

## CHINA'S INSTITUTIONAL STATECRAFT WITHIN THE LIBERAL INTERNATIONAL ORDER: THE ASIAN INFRASTRUCTURE INVESTMENT BANK

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**SUMMARY:** 1. INTRODUCTION.—2. CHINA'S INSTITUTIONAL STATECRAFT.—3. THE AIIB «CHALLENGE»: A MAINSTREAM EXPLANATION.—4. INSTITUTION-BUILDING: A NEO NEO-GRAMSCIAN PERSPECTIVE.—5. UNDERSTANDING CHINA'S AIIB BALANCING ACT.—6. CONCLUSION.

### 1. INTRODUCTION

1. An area of major interest for contemporary international relations (IR) scholars is the effect the emergence of the China has had on the United States (US)-led liberal international order (LIO), understood here as encompassing the principles, rules, norms, practises, and institutions underpinning global free trade, international law, multilateralism, democracy, and respect for human rights.

2. Within mainstream IR, those academics working in the *neorealist* tradition consider international organisations (IOs) as conduits for states to maximise their power and/or security. While variations exist<sup>1</sup>, at least for those neorealists ascribing to the zero-sum, inter-state rivalry paradigm, the incumbent world hegemon (US) would be well advised to dilute, contain, and if possible, quell, any new initiative threatening to upset the institutional balance of power, especially one promoted by a «revisionist» challenger (China)<sup>2</sup>. For

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Todas las páginas webs de referencia han sido consultadas por última vez el 29 de abril de 2020.

<sup>1</sup> See for example SCHWELLER, R., «Opposition but Compatible Nationalisms: A Neoclassical Realist Approach to the Future of US-China Relations», *The Chinese Journal of International Politics*, vol. 11, Spring, 2018, n.º 1, pp. 23-48.

<sup>2</sup> See for example CHRISTENSEN, T. J., «Fostering Stability or Creating a Monster? The Rise of China and U.S. Policy towards East Asia», *International Security*, vol. 31, 2006, n.º 1, pp. 81-126; FRIEDBERG,

most American neorealists it is vital to preserve the LIO, the fulcrum of the US-centred world order which serves to reproduce the hegemon's geopolitical dominance.

3. Neorealism's «counterpart» within the mainstream, the neoliberal institutionalists —shortened here to *neoliberals*—<sup>3</sup> also favour the preservation of the LIO, and are concerned about how the rise of the People's Republic of China (PRC) might affect global institutions and regimes, but eschew zero-sum game logic. Instead, influenced by functionalism, they consider institution and regime building as arising out of the need for improved inter-state cooperation: the sure way to maximise absolute gains, in a complex globalized world<sup>4</sup>. In contrast to other liberals, such as Kantian-inspired democratic peace theorists<sup>5</sup>, neoliberals largely remain optimistic that Chinese institutional initiatives can remain within the broad framework of the LIO<sup>6</sup>, and that the Asian power be converted into what former US Deputy Secretary of State and World Bank President, Robert Zoellick, called a «responsible stakeholder» in the international system<sup>7</sup>.

4. Yet such a binary in/out, cooperation/antagonism debate fails to capture the nuanced nature of Beijing's *institutional statecraft* within the contemporary LIO. Taking G. John Ikenberry and Darren J. Lim's strategic classification as a template, the article argues that Beijing has always adopted a pragmatic approach on multilateralism, picking and choosing the institutions and regimes it wishes to be bound by, much like the US itself<sup>8</sup>.

5. The Asian Infrastructure Investment Bank (AIIB) constitutes an example of «external innovation», according to Ikenberry and Lim's categorisation. Launched in June 2015 (in operation 2016) with a starting capital of \$100 billion, the mission of this multilateral development banks (MBD) is to improve economic and social outcomes in Asia by investing in sustainable infrastructure and other productive sectors. Although based in Beijing, at the time of

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A. L., *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia*, New York, W. W., Norton, 2011, and FELS, E., *Shifting Power in Asia-Pacific? The Rise of China, Sino-US Competition and Regional Middle Power Allegiance*, Switzerland, Springer, 2017.

<sup>3</sup> Not to be confused with its common economic usage, referring for those adherents of *laissez-faire*, free market capitalism, although some neoliberal institutionalists may well favour such a doctrine.

<sup>4</sup> HAAS, P., KEOHANE, R. and LEVY, M. (eds.), *Institutions for the Earth*, Cambridge MA, MIP Press, 1993.

<sup>5</sup> BROWN, M., LYNN-JONES, S. M. and MILLER, S. E., *Debating the Democratic Peace*, Cambridge, MIT Press, 1996.

<sup>6</sup> IKENBERRY, G. J., «Illusions of Geopolitics: the Enduring Power of the Liberal Order», *Foreign Affairs*, vol. 93, 2014, n.° 3, pp. 80-90.

<sup>7</sup> ZOELLICK, R. B., «Whither China: From Membership to Responsibility?», Remarks to the *National Committee on US-China Relations*, 21st September 2005, [https://www.ncuscr.org/sites/default/files/migration/Zoellick\\_remarks\\_notes06\\_winter\\_spring.pdf](https://www.ncuscr.org/sites/default/files/migration/Zoellick_remarks_notes06_winter_spring.pdf).

<sup>8</sup> IKENBERRY, G. J. and LIM, D. J., «China's Emerging Institutional Statecraft: The Asian Infrastructure Investment Bank and the Prospects for Counterhegemony», *Project on International Order and Strategy at Brookings*, April 2017, pp. i-24, <https://www.brookings.edu/wp-content/uploads/2017/04/china-emerging-institutional-statecraft.pdf>.

writing the AIIB has 102 approved country members —78 regional/non-regional members, and 24 prospective members— spanning all continents<sup>9</sup>.

6. The AIIB, unsurprisingly, has attracted much attention from neorealist and neoliberal scholars, offering a very different reading of its relevance. While accepting the heterogeneity within these schools, we assert that ontological and epistemological shortcomings prevent these «neos» from shedding much light on the deeper-rooted generative mechanisms driving global change, leaving them with only a partial vision of the AIIB's real significance.

7. Instead, we propose an alternative theoretical approach: a modified neo-Gramscian (or *Neo* neo-Gramscian) perspective. When applied to the case in hand, it becomes apparent that AIIB institution-building project does appear likely to reproduce and reinforce the LIO as neoliberals suggest, at least over the short term. Despite these elements of continuity, however, the paper contends that the AIIB represents a small, but significant step to bolster Chinese *politico-cultural* hegemony (roughly equivalent to what liberals such as Joseph Nye refer to as «soft power»)<sup>10</sup>. Politico-cultural hegemony, we maintain, is an emergent property of deeper-rooted material supremacy. Given the PRC's different capitalist model and associated state-society complex, therefore, it is quite feasible that a continuing expanding Chinese economy will transform the AIIB into an alternative vehicle for development financing, outside the LIO, therein posing a grave threat to US hegemony.

## 2. CHINA'S INSTITUTIONAL STATECRAFT

8. As indicated, a useful reference point for contextualising Beijing's institutional statecraft is the categorisation forwarded by Ikenberry and Lim. According to them, governments can choose between four non-exclusive options when it comes to participating in international institutions, thus:

1) *Status-quo stakeholder*: acceptance of, and participation within, existing institutional/regime rules and norms.

2) *Authority-seeking stakeholder*: seek a power redistribution within a given institution in its favour, granting it a greater influence over decision-making.

3) *Institutional obstruction*: work within an institution to amend or impede those norms, rules or practices which clash with its economic or political system.

4) *External innovation*: set up new a multilateral institution/regime which either offers an alternative node of interstate cooperation, or conversely, promotes different rules/norms more compatible with its interests<sup>11</sup>.

<sup>9</sup> ASIAN INFRASTRUCTURE INVESTMENT BANK, «About AIIB», <https://www.aiib.org/en/about-aiib/index.html>.

<sup>10</sup> NYE, J., *Bound to Lead: The Changing Nature of American Power*, New York, Basic Books, 1990.

<sup>11</sup> IKENBERRY, G. J. and LIM, D. J., *op. cit.*, note 8, pp. 7-8.

9. China, in reality, fulfils all of these roles, depending on the area under discussion.

10. On the one hand, China can be classified as a *status quo stateholder* with regards many of the world's most important institutions and regimes, such as the United Nations (UN) system —especially the Security Council, whose reform it opposes— the G-20, Nuclear Non-Proliferation Treaty, the Asia-Pacific Economic Cooperation forum. In the area of global environmental governance the PRC is firmly committed to meeting its international obligations on climate change and environmental protection, signing a whole ream of UN agreements on Framework Convention on Climate Change (extending to the Kyoto Protocol and the Paris Agreement), Ozone Layer Protection, Desertification, Biodiversity, Endangered Species, Hazardous Waste and Law of the Sea<sup>12</sup>. Since taking office, Chinese Premier, Xi Jinping, has prioritised the environment as a part of the country's drive for an «Ecological Civilisation», introducing many measures, including the setting up the world's largest cap-and-trade emissions scheme in 2017.

11. The world's largest exporter, Beijing remains absolutely committed to the LIO institutional framework for global trade, within which the country underwent its economic transition and dramatic rise. As part of its ongoing top-down social restructuring —or *passive revolution*— the PRC has been subject to «outside-in» socialisation, penetrated by external material and ideological social forces as it interacts with the world<sup>13</sup>. Although its traditional economic growth model —exporter of low-end, labour-intensive manufacturing goods— has been undergoing significant change over the last decade (increasingly dependent on domestic demand), access to foreign markets remains absolutely critical.

12. Admittance to the World Trade Organisation (WTO) in 2001 committed Beijing to open, non-discriminatory, global commerce and the adherence to market economy principles and legal standards. While China recently lost its case in WTO's Dispute Settlement Understanding to force the US's decision to recognise it as a «market economy» (and hence be forced to remove its anti-dumping measures)<sup>14</sup>, Communist Party of China (CPC) elites reiterate their commitment to the LIO. This was made clear in January 2017 at the World Economic Forum at Davos in a keynote speech delivered by Xi Jinping —the first Chinese president to attend such a gathering— who set out Bei-

<sup>12</sup> CENTRAL INTELLIGENCE AGENCY: THE WORLD FACTBOOK, «Country Studies- China», 1st April 2020, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>.

<sup>13</sup> PASS, J., «World Hegemony in Question: The Complexities and Contradictions of China's "Passive Revolution" in its Global Context», *Revista Electrónica de Estudios Internacionales (REEI)*, 2019, n.º 38, diciembre, <http://www.reei.org/index.php/revista/num38/articulos/world-hegemony-in-question-the-complexities-contradictions-of-chinas-passive-revolution-in-its-global-context>.

<sup>14</sup> REUTERS, «China pulls WTO suit over claim to be a market economy», Tom Miles, 17th June 2019, <https://www.reuters.com/article/us-usa-china-wto-eu/china-pulls-wto-suit-over-claim-to-be-a-market-economy-idUSKCN1I10A>.

jing's commitment to global free trade and investment, market liberalization/facilitation and open multilateral trade<sup>15</sup>. The irony of China being converted into the global defender of the LIO while the US under Donald Trump turned inwards, launching its neo-mercantilist «America First» policy —unilateral imposition of import tariffs and withdrawal from the Trans-Pacific Partnership, included— was not lost on many.

13. While the PRC is committed to the global trade regime, it also behaves as an *authority-seeking stakeholder*, most notably with respect to monetary and development issues associated with the other two Bretton Woods institutions. Beijing has long complained that Washington enjoys a disproportionate political influence over the direction of World Bank and the International Monetary Fund (IMF), a throwback to its 1940s origins. Top of the list for China (along with other emerging countries such as India and Brazil) has been a reweighting of the quota/voting system which it considers in no way represents the real economic strength of the member.

14. In 2010 small concessions were finally made to developing countries. China's share of the vote in the World Bank and IMF rose from 2.77% to 4.42% and from 3.81% to 6.08%, respectively, although still below Japan's figures (7.9% and 6.15%), and woefully short of the US's largely unchanged 16.4% and 16.51% (retaining effective veto rights)<sup>16</sup>. Yet even these modest increases found opposition in the US Congress. It was only after Beijing had announced its intention to launch an alternative multilateral development bank (MDB), the AIIB, in 2013 —followed a year later by the New Development Bank and Chiang Mai Initiative Multilateralisation Agreement— that the US Senate finally agreed to revise the IMF's Articles of Agreement<sup>17</sup>.

15. It is also undeniable that China has engaged in *institutional obstruction*, opposing those treaties and regimes dealing with human rights and new so-called «norms of intervention», such as «Responsibility to Protect»<sup>18</sup>, which it considers grants Western countries too great a leeway to interfere in other countries internal affairs undermining national sovereignty, proposing instead a more limited UN-led humanitarian intervention based upon the «Responsible Protection» principle<sup>19</sup>. Yet Beijing's record

<sup>15</sup> WORLD ECONOMIC FORUM, «President Xi's speech to Davos in full», 17th January 2017, <https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum/>.

<sup>16</sup> INTERNATIONAL MONETARY FUND, «IMF Members Quotas and Voting Power, and the IMF Board», 29th April 2020, <https://www.imf.org/external/np/sec/memdir/members.aspx#U>.

<sup>17</sup> KISSACK, R., «IMF Reform: What Has been Achieved and What Does it Mean?», *CIDOB Barcelona Centre for International Affairs*, Opinión, 377, January 2016, [https://www.cidob.org/en/publications/publication\\_series/opinion/seguridad\\_y\\_politica\\_mundial/imf\\_reform\\_what\\_has\\_been\\_achieved\\_and\\_what\\_does\\_it\\_mean](https://www.cidob.org/en/publications/publication_series/opinion/seguridad_y_politica_mundial/imf_reform_what_has_been_achieved_and_what_does_it_mean).

<sup>18</sup> See articles 138 and 139 of the UNITED NATIONS GENERAL ASSEMBLY, «Resolution adopted by the General Assembly on 16th September 2005», World Summit Outcome (A/Res/60/1), [https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A\\_RES\\_60\\_1.pdf](https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_60_1.pdf).

<sup>19</sup> CHINA INSTITUTE OF INTERNATIONAL STUDIES, «Responsible Protection: Building a Safer World», Ryuan Zongze, 15th June 2012, [http://www.ciis.org.cn/english/2012-06/15/content\\_5090912.htm](http://www.ciis.org.cn/english/2012-06/15/content_5090912.htm).

on institutional obstruction is not that exceptional, in fact in many areas it chimes with that of Washington. Neither of them, for example, has joined the International Criminal Court, signed the Ottawa Landmines Treaty, the Comprehensive Nuclear Test Ban Treaty, nor the Convention on Cluster Munitions.

16. For its part, the US has long reserved the right to resort to unilateralism and block institutional initiatives when it deems national interests are in jeopardy. Since 1970, for example, the US has exercised the use of the veto in the Security Council 83 times, more than double the number of the next member (the USSR/Russia with 35)<sup>20</sup>. Similarly, Section 301 of the 1974 US Trade Act, permitting the President to unilaterally impose tariffs on any country it deems as guilty of unfair trade practises, has been frequently resorted to over the years, especially under the Reagan Administration. The extent of George W. Bush's contempt for the «illusory international community» —as National Security Adviser, Condoleezza Rice referred to the UN during the presidential 2000 campaign—<sup>21</sup> is legendary: disregarding international law prior, during, and after the Iraq War; withdrawing from the Anti-Ballistic Missile Treaty; the non-ratification of the Kyoto Protocol; and quashing initiatives by the Organisation of Co-operation and Development to regulate international tax havens. In this context the present Trump Administration's scepticism towards multilateralism does not seem so unusual, despite grabbing the headlines with its withdrawal from both the Paris Agreement and the UN Human Rights Council, criticisms of institutions such as the WTO and NATO and the UN, denouncing the latter for its «global governance, control, and dominance»<sup>22</sup>.

17. But where Beijing clearly differentiates from Washington, however and the basis of the accusation of «status quo challenger», is with regards *external innovation*: a state-centric variation of what Robert Keohane and Juliet Morse have referred to as «contested multilateralism»<sup>23</sup>. Here a state (or group of states) unhappy with the prevailing order, sets up a new multilateral institution to promote alternative norms, policies and practises. It is in this context, as a potential competing regime to the Bretton Woods system, that debates surrounding the AIIB can be understood, and which will constitute the main focus of the rest of this paper.

18. Notwithstanding, and to that end this section, it is useful to summarise the above institutional differences between the US and China by returning to Ikenberry and Kim's classification, thus:

<sup>20</sup> *Security Council Report*, «UN Security Council Working Methods: The Veto», 7th March 2020, <https://www.securitycouncilreport.org/un-security-council-working-methods/the-veto.php>.

<sup>21</sup> RICE, C., «Promoting the National Interest», *Foreign Affairs*, vol. 79, 2000, n.º 1, pp. 45-62.

<sup>22</sup> TRUMP, D., «Remarks by President Trump to the 73rd Session of the United Nations General Assembly», New York, 25th September 2018, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-73rd-session-united-nations-general-assembly-new-york-ny/>.

<sup>23</sup> MORSE, J. and KEOHANE, R., «Contested Multilateralism», *Review of International Organisations*, vol. 9, 2014, n.º 4, pp. 385-412.

	Status-quo stakeholder	Authority-seeking stakeholder	Institutional obstruction	External innovation
United States	Yes	No	Yes	No
China	Yes	Yes	Yes	Yes

### 3. THE AIIB «CHALLENGE»: A MAINSTREAM EXPLANATION

19. According to neoliberals, states cooperate in the setting up of, and delegate responsibilities to, IOs in order to better coordinate policies, establish common norms, resolve problems, mitigate conflicts and generate mutual benefits (absolute gains)<sup>24</sup>. The regional and global public goods these institutions provide may be economic, political, social, military, environmental or technical in nature. It is when these IOs fail to function efficiently, achieve their designed goal, or fully represent stakeholders, neoliberals observe, that new attempts will be made to redraw the institutional framework. From this perspective, the AIIB emerged due to the perceived ineffectiveness of present MBDs, notably the World Bank and the Asian Development Bank (ADB).

20. Over the years, as alluded to above, China and developing countries have criticised the IMF and the World Bank, be it for their unrepresentative nature/structure or functioning (bureaucratic, slow and expensive). Since the mid-1990s, following a series of sovereign debt crises across Latin America, East Asia and Eastern Europe, these institutions have come under increasing attacks for prescribing policies which are more favourable to the interests of Western finance than the developing countries themselves. After decades of imposing disastrous structural adjustment programmes and associated neoliberal conditionalities (the so-called «Washington Consensus»)<sup>25</sup> the reputation of both the IMF and World Bank in emerging countries was at a low ebb, worsened still further with the advent of the 2008 global financial crisis<sup>26</sup>.

21. In time many governments started to prefer to borrow directly from Chinese state banks: a process which was faster, more efficient and less intrusive on national sovereignty than the Western «tied aid» development cooperation or the World Bank's poverty-reduction mandate and vague references to «capacity building», according to WikiLeaks<sup>27</sup>. A variation on

<sup>24</sup> JENKS, B. and KHARAS, H. (eds.), *Towards a New Multilateralism*, Estocolmo, Swedish Ministry for Foreign Affairs, 2016, <https://www.brookings.edu/wp-content/uploads/2016/07/Toward-a-new-multilateralism.pdf>.

<sup>25</sup> KLEIN, N., *The Shock Doctrine: The Rise of Disaster Capitalism*, London, Penguin, 2008.

<sup>26</sup> To be fair, following criticisms received over the way it promoted neoliberal globalization in the 1990s, and especially after the 2008 global financial crisis, the World Bank has tempered somewhat its enthusiasm for free markets, privatisation and deregulation with a greater concern for domestic governance.

<sup>27</sup> THE GUARDIAN, «The US embassy cables: African Countries prefer Chinese aid to US-China cooperation», 4th December 2010, <https://www.theguardian.com/world/us-embassy-cables-documents/248299>.

this saw emerging countries signing investment-for-resources —or «Angola Mode»<sup>28</sup>— agreements with Beijing. Typically, this involved Chinese construction/engineering state-owned enterprises carrying out vital infrastructure projects (e. g. roads and railways) in return for other state-owned enterprises securing guaranteed access to the same country's oil, gas or mineral resources. As a result, one way or the other, by the end of 2010 the PRC surpassed the World Bank as a source of credit for emerging country governments and companies<sup>29</sup>.

22. From a neoliberal/functionalist perspective these perceived inadequacies of existing MDBs help explain why China chose to set up new forms of inter-state cooperation arrangements. These include a \$10 billion investment fund with the Association of Southeast Asian Nations (ASEAN); the Chiang Mai Initiative Multilateralisation Agreement (a \$120 billion foreign exchange bail-out fund, with Japan, South Korea and the ASEAN); and the New Development Bank (a \$100 billion multilateral development bank with fellow BRICS members).

23. The AIIB responds to a need for sustainable development finance in Asia, neoliberals emphasize<sup>30</sup>. And one particular public good the AIIB provides, which neither the World Bank nor the ADB have hitherto been able secure, is bringing creditor and debtor nations together to guarantee much-needed infrastructure investment across the continent<sup>31</sup>. Indeed, the ADB itself in 2010 estimated that developing countries across the continent would require \$776 billion p. a. to pay for necessary national and regional projects over the coming decade<sup>32</sup>. It was not just the PRC, therefore, that favoured greater «connectivity» across Asia and a more efficient institutional framework to support it.

24. From a neoliberal perspective, thus, the AIIB is generally viewed positively as long as it does not undermine the LIO, creating a supplementary, more effective, conduit for development investment<sup>33</sup>. Beijing, from the out-

<sup>28</sup> Pioneered by the first intergovernmental agreement between Luanda and Beijing in 2004, these deals consisted of Chinese state-owned enterprises securing long-term access to oil, gas and minerals etc., in return for other Chinese state-owned enterprises building infrastructure, energy delivery systems (e. g. pipelines and refineries), technology transfers, arms and cash.

<sup>29</sup> During the 2009 and 2010, total loans granted by the China Development Bank and China-Export Investment Bank reached \$110bn, compared to the \$100.3bn by the World Bank. FINANCIAL TIMES, «China's lending hits new heights», Geoff Dyer, Jamil Anderlini and Henry Sender, 17th January 2011, <https://www.ft.com/content/488c60f4-2281-11e0-b6a2-00144feab49a>.

<sup>30</sup> DE JONGE, A., «Perspectives on the Emerging Role of the Asian Infrastructure Investment Bank», *International Affairs*, vol. 93, 2017, n.° 5, pp. 1061-1084.

<sup>31</sup> KNOERICH, J. and URDINEZ, F., «Contesting Contested Multilateralism: Why the West Joined the Rest in Founding the Asian Infrastructure Investment Bank», *The Chinese Journal of International Politics*, vol. 12, 2019, n.° 3, pp. 333-370, pp. 347-348.

<sup>32</sup> BHATTACHARYAY, B. N., «Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020», *ADB Working Paper Series*, 2010, n.° 248, September, <https://www.adb.org/sites/default/files/publication/156103/adb-wp248.pdf>.

<sup>33</sup> DURAN, J., «Filling a Gap: How the AIIB Fits into the Global Financial System», *Harvard Political Review*, 31st July 2015, <https://harvardpolitics.com/world/aiib/>.

set, has always stressed the AIIB would play a supporting role to other MBDs, modelling its institutional structure and system of governance on that of the World Bank, the ADB, the European Bank for Reconstruction and the Inter-American Development Bank<sup>34</sup>.

25. Thus, far from challenging the status quo, the AIIB goes some way to reinforcing China as a «responsible state-holder» in the US-led LIO, as Zoellick had hoped, and should be encouraged, neoliberal ascertain<sup>35</sup>. Moreover, in keeping with Beijing's open/inclusivity pledge the AIIB's membership, as noted above, is truly heterogeneous: not only incorporating all key Asian economies (Japan aside), but extending to powerful countries across Europe, America and the Middle East, including stalwart allies of the US, such as the UK, Germany, France, Spain, Australia, Canada, Israel, South Korea and Saudi Arabia<sup>36</sup>.

26. Neorealists, on the other hand, reject this functionalist reading, IOs being established by the most powerful states<sup>37</sup>—contingent on the relative distribution of «capabilities»— first and foremost to maximise their own power and security, with the provision of global public goods a secondary, albeit necessary, objective<sup>38</sup>. Notwithstanding, due to institutional misalignment or «stickiness»<sup>39</sup>, a reconfiguration of said capabilities may mean that the dominant institutional framework no longer reflects the national interests of the emergent power(s). In a competitive Hobbesian world obsessed with relative gains such a situation is untenable.

27. For John Mearsheimer the contradictions at the very heart of the LIO—both in theory and in practise—are both a reflection of, and have contributed to, declining US hegemony. The AIIB, Mearsheimer, observes, merely reflects this power shift<sup>40</sup>. Christopher Layne agrees, interpreting the emergence of the AIIB as symptomatic of American hegemonic demise, concurrent with a revisionist power (China) engaging in «contested multilateralism» to refashion the institutional order more in its favour<sup>41</sup>.

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<sup>34</sup> LICHTENSTEIN, N., «Governance of the Asian Infrastructure Investment Bank in Comparative Context», *AIIB Yearbook of International Law*, 2018, [https://www.aiib.org/en/about-aiib/who-we-are/yearbook/\\_download/governance-aiib-comparative.pdf](https://www.aiib.org/en/about-aiib/who-we-are/yearbook/_download/governance-aiib-comparative.pdf).

<sup>35</sup> LIPSCY, P. Y., «Who's Afraid of the AIIB: Why the United States Should Support China's Asian Investment Bank», *Foreign Affairs*, 7th May 2015, <https://www.foreignaffairs.com/articles/china/2015-05-07/whos-afraid-aiib>.

<sup>36</sup> ASIAN INFRASTRUCTURE INVESTMENT BANK, «Member and Prospective Members of the Bank», <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

<sup>37</sup> MEARSHEIMER, J. J., «The False Promise of International Institutions», *International Security*, vol. 19, 1994, n.º 3, pp. 5-49.

<sup>38</sup> WALTZ, K., *Theory of International Politics*, Reading MA, Addison-Wesley Publishing Company, 1979, p. 251.

<sup>39</sup> PIERSON, P., «The Limits of Design: Explaining Institutional Origins and Change», *Governance*, vol. 13, 2000, n.º 4, pp. 475-499.

<sup>40</sup> MEARSHEIMER, J. J., «Bound to Fail: The Rise and Fall of the Liberal International Order», *International Security*, vol. 43, 2019, n.º 4, pp. 7-50.

<sup>41</sup> LAYNE, C., «The US-Chinese Power Shift and the End of the Pax Americana», *International Affairs*, vol. 94, 2018, n.º 1, pp. 89-111.

28. Unsatisfied with the above realignment of voting power in the US-dominated World Bank, not to mention the Japan-led ADB, the argument runs, the PRC decided to set up its own Sino-centric MDB. Headquartered in Beijing, with Chinese nationals occupying the upper echelons of its secretariat, the AIIB seeks to further maximise national power and influence in the region and beyond, according to neorealists. Crucially, this is to be done by supplying the necessary credit for Xi Jinping's flagship Belt and Road Initiative (BRI): the colossal network of infrastructure, engineering and construction projects spanning Eurasia, Asia Pacific to East Africa and Western Europe via sea and land. The BRI, neorealists are quick to emphasize, serves China's geopolitical objectives in the region, not least as an attempt to counter US's «pivot to Asia» strategy<sup>42</sup>.

29. But China is not alone. Referring to what they term «goal heterogeneity», Jan Knoerich and Francisco Urdinez have underscored how other states too had their own particular reasons for joining the AIIB. Many middle and low-income Asian countries, for example, as observed, were eager to access foreign capital for much needed infrastructure and augment their «connectivity» and/or felt under-represented (in terms of formal voting share allocation) and their interests not served, by other MDBs. Amongst some Western states, Knoerich and Urdinez claim, the AIIB was considered a useful strategic tool to contain the PRC and more deeply integrate it into the LIO; offering a more transparent and accountable way to finance development than via the other Sino-centric MDBs or bilaterally through the China Development Bank and the Export-Import Bank. As for Britain, the authors note, the interests of the City and its desire to convert itself into an international hub for the internationalisation of the *renminbi* were determinant<sup>43</sup>.

30. And where the neoliberal functionalist approach applies even less is with regards US and Japan, neither of which have joined the AIIB. Given its hegemonic role within the ADB and long-standing geopolitical rivalry with China —manifested in numerous territorial disputes— Tokyo has understandably proved reticent on AIIB. Washington's official reason for rejecting membership is that the AIIB poses a serious threat to the LIO development investment regime (of which the World Bank and the ADB are key components), not least by falling short on established international standards on «best practises», transparency, democracy, social safeguards and the environment<sup>44</sup>.

31. Although some neorealists favour Washington joining the AIIB in order to guarantee its compatibility with the LIO<sup>45</sup>, those neorealists accustomed to

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<sup>42</sup> WANG, Y., «Offensive for Defensive: the Belt and Road Initiative and China's New Grand Strategy», *The Pacific Review*, vol. 29, 2016, n.° 3, pp. 455-463.

<sup>43</sup> KNOERICH, J. and URDINEZ, F., *op. cit.*, note 31, pp. 345-349, p. 352.

<sup>44</sup> BBC NEWS, «UK support for China-backed Asia bank prompts US concern», 13th March 2015, <https://www.bbc.com/news/world-australia-31864877>.

<sup>45</sup> SHAMBAUGH, D., «U.S. Rivalry in Southeast Asia: Power Shift or Competitive Coexistence?», *International Security*, vol. 42, 2018, n.° 4, pp. 85-127.

working within a relative gains' paradigm, share veteran security scholar Aaron L. Friedberg's concerns that signing up to the initiative would enhance China's power position at the US's expense<sup>46</sup>; the very reason the Obama Administration snubbed the PRC's entrance into the Trans-Pacific Partnership. When a Chinese delegation visited Washington in September 2014 it was told in stark terms that the US would never cede capital allocation to a Sino-led MDB, thus membership was out of the question<sup>47</sup>, while urging its allies to do likewise<sup>48</sup>.

32. Yet neorealist zero-sum depictions of the AIIB fail to explain why CPC elites engaged in exhaustive diplomatic activity to try and convince both the US and Japan to join the bank, despite the resultant reduction in China's relative power, even offering to lower its own voting weight below effective veto<sup>49</sup>. Beijing insistence that the AIIB would be complementary to, and cooperate with, established MDBs, as well as upholding LIO lending practice standards, has been backed with actions. Since its launch, China has actually increased its investments in the World Bank and committed the AIIB to many joint projects (and therein by bound by ILO safeguard standards) with the ADB and World Bank, even signing a Co-Financing Framework Agreement with the latter in April 2017<sup>50</sup>. Furthermore, not only are its non-resident Board of Directors drawn from all nations, but loans were to be made exclusively in dollars, its first President, Jin Linqun, stressed at the institution's inauguration, thereby contradicting neorealist assumptions, that it would be used as a platform for *renminbi* internationalisation<sup>51</sup>.

33. Liberals like Ikenberry and Lim, remain optimistic that socialisation processes will end up assimilating China into the US-led ILO. The logic being that as the AIIB gets further embedded into the circuits of the global capitalism, certain market mechanisms are likely to restrict options available to them. For one thing, the institution raises funds by issuing credit-rated bonds on international financial markets, where all investments are guided by profit motive (rather than political objectives). Secondly, as the AIIB incorporates Western members it will need to reflect, to a certain degree, their particular

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<sup>46</sup> FRIEDBERG, A. L., «Smart Competition: Adapting U.S. Strategy Towards China at 40 Years», *The National Bureau of Asian Research*, 8th May 2019, <https://www.nbr.org/publication/smart-competition-adapting-u-s-strategy-toward-china-at-40-years/>.

<sup>47</sup> NEW YORK TIMES, «China Creates a World Bank of its Own, and the U.S. Balks», Jane Perlez, 4th December 2015, <https://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-alooft.html>.

<sup>48</sup> REUTERS, «U.S. urges allies to think twice before joining China-led bank», Matthias Sobolewski and Jason Lange, 18th March 2015, <https://www.reuters.com/article/us-europe-asia-bank/u-s-urges-allies-to-think-twice-before-joining-china-led-bank-idUSKBN0MD0B320150318>.

<sup>49</sup> STEPHEN, M. D. and SKIDMORE, D., «The AIIB and China's Relationship with the Liberal International Order: Insights from International Relations Theory», *Chinese Journal of International Politics*, vol. 12, 2019, n.° 1, pp. 61-91.

<sup>50</sup> THE WORLD BANK, «World Bank and AIIB Sign Cooperation Framework», April 23rd 2017, <https://www.worldbank.org/en/news/press-release/2017/04/23/world-bank-and-aiib-sign-cooperation-framework>.

<sup>51</sup> FINANCIAL TIMES, «China's new Asia development bank will lend in US dollars», Gabriel Wildau and Tom Mitchell, 17th January 2016, <https://www.ft.com/content/762ce968-bcee-11e5-a8c6-deee-b63d6d4b>.

preferences and standards of governance. The net result, for Ikenberry and Lim, is the reproduction and reinforcement of LIO norms and practises<sup>52</sup>. Alice De Jonge takes a different approach but arrives at a similar conclusion. Applying «recursivity of law theory» to the AIIB, De Jonge shows how the dialectical interaction of national and global norms are responsible for the institution's unique evolving nature, but which are likely to embed it «within a network of overlapping relationships in twenty-first century sustainable development finance»<sup>53</sup>.

34. Yet the situation is more complicated than neoliberals sustain. As neorealists would no doubt counter, neoliberals overstate the importance of IOs and pay insufficient attention to the state power underpinning them and geopolitics in general<sup>54</sup>. Functionalist theories of delegation, for example, cannot elucidate why some individual countries would choose to participate in some MDBs rather than others.

35. The crux of the matter is that neoliberalism and neorealism only offer a partial explanation for the creation of the AIIB. Neither of these essentially state-centric accounts, rooted in rational choice theory, are unable to capture the complexity of social processes underway. The positivist epistemology they adopt restricts their analysis to institutional innovation *within* the LIO, leaving aside the deeper causal mechanism and social forces driving systemic change. The root of the problem here is an ontological one.

36. Reality, Roy Bhaskar reminds us, is far more complicated than that perceived by our senses, comprised as it is of three vertically inter-related ontological domains, Within «open» systems, a number of complex, and often conflicting, underlying unobservable processes and causal mechanisms (deep «real» level) interact to produce certain events/state-of-affairs (intermediate «actual» level) which we then use our theories, concepts and models to interpret (surface «empirical» level). Positivists —neorealists and neoliberals included— are guilty of collapsing these three domains into one, reducing reality to discernible constants and conjunctions at the surface level. By conflating reality (ontology) with our conception of that reality (epistemology), Bhaskar argues, they commit the «epistemic fallacy»<sup>55</sup>.

37. One of the problems of failing to comprehend the ontologically stratified nature of reality is that positivist IR scholars end up «reifying» the state: separating it from its underlying social forces<sup>56</sup>. Neither of the «neos», for

<sup>52</sup> IKENBERRY, G. J. and LIM, D. J., *op. cit.*, note 8, pp. 14-15.

<sup>53</sup> DE JONGE, *op. cit.*, note 30.

<sup>54</sup> MEARSHEIMER, J. J., *op. cit.*, note 40.

<sup>55</sup> For more on Bhaskar's «critical realist philosophy of science» see: BHASKAR, R., *A Realist Theory of Science*, Abingdon, Routledge, 2008 (orig. pub. 1975), p. 304; BHASKAR, R., *The Possibility of Naturalism*, London, 3.<sup>rd</sup> ed., Routledge, 1998 (orig. pub. 1979), p. 194, and BHASKAR, R., *Scientific Realism and Human Emancipation*, London, Routledge, 1986, p. 360.

<sup>56</sup> COX, R. W., «Social Forces, States, and World Orders: Beyond International Relations Theory» (orig. pub. 1981) in COX, R. W. with SINCLAIR, T. J., *Approaches to World Order*, Cambridge, Cambridge University Press, 1996a, pp. 85-123.

example, is able to convincingly explain why some states favour a particular normative social order, developmental model or institutional framework, over another.

38. To overcome these short-comings, and offer what we consider to be a more satisfactory account of the «challenge» posed by the AIIB, we propose the adoption of a *Neo* neo-Gramscian framework.

#### 4. INSTITUTION-BUILDING: A *NEO* NEO-GRAMSCIAN PERSPECTIVE

39. Before evaluating the counter-hegemonic nature of the AIIB, it is vital to clarify first what one means by «hegemony». Within mainstream IR theory, the most common usage is found in neorealist literature, or some variant of it (*e. g.* «hegemonic stability theory»). Here hegemony refers to an inter-state relationship, where material capabilities enable one country to exert leadership or supremacy over others: a relationship often manifested/reproduced via the establishment of international regimes and institutions<sup>57</sup>. Neoliberals deviate from this perspective claiming these regimes and institutions, even if created by the hegemon, gradually take on a life of their own, helping nurture cooperation, fulfilling key functions and guaranteeing global public goods, opening up the possibility that a hegemonic order/system may continue to function long after the hegemon's power has diminished<sup>58</sup>.

40. This paper digresses from this interpretation, following Antonio Gramsci's conceptualisation of hegemony as a power relation between *social classes*, in which the upper echelons exercise both dominance (coercion) and «intellectual and moral leadership» (consensus) over allies and subaltern classes, condensed in its so-called «historical bloc»<sup>59</sup>. According to Gramsci the establishment of hegemony by a particular social class (and allied groups) passes through three temporally-differentiated «relations of force», or «moments» of «collective political consciousness», which, given their pivotal importance to thesis of this paper, we consider essential to set out<sup>60</sup>:

— The *first* «moment» (the «relation of social forces») arises out «material forces of production», where dominant groups make economic-corporative

<sup>57</sup> See for example, WALTZ, K., *op. cit.*, note 38; MEARSHEIMER, J. J., *The Tragedy of Great Power Politics*, New York, Update Edition, W. W. Norton & Company, 2001, p. 592, and GILPIN, R., *Global Political Economy. Understanding the International Economic Order*, Princeton and Oxford, Princeton University Press, 2001, p. 423.

<sup>58</sup> See for example, KRASNER, S. D., «Structural Causes and Regime Consequences: Regimes as Intervening Variable», *International Organisation*, vol. 36, 1982, n.° 2, pp. 185-205; KEOHANE, R., *After Hegemony, Cooperation and Discord in the World Political Economy*, Princeton Nueva Jersey, Princeton University Press, 1984, p. 290, and OYE, K. A., «Explaining Cooperation under Anarchy: Hypothesis and Strategies», *World Politics*, vol. 8, 1985, n.° 1, pp. 1-24.

<sup>59</sup> GRAMSCI, A., *Selections from the Prison Notebooks of Antonio Gramsci*, ed. and trans. by Q. Hoare & G. Nowell Smith, Lawrence & Wishart, 1971, p. 572, p. 80f, p. 377.

<sup>60</sup> Taken from GRAMSCI, A., *op. cit.*, note 59, pp. 161-185.

sacrifices to subordinates in order to guarantee their compliance with regard a particular accumulation regime.

— The *second* «moment» (the «relation of political forces») begins when said dominant groups, form a self-conscious class and exercise politico-cultural hegemony («intellectual and moral leadership») over subordinate classes. This is done by the establishment of an «hegemonic apparatus» spanning civil society, encompassing common institutions, ideologies, practices and agents, and framing all questions on an a «universal plane».

— The *third* «moment» («the relation of military forces») consists of two different forms of oppression —the «military» level and the «politico-military» level— «which from time to time is directly decisive» in the struggle for hegemony.

41. Hegemony, for Gramsci, is at once a national and international phenomenon: materially-rooted class relations within a hegemonic system at the national level dialectically interacted with relations between international social forces that constitute «the combinations of States in hegemonic systems»<sup>61</sup>. Essentially a product of the uneven development of capitalism<sup>62</sup>, this manifests itself in a hierarchically-ordered, exploitative inter-state system presided over by «Anglo-Saxon world hegemony»<sup>63</sup>.

42. Subsequent neo-Gramscians have reaffirmed Gramsci's view on world hegemony. For Robert W. Cox world hegemony has its origins in «an outward expansion of the internal (national) hegemony established by a dominant class» (rooted in its historical bloc), and expressed in a particular state-society complex. As such «[t]he economic and social institutions, the culture, the technology associated with this national hegemony become patterns for emulation abroad»<sup>64</sup>. While this social restructuring is driven by the arrival of advanced systems of production, it only occurs when dominant elites in hegemonic state link up with their counterparts in subordinate state-society complexes, united by mutual interests and ideological perspectives<sup>65</sup>.

43. Coinciding with Gramsci's *second* moment and hegemonic apparatus analysis, neo-Gramscians claim dominant classes consolidate politico-cultural hegemony by establishing IOs. Framing all concerns in terms of universal interests, these institutions stabilize/reproduce a particular hegemonic order by legitimating and socially embedding those rules, norms, policies, practices and values compatible with the dominant productive system. As part of this

<sup>61</sup> GRAMSCI, A., *op. cit.*, note 59, p. 116, p. 176.

<sup>62</sup> PRÖBSTING, M., «Capitalism Today and the Law of Uneven Development: The Marxist Tradition and its Application in the Present Historical Period», *Journal of Socialist Theory*, vol. 44, 2016, n.° 4, pp. 318-418.

<sup>63</sup> GRAMSCI, A., *Selections from Political Writings, 1910-1920*, London, Lawrence & Wishart, 1977, p. 393, pp. 69-72, p. 302.

<sup>64</sup> COX, R. W., «Gramsci, Hegemony and International Relations: An Essay in Method» (orig. pub. 1983) in COX, R. W. with SINCLAIR, T. J., *Approaches to World Order*, Cambridge, Cambridge University Press, 1996b, pp. 124-143, p. 137.

<sup>65</sup> COX, R. W., *Production, Power, and World Order: Social Forces in the Making of History*, New York, Columbia University Press, 1987, p. 500, p. 7.

harmonization process, IOs sanction economic-corporate benefits (Gramsci's *first* moment), opt-outs and derogations from the norm in order to assimilate oppositional tendencies and co-opt foreign elites. In short, IOs help reconfigure state-society complexes, making them compatible with world hegemonic social forces: a process which Cox terms the *internationalisation of the state*<sup>66</sup>.

44. Neo-Gramscians such as Mark Rupert have illustrated how, the US underwrote an internationalisation of the state from the 1940s onward, setting up numerous IOs to refashion Western social relations of production and state-society complexes compatible with its own regime of accumulation (Fordist mass production and mass consumption model) and «corporatist» Keynesian state<sup>67</sup>. Under American hegemony a powerful institutional apparatus —encompassing the Bretton Woods triad<sup>68</sup>, the Organisation for European Economic Cooperation/Marshall Plan, the Organisation for Economic Cooperation and Development, and the Bank for International Settlements— sought to reconcile domestic social pressures with the requirements of a world economy and oversee the application of LIO norms. Out went insular-looking, state-planned welfare states, in came more liberal, internationally-orientated, Keynesian versions, albeit ones whose domestic social commitments were to be respected: a balance John Ruggie termed «embedded liberalism»<sup>69</sup>.

45. For Cox the effects of the internationalisation of the state and the *internationalisation of production* process it helped to unleash, meant that by the mid-1970s it was no longer pertinent to think in terms of a state-centred hegemony. We had now entered a new transnationalist capitalist age with domestic economies subordinated to the demands of transnational capital and finance and under the direction of a new «transnational managerial class»<sup>70</sup>. Thanks to an array of ongoing formal/informal socialization processes a self-aware «transnational capitalist class» had emerged, forming a «transnational imagined community» brandishing its own hegemonic apparatus (ideology, strategy and institutions) committed to the promotion of neoliberal globalisation<sup>71</sup>. Some Neo-Gramscians even go as far to say we are witnessing the consolidation of a single economic and «transnational historical bloc» sup-

<sup>66</sup> COX, R. W., *op. cit.*, note 56, p. 99, pp. 107-109; COX, R. W., *op. cit.*, note 64, pp. 137-138.

<sup>67</sup> RUPERT, M., *Ideologies of Globalisation: Contending Visions of a New World Order*, Florence, Kentucky, Routledge, 2000.

<sup>68</sup> The International Monetary Fund, the World Bank, and subsequently the General Agreement on Tariffs and Trade/World Trade Organisation.

<sup>69</sup> RUGGIE, J. G., «International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order», *International Organisation*, vol. 36, 1982, n.° 2, pp. 379-415.

<sup>70</sup> COX, R. W., *op. cit.*, note 56, p. 111.

<sup>71</sup> GILL, S., «Neo-Liberalism and the Shift Towards a US-centred Transnational Hegemony», in OVERBEEK, H. (ed.), *Restructuring Hegemony in the Global Political Economy: The Rise of Transnational Neoliberalism in the 1980s*, London, Routledge, 1993; VAN APeldoorn, B., «Transnationalization and the Restructuring of Europe's Socioeconomic Order: Social Forces in the Construction of "Embedded Neoliberalism"», in *International Journal of Political Economy*, vol. 28, 1998, n.° 1; VAN DER Pijl, K., *Transnational Classes and International Relations*, London, Routledge, 1998, and GILL, S., *Power and Resistance in the New World Order*, 2.<sup>a</sup> ed., Basingstoke, Palgrave Macmillan, 2008.

planting national counterparts, and with it the end of the Westphalian interstate system itself and geopolitical rivalry<sup>72</sup>.

46. We are greatly indebted to neo-Gramscians for furthering our understandings of the politico-cultural dynamics of world hegemony, specifically the importance of IOs in nurturing promoting class identities/interests. However, as Jonathan Pass has argued, in his desire to engender social change (the heart of his «critical theory»), Cox, like positivists, is guilty of ontological inconsistencies, most notably conflating structure and agency. By defining structure—or what he calls «historical structures»—in *intersubjective* terms, contingent on shared collective meanings, Cox veers dangerously close to constructivist and post-structuralist territory<sup>73</sup>.

47. Consequently, neo-Gramscians end up: 1) denying capitalism obeys any underlying logic<sup>74</sup>; 2) portraying social class predominantly as an identity issue<sup>75</sup>, and 3) adopting a constructivist reading of both the modern state<sup>76</sup> and hegemony<sup>77</sup>. Thus, and with notable exceptions<sup>78</sup>, neo-Gramscians also tend to downgrade the significance of coercion within hegemony (contrary to Gramsci's analysis)<sup>79</sup> and, especially in their Coxian variant, prematurely announce the transcendence of world hegemony (be it US or China-centred) by a transnational elite.

48. To rectify these shortcomings, and in order to shed a little more light on contemporary Chinese institution-building, the *Neo* neo-Gramscian perspective here—explained in detail elsewhere<sup>80</sup>—returns to Gramsci's own materialist theory of hegemony<sup>81</sup>, finding its closest contemporary parallel in the work of Jonathan Joseph.

49. Rooted in Bhaskar's aforementioned «critical realist philosophy of science», Joseph makes an analytical distinction between *surface* and *struc-*

<sup>72</sup> ROBINSON, W. I., «Gramsci and Globalization: From Nation-State to Transnational Hegemony», *Critical Review of International Social and Political Philosophy*, vol. 8, 2005, n.º 4, pp. 1-16; BIELER, A., «The Future of the Global Working Class: An Introduction», in BIELER, A., LINDBERG, I. and PILLAY, D. (eds), *Labour and the Challenges of Globalization: What Prospects for Transnational Solidarity?* London, Pluto Press, 2008, and VAN DER PIJL, K., *From the Cold War to Iraq*, London, Pluto Press, 2006.

<sup>73</sup> PASS, J., «Gramsci Meets Emergentist Materialism: Towards a *Neo* Neo-Gramscian Perspective on World Order», *Review of International Studies*, vol. 44, 2018, n.º 4, pp. 596-618.

<sup>74</sup> BIELER, A. and MORTON, A. D., «Globalisation, the State and Class Struggle: A "Critical Economy" Engagement with Open Marxism», *British Journal of Politics and International Relations*, vol. 5, 2003, n.º 4, pp. 467-499.

<sup>75</sup> COX, R., *op. cit.*, note 65, p. 355.

<sup>76</sup> BIELER, A. and MORTON, A. D., «The Gordian Knot of Agency: Structure in International Relations», *European Journal of International Relations*, vol. 7, 2001, n.º 1, pp. 5-35, p. 22.

<sup>77</sup> VAN DER PIJL, K., «Ruling Classes, Hegemony and the State System. Theoretical and Historical Considerations», *International Journal of Political Economy*, vol. 19, 1989, n.º 3, pp. 7-35, p. 19.

<sup>78</sup> See for example GILL, S., *Power and Resistance in the New World Order*, 2.<sup>a</sup> ed., Basingstoke, Palgrave Macmillan, 2008.

<sup>79</sup> THOMAS, P. D., *The Gramscian Moment: Philosophy, Hegemony and Marxism*, Chicago, Haymarket Books, 2010, p. 477.

<sup>80</sup> PASS, J., *op. cit.*, note 73.

<sup>81</sup> GRAMSCI, A., *op. cit.*, note 59, pp. 162, 410.

*tural* hegemony. Here *hegemonic projects* (surface hegemony) are understood as arising out of a complex, overdetermined interaction of generative mechanisms which emerge from underlying forces and relations of production (structural hegemony), with which they enjoy a dialectical, non-determinist, relationship<sup>82</sup>. Hegemonic projects are led by conscious dominant groups to conserve, advance or transform particular political programmes via societal restructuring of the state-society complex: their access to resources and options available are conditioned and strategically limited by underlying material conditions<sup>83</sup>. Domestic hegemonic projects are implicitly world hegemonic projects, albeit that not all are successful at following the above internationalisation of the state template.

50. Neo-Gramscians, for their part, largely focus on hegemonic projects (coinciding with Gramsci's *second* moment), interested in how dominant elites set up consensual institutions to bolster their exercising «intellectual and moral leadership»<sup>84</sup>. Unfortunately, insufficient attention is paid to the underlying dynamics of the capitalist system from which such hegemonic projects emerge (structural hegemony), economic-corporative bargaining (Gramsci's *first* moment) or the omnipresence of coercion, and the need to periodically resort to politico-military measures (Gramsci's *third* moment). Any serious understanding of hegemony and its process of consolidation/reproduction, the *Neo* neo-Gramscian perspective forwarded here argues, must take into consideration: a) the prior-existing, underlying accumulation regime from which such hegemonic projects exist; and b) the pivotal role of coercion, including of an overt military kind.

51. Marxist scholars such as David Harvey have long argued that capitalism is prone to crises: its need for perpetual accumulation is undermined by its many internal contradictions (*e. g.* its tendency towards over-capacity and declining profit rates)<sup>85</sup>. Neo-Gramscians, we argue, pay insufficient attention to the crucial functional role played by the capitalist state in helping facilitate capital accumulation within structural hegemony. The principal responsibility of a world hegemonic state, the *Neo* neo-Gramscian perspective argues, is to carry out said function at the global level. Indeed, the main reason the world hegemonic state's dominant classes are able to exercise «intellectual and moral leadership» over foreign elites in the first place, according to Giovanni Arrighi, is its «claim to be the motor force of general expansion»; able and willing to lead the world through a new expanded *systemic cycle of*

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<sup>82</sup> See JOSEPH, J., *Hegemony: A Realist Analysis*, London, Routledge, 2002, p. 256, and JOSEPH, J., «The International as Emergent: Challenging Old and New Orthodoxies in International Relations Theory», in JOSEPH, J. and WIGHT, C. (eds.), *Scientific Realism and International Relations*, Basingstoke, Palgrave Macmillan, 2010, pp. 51-68.

<sup>83</sup> JESSOP, B., *State Power: A Strategic-Relational Approach*, Cambridge, Polity Press, 2007, p. 301.

<sup>84</sup> GILL, S. R. and LAW, D., *The Global political Economy: Perspectives, Problems and Policies*, Brighton, Wheatsheaf, Baltimore, John Hopkins University Press, 1988, p. 394.

<sup>85</sup> HARVEY, D., *The Enigma of Capital and the Crises of Capitalism*, London, Profile Books Ltd, 2010, p. 296.

*accumulation* compatible with its own capitalist model (and social relations of production)<sup>86</sup>.

52. Historically, Arrighi asserts, each successive hegemon from Italian city states to contemporary US (and possibly China?) has increased in scale and scope: the new «headquarters» of the leading capitalist agencies must possess a large enough internal market to absorb global surplus capital accumulation (*i. e.* a larger territorial «container»)<sup>87</sup>, converting itself into the global consumer of last resort<sup>88</sup>. Contrary to the neo-Gramscian transnational thesis, scholars such as Peter Gowan, Alex Callinicos, Leo Panitch and Sam Gindin remind us of the pivotal proactive role played by the state—especially the US—in helping embed neoliberal globalization<sup>89</sup>.

53. Finally, as noted above, our *Neo* neo-Gramscian view follows Gramsci in considering hegemony as being underwritten by coercion, with periodic recourse to militarism (*third* moment). Little mentioned by neo-Gramscians, *Pax Americana* (or any future *Pax Sinica*) was/is simply unthinkable without militarism. The US's refashioning of the capitalist world «in its own image» was done, of course, in the context of the Cold War and vehement anti-communism. Washington assumed the mantle of the protector of the capitalist «free world», establishing key collective security arrangements (*e. g.* NATO) and hundreds of permanent military bases across the Eurasia «Rimland», in exchange for political subservience and market access for its multinational corporations<sup>90</sup>. American hegemony would outlive the Cold War<sup>91</sup>, and at odds with the neo-Gramscian transnational historical bloc thesis, we deem inter-state geopolitical rivalry still alive and well in 2020.

## 5. UNDERSTANDING CHINA'S AIIB BALANCING ACT

54. Since all hegemonic projects are materially-rooted, any analysis of the AIIB must begin by stressing the significance of the PRC's dramatic socio-economic transformation, from a socialist agrarian economy in the mid-1970s to global capitalist superpower within forty years<sup>92</sup>. Two key

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<sup>86</sup> ARRIGHI, G., *The Long Twentieth Century: Money, Power and the Origins of our Times*, London, 2.<sup>a</sup> ed., Verso, 2010, p. 432, pp. 6-7, p. 31.

<sup>87</sup> GIDDENS, A., *The Nation-State and Violence*, Berkeley, University of California Press, 1987, p. 408.

<sup>88</sup> ARRIGHI, G. and SILVER, B. J., *Chaos and Governance in the Modern World System*, Minneapolis, University of Minnesota Press, 1999, p. 336.

<sup>89</sup> GOWAN, P., *The Global Gamble: Washington's Faustian Bid for World Dominance*, London, Verso, 1999, p. 280; CALLINICOS, A., *Imperialism and Global Political Economy*, Cambridge, Polity Press, 2009, p. 306, and PANITCH, L. and GINDIN, S., *The Making of Global Capitalism: The Political Economy of American Hegemony*, London, Verso, 2012, p. 464.

<sup>90</sup> JOHNSON, C., *The Sorrows of Empire: Militarism, Secrecy and the End of the Republic*, New York, Owl Books, 2004, p. 400, pp. 151-185.

<sup>91</sup> PASS, J., *American Hegemony in the 21st Century: A Neo Neo-Gramscian Perspective*, New York, Routledge, 2019.

<sup>92</sup> THE WORLD BANK, «The World Bank in China», 18th April 2019, <https://www.worldbank.org/en/country/china/overview>.

interconnected points are worth underscoring here. Firstly, as indicated above, that it was achieved via a top-down, state-directed reorganisation/management of internal social forces<sup>93</sup>. Secondly, that this passive revolution took place within the LIO, and during the age of globalization, locking the Chinese economy into global circuits of production, consumption and exchange.

55. Evidently, forty years of busy activity within the global capitalist economy has dramatically overhauled the country's state-society complex. Conforming somewhat to neo-Gramscian transnational thesis, this process has been accompanied by a deeper integration of the China's «hybrid capitalist-cadre class»<sup>94</sup> into elite global governmental, corporate and institutional networks<sup>95</sup>; indeed, this constituted a central pillar of Beijing's passive revolution strategy<sup>96</sup>. According to neoliberal—and constructivist—logic, such socialization is likely to modify elite interests and identities, resulting in the acceptance and assimilation of international (*i. e.* liberal) standards into Chinese corporate practices. For many neoliberals and exponents of US hegemony, the hope is that participation in the AIIB project will intensify this transnationalisation process still further, and hence buttress the LIO.

56. Certainly, as we have seen, Beijing has gone out of its way to insist that the AIIB does not constitute a counter-hegemonic institution, emphasizing its open, inclusive nature. As neoliberals note, the need to attract non-regional creditor nations forced China, *qui pro quo*, to make important concessions to the West regarding the institution's management structure and lending norms. This, together with the profit-maximising exigencies of global capitalism has meant that the AIIB's formal rules, standards and procedures closely coincide with those of existing MDBs, with which it has collaborated on numerous projects<sup>97</sup>.

57. Yet the AIIB remains qualitatively different from other MDBs. Contrary to the thesis forwarded by neoliberals and constructivists, global socialisation processes have not nurtured a class-conscious, autonomous capitalist class, separate from «the state» within the Chinese state-society complex<sup>98</sup>. Moreover, the case can be made that by accommodating Western demands, CPC elites have cleverly augmented the PRC's global influence, and thus its politico-cultural hegemony. Hegemony, as Gramsci insisted, has

<sup>93</sup> PASS, J., *op. cit.*, note 13.

<sup>94</sup> SO, A. Y., *Class and Class Conflict in Post-Socialist China*, Hong Kong, World Scientific Publishing Company, 2013, p. 212, p. 173.

<sup>95</sup> CARROLL, W. K., *The Making of the a Transnationalist Capitalist Class: Corporate Power in the 21st Century*, London, Zed Books, 2010, p. 288.

<sup>96</sup> PANG, X., LUI, L. and MA, S., «China's Network Strategy for Seeking Great Power Status», *The Chinese Journal of International Politics*, vol. 10, 2017, n.° 1, pp. 1-29.

<sup>97</sup> ASIAN INFRASTRUCTURE INVESTMENT BANK, «Approved Projects», <https://www.aiib.org/en/projects/approved/index.html>.

<sup>98</sup> DE GRAFF, N. and VAN APELDOORN, B., «Elite Power and the rise of "Statist" Chinese elites in Global Markets», *International Politics*, vol. 54, 2017, n.° 3, pp. 338-355.

an important *consensual* element. Being perceived as the supplier of global public goods and respecter of the ILO makes it more likely other states will follow, and permit the PRC itself to exercise «intellectual and moral leadership».

58. Neorealists are correct in their assertion that the AIIB cannot be understood in isolation from the BRI<sup>99</sup>. What they fail to emphasize, however, a corollary of their state-centric vision, is that the shift in Chinese institutional statecraft reflects a fundamental reorganisation of the country's productive economy and underlying accumulation regime.

59. As all Chinese premiers have insisted over the last 15 years, the PRC stands at a critical juncture in its development trajectory. For over thirty years China's economic miracle was based upon exporting low-end, labour-intensive goods from the coastal regions. Over time, however, the huge internal contradictions of this accumulation regime became apparent. As early as March 2007 then Prime Minister, Wen Jiabao, announced at the National People's Congress that the national economy was «unstable, unbalanced, uncoordinated, and unsustainable»<sup>100</sup>. The advent of the 2008 global financial crisis only heightened these problems, manifested in chronic domestic overcapacity/investment in infrastructure/real estate sectors and stark regional/social inequality. Apart from promising a greater distribution of wealth, and a shift to a consumption-led growth model, Beijing has sought to overcome domestic overproduction partly by getting its state-owned enterprises to globalize and find new markets abroad to bury its surplus value, in accordance with David Harvey's spatio-temporal fix theory<sup>101</sup>.

60. It is in this context —as a geographical location process to relieve overcapacity in major industrial sectors, especially construction— that the BRI must be understood. The BRI backed up by the AIIB (and foreign investment) promises to increase growth across Eurasia. In this way, and following Arrighi's aforementioned template, China could fulfil its world hegemonic role by leading the capitalist world to a systemic cycle of accumulation, much the same way the US in the 1940s via the Marshall Plan and Cold War arms expenditure.

61. Significantly, while the Trump Administration was turning its back on the LIO, proclaiming «America First», Xi Jinping was at the 2017 Davos Economic Forum, defending globalization, free markets, liberalisation, foreign investment and cultural interaction. By April 2020, for example, the PRC had signed 16 free trade area agreements —with countries as diverse as the ASEAN<sup>102</sup>, Chile, Switzerland, Australia, Iceland and South Korea— with 24

<sup>99</sup> SHAMBAUGH, D., *op. cit.*, note 45.

<sup>100</sup> Quoted by XINHUA NEWS AGENCY, «China Confident in Maintaining Economic Growth: Premier», March 16th 2007, <http://www.china.org.cn/english/2007lh/203252.htm>.

<sup>101</sup> HARVEY, D., *The Limits to Capital*, Oxford, Basil Blackwell, 1982, p. 478.

<sup>102</sup> Members of the Association of South East Asian Nations include Thailand, Indonesia, Malaysia, Singapore, Vietnam, Laos, Myanmar, Brunei, Cambodia and the Philippines.

under construction (including the China-Japan-Korea free trade area and the Regional Comprehensive Economic Partnership<sup>103</sup>)<sup>104</sup>.

62. Nevertheless, and despite Beijing's liberal internationalist discourse and emphasis on the universal benefits of «connectivity», early signs indicate that Eurasian connectivity under the BRI is likely to be quite *Sino-centric* in orientation. And given Asia's estimated \$22.6 trillion infrastructure requirements for the period 2016-30<sup>105</sup>, it seems fair to assume the AIIB will serve to buttress the BRI, with international investors likely to opt for lucrative infrastructure developments over traditional MDB projects for poverty reduction, education or health.

63. Clearly, this infrastructure-led development model across East Asia has important development implications. The arrival of Chinese capital, know-how and business culture will encourage other countries in the region to pursue a similar growth strategy, helping embed PRC's model of political economy abroad.

64. Two points on world hegemony are worth underscoring here. Firstly, it involves the expansion of social forces emanating from a particular internal order, therefore this international hegemonic project is inseparable from Xi's *domestic* hegemonic project<sup>106</sup>. Secondly, it involves an *internationalisation of the state* process, with the hegemon setting up IOs to help restructure other state-society complexes in line with its own material interests and societal model. There are evident parallels between contemporary China institution-building (e. g. the AIIB, the New Development Bank and Chiang Mai Initiative Multilateralisation Agreement) and the US in the 1940s, using these new organs (and remoulding existing ones) to distribute economic benefits, co-opt foreign elites and embed those norms, values and practices which contribute to remaking of the world in its own image.

65. A key feature of China's model of political economy —particularly prevalent in infrastructural development— is the heavy presence of the state in core strategic sectors, such as banking, finance, energy, construction and raw materials. Notwithstanding their increasing integration into global corporate networks and adherence to capitalist logic, state-owned enterprises retain a close link to the state, whose interests and priorities they share<sup>107</sup>. Crucially, the AIIB/BRI will reinforce the domestic social class hierarchy,

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<sup>103</sup> Spanning Asia-Pacific, the Regional Comprehensive Economic Partnership, if finally agreed, would be made up of 15 countries: the ASEAN and five of its free trade partners (China, Japan, South Korea, Australia and New Zealand).

<sup>104</sup> CHINA FTA NETWORK, 29th April 2020, <http://fta.mofcom.gov.cn/english/index.shtml>.

<sup>105</sup> ASIAN DEVELOPMENT BANK, «Meeting Asia's Infrastructure Needs», Mandaluyong City, Philippines, 2017, p. 131, p. iv, <https://www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf>.

<sup>106</sup> MULVAD, A. M., «Xiism as a Hegemonic Project in the Making: Sino-communist Ideology and the Political Economy of China's Rise», *Review of International Studies*, vol. 45, 2019, n.º 3, pp. 449-470, p. 451.

<sup>107</sup> DE GRAFF, N. and VAN APELDOORN, B., «US-China Relations and the Liberal World Order: Contending Elites, Colliding Visions?», *International Affairs*, vol. 94, 2018, n.º 1, pp. 113-313, p. 121.

strengthening the power positions of the CPC elite, and therein help reproduce the PRC's one-party political system. This state-centred development model finds sympathy amongst emerging countries, but is at odds with LIO tenets, reflected in the WTO's aforementioned refusal to recognise China's market economy status in 2019.

66. Unsurprisingly, given the PRC's single-party political system and hybrid state-capitalist political economy, the AIIB's founding treaty insists on the need to respect national sovereignty. Article 31.2 of the AIIB's «Articles of Agreement» stipulate that «The Bank, its President, officers and staff shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions»<sup>108</sup>. AIIB's promotion of global free trade, it appears, will be less intrusive and avoid insisting countries adopt the long list of economic, political, social and environmental conditionalities traditionally demanded in the LIO by MDBs such as the World Bank. Indeed, Beijing's main grievance with these have been the way they have instrumentalised human rights to consolidate Western values, ideology, political standards or development model, especially via «Responsibility to Protect» (preferring «Responsible Protection» instead).

67. Again, this new type of globalization process, respectful of national sovereignty is particularly attractive to emerging countries, many of them critical of the Washington Consensus and/or under-going their own delicate state-led passive revolutions. Emblematic of this shift are increasing references a new *Beijing Consensus*.

68. As reiterated throughout this paper, the World Bank is an indispensable part of the LIO: the largest and only truly global MDB, and a vital channel for the dissemination of liberal economic prescriptions via its research and loan activities. Importantly, along with the IMF, it constitutes the central pillar of US's long-held control over capital allocation for development and pivotal role in dollar recycling<sup>109</sup>. China, we have observed, has gone out of its way to stress the complementary nature of the AIIB and the World Bank and the commitment to work within the framework of the LIO. But the mere fact that countries have an alternative conduit for financing development, less under the direction of the US Treasury and Wall Street<sup>110</sup>, could undermine not only Washington's long-term «intellectual and moral leadership», but the material reproduction of US hegemony itself.

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<sup>108</sup> ASIAN INFRASTRUCTURE INVESTMENT BANK, «Articles of Agreement», [https://www.aiib.org/en/about-aiib/basic-documents/\\_download/articles-of-agreement/basic\\_document\\_english-bank\\_articles\\_of\\_agreement.pdf](https://www.aiib.org/en/about-aiib/basic-documents/_download/articles-of-agreement/basic_document_english-bank_articles_of_agreement.pdf).

<sup>109</sup> GOWAN, P., *op. cit.*, note 89.

<sup>110</sup> For Robert Wade and Frank Veneroso much of global debt recycling comes under the direction of what they call the «Wall Street-Treasury-IMF Complex». WADE, R. and VENEROSO, F., «The Asian Crisis: The High Debt Model Versus the Wall Street-Treasury-IMF Complex» *New Left Review*, vol. 228, March-April, 1998, pp. 3-23.

69. China has insisted that the AIIB will only deal in dollars. The non-participation of the US, however, makes it increasingly likely that over the medium to long term Beijing may use the institution to further its objective of internationalising the *renminbi*, as neorealists suspect<sup>111</sup>. Indeed, Kai He and Huiyun Feng have reiterated Knoerich and Urdinez's argument that Britain's surprise decision to sign up to the AIIB was in part conditioned by the possibility of converting London into the currency's international clearing centre<sup>112</sup>. Many developing countries are also keen to use the *yuan*. Domestic pressure for internationalisation is growing within the PRC too. Far more profitable (and less risky) for Chinese businesses to carry out trade across Eurasia in their own currency than the dollar, especially since the managed float regime maintained by the People's Bank of China results in the hoarding of billions of dollars in cash or converted into low-yield assets such as US Treasury Bonds. Just how long US hegemony can survive the end of dollar hegemony remains an open question.

70. For the decades following the introduction of «reform and opening up» (*gǎigé kāifàng*) under Deng Xiaoping in 1978, Beijing's international strategy was to keep a low-profile: to «conceal one's strength and bide one's time» (*tāo guāng yǎng huì*). Under Xi Jinping, and reflecting an underlying shift in the country's power position, the PRC's world-view has changed, opting for a more assertive «striving for achievement» (*fén fā yǒu wéi*) global stance<sup>113</sup>. At the CPC's 19<sup>th</sup> National People's Congress in October 2017 Xi announced a more proactive foreign policy, demanding a more central position for the PRC on the world stage<sup>114</sup>. The AIIB institution-building initiative is merely an example of this.

## 6. CONCLUSION

71. The objective of this paper has been to assess the nature of Beijing's institutional statecraft in the context of the contemporary LIO, with a special focus on the AIIB. Taking Ikenberry and Lim's categorisation as basic template, we noted that China's contemporary institutional strategy resembles that of the US in its mantle as a «status-quo stakeholder» and «institutional

<sup>111</sup> DONGMIN, L., HAIHONG, G., QIYUAN, X., YUANFANG, L. and SHUANG, S., «The Belt and Road Initiative and the London Market - the Next Steps in Renminbi Internationalisation: Part 1. The View from Beijing», *Chatham House: Royal Institute of International Affairs*, January 2017, <https://www.chathamhouse.org/sites/default/files/publications/research/2017-01-17-belt-road-renminbi-internationalization-liu-gao-xu-li-song.pdf>.

<sup>112</sup> HE, K. and FENG, H., «Leadership Transition and Global Governance: Role Conception, Institutional Balancing, and the AIIB», *The Chinese Journal of International Politics*, vol. 12, 2019, n.º 2, p. 174.

<sup>113</sup> YAN, X., «From Keeping a Low Profile to Striving for Achievement», *Chinese Journal of International Politics*, vol. 7, 2014, n.º 2, pp. 153-184, pp. 154-156.

<sup>114</sup> REAL INSTITUTO ELCANO, «La política exterior de Xi Jinping tras el 19 Congreso: China quiere un papel central en la escena global», Mario Estaban, el 25 de octubre de 2017, [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_es/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_es/zonas\\_es/ari80-2017-esteban-politica-exterior-xi-jinping-19-congreso-china-quiere-papel-central-escena-global](http://www.realinstitutoelcano.org/wps/portal/rielcano_es/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/ari80-2017-esteban-politica-exterior-xi-jinping-19-congreso-china-quiere-papel-central-escena-global).

obstructor». Where it differs, however, is in its guise as «authority-seeking stakeholder» or «external innovator». It is the PRC's latter role that has most attracted the attention of IR scholars, and on which this present study has focused.

72. Mainstream IR theory in both its neorealist and neoliberal forms, we saw, offers valuable insights into the motives for the setting up of the AIIB and its significance for the LIO. Nevertheless, it was argued, ontological and epistemological short-comings mean they are unable to fully comprehend the deeper social processes underway. An alternative, *Neo* neo-Gramscian, theoretical framework was then set out and applied to the AIIB.

73. Beijing's institutional-building represents more than simply a zero-sum attempt to undermine American power (neorealism), or motivated by a functionalist need to improve inter-state cooperation in a changing world (neoliberalism). Instead, we hold, it is driven by the dialectical interaction between social forces emerging out of China's materially-rooted state-society complex and their global counterparts, and within a pre-existing institutional/normative framework (*i. e.* the LIO). The hybrid nature of AIIB reflects this fusion.

74. For the short term, we concluded, the AIIB appears to reinforce the LIO, not posing a direct threat to US hegemony, *per se*, but constituting an important tool of institutional statecraft, designed to enhance China's global influence, authority and status (tantamount to Gramsci's *second* moment of «intellectual and moral leadership»). Over the medium to long term, the AIIB could well consolidate itself as a genuine counter-hegemonic institution, roughly consistent with Ikenberry and Lim's second purpose of «external innovation»<sup>115</sup>. This will depend, crucially, on how successful the BRI is at underwriting an infrastructure-led accumulation model growth across Eurasia. If it does, the AIIB may well evolve into an important focal point for an alternative renminbi-dependent, Sino-centric developmental model and associated world order, and based, as we have seen, upon a different set of values, norms and rules to those promoted by the LIO.

75. At the same time, and consistent with the critical realist ontological stratification adopted here, it is impossible to make positivist-style predictions about future outcomes in the social world, the best one can offer are context-dependent evidential statements with regards to particular tendencies<sup>116</sup>.

76. Hegemony, for one thing, is not an immobile state, but rather a social process, contingent on complex power relations between dominant, allied and subservient classes. As such, exercising world hegemony is not only expensive —requiring the granting of economic concessions to allies, the

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<sup>115</sup> That is, promoting alternative rules/norms and power structures more compatible with its interests.

<sup>116</sup> ARCHER, M. S., BHASKAR, R., COLLIER, A., LAWSON, T. and NORRIE, A. (eds.), *Critical Realism: Essential Readings*, London, Routledge, 1998.

underwriting of institutions, and the maintenance of politico-military dominance (Gramsci's three *moments*)— it is also always contested, both at home and abroad.

77. The PRC finds itself is in the midst of a highly complex passive revolution. Xi Jinping's much-publicised «Chinese Dream» hegemonic project —of which the BRI/AIIB is merely an international extension— strives primarily to overcome huge economic, social and political contradictions at the heart of Chinese society. Trying to square the circle of having a fiercely capitalist system, massive regional and social inequality (the second highest number of billionaires in the world)<sup>117</sup> overseen by a nominally «communist» government, explains in part the instrumentalization of nationalism, cult propaganda, heightened authoritarianism and social surveillance under Xi Jinping.

78. Certainly, CPC leaders are well aware that China's «intellectual and moral leadership» can be undermined by internal bottom-up social struggles involving the mobilisation of important disenfranchised factions, such as workers groups, the dispossessed, environmentalists and democracy/human rights activists, especially if picked up by the Western media (*e. g.* recent Hong Kong demonstrations).

79. It is also possible, as many neoliberals and apologists of US hegemony hope, that further integration into global capitalist networks and the LIO (the AIIB included) will help assimilate the most internationally-orientated of the Chinese cadre-capitalist class into the transnational elite<sup>118</sup>. Demands for further economic liberty to maximise profits, liberal theory runs, will lead to demands for greater political freedom and the establishment of a liberal democratic state. Yet even if this intra-elite split were to ensue, there is no guarantee that such liberal teleology would play itself out, or that the PRC would be converted into a LIO champion. As Karl Polanyi reminds us, free market capitalism and authoritarian government are perfectly compatible<sup>119</sup>.

80. Moreover, even if a capitalist class were able to establish domestic hegemony it is uncertain that this would transpose into Chinese world hegemony, since this necessarily involves passing through Gramsci's *third* moment (politico-military relations). Beijing, has repeatedly insisted that it would never seek hegemony, external expansion or a sphere of influence, a promise it reiterated in a 2019 white paper entitled «China's National Defense in a New Era»<sup>120</sup>. Nonetheless, against the background of a successful BRI/AIIB and increasing economic and political presence across Eurasia, PRC's

<sup>117</sup> FORBES, «World's Billionaires List: The Countries With The Most Billionaires in 2020», Jonathan Ponciano, <https://www.forbes.com/sites/jonathanponciano/2020/04/08/the-countries-with-the-most-billionaires-in-2020/>.

<sup>118</sup> LI, C., «Rule of the Princes», *Brookings Institute*, 10th February 2013, <https://www.brookings.edu/articles/rule-of-the-princes/>.

<sup>119</sup> POLANYI, K., *The Great Transformation: The Political and Economic Origins of Our Time*, 2.<sup>a</sup> ed., Boston, Beacon Paperback Press, 2001, p. 360, pp. 265-267.

<sup>120</sup> XINHUANET, «China Says it will never seek Hegemony in national defense white paper», 24th July 2019, [http://www.xinhuanet.com/english/2019-07/24/c\\_138254874.htm](http://www.xinhuanet.com/english/2019-07/24/c_138254874.htm).

geopolitical concerns may well will clash with those of the US, especially in Asia-Pacific.

81. According to Arrighi's systemic cycles of accumulation theory the period between the demise of one hegemon and the rise of another is typically marked by augmented inter-state conflict and even war, as countries fight to prevent the devaluation of their capital<sup>121</sup>. One can only hope such a nightmare scenario does not prevail.

### ABSTRACT

#### CHINA'S INSTITUTIONAL STATECRAFT WITHIN THE LIBERAL INTERNATIONAL ORDER: THE ASIAN INFRASTRUCTURE INVESTMENT BANK

A key debate amongst international relations theorists is how China's rise will affect the liberal international order (LIO). The launching of the Asian Infrastructure Investment Bank (AIIB) by Beijing, unsurprisingly, has generated much interest. The aim of this paper is to shed light on the claim that the AIIB constitutes a «counter-hegemonic» initiative (or «external innovation» in liberal terminology). After showing the complexity of Chinese *institutional statecraft*, the study reviews mainstream theoretical accounts of the AIIB. Both neorealism and neoliberalism, we hold, have contributed to a better understanding of the institution, but ontological and epistemological deficiencies prevent them from satisfactorily explaining the complex social processes underway. By contrast, we set out a *Neo neo-Grasmanian* perspective, which understands the AIIB as an institutional manifestation of the on-going interaction between the social forces emergent out of China's own *state-society complex* on one hand, and their global counterparts, on the other. For the short term, we conclude, the AIIB is likely to reinforce the LIO. Over the medium to long term, however, this *internationalisation of the state* process, understood in connection with the Belt and Road Initiative, may pose a serious challenge to the LIO and, as a result, to US hegemony itself.

**Keywords:** China, liberal international order, hegemony, institutional statecraft, Asian Infrastructure Investment Bank, state-society complex, internationalisation of the state, hegemonic project, Belt and Road Initiative.

### RESUMEN

#### EL STATECRAFT INSTITUCIONAL DE CHINA DENTRO DEL ORDEN INTERNACIONAL LIBERAL: EL BANCO ASIÁTICO DE INVERSIÓN EN INFRAESTRUCTURA

Un debate clave entre los teóricos de Relaciones Internacionales es cómo el auge de China afectará al orden liberal internacional (OLI). No es extraño, por tanto, que la creación del Banco Asiático de Inversión en Infraestructura (BAII) por parte de Beijing, haya despertado mucho interés. El objetivo de este artículo se centra en examinar la afirmación de que el BAII constituye una iniciativa «contrahegemónica» (o una «innovación externa» en terminología liberal). Una vez demostrada la complejidad del *statecraft institucional* chino, el estudio analiza las perspectivas de las teorías convencionales sobre el BAII. Sostenemos que tanto el neorealismo como el neoliberalismo han contribuido a una mejor comprensión de la institución, pero sus deficiencias ontológicas y epistemológicas consti-

<sup>121</sup> ARRIGHI, G., *op. cit.*, note 86, see also ARRIGHI, G. and SILVER, B. J., *op. cit.*, note 88.

tuyen un obstáculo para explicar de forma convincente los complicados procesos sociales en marcha. De ahí que exponamos aquí una perspectiva *Neo* neogramsciana que comprende el BAI como una manifestación institucional de la interacción en curso entre las fuerzas sociales emergentes del *complejo Estado-sociedad* chino, por un lado, y sus homologas globales, por el otro. Concluimos que es probable que el BAI refuerce el OLI a corto plazo. A medio y largo plazo, sin embargo, este proceso de *internacionalización del Estado*, entendido en conexión con la Iniciativa de la Franja y la Ruta, puede suponer un desafío grave para el OLI y, por ende, para la hegemonía americana en sí misma.

**Palabras clave:** China, orden liberal internacional, hegemonía, *statecraft* institucional, Banco Asiático de Inversión en Infraestructura, complejo Estado-sociedad, internacionalización del Estado, proyecto hegemónico, Iniciativa de la Franja y la Ruta.