as providing an overview of Ikenberry's scholarship over the past 10 years, it has allowed insight to be gained into both the general

¹⁹² Philip Coorey, "Australia mulls rival to China's 'belt and road' with US, Japan, India," *Financial Review*, February 18, 2018, <http://www.afr.com/news/australia-mulls-rival-to-chinas-belt-and-road-with-us-japan-india-20180216-h0w7k5>

dissatisfaction within the current ILO and the ways in which China has challenged, and indeed, broken with it. The empirical research has shown that the BRI can be used as an effective vehicle for further challenging the ILO. This can take place on Beijing's own terms, if and when it desires.

China has supported the Open Multilateral Trade and International Institutions elements effectively and enthusiastically. This has been carefully messaged in order to forestall criticism of other aspects of its behaviour or strategy. In doing so, China has been able to operate within the confines of the LIO and reap the economic benefits, much as it has done so since its economic opening. That it is now pursuing a second phase of "going global" is of great significance. It is likely that this will have an impact similar to its first export-led wave.

The challenge is particularly acute due to its rejection of the Liberal Democracy component. China's economic success and the ever-present temptation of greater autocracy for developing nations places the LIO under considerable pressure. It is China's economic success, which has been enabled by an open rejection of the Neoliberal World Economy that makes this picture all the more fascinating. A response may soon come.

As China continues to grow, it will have the ability to 'break' from the system if and when needed. While this is unlikely to be its intent in the short-term, due to the economic benefit it currently derives from the order, it is effectively creating itself an 'insurance policy'. Its ability to both conform to and undermine the LIO has allowed it to sit benignly within the order. Unlike the Soviet Union's direct challenge, this challenge is in fact far greater. It is hiding in plain sight.

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