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Author/s:

Peng, Z;Tok, SK

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# The AIIB and China's Normative Power in International Financial

## Governance Structure

Zhongzhou Peng<sup>1</sup> and Sow Keat Tok<sup>2</sup>

Zhongzhou Peng

School of Social and Political Science (SSPS), Melbourne University, Melbourne, Australia

Email: [zpeng@student.unimelb.edu.au](mailto:zpeng@student.unimelb.edu.au) Mob: +61 450 150 350

Dr. Sow Keat Tok

Asia Institute, Melbourne University, Melbourne, Australia

Email: [sowkeat.tok@unimelb.edu.au](mailto:sowkeat.tok@unimelb.edu.au) Mob: +61 3 9035 8333

### Abstract

This article examines the role of the Asian Infrastructure Investment Bank (AIIB) in China's emerging normative power in international financial governance area. Based on the existing framework of normative power concept, the AIIB's role in China's normative power is examined from three angles: normative principles, norm diffusion, and external perception. As a Chinese initiative, the AIIB's policy framework has inherited Chinese norms of unconditionality and infrastructure construction. The management structure of this new bank also manifests China's preference of a lean internal arrangement. Moreover, Asian developing countries hold the majority of voting power of the AIIB. This distribution of votes also falls in line with China's appeal of a fair governance structure in international financial institutions. The analysis reveals that with the endorsement of 57 member states, the AIIB will significantly enhance China's normative power in the international society. Some other international institutions have changed their policies to adapt Chinese norms. Moreover, the cooperation between the AIIB and other financial institutions is a chance to improve the external perceptions of China's normative power in western society, including European states and the United States. However, it is still necessary to observe whether China will be able to maintain its normative principles during the operation of the AIIB.

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Zhongzhou Peng

[zpeng@student.unimelb.edu.au](mailto:zpeng@student.unimelb.edu.au)

<sup>1</sup> School of Social and Political Science (SSPS), University of Melbourne, Melbourne, Australia

<sup>2</sup> Asia Institute, University of Melbourne, Melbourne, Australia

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## 1 Introduction

The Asian Infrastructure Investment Bank (AIIB) was initiated by Chinese President Xi Jinping and Premier Li Keqiang during their respective visits to Southeast Asian countries in October 2013 (AIIB, [2015c](#)). The purpose of this bank is to provide support to Asian infrastructure construction. According to an oft-cited study by the Asian Development Bank (ADB) in 2009, between 2010 and 2020 the Asia region needs \$8 trillion to develop its infrastructure, of which 68% would be for new capacity. As for how it is spent, 51% would be for electricity, 29% for roads and 13% for telecommunications (Bhattacharyay, [2010](#)). Compared to the astronomical amount of need, the World Bank (WB) and the ADB only provide about 20 billion U.S. dollars each year in the Asia region (Renard, [2015](#): 2). The AIIB, with an authorized capital of \$100 billion, seeks to contribute to this specific area.

The influence of this bank was rather limited since the United States and Japan have rejected this initiative at the early stage of its formation (*New York Times*, [2014](#)). Considering the enormous influence the US and Japan have in the financial governance area, both globally and in Asian region, it was a general assumption that ‘the AIIB would start out as a modest venture involving mainly Asian and Middle Eastern countries’ (Wihtol, [2015](#): 7).

However, on 12 March 2015, the announcement of the United Kingdom (UK) which announced its intention to join the AIIB has changed the situation dramatically (The United Kingdom, [2015](#)). Although the UK is not the first European country that made the decision (Luxembourg joined a few days ahead of the UK), its political and financial clout in international politics made its announcement a trigger of the scramble for the founding membership of the AIIB. In a span of days, a group of Western government, including France, Germany, and Australia, made the similar announcement to join the AIIB. As a result, when the signing ceremony of the Articles of Agreement (AOA) was held in Beijing on 29 June 2015, the AIIB had become a significant multilateral financial institution involving 57 Prospective Founding Members (PFMs). After the AOA had been signed by all 57 PFMs between June 29, 2015 and December 31, 2015, the AIIB opened for business on January 16, 2016 and Jin Liqun, former Ranking Vice President of the Asian Development Bank (ADB) was elected as the first president of the AIIB.

The establishment of the AIIB, especially the agreement with major European states who have been the close allies of the US, was regarded as a diplomatic triumph for Beijing over Washington. Quite a few articles put their focus on how Jin Liqun, the leader of Chinese negotiating team, used the economic interest to gain support from the allies of the US (*Financial Times*, [2015b](#)). Some others suggest that the AIIB will become a great challenge to the existing US-led financial institutions, especially the WB, the ADB, and even the IMF (*The Economist*, [2015b](#)). This article, on the other hand, seeks to analyze the normative implications of the AIIB rather than its diplomatic influence. Through the lens of normative power concept, this article argues that the AIIB is both a successor of Chinese norms in the financial governance area and a broader platform of Chinese normative projection. However, while the AIIB may serve as a new vehicle for Chinese normative diffusion, the inclusion of developed western economies, the interactions with other institutions, and the internal governance

structure might also challenge and shape China's normative approach in global financial governance area.

## 2 The Conceptual Framework of Normative Power

The concept of normative power is formulated by Ian Manners through a series of articles (Manners, [2002](#); [2006](#); [2013](#)). Based on his research of the EU's foreign policy, Ian Manners argues that the EU has 'evolved' into a form of governance which 'transcends Westphalian norms' (Manners, [2002](#): 240). Specifically, Manners argues that the EU embraces norms such as human rights, democracy and rule of law and puts these norms at the centre of its relation with its member states (Manners, [2002](#): 241). In addition, the EU has been diffusing these norms to other countries and other regions through economic and political interactions. Moreover, the EU aims to change the regime of other countries during its normative diffusion. Building upon these characters of the EU's foreign policy, Manners ([2002](#): 239) defines the EU as a normative power which has 'the ability to shape conceptions of "normal" in international relations'.

Since its formation, normative power literature has become one of the most influential branches among the discussions of the EU's external behavior. Throughout the debates on normative power concept, one of the core research agendas is the criteria an international actor needs to meet to qualify as a normative power. In Manners' aforementioned article (Manners, [2002](#)), the EU is a normative power because of its internal implementation of the norms, plus its policy to diffuse these norms to other countries and regions (Manners, [2002](#): 238-245). However, for an international actor to gain normative power, self-representation alone is not enough. Even if there are modifications of policies among its partners, it is possible that these actions are motivated by political and economic interests rather than true belief in the norms and regimes. Indeed, as some scholars point out, the reactions of other countries can be 'half-compliance' or 'fake-compliance' if they do not accept the normative component of the EU's policy (Noutcheva, [2009](#)). As a result, it is as important that the alleged normative power can convince its partners to accept the normative principles and to transform their policies to converge to these common clauses.

In this regard, the external perceptions of the EU's partners are considered by some scholars as an essential factor during the evaluation of the EU's foreign policy (Lucarelli, [2007](#)). Based on this discussion, Kavalski ([2013](#)) takes a step forward and argues that external perception is another essential criterion of normative power qualification. He argues that since normative power emerges from the interaction with the others, the recognition of the counterparts is also crucial for an international actor to qualify as a normative power. As he states, 'normative power emerges *in relation to* the inter-subjective environment to which its agency is applied' (Kavalski, [2013](#): 250; emphasis in original). Zupančič and Hribernik ([2013](#)) agree with Kavalski's argument. They contend that 'normative power is more than a rather vague notion that someone is "doing good". This "good" should also be recognized and, consequently, accepted as "good" by the other' (Zupančič and Hribernik, [2013](#): 111). Lucarelli also argues that the role of the EU '[is] determined by both an actor's own conceptions about appropriate behaviour and by the expectations of other actors' (Lucarelli, [2007](#): 257). As a result, the feedback from relevant others is another determinant of the EU's political identity.

To sum up, existing literature sets three criteria for an international actor to meet to qualify as a normative power: internal norm construction, the diplomatic capacity of normative diffusion, and

external perceptions of being a normative power. However, current literature more or less presumes the EU is the exclusive normative power in international relations. This assumption does not accord much attention to the fact that other international actors also have their series of norms to guide their foreign policy. And some of these characters may as well be successful during their normative diffusion. This article resonates with the argument made by Larsen (2014) that normative power scholarship needs to take into account other potential normative actors in international relations. In the area of global financial governance, China is emerging as an influential normative actor, and it will be fruitful to examine the correlation between the establishment of the AIIB and the emerging normative power of China in international financial governance.

Because of its booming economy and large population, China has become an important actor in international relations and regional geopolitics. Since the introduction of reform and opening-up policy in the 1970s, China had experienced a ten% annual growth rate for nearly 20 years. Until now, China still has a 7% annual growth rate. As a result, China now has the world's second largest nominal GDP which has exceeded 60 trillion RMB or 10 trillion USD in 2014 (National Bureau of Statistics, 2015). The rise of its economic power has provided a broader platform for China to spread its norms of financial governance. In addition, the increasing clout in international economy has given China new appeals regarding international institutions and governance regimes. The AIIB, as a Chinese initiative, is an important vehicle to carry these Chinese norms. Meanwhile, through the programs of the AIIB China is able to increase its normative influence in the Asian region and the globe. On the basis of the conceptual framework of normative power, the following parts of this article will analyze the linkage between the AIIB and China's normative power in international financial governance.

### **3 The AIIB and Chinese Normative Power in international financial governance**

#### **3.1 The AIIB Consists Chinese Norms regarding International Financial Governance**

The establishment of the AIIB is a milestone in China's financial policy. Together with the New Development Bank (NDB, also commonly known as the "BRICs Bank") they are both new multilateral financial institutions in which China is the major shareholder. Compared to the NDB whose capital is evenly held by Brazil, Russia, India, South Africa, and China (NDB, 2014), the AIIB relies more on China's capital contribution. According to the AOA China holds more than 30% of the AIIB's capital. This proportion is significantly larger than any other member of the bank. As a result, China will have the leading position in the policy-making of the AIIB and thus it can implement its norms of external assistance into the programs of the bank. Meanwhile, the entrance of other member states implies that they also endorse China's principles of foreign aid and investment. Therefore the operation of the AIIB will enhance the Chinese normative influence in both the recipient countries and the AIIB's member states.

Foreign aid programs have been the major vehicle of China's normative diffusion. According to public information, the policies of AIIB will inherit China's traditional principles of external assistance. These principles include 'no strings attached', 'mutual benefit', and 'non-intervention'. As early as in the 1960s, when it commenced providing foreign aid to African countries, these key norms had been adopted by then Chinese Premier Zhou Enlai to guide China's foreign aid. In the first principle of the 'eight principles of foreign aid', Zhou Enlai defined the basic rules of China's foreign aid as 'equity

and mutual benefit’, and that China ‘never considers its assistance as a type of unilateral charity but rather as mutual aid’. The second principle states that China ‘never asks for any privilege and never poses conditions’ in its foreign aid program (Zhou, [1964](#)).

Although half a century has passed since Zhou Enlai firstly presented these principles, up until now Chinese official documents are still repeating his words. Since 2011, the Chinese government has published a series of white papers to review its foreign aid policy. All of these annual reports start with the declaration that Chinese foreign aid is based on norms including equality, mutual benefit, and no strings attached. For instance, the 2014 China’s Foreign Aid White Paper makes this clear statement in its second paragraph:

When providing foreign assistance, China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development. The basic principles China upholds in providing foreign assistance are mutual respect, equality, keeping promise, mutual benefits and win-win (State Council, [2014](#)).

The fact that Zhou’s principles of ‘mutual benefit’, ‘no strings attached’, and ‘non-interference’ are all repeated in this report indicates that these normative approaches remain to be the guidelines of China’s foreign aid and investment. China adheres to the belief that the political system is an internal business of each state. Thus no country has the right to interfere or to decide the regime of another one. This position formulates China’s interpretation of unconditionality in foreign aid programs. As China’s special envoy for Africa, Liu Guijin, outlines, ‘We don’t attach political conditions. We have to realize the political and economic environments are not ideal. But we don’t have to wait for everything to be satisfactory or human rights to be perfect.’ (*Financial Times*, [2008](#))

This principle is also manifested in the policy framework of the AIIB. Chinese leaders and officials have expressed clearly that the AIIB will not impose political conditions on its investment (*Reuter*, [2015](#)). Also, there is no mention of political requirements among the operating principles in the AOA. The Article 13 of the AOA states that ‘[t]he Bank shall ensure that each of its operations complies with the Bank’s operational and financial policies, including without limitation, policies addressing environmental and social impacts’ (AIIB, [2015a](#)). Since the AOA has been agreed and signed by all 57 PFMs (AIIB, [2015d](#)), China has not only introduced its norm of unconditionality into the AIIB, it has also successfully gained endorsement for this norm from all the member states of the bank.

In addition, the AIIB’s preference for infrastructure construction is also in line with China’s foreign aid and investment policy. Drawing on its own experience, especially the reform and opening-up policy, China holds the idea that for developing countries to increase its national power, the focus should be economic development. And to accelerate economic development, infrastructure building is the foundation. Guided by this principle, a large proportion of China’s foreign aid is devoted to infrastructure construction. According to the State Council, 44.8% of aid was used for economic infrastructure while 27.6% was used for social and public infrastructure during 2010-2012 (State Council, [2014](#)). These infrastructure programs include the construction of hospitals, schools, water supply, public infrastructure, transport and communications, broadcasting and telecommunications, and power supply. China has also helped the construction of over 70 transport projects, including roads, bridges, airports, and ports. In Africa alone China has built 2,233 kilometers of railroads, 3,391 kilometers of highways (State Council, [2014](#)). It is clear that the programs of the AIIB will share this preference for infrastructure construction. As the first article of the AOA clearly announces, ‘[t]he

purpose of the Bank shall be to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors' (AIIB, [2015a](#)).

The first series of projects of the AIIB goes to show that infrastructure building is the major target of this bank. The AIIB has approved four projects by June 2016: the national motorway project in Pakistan; the Dushanbe-Uzbekistan Border Road Improvement project in Tajikistan; the distribution system upgrade and expansion project in Bangladesh; and the national slum upgrading project in Indonesia (AIIB, [2016b](#)). These projects, with a total cost more than 2 billion USD, aim to increase the transportation ability, electric supply, and urban infrastructure in developing countries. The official documents of these projects reveal that not only the AIIB but also the recipient countries recognize that infrastructure building is essential for them to achieve economic growth. For instance, Pakistan government describes that the national motorway project "plays an important role in the development of micro and macro economy" (AIIB, [2016b](#)). Similarly, Bangladesh government has identified electricity supply as "a major constraint on GDP growth, and overall economic development" (AIIB, [2016b](#)). These official statements are in line with Chinese norms of infrastructure construction. *None* of these projects contain political conditions whatsoever. These projects manifest the AIIB's commitment to foster infrastructure construction is not just rhetoric. It has already put effort to increase infrastructure building in the Asian region. And through this process, China's norm of infrastructure construction and unconditionality will also be spread in this area.

However, although the AIIB may well be understood as a platform for China to enhance the influence of its norms regarding financial governance, the structure of this institution, as well as the interactions between China and other member states, will possibly pose a challenge to China's cultivation of its normative influence. To start with, it is undoubtedly a significant achievement of China to persuade a group of major European countries, including Britain, German, and France to join the AIIB. Their decisions to become PFMs indicate that they, unlike the U.S, do not oppose the norms and structure proposed by China. However, this does not mean that China has successfully persuaded these western countries to accept its norms of financial governance holistically. When analyzing the motivations of Britain, German, and other European countries to join the AIIB, reports often note that they are attracted by political and economic interests. For instance, German and France are aiming at the contracts of construction projects they can get from the AIIB. Britain is seeking to have the European centre of the AIIB in its country so that it can expand its financial influence in the globe (*The Diplomat*, [2015](#)). There is hardly any proof that the join of these countries means that they have accepted Chinese way of foreign aid and investment. In contrast, some countries, including Britain and Australia, have been suggesting that they aim to improve the governance structure of the AIIB so that it will be more integrated with international regime (The United Kingdom, [2015](#); *The Guardian*, [2015b](#)). As a result, even though the AIIB has successfully gained support from European countries, it does not mean that Chinese norms have been diffused and accepted by these states. China's financial policy may face considerable internal questioning and challenge during the operation of the AIIB.

Moreover, the AIIB has targeted to establish broader cooperation among regional financial institutions in infrastructure construction area. Up until now, China has declared that the AIIB will enhance the relationships with the ADB, the African Development Bank, the Inter-American Development Bank, the West African Development Bank and the Caribbean Development Bank to channel more capital into the fields of infrastructure, environmental protection, education and health care in developing countries. But if the AIIB seeks to establish cooperation with WB, ADB, and other

institutions, it has to adopt the norms of environment protection, good governance, and social security in its policy framework. Indeed, analysis shows some changes have undergone in China's policy. For instance, China's recent Foreign Aid White Paper has included environmental protection as a part of China's goals and achievements in this field (State Council, [2014](#)). The AIIB has also listed environmental protection and urban development as its areas of engagement. It has also produced an Environmental and Social Framework to regulate its operation, which has recently been approved by the Board of Directors (AIIB, [2016a](#)). It is thus interesting to observe how far will the AIIB move beyond the traditional "economic centralism" in China's foreign aid policy and be more integrated into international aid structure.

To sum up, since Chinese norms of financial governance underpin the setup of the AIIB and its policy, the AIIB provides a more direct channel for China to present its norms of financial governance to its western partners and to increase the influence of its normative power. However, during the internal bargaining and external interactions, China may review and reassess its norms of foreign aid and foreign investment through workings within the AIIB.

### **3.2 The AIIB is a Litmus Test of China's Position in the Reform of Global Financial Governance**

Aside from the norms of foreign aid and foreign investment, the AIIB is also a manifestation of China's normative appeals regarding the financial governance structure. In recent years, China has been actively promoting the reform of governance structure in major multilateral financial institutions. In Chinese rhetoric, the aim is to establish a fair governance structure in multilateral organizations (Lu, 2011: 89). The key point of this reform is the redistribution of voting rights. China has been suggesting that currently the share of voting rights of the emerging countries in WB and IMF do not correspond to their actual economic status. For instance, before 2010, China had only 2.8% and 5.5% voting right in WB and ADB, respectively, and is ranked only 6th in terms of voting rights in International Monetary Fund (IMF). On the other hand, Japan and the US had a combined 23.6% and 26% in WB and ADB, respectively. They also have the two largest shares of voting rights in the IMF: the US has 17% and Japan has 6%. The unbalance distribution of voting rights is also substantial between developed countries and developing countries. Before 2008, the G7 countries had a combined 41.2% voting rights in the IMF, while Brazil, Russia, India, China, and South Africa (BRICS) together have only 14.2% (Chen and Tan, [2013](#)). China argues that the developing countries, especially emerging countries such as the BRICS, have less proportion of voting rights than their economic weight in the world economy (Cui and Chang, [2013](#): 25). In contrast, although the economic clout of developed countries is diminishing, they still have an enormous share of voting rights so that they can control the policies of the organizations. As a result, the voting rights distribution should be reformed so that it can fit the new structure of the global economy.

Aside from the unbalance distribution of voting rights, China has also been criticizing the US's unilateral veto power in the IMF. According to the IMF's governance structure, major decisions need 85% of votes to get passed. Since the US has a share of more than 16% of voting power, it actually has the ability to block any decision that is against its own interest. China argues that this unilateral veto power makes IMF a tool of the US to execute its policies and suggests that it is not "fair" to other countries (Lu, [2011](#)).

China has been actively promoting its understanding of a 'fair governance structure' in international financial institutions in recent years. The strategy of China is to establish a coalition of emerging

economies and developing countries to push forward the reform in IMF and WB. The major partners of China in this issue are Russia, Brazil, and India. Together with South Africa they are called the ‘BRICS’ group. In September 2009, China, Russia, Brazil, and India jointly announced that IMF should transfer 7% of the voting rights from developed countries to developing countries (BRICS, 2009). China also suggests that management level of IMF should have more representatives from developing countries (Cui and Chang, [2013](#): 24).

The effort of China and other developing countries has resulted in limited reforms in existing institutions. In 2010, the WB presented a new distribution of voting rights. Under this new framework, the developed countries will transfer 3.13% of voting rights to developing countries. Meanwhile, China’s voting rights have increased from 2.77% to 4.42%, which makes it the third biggest shareholder in WB. On the other hand, IMF also made a decision to reform its governance structure in 2009. The reform plan raises the weight of GDP which is beneficial to emerging economy and developing countries. According to this decision, the voting rights of China, Brazil, and India will increase from 3%, 1.7%, 1.9% to 6%, 2.3%, and 2.6%, respectively (G20, [2009](#)).

Despite the progress mentioned above, there is room for Chinese appeals. Although the reform plans of the IMF have given China the largest increase of voting rights and provided the emerging economies more power in the governance structure, the US still controls the veto power in the IMF. Meanwhile, China has not been able to increase its share of voting rights in the ADB. Until March 2015, China’s voting right was only 5.47%. Even though China has been actively promoting its blueprint of financial governance order, it has yet been influential enough to shape existing institutions through internal mechanisms since the US, as well as Japan, has a dominant position in the current regime structure.

In this light, the AIIB, as a Chinese initiative, serves as a vehicle of China to manifest its illustration of an ideal financial governance structure. The first character of the AIIB is that it has a lean management arrangement. A week after the AIIB was inaugurated, Jin Liqun stated at the World Economic Forum that the bank will be “lean, clean and green”. In terms of the “lean” commitment, the AIIB will maintain a small number of employees in its early stage of operation. It will start an initial staffing level of 50, and increase its workforce only to between 100 and 150 in the first year (*Wall Street Journal*, [2015](#)). The AIIB will also abandon a resident board of directors, instead the board of directors shall “function on a non-resident basis” and “meet as often as the business of the Bank may require, periodically throughout the year” (AIIB, [2015a](#): Article 27.1). Compared with the World Bank, which has over 12,000 staff and consultants, and the ADB, which has 3000 employees, the AIIB’s workforce scale is significantly smaller. More importantly, operating without a resident board of directors should save the bank money and friction in decision-making. The resident board costs the World Bank some \$70 million annually. And there has been complaints that “[t]here was often a certain tension between the management and the board members whose resident staff wanted to find out about projects at an early stage” (*Wall Street Journal*, [2015](#)). These arrangements reflect that the AIIB represents a more efficient management structure which China has repeatedly attempted to introduce to international institutions.

Meanwhile, the AIIB carries another essential Chinese norm regarding financial governance: a supposedly fairer distribution of voting rights. According to the final text of the AOA, the voting rights of AIIB are divided into two parts: Asian countries and regions have 70-75% of voting rights, the countries and regions outside Asia have 25-30%. The voting rights of individual countries consist three parts: its share of the capital, basic voting rights, and 600 votes of PFM. In specific, the share of the

capital is calculated according to the weighted average of GDP (60% market exchange rate and 40% purchasing power parity). The basic voting rights constitute 12% of the total voting rights and are divided evenly among all the members (AIIB, [2015a](#)). It is worthy to note that the basic voting rights and PFM votes have a 15% proportion in the total voting rights. In contrast, in the IMF the basic voting rights count only 5.5% of the total voting rights. As a result of this complex formula, Asian developing countries, excluding China, have a combined 30% voting power in the bank. In comparison, European developed countries together have around 20% votes (AIIB, [2015a](#)). This distribution ensures that Asian developing countries can have considerably larger influence in the institution than what they have in the WB and the ADB. In addition, the Board of Directors incorporates 12 representatives from 12 different countries from Asia, Europe, South America, and Oceania (AIIB, [2015b](#)). These settings in the AIIB's governance structure can be regarded as an improvement of fairness among members since it increased the basic votes and the decision power of the smallest member quite significantly.

However, according to the calculation of capital shares, China has 26.06% of total voting rights in the AIIB. The AOA has stated that the Board of Directors needs a 75% of total voting power of the members to 'take decisions on major operational and financial policies and on delegation of authority to the President under Bank policies' (AIIB, [2015a](#): Article 26). This means that China will have the single unilateral veto power in the bank's major policy-making, just like what the US has in the IMF. Although Beijing suggests that the successive entrance of new members will dilute China's voting power in the institution and that China will not use its veto power (*China Daily*, [2016](#)), it still needs a large economy such as Japan to reduce China's share of voting rights to less than 25%. The gap between China's normative appeal of governance structure and the actual setting of the AIIB indicates that the AIIB is not only a larger platform for China to diffuse its norms, it is also a dilemma China is facing: it either abandons its veto power and undertakes the risk of losing control of the AIIB's decision-making process, or it obtains veto power which will undermine its normative approach in financial governance. After the AIIB commences its business this year, the decision-making process of the AIIB's investment programs will continue to examine the extent of which China will balance its normative principles and practical interests.

### **3.3 The AIIB will Improve the External Perceptions of China's Normative Power?**

The prior parts have discussed the AIIB's impact on the normative aspects of China's foreign financial policy. However, as the debate of normative power concept has revealed, having a normative approach is not enough for an international actor to become a normative power (Kavalski, [2013](#)). The perceptions, as well as the level of acceptance, are also essential factors which determine whether an actor has normative influence. Judging from this assumption, the analysis of the AIIB's influence should also encompass its effect on the views of other countries regarding China's normative power. In this area, China's image is controversial. On the one hand, there is proof that China's understanding of foreign aid and good governance is acquiring more support in the African region. On the other hand, in recent years China's foreign aid policy has been a major target of western criticism for its disregard of social development and environmental protection. In this sense, the AIIB will underpin the shaping of the external perceptions of the normative power of China in financial governance area. Since the AIIB has become a multilateral institution with more than 50 members, it will significantly increase the interactions among China, western developed countries, and emerging countries. Through the cooperation with developed countries, the operation of the AIIB will take into account the social and

environmental policies. Thus this institution will give China a chance to improve its image among western countries and expand its normative influence among developing countries.

China's foreign aid and foreign investment policy, especially its operations in African region has been a widely discussed topic in recent years. African countries, as the direct recipients of China's aid, usually have a positive feedback of China's financial policy, and they have been adopting the Chinese way of state governance. Since the end of the Cold War, Africa's perception of China has developed from an ally against colonialism to a reliable economic partner. Chinese aid, especially its infrastructure construction programs, has made African countries recognize that China's policy will bring actual benefit to them. In addition, African leaders repeatedly showed public appreciation of China's norm of unconditionality. They are comfortable that there are no benchmarks and preconditions, no environmental impact assessment to hinder the negotiations (Brautigam, [2011a](#)). Moreover, China is also perceived as an alternative model of development to African countries. As a Nigeria diplomat states:

China has become ... a good model for Nigeria in its quest for an authentic and stable development ideology...China [is] a lesson to Nigeria on the enormous good that a focused and patriotic leadership can do to realize the dreams of prosperity and security for the citizens. (Manji and Marks, [2007](#))

Aside from African political elites, African civil society also has a positive perception of China's existence. In a study of the African perceptions of China, Keuleer ([2015](#): 812) finds out that 36% of respondents indicated that China "helps a lot" and an additional 30.5% said China "helps somewhat". As a result, two thirds of respondents hold a positive or very positive view regarding China's role in the African region. In another survey which covered 250 students and university staff from nine African countries, the result shows that the majority of the respondents (74%) believe that China's way of development is a positive model for their country. Overall, half of the respondents think that China's policy is more beneficial to African than western policy and only 20% of the respondents agree that China is practicing neo-colonialism to Africa (Sautman and Yan, [2009](#)). In addition, more than half of them (60%) think that China's policy of non-interference is a good thing. Similarly, in BBC's annual poll of global perceptions, the most favourable views of China are found in Africa where no surveyed country has less than 65% of positive views (BBC, [2015](#): 37).

In contrast to the overall positive image of China among African countries, western developed states, including European countries and the United States, regard China as a negative normative power in Africa. The conventional western aid programs not only provide financial assistance, but also impose social and political requirements to the recipient countries. For instance, the EU includes a human rights clause in its aid agreement with African, Caribbean, and Pacific countries. According to this clause the EU has the right to withdraw or suspend its aid if there is human rights violation in the recipient countries (Cotonou Agreement, [2010](#): Article 8). In contrast, Chinese aid programs focus on infrastructure alone. This approach is considered to be 'far simpler and does not overstretch the weak capacity of many African governments faced with multiple meetings, quarterly reports, workshops and so on' (Brautigam, 2011b: 761). Another criticism targets the unconditionality and non-interference principles in Chinese aid programs, especially those targeting African countries (Brautigam, [2011a](#)). The focus is China's omission of social, environmental, and governance standards applied by the West. For instance, the president of the European Investment Bank accused the Chinese of 'unscrupulous' behavior (Condon, [2012](#): 16). The non-governmental organization Human Rights Watch presents a

popular critic that 'China's growing foreign aid program creates new options for dictators who were previously dependent on those who insisted on human rights progress' (Leonard, [2008](#)). To sum up, the West has been describing China's approach in Africa as unethical and perceiving China as a negative normative power in this region.

Focusing solely on the external perceptions of China's partners of its foreign aid programs, China's norms appear widely accepted by the target countries of its financial policy. Indeed, African countries find China a more amicable collaboration partner and thus receptive to China's principles, given their common experience as victims of colonialism, and identify each other as peers in the developing South. China's norms, when compared to most western paradigms, better meet the developmental needs of African countries. China's principles of equality and non-interference have, by and large, differentiated itself with the western approach which is considered by some Asian and African countries as a new form of colonialism (Larsen, [2014](#)).

However, the fact that China is perceived as a negative normative power by western observers sheds light on the relationship between Chinese norms and the international normative structure. It illustrates that although China's normative clout is expanding globally, it is still viewed by most of the Western observers as a country whose democracy and human rights conditions are below the international standard (Zhang, [2011](#): 241). As a result, China is still regarded as the 'other' in international normative structure. This analysis illustrates that there is a lack of interaction and integration between China's norms and the international normative structure. China has been playing its own game with its own rules. And western countries are becoming more and more frustrated because they think China is compromising their efforts of promoting their norms.

This skepticism is manifested in some initial responses towards the AIIB among developed countries. Since the AIIB's normative guidelines are distinct from existing policies of external assistance, there are concerns that the AIIB will lack transparency and accountability. This has been the major argument of the US and Japan to oppose the formulation of the AIIB. Japan's finance minister Taro Aso that Japan will 'consider' joining the AIIB if 'it proves to be a credible institution complying with generally accepted governance and environmental standards'. Taro Aso states that the AIIB has to 'ensure debt sustainability, taking into account its impact on environment and society' (*Japan Times*, [2015](#)). The White House National Security Council, in a statement to *The Guardian* ([2015a](#)), makes this declaration:

Our position on the AIIB remains clear and consistent ... Based on many discussions, we have concerns about whether the AIIB will meet these high standards, particularly related to governance, and environmental and social safeguards ... The international community has a stake in seeing the AIIB complement the existing architecture, and to work effectively alongside the World Bank and Asian Development Bank."

Despite these concerns and doubts regarding the AIIB, the establishment of this bank has resulted in substantial changes in the perceptions of China's involvement in financial governance. To start with, compared to the WB and IMF, the AIIB is a new institution which serves an immensely different goal: infrastructure construction. Compared to the enormous need of fund regarding infrastructure construction in the Asian region, what each institution can provide is far from sufficient. Since the WB and the ADB are both focusing on reducing poverty, the formation of the AIIB is rather a complement to the existing institutions than a direct challenge. Indeed, the AIIB has formulated cooperation with the WB, the ADB, and the European Bank for Reconstruction and Development in its initial projects. It has

also agreed to strengthen its cooperation with the European Investment Bank. Indeed, the AIIB, along with the Chinese norm of infrastructure construction, is welcomed by many existing institutions. The president of the WB, Jim Yong Kim, the head of IMF Lagarde, and the president of the ADB Takehiko Nakao have expressed their support of the AIIB. The United Nations (2015: 73) has addressed the launch of AIIB as “scaling up financing for sustainable development” for the concern of Global Economic Governance. These statements prove that there is sufficient space for the AIIB to cooperate with existing international governance structure rather than to challenge or replace it. Moreover, the AIIB (2016a) has introduced the Environmental and Social Framework. This framework, which has put into operation in Feb 2016, aims to provide ‘a mechanism for addressing environmental and social risks and impacts in Project identification, preparation and implementation’ to ‘[e]nsure the environmental and social soundness and sustainability of Projects’ (Article 5). The framework also makes clear reference to the idea of sustainable development which includes economic, social and environmental aspects (Article 8). The inclusion of the Environmental and Social Framework implies that China is willing to apply international standards to the AIIB’s operation. As Jin Liqun underlines, the AIIB will adhere to the highest standard in the globe (Xinhua Net, 2016). This stance will help to bridge the gap between China’s norms and western norms regarding external assistance. Thus improve the external perceptions of China’s normative power.

Moreover, the successful launch of the AIIB not only complements the current governance structure, but it has also enhanced China’s normative diffusion in the sense that existing institutions have taken actions to integrate China into the governance structure. For instance, in March 2015, the ADB decided to raise the annual fund for infrastructure and other projects by nearly 40% to 18 billion US dollars. This is regarded as a response to the founding of the AIIB. It also signals that the launch of the AIIB has diffused the norm of infrastructure construction and changed the policy of other institutions. In the financial governance area, the AIIB has also caused a series of reactions. In December 2015, after more than half decade of stagnation, U.S Congress finally approved the reform plan of the IMF which was formulated in 2010 to increase the voting rights of China and other emerging countries. This was undoubtedly spurred on by the formation of the AIIB. For a while, China and other emerging economies are displeased with the slow process of IMF reform, which has given China considerable moral weight to gain the support of US allies in Asia and Europe (*The Economist*, 2015b). The formation of the AIIB is partly a result of such advantage. In the same month, the IMF agreed to add Chinese RMB to the Special Drawing Rights (SDR). This is the first time in over 15 years that the IMF makes changes to the list of currencies comprising the SDR. Supported by the US, the IMF believes that the inclusion of RMB will make the SDR more diverse and representative of the international society (IMF, 2015).

The analysis of the AIIB’s management arrangements reveals that this bank is a manifestation of China’s norms regarding governance structure in international institutions. Recent developments indicate that rather than perceiving the AIIB as a challenge of the WB and IMF, it is more reasonable to regard it as a complement to the existing institutions. Through the cooperation with other institutions, the AIIB can foster China’s integration into the international aid structure so that it will no longer be treated as the ‘other’ in this area. Moreover, other international institutions have made changes in their policies to accommodate China’s appeals regarding the global financial governance structure. These developments shed light on the spill-over effect of the AIIB on the international financial governance structure. Therefore, through the operation of the AIIB, China’s preference of infrastructure building will emerge a fundamental norm in external assistance policies in the Asian region.

## Conclusion

This article studies the establishment of the AIIB and its connections with the normative power of China in international financial governance. It argues that the AIIB, as a new multilateral financial institution initiated by China, will inherit Chinese norms regarding external assistance. These norms are set by Zhou Enlai in 1950s and 1960s and have continued to be the guidelines of Chinese foreign aid programs. In particular, China does not bind political clauses (except the 'one-China' policy) with its aid. For most of the time, China has not expressed any preference towards the recipient country's domestic regime. Meanwhile, Chinese foreign aid and foreign investment projects concentrate on the infrastructure sector. China argues that compared to other political rights, economic development is more important for people in developing countries. Drawing on Chinese experience, infrastructure building is the foundation for developing countries to obtain steady economic growth. Based on the analysis of the AIIB's policy and Chinese leaders' statements, the AIIB is expected to adopt these norms. More importantly, the endorsement of the AOA by 57 member states will significantly enhance the normative influence of China in external assistance area. However, the inclusion of western developed countries casts a challenge to China's ability to maintain its current preference for these norms during the operation of the AIIB. In order to cooperate with other members, China will have to increase its attention on social security and environmental protection in the infrastructure programs.

In addition to the external assistance area, the formulation of the AIIB is also closely connected to China's normative appeals regarding the existing financial governance structure. The boost of China's economic power has stimulated its will to enhance its role in financial institutions. Together with other emerging economies, especially the BRICS group, China has been actively promoting the reform of governance structure in the IMF and the WB. The key points of China's claim are the redistribution of voting power and the abolishing of unilateral veto power. The AIIB is a manifestation of China's appeals regarding management arrangements. It has a leaner staff structure and a non-residential board of directors which enhances the efficiency of policy-making. It also has a different formula for voting rights distribution according to which the developing countries have the largest share. However, whether China will abandon its veto power during the operation of the AIIB still remains uncertain.

The third implication of the AIIB is its future impact on the external of China's normative power. While China's norms of sovereignty, unconditionality, and infrastructure building are being accepted by developing countries, the preference for sovereignty and non-interference also makes China the 'other' in international normative structure. Even worse, China's role in international financial governance is perceived as negative by some western observers. In this regard, the AIIB is an opportunity for China to improve the external perceptions of its normative power. The cooperation between the AIIB and other existing institutions will imply that the AIIB is a necessary complement to the external assistance framework in the Asian region. The inclusion of social and environmental framework in the AIIB's policy is a sign that China is willing to converge to the existing normative structure. Moreover, the formulation of the AIIB has triggered a series of policy changes in other institutions. These recent developments advance China's involvement in international governance structure. They also considerably expand China's normative influence in the Asian region. Both of these effects bridge the gap between China's norms and western norms regarding foreign aid. As a result, the external perceptions of China's normative power will be improved.

The boost of its economic power in recent decades has enriched the normative power of China in international financial governance area. However, the normative influence of China is still limited as it

has not integrated with the international normative structure. The current structure remains deeply embedded within a value system dominated by the West. Inevitably, China will have to work within the existing structure even if it seeks to expand its normative influence in the international system. The AIIB is a new institution that carries many Chinese norms. It gives a China a broader platform to diffuse its norms. Meanwhile, the formation of the AIIB will amplify not only the chances, but also the challenges China will face during its norm diffusion. China has to tread carefully so as to ensure that its normative power is enhanced through the operation of the AIIB. The operations of the AIIB will be a barometer for China's normative power for years to come.

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