The AIIB and China-ASEAN Relations

Shaping a New North-South Paradigm

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Abstract: The Asian Infrastructure Investment Bank (AIIB), one of the largest investment institutions in the world, was established in 2015. The launch of the China-initiated AIIB generated intense debate among scholars and politicians over the functions and potential economic and political implications of the institution. This paper aims to examine the AIIB from a normative perspective, investigating its role as a cursor for structural changes in China's foreign policy conceptualization. It goes on to hypothesize that, over the past few years, there has been a gradual transformation in China's relations with Southeast Asian countries, which

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indicates a shift from a traditional “South-South” model to a “North-South” model. It observes that as Beijing continues to promote its own brand of frameworks and institutions, the emerging North-South paradigm will likely be further emphasized, transforming China’s position vis-a-vis other nations and groupings. Nevertheless, China as an emerging Northern country will continue to experiment on and develop this new North-South interaction in a way that is distinct from the orthodox North-South dyadic relationship.

Keywords: Asia Infrastructure Investment Bank (AIIB); China-ASEAN relations; North-South; Chinese foreign policy.

In October 2013, during their visit to Southeast Asia, Chinese President Xi Jinping and Premier Li Keqiang announced the Asian Infrastructure Investment Bank (AIIB) initiative. The AIIB was mainly designed to help stimulate regional interconnectivity and integration, both individually and through cooperation with other multilateral institutions. On December 25, 2015, 57 founding members finalized the charter and main guidelines of the new bank, establishing one of the largest investment institutions in the world. Compared with other multilateral development banks in East Asia and elsewhere, the substantial difference lies in its leadership. Essentially, the AIIB was initiated and promoted exclusively by China, even though the composition of its board of governors and board of directors resembles other development finance institutions such as the Japan-initiated Asian Development Bank (ADB).¹

Ever since its inception, the AIIB has attracted a great deal of attention from the international academic and strategic communities. Many scholars agree that the AIIB symbolizes the ongoing fundamental changes in global political economy.² However, their views differ in whether these changes

¹Similarly, the AIIB’s policies on financing also draw on the earlier practice by other regional and global development institutions. See “Operational Policy on Financing,” AIIB official website, January 2016, https://www.aiib.org/en/policies-strategies/_download/operation-policy/policy_operational_financing.pdf.

²Wan Ming, *The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order* (Basingstoke: Palgrave Macmillan, 2016), p. 11; and Robert Wihtol, “Beijing’s Challenge to the Global Financial Architecture,” *Georgetown Journal of Asian Affairs*, Vol. 2, No. 1 (2015), p. 15.

are taking place within the international system or presenting challenges for the current U.S.-led order.³ Those who argue that the bank functions within the international system agree on the necessity of a new development bank and highlight the AIIB's potential contribution to infrastructure development and economic integration in Asia and beyond.⁴ The AIIB, in this regard, plays a complementary role within the established international financial regime in view of the fact that the amount of funds needed for infrastructure development in developing countries are larger than what the existing institutions such as the International Monetary Fund (IMF), World Bank, or the ADB can provide.

A contrasting perspective emphasizes the growing institutional competition in the Asia-Pacific among major countries like China, Japan, and the United States, as well as power rivalry between the status quo powers and the emerging states.⁵ With regard to the rationale for a new international institution, it has been posited that the AIIB is a reaction to the slow response by the United States to the calls for a reform in the Bretton Woods institutions which have been criticized for under-representation of

³Wan, *The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order*, p. 85; Yang Hai, "The Asian Infrastructure Investment Bank and Status-Seeking: China's Foray into Global Economic Governance," *Chinese Political Science Review*, Vol. 1, No. 4 (2016), p. 755; and James Char, "Aspiring to Be a Global Power: China's Activism in the Global South," in Jacqueline Anne Braveboy-Wagner, ed., *Diplomatic Strategies of Nations in the Global South* (New York: Palgrave Macmillan, 2016), p. 62.

⁴David Dollar, "Lessons for the AIIB from the Experience of the World Bank," Brookings Institution, April 27, 2015, <https://www.brookings.edu/articles/china-on-the-global-stage/>; Andrew Elek, "AIIB miles ahead of TPP in promoting integration," *East Asia Forum*, April 14, 2015, <http://www.eastasiaforum.org/2015/04/14/aiib-miles-ahead-of-tpp-in-promoting-integration/>; and Gregory T. Chin, "Asian Infrastructure Investment Bank: Governance Innovation and Prospects," *Global Governance: A Review of Multilateralism and International Organizations*, Vol. 22, No. 1 (2016), pp. 11–25.

⁵Alain Guidetti, "The Silk Road, Sand Castles and the US-China Rivalry," Geneva Centre for Security Policy, July 2015, <http://www.gcsp.ch/News-Knowledge/Publications/The-Silk-Road-Sand-Castles-and-the-US-China-Rivalry>; Wan, *The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order*, pp. 70–72; and Yang, "The Asian Infrastructure Investment Bank and Status-Seeking: China's Foray into Global Economic Governance," pp. 755–756.

emerging economies such as China, India, and Brazil in terms of weight and influence in the decision-making processes.⁶

This research seeks to provide a different perspective on the AIIB using a historical approach to study the evolution of China's foreign policy behavior with respect to Southeast Asia since the second half of the 20th century. The authors argue that a North-South analytical framework can be a useful tool to evaluate the East Asian intra-regional landscape within the context of relations between China and the Association of Southeast Asian Nations (ASEAN). For this purpose, this paper first describes the historically complex relationship between the Global North and South. Then, it contextualizes the rise of China and its ongoing shift from the South to the North bloc, which may be observed in the country's political and economic behavior. Finally, it operationalizes a North-South framework through an analysis of China's evolving approach toward the ASEAN states wherein the AIIB serves as an effective policy instrument.

This paper thus examines China's gradual behavioral shift to the bloc of the Northern countries, embodied in observable changes in its foreign policy conceptualization and practice. It is proposed that China's relationship with regional countries could be understood under an increasingly North-South pattern of interaction, although the final form of such a pattern has yet to emerge and what eventually emerges will likely be a new North-South paradigm with strong Chinese characteristics. This analytical framework, as we argue, may provide a novel explanation to the evolution in China's foreign policy toward other Southern countries, which includes establishing multilateral institutions to provide loans and development assistance, and participating in infrastructure projects with the aim of accruing economic and political benefits in return.⁷

⁶Raj M. Desai and James Raymond Vreeland, "How to Stop Worrying and Love the Asian Infrastructure Investment Bank," *Washington Post*, April 6, 2015, https://www.washingtonpost.com/news/monkey-cage/wp/2015/04/06/how-to-stop-worrying-and-love-the-asian-infrastructure-investment-bank/?utm_term=.a16748f83a9b.

⁷Jong-Woon Lee and Kevin Gray, "Neo-Colonialism in South-South Relations? The Case of China and North Korea," *Development and Change*, Vol. 47, No. 2 (2016), pp. 293–316.

North-South Relations: A Historical Perspective

The term “South,” or “Global South,” generally refers to developing countries, located primarily in the Southern Hemisphere, while the term “North” or “Global North” includes developed states in North America, Europe, and the Asia-Pacific. This symbolic and politically charged concept replaced the “East-West”⁸ and “Three Worlds”⁹ rhetoric in the mid-1990s.¹⁰ So far, the concept of “Global South,” as a unit distinct from the developed North, has not lost its relevance and is still applicable in characterizing the countries in Africa, Asia, and Latin America that display certain commonalities.¹¹ Therefore, the North-South dichotomy still offers a useful analytical tool to understand and explain distribution of power among nations in the Asia-Pacific.

The existing
North-South
relationship has
largely benefited
developed countries.

The “North-South divide” emphasizes the power, capability, and influence gap between developed and developing nations, which leads to an asymmetric relationship between the two geographical areas. There are various approaches to analyzing the interactions within and between these blocs. For example, some scholars emphasize the

⁸Although it can be argued that the most relevant concepts are still East and West when addressing the questions of power disparity, technological advancement and ability to exert control over global affairs, we believe that the “East-West” duality is becoming more of a relic of the Cold War era. It is in fact quite hard to distinguish between the East and West because, for example, while Japan is geographically and historically an Asian country, its foreign policy has been strongly aligned with the United States.

⁹Three worlds were generally described as developed nations of the West under the U.S. leadership (the First World), communist nations (the Second World), and other developing nations (the Third World). This conceptualization differs significantly from Mao Zedong’s “Three Worlds Theory” in which the first world included two imperialist states, the United States and the Soviet Union; the second world was composed of other imperialist states in the first world’s sphere of influence; and the third world consisted of the non-imperialist countries.

¹⁰Thomas Hylland Eriksen, “What’s wrong with the Global North and the Global South?,” *Global South Studies Center*, January 2015, <http://gssc.uni-koeln.de/node/454>.

¹¹Jacqueline Anne Braveboy-Wagner, “Introduction: Rise of Which Global South States?,” in Braveboy-Wagner ed., *Diplomatic Strategies of Nations in the Global South*, pp. 1–24.

growing cooperation and “partnerships with shared ownership and decision-making” between the two symbolic regions.¹² Others, on the contrary, view the interactions between them as antagonistic by nature due to unequal exchange, division of labor, power distribution, and other socio-cultural factors.¹³ In response to the North-South gap in capabilities, states seek to strengthen solidarity-driven collaboration within the bloc with which they identify themselves. The South-South cooperation, in this respect, purports “to promote self-sufficiency among Southern nations and to strengthen economic ties among states whose market power match more equally than in asymmetric North-South relationships.”¹⁴ However, historically, despite the presence of a strong incentive among members of the South for sound intra-regional cooperation, interstate and intrastate conflicts have exceeded the number of hostilities that have taken place within the Northern bloc as well as between the Northern and Southern blocs.¹⁵

In short, the relationship between the North and the South has been unequal and asymmetrical in many aspects, including trade volume and penetration, direction of financial aid, and, as a result, distribution of power and capabilities.¹⁶ Donor-beneficiary relations, dependency, and structural

¹²Peter Rosseel, Erik De Corte, Jan Blommaert and Elke Verniers, “Approaches to North-South, South-South and North-South-South Collaboration: A Policy Document,” 2009, https://lirias.kuleuven.be/bitstream/123456789/229636/1/POLICY_PAPER_VLIR_UWC_NSS.pdf.

¹³Barbara Huddleston Sharkey, “Unequal Exchange: A Study of the Imperialism of Trade,” *Journal of Economic History*, Vol. 34, No. 4 (1974), pp. 1033–1035; Immanuel Maurice Wallerstein, *World-Systems Analysis: An Introduction* (Durham, N.C.: Duke University Press, 2004); and Rafael Reuveny and William R. Thompson, “Observations on the North-South Divide,” in Rafael Reuveny and William R. Thompson, eds., *North and South in the World Political Economy* (Malden, MA; Oxford: Blackwell, 2008), pp. 1–16.

¹⁴Rosseel, De Corte, Blommaert and Verniers, “Approaches to North-South, South-South and North-South-South Collaboration. A Policy Document.”

¹⁵Rafael Reuveny and William R. Thompson, “Observations on the North-South Divide,” in Reuveny and Thompson, eds., *North and South in the World Political Economy*, pp. 3–5.

¹⁶Thompson and Reuveny introduced a method to categorize countries into such blocs by measuring the proportions of wealth between the leading countries and others. The authors collected historical data from 50 countries since 1870 and identified the North and the South accordingly. See William R. Thompson and Rafael Reuveny, *Limits to Globalization: North-South Divergence* (London; New York: Routledge, 2010).

inequalities in global politics characterize the North-South interaction. The Southern nations participate in power struggle among the Northern countries and are often faced with the obligation to take part in coalitions formed by the powerful states. In return, they receive aid, investment, and other economic and political benefits. However, as mentioned above, this relationship remains asymmetrical. Under this framework with built-in inequalities, Northern countries enjoy privileged access to the markets in developing countries, participate or intervene in their domestic affairs, and maintain a dominant status in those states' spheres of influence.

The intra-North relationship reflects general behavioral tendencies among developed nations, representatives of which are the United States, the European Union (EU) member states, and several Asia-Pacific countries like Japan and Australia. In global economics, these countries are major trading nations with high value-added exports in goods and services. Trade among these nations is qualitatively quite equal (although there may be trade concentrations in secondary and tertiary industries, as observed in the trade between Japan and the United States), especially in the sphere of high technologies and services. These countries compete for investment in different regions and are occasionally engaged in trade disputes and experience other disagreements. The inter-state relationship is characterized by high potential of conflict and cooperation due to the actors' status as major powers. Furthermore, the Northern countries have the ability not only to support and sustain existing international institutions but also to establish new ones thanks to their accumulated material and ideational power. Developed countries have also created various exclusive international institutions that become the bases of their global prominence, such as the Group of Seven (G7) and the Organization for Economic Cooperation and Development (OECD) which often serve as platforms or tools for power struggle.

Southern countries are trying to acquire equal status with the North through collective actions.

The South-South relationship incorporates the interactions among developing nations. Today, this group includes the majority of states. These countries often have relatively limited and low value-added trade (mostly in raw materials) and inadequate investment flows into each other's respective markets. The South has struggled to protect

its interests by strengthening linkages among its members and establishing coalitions within the existing international organizations dominated by those powerful members of the international society. However, in recent years, developing countries have begun to seek more equal representation in multilateral institutions and, as mentioned above, to form collective voices in the World Trade Organization (WTO), the United Nations (UN), and other international organizations. Although one can question whether these coalitions enjoy any meaningful bloc identity and, accordingly, exert any sort of impact on global governance, a number of South-based loose units such as the Group of Seventy-seven (G77) at the UN and the Group of Ninety (G90) at the WTO have emerged. On the other hand, the South-South relationship is characterized by sub-regional rivalries that attract intervention from the Northern countries.

The brief introduction of the two blocs above reflect the positioning of individual states' in relative power, which influences their behavior toward each other. As is known, a relative power advantage is determined by the increase in accumulated strength of each state, which, in turn, can affect and shape the dynamics of international relations. Thus, change in national power may lead to change in bloc identity in terms of a state's foreign policy behavior. Having achieved considerable economic development over the past few decades, China has acquired enough power to shift its status from a Southern to a Northern country. This implies an innate ability to modify the fundamentals of its behavior toward other countries. In the following pages, we will illustrate the historical shift of China's bloc identity and the accompanying changes in its foreign policy toward its neighbors in Southeast Asia.

China's Shifting Role in North-South Relations

The Global South has been an active international group ever since the decolonization movement in Asia and Africa brought independence to formerly subjugated nations. During the Cold War, the new sovereign countries found themselves caught between the two antagonistic blocs (East vs. West). This indefinite position created an impulse for closer cooperation among countries with similar colonial experience, levels of economic development, and approaches to global affairs. As a result, the leaders of Sri Lanka, Indonesia, India, Myanmar, and Pakistan convened a conference

of Asian and African countries in 1955 in Bandung, Indonesia. The Bandung Conference directed heavy criticism against colonialism and neocolonialism, and sought to strengthen the role of the participants in the Cold War between the two major blocs while striving for a more inclusive membership in the UN for the People's Republic of China (PRC).¹⁷ As a sign of friendly relationship between India and China, as well as to promote the former's national interests, Prime Minister Jawaharlal Nehru insisted on inviting China to participate in the Bandung Conference.¹⁸

On its part, China's leadership was eager to develop relations with countries outside the Soviet bloc and to break the U.S. policy of isolation and encirclement against Beijing. Thus, in his speech at the Bandung Conference, Premier Zhou Enlai emphasized the importance of "the five principles of peaceful coexistence as the guiding principles in their [countries'] mutual relations."¹⁹ Even though some state leaders had certain qualms regarding the communist government of China, "his [Zhou Enlai's] combination of reasonableness, dexterity and charm . . . was able to turn hostility to the PRC into something like hopeful acceptance of the possibility of peaceful coexistence."²⁰ Furthermore, since China promoted a dual identity both as a country which experienced colonialism and as a revolutionary nation that fought imperial powers, it began to gain widespread recognition from the Southern nations. This position was reiterated by Premier Zhou in 1975 when he stated that "China is a developing socialist country belonging to the Third World."²¹

In the 1960s and 1970s, China's economic assistance to developing countries grew significantly. Especially with African countries, viable

¹⁷Arif Dirlik, "The Bandung Legacy and the People's Republic of China in the Perspective of Global Modernity," *Inter-Asia Cultural Studies*, Vol. 16, No. 4 (2015), pp. 615–630.

¹⁸John W. Garver, *China's Quest: The History of the Foreign Relations of the People's Republic of China* (New York: Oxford University Press, 2016), p. 106.

¹⁹History and Public Policy Program Digital Archive, "Main Speech by Premier Zhou Enlai, Head of the Delegation of the People's Republic of China, Distributed at the Plenary Session of the Asian-African Conference," April 19, 1955 (Peking: Foreign Languages Press, 1955), pp. 9–20, <http://digitalarchive.wilsoncenter.org/document/121623>.

²⁰Dirlik, "The Bandung Legacy and the People's Republic of China in the Perspective of Global Modernity."

²¹George T. Yu, "China and the Third World, *Asian Survey*, Vol. 17, No. 11 (1977), p. 1036.

economic and political ties were established and consolidated. In China's view, these countries could "offer ... an arena in which to achieve its political/ideological objectives," and promote international recognition of the Communist Party "as the sole legitimate government of China."²² In its turn, China provided not only ideological support to various national liberation movements in individual Southern nations, but also technical and economic assistance, an example of which was the construction of the Tanzania-Zambia railway.²³ China constantly emphasized its status as a developing country as well as a natural leader of the Third World.²⁴ China's critique of colonialism and superpowers' dominance found many sympathizers among developing countries, which overwhelmingly backed China's admission to the UN and the United Nations Security Council (UNSC).²⁵ Overall, China's search for recognition by — and equal relations with — developing economies in Asia, Africa and Latin America reflected its affiliation to the Global South, progressively rendering it a leading status.

On the other hand, China's relationships with the Western countries and the Soviet Union were rather hierarchical due to a general Western perception of China being a junior partner of the Soviet Union. Beijing's dependence on Soviet technological assistance and Moscow's leading position in the international communist movement reinforced this perception.²⁶ However, with the Sino-Soviet split, the Soviet threat pushed China toward rapprochement with the United States and West European

²²George T. Yu, "Africa in Chinese Foreign Policy," *Asian Survey*, Vol. 28, No. 8 (1988), pp. 850–851.

²³Niall Duggan, "China's Changing Role in Its All-Weather Friendship with Africa," in Sebastian Harnisch, Sebastian Bersick and Jorn-Carsten Gottwald, eds., *China's International Roles: Challenging or Supporting International Order?* (New York; London: Routledge, 2016), p. 209.

²⁴Jorn-Carsten Gottwald, "China's Roles in International Institutions," in Harnisch, Bersick and Gottwald, eds., *China's International Roles: Challenging or Supporting International Order?*, p. 129.

²⁵Niall Duggan, "China's Changing Role in Its All-Weather Friendship with Africa," pp. 208–209.

²⁶Chen Jian, *Mao's China and the Cold War* (Chapel Hill, N.C.: University of North Carolina Press, 2001).

countries. Consequently, China initiated the “Reform and Opening Up (*gaige kaifang*)” policy, which allowed Beijing to develop closer relations with the West. Relations between the developed nations and China were characterized by unbalanced trade and one-way foreign direct investment (FDI) and development aid.²⁷ Therefore, in the second half of the 20th century, interactions between China and Western nations as well as the Soviet Union reflected a North-South pattern of interactions, exemplified by China’s general compliance with and accommodation to an international order established by the West and the Soviet Union.

China’s role in the developing world is ever more prominent thanks to its growing economy.

In the 21st century, in parallel with its explosive economic rise, China’s approach to global governance is changing from adherence to the strategic concept of “keeping a low profile (*taoguang yanghui*)” into adoption of a more proactive and innovative foreign policy.²⁸ Starting from the early 2010s, the Chinese leadership has called for a more active role for the country in global

economic and political governance and, more importantly, in revising established global rules. Many efforts have been taken to promote the Renminbi’s inclusion into the IMF’s Special Drawing Rights reserve and recognition of China as a market economy.²⁹ In addition, China has been participating in multilateral groupings such as the Group of Twenty (G20) and Asia-Pacific Economic Cooperation (APEC), putting forward new ideas in an effort to foster a new form of international relations among major countries. Although China does not identify itself as a leader of developing countries in the comprehensive sense

²⁷Markus Taube, “Economic Relations between the PRC and the States of Europe,” *The China Quarterly*, Vol. 169 (2002), pp. 78–79.

²⁸Ren Xiao, “China as an Institution-Builder: The Case of the AIIB,” *The Pacific Review*, Vol. 29, No. 3 (2016), pp. 435–442.

²⁹Jorn-Carsten Gottwald, “China’s Roles in International Institutions,” in Harnisch, Bersick and Gottwald, eds., *China’s International Roles: Challenging or Supporting International Order?*, p. 130; and Yang, “The Asian Infrastructure Investment Bank and Status-Seeking: China’s Foray into Global Economic Governance,” *Chinese Political Science Review*, Vol. 1, No. 4 (2016), pp. 754–778.

of the word,³⁰ it nonetheless raises a stronger voice in existing multilateral institutions, promotes more equal and balanced global development, and advocates reforms of the extant economic-financial system which, dominated by developed nations, has failed to ensure common or inclusive development.³¹ Thus, in principle, China is promoting major changes in the global system from the U.S.-led uni-polarity toward multipolarity, or “a system with collective leadership.”³²

Furthermore, in order to ensure success in reforming the global financial architecture, China has built close partnerships with other emerging economies, such as Russia, India, South Africa, and Brazil. The BRICS countries jointly criticize the Bretton Woods institutions. Recently, the New Development Bank (NDB) has been launched by the BRICS “with the purpose of mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies,” and the Contingent Reserve Arrangement, “a framework for the provision of liquidity through currency swaps in response to actual or potential short-term balance of payments pressures” (Sixth Summit). In this respect, at the global level, China seems to be seeking collective actions through the BRICS rather than vying for unilateral leadership.³³

In the Asia-Pacific, however, the situation differs from the global level as China becomes more energetic in proposing indigenous regional development projects and in displaying ambitions to lead regional integration. In this respect, the “One Belt One Road (OBOR)” initiative, which revitalizes the historical Silk Road to ensure Eurasia-wide connectivity through land and maritime routes, demonstrates not only China’s economic capabilities, but also its willingness to act as an initiator of

³⁰China has long voiced support for development efforts in late-industrialized countries. However, it still appears unwilling to act as a leader in the sense of being a military security provider or a consumption market for developing country exports, unlike the United States since the Second World War.

³¹State Council Information Office of the People’s Republic of China, “The Right to Development: China’s Philosophy, Practice and Contribution,” December 2, 2016, http://www.scio.gov.cn/32618/Document/1534069/1534069_1.htm.

³²Jorn-Carsten Gottwald, “China’s Roles in International Institutions,” p. 130.

³³*Ibid.*, p. 137.

ideas and institutions that brings together developing as well as developed countries around a set of new norms and rules. For example, under the OBOR, Beijing established a US\$40 billion Silk Road Fund (SRF) to support infrastructure projects in Central, Southeast, and South Asia.³⁴ As some observers see it, the OBOR has become the largest economic scheme since the U.S.-led Marshall Plan for post-war reconstruction in Europe.³⁵ Furthermore, in Central Asia, "China has become the most consequential actor," filling the vacuum of power caused by the relative absence of stronger actors, such as Russia and the United States.³⁶

China is reshaping the Asia-Pacific order by setting up new economic institutions.

As part of the broader OBOR, President Xi Jinping announced the establishment of the AIIB in 2013 with a capital stock of US\$100 billion to address the enormous infrastructure needs in the Asia-Pacific, which, according to a 2012 study by the ADB, amount to \$8 trillion over the next decade.³⁷ A number of scholars see the new bank "as a rival of the USA and

Japan-dominated Asian Development Bank, creating new rules in the Asian economy as China is on an upward trajectory,"³⁸ while China argues that the Bank is complementary to the existing international

³⁴Paul Carsten and Ben Blanchard "China to Establish \$40 Billion Silk Road Infrastructure Fund," Reuters, November 2014, 2014, <http://www.reuters.com/article/us-china-diplomacy-idUSKBN0IS0BQ20141108>.

³⁵Charles Clover and Lucy Hornby, "China's Great Game: Road to a New Empire," *Financial Times*, October 12, 2015, <http://www.ft.com/cms/s/2/6e098274-587a-11e5-a28b-50226830d644.html#axzz42lk0JEFC>.

³⁶Raffaello Pantucci and Alexandros Petersen, "China's Inadvertent Empire," *National Interest*, Vol. 122 (2012), pp. 30–39.

³⁷Asian Development Bank, *Facts and Data about ASEAN Infrastructure* 2012, <https://www.adb.org/features/fast-facts-asean-infrastructure-fund>.

³⁸Simon Xu Hui Shen, "Special Issue: New Silk Road Project," *East Asia*, Vol. 32, No. 1 (2015), p. 4; Jeremy Shapiro, "The Chinese Foray into Global Governance," Brookings Institution, April 1, 2015, <http://www.brookings.edu/blogs/order-from-chaos/posts/2015/04/01-china-global-governance-shapiro>.

financial system.³⁹ As a sign of institutional communication, since its establishment, the AIIB has signed memorandums of understanding (MOU) with leading international development banks such as the ADB, Inter-American Development Bank, and the World Bank to jointly finance infrastructure projects.⁴⁰ In Central Asia, China's interaction has also not been in isolation from regional power structures, as illustrated by the establishment of partnership between the AIIB and the Russia-led Eurasian Economic Union (EEU).⁴¹ By setting up its relations with regional and global institutions, the AIIB has found its niche in regional financial architecture. Thus, the AIIB represents another successful step by China toward regional leadership, exemplifying its willingness to reshape the regional environment under a Beijing-led set of rules. The "balance of influence" is inarguably shifting in China's direction."⁴²

It is perhaps unavoidable that China's growing economic and political power would lead it to confrontation with the United States. "De-Americanization" and the "cutting skirt edges little by little" strategies gain more support among political and academic circles in China with the aim of securing the country's interests in the region and beyond.⁴³ Such a shift in China's foreign policy illustrates an ongoing transformation from being a leader of the Third World as the biggest developing nation to becoming a superpower keen "to demonstrate great power style and the superiority of

³⁹Javier Solana, "China and Global Governance." *Project Syndicate*, March 30, 2015, <https://www.project-syndicate.org/commentary/china-multilateral-institutions-threaten-us-by-javier-solana-2015-03>.

⁴⁰Asian Infrastructure Investment Bank, <https://www.aiib.org/>.

⁴¹Alexander Gabuev, "Post-Soviet States Jostle For Role in China's New Silk Road Project," *Russia Insider*, August 17, 2015, <http://russia-insider.com/en/post-soviet-states-jostle-role-one-belt-one-road-initiative/ri9224>; and Gennady Chufrin, "Eurasian Economic Union: Undergoing A Durability Test," *Russian Analytical Digest*, No. 170, July 7, 2015, p. 5, https://www.files.ethz.ch/isn/192447/Russian_Analytical_Digest_172.pdf.

⁴²Zhao Suisheng, "China's Approaches toward Regional Cooperation in East Asia: Motivations and Calculations," *Journal of Contemporary China*, Vol. 20, No. 68 (2011), p. 61.

⁴³Zhao Suisheng, "A New Model of Big Power Relations? China-US Strategic Rivalry and Balance of Power in the AsiaPacific," *Journal of Contemporary China*, Vol. 24, No. 93 (2015), pp. 377–397.

the China Model.”⁴⁴ In other words, the OBOR and related institutions such as the AIIB represent China’s ongoing shift from the Global South to the North, which has brought about significant changes in its foreign policy toward other actors, as will be exemplified in the case of China’s relations with the ASEAN.

The AIIB and North-South Reconfiguration in Southeast Asia

China’s strategy of economic reform and opening up has generated major changes in its foreign policy priorities. Over the past few decades, the country has stopped supporting international revolutionary movements and, instead, turned its focus first on domestic economic development, and more recently, on a new agenda that seeks participation in regional and international governance.⁴⁵ It follows that, during its early development stage, China needed peaceful and friendly relations with countries in Asia and beyond. Therefore, in addition to striving to build non-contentious relations with the developed North, which was to become a major destination of the country’s exports, Beijing also sought reconciliation and a peaceful relationship with Southeast Asian nations. The “long peace” in Asia was viewed as a prerequisite for economic development.⁴⁶

Over the years, the pragmatic policy of the Chinese government has proven to be successful: a number of countries in the region changed their attitude from mistrust and fear to rapprochement and, more recently, a cautious pursuit of cooperation on common development and security

⁴⁴Yang Jiang, “Rethinking the Beijing Consensus: How China Responds to Crises,” *The Pacific Review* 24, No. 3 (2011), p. 352.

⁴⁵Samuel S. Kim, “New Directions and Old Puzzles in Chinese Foreign Policy,” in Samuel S. Kim, ed., *China and the World: New Directions in Chinese Foreign Relations* (Boulder, Colo.: Westview Press, 1989), p. 8; Hu Weixing, Gerald Chan and Zha Daojiong, “Understanding China’s Behavior in World Politics: An Introduction,” in Hu Weixing Hu, Gerald Chan and Zha Daojiong, eds., *China’s International Relations in the 21st Century: Dynamics of Paradigm Shifts* (Lanham, Md.: University Press of America, 2000), p. 2.

⁴⁶Barry Buzan and Michael Cox, “China and the US: Comparable Cases of ‘Peaceful Rise’?,” *Chinese Journal of International Politics*, Vol. 6, No. 2 (2013), pp. 113–114.

(albeit to a lesser extent).⁴⁷ China initiated friendly relations with individual Southeast Asian countries and built a strong partnership with the ASEAN as well. Beijing signed a number of agreements in the region, reinforcing cooperation in numerous areas such as trade, defense, culture and tourism. At the same time, it succeeded in upgrading its status as a full dialogue partner with the ASEAN in 1996, and, after signing the Treaty of Amity and Cooperation (TAC) in 2003, participated regularly in the East Asia Summit (EAS) starting from its first annual meeting in 2005.

During the Asian financial crisis of 1997–1998, China made a first attempt to present itself both as a trusted leader and, more importantly, as an unselfish partner for the developing countries in the region that fell into financial distress. Accordingly, Beijing not only offered bilateral loans to countries such as Thailand, Indonesia, and Malaysia, but also kept its currency from devaluing despite the fact that allowing the Renminbi to depreciate against regional currencies was an economically pragmatic choice, for such a move would reinforce the country's export competitiveness. It goes without saying that this strategic choice enhanced China's image and regional standing even further.⁴⁸ Against the backdrop of changing regional dynamics, China showed greater enthusiasm toward exclusive regionalism, backing a number of ASEAN-led institutions, including the ASEAN Plus Three (10 + 3) and the Chiang Mai Initiative (CMI).⁴⁹ Thus, it displayed strong willingness to promote integration in East Asia, accepting the norms set up by these institutions and behaving accordingly.

Subsequently, the continuous economic and political rise of China over the following decade brought about changes with regard to the distribution of power in the region. China patiently built its economic power, until it could "harness a wave of successful activities and begin

⁴⁷Hong Kong Trade Development Council, "Tackling Cynicism in SE Asia Remains a Priority for BRI Development," July 18, 2016, <http://beltandroad.hktdc.com/en/market-analyses/details.aspx?ID=475366>.

⁴⁸Catharin Delpino and Juo-Yu Lin, "China and Southeast Asia: The Difference of a Decade," *Brookings Northeast Asia Survey* (2002/2003), p. 79.

⁴⁹Zhang Yunling, "Emerging New East Asian Regionalism," *Asia-Pacific Review*, Vol. 12, No. 1 (2005), pp. 55–63; Samuel S. Kim, "Regionalization and Regionalism in East Asia," *Journal of East Asian Studies*, Vol. 4 (2004), pp. 47–52.

constructing and defending its own vision of regional order.”⁵⁰ Beijing recalibrated its stance toward regional institutions and altered its role “from a passive receiver of policy to an active agenda setter over time,” which led to reconfiguration in the way the country communicated with Southeast Asian nations.⁵¹

The AIIB, in this respect, clearly illustrates the new situation in which regional countries tend to “view China as more benign than malign and are accommodating themselves to its rise.”⁵² Indeed, China has stood out not only as a strong leader among developing nations, but more importantly, as a near equal to developed nations and groups such as the United States and the EU. Thus, their relationship has begun to increasingly reflect similar characteristics with the interactions within the Northern bloc. Consequently, China’s relationship with developing countries in the region now embodies certain North-South features whereas the traditional South-South ideological solidarity is sidelined and greater emphasis is placed on the institutionalization process. The launch of the AIIB exemplifies this structural shift in China’s position in North-South dyadic relationship.

Indeed, the establishment of the AIIB reflects a keen acknowledgement of the regional countries’ needs in infrastructure and its significance for their comprehensive economic development. Obviously, China’s own experience in economic development helps reinforce an increasingly common understanding that viable infrastructure is a must to ensure long-term development. Southeast Asia, in this respect, lacks the required infrastructure for sustained economic growth. As indicated in a report by the ADB, by 2020, “Asia needs to invest approximately \$8 trillion in overall national infrastructure. In addition, Asia needs to spend approximately \$290 billion on specific regional infrastructure projects in transport and

⁵⁰Mikko Huotari, “A New Role in East Asian Financial Order,” in Harnisch, Bersick and Gottwald, eds., *China’s International Roles: Challenging or Supporting International Order?* p. 150.

⁵¹Tsai Tung-Chieh and Liu Tai-Ting, “Whither East Asian Regionalism? China’s Pragmatism and Community Building Rhetoric,” *Japanese Journal of Political Science*, Vol. 14, No. 4 (2013), p. 545.

⁵²David Shambaugh, “China Engages Asia: Reshaping the Regional Order,” *International Security*, Vol. 29, No. 3 (2004/2005), p. 67.

energy that are in the pipeline.”⁵³ The ASEAN nations, particularly, are required to spend approximately \$60 billion a year to address the regional infrastructure needs.⁵⁴ Accordingly, the AIIB, along with other multilateral development banks, can fulfill this gap by providing the needed funds.

There is no doubt that the AIIB has already found its niche in proposing investment to the countries in need of development assistance and thus may eventually offer a viable alternative to the institutions dominated by the North. Indeed, the IMF and the World Bank have been criticized for their reluctance to meet the needs of the developing nations and accommodate rising powers.⁵⁵ The AIIB, along with other China-led projects such as the NDB and the SRF, provides developing economies with other options that were previously lacking; in a sense, it “complement[s] the work that had been done by the World Bank and the ADB . . . especially in the ASEAN region.”⁵⁶ In this sense, 2016 was a crucial year for the AIIB since its board approved the first nine projects worth US\$1,730 million across seven countries.⁵⁷ It is necessary to mention that the announced investment into these countries is co-financed with other international institutions, such as the World Bank, the ADB, the UK Department for International Development, and European banks.

Nevertheless, there are still some uncertainties in regard to the AIIB’s guiding principles and implementation of rules, which, especially in its earlier stage, resulted in skepticism among the established powers.

The creation of the AIIB reflects China’s shifting identity in its relationship with ASEAN nations.

⁵³ Asian Development Bank and Asian Development Bank Institute, “Infrastructure for a Seamless Asia,” 2009, <https://www.adb.org/sites/default/files/publication/159348/adbi-infrastructure-seamless-asia.pdf>.

⁵⁴ Asian Development Bank, “Facts and Data about ASEAN Infrastructure,” 2012, <https://www.adb.org/features/fast-facts-asean-infrastructure-fund>.

⁵⁵ “Capitalism, IMF and World Bank under fire at U.N.,” Reuters, June 25, 2009, <http://www.reuters.com/article/idUSN25300517>.

⁵⁶ “AIIB to Complement ASEAN Infrastructure Need: Malaysian Official,” Xinhua News, April 18, 2015, http://news.xinhuanet.com/english/2015-04/18/c_134162167.htm.

⁵⁷ From 2016–2017, the AIIB approved 21 projects worth of US\$3.49 billion across 13 countries. Among them, six projects cover the Southeast Asian region. For more information visit: <https://www.aiib.org/en/projects/approved/index.html>.

The AIIB brings about competition by altering the balance of power and influence in the region, where Japan and the United States have traditionally played a key role in terms of economy and security provision, thereby disturbing not only established regional configurations, but also smaller nations which signed the membership agreement.⁵⁸ For example, it was reported that the Philippines had evaluated the benefits and costs of participating in the AIIB till the last minute before the Senate passed the membership agreement.⁵⁹ Some countries raised their concerns about the "ambiguity over ...lending policies, transparency standards, and governance principles."⁶⁰ In order to ease the concerns, the AIIB worked to adopt the established practices and build a high standard governance model by inviting leaders from the region to participate in its management. For example, former Japanese Prime Minister Yukio Hatoyama joined the international advisory committee of the AIIB in 2016.⁶¹ Nevertheless, a certain level of apprehension lingered.

Some skeptical observers argue that the AIIB could weaken the ASEAN unity since countries needed to negotiate with the AIIB bilaterally rather than via the ASEAN as a whole. So far, the AIIB has established viable organic ties with a number of development institutions and funds, such as the ADB, European Bank for Reconstruction and Development (EBRD), the UN Industrial Development Organization (UNIDO), and the NDB. The ASEAN, on the other hand, does not have an independent development bank to communicate with the AIIB. Although the ASEAN

⁵⁸Tomoo Kikuchi, "The AIIB and Shifting Economic Dynamics in Southeast Asia," *Brink News*, November 24, 2016, <http://www.brinknews.com/asia/the-aiib-and-shifting-economic-dynamics-in-southeast-asia/>.

⁵⁹Manila Standard, "Senate Approves PH membership in AIIB," *Manila Standard* December 5, 2016, <http://thestandard.com.ph/news/-main-stories/top-stories/223349/senate-approves-ph-membership-in-aiib.html>.

⁶⁰Andrea Chloe A. Wong, "The Asian Infrastructure Investment Bank: Considerations for the Philippines," *Rappler*, May 17, 2015, <http://www.rappler.com/world/specials/93367-cirss-commentaries-aiib-considerations-philippines>.

⁶¹"Former Japanese Leader Hatoyama to Buck Precedent, Join Advisory Panel of China-led AIIB," *Japan Times*, June 26, 2016, <http://www.japantimes.co.jp/news/2016/06/26/business/economy-business/former-japanese-leader-hatoyama-to-buck-precedent-join-advisory-panel-of-china-led-aiib/#.WIXwOP196Uk>.

Infrastructure Fund, which was jointly established by the ASEAN and the ADB, targets to achieve about \$500 million in total equity contributions, its reserved capital is far from meeting the development needs of the region. Therefore, the ASEAN's initial approach to the AIIB was one of cautious optimism.⁶²

Furthermore, some feared that the AIIB could undermine the centrality of ASEAN institutions. Prior to the establishment of the AIIB, the ASEAN was considered the major driving force for regional integration. There was a tacit agreement regarding the centrality of the ASEAN, which was playing an essential role in maintaining regional order and mitigating competition among great powers. The ASEAN managed to bring Beijing, Washington, Moscow, and Tokyo into the same multilateral institutions and forums. Due to the values promoted via various institutions, the ASEAN also managed to extend its influence into other sub-regions, thus covering the whole Asia-Pacific region. Evelyn Goh points out the importance of the ASEAN inclusiveness which "helped to legitimize the security interests and role of each of these great powers in East Asia; and ... also institutionalized the small states' and middle powers' claims to legitimate voice and political relevance in the management of regional security affairs."⁶³ However, she notices that ASEAN-led institutions have not "helped substantially in negotiating mutual constraints and a *modus vivendi* among the great powers."⁶⁴ For instance, the ASEAN has failed in accommodating China and other claimants in the South China Sea disputes.⁶⁵

Also, it has been argued that, by joining the AIIB-financed projects, Southeast Asian countries may show greater tendency to investments that are directed at domestic projects instead of those that are essentially

⁶²"ASEAN Gives Full Cooperation to Establishment of AIIB: Malaysian Official," Xinhua News, March 21, 2015, http://news.xinhuanet.com/english/2015-03/21/c_134086417.htm.

⁶³Evelyn Goh, "ASEAN-led Multilateralism and Regional Order: The Great Power Bargain Deficit," *Asan Forum*, May 23, 2014, <http://www.theasanforum.org/asean-led-multilateralism-and-regional-order-the-great-power-bargain-deficit/>.

⁶⁴Ibid.

⁶⁵It must also be noted that the ASEAN has thus far failed to solve disputes between Indonesia and Malaysia or between Vietnam and the Philippines.

cross-country or regional.⁶⁶ For example, some analysts expressed concerns about the support China gives to the Master Plan of ASEAN Connectivity (MPAC), which can be beneficial to its members only if they manage to “work together and advocate in a single voice.” However, in reality, the regional states tend “to compete, rather than to cooperate” in order to attract investment in national infrastructure projects.⁶⁷ On the other hand, China, as the ASEAN’s largest trading partner, publicly supports “ASEAN Centrality in the evolving regional architecture,” and ASEAN countries have the opportunity to keep China’s interest in the region for sustainable development support. To ensure this, “ASEAN countries... [should] work together for cross-border infrastructure project funding” by “advocat[ing] for AIIB funds for regional projects instead of domestic ones,” such as the proposed Singapore-Kunming Rail Link, the Trans-ASEAN Gas Pipeline or the Trans-ASEAN Electricity Grid.⁶⁸ Nonetheless, no Southeast Asian regional project seeking AIIB funding has been proposed so far.

ASEAN countries
will remain
concerned about the
potential impact of
the AIIB.

The ASEAN countries voice another critical concern regarding whether China would attempt to use the bank as an economic tool to pursue its own national interests. Such considerations may factor largely in the decision-making process of small nations, especially those that have yet to

⁶⁶Comparing the AIIB with, for instance, the ADB, the latter has utilized both regional and domestic financing: from 2005-2016, in the Asia-Pacific, the ADB financed 38 regional projects, out of 263 approved projects, many of those targeted at Southeast Asia. See Project Records, ADB, <https://www.adb.org/projects/search/country/regional/status/approved>. Conversely, the AIIB in 2016 approved only two cross-country projects, both targeting Central Asia, i.e., the Trans-Anatolian Natural Gas Pipeline Project and the Dushanbe-Uzbekistan Border Road Improvement Project. See Approved Projects, AIIB, <https://www.aiib.org/en/projects/approved/index.html>.

⁶⁷Sanchita Basu Das, “What AIIB Means for ASEAN Connectivity,” *Straits Times*, July 16, 2015, <http://www.straitstimes.com/opinion/what-aiib-means-for-asean-connectivity>.

⁶⁸Sanchita Basu Das “Can China-Led AIIB Support ASEAN Connectivity Master Plan? Analysis,” *Eurasia Review*, June 30, 2015, <http://www.eurasiareview.com/30062015-can-china-led-aiib-support-asean-connectivity-master-plan-analysis/>; and Stewart Taggart, “China’s Asian Infrastructure Bank: South China Sea Mediator? Analysis,” *Eurasia Review*, June 11, 2016, <http://www.eurasiareview.com/11062016-chinas-asian-infrastructure-bank-south-china-sea-mediator-analysis/>.

settle territorial disputes with China, such as Vietnam, the Philippines, Malaysia, and Indonesia. Curtis S. Chin argues that Beijing sometimes forces the ADB to change its course in accordance to China's national interests.⁶⁹ Therefore, some have come to see the AIIB as part of China's grand strategy: military (especially naval) modernization accompanies the AIIB and other related projects to secure the country's ever growing and multilateralized interests in the region and to consolidate power in its near peripheries — although it may also be argued that military modernization in East Asia well predates the AIIB and every actor is engaged in it as much as their capabilities allow.

Clearly, every institution is a platform for power play as stakeholders attempt to capitalize on their strengths to influence decision making to their advantage, and China is not an exception. For instance, the ASEAN leaders failed to finalize the joint declaration on the South China Sea in 2012. Similarly, in 2015, a meeting of ASEAN Defense Ministers Plus (ADMM+) came short of reaching consensus on the South China Sea disputes. Some analysts see these developments as partly a result of China's attempts to influence the ASEAN decision-making process through its regional allies, such as Cambodia and Laos, and protect its claims in the South China Sea. Furthermore, in September 2016, Venezuela, as Chair of the 17th Non-Aligned Movement (NAM) Summit, blocked the ASEAN proposal to update the Southeast Asia paragraphs in the NAM Final Document, which turned into a diplomatic standoff between Chinese and Singaporean media.⁷⁰ Such weigh-in behavior may become more common as China maintains its growth, acquires capabilities to launch its own (well-received) institutions and, therefore, increases the scope and scale of its aggregate national power in the region. China's shift from acting as a rather passive

⁶⁹Curtis S. Chin, "Commentary: ASEAN's Choice — The Pros and Cons of AIIB Membership," *Jakarta Globe*, August 10, 2015, <http://jakartaglobe.beritasatu.com/opinion/commentary-aseans-choice-pros-cons-aiib-membership/>.

⁷⁰Wang Panpan, "Bujiemengyundong shounaohui bimu xinjiapo bugufandui wang ti nanhai zhongcai (Singapore raises South China Sea arbitration at NAM summit despite opposition)," *Global Times*, September 21, 2016, <http://world.huanqiu.com/exclusive/2016-09/9465674.html>; and Kor Kian Beng and Chong Koh Ping, "Other Countries Also Wanted NAM Document Updated," *Straits Times*, September 29, 2016, <http://www.straitstimes.com/asia/other-countries-also-wanted-nam-document-updated>.

Southern to a leading Northern country in terms of foreign policy behavior might thus be a combined result of these historic changes.

Conclusion

The Asia-Pacific has been going through major structural changes due to shifts in power among regional and extra-regional actors. International relations in Asia are increasingly being characterized by “greater equality between China and the United States” or, in President Xi Jinping’s words, by “a new model of great power relations.”⁷¹ As its power grows further, China becomes more inclined to behave in ways similar to those of other Northern powers, which includes utilizing various political, diplomatic, and economic tools in order to influence countries in the region and convince them to comply with its political leadership and development goals. The AIIB, in this respect, offers China a viable platform to have a greater say in regional development, which may be translated into greater ability to influence regional geo-politics and geo-economics. In addition, within the greater context of the OBOR, of which the AIIB is an essential part, it is without doubt that the transforming regional conditions empower China as a major determinant. Thus, China’s intra-regional interaction has so far reflected these shifts in power and capability, suggesting that its historical Southern characteristics might be wearing off, while it is acting more in line of an emerging Northern power.

China, in this respect, has begun to duplicate the U.S.-led Bretton Woods institutions by creating regionally inclusive institutions in which it holds greater weight in crucial decision-making processes. However, in the case of the AIIB, although China is currently the largest financial contributor and wields unilateral veto power, it may lose this dominant position in the near future, as the Bank’s membership portfolio expands.⁷² Thus, the emerging North-South relationship between China and Southeast Asian

⁷¹Michael Yahuda, “Looking Ahead: A New Asian Order?,” in David Shambaugh and Michael Yahuda, eds., *International Relations of Asia* (Lanham, Maryland: Rowman & Littlefield, 2014), p. 395.

⁷²James Kynge and David Pilling, “China-led Investment Bank Attracts 25 New Members,” *Financial Times*, January 24, 2017, <https://www.ft.com/content/671d8ac4-e18a-11e6-8405-9e5580d6e5fb>.

economies may have certain qualitative differences from the orthodox North-South duality. Indeed, developing economies have so far criticized their under-representation in global economic and financial governance. The AIIB, in this sense, could offer a more equal representation. Currently, in the new bank, the ASEAN members in sum have more voting power compared with their weight in the IMF or the World Bank, but their combined share is still less than the one they hold in the regional counterpart, the ADB.

As China assumes a greater role in institution building and rulemaking in the region, the ASEAN may lose its driver's seat of East Asian regionalism. Furthermore, if the classical North-South model applies to the Asia-Pacific, Southeast Asian countries might find themselves pressured by China in key geo-political decisions such as the South China Sea disputes. So far, however, the new development-focused institutionalization in East Asia appears to have alleviated some of the major disagreements between China and smaller ASEAN countries such as the Philippines. Manila's recent strategic pivot to China can be seen as a result of China's heavy focus on economizing political disagreements in viable institutional settings, combined with Philippine President Duterte's aim to develop a viable national infrastructure. In fact, even though the Philippines did bring the case to the international court (Permanent Court of Arbitration) in 2013 under the Aquino's administration, the succeeding Duterte administration has sidelined the tribunal decision and instead sought deeper economic and security engagement with China.⁷³ Malaysia, another claimant in the South China Sea territorial dispute, also looks for closer cooperation with Beijing and has signed its first deal to buy patrol boats and frigates from China.⁷⁴

China is shaping a new paradigm of North-South relations in the Asia-Pacific.

⁷³Alexis Romero, "China to Give Weapons to Boost Philippine Security," *The Philippine Star*, December 12, 2016, <http://www.philstar.com/headlines/2016/12/12/1652751/china-give-weapons-boost-philippine-security>.

⁷⁴"China and Malaysia Agree on Military Cooperation in the South China Sea," *Guardian*, November 2, 2016, <https://www.theguardian.com/world/2016/nov/02/china-and-malaysia-agree-on-military-cooperation-in-the-south-china-sea>.

Clearly, growing institutionalization plays a significant role in China's gradual shift from the South to the North in terms of foreign policy conceptualization and behavior. Institutionalized regional settings, even though influenced by Beijing, are still favored by regional actors because these settings still reflect the Asian (or ASEAN) way of intra-regional interaction. Thus, institutions such as the AIIB allow China to experiment on a new form of North-South interaction at the same time that Beijing has been distancing itself from the ideological and material constructs of being, feeling, and acting like a Southern country. It follows that the new emerging North-South paradigm may over time be emphasized by Beijing as strongly as the "new type of major power relations" principle.

The new paradigm will be largely based on China's worldview and introduce novel values different from the established Western norms.⁷⁵ China, in this respect, may emerge as a Northern power with Chinese characteristics. Flexible terminology allows China to avoid criticism as it moves to construct a new regional order and attract developing countries to participate in newly launched multilateral institutions.⁷⁶ A regional governance model based on Asian values may become an increasingly attractive alternative for China and other Asian countries, especially for Southeast Asian nations.⁷⁷ Under this new governance model, China respects the sovereignty of domestic preferences made by individual countries and provides public goods in the form of infrastructure development and market connectivity while receiving a warm welcome, recognition and friendly policy in return.

Yet, as an emerging Northern power with national interests expanding in greater scope and depth, China may be more inclined to see regional politics through a geo-political prism. Accordingly, it may begin to perceive institutions such as the AIIB as mere diplomatic instruments to pursue specific national interests, including those related to the Southeast Asian region. In such a scenario, partner countries would have less power to

⁷⁵Zeng Jinghan and Shaun Breslin, "China's 'New Type of Great Power Relations': A G2 with Chinese Characteristics?," *International Affairs*, Vol. 92, No. 4 (2016), p. 786.

⁷⁶*Ibid.*, p. 775.

⁷⁷David M. Ong, "The Asian Infrastructure Investment Bank: Bringing 'Asian Values' to Global Economic Governance?," *Journal of International Economic Law*, Vol. 20, No. 3 (2017), pp. 535–560.

define and protect their interests if they were rendered more powerless in negotiating with powerful China that acted more and more like a classic Northern country. In this regard, institutionalization may either alleviate the fears by setting up rules-based structures or further allay those fears by attributing even greater power to the dominant state.

Nonetheless, even if China demonstrates more contentious Northern characteristics, the South is not entirely powerless. Although they have limited options for protecting and pursuing their national interests on their own, small and medium powers are still able to engage in hedging and balancing to maximize their interests against dominant states as well as against each other.⁷⁸ For example, some ASEAN members still continue to call for international attention to the South China Sea disputes. Although not without a cost and associated risks, the increase in security cooperation with regional (e.g., Japan and Australia) and external nations (e.g., the United States and Russia) in the form of joint exercises and equipping and training of military forces provides Southeast states with certain options to balance China's actions if they are deemed too assertive.⁷⁹

Thus, the observation with respect to China's participation in the club of the Northern countries is not a contentious issue as multiple factors such as the capacity to launch and sustain global institutions apply. Instead, the big question now is whether China is a Northern country in the historical sense of the word, and whether it will display different characteristics as its national power grows exponentially. Early indicators show that China, albeit shedding its traditional Southern solidarity-driven regional and global policy, has not adopted a classical Northern country's foreign policy orientation. The post-arbitration regional environment in Southeast Asia lends proof to this argument. The election of Donald Trump as President of the

⁷⁸Liu Fu-Kuo and Jonathan Spangler, eds., *South China Sea Lawfare: Legal Perspectives and International Responses to the Philippines v. China Arbitration Case* (Taipei: South China Sea Think Tank/Taiwan Center for Security Studies), 2016; Cheng-Chwee Kuik, "How Do Weaker States Hedge? Unpacking ASEAN States' Alignment Behavior Towards China," *Journal of Contemporary China* 25, No. 100 (2016), pp. 513–514; and Suisheng Zhao and Qi Xiong, "Hedging and Geostrategic Balance of East Asian Countries toward China," *Journal of Contemporary China*, Vol. 25, No. 100 (2016), pp. 485–499.

⁷⁹Stephen F. Burgess, "Rising Bipolarity in the South China Sea: The American Rebalance to Asia and China's Expansion," *Contemporary Security Policy*, Vol. 37, No. 1 (2016), p. 133.

United States and his decision to withdraw from the Trans-Pacific Partnership (TPP) negotiations have also reinforced China's position as a potential great power that generates regional public goods in the form of renewed commitment to economic globalization and integration. If China continues with this distinct regional policy in line with its emerging status as a great power, or, as a Northern country with Chinese characteristics, scholars may have to revisit the orthodox North-South paradigm one day.