

**THE ESTABLISHMENT OF THE ASIAN INFRASTRUCTURE INVESTMENT BANK: A
STEP TOWARDS MORE RESPONSIBLE CHINA OR A SYMBOLIC GESTURE?**

By

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I, the undersigned Bella Baghdasaryan hereby declare that I am the sole author of this thesis.

To the best of my knowledge this thesis contains no material previously published by any other person except where due acknowledgement has been made. This thesis contains no material which has been accepted as part of the requirements of any other academic degree or non – degree program, in English or in any other language.

This is a true copy of the thesis, including final revisions.

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Abstract

According to President Xi Jinping, in order to achieve the great rejuvenation of the Chinese nation, China should move closer “to center stage and make greater contributions to mankind” (Phillips 2017). China’s “new era” has been characterized with the more active involvement in the security, peace building and trade, however, this thesis will focus on the foreign development promotion. China as a “re-emerged” development partner has faced several critiques from the traditional Bretton Woods institutions. The main concerns of the West were connected with China's non-willingness to cooperate, low environmental standards, unconditional and non-transparent nature of their development assistance. These critiques highlight the broader conflict between China and the United States over China's disinclination to become a responsible stakeholder of the international system and provide global public goods. After its establishment, the Asian Infrastructure Investment Bank (AIIB) evoked the idea of China moving towards more responsible behavior in its official narrative. There is an extensive discussion and conjecture on China becoming a more responsible stakeholder, however, little of it is research based. This thesis will fill in this gap and evaluate whether the establishment of the AIIB is an indication of China’s move towards responsible international behavior. The study argues that China’s hypothetical switch towards more responsible behavior should have had an impact on Chinese policy banks, because these are the main providers of China’s financial assistance. The study will compare the official narrative and working strategies of the AIIB and policy banks of China. The main dimensions in which these institutions will be compared are environmental sustainability of the implemented projects, collaboration with Western donors and transparency of the financial flows. This thesis argues that the establishment of the AIIB

followed the desire to create an image of a responsible raising power and strengthen Chinese soft power; however, that image does not indicate that China has committed itself to follow norms of the international donor community. Evidence for this is the Chinese policy banks continued operation under their previous working styles. The thesis provides evidence in support that the AIIB is following its official narrative and demonstrates working strategies similar to the Western Multilateral Development Banks (MDBs), while the policy banks of China are not moving towards more responsible behavior. This dual approach of using new institutions to align themselves with international norms while continuing activities of previous institutions that deviate from those norms are a hallmark of Chinese international involvement in the 21st century. Even though there have been essential improvements concerning environmental standards of domestic loans, but overseas lending is still less green, in addition non-transparent working strategies of the policy banks make China's switch towards becoming a more responsible stakeholder quite debatable.

List of Abbreviations

ADB-Asian Development bank

AfDB-African Development Bank

AIIB-Asian Infrastructure Investment Bank

BRI-Belt and Road Initiative

BRICS-Brazil, the Russian Federation, India, China and South Africa

CDB-China Development Bank

DAC- Development Assistance Committee

EBRD-European Bank for Reconstruction and Development

EIB-European Investment Bank

ExIm bank of China-Export-Import bank of China

IADB-Inter-American Development Bank

MDB-Multilateral Development Bank

MEP- Ministry of Environmental Protection

MOFCOM- Ministry of Commerce

ODA- Official Development Assistance

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Introduction

In 2005, the former US deputy secretary of state Robert Zoellick stated that China experienced tangible development during the last decades and it was time to pay back to the international community, which supported its growth. He underlined that China should become a responsible stakeholder, which supports and protects the current international system. Rather than assuming the role of a responsible stakeholder, China was willing to become a responsible rising power, which emphasizes their interest not to assimilate into the current international system, but to change it. China is pursuing a desire to change its role in an international arena from a norm taker towards a norm maker. The focus of this thesis is on the Chinese development assistance, and the manifestation of this through the establishment of the first China-led MDB, the AIIB. In the frames of this thesis, the focus will be on the broad "Chinese" understanding of the development assistance, which is “defined by its concessionality and includes grants, zero-interest loans and “concessional” (low, fixed interest) loans” (Brautigam 2011, 755). Consequently, many financial flows considered as development assistance by China (e.g. trade agreements, arms exports and student mobility programs and trade deals) did not correspond to the definition of the official development assistance (ODA) by the OECD (Bosshard 2007).

After its rapid development, China has been actively involved in the development promotion, especially in the frames of the South-South cooperation. The main providers of China’s development assistance are policy banks, primarily Export-Import Bank of China (ExIm bank of China) and China Development Bank (CDB), which started to provide overseas loans through “going out” strategy. However, with the increase in China’s role in the development the criticism of its working mechanisms and funding strategies also increased. Primarily, Western

donors started to view China as a competitor, which can negatively affect traditional aid relations, especially increase the bargaining power of recipient countries and decrease leverage of traditional donors. Critiques targeted Chinese aid's non-transparency, unconditional nature, low environmental standards and lack of willingness to cooperate with Western donors. Consequently, the establishment of the AIIB and its "lean, clean and green" motto can be viewed as China's attempt to answer these critiques and create an image of a responsible rising power. Throughout its short history of existence, the AIIB captured the world attention and served as an indicator of China's move towards becoming a more responsible stakeholder. The AIIB's leadership also actively utilizes this notion, during one of his speeches, while speaking about the establishment of the new MDB, the President of the AIIB mentioned: "As a responsible member of the international community, China should do something, which has never ever been done before" (Jin 2016). But has China become a more responsible international development player or is it just rhetoric? Following Breslin's call (Breslin 2013) this study will evaluate not only Beijing's official narrative but also its actual working strategy. In particular, after Zoellick's speech, China was willing to conduct symbolic gestures to create an image of a responsible stakeholder without taking high-cost actions. The thesis argues that while the AIIB is following international norms on these three dimensions (environment, cooperation and transparency), policy banks are less responsible. However, the AIIB creates an image of a more responsible China, which does not entirely correspond to the reality.

Primarily, two Chinese policy banks (ExIm Bank of China and CDB) have a larger sum of combined assets than Western development banks together (Kamal and Gallagher 2016). Taking into account the scope of policy banks China's decision to become a responsible

stakeholder would have definitely affected their working strategies. Due to that fact this research will compare official narratives and working styles of the AIIB and Chinese policy banks. This thesis argues that the establishment of the AIIB was a low-cost action that followed China's desire to develop a soft power and reduce the US pressure over becoming a more responsible stakeholder.

This thesis consists of five parts. The first part incorporates introduction, problem statement and research methodology. Firstly, the research question and importance of this topic will be discussed. Afterward, the research methodology will follow. Content and document analysis were conducted in the frames of this study. The first chapter incorporates a literature review. It mainly focuses on China's path towards the development of an image of a responsible stakeholder; it will provide a historical overview of switches in the China's foreign policy and underline the new wave of discussion on the responsible stakeholder after the establishment of the AIIB. The second chapter presents China's path towards the creation of a soft power, discusses theories on national image building and unpacks what is behind the discourse on a responsible stakeholder. It provides theoretical background for the research. The chapter also answers to the question: how the narrative of a responsible stakeholder is incorporated in the AIIB's official statements. The third chapter compares the official narrative and funding strategies of the AIIB and policy banks of China. It focuses on three dimensions of development promotion: (1) environmental standards, (2) transparency of financial flows and (3) cooperation with other institutions. The final part summarizes the main conclusions of the research and outlines areas for future research.

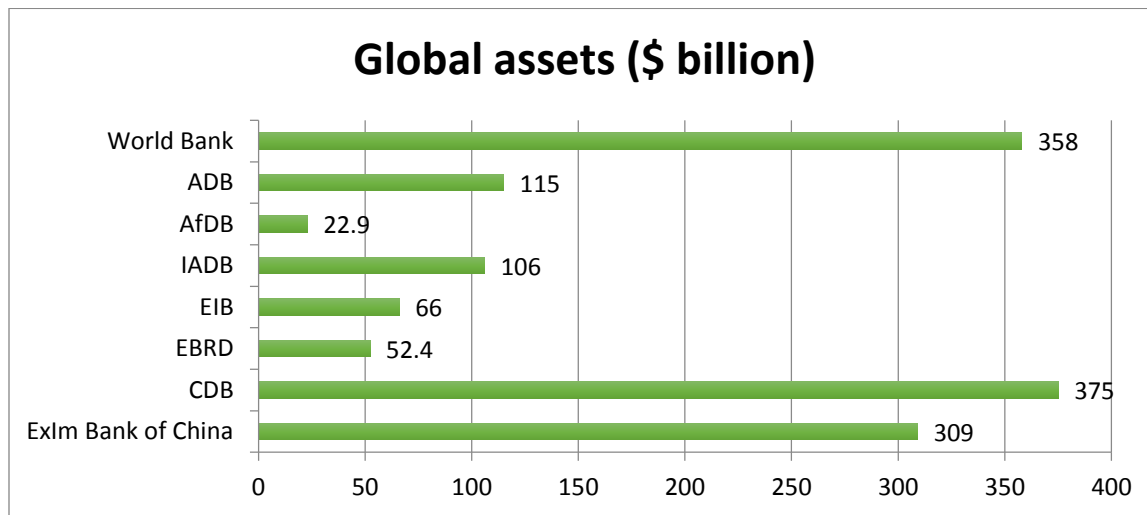
Problem statement and Research Question

The establishment of the AIIB was a tangible change in China's foreign policy and development assistance. Several scholars agreed that it was also following the desire to create an image of a responsible stakeholder (Chin 2016, Paradise 2016 and Pu 2012). The AIIB was keen to promote the idea of a more responsible China through its official narrative, "lean, green and clean" slogan and actual working style. However, while there is more research on the pre-establishment stage of the AIIB, the less research was conducted after its establishment in order to discover how the narrative of a responsible stakeholder was incorporated into their official statements. In addition, there is a gap on whether the establishment of the AIIB actually indicates China's switch towards more responsible behavior. In order to address these issues, this thesis will answer the following questions: How is the notion of a responsible stakeholder incorporated in the AIIB's official narrative? Is it an indication of China's real switch towards becoming a responsible stakeholder in the field of the development promotion?

This thesis argues that China's official narrative should be viewed critically and evaluated based on their working strategies. In addition, the AIIB is only a minor player in the general picture of China's development promotion. The more responsible behavior of the AIIB cannot be sufficient in order to conclude that China is currently a more responsible stakeholder of the international system. That is why in the frames of this research the focus will be not only on the AIIB but also on Chinese policy banks, which are the main providers of China's financial assistance. In particular, the ExIm Bank of China and CDB together have more assets than Western development institutions combined (see Figure 1) (Kamal and Gallagher 2016). The thesis argues that China's switch towards more responsible behavior in the field of development

promotion would have an impact on its policy banks. In order to evaluate whether there is a switch towards more responsible China the actual working strategies of two Chinese policy banks will be assessed.

Figure 1 China-backed and Western-backed Development Banks



Source: (Gallagher, Kamal, Wang and Chen 2016)

Research methodology

The research will focus on official narratives and working strategies of the AIIB and policy banks of China. The AIIB was chosen as a case study due to the fact that after its establishment and internalization of international norms it started to portray itself as China's move towards becoming a responsible stakeholder. The decision to study policy banks was conditioned by the fact that the combined assets of the ExIm Bank of China and the CDB are more than the combined assets of Western MDBs, which indicates that China's decision to become a responsible stakeholder should have altered their working strategies.

While the establishment of the AIIB was presented as China's switch towards being a more responsible stakeholder, the thesis argues that it followed an intention to create an image through a low-cost action. China would not like to lose advances and benefits that policy banks are providing them, while the founding of the AIIB achieved two goals at once. It firstly contributed to the development of China's soft power, and secondly, it switched unwanted attention from their policy banks. Consequently, by maintaining the operational style of the policy bank, China can continue to advance its interests in developing countries without being hindered by western norms

This study follows qualitative research design, because it is the best way to answer "how" or "why" questions when quantitative data is not able to provide all the required information (Guest, Namey and Mitchell 2013). Appendix 1 summarizes the typology of qualitative research. For the purposes of this study, the focus will be on two types of qualitative data: text and video. The analyzed videos are three speeches of the AIIB's president Jin Liqun ((1) Building Asia's new bank: An address by Jin Liqun, (2) AIIB director Jin Liqun's speech in Copenhagen, (3) Jin Liqun: The Reasons to create AIIB) and the employed method is content analysis. The choice of the method was conditioned by the fact that content analysis is a valuable tool for deriving ideologies (Coffey 2005) or analyzing narratives (Smith 2000). Content analysis can derive information, which will be hard to access by any other method. Qualitative content analysis "permits a holistic approach to discourse that preserves context and particularity" (Smith 2000, 237). The content analysis targeted four main dimensions: (1) the narrative of the responsibility and responsible raising power, (2) focus on the environmental sustainability, (3) willingness to cooperate and friendly intentions towards other MDBs and (4) importance of anti-corruption and

transparency measures. Appendix 1 presents the table of content analysis. Firstly, the speeches were transcribed, then the words were coded and distributed in specific categories. For example, words like environment, sustainability, and ecosystem were included in the category “sustainable environment”. Second, the context and the exact quote were also inputted in the table in order to preserve all the background information.

The second applied method was the document analysis. This method was employed in order to discover the actual working strategies of the AIIB and Chinese policy banks. The main documents were derived from the websites of these banks, these included project summaries, annual reports, and environmental assessment reports. In addition, in case of policy banks, secondary data sources were also used. These mainly incorporated researches conducted by independent NGOs or researchers.

The thesis would focus on “Chinese” definition of development aid, which is more comprehensive than the DAC one. However, for the assessment of the policy banks, the Chinese definition is more useful. The thesis argues that while the AIIB followed the path of Western institutions and internalized their norms, the policy banks of China continue their less responsible behavior. One of the main limitations of this study is that the latest available annual reports of ExIm bank of China and CDB are from 2016, which makes harder to acquire information about their operations for the last two years.

Chapter 1 The establishment of the AIIB: More responsible China?

This chapter provides a literature review on China's foreign policy changes and discusses debate on the responsible stakeholder before and after the establishment of the AIIB. It presents already conducted studies and identifies the gaps that this research will fill in. While there had been an extensive discussion on whether China became a responsible stakeholder in the field of the development promotion, but the answer is still ambiguous.

1.1 China's foreign policy from *taoguang yanghui* to the "New Era"

The changes in China's foreign policy should be considered, in order to understand the importance of the notion of a responsible raising power for contemporary China. Primarily, it is vital to discuss the changes in China's foreign policy during different leaders.

Callahan describes two perspectives on China's future: "the Tianxia system" and "the China dream", which were suggested by Zhao Tiangyan and Liu Mingfu respectively. The Tianxia system views China as a superior power that has to civilize its neighbors. It also underlines the importance of China becoming a knowledge creator and distributor, rather than an importer of the ideas and culture from the West (Callahan 2012). While the main principle of the China dream is that economically strong China should be equally strong in the military sense. The author uses the deterrence logic and underlines that the stronger military would not indicate an inevitable conflict with the US: "China's military rise is not to attack America, but to make sure that China is not attacked by America" (Callahan 2012, 634).

Presented ideas had been partially incorporated into China's foreign policy, however, the main direction was provided by Deng Xiaoping's policy of "keeping a low profile," which

advises “hide your strength and bide your time” (Clover 2017). Keeping a low profile was the main strategy also under the leadership of Jiang Zemin and Hu Jintao and integrated into the narratives of China’s peaceful rise (B. Zheng 2005) and harmonious world. President Hu’s harmonious world was stressing that China is a peace-loving nation and was focusing on the importance of “mutual benefit and common development” (Callahan 2012, 623).

However, the picture changed after Xi Jinping came to power. Under Xi’s Presidency China switched from the principle of *taoguang yanghui* towards the more assertive foreign policy (Foot 2014). The China dream, presented previously, goes in line with President Xi’s foreign policy and chases the great rejuvenation of the Chinese nation (Pu 2017). Contemporary China wants a more central role in the global governance that will correspond to their economic power. This became a base for China’s “grand strategy” which portrayed by the establishment of new and ambitious initiatives, like the Belt and Roads Initiative (BRI) (Leverett and Wu 2016) or the AIIB. Currently, China portrays itself as a responsible great power, which is keen to provide global public goods.

While the terms responsible stakeholder and responsible great power are actively used by the US and China, but they are not well defined neither in academic nor political sense. It provides both sides with room for maneuver and opportunity to interpret it in the most beneficial way for themselves. For example, Hornat argued that the Chinese understanding of the responsible stakeholder differs from the US definition. He analyzes the “duplicity” of China’s behavior based on the Six-Party Talks. His main conclusion is that in the majority of cases China follows its own national interest, even when these interests are not inline with the responsible behavior (Hornat 2012).

Loke tried to unpack and define the “great power responsibility” and concluded that it is a “socially constructed and negotiated concept” (Loke 2015, 848). Etzioni took a more robust approach in order to find out whether China is a responsible stakeholder. He analyzed this question from three main perspectives: normative, rational choice and power analysis. Interestingly he came to the conclusion that according to all three standards China is not a responsible stakeholder, however many other great powers are not as well (Etzioni 2011).

The issue of China’s switch towards the more responsible behavior was mainly discussed from the perspective of the US-China dialogue. For example, Allison analyzed this issue from the perspective of a possible confrontation between China and the US. After China's development, Western countries were keen to believe, that soon China will incorporate liberal value, switch towards the more democratic regime and become a responsible stakeholder in the current international system. However, historical developments demonstrated another picture. He analyzed the possibility for the US and China to fall into the Thucydides’ trap (Allison 2017).

As we can observe several authors discussed China's way towards becoming a more responsible stakeholder, however, there is still no consensus on whether China grew into a responsible stakeholder. While there has been more focus on China becoming a responsible stakeholder in different spheres, but less in the field of development promotion. This situation is also condition by the fact that there is no exact definition of the term and the US and China usually interpret it in their own ways. This thesis contributes to the existing literature firstly, by providing a specific definition of a responsible stakeholder in the field of development promotion. Secondly, it assesses whether China became one after the establishment of the AIIB.

1.2 The AIIB a rival or a friend?

The discussion on China becoming a responsible stakeholder got a new wave after the establishment of the AIIB. However, as a new research topic, the AIIB was discussed also from several other perspectives.

One stream of literature compares the AIIB to other MDBs, which were established in the frames of the Bretton Woods agreement. Several authors took the more general approach by comparing the AIIB with various MDBs established under the Bretton Woods (Hamanaka 2016, Wan 2016), while others focused only on the Asian Development Bank (ADB), as an institution closest to the AIIB geographically (Jakupec and Kelly 2015, Suzuki 2015).

The second stream concentrates on the implications that the AIIB would have on the global governance (Reisen 2015, Gu 2017, Wang 2018). China's inclusion in the current institutional and development systems has been viewed from several perspectives. For example, Gu (2017) discusses the AIIB as an indication of Chinese multilateralism. He argues that the Chinese multilateralism is inherently different from the Western ones established under the Bretton Woods. He presents the role of the ruling country as the main difference and argues that while in the Bretton Woods institutions the US has a hegemony of power, China, by contrast, is not a hegemon (Gu 2017). Whereas Wang (2018) focused on the future members of the AIIB. He argued that less democratic countries are more likely to join China's new MDB. In addition, he discovered that countries which neighbors already joined the AIIB are more likely to join it in the future (Y. Wang 2018).

The third stream focuses on China's interests and motives to establish parallel institutions. They underline advantages which these institutions can provide to China (Callaghan

and Hubbard 2016, Paradise 2016, Chin 2016, Ito 2015). For example, Callaghan and Hubbard (2016) while speaking about China's motives for the establishment of the AIIB, underlined that the AIIB will de-politicize the development assistance for the BRI initiative, because of the switch from the bilateral to the multilateral assistance. Also, the AIIB played a role in the improvement of a regional image of China (Callaghan and Hubbard 2016).

There is a consensus among the majority of authors who claim China pursued the image of a responsible power through the establishment of parallel institutions. Authors mainly underlined the possible switch of China's role from a norm maker to a norm taker through the establishment of the parallel institutions (Chin 2016, Paradise 2016 and Pu 2012).

For example, Pu (2012) presents socialization as a two-way process. For centuries, Western values were viewed as "civilized," and the West was socializing other countries by promoting "standards of civilization," however, nowadays the picture is different. The inclusion of emerging powers and their values started to influence the current world order and challenged the idea that Western values are the only way to the modernity (Pu 2012). Ren (2016) presents the establishment of the AIIB as an outcome of mutual shaping and reshaping between the West and China. Firstly, China established the AIIB, however, soon many European countries expressed their desire to join it. Secondly, other members of the AIIB besides China affected the decision-making, and currently, China is not the only holder of the veto power. Thirdly, the parties discuss the nationality of the AIIB's director. They acknowledged China's contribution to the establishment of the AIIB and the first appointed president is Chinese. However, future presidents can be foreigners (Ren 2016)

Cooper and Zhang (2018) also discussed China's parallel institutions. They state that China pursued a dualistic approach, which allows it to be simultaneously a "key insider and outsider in the global system" (Cooper and Zhang 2018). According to them, the main advantage of this strategy is the possibility for China to improve its status as a rising power without substituting its relations with the Western powers. As an indication of China's dualistic strategy, authors present China's simultaneous membership in G20 and BRICS. They claim that world politics of the 21st century allows China to be a part of established and parallel institutions, which in its turn increases their role in the global governance (Cooper and Zhang 2018).

Peng and Tok (2016) analyze the AIIB from the perspective of China's normative rather than diplomatic influence. They argue that the establishment of AIIB and NDB were "milestones in China's financial policy" (Peng and Tok 2016, 737). They argue that, as an institution established by China, the AIIB will internalize Chinese view on the development assistance. China was trying to implement several changes in the management system and distribution of votes in the IMF and the World Bank. However, their efforts were not successful. The authors view the establishment of the AIIB as "a manifestation of China's appeals regarding management arrangements" (Peng and Tok 2016, 750).

Yu (2016) discusses the AIIB and BRI as initiatives that provided China with a central role in the geopolitics and geo-economics of the region and beyond. He states that the AIIB was established as a provider of the infrastructure funding for the BRI project. He claims that while BRI and AIIB can change the perception about Asia by switching its role in the global politics, both initiatives are facing several internal and external challenges, which make this change less feasible (Yu 2016).

According to Feigenbaum, the establishment of the AIIB got a negative reaction from the US, because of the concern that the Chinese MDB would not have proper anti-corruption measures and environmental standards. He mentioned that Washington failed its diplomatic campaign, which pursued a goal to nudge its allies not to become members of the AIIB. He mentioned "Yet China is a reluctant stakeholder inside the tent, but still ambivalent and often dissatisfied" (Feigenbaum 2017, 34). One of his main points is that while China is a disruptive power it is not a revolutionary one and it does not want to totally change the current international system (Feigenbaum 2017). Hameiri and Jones came to the similar conclusion, they assessed whether the AIIB has a "revisionist" nature or it wants to maintain current "status quo". They concluded that the AIIB follows international norms and it cannot be considered as revisionist, however, it does not mean that the same conclusion can be generalized for other actors involved in China's development assistance. They did a mapping of all Chinese institutions, ministries, and banks involved in the development assistance and underlined that the AIIB is only a marginalized player in a great picture of China's development promotion (Hameiri and Jones 2018). This thesis has several similarities with the presented article, however, it employed more specific approach. In this case, the analysis are conducted from the perspective of a responsible stakeholder discourse and the AIIB will be compared only with Chinese policy banks.

Throughout its short period of existence, the AIIB became a topic for several studies. However, while authors agree that one of the reasons for the establishment of the AIIB was the creation of a responsible power's image, however, there is less research which demonstrates how the narrative of the responsible power incorporated into the AIIB's official statements and actual working strategies. This thesis will close that gap.

Chapter 2 China's pursuit of the responsible raising power's image through the AIIB

This chapter provides analytical and theoretical frameworks which are the base for the research. It reviews China's search for the soft power and describes the dialogue between the US and China over China's unwillingness to become a responsible stakeholder. It provides a definition of the responsible stakeholder in the field of development promotion, which is applied to the case of China. The last but not the least it answers to the question of how China incorporated the notion of the responsible stakeholder in the AIIB's official narrative. The AIIB portrays itself as an indication of China's move towards more responsible behavior, it is evident based on both their official narrative and actual working strategies.

2.1 China's hunt for the soft power and the national image building

The current age of globalization and information society made the national image of countries more critical for the global politics than ever before. Consequently, all countries started to invest more in the construction of the desired national image, which can be used as "an intangible but important national power resource" (Ding 2008, 628). Speaking about China's integration into the current institutional system Joshua Cooper Ramo stated: "China's greatest strategic threat today is its national image" (Y. Wang 2008, 257). This problem also grasped the academic interest, where discussion focused mainly on the ways in which China can overcome the "China Threat Theory" (Y. Wang 2008).

The national image has usually been discussed in the connection to the soft power. While

the hard power incorporates the use of force or threats, the soft power is based on the attractiveness of the country (Nye 2008). However, in case of China, the soft power includes not only international but also domestic dimension. Primarily, researchers indicated "domestic cultural revitalization" as a significant part of Chinese soft power (Barr 2011).

The idea of "soft power" has been actively discussed in China during the last decades. It was conditioned by the fact that while there has been registered increase in economic and hard power of China, its soft power was still low. Primarily, in the 2009 World Service poll was conducted, by the BBC, results showed that the perceptions about China were not favorable, for example, only 8% of Japanese respondent had a positive opinion about China (Wang 2011).

China itself acknowledged the importance of the soft power, an example is the "2007 White Paper on Chinese Foreign Affairs", which underlines the vital role of the soft power (Y. Wang 2008). Currently China is spending more resources on the creation of the soft power, for example, they are providing more scholarships for international student for studying in China, Chinese Medias (e.g. the People's Daily, China Central Television) extended their overseas presence, in addition, China is promoting its culture through Confucius institutes (Wang 2011). The establishment of the AIIB can be considered another attempt by China to develop their soft power.

2.2 The discourse of a responsible stakeholder

On September 21, 2005, the former US deputy secretary of state Robert Zoellick gave a speech, where he stated: "it is time to take our policy beyond opening doors to China's membership into the international system: We need to urge China to become a responsible

stakeholder in that system" (Zoellick 2005). A responsible stakeholder of the international system is a state that is actively involved in the strengthening and preservation of that system (Friedberg 2007). Speaking about China's responsibilities Zoellick underlined that exceptional development took place in China during the last decades. He mentioned that the international system also contributed to China's development and now as a responsible member of that system China is obliged to contribute to the development of other states (Friedberg 2007).

However, the idea of a responsible stakeholder is not inherently dictated by the US. Even before Zoellick's speech, in the 1990s "responsible power" was part of China's self-identification. A responsible stakeholder is translated into Chinese as a "responsible great power." It was mentioned the first time by President Bill Clinton during his meeting with President Jiang when he stated that China's involvement in great politics was welcomed, but the status of a great power has responsibilities attached. China prefers to use the term a responsible raising power, instead of a responsible stakeholder, in order to stress their willingness to take an active role in the global governance (Deng 2015). Consequently, China uses this term to underline their increasing influence on the international system and active involvement in the international organizations (Bowie 2016).

The fact that responsible stakeholder does not have the same definition for the US and China, makes it complicated to set standards, which should be achieved to become a responsible stakeholder. This situation can be quite beneficial for China. Primarily, China can "burnish their newfound reputation for "responsibility" with a few symbolic gestures, while at the same time avoid the costs and risks of actually adjusting their policies" (Friedberg 2007). China used this strategy in several cases. In particular, the development of the AIIB can be viewed as such a

symbolic gesture. This gesture will indicate that China becomes more responsible in its development promotion and simultaneously will switch the attention from the less responsible behavior of Chinese policy banks.

From China's perspective, their rights and obligations in the international system were not equal. Primarily, China was considering its role in international organizations not equal to its political and economic power. Consequently, they believe that they need a dialogue and consensus with the US to have more decision-making rights in the global governance (Loke 2016). This becomes more evident under Xi Jinping's presidency. In particular, President Xi's "new model of major country relationship" underlines China's willingness for the more proactive role and its increased discourse power (Loke 2016).

The image of a responsible raising power includes also the ideas of multilateralism and status quo, in case of China the first is much more utilized then the second one. In particular, it is tangible in China's switch from anti-multilateralism towards pro- multilateralism in the early 1990s, which was one of the most fundamental changes in contemporary China's foreign affairs (Deng 2015). Currently, China is actively involved in multilateral institutions. It started to be a supporter of the UN (Friedberg 2007) and China's choice of the UN as the best platform for the provision of global public goods and creation of a responsible stakeholders' image can be understood based on the UN's institutional design and several similarities between China's and UN's norms. In particular, China's is actively involved in the UN's peacekeeping operations, because the stability is in China's interest (Foot 2014). Specifically, China is the second biggest contributor to the UN's peacekeeping budget (China Power Team 2016) and in 2015 President Xi announced during his speech at the United Nations General Assembly that China will provide

8000 standby troops for the UN peacekeeping force. This move can make China the largest player in the UN's peacekeeping operations (Brunnstrom and Martina 2015). This move helps China to create an image of a responsible rising power while protecting its own interest. Primarily, it is in China's interest to protect peace and security in many conflict zones, because they have their people and assets there, in addition, their troops would have an opportunity to have firsthand experience and learn from the best practices (S. Zheng 2017). China's switch towards multilateralism became even more apparent after its decision to establish its own MDBs.

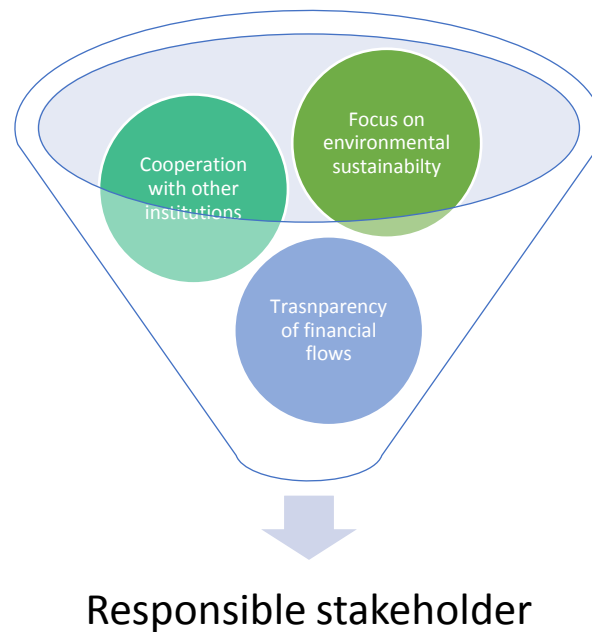
Even considering all these changes China did more to create an image of a responsible stakeholder, rather than become one in reality. China was willing to accomplish some low-cost actions against the existing challenges. However, it was less keen to take more risky actions (Blumenthal 2006). China wants to become a responsible rising power on its terms (Loke 2016). China does not favor several features of the current international system. Primarily, it is against intervention in domestic politics and state's sovereignty. Sovereignty is a high priority for China taking into account the Taiwan issue (Blumenthal 2006). Consequently, China would be willing to take low-cost actions in order to reduce the US pressure as long as these actions are not contradicting to China's national interests.

There are several spheres where China's actions to become a responsible stakeholder can be evaluated. However, in the frames of this thesis, the focus will be on China's involvement in the economic development and assistance. Promotion of global public goods is a vital obligation of a responsible stakeholder. After its tangible economic growth, China engaged in the development promotion in the frames of the South-South cooperation (Blumenthal 2006). For example, in 2006 the World Bank accounted that China's ExIm bank provided US \$12.5 billion only for the

infrastructure projects (Gill 2007). However, China's active involvement in development promotion has been considered with anxiety by the Western countries. The reason is China's belief that the foreign aid should not be used to influence the domestic governance system of the recipient country, while for decades the West used aid as a tool of structural adjustment (Blumenthal 2006). China's "no strings attached" development assistance can challenge Western aid and become a reason for the unsustainable debt of recipient countries (Gill 2007). However, the unconditional nature of Chinese aid has been overstated. While China does not promote liberal values or structural adjustments in the recipient countries, their aid is still conditioned by the respect of "one China policy" (Mattlin and Nojonen 2015). Besides, China uses embedded conditionality, because of which recipient countries have to "use Chinese contractors and sub-contractors, as well as China-sourced technology, equipment suppliers, management and training" (Mattlin and Nojonen 2015, 711).

Based on the critiques of the West and covered literature several building blocks can be defined which are required for the state in order to be considered the responsible stakeholder in the field of development promotion. Figure 2 demonstrates these features, which are the base for research analysis of this thesis. These features are derived by the author based on the critiques that targeted China's participation in the development assistance and are employed as the main tool of analysis.

Figure 2 Characteristics of a responsible stakeholder in the field of development promotion



Note: The Figure is created by the author for the purposes of this research

The definition of a responsible stakeholder underlines that a responsible state should protect and contribute to the existing international system, rather than just receive benefits from it. The establishment of the AIIB was considered by the West as an attempt to change the current institutional system. However, this study indicates that the AIIB promoted and internalized current international norms not only in its official narrative but also in its actual working strategy. On the other hand, this cannot be considered as an indication that China is becoming a more responsible stakeholder, primarily due to the fact that China's main development promotion instruments are continuing their less responsible and "more Chinese" working style.

2.3 The AIIB's official narrative: China as a responsible stakeholder

It was already mentioned that after its active involvement in the development promotion

Chinese mode of development assistance was usually criticized by the West. The AIIB was keen to underline that it is not a competitor, but it is a companion. Especially, the idea of China's transformation toward a more responsible stakeholder is actively utilized in the official narrative of the AIIB. For example, Jin Liqun mentioned during one of the analyzed speeches. "As a responsible member of international community, China should do something which was never ever done before" (Jin 2016). He also underlined that China as the largest shareholder in the AIIB understands that "it is not a privilege, it is a duty" (Jin 2016) and they have the full responsibility to maintain the successful work and inclusion of the AIIB into the current international system. Currently, the AIIB is the only development financing actor of China which follows the DAC principles in its internal management, and evaluation of environmental and social effects (Hameiri and Jones 2018).

One of the reasons for the creation of the AIIB is an attempt to portray China as a more responsible stakeholder. Though this thesis argues that the creation of the AIIB was following the desire to create the image of a responsible stakeholder, it does not indicate that China became one. While the AIIB possesses values and norms of the Bretton Woods MDBs, the policy banks of China continue to maintain their previous working style. Taking into account that policy banks are the main financial instruments of China's development promotion, the decision to become a more responsible stakeholder should have influenced their working strategies. In order to see whether China is moving towards the path of a more responsible stakeholder, the official narrative and actual working strategies of the AIIB and Chinese policy banks will be analyzed. Three features of a responsible stakeholder presented in this chapter will be applied to the discussed case studies.

Chapter 3 The comparison of official narratives and working strategies of the AIIB and policy banks of China

The focus of this chapter will be on the second research question. It will evaluate whether China become a responsible stakeholder in reality or it is only rhetoric to create a soft power. It focuses on three main dimensions and analyzes whether the official narratives and working strategies of the AIIB and Chinese policy banks match to each other. Firstly it will discuss the environmental standards of banks and changes which were implemented in China after the introduction of Green Credit Policy and argue that these changes had huge impact on China's domestic loans, while the overseas lending is still not always "green". Second part will incorporate the findings on bank's willingness to cooperate with Western donors and the third part will focus on transparency and accountability of the financial flows.

3.1 Environmental standards

High environmental standards are the priority for the AIIB. It is also acknowledged by their "lean, clean and green" motto (AIIB 2018). Jin Liquan mentioned during all the analyzed interviews and speeches that the AIIB would never finance a project that will have adverse effects on the environment because they follow environmentally responsible behavior. He mentioned in one of his speeches "the AIIB should do a good job in promoting green economy to develop infrastructure and economy without leaving a big footprint on ecosystem and environment" (Jin 2016, 36:15).

Environmental standards are also given high significance during project

implementation and evaluation stages. In particular, the AIIB is publishing project summaries of all approved and proposed projects on their website. All project summaries include the separate part that discusses environmental effects of that project and ways this influence was assessed. In cases when a project is implemented in collaboration with the World Bank or the ADB, mainly the “World Bank’s Environmental and Social Safeguard Policies” are adopted for the evaluation of environmental effects. In cases when the AIIB is working independently, they hire an external organization to conduct an environmental assessment using "AIIB's Environmental and Social Policy (ESP)" (AIIB 2018). In addition, they publish final environmental and social assessment reports on the website. In the majority of cases, these evaluations are conducted by external organizations.

While the AIIB’s willingness to support only environmentally sustainable projects is evident, the picture is different in the case of Chinese policy banks. It should be mentioned, that banking system in China became “greener” after 2007, when the People’s Bank of China introduced the Green Credit Policy. Due to this new policy the social and environmental indicators of China’s banks drastically improved from 2009-2013 (Weber 2016). However, these measures targeted domestic situation and implemented in order to reduce the negative environmental influence of economic growth, but their impact on overseas credits was minor (Friends of the Earth 2016).

Following the Green Credit Policy, both ExIm bank of China and CDB released their environmental policies in 2007 and 2005 respectively. It is important to underline that the

environmental guidelines of the ExIm bank had different standards for domestic and overseas loans. In the case of domestic loans, standards are in line with “China’s Green Credit” or other environmental regulations, while external loans should meet the regulations of a recipient country, guidelines underline that in the case when a recipient country does not have strong environmental policies China’s regulations will be followed (Matisoff and Chan 2008). However, guidelines do not specifically define when countries’ environmental regulations can be considered weak or not sufficient.

The establishment of the environmental guidelines was a big step for Chinese banks towards more responsible behavior. However, it is difficult to identify how these policies and guidelines are influencing the overseas lending. Primarily both banks are continuing to finance environmentally harmful projects in several countries. For example, currently, ExIm bank of China is financing construction of Karot Hydropower Station in Pakistan, CoCa Codo Sinclair Hydropower Station in Ecuador, Payra Ultra Supercritical Coal-Fired Power Project in Bangladesh (ExIm Bank of China 2016). However, there is no information about the environmental costs of these projects for recipient countries. While the official narrative of the policy bank is stating that they are promoting environmentally sustainable loans, during the last years they financed the construction of Las Bambas Copper Mine in Peru (CDB 2016), 800,000 ton/year refinery in Kyrgyzstan (CDB 2015), constructions of dams in Myanmar (Myitsone) and Cambodia (Chhay Areng) and Shwe pipeline between China and Myanmar (Hameiri and Jones 2018). Similarly, to the case of the ExIm bank the

environmental costs are not assessed. Both banks are not publishing environmental assessments and evaluations of their projects.

Due to the fact, that China's reliance on recipient countries environmental laws were actively criticized, the policy banks were nudged to follow "good practices" of environmentally sustainable projects. However, several researchers indicate that these standards are not successfully enforced. For example, a study conducted by the "Friends of the Earth" came to the conclusion, that CDB's environmental standards of overseas lending lag behind the same standards of the World Bank and the OECD (Hameiri and Jones 2018).

In 2013 Ministry of Commerce (MOFCOM) and Ministry of Environmental Protection (MEP) of the People's Republic of China published "Guidelines for environmental protection in Foreign investment and cooperation" which should record and consequently reduce unethical and environmentally harmful overseas lending (Friends of the Earth 2016). However, even with these measures in place, China Power Investment Corporation was able to acquire credits from the ExIm bank and the CDB for the construction of a dam in Myanmar. This became a reason for a local resistance and damaged relations between China and Myanmar (Hameiri and Jones 2018).

It is evident, that while the AIIB demonstrates a behavior according to its official narrative, the policy banks are less environmentally sustainable. Due to their non-transparency, it is hard to evaluate the environmental costs of their projects. For more environmentally sustainable lending Chinese policy banks should "expand, standardize, and operationalize

sustainable finance principles into practice” and increase transparency of their working strategies (Friends of the Earth 2016). Currently, there is no information on whether the environmental assessment is conducted or not in reality.

3.2 Collaboration with other institutions

One of the main concerns connected with the establishment of the AIIB was that it can challenge the already existing MDBs. The AIIB was considered as a rival rather than a companion. However, the AIIB is promoting its “friendly” intentions through its official narrative and already implemented projects.

During all speeches, Jin Liqun mentioned that the AIIB is not going to compete with the Bretton Woods institutions. He mentioned that there was a need for a new MDB, which can face challenges of this decade. While the Bretton Woods institutions were established after the World War II, the AIIB can provide a new approach, but still following the international best practices. Before the establishment of every new MDB the need of the new institution was debatable, however, current MDBs cannot tackle all issues. He underlined that the AIIB is going to fill in the gap in the infrastructure and is not going to challenge the Western MDBs: “how can we defeat these huge giants” (Jin 2015) and “is the World Bank so fragile” (Jin 2016).

The AIIB supported the official narrative through their actions. So far, the AIIB approved the implementation of 25 projects. Out of these 25 projects 17 were co-financed or supported by the Western institutions. The majority was co-financed by the World Bank (AIIB 2018). The

number of projects co-implemented with the Bretton Woods institutions demonstrates the AIIB's willingness to cooperate not only on paper but also in reality.

During the last decades several attempts have been organized by the Western countries, in particular by the OECD, to nudge China to cooperate more and follow the international standards of development promotion. However, their attempts were not always successful. Primarily, starting from 2000 the OECD started to promote the narrative of aid effectiveness in order to incentivize non-Western donors to comply with the DAC rules (Abdenur and Da Fonseca 2013). A positive switch towards the cooperation was the establishment of the China-DAC study group. This initiative has an aim to organize an experience sharing between China and DAC donors in order to improve quality and effectiveness of the financial assistance (OECD 2018). In addition, in 2007 the World Bank and ExIm Bank of China signed a Memorandum of Understanding that would foster their collaboration on projects implemented in Uganda, Ghana and Mozambique (Xue 2014). Another milestone of cooperation between the West and China was the Busan conference, which was organized in order to review principles of Paris Declaration. In December the Busan Partnership for Effective Development Co-operation was released; it incorporates principles for effective cooperation (OECD 2018). Even though China expressed its readiness to endorse the agreement, but in the end, it did not sign it. Brazil and India also followed China's example (Tran 2011). However, while the majority of these attempts tackle the foreign aid, the largest part of China's development assistance does not correspond to the DAC definition of the foreign aid. Many financial flows that are defined as "aid" by China, does not correspond to the official definition of the ODA. Chinese development assistance incorporates trade agreements, arms exports and student mobility programs and trade deals (Bosshard 2007).

In addition, the annual reports of policy banks did not mention any projects implemented in cooperation with other institutions. At the same time, these reports do not provide the full list of projects financed during one year (CDB 2016, ExIm Bank of China 2016) which makes an assessment of the criteria harder. While there are indications of improvement in the field of cooperation the non-transparency of policy banks did not allow to evaluate the scope of this cooperation. It is essential for the ExIm Bank of China and CDB to create and follow the official procedure that will rise their transparency and accountability and will make their incorporation into the international system and cooperation with the Western institutions smoother (Friends of the Earth 2016). Consequently, the lack of transparency that is covered in the next section also has a negative impact on this dimension.

3.3 Transparency of the financial flows

The “lean, clean and green” slogan is stating that the AIIB should be transparent in its financial flows and corruption free. The importance of transparency was underlined also by Jin Liqun. He shared his previous work experience at the ADB and mentioned that he knows exact systems that should be implemented in order to avoid any corruption inside the organization. He also underlined that the AIIB should be open about its overseas finances and contributions it is doing for several projects (Jin 2015).

This official narrative goes in line with the AIIB’s working strategy. In particular, the AIIB is posting project summaries of all their projects on their website, which have a special part concerning costs and expenses. In cases when a project is implemented in collaboration with

other institutions the report indicates the total sum of the project and contribution of all partners (AIIB 2018).

Transparency is an indispensable characteristic of the AIIB, but it had neither been a characteristic of China as a bilateral donor, nor through the policy banks. The transparency of policy banks did not improve during the last years. One indicator of their non-transparency is the fact that the latest annual report that both ExIm bank of China and CDB published is from 2016. Even though reports include information on the financial statements, but there is no specific information on overseas loans. Primarily, no information is provided about the costs of different projects and their funding strategies (CDB 2016, ExIm Bank of China 2016). This made difficult to estimate China's financial flows and especially development assistance.

Currently, the lack of transparency is the biggest issue for policy banks of China, which affects also other dimensions. For example, because of non-transparent lending, it is difficult to find information on their willingness to cooperate with other donors and conduct an assessment of the employed environmental standards. Even though environmental standards of policy banks have improved during the last years, it is more evident on the domestic level, rather than on the international one. While in the case of overseas lending the accountability and enforcement mechanisms are not strong.

It is apparent that the AIIB is answering traditional critiques on Chinese aid through both their official narrative and their actual funding strategies and trying to present China as a responsible rising power. However, the notion that China became a responsible power is still debatable, because the main financial instruments of China's development promotion (ExIm bank of China and CDB) are not moving towards the more responsible behavior.

Conclusion

China's involvement in the development promotion goes back to Chairman Mao's time. While scope, instruments and funding strategies of Chinese development assistance have changed during last decades, one has been stable: China's development assistance always followed the national interest of China. The establishment of the AIIB should be seen from the perspective of Chinese national interest. Primarily the establishment of the AIIB can provide China with the more essential role in the international system, it will finance the construction of One Belt, One Road and last but not the least it will answer to the West's critiques concerning Chinese foreign aid and create an image of a responsible stakeholder.

The establishment of the AIIB is a tangible shift in China's foreign policy, however, it does not indicate China's willingness to become a more responsible stakeholder. The establishment of the AIIB can be considered a symbolic gesture, which can improve China's image on the international arena and switch undesirable attention from Chinese policy banks.

In the frames of this thesis, the responsible stakeholder in the field of development promotion was defined as a state that provides high importance to the environmental sustainability, willing to cooperate with other institutions and transparent. The thesis followed two aims firstly to discover how the narrative of the responsible stakeholder incorporated into the AIIB's official statement and secondly, whether the establishment of the AIIB was a real switch towards more responsible China. In order to answer to these questions, official narratives and actual working strategies of the AIIB and Chinese policy banks were analyzed. The analysis indicated that the statements on the paper and in reality are quite different for the policy banks. According to the official narratives, environmental standards are the high priority for both

institutions, but only the AIIB is providing an environmental sustainability assessment for all their projects, while policy banks do not provide detailed information about the environmental costs of their projects, which leads to the financing of damaging projects (e.g. dam construction, mining). Concerning collaboration with Western donors, the AIIB implemented the majority of their projects in partnership with the Bretton Woods institutions. Even though Western donors tried through several means to nudge China to be more cooperative in the field of development promotion, however, even though there had been several improvements during the last years, but the cooperation of policy banks is hard to evaluate due to their non-transparency.

The non-transparency is the biggest issue connected with Chinese policy banks. While banks published their annual reports (the latest is from 2016) with their financial statements, but there is no information about the cost of specific projects and loans provided to other countries. On the other hand, the AIIB provides full information on their financial flows, the number of projects and their contribution to these projects.

The AIIB is promoting a narrative that China is moving towards a more responsible behavior both through their official narrative and through actual working strategies. On contrary, the findings indicate that the establishment of the AIIB does not demonstrate China's willingness to become a responsible stakeholder. While the AIIB maintains transparent, environmentally friendly and cooperative behavior, Chinese policy banks continue to operate in their traditional, international order defining manner. Taking into account that policy banks are China's main instruments of development promotion, their behavior should have been altered in case of China's decision to become a responsible rising power. Currently, the establishment of the AIIB should be viewed from the perspective of benefits it provides for China's national interest and

foreign policy, in particular, it follows China's desire to create a soft power, improve its reputation and switch undesirable attention from its policy banks. Consequently, China has used the AIIB to alleviate concerns that it is a renegade international actor without curbing the behavior that others were concerned about in the first place.

The first China-led MDB can create an opportunity for China to switch its role in international arena from a norm taker to a norm maker. Initiatives like the AIIB and BRI are also promoting President Xi's "major-power diplomacy". Underlying causes for the establishment of the AIIB require more research. Primarily, taking into account young age of the AIIB it can be difficult to provide predictions for future developments. It can be crucial to find out how China can use its new MDBs to promote its interests? In particular, how is China going to use its "institutional statecraft"?

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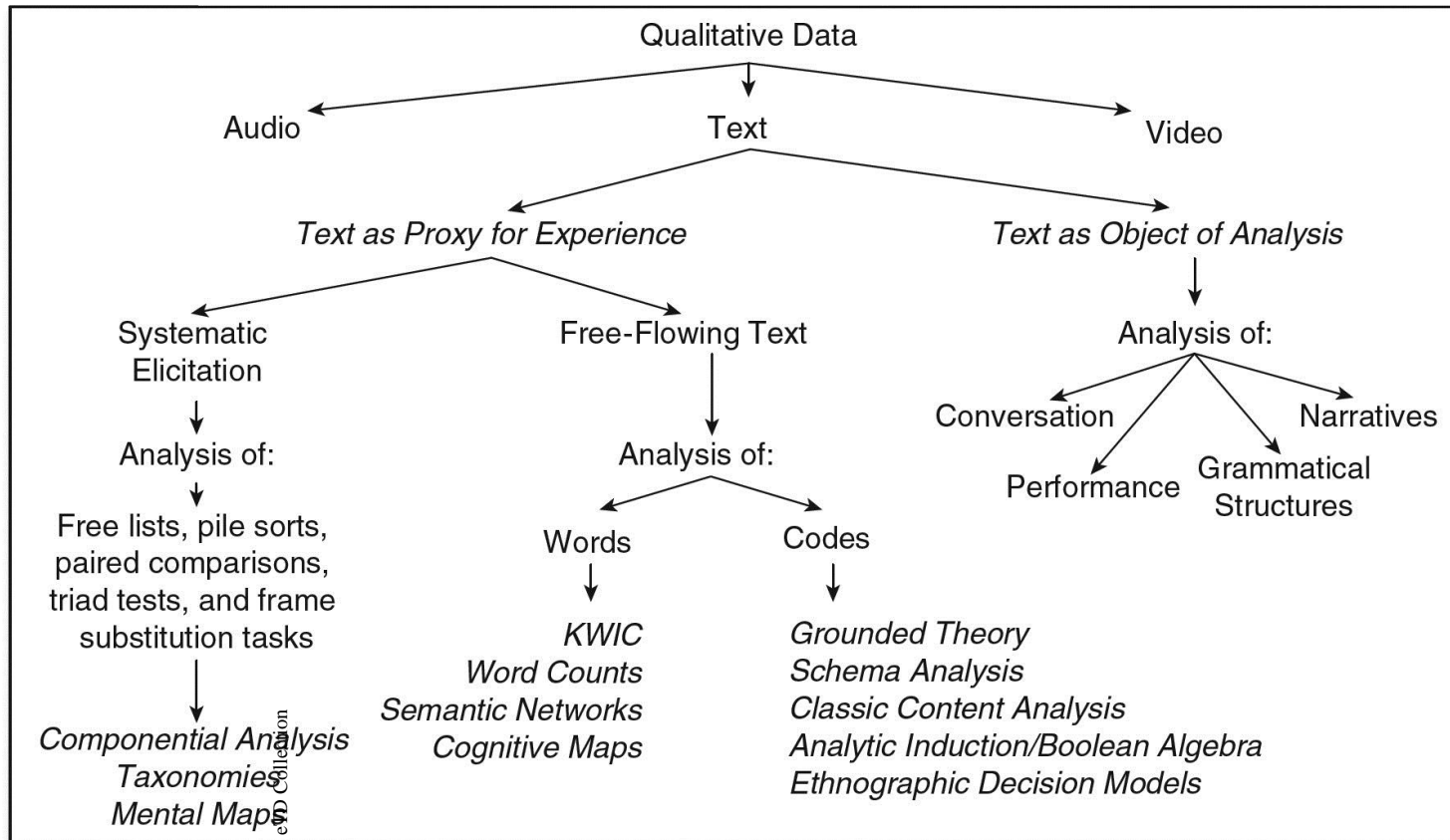
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Appendix

Appendix 1

Figure 3 Typology of Qualitative Research



Source: (Ryan and Bernard 2000)

Appendix 2

Table 1 The Table of Content Analysis

Speech/Interview name	Umbrella Term	Used word	Minute	Context	Quotes
	Sustainable Environment				
	Cooperation				
	Transparency				
CEU eTD Collection					