China challenges global governance? Chinese international development finance and the AIIB

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Scholars and policy-makers have been increasingly debating the potential impact of rising powers on the architecture and outputs of global governance, with particular reference to China—the most important emerging power.[1] This discussion overlaps with a broader debate over whether China is a 'status quo' power that will maintain the post-Second World War 'international liberal order', or a 'revisionist' state seeking to overturn this order.[2] Much of this debate has focused on existing multilateral institutions, where 'gridlock' is frequently blamed on rising powers' obsession with state sovereignty and/or demands for greater status and respect for their interests and agendas.[3] Many perceive a growing challenge to US domination of these institutions, and a tendency to establish new ones that 'perform a similar function' but are more responsive to emerging powers' demands.[4] This is taken by some to denote a growing challenge to the international liberal order, particularly from China.[5]

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[1] See e.g. Miles Kahler, 'Rising powers and global governance: negotiating change in a resilient status quo', *International Affairs* 89: 3, May 2013, pp. 711–29; Ali Burak Güven, 'Defending supremacy: how the IMF and the World Bank navigate the challenge of rising powers', *International Affairs* 93: 5, Sept. 2017, pp. 1149–66; Stewart Patrick, 'Irresponsible stakeholders? The difficulty in integrating rising powers', *Foreign Affairs* 89: 6, 2010, pp. 44–53.

[2] See e.g. Alastair Iain Johnston, 'Is China a status-quo power?', *International Security* 27: 4, 2003, pp. 5–56; David Shambaugh, *China goes global: the partial power* (Oxford: Oxford University Press, 2013); G. John Ikenberry, 'The rise of China and the future of the West: can the liberal system survive?', *Foreign Affairs* 87: 1, 2008, pp. 23–37; John Mearsheimer, 'The gathering storm: China's challenge to US power in Asia', *Chinese Journal of International Politics* 3: 4, 2010, pp. 381–96; Amitav Acharya, 'Can Asia lead? Power ambitions and global governance in the twenty-first century', *International Affairs* 87: 4, July 2011, pp. 851–69; Randall L. Schweller and Xiaoyu Pu, 'After unipolarity: China's visions of international order in an era of US decline', *International Security* 36: 1, 2011, pp. 41–72.

[3] Patrick, 'Irresponsible stakeholders?'; Thomas Hale, David Held and Kevin Young, *Gridlock: why global cooperation is failing when we need it most* (Cambridge: Polity, 2013).

[4] James F. Paradise, 'The role of "parallel institutions" in China's growing participation in global economic governance', *Journal of Chinese Political Science* 21: 2, 2016, pp. 149–75 at p. 150.

[5] Fareed Zakaria, 'China's growing clout', *Washington Post*, 13 Nov. 2014, https://www.washingtonpost.com/opinions/fareed-zakaria-chinas-growing-clout/2014/11/13/fe0481f6-6b74-11e4-a31c-77759fc1eacc_story.html?utm_term=.70f623bc22f6. (Unless otherwise noted at point of citation, all URLs cited in this article were accessible on 27 Jan. 2018.)

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The most prominent Chinese-led global governance initiative is the Asian Infrastructure Investment Bank (AIIB). Launched in late 2014 and becoming operational in January 2016, the AIIB is a multilateral development bank (MDB) devoted to promoting infrastructure-driven economic development in the Asia–Pacific region. Its initial pledged capitalization of US$100 billion is approximately two-thirds that of the Asian Development Bank (ADB) and half that of the World Bank. The AIIB reflects China's rapid shift from an aid-receiving country to a major provider of International Development Finance (IDF). Precisely quantifying China's IDF is difficult, given the opacity of its reporting and the incommensurability of definitions used by China and the OECD's Development Assistance Committee (DAC).[6] However, the most authoritative estimate of Chinese IDF, the US-based AidData project, suggests that China provided US$354.4 billion in grants and (concessional and non-concessional) loans between 2000 and 2014. This figure is almost equivalent to the United States' overall international development spending in the same period—US$394.6 billion.[7] This remarkable expansion, especially from a relatively low base, is widely portrayed as a serious challenge to the DAC-led orthodoxy, especially since allegedly only a fifth of China's IDF complies with the DAC's official development assistance (ODA) standards.[8] Accordingly, many saw the AIIB as the clearest threat yet to the ADB and World Bank, both of which are dominated by the United States and its allies.[9] The Obama administration certainly took this view, aggressively lobbying governments to boycott the AIIB. Its failure to persuade even traditional allies like Britain and Australia to do so was seen to indicate waning US power.[10]

Most assessments positing a 'revisionist' intention behind the AIIB were written before its articles of agreement were finalized in mid-2015, when details of China's proposal were scant. Initial reports did suggest that the AIIB would be revisionist and China-dominated: only three of 20 directorships would be allocated to non-Asian states; directors would have limited oversight of the management team; environmental, social and transparency safeguards would be minimal; loans

6 Yanbing Zhang, Jing Gu and Yunnan Chen, *China's engagement in international development cooperation: the state of the debate*, Evidence Report no. 116, Rising Powers in International Development (Brighton: Institute of Development Studies, 2015). Chinese grants and concessional and non-concessional loans are often combined for particular projects, making the identification of pure 'aid' difficult in practice and largely pointless, since both China and recipient countries perceive the variant forms of funding holistically. See Yasutumi Shimomura and Hideo Ohashi, 'Why China's aid matters', in Yasutumi Shimomura and Hideo Ohashi, eds, *A study of China's foreign aid: an Asian perspective* (Basingstoke: Palgrave Macmillan, 2013), pp. 31–51 at pp. 37–8. Accordingly, we refer to IDF rather than the narrower concept of aid.

7 Axel Dreher, Andreas Fuchs, Bradley Parks, Austin M. Strange and Michael J. Tierney, 'Aid, China, and growth: evidence from a new global development finance dataset', AidData working paper no. 46 (Williamsburg: College of William and Mary, Oct. 2017), http://docs.aiddata.org/ad4/pdfs/WPS46_Aid_China_and_Growth.pdf; http://aiddata.org/china.

8 John F. Copper, *China's foreign aid and investment diplomacy*, vol. 1: *Nature, scope, and origins* (Basingstoke: Palgrave Macmillan, 2016), p. x; Sophie Harman and David Williams, 'International development in transition', *International Affairs* 90: 4, July 2014, pp. 925–41 at pp. 935–6. Some evidence suggests this claim is overstated: see Haley J. Swedlund, 'Is China eroding the bargaining power of traditional donors in Africa?', *International Affairs* 93: 2, March 2017, pp. 389–408. On Chinese IDF and ODA, see http://aiddata.org/china.

9 Zakaria, 'China's growing clout'; Feng Zhang, 'China as a global force', *Asia and the Pacific Policy Studies* 3: 1, 2016, pp. 120–28.

10 Amitai Etzioni, 'The Asian Infrastructure Investment Bank: a case study of multifaceted containment', *Asian Perspectives* 40: 2, 2016, pp. 173–96.

would be issued mainly in renminbi; Chinese companies would be prioritized in the awarding of contracts; and China would contribute 50 per cent of the AIIB's capital stock, giving it veto power.[11] The Obama administration harnessed these reports to attack the AIIB's legitimacy.[12] Realists saw the picture they painted as evidence of China's 'revisionist' challenge to global governance.[13]

The AIIB's eventual design does indeed distinguish it somewhat from existing MDBs. Its sole focus is on infrastructure development, not poverty reduction; loans are extended at commercial rates, and recipients are required to demonstrate repayment capacity as part of the business case for projects funded;[14] nine of the twelve directorships are reserved for Asian members; the board of directors, and the larger board of governors, are non-resident, potentially affording the bank's management more operational freedom than in other MDBs; and China's 26.6 per cent of the AIIB's vote share does give it veto power over decisions requiring a super-majority, though this excludes most operational matters, including project approvals.[15]

Nonetheless, most careful observers have concluded that the AIIB's structure, governance and operating procedures closely mirror those of other MDBs.[16] This assessment is supported by the AIIB's collaboration with these MDBs on projects: at the time of writing (November 2017), the great majority of the AIIB's active projects were co-funded with these institutions and accordingly governed by their rules (see table 1). Furthermore, there is no indication that China seeks to dominate the AIIB.[17] In short, the AIIB appears consistent with the global governance status quo. Liberal and constructivist scholars have thus argued that the AIIB reflects China's pursuit of international status and legitimacy.[18]

We concur that there is little in the AIIB to indicate a serious challenge to the existing MDBs, and that 'revisionist' claims therefore appear misplaced. However, we do not accept the 'status quo' argument either. If the AIIB's design was indeed driven by a search for international legitimacy and status, why has the new bank subsequently been marginalized in the financing of China's much-vaunted 'belt and road initiative' (BRI), for which it was ostensibly created?[19] The AIIB is hardly

[11] Jeffrey D. Wilson, 'The evolution of China's Asian Infrastructure Investment Bank: from a revisionist to status-seeking agenda', *International Relations of the Asia Pacific*, 25 September 2017, https://doi.org/10.1093/irap/lcx015.

[12] Etzioni, 'The Asian Infrastructure Investment Bank'.

[13] Sebastian Heilmann, Moritz Rudolf, Mikko Huotari and Johannes Buckow, *China's shadow foreign policy: parallel structures challenge the established international order*, China Monitor Report no. 18 (Berlin: Mercator Institute for China Studies, 2014).

[14] Gregory T. Chin, 'Asian Infrastructure Investment Bank: governance innovation and prospects', *Global Governance* 22: 1, 2016, pp. 11–25 at p. 21.

[15] Alice de Jonge, 'Perspectives on the emerging role of the Asian Infrastructure Investment Bank', *International Affairs* 93: 5, Sept. 2017, pp. 1061–84 at p. 1068.

[16] Ming Wan, *The Asian Infrastructure Investment Bank: the construction of power and the struggle for the East Asian international order* (Basingstoke: Palgrave Macmillan, 2016), pp. 81–2; Chin, 'Asian Infrastructure Investment Bank'; Wilson, 'The evolution of China's Asian Infrastructure Investment Bank'.

[17] Chin, 'Asian Infrastructure Investment Bank'.

[18] Wilson, 'The evolution of China's Asian Infrastructure Investment Bank'; Ren Xiao, 'China as an institution-builder: the case of the AIIB', *Pacific Review* 29: 3, 2016, pp. 435–42.

[19] Chinese National Development and Reform Council, Chinese Ministry of Foreign Affairs and Chinese Ministry of Commerce, *Vision and actions on jointly building Silk Road economic belt and 21st-century maritime Silk Road*, 28 March 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html; see also Peter Ferdinand, 'Westward ho—the China dream and "one belt, one road": Chinese foreign policy under Xi Jinping', *International Affairs* 92: 4, July 2016, pp. 941–57 at p. 950.

Table 1: Approved AIIB investments, November 2017

Project and location	AIIB stake: value (US$m) and share	Partners in co-financing (US$m)	Description	BRI-related?[a]
Philippines: Metro Manila flood management project	207.6 (41.5%)	World Bank: 207.6 Philippines: 84.8	Flood management infrastructure upgrade	No: not transboundary
Asia: IFC Emerging Asia Fund	150 (23%)	World Bank's IFC: 150 340 sought from others	Contribution to private equity fund for investment in emerging Asian economies	Unclear: IFC will make investment decisions; infrastructure is one of three target areas
India: transmission system strengthening project	100 (33%)	ADB: 50 Power Grid Corporation of India: 153.5	Upgrading of domestic electricity transmission network	No: not transboundary
Egypt: round II solar PV feed-in tariffs programme[b]	181.5–199 (26%)	IFC and others: 405 Equity: 113.5–151	Construction of eleven solar power plants	No: not transboundary
India: Gujarat rural roads	329 (50%)	Gujarat: 329	Upgrading of rural roads	No: not transboundary
Tajikistan: Nurek hydropower rehabilitation	60 (18%)	World Bank: 225.7 Eurasian Development Bank: 40	Rehabilitation and restoration of hydropower plant and strengthening of dam	No: not transboundary
India: India Infrastructure Fund	150 (25%)	600 sought from others	Creation of a fund for private investments in Indian infrastructure	No: not transboundary
Georgia: Batumi bypass road	114 (36%)	ADB: 114 Georgia: 87.2	14.3km highway, with tunnels and bridges	No: not transboundary

India: Andhra Pradesh 24×7—Power for All	160 (28%)	World Bank: 240 Andhra Pradesh: 171	Upgrading power transmission and distribution infrastructure	No: not transboundary
Bangladesh: natural gas infrastructure and efficiency improvement	60 (13%)	ADB: 167 Domestic sources: 226	Construction of natural gas extractors and pipelines	No: not transboundary
Indonesia: dam operational improvement and safety	125 (42%)	ADB: 125 Indonesia: 50	Repairs and training to improve safety and operations at 63 dams	No: not transboundary
Indonesia: Regional Infrastructure Development Fund	100 (25%)	Indonesia: 203 World Bank: 100 Swiss Secretariat for Economic Affairs: 3	Support for creation of fund to lend to subnational governments to finance basic infrastructure	No: not transboundary
Azerbaijan: trans-Anatolian natural gas pipeline	600 (8%)	Azerbaijan: 1,400 World Bank: 800 European Investment Bank: 1,300 European Bank of Reconstruction and Development (EBRD): 500 BOTAS Turkey: 1,000 British Petroleum: 1,000 Private commercial sources: 2,000	Construction of oil and gas pipelines linking Azerbaijan to Europe via Turkey	Yes: transboundary
Duqm Port commercial terminal and operational zone development	265 (75%)	Special Economic Zone Authority of Duqm: 88.3	Construction of port-related infrastructure	Yes: upgrade of port along 'Maritime Silk Road'
Oman: railway system preparation	36 (60%)	Oman Global Logistics Group: 24	Design and procurement of railway infrastructure to make Oman a transport hub and facilitate mineral exports	Yes: transboundary

Project and location	AIIB stake: value (US$m) and share	Partners in co-financing (US$m)	Description	BRI-related?[a]
Pakistan: Tarbela 5 hydro-power extension	300 (37%)	World Bank: 390 Pakistan: 124.5	Extension of hydropower dam for domestic consumption	No: not transboundary
Indonesia: national slum upgrading	216.5 (12%)	World Bank: 216.5 Indonesia: 1,310	Planning support, capacity-building and basic infrastructure upgrades	No: not transboundary
Pakistan: national motorway M-4	100 (37%)	ADB: 100 UK Department for International Development: 34 Pakistan: 39	Construction of 64km highway linking Islamabad, Faisalabad and Multan	Yes: intended to facilitate trade with central Asia
Bangladesh: distribution system upgrade and expansion	165 (100%)	n/a	Upgrade of rural electricity infrastructure	No: not transboundary
Tajikistan: Dushanbe–Uzbekistan border road improvement	27.5 (26%)	EBRD: 62.5 Tajikistan: 15.9	Upgrade of 5km of border road	Yes: upgrades to Tajikistan part of Asian highway network and central Asia regional economic cooperation corridor
Total	3,465 (19%)	18,092		
BRI-related projects only	1,029 (12%)	8,364		

[a] Assessed by comparing projects against the BRI master plan: Chinese National Development and Reform Commission, Chinese Ministry of Foreign Affairs and Chinese Ministry of Commerce, *Vision and actions on jointly building Silk Road economic belt and 21st-century maritime Silk Road*, 28 March 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.
[b] The AIIB is only 'considering' these investments. Estimated costs for the plants are given, with AIIB's total possible stake ranging from US$181.5m to US$199m. Upper figures used when calculating totals.
Source: Asian Infrastructure and Investment Bank, 'Approved projects', 2017, https://www.aiib.org/en/projects/approved/.

involved in BRI. At the time of writing, it had lent only US$3.46 billion, of which only US$1.03 billion (29.7 per cent) is clearly BRI-related; and this is concentrated in a meagre five projects, in which the AIIB's stake is just 12 per cent (see table 1). Other Chinese actors are much more heavily involved. For example, in 2016 alone, China's policy banks, the China Development Bank (CDB) and Export–Import (Exim) Bank, reported BRI-related lending of US$101.8 billion,[20] while media reports indicate that the CDB has prospectively allocated 'US$890bn for some 900 [BRI] projects'.[21] Similarly, the commercial Bank of China allocated US$100 billion of credit for BRI for 2016–2018, while CITIC Bank allocated US$102 billion for BRI projects in 2015.[22] The AIIB's marginalization is puzzling, regardless of whether one thinks the institution was created to challenge US hegemony or to improve China's standing within the existing global order. To explain this conundrum, and to assess the real extent of China's challenge to global governance, we must look beyond the AIIB, situating it within the broader context of China's IDF domain.

Others, most recently de Jonge, have noted the domestic roots of the AIIB and BRI, arguing that both appear to have been initiated to alleviate China's industrial and labour overcapacity problem.[23] We agree. But such accounts do not explain how this broad policy orientation is translated into actual funding decisions; why the AIIB receives such a small share of the BRI pie; or, indeed, what the implications are for China's effects on global governance in this area. We argue that the transformation of the Chinese party-state—its fragmentation, decentralization and internationalization—and the effects of that transformation on China's external behaviour, pose a more serious challenge to existing development financing norms than the AIIB.[24] The AIIB is a minor actor in China's crowded, fragmented and poorly coordinated IDF landscape, alongside—and, crucially, competing with—policy and commercial banks, functional ministries, provincial governments and state-owned enterprises (SOEs). It is contestation among these agencies that will determine China's *real* challenge to the global governance of development, and that challenge will often be more chaotic and less strategic than is conventionally assumed.

In the following section, we describe how China's state transformation has created a fragmented, poorly coordinated IDF governance domain. We then show how this has consigned the AIIB to a marginal role, and draw out the implications for China's challenge to global governance.

[20] David Dollar, 'Yes, China is investing globally–but not so much in its belt and road initiative', Brookings Institute, 8 May 2017, https://www.brookings.edu/blog/order-from-chaos/2017/05/08/yes-china-is-investing-globally-but-not-so-much-in-its-belt-and-road-initiative/.

[21] Agence France-Presse, 'China decries protectionism, but some raise concerns', *Straits Times*, 15 May 2017, http://www.straitstimes.com/asia/east-asia/europeans-snub-trade-text-at-chinas-silk-road-summit.

[22] Li Xiang, 'CITIC deepens backing for B&R', *ChinaDaily*, 5 June 2017, http://www.chinadaily.com.cn/bizchina/2017-06/05/content_29613276.htm.

[23] De Jonge, 'Perspectives on the emerging role'.

[24] Shahar Hameiri and Lee Jones, 'Rising powers and state transformation: the case of China', *European Journal of International Relations* 22: 1, 2016, pp. 72–98; Linda Jakobson and Ryan Manuel, 'How are foreign policy decisions made in China?', *Asia and the Pacific Policy Studies* 3: 1, 2016, pp. 101–10; Lee Jones, 'Theorising foreign and security policy in an era of state transformation: a case study of China', *Journal of Global Security Studies*, forthcoming.

China's fragmented party-state and international development financing

Whereas most IR analysts view Chinese international development engagements as part of a coherent top-down strategy, scholars familiar with the Chinese party-state typically take a different view:

> Foreign aid is formulated and implemented through a complex web of government and non-government actors at state, provincial and local levels jostling for space and influence. Their actions and agendas are often non-complementary if not outright contradictory.[25]

This judgement applies equally to other forms of Chinese IDF. This section briefly introduces the 'Chinese-style regulatory state' that provides the context for IDF policy-making and implementation.[26] This analysis explains why the AIIB is just one, relatively small, player in a diverse, poorly coordinated and contested policy domain.

The Chinese-style regulatory state

IR's characterization of China as a 'highly centralised country', whose authoritarian regime 'ensures top-down decision-making',[27] ignores the work of many Sinologists who have noted the fragmentation, decentralization and internationalization of the Chinese party-state since the 'reform' era began in the late 1970s, and the impact of these trends on China's international behaviour.[28]

The post-1978 fragmentation and decentralization of authority—largely driven by piecemeal reforms to boost economic development—have substantially broadened the domain of foreign policy-making and implementation. In the 1980s, provincial governments gained extensive control over resources and policy, including in respect of foreign economic relations, and despite some recentralization the situation is akin to 'de facto federalism'.[29] Provincial governments frequently act in quasi-autonomous ways abroad, typically in competitive pursuit of local economic development.[30] Meanwhile, following extensive privatization of smaller SOEs, larger ones were consolidated and 'corporatized', converted into primarily profit-seeking entities with arm's-length management.[31] From 2000,

[25] Merriden Varrall, 'Domestic actors and agendas in Chinese aid policy', *Pacific Review* 29: 1, 2016, pp. 21–44 at p. 23.
[26] Jones, 'Theorising foreign and security policy'.
[27] Christopher Hill, *Foreign policy in the twenty-first century*, 2nd edn (Basingstoke: Palgrave Macmillan, 2016), p. 243.
[28] e.g. David M. Lampton, ed., *The making of Chinese foreign and security policy in the era of reform, 1978–2000* (Stanford, CA: Stanford University Press, 2001); Liu Zhongmin and Teng Guiqing, '20 shì jì 90 nián dài yǐ lái guó nèi nán hǎi wèn tí yán jiū zōng shù' [Literature review of Chinese research on South China Sea issues since the 1990s], *Journal of Ocean University of China*, no. 3, 2006, pp. 15–19; Li Xin, '"Zǔ zhī huà lì yì" yǔ "zhèng zhì xìng xíng dòng": guó yǒu qǐ yè duì zhōng guó wài jiāo zhèng cè zhì dìng dí yǐng xiǎng' ['Organized interest' and 'political action': state-owned enterprises as interest groups in Chinese foreign policy], *Journal of International Studies*, no. 3, 2012, pp. 163–76.
[29] Zheng Yongnian, *De facto federalism in China: reforms and dynamics of central–local relations* (Singapore: World Scientific, 2007).
[30] Mingjiang Li, 'Local liberalism: China's provincial approaches to relations with Southeast Asia', *Journal of Contemporary China* 23: 86, 2014, pp. 275–93.
[31] Ruben Gonzalez-Vincente, 'The internationalization of the Chinese state', *Political Geography* 30: 7, 2011, pp. 402–11.

they were encouraged to 'go out' to seek new markets and externalize China's massive surplus capacity.[32] Thanks to weak oversight, SOEs have often behaved illegally and rapaciously while nonetheless claiming to be implementing Chinese foreign policy.[33] Other formerly domestic state apparatuses have also been internationalized, including some ministries, regulators and law-enforcement agencies, often with overlapping remits and poor coordination.

Today, although the senior party leadership—notably President Xi—sets the overall direction for China's foreign policy,[34] state transformation processes have affected how leaders' influence becomes manifest in practice. The top leadership's control is not usually exercised in a 'top-down' manner, but rather reflects the emergence of a 'Chinese-style regulatory state'.[35] Senior leaders primarily employ regulatory means to shape Chinese foreign policy, with varying degrees of success. These include the issuing of broad guidelines for others to interpret and implement; attempts to coordinate and 'steer' diverse actors; and, on occasion, the use of coercion to discipline underlings' errant behaviour.[36] Top-level guidelines are typically left vague to accommodate the diverse interests now operating through the party-state. Rather than carefully specified strategies, they are typically 'platitudes, slogans, catchphrases, and generalities', offering 'atmospheric guidance' that others then interpret.[37] President Xi's opaque statements on 'the China dream', 'maritime rights' and the BRI itself are all in this vein.[38] This enables actors to interpret guidelines in ways that suit themselves and their allies, which may diverge from others' interests and even senior leaders' intentions. Attempts are made to coordinate these actors, particularly through Politburo or State Council 'leading small groups' (LSGs). However, these bodies are themselves fragmented and overlapping, and their capacity to generate coherent policy outputs is questioned, even under Xi's personal leadership.[39]

To be sure, the party-state—especially the Chinese Communist Party (CCP) itself—retains powerful levers to incentivize compliance with central directives and deter serious malfeasance. These include discretionary control over regulations and finance; the appointment, appraisal and promotion of key personnel; and disciplinary mechanisms. If particular actors stray too far from the party line,

[32] Ho-fung Hung, *The China boom: why China will not rule the world* (New York: Columbia University Press, 2016).

[33] Lee Jones and Yizheng Zou, 'Rethinking the role of state-owned enterprises in China's rise', *New Political Economy* 22: 6, 2017, pp. 743–60.

[34] Nien-Chung Chang Liao, 'The sources of China's assertiveness: the system, domestic politics or leadership preferences?', *International Affairs* 92: 4, July 2016, pp. 817–33.

[35] Jones, 'Theorising foreign and security policy'; Jones and Zou, 'Rethinking the role of state-owned enterprises'.

[36] Jakobson and Manuel, 'How are foreign policy decisions made in China?'; Jones, 'Theorising foreign and security policy'.

[37] William J. Norris, *Chinese economic statecraft: commercial actors, grand strategy, and state control* (Ithaca, NY: Cornell University Press, 2016), p. 52.

[38] William A. Callahan, *China dreams: 20 visions of the future* (Oxford: Oxford University Press, 2013); Shinji Yamaguchi, 'The foreign policy of the Xi Jinping administration and the establishment of China's air defense identification zone', National Institute for Defense Studies, Japanese Ministry of Defense, 2014, http://www.nids.mod.go.jp/english/publication/briefing/pdf/2014/briefing_e190.pdf; Tom Miller, *China's Asia dream: quiet empire building along the new Silk Road* (London: Zed, 2017), p. 30.

[39] David M. Lampton, 'Xi Jinping and the National Security Commission: policy coordination and political power', *Journal of Contemporary China* 24: 95, 2015, pp. 759–77.

top leaders can deploy their control mechanisms, disciplining or purging cadres, issuing tighter guidelines or seeking to recentralize authority. However, these mechanisms are never fully successful, as can be seen in continued struggles over foreign policy,[40] and non-implementation of Xi's policies, even as he cracks down on corruption and seeks to recentralize power.[41] Indeed, the extensive deployment of these mechanisms puts at risk the functioning and even the survival of the party-state itself. Rather than constituting a decisive move to reassert authority, therefore, these tactics are part of an ongoing 'tug-of-war'.

China's fragmented IDF domain

China's IDF domain reflects the emergence of the Chinese-style regulatory state described above. Like Chinese foreign policy more generally, development financing is in part 'steered' by vague announcements from senior leaders. BRI is the obvious example. Others include China's pledges of US$60 billion for Africa in 2015 and US$2 billion for the Pacific islands in 2013. These announcements lack concrete detail. Accordingly, how funds are actually spent (if at all) is determined by competition among diverse party-state actors, including ministries, banks, local governments and SOEs. This produces incoherent, even contradictory, outcomes.

Several national ministries are involved in translating the senior leadership's pronouncements into concrete policy. The main competition involves the Ministry of Foreign Affairs (MFA) and the Ministry of Commerce (MOFCOM). The MFA sees IDF as a tool to advance China's diplomatic and geostrategic objectives. MOFCOM, however, is ostensibly primarily responsible for China's international economic relations, and typically uses IDF to support Chinese commercial endeavours.[42] Most research suggests MOFCOM is dominant, disregarding the MFA except when it needs a 'diplomatic problem-solver' when things go wrong.[43] Many other national-level agencies are also involved. Various functional ministries and agencies, including the ministries of health, education, transport, culture, agriculture, and science and technology, have substantial aid budgets beyond MOFCOM's reach.[44] The powerful National Development and Reform Commission (NDRC) is also frequently involved, particularly when IDF is linked to foreign investment and development lending: for example, it led in producing the BRI master-plan.

[40] Yingxian Long, 'China's decision to deploy HYSY-981 in the South China Sea: bureaucratic politics with Chinese characteristics', *Asian Security* 12: 3, 2016, pp. 148–65.

[41] 'Chairman of everything, master of nothing', *The Economist*, 22 Oct. 2016, http://www.economist.com/news/china/21709005-changing-china-tough-even-man-xis-powers-xi-jinping-strongman-does-not.

[42] Varrall, 'Domestic actors and agendas', pp. 25, 35.

[43] Lucy Corkin, 'Redefining foreign policy impulses towards Africa: the roles of the MFA, the MOFCOM, and China Exim bank', *Journal of Current Chinese Affairs* 40: 4, 2011, pp. 61–90 at p. 74; Zhang et al., *China's engagement*; Jones and Zou, 'Rethinking the role of state-owned enterprises'; Varrall, 'Domestic actors and agendas'. For an alternative view, see Denghua Zhang and Graeme Smith, 'China's foreign aid system: structure, agencies, and identities', *Third World Quarterly* 38: 10, 2017, pp. 2330–46.

[44] Zhang and Smith, 'China's foreign aid system'; Shuaihua Cheng, Ting Fang and Hui-Ting Lien, *China's international aid policy and its implications for global governance* (Bloomington: Indiana University Research Centre for Chinese Politics and Business, 2012), p. 6; Naohiro Kitano, *Estimating China's foreign aid II: 2014 update* (Tokyo: JICA Research Institute, 2016), p. 13.

However, policy-making ministries are disconnected from funding bodies. Although MOFCOM manages grants and concessional loans, the funds are held by the Ministry of Finance (MOF). In the past, MOF has refused to cooperate with MOFCOM, for example declining to disclose other ministries' aid budgets ahead of the 2011 foreign aid white paper.[45] But MOF does not actually determine the IDF budget's extent: this is the role of the NDRC.[46] China's policy banks—the Exim Bank and CDB—are also important actors. The Exim Bank provides the concessional loans that now comprise over half of China's total aid programme (MOF covers the gap between concessional and commercial rates), along with other forms of IDF, such as export credits. The CDB provides non-concessional development financing, having recently shifted from a purely domestic to an international role. Although, as policy banks, the CDB and Exim Bank are meant to serve the government's agenda, both have sought to maintain profitable balance sheets, insisting on commercial loan rates.[47] Accordingly, despite political pressure to support major initiatives like 'going out' or BRI, they assess investment risk independently and have on some occasions refused credit.[48] The relationship between the two banks is complex—they cooperate on some projects while competing over others.[49] Major state-owned commercial banks also frequently provide commercial-rate loans for development-related projects. Importantly, both policy and commercial banks operate quasi-autonomously owing to a shift towards Chinese-style regulatory governance in the financial sector.[50]

The final, and perhaps most important, element is the many, mostly state-owned, companies involved in implementing Chinese-funded projects, largely in the infrastructure and construction sectors: too numerous to list exhaustively, they include, for example, China Railway Construction, Sinosteel, China Energy Investment Corporation and China Communications Construction. Chinese IDF is overwhelmingly 'tied', designed to funnel resources and contracts towards Chinese firms—the AIIB being a notable exception. The capacity of central agencies to regulate the overseas conduct of SOEs is increasingly recognized as weak.[51] Development projects conform to this general picture; indeed, Zhang and Smith argue that the 'tail wags the dog', with SOEs able to direct IDF to their own benefit.[52] This situation stems partly from the deliberately 'recipient-led'

45 Zhang and Smith, 'China's foreign aid system', p. 2337.

46 Shino Watanabe, 'Implementation system: tools and institution', in Yasutumi Shimomura and Hideo Ohashi, eds, *A study of China's foreign aid: an Asian perspective* (Basingstoke: Palgrave Macmillan, 2013), pp. 119–59 at p. 151.

47 On the CDB, see Henry Sanderson and Michael Forsythe, *China's superbank: debt, oil and influence—how China Development Bank is rewriting the rules of finance* (New York: Bloomberg, 2013), pp. xvi, 58–9. Corkin also claims that the Exim Bank emphasizes repayment capacity as a crucial precondition for awarding loans to African governments: see Corkin, 'Redefining foreign policy impulses towards Africa', p. 69.

48 See e.g. Zhang and Smith, 'China's foreign aid system', p. 2339.

49 Deborah Bräutigam, 'Aid with Chinese characteristics: Chinese foreign aid and development finance meet the OECD–DAC aid regime', *Journal of International Development* 23: 5, 2011, pp. 752–64.

50 Jun Ma, 'China's banking sector: from administrative control to a regulatory framework', *Journal of Contemporary China* 5: 12, 1996, pp. 155–69.

51 Jones and Zou, 'Rethinking the role of state-owned enterprises'; Norris, *Chinese economic statecraft*; Bates Gill and James Reilly, 'The tenuous hold of China Inc. in Africa', *Washington Quarterly* 30: 3, 2007, pp. 37–52.

52 Zhang and Smith, 'China's foreign aid system', p. 2339.

nature of Chinese IDF, whereby applications for projects come from would-be recipient countries. To secure overseas business, Chinese companies often lobby foreign governments to apply for funded projects that these companies would be well positioned to implement. Provincial governments also lobby national-level agencies on behalf of locally owned SOEs. Accordingly, Chinese IDF disbursements on particular projects are driven largely by lobbying, competition among SOEs and commercial considerations, not top-down direction for geopolitical purposes.[53] Indeed, cut-throat competition among companies often compromises project quality, leading to the violation of environmental and labour regulations and creating social unrest and diplomatic 'blowback' for China.[54]

Chinese leaders have attempted to coordinate this fragmented governance domain. However, it is unclear whether IDF falls within the remit of the foreign affairs LSG, the finance and economy LSG, the BRI LSG or—as seems likely, given the usual tussles—all of them.[55] The potential overlap is characteristic of the party-state's fragmentation: Lampton remarks that '[LSGs] too need coordination'.[56] In the State Council, MOFCOM, MFA and MOF established a liaison mechanism in 2008 which in 2011 was formalized as the Inter-Agency Foreign Aid Coordination Mechanism.[57] By 2012, reflecting the vast number of actors involved, this mechanism included 33 agencies.[58] However, given the different agendas and interests at stake, and the lack of any decisive authority in such modes of governance, practical coordination remains limited.[59]

MOFCOM's efforts to steer other actors through regulatory mechanisms have also been largely ineffective. In 2002, for example, MOFCOM issued new rules to evaluate aid projects, but 'assessment reports did not become available and … it is still usually not discernible whether they have had an impact or not'.[60] Likewise, in 2014, MOFCOM released 'Measures for the Administration of Foreign Aid'—the first comprehensive set of regulations on China's foreign aid.[61] However, there is no evidence that these made a substantial difference to other agencies' practices.

The same is true of efforts to improve regulation of SOEs' activities abroad, following repeated scandals and damage to China's international relations. The NDRC and the State-owned Assets Supervision and Administration Commission (SASAC) issued tighter guidelines in 2006, following many problems in Africa.[62] Between 2008 and 2011, MOFCOM issued further regulations on environmental and social protections in combination with other agencies, including SASAC, the MFA, the State Administration of Foreign Exchange (SAFE) and the Minis-

53 Zhang and Smith, 'China's foreign aid system'; Deborah Bräutigam, *The dragon's gift: the real story of China in Africa* (Oxford: Oxford University Press, 2009).
54 Zhang and Smith, 'China's foreign aid system', p. 2340; Jones and Zou, 'Rethinking the role of state-owned enterprises'.
55 Varrall, 'Domestic actors and agendas', p. 33.
56 Lampton, 'Xi Jinping and the National Security Commission', p. 767.
57 Cheng et al., *China's international aid policy*, p. 7.
58 Watanabe, 'Implementation system', p. 152.
59 Watanabe, 'Implementation system', p. 152.
60 Copper, *China's foreign aid*, pp. 40–41.
61 Kitano, *Estimating China's foreign aid II*, p. 5.
62 Gill and Reilly, 'The tenuous hold of China Inc.', p. 47.

tries of Forestry and Environmental Protection.[63] Nonetheless, malpractices continued, generating another round of regulatory tightening—including new 'Guidelines for Environmental Protection in Foreign Investment and Cooperation'—and purges of some company bosses between 2013 and 2015.[64] Whether this latest attempt will have any significant consequences is doubtful. The underlying problem is China's fragmented regulatory mode of governance. As Tan-Mullins and colleagues conclude with respect to environmental and social regulations in overseas investment, central regulations are 'confined to vague and broad legislative requirements spread over a cross section of foreign investment laws and operational guidelines which have no means of enforcement or follow through'.[65] The fact that regulations on overseas investment were tightened yet again in August 2017—because, in the words of the governor of the People's Bank of China (PBC), some SOE investments 'do not meet our industrial policy requirements . . . are not of great benefit to China and have led to complaints abroad'—suggests a centre still struggling to effect change, even under 'strongman' Xi.[66] Moreover, this ostensible tightening has occurred alongside the increasing decentralization of overseas investment approvals to provincial-level MOFCOM and NDRC offices, and the removal of State Council scrutiny of overseas projects exceeding US$200 million.

To summarize, China's IDF policy-making and implementation are fragmented and incoherent. Authority and resources are dispersed, and the regulatory mechanisms established to coordinate and steer them are weak. Top leaders can influence aid disbursement in various ways, but coherent, strategic direction for geopolitical or diplomatic purposes is challenged by state transformation dynamics. Overall, the institutional structure is systematically biased towards assisting China's economic development, creating ample opportunities for Chinese companies to manoeuvre IDF to suit their commercial interests.

Implications for the AIIB and China's challenge to global governance

The analysis presented above has two important implications. First, the focus on the AIIB is misguided. Set in the wider context of Chinese IDF, the AIIB is condemned to be a marginal player; accordingly, scrutinizing its institutional set-up and mission tells us little about Chinese intentions in this domain. China's leadership may have played up the AIIB's significance, but the size of its funding compared with other Chinese agencies tells a different story. This resonates with Breslin's call to evaluate China's impact on the global order with reference to what China *does*, rather than

[63] Huang Wenbin and Andreas Wilkes, *Analysis of China's overseas investment policies*, working paper no. 79 (Bogor: Center for International Forestry Research, 2011), p. 16; Karl P. Sauvant and Victor Zitian Chen, 'China's regulatory framework for outward foreign direct investment', *China Economic Journal* 7: 1, pp. 141–63 at p. 151.

[64] Jones and Zou, 'Rethinking the role of state-owned enterprises', pp. 12–13.

[65] May Tan-Mullins, Frauke Urban and Grace Mang, 'Evaluating the behaviour of Chinese stakeholders engaged in large hydropower projects in Asia and Africa', *China Quarterly*, vol. 230, June 2017, pp. 464–88 at p. 476. See also Irene Yuan Sun and Tang Xiaoyang, 'Social responsibility or development responsibility—what is the environmental impact of Chinese investments in Africa: what are its drivers and what are the possibilities for action?', *Cornell International Law Journal* 49: 1, 2016, pp. 69–99 at pp. 33–4.

[66] Emily Feng, 'China tightens rules on state groups' foreign investments', *Financial Times*, 3 Aug. 2017, https://www.ft.com/content/3251987c-7806-11e7-90c0-90a9d1bc9691.

Beijing's official statements.[67] Second, the focus on state transformation dynamics provides better guidance on the extent of China's challenge to established IDF practices and governance—and the picture is not encouraging for supporters of the 'status quo' argument. The fragmented, contested IDF field is generating, and will continue to generate, behaviour that violates established norms. But, *pace* both 'revisionist' and 'status quo' interpretations, this does not necessarily reflect a strategic decision by China's senior leadership. We demonstrate these points with reference to BRI, the 'trillion-dollar' centrepiece of China's IDF agenda, which the AIIB was ostensibly established to support.[68]

Contrary to common perceptions of calculated strategic direction,[69] BRI's implementation is highly fragmented. Aside from the AIIB, it involves a wide range of regulatory and funding agencies, listed in table 2.

Compared to other agencies, especially the policy and commercial banks, the AIIB is and will remain a marginal player. The AIIB has US$100 billion of 'authorized' capital but, as of June 2017, only US$18.46 billion of actual 'paid in' capital available for lending, scheduled to rise to US$20 billion by 2024.[70] The AIIB has already deployed 18.8 per cent of its available assets for the next six years, and only 29.7 per cent of this—just 5.6 per cent of its total available capital—is devoted to BRI projects (see table 1). Miller estimates that even if the AIIB and NDB combined invested 45–75 per cent of their equity in BRI projects, this would comprise only US$15–20 billion of lending annually by the early 2020s—barely a quarter of existing MDB financing.[71] The entities providing funds to the AIIB apparently prefer to retain control of their far larger reserves, or funnel them through other vehicles not subject to the same restrictions. In July 2015, a SAFE-owned investment vehicle named Chinese Parasol Tree Investment Platform Co. injected US$38 billion into the CDB for BRI projects.[72] This one investment alone is more than double the AIIB's available capital. By the end of 2016, the CDB and Exim Bank had overseas loan portfolios of US$329 billion and US$346 billion respectively, reporting BRI-related lending of US$101.8 billion in 2016,[73] and US$200 billion of investments in BRI countries by May 2017.[74] China's commercial banks also

[67] Shaun Breslin, 'China and the global order: signalling threat or friendship?', *International Affairs* 89: 3, 2013, pp. 615–34.

[68] State Council, People's Republic of China, *Vision for maritime cooperation under the belt and road initiative*, 20 June 2017, http://english.gov.cn/archive/publications/2017/06/20/content_281475691873460.htm.

[69] See e.g. Abanti Bhattacharya, 'Conceptualizing the Silk Road initiative in China's periphery policy', *East Asia* 33: 4, 2016, pp. 309–28; European Council on Foreign Relations, "*One belt, one road": China's great leap* (Brussels: European Council on Foreign Relations, 2015); Flynt Leverett and Wu Bingbing, 'The new Silk Road and China's evolving grand strategy', *China Journal*, no. 77, 2016, pp. 110–32.

[70] AIIB, *Condensed interim financial statements for the six months ended June 30, 2017* (unaudited), 2017, https://www.aiib.org/en/about-aiib/financial-statements/.content/index/pdf/AIIB-Q2-Financial-Statement-Bank.pdf; Moody's Investors Service, *Moody's assigns first-time AAA issuer rating to Asian Infrastructure Investment Bank; outlook stable*, 2017, https://www.aiib.org/en/news-events/news/2017/_download/research-document.pdf.

[71] Miller, *China's Asia dream*, pp. 40–1.

[72] Yongzhong Wang, *The sustainable infrastructure finance of China Development Bank: composition, experience and policy implications*, Global Economic Governance Initiative working paper no. 05 (Boston: Boston University, 2016), p. 3.

[73] David Dollar, 'China as a global investor', in Ligang Song, Ross Garnaut, Cai Fang, and Lauren Johnston, eds, *China's new sources of economic growth*, volume 1: *Reform, resources and climate change* (Canberra: ANU Press, 2016), pp. 197–213.

[74] Wang Cong, 'Chinese banks expand loans in Belt and Road nations', *Global Times,* 12 May 2017, http://www.globaltimes.cn/content/1046592.shtml.

dwarf the AIIB. According to the China Banking Association, 'Bank of China, the Industrial and Commercial Bank of China and China Construction Bank have so far offered a total of US$527.2 billion in loans and equity investments for 1,012 projects in BRI countries', and most of these sums 'have [gone] . . . or will go to infrastructure projects'.[75] In 2015, CITIC Bank declared it would allocate US$102 billion for BRI projects.[76]

To be sure, Chinese banks are likely padding these figures to curry political favour with the government: as with the AIIB, only part of this lending may be directed towards building *transboundary* infrastructure, as ostensibly envisaged in the BRI programme. But that itself illustrates the point we are making here. How development financing occurs under BRI will be powerfully shaped by how various actors interpret and act upon vague central policy initiatives, in line with their sectional interests—interests that are in many cases primarily commercial, not geostrategic. Moreover, even if only a fraction of policy and commercial banks' lending is going to 'true' BRI projects, it still clearly dwarfs the AIIB's involvement. Indeed, just one US$5 billion loan made in 2015—from the Bank of China to the SOE Anhui Conch Cement, to support its BRI endeavours—is double the value of AIIB's total global loan portfolio.[77]

Accordingly, any assessment of China's challenge to the global governance of IDF that focuses exclusively or even primarily on the AIIB is grossly deficient. It is certainly useful to know whether the AIIB is underpinned by 'revisionist' or 'status quo' governance principles, but because it controls only a tiny fraction of Chinese IDF this tells us very little about how far China is complying with or seeking to revise existing global governance principles. A proper assessment of the latter question requires us to examine all the entities involved and the governance system in which they are embedded. This exercise generates a more alarming picture than the one painted by 'status quo' accounts of the AIIB, but for different reasons from those suggested by 'revisionists'.

Among the diverse development financing actors identified above, only the AIIB abides by DAC principles in internal governance and environmental and social impact assessment (ESIA).[78] The Silk Road Fund also claims to abide by 'internationally accepted standards and guidelines' but provides no further detail, rendering this claim dubious.[79] As noted above, despite repeated tightening, the regulation of Chinese firms' overseas investment practices remains loose, ineffective and well below 'best practice' relating to development projects. Chinese firms are required to conduct ESIAs and abide by local laws and customs, but evidence exists of both provincially and centrally managed SOEs violating these regulations, with

[75] Wang, 'Chinese banks expand loans in Belt and Road nations'.
[76] Li, 'CITIC deepens backing'.
[77] Economist Intelligence Unit, *Prospects and challenges on China's 'one belt, one road': a risk assessment report* (London, 2015), p. 9.
[78] De Jonge, 'Perspectives on the emerging role', pp. 1076–82.
[79] Silk Road Fund, 'Shè huì zé rèn' [Social responsibility], 2015, http://webcache.googleusercontent.com/search?q=cache:UQIiPNhg6rQJ:www.silkroadfund.com.cn/cnwap/25363/25371/20040/index.html+&cd=1&hl=en&ct=clnk&gl=uk.

Table 2: Chinese agencies participating in the BRI initiative (apart from the AIIB)

Type of agency	Name of agency	Role in BRI initiative
Policy-making and regulatory agencies	NDRC	Leads in drafting BRI policy guidelines; sets financing budgets; must approve large-scale (over US$300m in resource sector; over US$100m in other sectors) and infrastructure-related outbound direct investment (ODI) projects
	Ministry of Commerce (MOFCOM)	Retains an important role in policy-making and aid disbursements; involved in drafting BRI policy guidelines; authorizes ODI by non-financial firms; monitors post-investment activities with SAFE
	Provincial-level NDRC and MOFCOM offices	Authorize smaller-scale ODI
	People's Bank of China and financial industry regulators	Authorize ODI by financial companies, in addition to NDRC
	Ministry of Foreign Affairs	Involved in drafting BRI policy guidelines; seeks to promote foreign policy objectives
	Ministry of Finance	Involved in allocating funding
	SAFE	Involved in allocating Chinese foreign exchange reserves to support BRI; authorizes use of foreign exchange in ODI; monitors post-investment activities with MOFCOM
	SASAC	Supervises centrally owned SOEs, including overseas investment practices
	Functional ministries	Disburse aid for projects related to their domains; actively encouraged to cooperate across borders in diverse fields, including transport, money and finance, law enforcement and customs, agriculture, forestry, environmental protection, science and technology, etc. Supervise non-centrally owned SOEs; fund some projects; lobby for central funding
Implementing agencies	CDB and Exim Bank	State-owned policy banks providing loans for projects
	CITIC Group Corporation	A strongly commercialized sovereign wealth fund (SWF) financing BRI projects
	Silk Road Fund (SRF)	A US$40bn investment vehicle established by SAFE, CDB, Exim Bank and China Investment Corporation, another commercialized SWF
	New Development Bank Shanghai Cooperation Organization Development Bank	A US$40bn MDB established by Brazil, China, India and Russia
	Chinese commercial banks	Provide loans for projects and companies
	SOEs and private firms	Compete for contracts and funding; implement BRI projects

diplomatic repercussions for China.[80] This situation poses a serious risk because, since practically all non-AIIB development financing is tied, Chinese IDF will continue to be influenced and implemented by poorly regulated companies that are primarily driven by motives of competition and profit, not strategic or diplomatic concerns. Although there is evidence that the party-state's reactions to diplomatic fallout—including new regulations and purges of some SOE bosses—have spurred greater attention to corporate social responsibility (CSR) in countries such Myanmar, Chinese firms are moving from an extremely low base.[81] Moreover, in other cases, firms' commitments to international CSR standards have actually diminished over time, and implementation and enforcement are typically weak.[82] Within BRI countries, 58 per cent of Chinese firms surveyed in 2017 have never published *any* CSR or sustainability reports.[83]

Chinese banks involved in IDF are also regulated in ways out of step with western governance norms. They have largely stated that borrowers must abide by recipient states' laws, regulations and customs, invoking China's 'non-interference' policy to justify a lack of stronger conditionality—effectively prioritizing business and 'development' over human rights, democratization, and environmental and social protection.[84] Reliance on host-state regulation also creates massive risks in the poorly governed environments where many Chinese projects are located. Certainly, over the past decade top leaders have increased pressures to 'green' Chinese development lending, initially domestically but increasingly overseas, leading the CDB and Exim Bank to adopt new regulations (see table 3). Although this suggests gradual convergence with established 'good governance' principles, partly through certain regulatory agencies' engagement with existing global governance institutions,[85] these guidelines still fall well short of 'best practice' norms and are not vigorously enforced. A Friends of the Earth study comparing the CDB's environmental and social regulations with the rules of the World Bank and OECD and the Equator Principles finds the CDB wanting, particularly with respect to sector-specific standards, transparency and local stakeholder consultation.[86] This laxity enables the funding of destructive and controversial projects including oil and gas pipelines, such as the Shwe pipeline connecting Myanmar to south-western China; hydropower dams, such as those at Myitsone (Myanmar)

80 Steve Hess and Richard Aidoo, 'Charting the impacts of subnational actors in China's foreign relations', *Asian Survey* 56: 2, 2016; Jones and Zou, 'Rethinking the role of state-owned enterprises'.

81 Julian Kirchherr, Katrina J. Charles and Matthew J. Walton, 'The interplay of activists and dam developers: the case of Myanmar's mega-dams', *International Journal of Water Resources Development* 33: 1, 2016, pp. 111–31.

82 Tan-Mullins et al., 'Evaluating the behaviour of Chinese stakeholders', pp. 477–82.

83 Chinese Academy of International Trade and Economic Cooperation, MOFCOM (CAITEC), Research Centre of the SASAC, and the UN Development Programme China, *2017 report on the sustainable development of Chinese enterprises overseas: supporting the Belt and Road regions to achieve the 2030 agenda for sustainable development*, 2017, http://www.cn.undp.org/content/china/en/home/library/south-south-cooperation/2017-report-on-the-sustainable-development-of-chinese-enterprise.html.

84 Dollar, 'China as a global investor', pp. 199–207.

85 For example, the PBC established a joint Green Finance Task Force with the UN Environment Programme, which issued recommendations in 2014, centred on the adoption of 'internationally consistent standards': Friends of the Earth, *Emerging sustainability frameworks: China Development Bank and China Export–Import Bank* (Washington DC: Friends of the Earth, 2016), pp. 11–12.

86 Friends of the Earth, *China Development Bank's overseas investments: an assessment of environmental and social policies and practices* (Berkeley, CA: Friends of the Earth, 2012).

and Chhay Areng (Cambodia), which caused such strong societal backlash that they were suspended; and special economic zones (SEZs), such as the as Golden Triangle in Laos, which are associated with land grabs and have often become dens of organized crime.

Moreover, even these limited Chinese standards are not consistently enforced. For example, one centrally managed SOE, China Power Investment Corporation, was able to obtain loans from the CDB and Exim Bank, plus approval from the NDRC and State Council, for the construction of dams on Myanmar's Irrawaddy River before an ESIA was completed. This plan led to fierce local resistance, contributed to the resumption of civil war in Kachin state and caused a crisis in Sino-Myanmar relations.[87] Accordingly, in their most recent, detailed review of CDB and Exim policies, Friends of the Earth notes a positive trajectory on paper, but a failure to develop 'independent accountability mechanisms and other means to ensure consistent enforcement of these . . . policies'.[88] The Chinese government's own data show half of Chinese firms operating in BRI countries failing to conduct social impact assessments before commencing their projects, while over a third are neglecting environmental impact assessment. Ignorance of local regulations is also rife, suggesting widespread violation of basic Chinese rules.[89] The suspension of a US$1 billion hydropower dam project on Mongolia's Eg River in 2016, following Russian protests about the downstream environmental impact, suggests the persistence of serious problems even in high-profile projects.[90] Similarly, the Kyaukphyu SEZ, a major BRI project in Myanmar, is already facing allegations of illegal land grabs,[91] suggesting that few lessons have been learned from previous Chinese 'development' projects in that country.

Chinese lenders are also often out of step with international standards regarding recipients' repayment capacity. Kaplan, for example, shows that Chinese development lending to Latin American countries has not declined as the fiscal position of the various governments has deteriorated.[92] Whereas China has been accused of pushing borrowers towards debt stress,[93] continued lending can usefully allow governments to avoid painful cuts to public services during economic downturns. But given the competitive context in which Chinese overseas lending decisions are made, especially those related to BRI, there is a genuine risk of recipients amassing unsustainable debt.

[87] Jones and Zou, 'Rethinking the role of state-owned enterprises'.
[88] Friends of the Earth, *Emerging sustainability frameworks*, p. 12.
[89] CAITEC et al., *2017 report*, pp. 54, 85, 97.
[90] Elena F. Tracy, Evgeny Shvarts, Eugene Simonov and Mikhail Babenko, 'China's new Eurasian ambitions: the environmental risks of the Silk Road economic belt', *Eurasian Geography and Economics* 58: 1, 2017, pp. 56–88 at p. 77.
[91] Sean Bain, *Special economic zones in Myanmar and the state duty to protect human rights* (Geneva: International Commission of Jurists, 2017), https://www.icj.org/wp-content/uploads/2017/02/Myanmar-SEZ-assessment-Publications-Reports-Thematic-reports-2017-ENG.pdf.
[92] Stephen B. Kaplan, 'Banking unconditionally: the political economy of Chinese finance in Latin America', *Review of International Political Economy* 23: 4, 2016, pp. 643–76.
[93] As in, for example, the case of Tonga. See Terence Wesley-Smith, 'Geo-politics, self-determination and China's rise in Oceania', in Masahide Ishihara, Eichi Hoshino and Yoko Fujita, eds, *Self-determinable development of small islands* (Singapore: Springer, 2016), pp. 85–99.

Table 3: Changes in Chinese regulations for overseas investment, 2006–2013

Date	Regulatory changes
2006	CDB becomes China's first bank to accede to the UN's 'Global Compact', a voluntary framework encouraging CSR relating to human rights, labour, environment and anti-corruption State Council issues 'Nine principles on overseas investment', requiring companies to comply with local laws, bid transparently for contracts, protect local labourers' rights and the environment, and implement CSR
2007	PBC's Banking Regulatory Commission issues 'Green credit policy and guidelines', requiring ESIAs with loan applications and holding banks responsible for supervising clients' performance; emphasizes compliance with host-country rather than international standards Exim Bank issues 'Environmental policy' requiring environmental impact assessments (EIAs) for loans and regular review throughout the project cycle, and updates its 2004 'Guidelines for ESIAs of loan projects'
2008	'Guidelines for environmental and social impact assessment of the China Exim Bank loan projects' issued, requiring ESIAs to be submitted with loan applications, covering labour issues, land acquisition and migrant protection; Exim Bank may inspect projects and requires regular reporting from borrowers
2009	MOFCOM and Ministry of Forestry issue 'Guidebook of sustainable operations and exploration of overseas forests by Chinese enterprises'
2010	State Forestry Administration issues 'Guide on sustainable overseas forests management and utilization by Chinese enterprises' MOFCOM, Ministry of Environmental Protection (MEP) and Global Environmental Institute issue 'Environmental protection policies on Chinese investment overseas'; banks develop implementing guidance, e.g. 'Guidance of CDB on reviewing the development of environmental projects', 'CDB pollution-reducing and energy saving work plan' CDB issues 'EIA framework for small business loans projects', referring to the World Bank's EIA policy and related Chinese laws and regulations
2012	Banking Regulatory Commission issues updated 'Green credit guidelines', requiring banks to ensure that borrowers abide by international norms in addition to host-country laws when investing abroad
2013	MOFCOM and MEP issue 'Guidelines for environmental protection in foreign investment and cooperation' MOFCOM issues 'Regulations of behaviour in competition abroad in the area of international investment and cooperation', which proposes recording unethical practices (e.g. bribery, collusion) and using this to influence credit allocation.

Sources: Wenbin Huang and Andreas Wilkes, *Analysis of China's overseas investment policies*, working paper no. 79 (Bogor: Center for International Forestry Research, 2011), p. 16; Karl P. Sauvant and Victor Zitian Chen, 'China's regulatory framework for outward foreign direct investment', *China Economic Journal* 7: 1, pp. 141–63; Friends of the Earth, *China Development Bank's overseas investments: an assessment of environmental and social policies and practices* (Berkeley, CA: Friends of the Earth, 2012), and *Emerging sustainability frameworks: China Development Bank and China Export–Import Bank* (Washington DC: Friends of the Earth, 2016).

Crucially, these deviations from global governance norms stem *not* from any strategic intent to overthrow western-based rules, but rather from prior and continuing transformations of, and struggles within, the Chinese party-state. Some entities within the Chinese polity—such as the MFA, MEP and PBC—clearly recognize the risk to China's capital and diplomatic interests from poorly regulated IDF flows, and are accordingly promoting tighter regulation. However, the fragmentation of this policy domain, and the attempted shift towards regulatory governance, make it difficult for these agencies to effect decisive change. They are competing against powerful entities primarily interested in promoting Chinese business interests overseas and/or reaping profits, such as MOFCOM, the NDRC, banks, SOEs and provincial governments. Reflecting the emergence of a Chinese-style regulatory state, these struggles have seen the development of new guidelines designed to 'steer' the system in a more sustainable direction, but not the emergence of strong enforcement capacities or particular agencies wielding effective authority. Indeed, with respect to BRI specifically, the regulatory system is loose, with dozens of actors involved.[94] Although a State Council LSG for advancing the development of BRI was formed in late 2014 or early 2015, its membership appears to be small, excluding key agencies, and its remit overlaps with several others, notably the finance and foreign affairs LSGs. Accordingly, *contra* 'status quo' accounts, despite the creation of the AIIB Chinese IDF will continue to be incoherent, even contradictory, producing outcomes clashing with prevailing liberal principles. But this will not necessarily reflect a plot to challenge western dominance, as in 'revisionist' accounts. Rather, it expresses the emergence of a contested, fragmented, decentralized and unevenly internationalized governance regime within China.

Conclusion

The establishment of the AIIB has generated considerable debate over whether China poses a challenge to the established global governance of IDF. We agree with the more sanguine accounts that identify little substantive difference between the AIIB and existing MDBs. In fact, as noted above, most AIIB-funded projects to date are partnerships with other MDBs. Therefore, claims that the AIIB reflects Chinese revisionism appear misplaced. However, we have shown in this article that this debate is in fact a red herring, because the AIIB is only a marginal player within China's broader IDF domain, even in implementing the BRI, the purpose for which it was ostensibly created. We have explained this discrepancy by locating the AIIB within China's fragmented IDF domain. As in policy-making and implementation more generally, this fragmentation is producing behaviours and outcomes that are often incoherent, even contradictory. The senior leadership's relatively broad policy announcements are interpreted through a competitive process involving diverse actors, including ministries, subnational governments,

[94] Lee Jones and Jinghan Zeng, 'Understanding China's "belt and road initiative": beyond grand strategy to a state transformation analysis', unpublished manuscript (under review), 2017.

banks and SOEs. Therefore, China's real challenge to global governance in this area emerges not simply, or even primarily, from the Chinese leadership's strategic intentions, but rather from the contested interactions of these actors.

There is some cause for pessimism here. The overwhelming dominance of commercial objectives in a highly competitive environment, combined with continuing regulatory weakness, means that China's impact on the practices and governance of development financing globally is likely to be negative. While some see the AIIB as Chinese experimentation in 'best practice' lending, potentially importing international standards into the Chinese system,[95] we are not convinced. The AIIB's marginalization means it has very limited capacity to influence the practices of other agencies; and it is arguably its very internalization of international standards that prompts its marginalization. Hence, even if AIIB-funded projects displayed the world's highest standards of environmental and social protection, the vast majority of Chinese-funded projects will not be similarly regulated. The quality of Chinese-funded projects could be improved by demands from recipients, but regulatory and political circumstances in recipient states vary widely.

The foregoing analysis does not suggest that policy-makers in other countries should avoid engaging with Chinese global governance initiatives. Indeed, the involvement of traditional donors appears to have played a key role in steering the AIIB closer to international governance standards. But the consequences of China's rise for the existing rules-based, liberal international order will not be shaped solely by Chinese leaders' intentions and their manifestation within the rules of multilateral organizations. Perhaps more important is the cumulative effect of the diverse activities of a wide range of actors involved in particular projects, their objectives, and their struggles for power and resources. It is these dynamics, rather than Xi's aspirations, that constitute China's real challenge to global governance. Thus, to mitigate the negative impacts of China's IDF activities, policy-makers and practitioners elsewhere must develop a capacity to analyse power relations at the level of individual projects, as well as ways of engaging actors, whether in China or recipient states, with the power to exert pressure for better governance standards. China's fragmented IDF system requires a targeted policy response, tailored for each project's circumstances.

[95] De Jonge, 'Perspectives on the emerging role of the AIIB', p. 1064.