

**GLOBAL ECONOMIC GOVERNANCE AND ASIAN
INFRASTRUCTURE INVESTMENT BANK (AIIB)**

A Dissertation

Submitted to

Department of International Relations and Diplomacy (DIRD)

Faculty of Humanities and Social Sciences

Tribhuvan University

In Partial Fulfillment of the Requirement for the

Master's Degrees

In

International Relations and Diplomacy

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DECLARATION

I hereby declare that this dissertation is my own work and that it contains no materials previously published. I have not used its materials for the award of any kind and any other degree. Where other authors' sources of information have been used, they have been acknowledged.

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8 August 2019

LETTER OF RECOMMENDATION

I certify that this dissertation entitled “Global Economic Governance and Asian Infrastructure Investment Bank (AIIB)” was prepared by Suman Basnet under my supervision. I hereby recommend this dissertation for final examination by the Research Committee Master’s Program in International Relations and Diplomacy, Tribhuvan University, in fulfillment of the requirements for the Degree of MASTER’S IN INTERNATIONAL RELATIONS AND DIPLOMACY.

Supervisor

Date: 7 August, 2019

APPROVAL

ACKNOWLEDGEMENT

I would like to express my gratitude to my supervisor Mr. Santosh Sharma Poudel for the useful comments and remarks and engagement through learning process of this Master's Thesis. Support provided by Prof. Dr. Khadga KC, head of Department of International Relations and Diplomacy was incredible. I would like to thank him for continued cooperation and guidance throughout my journey.

DIRID, TU and all the staffs have always remained eager to help, be it while providing me books, articles and other logistics. The three months of stay in Sichuan, Sichuan University, China during my final semester helps me to contribute a lot for my research topic. The interaction, opinions and engagement with professors, students and people have largely shaped and contributed to bring in this form.

ABSTRACT

The concept of Global Economic Governance is evolving with the new institutions and actors having complex norms and rules, aim to resolve global economic issues. In such conditions, it's significant to analyze the actions of emerging economies of the world. Likewise, the peaceful rise of China with its remarkable economic achievement in a few decades, make China step towards resolving regional and global economic and political complications. The formation of the New Development Bank, Shanghai Corporation and Asian Infrastructure Investment Bank (AIIB) are an identical example.

The contemporary economic governance framework resembles the post-war hierarchy, almost comprehends the changing context, especially the economic rise of other states. In addition, the economic rise of China started to explore its roles and responsibility in the architecture. As a result, China initiated the Asian Infrastructure Investment Bank (AIIB) as an innovative institution to meet the development challenges of China and the region. The rationale behind the establishment is to fill the infrastructural gap of Asia, which is the major cause of underdevelopment in the region. The bank functions as other multilateral development institutions. There are presently 100 members (regional and non-regional) countries organized collectively to meet the objectives of the bank.

However, the United States and Japan are not the members of the institution, accusing the bank of being a low standard in the international system. The position of Japan and the United States made a clear indication that they are not willing to accept China as a leader in the world economic architecture. Moreover, these states view as a threat to the existing institution like the World Bank and Asian Development Bank

initiated by the United States and Japan. Therefore, the act by China is considered as a new leader in the global economic architecture breaks down the western domination of world economic order. Now, its challenge for the initiator to make the bank more responsive in solving global economic issues and to be within in its principle of lean, clean and green.

Keywords: Global Economic Governance, Asian Infrastructure Investment Bank (AIIB), World Bank, Multilateral Development Bank (MDB), infrastructure gap, Hegemonic Stability Theory

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LIST OF ABBREVIATIONS

AIIB	Asian Infrastructure and Investment Bank
CCP	Communist Party of China
GATT	General Agreement on Tariffs and Trade
GEG	Global Economic Governance
HST	Hegemonic Stability Theory
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
TNC	Transnational Corporation
UNDP	United Nations Development Programme
UNPKM	UN Peace Keeping Mission
WHO	World Health Organization
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

1.1 Background

The concept of governance is ever-changing with time. Traditionally, the idea of governance was very much state-centric. The formation of rules and norms based institutions were initiated by the major powers whose interests were favored by those rules. For example, in the nineteenth century under the Pax Britannica, overseas property rights were frequently upheld by British “gunboat diplomacy” and the international gold standard, based on a few generally accepted rules, was managed by the Bank of England (Giplin & Giplin, 2001). The state centric idea of governance has evolved over the time; scholars believe in several school of thought. However, the argument about the state centric, still prevails in the contemporary world order with emerging global institutions carries a variety of roles and responsibilities, with complex rules and norms upheld by the political interest of the initiator. On the contrary, governance can be understood as the functioning of created institutions by the actors for communal prosperity. As United Nations Development Programme (UNDP) in its 1997 policy paper defines governance as “the exercise of economic, political and administrative authority to manage a country’s affair at all levels” (Gisselquist, 2012,). The definition by the UNDP is based on a state level but can be applied at the global level as well. Therefore, Global economic governance can be defined as the international rule-based framework through which economic actors (be they states, firms, institutionalized agencies, organized groups, or individuals) seek to resolve collective action problems and promote cross-border co-ordination and co-

operation in the provision or exchange of goods, money, services and technical expertise in defined issue areas of the world economy (Moschella & Weaver, 2014).

In the changing context, the prevalent global rule-based economic framework indeed does not integrate the economic (it does integrate China, but based on rules set by the West after WWII) rise of China. China is exploring roles and responsibilities in global architecture with a peaceful rise and substantial economic transformation. On the contrary, existing great powers failed to take up their responsibilities in the international system (Buzan, 2010). Therefore, emerging economic power started to construct the global economic institutions of their own to resolve the global political and economic issues. For instance, development of the Shanghai Cooperation Organization, New Development Bank, and Asian Infrastructure and Investment Bank (AIIB, 2019). Subsequently, China's opening up as state control market economy, China significantly move towards the path of development with rigorous economic growth. China began to construct various forms of global and regional organizations. Therefore, AIIB is one of the repercussion of the China's economic strength. AIIB is a new multilateral development bank initiated by China. The concept was officially proposed by Chinese leaders in 2013 to meet the huge infrastructure gaps that exist in Asia. During March 2015, China's Minister of Finance said that there was a agreement among the 27 prospective members at that time to keep membership open for extra-regional countries. Thus, the United Kingdom reveal interest in joining the bank as Beijing quickly changed its position to welcome European and African countries as well. Following the action taken by Beijing, it came into existence on 29th June 2015 with establishment capital of \$100 billion among which 70 billion from Asia only. Likewise, it has its original 57 members ratify the document within 31st December 2015 as the Philippines was the last country to ratify. As of now, the bank

has 100 members from regional and non-regional, collectively for 78 per cent of the world's population and 63 per cent of Gross Domestic Product (GDP) (AIIB, 2019). The establishment, officially operated its business from 16th January headed by Jin Liqun former banker and former Deputy Finance Minister of China (Fritz, 2016). Model of the bank is based upon the multilateral development as founded and led by a group of countries operated on three different approaches: to co-finance developing projects in developing and emerging countries providing long and very long term loans with low-interest rates. Unlike other MDBs, AIIB is different in terms of the priority on infrastructural projects such as energy, telecommunications, agriculture and water supply rather than in poverty alleviation, health, education and so on.

There are reasons behind the formation of the bank led by China, Chinese Finance Minister Lou Jiwei views that AIIB would help global economic recovery, boost infrastructure construction in Asia and help China's economic development by increasing connectivity and promoting cooperative relations with neighboring countries. President of the bank Jin Liqun sights? that AIIB in building "partnership" boosting connectivity and tackling the resource shortfall for Asian infrastructure.

Chinese President Xi Jinping emphasized the formation of the bank as a new financial institution is to improve global economic governance. He further illustrates that AIIB will assist in fostering cooperation and economic integration. Moreover, the initiative is to fund the Silk Road Economic Belt and 21st Century Maritime Silk Road, to improve transportation and connectivity in a large region covering from China to Europe along multiple corridors and routes (Paradise, 2016).

The conflicting views regarding the establishment of AIIB is obvious. AIIB to United States and Japan is the institution led by China parallels with existing global

economic institutions and the institution to achieve core national interest of China (Harris, 2015). Similarly, scholars view that the institution is not opposing the existing global financial institutions rather posing more challenges to those institutions for their better functioning than before illustrates that the focus on old-stage redistributive is likely worse than the status quo. Instead, innovative reforms that break old moulds and chart a new course for how problems are addressed is needed. Therefore, the establishment has contrasting views among scholars.

1.2 Statement of Problem

The concept of Global Economic Governance (GEG) has been changed with time. The idea has to accommodate the myriad of actors and ideas with the changes. In the contemporary economic governance architecture, it's essential to analyze the economic development of China and its actions of innovating newer forms of institutions. Such as the establishment of the Asian Infrastructure Investment Bank (AIIB) in the existing economic governance arrangement.

1.3 Research Questions

Among the various questions that arise after the formation of AIIB, scholars put forwards diverse perspectives regarding its establishment. There is no doubt it is innovation led by China, as China often time states that the bank is led by China but it is not China-centered. And the establishment is highly criticized by the United States as it questions regarding its organizational operating structure, international norms and standards of transparency. So, in this context research will be based upon these questions:

1. What is the role of AIIB in global economic governance?
2. How does AIIB differ from Bretton Woods institutions?

3. Is China the benevolent hegemonic power required to sustain global economic governance?

1.4 Objectives of the Study

To study multilateralism from the IR's perspectives as there still exists debate regarding the establishment of such global institutions. Moreover, the study will be focused on those economic institutions which came to existence after WWII followed by the end of the cold war, the rise of China in an economically multipolar world and ultimately to China's original idea of AIIB.

- a. To analyze the role of AIIB in global economic governance.
- b. To outline the similarities and differences between AIIB and World Bank
- c. To evaluate if China is the benevolent hegemonic power.

1.5 Significance of the Study

There are researches conducted in a particular area especially related to the post-war global financial institutions. In addition, the findings are not uniform as the researcher undertook different questions to analyze those institutions. Therefore, the significance of this research will find the literature gaps of those previously published research and analyze China's novelty of AIIB within the current global economic order.

Additionally, the importance of such institutions in global financial architecture.

1.6 Limitations of the Study

The researcher will have to assume that study within some incontestable limitations that relatively demarcate the search of the study. Further, the individual researcher has to face so many obstacles while undertaking research work and some of the limiting factors are as: The study will be particularly focused on Global Economic Governance

and China-led multilateral institution in the existing economic governance architecture. The study will be mainly based on published and other secondary sources of data and information.

1.7 Structure/organization

This research will be categorized into seven chapters.

The first chapter will be an introductory and background of the topic along with the statement of the problem, objectives of the study, significance of the study, the methodology of the study, limitations of the study and organization of the study.

The second chapter will be a review of the related literature that consists of reviewing the various aspects of Global Economic Governance, from the historical idea of multilateralism to the recent development.

The third chapter will analyze global economic governance from theories of International Relations.

The fourth chapter will assimilate the Role of AIIB in Global Economic Governance.

The five-chapter illustrates the similarities and differences between AIIB and existing MDB, particularly the World Bank.

The Six chapter discuss China as a benign economic power in the existing economic governance system.

The final chapter will make conclusions completely based on the aforementioned chapters and understandings.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The notion of global governance has been always an unclear and amorphous concept to understand. In the context of international relations, the definitional issue is still prevalent regarding the particular concept. Generally, the term global is interchangeable used with international, interstate, intergovernmental and transnational concepts, whereas the expression of the term governance is interchangeable with the notion of government (Finkelstien, 1995). Despite of the definitional issue of global governance, prevails in academic domain, the contextual concept of global governance in this paper can be understood as a rule-based framework, with the high level of interdependence among the complex (formal and informal mechanisms as well as state and non-state actors) of the structure having policies, procedures and initiatives to deal with transnational challenges. This definition illustrated here is based on Rosenau explanation of global governance, the paper published by the United Nations by Committee for Developmental Policy and by Andrew Heywood on Global Politics (Rosenau, 1995; (Heywood, 2011).

Rosenau's broader explanation of global governance is "system of rule at all levels of human activity-from the family to the international organization- in which the pursuit of goals through the exercise of control has transnational repercussions." (Rosenau, 1995, p.). He further claims that the international system is interdependent where the activity performed in one place of the world, matters at every other corner and level. In another definition by United Nations by Committee for Developmental Policy "Global governance encompasses the totality of institutions, policies, norms,

procedures and initiatives through which States and their citizens try to bring more predictability, stability and order to their responses to transnational challenges.” (UN, 2014, p. 3). Heywood summarizes global governance is a broad, dynamic and complex process of interactive decision-making at the global level that involves formal and informal mechanisms as well as governmental and non-governmental bodies (Heywood, 2011, p. 455).

Nevertheless, the existing global governance system is inadequate, the rule-based system is the absence of authority and decisions are not enforceable. Global institutions function for the prosperity of major players in the anarchical world order, relatively deal with global challenges (Heywood, 2011, p. 456). The system is the complex of rules, lessens the role of national governance in regards to figure out their domestic issues, especially in developing countries. (UN, 2014). Moreover, the existing governance architecture reflects the post-war power dynamics of bipolar world order. It does not accommodate the actors of multipolar structure, where these newly industrialized economies explore possibilities in global governance by oneself.

2.2 Evolution of Global Economic Governance

The formation and operation of a global economy and global polity dates back to around the year 1500 with the expansion of trade between the Western world and the non-Western world when the modern state itself was emerging in Europe (Jackson & Sorensen, 2013). The historical origin of global economic governance system approximately instigated from 17th - 18th century, however, during the period, governance alike functions were performed within the spectrum of global political economy and with the extension of the capitalist market economy. From the latter years, 19th-century governments started to perform economic activities with the

establishment of stock exchanges /capital markets (London Stock Exchange) bank and central bank through a centralized financial and monetary system. Besides, the business was based upon financial instrument like bills of exchange and letters of credit. According to Karl Polanyo, business activities were performed by family-based institutions which are the small network of banking dynasties characterize as *Haute finance* includes the Rothschilds and Barings in London; Lazard in Paris; Hope & Co. in Amsterdam; and Bleichröder and Mendelssohn in Berlin (Moschella & Weaver, 2014)). The governance system of the 19th century concentrated in foreign lending and managing the regular flow of financial resources within the continent.

However, international business regulated by Haute finance was in concern during the onset of WWI. Thereafter, governments started to regulate their financial affairs with the support of the central bank. Governments started to develop tools to determine internal and external flow capital. Most of all, it's the responsibility of victorious power to create the structure for global financial stability after the end of the war. The obligations for economic stability arises with the settlement of wartime economic issues and post-war economic stability. Is has been a milestone step for global financial architecture. The post-war period was full chaos, political, economic and social issues all over the world. In the meantime, the League of Nations came into existence all these settlements. Formation of economic committees of the League of Nations in which committees were active in settling and establishing the currencies of the newly formed nations of Eastern and Central Europe. Office of the Agent-General for Reparations Payments 1924 to oversee German reparations. However, these were some of the efforts made to economic stability, currencies were linked to gold and freely convertible, cross border capital flows and international trade flourished. Unraveled after 1931, when Britain abandoned the gold peg for its currency.

Moreover, the world financial and economic system broke down with the global economic crisis of the 1930s, followed by WWII. Over time, with the downfall of the previous structure, the Bretton Woods System was developed, the global monetary and financial system where currencies were made convertible to US dollar replaced by gold and interest rates were set by the government to support levels of domestic economic activity rather than, the former international gold standard (Moschella & Weaver, 2014).

Outlining the short history of global economic governance, during the nineteenth century, the rule-based economic system was informal and those rules were enforced by the major powers for their own political and economic gain. Likewise, Pax Britannica, overseas property rights were frequently upheld by British “gunboat diplomacy” and the international gold standard, based on a few generally accepted rules, was managed by the Bank of England (Giplin, 2001, p. 84). The informal economic system was no longer able to maintain economic stability as it ends with The Great Depression followed by the outbreak of WWII. Thereafter end of the Great War was followed by the formal global institutions came into existence with complex multilateral agreements, most of all Bretton Woods agreement and its institutions are notable.

2.3 Global Economic Governance in the 20th Century

The global economic governance in the 20th century can be understood in several ways, first, the governance system continued based on the foundation of the 19th century by adding a clear international component. Second, the gold standard system collapsed whereas each country start to take independent and disorder step, however efforts were made to reinstate the gold standard became too chaotic and difficult to

reinstate (Igwe, 2018). And the third as the emergence of Bretton Woods economic system. The Bretton woods system was created by the 1944 Articles of Agreement, aim to setup new economic governance organized by the US Treasury at the Mount Washington Hotel in Bretton Woods, New Hampshire. The Articles are moreover the compromise between the American plan of Harry Dexter White and the British plan of John Maynard Keynes (Bordo, 2017). After the end of the World War, the world has to return into the old financial security and stable situation of pre-war times as soon as possible. However, were experts failed to visualize the economic future, directed to the collapse of the economic and financial relations, peaking in the Great Depression in 1929. Therefore, to avoid the same mistakes with the end of World War II, the need for a stabilizing, plans were made for an innovative monetary system and a supervising institution to monitor all actions Bretton Woods system was introduced (Dammasch, 2001). The established institutions as follows:

1. The International Monetary Fund (IMF), which came into operation on March 1947
2. The International Bank for Reconstruction and Development (IBRD), also known as the World Bank, which came into operation in June 1946.
3. The General Agreement on Tariffs and Trade (GATT), which was replaced by the World Trade Organization is generally considered as part of the Bretton Woods system, it was created by the UN Conference on Trade and Employment and came into operation in January 1948 (Heywood, 2011).

Furthermore, these institutions can be observed from its purpose, operation and their functions relevant to the context of global economic governance.

2.3.1 The International Monetary Fund (IMF)

The institution was officially initiated with by 44 participating countries to build a basis for economic cooperation to avoid a repetition of economic instability alike 1930s (IMF, 2019). Currently, the organization is composed of 189 countries as a member of the Fund. To get the membership, countries are required to accept specific terms and responsibilities such as surveillance of their exchange rate arrangements by the Fund (Woods, 2008). The principal aim of the institution is to global financial stability, facilitate international trade, promote high employment and reduce poverty all over the world (IMF, 2019). The primary focus of the institute is to guarantee the stability of the international monetary system-the system of foreign exchange and international payments.

Moreover, the IMF provides the opportunity for member countries to correct disequilibrium in their balance of payments by eliminating foreign exchange restrictions and assists in creating systems of payment for multilateral trade. IMF operates by the members' states contributing a certain amount of money known as a quota subscription and is sort of credit deposit. The quota system is based upon the contribution amount made by the individual member states. For instance, if the member state contributes a substantial amount of money, the state will have higher borrowing capability and have more voting rights. The lending will not as of conventional credit institution rather it will provide an opportunity to buy foreign currency and paying with gold or the national currency within three to five years of the payback period. In terms of operation, IMF day

to day work is governed by the Executive Directors, who meets at least three times a week to oversee the implementation of the institution's policies (Dammasch, 2001;

MIGA, 2019). The heads of the Fund are always political appointees, must be the European citizen whereas senior-level management appointments are influenced by the major stakeholders (Woods, 2008).

2.3.2 The World Bank

The World Bank is founded in 1944, initially, the bank was established as a Bank for Reconstruction and Development-soon called the World Bank. Originally, the bank was established to rebuild those countries devastated by World War II providing development assistance. However, the priorities have been shifted from reconstruction to infrastructures such as dams, electrical grids, irrigation systems, and roads (World Bank, 2019). Over time, the Bank has three other subsidiary organizations.

- a. International Finance Corporation
- b. International Development Association
- c. Multilateral Investment Guarantee Agency

These three organizations were made in a different period, for instance, International Finance Corporation (IFC) was established in 1956, to mobilize private investment, equity investment and loan syndication (IFC The First Six Decades, 2016). In 1960 the International Development Association (IDA) was envisioned and established to reduce poverty through loans (“Credits”) and grants for programs that boost economic growth, reduce inequalities and improve people’s living conditions (What is IDA ?, 2019). Similarly, in 1988 another sister organization Multilateral Investment Guarantee Agency (MIGA) was established to promote cross-border investment in developing countries by providing (political risk insurance and enhancement) to investors and lenders (MIGA, 2019).

2.4 Global Economic Governance in the Multipolar World Order

In international relations, the concept of the polarity is realist notion for understanding the world order. The polarity is correlated with power among states and other actors, to maintain stability within the global system. The world order after the end of the cold war was bipolar; with two superpowers the United States and Russia. However, the fresh debate regarding world order appears as the world towards multipolar with emerging regional and global power center.

Likewise, divergent of views were established, the United States being sole superpower as unipolarity, and other important powers as uni-multipolarity and fragmentation of global power among the different actors as multipolarity (Heywood, 2011, p. 209). However, the debate regarding the polarity is still there in international politics. Thus, the dynamics of international politics has altered to a new level with the rise of economic interdependence and technological development. In the changing context, world order is believed to be multipolar with the fragmentation of economic power leads to the rise of emerging powers (China, Russia, India, Brazil and so on) (Heywood, 2011, p. 209). In addition, economic governance system is changing with evolving actors and institutions considering challenges carried out by globalization, technology, climate change and so on.

For the past six-decade world economy is dominated by the United States and Western Europe. They created the economic architecture which is largely based on the Bretton Woods agreement. The rule-based institutions like World Bank, International Monetary Fund (IMF), and General Agreement on Tariffs and Trade (GATT) were initiated to fix the post-war economic challenges. In the other side, these institutions reflect the military and economic power hierarchy of that particular

period (Heywood, 2011, p. 460). The international economic architecture led by the United States other victors of WWII, however, maintain stability over a long period having sustained economic growth from free trade, free capital movements and stable currencies (Heywood, 2011, p. 464). It is significant to mention that many of the newly industrialized economies have immensely benefitted from the existing governance system. For instance, China's market for global trade and investment increases after being a member of the World Trade Organization (WTO). On the other hand, these institutions are not free from the criticism of being western-centric, ultimately designed to serve the interest of architects of the structure, has been dysfunctional in a period, resulting to the regional and global financial crisis.

Therefore, the economic governance structure in the multipolar world is gradually moving towards a new dimension with the fragmentation of economic power among nations with the unprecedented rise of globalization and technological revolution. The alteration of economic power to the east from west, where the new roles and responsibilities of emerging economies and non-governmental actors in the governance system are observable. Likewise, the powerful transnational NGO, are able to solve a wide variety of global issues, for instance, the Green Party became successful to push forward the World Bank to adopt environmental safeguards for its large infrastructure projects, Doctors without Borders (MSF) and Oxfam have been successful to lobby with World Health Organization (WHO) to adopt Global Strategy on Public Health (Woods, N., Betts, A., Prantl, J., & Sridhar, D., 2013). The governance in multiparty need to accommodate the state and non-state actors within the system with the shared responsibility of all the members to deliberately emphasis on the global economic challenges to maintain financial and monetary stability.

2.5 Rise of China and the establishment of the Asian Infrastructure Investment Bank (AIIB)

The Communist Party of China (CCP) came to power in 1949, with their emergence in mainstream global politics, the economy was centrally planned, factors of production owned by the state. China imports minimal quantity of foreign goods, especially goods not produced in own country. The domestic economy was completely isolated, trade and investment were concentrated on soviet bloc countries only. The prime objective of the economic policy during the period was to make a self-sufficient economy. The economic conditions as it came to 1979 was downtrodden by the Great Leap Forward movement and Cultural Revolution. China reform process began in 1978 when the Third Plenum of the Eleventh Central Committee of the Communist Party adopted Deng Xiaoping's economic proposals (Woo, 1999). China abandons the system based upon First Economic Planning with the enactment of the market-oriented economy.

To execute the Deng's economic proposal, China's economy can be understood from three distinctive periods with economic circumstances. First, from 1978-1980 reform of collective farming with the household-responsibility system and the uplifting price adjustment for some agricultural products, which caused an increase in agricultural productivity and output. During the second major economic change (1980-1990 early nineties) managers and workers in state-owned enterprises were gradually provided with greater incentives to improve efficiency. Enterprises in villages and Township were flourished, with higher technical efficiency levels than state firms, which ultimately help in generating more industrialized, skilled workforce. During the third period of economic rise from 1992 onwards many state and collective firms were

privatized, the establishment of special economic zones and foreign direct investment was intensely increased. China economic growth rate was maintained in 10% in average annual real GDP for the last three decades. As it implies that China has been able to double the size of its economy in real terms every eight years. In the present context, China's is the world second-largest economy, and have been raised 500 million people out of extreme poverty is the miracle economic transformation in world history (Morrison, 2013).

In this context, global ruled-based system indeed does not integrate the economic rise of China. China is exploring roles and responsibilities in global architecture with a peaceful rise and substantial economic transformation. On the contrary, existing great powers failed to take up their responsibilities in the international system (Buzan, 2010). Therefore, the construct of various forms of global and regional organization such as the Shanghai Cooperation Organization, New Development Bank, and Asian Infrastructure and Investment Bank (AIIB) have identical implications. Similarly, academics have diverse views regarding China's move. China has become "reform-minded status-quo power" as mentioned by Ren Xiao. However, Womack cites that "The world needs China to be an anti-status quo power, to be willing to challenge the existing system, would be broadly more beneficial to societies, north, and south and the planet as well" (Womack, 2015,). Despite bewilderment, it is observable that China has started to take up the responsibility in global economic architecture, Chinese President Xi Jinping first recommended setting up of the AIIB in 2013, termed as *Yàzhōu jīchǔ shèshī tóuzī yínháng* or *Yàtóuháng* in standard Chinese language (Mishra, 2016) with the core values of lean, clean and green. According to Articles of Agreement (AOA) Article 1 of the bank, the main purpose of the establishment is to "foster sustainable economic development, create wealth and

improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors” and to “promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions” (AIIB, 2019).

CHAPTER 3

CONCEPTUAL FRAMEWORK AND METHODOLOGY

As mentioned in Chapter I, global economic governance is an ambiguous subject to understand. Scholars put dissimilar views on a particular subject. Therefore, the perspectives of international relations help us to understand such scholarly opinions. Therefore, this paper analyzes the that “In which theoretical ground the emerging global economic institutions like AIIB, are going to function?” is the key concern of the researcher. Therefore, to answer the question, here are the perspectives of international relations regarding the establishment by China.

3.1 Realist assumptions:

Historically, the state-centric approach of viewing global economic governance was the principal focus, the rule-based informal institutions were developed by the dominant actor for their self-interest. Nevertheless, the approach is still equally significant in the present world order. Realist views on global economic governance is that a world economy is a place of competition among the states, where each state compete to maximize its wealth and relative power. Realist scholars largely believe that economic is medium to achieve political objectives (Heywood, 2011). For instance, these thinkers believe that Bretton woods institutions were developed to achieve core national interest of the western world. Moreover, the initiator of these institutions, especially United States and Japan views that AIIB is the alike institutional tool for achieving the national interest of China rather than the institution to address global economic issues.

3.2 Liberal Perspective:

The liberal's scholars, rely on that global economic governance structure was evolve having formal sets of institutions with complex interdependence among the actors, is an idea of economic liberalism. Moreover, economic liberalism entails that global governance on an economic basis, as a rule-based economic structure where actors interact among themselves in to deal with global economic issues for economic prosperity. Moshchella and Weaver views that GEG as the international rule-based framework through which economic actors (be they states, firms, institutionalized agencies, organized groups, or individuals) seek to resolve collective action problems and promote cross-border co-ordination and co-operation in the provision or exchange of goods, money, services and technical expertise in defined issue areas of the world economy. Liberals position on global economic governance believes in free-market competition and promotes, rather than limits, openness and free competition. In the global economic architecture, states have a mutual interest in maintaining agreed norms and rules. From the perspective of economic liberalism, Bretton Woods institutions were faulty in initial years because of being free and unregulated. However, its shift towards neoliberalism from the 1980s marked the success period of liberalism over the quasi-mercantilism of Bretton Woods (Heywood, 2011). Primarily, the notion of liberalism lies in the center of the creation of both of the institutions. For instance, the United States did not initiate to establish the World Bank in its building of a liberal international economic order. It is customarily agreed that the United States turned to free trade with the Reciprocal Trade Agreements Act (RTAA) in 1934, changed its US trade policy. Similarly, Deng Xiaoping, a liberal thinker decided to conduct economic reform and opening in China (Wan, 2016). Moreover, Liberal institutionalist believe that cooperation and peace can be achieved

in anarchic world through institutional arrangement. Liberal institutionalism upholds the idea of complex interdependence with major characteristics such as multiple channel of interactions among actors helps to create more connection between them, provide equal attention to every issues (Keohane, 2010). In addition, liberal institutionalist school has roots in liberalism as their primary concern is that every state can gain from the multilateralism and cooperation. Thus, the establishment of AIIB as multilateral development bank can be beneficial for its member's states.

3.3 Critical perspectives:

From this viewpoint of social constructivist thinker, Ruggie views the global economic system its policies and framework is designed to regulate the world economy. Thus, the framework has a strong historical and sociological ground. For instance, Bretton Woods establishments, not only reflect a restructuring of state power and interests but also shifting the pattern of social expectations, norms and economic idea in the form of "embedded liberalism", which has been visible among the industrialized states. Likewise, another critical theory (World System Theory) elucidates that the institutions of GEG are constructed with the framework of dominant interest in the global economic system by the initiator. For instance, United States is leading the post-war global economic system with the establishment of transnational corporations (TNCs) and banking conglomerates, as these theorist views that Unites States is 'core' state to transfer the wealth and resources from 'peripheral' areas of the world economy. (Heywood, Global Politics, 2011). Similarly, International relations, scholars have different perspectives regarding GEG. Amongst them, Hegemonic Stability Theory is another eminent theory to explain global economic governance. The theory initially expressed by Charles Kindleberger in *The*

World In Depression 1929-1939. In the writing, Kindleberger states that the Great Depression occurs and became more severe because of the absence of a global leader to take up the responsibility of world economy (Giplin & Giplin, 2001). Eventually, the idea has been manifested by other scholars as well. According to Robert Gilpin, a liberal international economy requires a hegemon, dedicated to liberal economic principles. The international economic order has never been stable without the presence of hegemon. (Giplin & Giplin, 2001). For instance, Great Britain was in the twentieth century. Nobel Laureate Robert Mundell, a prominent expert on international monetary and financial affairs claim the stability of the international monetary system is dependent upon a dominant power. Robert Baldwin, views that hegemonic role played by the United States increased the economic welfare of most non-communist countries. Therefore, according to Duncan Snidal, the absence of a hegemon is associated with a disorder in the world system and undesirable outcomes for individual states (Snidal, 2011). However, the theory is often criticized for not being sufficiently formulated, mostly based on a reading of history with less scientific evidence. Barry Eichengreen views that the theory: must be an imperialistic power that imposes its will on other counties.

3.4 Methodology:

Descriptive and analytical methods will be employed to analyze collected qualitative secondary data and information. Secondary sources of the data and information will be exhaustively exploited. China's economic rise and its assertiveness in developing multilateral institution has become a critical question. To evaluate the role of China in current global economic governance will be evaluated upon the China's economic indicators. Moreover, comparative approach will be applied to analyze the collected

data based on institution's members, portfolio of investment, decision making criteria and ownership of structure. In addition, it is equally important to know that the eccentric behavior of China in global economic structure with the historical evidences and present assertiveness in global affairs.

CHAPTER 4

AIIB IN GLOBAL ECONOMIC GOVERNANCE

China views that AIIB as innovative concept which was officially introduced to fill the infrastructure gap of Asia, which has been an obstacle for development. Therefore, initially, it started its membership within the region. Though, during March 2015 China's Minister of Finance said that there was a consensus among the 27 prospective members at that time to keep membership open for non-regional countries. Soon after the decision, United Kingdom revealed interest in joining the bank as Beijing quickly changed its position to welcome European and African countries as well. Following the action taken by Beijing, AIIB came into existence on 29th June 2015 with establishment capital of \$100 billion among which 70 billion from Asia only. Moreover, it had its original 57 members ratify the document within 31st December 2015 and the Philippines was the last country to ratify the AOA (Fritz, Asian Infrastructure Investment Bank 64th Session, 2016). The bank functions in the structure of subscriptions of share and provides voting rights to the members. In regards to voting rights in other existing MDBs (World Bank, IMF, and WTO) with the voting structure of 'one-dollar-one vote' and the WTO 'one Member-one-vote' (Gu, 2017). AIIB has some modifications in voting structure, usually, the voting rights are based upon the contributions made by the member countries along with their financial and economic capabilities. Referring to Article 28 of Articles of Agreement (AOA), the voting system is based on basic votes and shares votes for the founding member. The basic votes of every member shall be the number of votes that results from the equal distribution among all the members of twelve (12) percentage of the aggregate sum of the basic votes, share votes and founding votes of all the members. The numbers of the share votes of each member shall be equal to the

number of shares of the capital stock of the Bank by that member. And each founding member shall be allocated six hundred (600) founding member votes (AIIB, 2019). In the present voting structure, China holds 30.3 per cent share of the capital and 26 per cent of the voting rights followed by India 7.5 per cent, Russia 5.9 per cent, and South Korea 3.5 per cent (Sekine E, 2015). In regards to Article 29 of AOA, the bank is led by a Board of Governors with representatives of member's states and Board of Governors is responsible for the day to day operations and monitoring of top-level management, comprising President and Deputy President. AIIB has a similar structure like other MDB, consisting of Board of directors, 12 directors among which nine of them is elected from the regional members the bank and three are from non-regional members. Therefore, any decision process undergoes through at least two-thirds of all directors on the Board of Governors and more than that, three-quarters of all votes required. Though there is no special requirement for the directors to permanently reside on the bank headquartered in Beijing. Currently, the bank is headed by Jin Liqun previous banker and former Deputy Finance Minister of China (Fritz, 2016).

The establishment led by China in the economically multipolar world is fair enough to exemplify its economic capabilities. Besides, it is equally important to finance the infrastructure gap of Asia for its economic development and is the primary objective of the institution. In addition, China initiated to establish multilateral development bank, though the institution is newly ascertained has become one of the prominent issues among the politicians and political scientist around the world particularly when Japan and United States refused to join the bank and most of the US allies in Europe and other parts of the world show their interest in joining the arrangement led by China. So, scholars put forward different kind of thoughts as Dr Masahiro Kawai,

former head of the Asian Development Bank Institute, provides an analysis from Japan. He compares AIIB to existing MDBs in its governance, financial operations, scale, membership, capital subscriptions, voting shares and focus, concluding that the new bank parallels them in many respects. He further explains that AIIB is a vehicle for China to achieve its foreign policy objectives like the most ambitious project “One Belt One Road”. As he mentioned that Japan’s reluctance to join the bank is because of the old long political tensions and territorial disputes and most of all is the trust deficit between Beijing and Tokyo. Senior Associate at the Stimson Center, Yun Sun views that the new institutions are part of the Chinese vision of “great rejuvenation of the Chinese nation,” where China-led world towards “proper” international order. Tobias Harris, Fellow for Economics, Trade and Business at Sasakawa USA writes regarding the United States not joining the bank as a threat to existing institutions by focusing on AIIB’s potentially lower standards. He further illustrates that the US allies in Europe and Asia joining the bank is a complete failure of US diplomacy so that it will better than the US can give some resolution to the regional problems rather than opposing newly established institution (Masahiro, Sun, & Harris, 2015). Moreover, both authors Yun and Harris agree that it US unwillingness to join the bank will be the opportunity for China to improve operating structure. Though the bank is not in the full operation it is still firm to make the complete picture but AIIB should be able to solve the complex international economic problems, able to satisfy some the interest of major powers, most of all

need to fill the infrastructural gaps by which Asia is lacking its development and working in hand with the traditional institutions. At the same time, the United States has been active in developing sturdier relations with Indo-Pacific states, to undermine the rise of China. The move by the United States in the region is the expansion and

revision of the Asia-Pacific rebalancing strategy of the United States (Chen, 2018). However, literature has a wide range of opinions and ideas that an author illustrates in different forms of writings; it would be significant if the institution can be better understood through the lens of international relations. The world has emerged with the issues of climate change, demographic crisis to technological disruption as require multilateral institutions to resolve these problems. No one is there to take up the responsibility to reform the global institutions (Huiyao, 2019). Therefore, the authority gap exists in the present global economic architecture, as the prevailing authorities are more concentrate to unravel their domestic fuss. The existing institutions in global economic architecture are highly criticized for being western-centric, political “strings” attached on the loans provided, concerns regarding the environmental impact of projects (cite). Likewise, the World Bank is seriously criticized for worsening the third world debt crisis and continuing it rather alleviate poverty (Beniflah, Kai-Wen, Kaplan, & Santdasani, 2017). Similarly, the institutions have become dysfunctional in times directed to the Asian Financial Crisis 1997, Global Economic Crisis 2007-2009 are the major breakdown. Thus, the rise of Asia economically seeks their position in the international system as their confidence became stronger and they strive for self-determination (Bessler, 2010). The existence of AIIB in the economic structure is relevant because it balances the economic rise of China. On the other side, the establishment is an added advantage in the global economy. Moreover, the bank’s entire investment is on infrastructure, consider the essential aspect of human development. Likewise, China had already realized by transforming the domestic economy in a miracle manner through infrastructure investment.

CHAPTER 5

SIMILARITIES AND DIFFERENCES BETWEEN AIIB AND WORLD BANK

A Comparative study in this paper will examine the similarities and differences between AIIB and Bretton Woods institutions. In some aspects, both of the institutions share similar characteristics of multilateral financial institution. In the meantime, these institutions are also different from one to another in terms of operation.

5.1 Similarities between AIIB and World Bank within the framework of Multilateral Financial Institution:

1. Board of Governors

- a) All powers are vested in the Board of Governors.
- b) Members' voting power in the sum of Basic Votes, Share Votes and Founding Members Votes.
- c) Basic Vote: Each member has the same number of basic votes calculated to sum to 12% of members' total share votes.
- d) Share Votes: Each member has one vote for each share of capital stock held.
- e) Founding Member Votes: 600 votes allocated to each Founding Member.

2. Board of Directors

- a) Composed of 12 Directors, 9 elected by regional members' and 3 elected by non-regional members.
- b) Supervise the management and the operation of the Bank.
- c) Two-year terms and may be re-elected.

3. President

- a) Elected by the Board of Governors.
- b) National of a regional member country.
- c) May Serve up to 5-year terms.

4. Vice Presidents

- a) Appointed by the Board of Directors upon the recommendation of the President.

5. Major Decision by Board of Governors

- a) Election, suspension or removal of the President
- b) Increase in the Bank's authorized capital stock
- c) Changes to the regional capital stock ownership percentage
- d) Increase a member's capital subscription at its request
- e) Allocation of net income to a purpose other than retained earnings
- f) Revise the composition of the Board of Directors and
- g) Amendments to the Article of Agreement

(www.aiib.org, 2019)

5.2 Major Differences between AIIB and the World Bank.

The establishment led by China is similar to the principle of Multilateral Development Bank, however, differentiates in several aspects. The purpose of establishment of AIIB is to maintain sustainable development, promoting regional cooperation and connectivity in Asia and beyond. Though, in earlier days, the World Bank was established for the reconstruction and development of war-torn states, later shift

towards the promotion of private foreign investment (Engen & Prizzon, 2018). The World Bank is often time criticized being too bureaucratic, with the resident board with an administrative cost of \$70 million. In the case of AIIB, a board of directors are non-resident, will correspond electronically and meet physically as needed (ww.asiafoundation.org, 2019). The major focus of AIIB in building infrastructure with the environment and social safeguards. As the bank itself labels as “lean, clean and green.” Most of the existing Multilateral Development Bank with World Bank has concentrated its mission and mandate to the poverty-focused objective. In other hand, AIIB has its mission/mandate to concentration on infrastructural projects (ww.asiafoundation.org, 2019). Being, lean management as one of the principles of AIIB, has only 500-600 staff compared to World Bank which has 20 times than of AIIB. Besides, AIIB promises efficiency with regards to slow project design, loan preparation and lengthy procurement processes than other MDB’. The similarities and difference between these two institutions are listed in the table below.

5.3 Summary of similarities and differences between AIIB and World Bank

	AIIB	World Bank
Purpose	Sustainable development, regional cooperation and connectivity in Asia	Reconstruction and development, promotion of private foreign investment.
Functions	Promote public and private investment, utilizes its resources to finance development, encourage private investment, other services.	Promote private investment, promote long-range balanced growth, arrange loans for most useful, most urgent projects first, assist the transition from wartime to a peacetime economy.
Membership	World Bank/ADB members Regional: Asia and Oceania as	International Monetary Fund members Total members in:

	defined by United Nations Non-regional founding members Total members: 57	188
Authorized capital	\$ 10 billion in 1944, 20% paid-in, 80 % callable	\$ 100 billion, 20% paid-in, 80% callable 75% for regional members, 25% for non-regional members.
Currency	\$US or convertible currencies.	Gold, \$US or other currencies as specified.
Governance	Board of governors, Board of directors (nine regional and three non-regional), non-residential and not paid, President and vice presidents.	Board of Governors, Executive directors (five from five largest shareholders each, seven elected by governors), resident in headquarters, meet as often as required President and vice presidents President American by practice.
Share Distribution	1.China, 31.02 % 2. India, 8.72 % 3. Russia, 6.81 % 4. Korea, 3.89 5. Australia, 3.85 %	1. US, 16.57% 2. Japan, 8.32 % 3. China, 4.59 % 4. Germany, 4.16 % 5. France/UK, 3.9 %
Lending	‘noninterference principle’ in its aid program	full of conditionality based on free- market neoliberal principles.

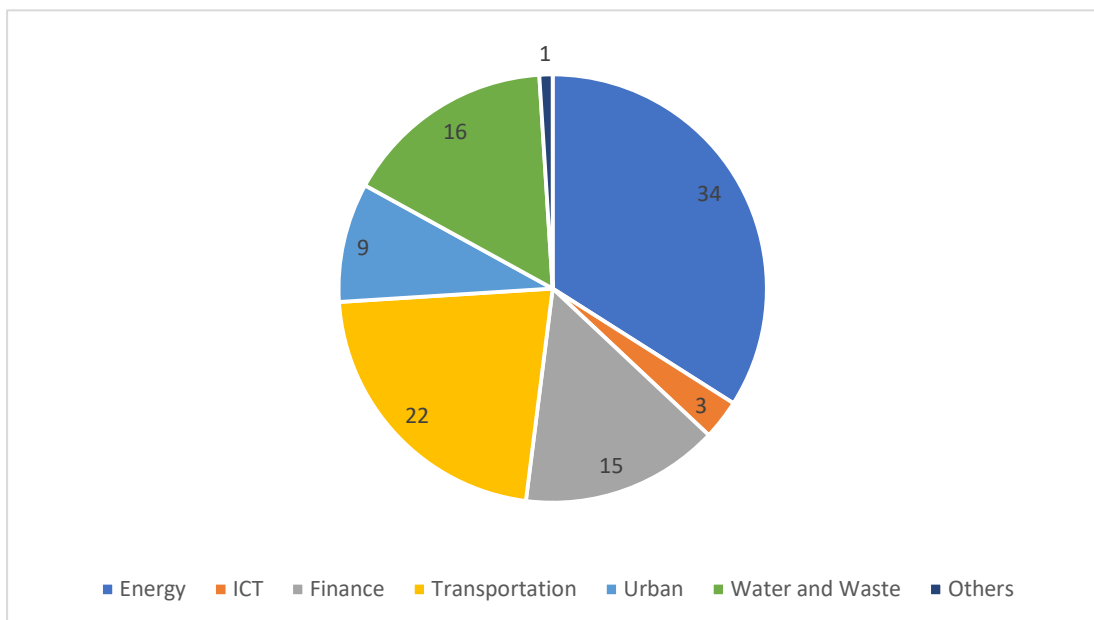
5.4 AIIB Investment Portfolio

The AIIB was established in 2015, as a new institution in the world economy. The bank considered the period of 2016-2020 as Start-Up Phase, perform functions of hiring expeditiously and building institutional capacity, loan commitments, focus on sovereign lending, the realization of paid-in capital, building partnerships through co-financing. As of 2019, the bank has 100 regional and non-regional members

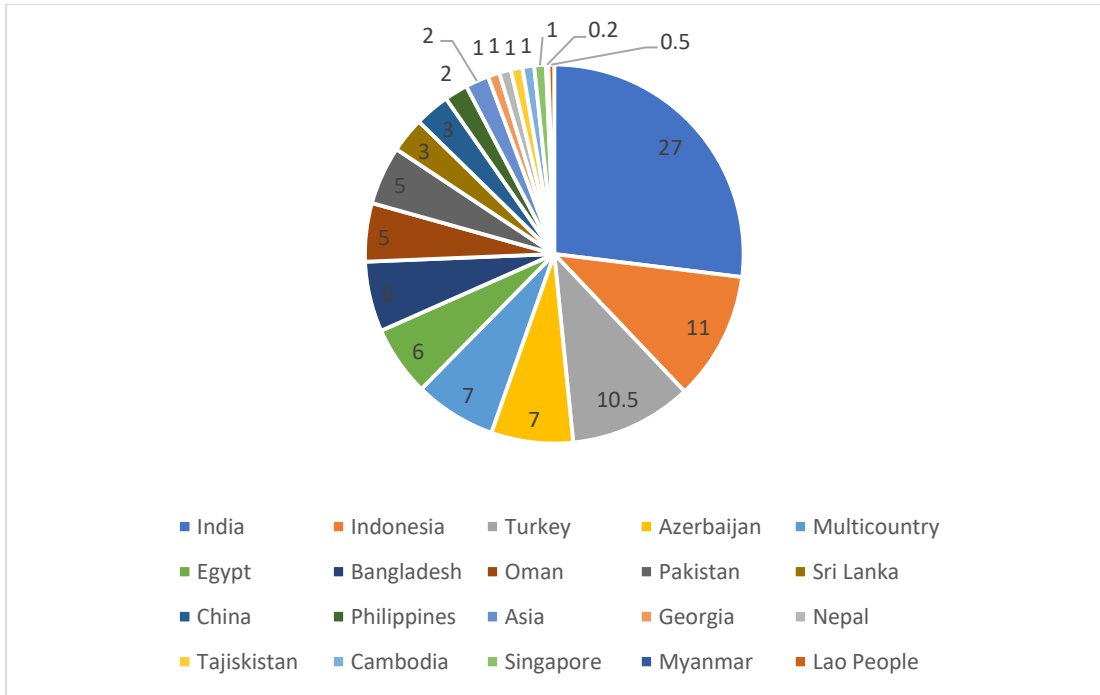
considered as milestone move. The institution incorporated the principle of lean management with only 186 staff employed in the bank. In terms of missions, there are 35 approved projects are in operation with the capital of USD 8.53 billion. On which major portion of the investment is in Asia counties, followed by African and Eastern Europe states (AIIB, 2019).

Project Breakdown based on

Approved Projects by Value-Sector



Source: (AIIB, 2019) **Approved Projects by Value-Member/Region**



(Source: AIIB, 2019)

5.5 World Bank Investment Portfolio

In contrast, the World Bank is one of the leading financial institution of the existing economic governance. The bank is operating for the last 60 years, having more than 180 members states. The bank has already accomplished almost 13,753 projects in 174 countries (World Bank, 2019). There are 12,216 full time staff employed in the bank, offices around the world. According to the bank factsheet, from 2015-2017, bank delivered, 3.5 million hectares of land provided with irrigation services, 76,120 kilometers roads constructed or rehabilitated, 273 million people, micro, small and medium enterprises reached with financial services, 11 million teachers recruited or trained, 47 million people provided with access to an improved water source, 44 million beneficiaries covered by social safety net programs. The annual lending of the World Bank in 2018 was USD 47.08 billion.

World Bank Investment-Value/Region

S.no	Geographic Region	Project Mapped	USD	Countries	Locations
1.	Africa	638	67.15 billion	49	8,806
2.	East Asia and Pacific	304	29.41 billion	22	3,340
3.	Europe and Central Asia	231	25.41 billion	26	3,678
4.	Latin America and Caribbean	213	24.11 billion	29	2,791
5.	Middle East and North Africa	90	11.14 billion	9	881
6.	South Asia	245	50.52 billion	9	3,891
7.	Other	4	5.75 million	1	513

Source: World Bank, 2019

As stated earlier, the bank has been active for a long time in several areas of development. In terms of the geographic coverage, it has an investment in almost all the region of the world, on which African continent covers a major portion of the investment followed by East Asia and Pacific states. Hence, the assessment of these two institutions concerning operation has an enormous difference. Since the World Bank is already in operation almost for last 60 years whereas AIIB is completely fresh institution. However, the presence of AIIB is vigorous, with already 100 member's states in short period, financing USD 8.53 in different infrastructural projects.

5.6 Ownership Structure

In terms of governance of these two intuitions, the voting rights in previously setup MDB and AIIB has some differences, usually, the voting rights is based upon the contributions made by the member countries along with their financial and economic

capabilities. However, every member has specific additional basic votes to balance the differences between large and small countries. In case of AIIB basic votes is 12 per cent corresponding to 2430 votes whereas Asian members receive 75 per cent of the total votes. Each member receives a vote for each share of the AIIB's capital. In the meantime, founding members receive 600 votes each as China holds 30.3 per cent share of the capital and 26 per cent of the voting rights followed by India 7.5 per cent, Russia 5.9 per cent, and South Korea 3.5 per cent (Sekine, 2015). Mostly the MDB is led by a Board of Governors with representatives of member's states and Board of Governors is responsible for the day to day operations and monitoring of top-level management, comprising President and Deputy President. As AIIB has a similar structure like other MDB, there is a Board of directors 12 directors among which nine of them is elected from the regional members the bank and three is from non-regional members. For any decision making at least two-thirds of all directors on the Board of Governors and more than that, three-quarters of all votes required. Though there is no special requirement for the directors to permanently reside on the bank headquarter. The bank currently has 700 members of staff and 17,000 employees for its regular operation (Sekine E, 2015).

Notably, having similar features MDB's, the World Bank and other western funding agencies are more towards the spreading of liberal values of democracy. In the meantime, China has a policy of distancing itself from the domestic affairs of other states. The AIIB's Articles of Association have unusually similar governance structure those of Bretton Woods framework, unlike preventing members from influencing political affairs (Liao, 2015). According to, British scholars Susan Strange "International regime as those governing trade and monetary affairs had been economically, politically and ideologically biased in America's favor and that those

regimes were put in place by American power, reflected American interests and were not politically and economically neutral (Giplin & Giplin, 2001). Even if the institutions share the same characteristics of multilateral financial institutions, critical decision-making authority lies within in the sphere of Board of Governors which depicts each of the institutions is backed by the larger interest of the state, has a greater share in the institution.

CHAPTER 6

BENEVOLENT HEGEMON-CHINA'S AIIB IN GLOBAL ECONOMIC GOVERNANCE

In this paper, the author elucidates the instigation of AIIB with the economic rise of China from the perspective of Hegemonic Stability Theory. However, it has been already detailed about the formation of the global economic institution from the major theories of international. Scholars share a different viewpoint on a particular subject. Nevertheless, the establishment has never been viewed from the perspective of HST. In the meantime, there are plenty of literature which explains the establishment of Bretton Woods institutions from the HST point of view. However, the establishment of AIIB has not viewed from the perspective of HST while the gap exists in contemporary global economic governance.

Propositions of HST:

1. The existence of a dominant state leads to greater stability in the international system.
2. The greater stability benefits all states in the system (especially benefits smaller states more than competing large states.)

In addition, within the aforementioned propositions made by Duncan Snidal, the world has been led by different hegemon in a different timeline. Moreover, after the end of World War II, the United States led the world and has been able to achieve greater stability for a long time, benefits all the states in the system based on free trade. For instance, China has also been widely benefitted from the existing international economic system.

The economic rise of China and India, with the Chinese economy, predicted to overtake the US economy by 2020 and the downfall of US economy since the financial crisis of 2007-09 indicates the flaws in US economic model (Heywood, Global Politics, 2011). Therefore, the rise of China, with the potential economic, relatively strong military capabilities begin to take the responsibility of world economic and security issues. The establishment of Shanghai Cooperation, New Development Bank and AIIB are the institutional breakthrough made by China, are the indications of China's leadership in the global economic structure. Danner and Martin, proposes three different models below, how China can be the possible leader of the future.

The possible future path of China as potential global hegemon ((Danner & Martin, 2019)

Intentional model	Historic precedent	Recent trend
“Peaceful Rise of China:/benevolent hegemony	British Empire, United States	Global Environment UN Peacekeeping
“Violent Rise of China”/ coercive hegemony	Napoleonic France, Wilhelmine Germany Imperial Japan	Island building, Russia- China Entente
“Third Way”/Dutch-style hegemony	The Netherlands	AIIB, China in the Artic

In the above model, Danner and Martin view China as three different forms of the hegemon. Initially, these author states China as benevolent hegemon, as accepting the principles of global environmental regulations and contributing to global health and environmental aspects. At the same time, Participation in UN Peace Keeping Mission (UNPKM). China shifted its position regarding the UN Peace Keeping Mission, as the state was opposing the UN PKM, later became the advocate of the Peace Keeping

Mission (Danner & Martin, 2019). In the same model, the author explains as China as coercive hegemon as its act of construction of the artificial island in the South China Sea and enlarging its maritime territory. China and Russia are close allies from the historical period, as their relations have been strengthened from with China's silent support for Russia's annexation of Crimea and, the treaty on energy cooperation between these two states. Lastly, the authors explain that the formation of AIIB and its growing influence in the Arctic area as Dutch-style hegemon highly encouraged by self-interested, state-centric economic intentions (Danner & Martin, 2019). In several terms, these author has appropriately stated the hegemonic character of China. However, in this paper, the formation of AIIB is considered as the benevolent character of China with its peaceful economic rise.

In the meantime, other non-western states started to thrive in terms of their economic aspects likewise the BRICS countries (Brazil, Russia, India, China and South Africa) started to perform well in domestic economic matters, along with taking part in solving regional and global economic issues. Among these states, China has become an economically prosperous state, from the period of its economic opening up. Thus, the domestic economic accomplishment not only limits China within its country but started itself in global position to address the global economic issues. In addition, the establishment of the Asian Infrastructure Investment Bank is alike innovation made by China. The bank primarily focusses to fill the infrastructural of the region and beyond which China views as a significant aspect of underdevelopment. Additionally, another purpose for the creation of the bank is to promote collaboration with other nations and similar institutions in the region (Beniflah, Kai-Wen, Kaplan, & Santdasani, 2017). To accomplish its envision objectives, China acts as the leader of the bank, withholding the substantial amount of share of the bank. Interestingly,

China share in AIIB is nearly 30% which is larger than America's share in the World Bank. China contributes 26-29 per cent of the subscribed capital of the AIIB, which will influence the major decisions over the key matters of the bank such as a change in subscribed capital (Wan, 2016).

China is a responsible stakeholder of the bank having a higher percentage of share, therefore the bank has to function properly to tackle the global economic issues, realizing the errors made by the other MDB's in past time. As a result, economic stability occurs only if China takes its responsibility as a leader in the global economic architecture. Through the stable, cooperative and relatively peaceful international governance systems are dependent on the material preponderance of a single state which can provide 'public goods' such as the openness of global markets and legal regimes enforcing the security of the contract and private property rights (Gill, 2015).

CHAPTER 7

CONCLUSION

The fundamental idea of global economic governance is the rule-based international economic framework, where state, firms institutionalized agencies, organized groups, or individuals considering for collective action to resolve international economic issues. Though, the state and the other international financial institutions are still the key actors in resolving the issues. In the recent period, other organized groups, firms, institutionalized agencies are actively in operation to resolve the global economic problems. Traditionally, the practice of economic governance performed by a small group of a network of banking dynasties named as “*Haute finance*”. However, the system continued in the 19th century, later was followed by the institutional arrangement.

The practice of governance after world war II was more conducive with the establishment of Bretton Woods institutions. Primarily, these institutions were setup for monetary stability, and to fund the reconstruction of war-torn states. However, their roles and responsibilities change with time. The United States and the United Kingdom are the principal leaders of these institutions and maintain the stability in global economic order for the last six decades. Nevertheless, the establishment neglects the economic rise of the other states, with their limited roles and responsibilities in the governance mechanisms. It is significant to mention that many of the newly industrialized economies have immensely benefitted from the existing governance system. On the other hand, these institutions are not free from the criticism of being western-centric, reflecting the military and economic power hierarchy of that particular period, ultimately being designed to serve the interest of

architects of the structure, has been dysfunctional in a period of time, resulting to regional and global financial crisis was a major setback. The predominant institutions in the structure barely consolidate the changes in the international political economy. Likewise, the economic rise of China, as a result, China views these institutions as unable to meet the developmental need of China and other developing countries. As a result, China initiated the Asian Infrastructure Investment Bank (AIIB) as an innovative institution to meet the development challenges of China and the region.

AIIB functions as Multilateral Development Bank (MDB) with the operational concept of lean clean and green. The fundamental purpose of the establishment is to fill the infrastructural gap of Asia, which is the major cause of underdevelopment in the region. There are presently 100 members (regional and non-regional) countries organized collectively to meet the objectives of the bank. AIIB functions like an existing multilateral development bank, however, differ in terms of permanent residential office and the key attention of the bank is to develop the infrastructural projects in Asia and beyond. It is equally essential for AIIB and other MDB's to work together to achieve the desired developmental result. For instance, the initiation has been started by signing the Co- Financing Framework Agreement signed with the World Bank Group on April 13th 2016, and co-financing project: USD 13.80 billion projects of infrastructure like transport, urban, energy, and water projects in Indonesia, Pakistan, Azerbaijan, India, Tajikistan, and the Philippines. (AIIB, 2019).

In international relations, the formation led by China can be analyzed, from diverse perspectives. However, the establishment in this paper emphasis on Theory of Hegemonic Stability as author trace out the literature gap regarding the particular concept. The notion of a hegemon in this paper can be understood as a leader than the

idea of domination, empire and imperialist. The institution initiated by China in the economically multipolar world is fair enough to exemplify its economic capabilities, to seek its roles and responsibilities in the global economic governance system. From the lens of Hegemonic Stability Theory, that the rise of china and the establishment of AIIB is China moving towards the way of a benevolent hegemon in the international economic order. On the other side, AIIB has been questioned about the similar functioning alike Bretton Woods Institutions concerning political, economic and ideological strings attached while financing the projects. Hence, it is the principal challenge for the institution to persist in its core values of lean, clean and green.

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