

# **The Asian Infrastructure Investment Bank (AIIB) - The Asian solution to the continued accumulation of capital**

**A critical political economy analysis on the emergence of the AIIB**



**Master Thesis**

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## Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AoA	Articles of Agreement
APEC	Asia-Pacific Economic Co-operation
ASEAN	Association of Southeast Asian Nations
BRIC	Brazil, Russia, India, China
BRICS	Brazil, Russia, India, China, South Africa
BRIG	British-India Roads Group
CNOOC	China National Overseas Energy Company
DFI	Development Finance Institution
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IBDR	International Bank for Reconstruction and Development
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MOFCOM	Ministry of Commerce
NDB	New Development Bank
NDRC	National Development and Reform Commission
OFDI	Foreign Direct Investment Outflows
PCF	Parti Communist Français
PIAI	Philippine Investment Alliance for Infrastructure
RMB	Renminbi
SAP	Structural Adjustment Program
SEZ	Special Economic Zone
SGCC	State Grid Corporation of China
SOE	State-Owned Enterprises
UK	United Kingdom
UN	United Nations
US	United States
WTO	World Trade Organization

## **Abstract**

In 2015, a new international organization came into existence: The Asian Infrastructure Investment Bank (AIIB), a new multilateral development bank (MDB). Founded by a wide array of countries, from Asia and outside the continent, the AIIB aims to invest in infrastructure development in the Asian region. Surprisingly this new MDB emerged in a time when already existing MDBs, with a similar institutional outlook and public and private financing tools, focus on infrastructure investments as well. The AIIB attracted a lot of attention globally: the leadership of China created political tensions from the outset and was considered a challenge to Western-dominated institutions such as the IMF and World Bank. Against the backdrop of the politicization of the AIIB, this thesis seeks to explain why the AIIB emerged in its particular form from a critical political economy perspective, utilizing concepts from Regulation Theory. Focusing on various accumulation patterns of AIIB member states, it argues that the institution was founded to regulate the crisis of overaccumulation in China and to sustain Asian accumulation regimes.

**Key words:** Multilateral Development Bank; Regulation Theory; overaccumulation; Asian economies; China

## Introduction

In 2015 a new multilateral development bank (MDB), the Asian Infrastructure Investment Bank (AIIB) was established by the Chinese government. The overarching purpose of the AIIB, as outlined in the statutes, is to provide governmental loans and technical assistance to boost infrastructure development on the Asian continent, such as in sectors of energy and power, transportation and telecommunications, rural infrastructure and agricultural development, water supply and sanitation, environmental protection, urban development and logistics (AIIB, 2015, p.1-2, 6; AIIB 2015b). According to the Chinese President Xi Jinping, infrastructure financing through the AIIB promotes interconnectivity and economic integration in the region (CCTV, 2013). The AIIB strives to downplay bureaucracy and take fast decisions on loans, which means that the President of the institution, Ji Lin Qin, a Chinese national, is awarded with far-reaching discretionary powers compared to the Board of Directors (Humphrey et al., 2015, p.6-7). Loans under \$200 million can for example be granted without the Board's approval. To get started, an initial capital of US\$100 billion was authorized by the members (Sathis Kumar, 2014), which include Asian and industrialized Western countries, as well as so-called emerging economies (Reisen, 2015, p.297; Wan, 2016, p. 3.4<sup>1</sup>).

The Chinese government launched the idea for the AIIB in 2013 under the rationale that Asia was in desperate need for infrastructure investments (Junio, 2014). A report of the Asian Development Bank (ADB) estimated that around US \$775 billion of investment annually was needed for kickstarting economic growth during the period from 2010 to 2020 (ADB, 2009, p.5). The establishment of the AIIB is insofar surprising as there are already existing Multilateral Development Banks (MDBs) and other public and private financing tools in the region that specifically provide infrastructure credit. The ADB and the International Bank for Reconstruction and Development (IBDR) as part of the World Bank are major players in infrastructure financing, together backing a total loan portfolio of \$227 billion (Reisen, 2015a). Additionally, also private equity firms, investment banks, sovereign wealth funds and other public institutions have set up infrastructure funds in Asia, especially since the 2000s. As a result, the infrastructure sector in Asia grew considerably (Hildyard, 2012, p.5-8; Kingombe, 2011, p.7-11). Not only the focus on infrastructure of the AIIB is insofar surprising. Moreover, regarding its institutional outlook, the AIIB closely resembles the ADB and the World Bank, while the membership also overlaps to a considerable extent (Wan, 2016, p.4.17). US President Obama and President Abe from Japan feared that the infrastructure lending of the AIIB would harm “transparent policies” and go against the “high standards” set by other MDBs (The Telegraph, 2015). The US administration started a behind-the-scenes lobby to prevent European countries from joining the AIIB (Wright, 2015). In turn, AIIB representatives, and Chinese leader Xi Jinping in particular emphasized the importance of adhering to strict standards

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<sup>1</sup> References to sources viewed through Epub (E-book) are displayed as (chapter.page number).



on transparency and social and environmental standards (Humphrey et al., 2015, p.3; Xinhua, 2016). Ji Lin Qin, President of the AIIB spiced up the political debate when he stressed that the AIIB needs to be managed by the “highest possible international standard”, but that this was not necessarily the western standard. The standards applied by the AIIB are rather a combination of standards that takes best practices from all areas of the world, and from different MDBs (Tegenlicht, 2016). The very decision to establish the AIIB, and the congruence of its institutional architecture and investment focus in infrastructure hence seems to create political tensions from the outset, if not outright competition with existing MDBs and other infrastructure investment funds. This raises the following question central to this research:

*What explains the emergence of the AIIB as a new lender in infrastructure projects in Asia in the presence of already existing MDBs and other public and private financing tools, which perform the very same tasks in a similar way?*

Academic research on MDBs more generally highlighted different aspects. Scholarly attention focused on the emergence of these institutions, mainly describing their institutional background and functions, as well as the historical circumstances in which these institutions emerged (for example see, Culpeper, 1997; English & Mule, 1997; Huang, 1975; Kappagoda, 1997; Kapur & Webb, 1996; Krishnamurti, 1977). These studies were overwhelmingly descriptive and hence, not explicitly theoretically informed. While the MDB institutions evolved, the academic literature shifted the emphasis to the internal operations and specific form of the aforementioned institutions by reviewing and comparing lending patterns (see Andersen et al., 2006; Harrigan et al., 2006; Lyne et al., 2009; Neumayer, 2003; Thacker, 1999) and reforms within these institutions, such as the heightened importance of environmental safeguarding clauses (Nielson & Tierney, 2003; Weaver, 2008). Moreover, academic research focused largely on the performance of MDB loans, for example on the environment (Gutner, 2002), and considered MDBs as important political actors in studies on regionalism (Bruszt & Palestini, 2016; Bull & Bøas, 2003; Dent, 2008). The latter two avenues for research merely sought to explain how the emergence and form of MDBs influenced political, economic and social developments, rather than the other way around.

The rationale behind operations and changes within MDBs has been attributed to several factors, which in turn originate from a variety of theoretical approaches. Studies with a realist perspective suggest that the influence of states, and especially the big powers within MDBs, is decisive, and that their interests dictate the emergence and policies of these institutions ((Babb, 2009; Dreher et al., 2009a, 2009b; Dreher et al., 2010; Dutt, 2001; Fleck & Kilby, 2006; Harrigan et al., 2006; Kilby, 2006, 2011; Thacker, 1999). This realist notion is employed in different analyses of MBs’ operations. For example Fleck and Kilby (2006) showed that US geopolitical and commercial interests are decisive in allocating loans of the World Bank. Kilby (2006) also identified great power politics in the ADB, particularly by the US and

Japan in the allocation of funds in Asia. Liberal-institutionalists, in contrast prominently used principal-agency theories to explain why activities and reforms within MDBs took place (Gutner, 2005; Mosley et al., 1995; Nielson & Tierney, 2003). Nielson and Tierney (2003) for example tried to explain a sudden shift in behavior of the World Bank led by autonomous action of the international organization itself. Liberal-institutionalists thereby explained reform within MDBs in the light of collective action problems and rational considerations of agents, including member states of MDBs or MDBs as agents themselves. Constructivist scholars were the only ones that analyzed the MDBs internal activities by emphasizing ideational factors, such as the interpretation of norms and self-image of MDB officials (Babb, 2003; Park, 2005; Weaver, 2008). Park (2005) for example showed that international norms influenced the World Bank's identity and thereby triggered institutional change.

While this literature provides trenchant insights into the developments within MDBs, no attention has been paid to how MDBs are embedded in the global political economy and the global financial system in particular (an exception is Humphrey, 2016). This is a result of the theoretical and geographical focus of such research, which often adopts an isolationist view by singling out MDBs from the wider context in which they operate. Rationalist approaches, such as adopted by realist and liberal-institutionalist scholars, narrowed the field of research by focusing on pre-determined state interests, power balances and institutional dimensions. Liberal institutionalism treats agents (mostly at state-level) to be rational economic actors taking decisions on the basis of a cost-benefit analyses, while their interests are considered to be exogenously given (Cooley, 2009, p.48; Keohane, 1984, p.67). Such an approach often remains at the descriptive surface of political processes, reducing politics to mere policy-making or analyzing merely the politics involved. Structural developments of global capitalism and its uneven manifestation, as well as political contestation tend to be left out. The same can be said of social-constructivist scholars who have highlighted the importance of ideas within institutions, but failed to acknowledge the structural material underpinnings that are interlinked with the promotion of certain ideas and norms. The notion of power is undertheorized, because only the ideational and not the material dimension is considered to have explanatory power. Therefore social constructivist approaches can perfectly trace back how changes within institutions have come about, but they cannot comprehensively explain why (Bieler and Morten, 2008, p.108-109). Both the liberal institutionalist and constructivist approach hence lack the ontological foundations to explain the case of the AIIB in greater depth. Both approaches are ahistorical and fail to incorporate either social and ideational factors, or material factors in a sophisticated manner. A last point of critique on existing research on MDBs is that the geographical focus of most analyses is limited to the World Bank, International Monetary Fund (IMF) and the role of the industrialized West, most notably the US, as donors of these institutions (see for example Babb, 2009; Dreher et al., 2009a; 2009b, Gutner, 2005; Harrigan et al., 2006; Mosley et al., 1995; Thacker, 1999). The perspectives of developing countries and emerging economies on developments within MDBs is either neglected or downplayed. This is worrisome, considering the changing role of such

economies which have become both borrowers and lenders over the past decades (Humphrey & Michaelowa, 2013, p.143-144).

To understand MDBs in their full glory, from emergence to operations and institutional change, the gap in the literature has to be resolved, first of all, by addressing the more fundamental existence of the institutions over the sole focus on operations and reforms; secondly, by applying theoretical approaches which provide explanations that also address structural developments in the global political economy. Moreover, closing the existing gaps in the academic literature on MDBs also implies a shift in attention towards developing and emerging economies. The case of the AIIB lends itself perfectly to fill the empirical and theoretical lacuna in the academic debate on MDBs. As a newly formed institution, in which emerging and developing economies take a leading role, the AIIB addresses both the geographical neglect of existing research and derives the focus to the fundamental existence of MDBs. Moreover, adding a new perspective to theoretical discussions within this subject of International Relations, the applied framework has to reach beyond a state-centric, political or ideational explanation of the emergence of institutions and take into account structural underpinnings of capitalist developments. To this end, the thesis applies a *critical political economy* perspective, which ‘views political and economic logics as fundamentally intertwined and mutually constitutive’ (Overbeek, 2012, p.146).

The critical realist ontology on which critical theory is often based solves the limitations of rational and social constructivist ontology. Critical realism acknowledges that social reality consists of multiple layers, in which both material and ideational dimensions play a substantive role (Sayer, 2000). The approach also gives room for structure and agency, but rejects that predetermined patterns or regularities in the international system exist (Bhaskar, 1979, p.248). Moreover social relations have to be analyzed in the historical context in which they take place. The critical realist approach thereby surpasses the ahistorical nature of the rationalist and constructivist ontology (Bhaskar, 1998, p.218-19). To go beyond a superficial and ahistorical analysis of the AIIB’s emergence, the applied theoretical framework has to be embedded in a critical realist ontology and take a critical political economy perspective. Regulation Theory is such a critical political economy approach which is particularly tailored for explaining and analyzing the emergence of new institutions from a historical perspective and the dynamic ways in which capital accumulation takes place. Regulation scholars try to explain how regulatory modes, which consist of economic and extra-economic institutions and practices, contribute to the stabilization of capitalist accumulation, despite the inherent contradictions and crises that are generic to capitalism (Jessop & Sum, 2006, p.4). To determine how a crisis needs regulation, scholars study the contradictory nature of ‘accumulation regimes’, which are national modes of growth that are reproduced over a longer time (ibid., p.42). The inherent crisis that is fundamental to capitalism is the pervasive and recurring problem of ‘overaccumulation’, or what has been termed the capital surplus absorption problem, referring to a situation when surplus capital cannot be recapitalized and thus reactivated through profitable reinvestment in the real production economy (Harvey, 1989, p.180; 2010, p.45). Regulation

Theory focuses on regulations and institutions that seek to temporarily stabilize the continued accumulation of capital. The modes of regulation that stabilize inherent imbalances of capitalist accumulation, can take the form of norms, institutions, organizational forms to even social networks and patterns of conduct (Jessop & Sum, 2006, p.42). Accordingly, the AIIB can be perceived as a new mode of regulation, and its emergence can be explained in relation to particular regimes of accumulation and other types of regulatory modes.

Regulation Theory incorporates historical capitalist development in its analysis, and thereby sheds a light on structural foundations of capitalism that codetermine how international institutions are formed and take shape. Moreover, the approach acknowledges that social relations are key to understand the regulatory function of institutions, which means that also the ideational dimension is included in the analysis of international institutions. According to Regulation Theory, both the material and ideational dimension have to be understood in the historical context of capitalist dynamics, by which it surpasses the ahistorical nature of other approaches (Jessop & Sum, 2006, p.214). This is especially relevant as the emergence of new economies asks for a more thorough understanding of the dominant forms of capital accumulation, the contradictions that come with it and hence, regulations that seek to remedy these contradictions, so that new developments can be analyzed in the light of historical circumstances. Overall, the strength of Regulation School is that it gives a comprehensive and in-depth explanation for the emergence of new institutions. This gives room to place the emergence of the AIIB in a historical perspective in which both the economic capitalist structure and the role of ideas and power are incorporated. However, the approach also shows some weaknesses, for example most existing Regulation Theory research has focused on Western economies (some exceptions are: Becker et al., 2010; Jessop & Sum, 2006). Additionally, applied research of Regulation School has described what regulatory modes mean for the stabilization of accumulation regimes, but fails to understand how modes of regulation impact each other. This thesis tries to tackle some weaknesses and adds to the scope and explanatory power of Regulation Theory by investigating Asian economies and a regional Asian institution, and by providing insight into the influence of various regulatory modes on the AIIB as mode of regulation.

Empirically the thesis draws on a wide range of sources. The primary method of data collection is an extensive literature review to explain economic development processes in the AIIB member states. The information gathered from the literature review is supplemented by quantitative economic indicators, as well as policy papers of international organizations and research institutes, news articles and official government documents. The latter set of qualitative sources is also used to distinguish specific regulatory modes in the respective countries. The thesis contributes to existing scientific literature by offering a comprehensive and theoretically informed answer to why the AIIB, a new multilateral development bank, emerged in its specific form, a hitherto untackled research question, especially from a global political economy perspective.

This thesis is structured as follows: Chapter 1 outlines the ontological foundations of liberal institutionalism, social constructivism and critical approaches. Regulation Theory and its core concepts are then described to deal with ontological limitations of mainstream approaches and to provide for a theoretical framework which explains the emergence of the AIIB. Chapter 2 discusses some epistemological concerns, and outlines the methods and operationalization of the major theoretical concepts of Regulation Theory. Chapter 3 provides the empirical analysis. The first part sketches the explanandum, the emergence of the AIIB in greater details. Then, the second part analyses the pattern of accumulation of China, and shows which economic imbalances arise from this regime, linking such to the crisis of overaccumulation, which regulatory steps were taken, and how this led to a new regulatory mode, namely the AIIB. The same then will be done for other Asian AIIB member states and developed economies. At last, the empirical chapter will analyze the failure of the international financial and monetary regime as a regulatory mode, as an additional explanatory factor for the emergence and specific form of the AIIB. The empirical analysis will show the structural embeddedness of accumulation patterns and forms of regulation, in particular the AIIB. Finally, Chapter 4 includes a conclusion, discussion of shortcomings and avenues for further research.

## Chapter 1: Theoretical Considerations and Regulation Theory

This chapter discusses ontological questions first. The focus lies on what different approaches consider to be the nature of social reality (Blaikie, 2007, p.13). First the ontological limitations of liberal institutionalism and social constructivism will be discussed. Second, it will be shown how a critical approach, particularly the Regulation School effectively deals with the ontological problems of liberal institutionalism and social constructivism by accounting for both material and ideational factors, as well as by incorporating the dynamic nature of capitalism embedded in a historical context.

### 1.1 The Rationalist Fallacy of Liberal Institutionalism

Liberal institutionalism traces its origins from economic liberalism and builds on a rationalist ontology, which assumes that actors are 1) considered self-interested; 2) goal-oriented, and; 3) utility maximizing (Tierney & Weaver, 2005, p.8). Actors thus want to achieve the goal that serves their interests the best in the most efficient way. To make the ‘best’ decision, actors rationally order the set of options they have. Similar to the *homo economicus*, the *homo politicus* does so by consistently assessing the costs and benefits of potential actions (ibid.; Cooley, 2009, p.53). Because actors have access to the same set of relevant information about the context in which they make decisions, they are presumed to determine consistently which options serves their interests the best. These interests are essentially exogenously given and predetermined by structures (Keohane, 1984, p.67; Smith, 2004, p.502; Sterling-Folker, 2000, p.103-104). From the outside one can assess how the position of the actor influences the cost-benefit analyses, and how this determines the hierarchy of preferences (Cooley, 2009, p.53). In the study of international institutions this means that agents, particularly states, premised on the rationalist ontological logic therefore set up international institutions to help overcome collective action problems (ibid., p.50). International institutions are in the interest of actors, because they function as tools that improve the contractual environment and reduce transaction costs of exchange (ibid.). Institutions then allow actors to achieve their rationally determined goals more efficiently (Katzenstein et al., 1998, p.662).

The liberal institutionalist rationalist ontology has been criticized on several grounds. The most important critiques are outlined to give a comprehensive overview of the approach’s weaknesses. Moreover, the weaknesses are discussed in the light of the object of investigation in this thesis, the Asian Infrastructure Investment Bank. First of all, the liberal institutionalist assumptions have led to a functionalist explanation of how agents, particularly states shape the emergence of international institutions. Functionalism means that a system structurally determines certain actions, here the emergence of a new institution, without the ability for agents to challenge the path that is determined by the structure (Van der Pijl, 2009, p.149). The rationalist ontological position thus leads to a deterministic

view on agents' preferences, actions and behavior. Agents do not possess political agency to deviate from the rationally determined set of preferences. Additionally, there is no room for an analysis on agents' conscious as well as unconscious choices, which hold ground in structural and historical spatial contexts (O'Neill et al., 2004, p.159). The role of agents and structures that comes forth from functionalism leads to a unidimensional vision on causality. Rationalism fails to admit the ontological autonomy of structures, which can constrain but also enable agents, and therefore the approach makes it unable to explain social transformations and social change (ibid., p.154, 159).

A second weakness is that the liberal institutionalist ontological assumptions are highly reductionist. Liberal institutionalists incorporate only a narrow set of material structures to analyze socio-political phenomena (Smith, 2004, p.502). Only a small number of actors are considered to be relevant, while developments within a historical context do not have explanatory power. Developments within historical and spatial contexts are transformed into analytical objects that fit into a range of predetermined options, from which theoretical expectations are derived. The focus on agents' predetermined interests fails to acknowledge more structural factors which are of influence of preference formation as such (O'Neill et al., 2004, p.154, 159). Moreover, the transformation of the historical material context into analytical objects gives the approach an ahistorical nature. Liberal institutionalists therefore lack the in-depth explanatory strength to clarify important socio-political phenomena, such as the emergence of the AIIB.

A third critique which is often mentioned is that liberal institutionalists disregard the role of ideas (Smith, 2004, p.502). The approach only describes the causal influence of preferences, and thereby fails to explain preference formation as such (O'Neill, et al., 2004, p.154, 159). Liberal institutionalism neglects the construction of preferences through ideational factors. It believes that ideational objects have no causal effects and therefore ideas do not constitute the wider social reality (Bieler & Morton, 2008, p.104). As a result of its rationalist assumptions liberal institutionalism misses out on relevant explanatory elements. The weaknesses that stem from the rationalist ontological foundation of liberal institutionalism turn the approach into a black-box analysis, and limits the use of essential structural and ideational elements in the analysis of social phenomena.

## **1.2 The Social Constructivist Ontological Mismatch**

As a reaction to the prevailing rationalist ontology that underpins liberal institutionalism or realism, social constructivism emerged at the end of the 1980s, stressing the importance of the ideational dimension in the field of International Relations and Global Political Economy. Whereas liberal institutionalists incorporate the ideational dimension as rational or strategic components, constructivists emphasize the 'constitutive' function of ideas on social reality. According to constructivists, social reality consists of 'social facts', which can only exist as intersubjectively shared ideas. These ideas are 'intersubjective meanings', which can be defined as 'the product of the collective self-interpretations and self-definitions of human communities' (Neufeld, 1995, p.77 in Bieler & Morton, 2008, p.104-105).

Meaning is only given to objects in a social context, also called the ‘web of meaning’. The web of meaning influences the agents’ interpretation of the material world around them, and thereby also shapes developments in the global political economy (Abdelal, 2009, p.63; Bieler & Morton, 2008, p.106; Ruggie, 1998, p.856). Analyzing the process of how intersubjective ideas constitute the web of meaning gives insight into what agents want in the first place (Blyth, 2003, p.700). Thereby, social constructivists give ideas an independent causal role (Marsh, 2009, p.683). The social constructivist approach differs from the rationalist approach in that it endogenizes the interests of agents (Abdelal, 2009, p.71; Ruggie, 1998, p.863). Agents are assumed not to have predetermined interests. Instead, interests are considered to be shaped in the process of interaction. This allows constructivists to study how certain interests are formed and came into being prior to how these interests influence outcomes in the international sphere (Ruggie, 1998, p.863). For social constructivists the ideational dimension can explain socio-political phenomena. However, the vision of constructivists on the relation between the ideational and material dimension has been criticized. This thesis concurs with this critique and outlines how the weaknesses of social constructivism limit the explanatory power of the approach as such.

So called thick and thin constructivism interpret the relation between the ideational and material differently. Thick constructivists examine institutional change through the independent causal and constitutive role of ideas, and downplay the role of the material (Marsh, 2009, p.684). Thin constructivists prioritize the material dimension and causal logics (ibid.). Most forms of constructivism however acknowledge a dialectic relationship between the material and ideational (ibid.). Material structures are seen as facilitating or constraining the constitutive effect of ideas (ibid., p.686). Empirically, the material dimension is thus included. However there is no ontological vision on whether these material elements are ‘real’ and influence agents’ actions (ibid.). The ‘material’ still works particularly through the role of ideas, which downplays material factors as independent causal mechanisms. Therefore social constructivism fails to recognize the actual complex interaction of the material and ideational dimension (Hay, 2002, p.208). This weakness also has consequences for the explanatory strength of social constructivism.

Although constructivism covers a more refined ontology in comparison with the rationalist logic of liberal institutionalism, it lacks to explain why certain ideas and not others prevail at a particular moment in time (Bieler & Morton, 2008, p.104). Constructivists see material and ideational dimensions as separate variables that influence each other (ibid., p.108). The approach thereby neglects that both dimensions are internally related (ibid., p.104). The internal relation takes shape by historical material structures (ibid., p.108). Social constructivists exclude the historical material structures and rather focus on structures as ideational, which makes it difficult to go beyond a superficial dialectic relationship of the material and ideational dimension. The ahistorical nature of social constructivism leaves the approach with an undertheorized notion of power that is essential to explain who shapes the global political economy, why and how (ibid., p.109)



To recapitulate, both the liberal institutionalist approach and the constructivist approach draw on an ontology that is insufficient to understand how the material and ideational dimension are interrelated. Liberal institutionalists view the AIIB as an institution that emerges from predetermined interests of states. The narrow range of ‘rational’ options fails to acknowledge room for agents to deviate from these options. The constructivist ontological assumptions on the other hand pushes the causal importance of material factors to the background. Moreover, both approaches fail to incorporate historical and spatial contingencies, such as capitalist development, the prevailing capital accumulation patterns and the concomitant contradictions. Missing out on these elements is regretful as it will be shown in the analysis, the AIIB emerges in a region that witnessed major economic growth and also severe crises in the continued accumulation. Simply adjusting either liberal institutionalism or social constructivism in a way that incorporates ideational and material factors in a multidimensional manner is fouling the ontological background of these approaches. Therefore a different ontological approach must be taken so that historical circumstances can be taken into account, without losing the analytical strength of both the material and ideational dimension, as well as their relational foundations.

### **1.3 Critical Theory: The Critical Realist Ontology**

The theoretical approach that informs this thesis draws on critical realism as an ontology and as a philosophy of science. Critical realism safeguards the incorporation of structure and agency, as well as the material and ideational dimension. It is non-reductionist and thereby creates room to review capitalist social relations (Bieler & Morton, 2008, p.113). Critical realism draws on a ‘stratified ontology’, which means that social reality is deeply structured and consist of three levels of reality. The most foundational level is the ‘real’. The ‘real’ is the level in which structures and powers generate phenomena (Sayer, 2000, p.11; Yalvaç, 2010, p.170). The second level is the ‘actual’, which shows how phenomena are generated when essential structures from the ‘real’ are activated (Sayer, 2000, p.12). The third level is the ‘empirical’, which refers to the observable and is the domain of experience (ibid.). According to critical realism, the essential structures that cause events to happen are not always directly recognizable in the empirical. There are multiple ‘generative mechanisms’ which relate the three layers of reality and expose the complex causal relations between these layers. These generative mechanisms can have material and ideational dimensions. Sayer describes the critical realist ontological vision as the following: “There is more to the world,... than patterns of events. It has ontological depth: events arise from the workings of mechanisms which derive from the structures of objects, and then take place within geo-historical context (2000, p.15).”

Critical realism fixes the ontological problems that liberal institutionalism and constructivism display. First of all, critical realism surpasses the ahistorical nature of both approaches. According to critical realists socio-political phenomena are generated by social structures, in which social relations are essential (Bhaskar, 1989, p.4). Social relations in essence are historical and subject to change. Therefore

the historical context in which events take place have explanatory value (Bhaskar, 1998, p.218-19). The critical realist approach thus acknowledges the historical context in which a socio-political phenomenon takes place and treats the historical context as a factor that can contribute to the explanation of the phenomenon itself. The historical context of social relations explicitly gives insight into whether a generative mechanism is activated or not. The influence of structure is thus not always the same, but depends on whether the historically specific social relations impact the causal influence of one generative mechanism over the other.

Additionally, to explain social phenomena, both structure and agency are considered relevant. Social structures pre-exist agency and set restrictions for agents to act within certain limits (Joseph, 2007, p.357). Reproduction of social structures depends on actions of agents. Agents reproduce social structures most of the time, sometimes even unintentionally. However, because the reproduction of social structures depends on actions of agents, these agents possess room to act consciously on the level of practices and thereby transform structures (ibid.). Because critical realists separate structures and agents on an ontological level, the approach moves away from a functionalist understanding of structures, while it also modifies the voluntarist notion of structures (Yalvaç, 2010, p.172). To recapitulate, critical realism allows both the material and ideational dimensions to play a role, safeguards the influence of structure and agency, while it also incorporates the historical and spatial context of social relations to explain phenomena. A theoretical approach that can be embedded in a critical realist ontology is Regulation Theory.

## **1.4 Regulation Theory**

Before engaging in a more sophisticated portrayal of Regulation Theory, outlining important concepts from this theory that are relevant to the case of the AIIB, the historical background of the approach and a few prerequisites of capitalism need to be discussed.

### **1.4.1 Historical Background of Regulation Theory**

The Regulation School originates in the work of French political economists in the 1970s with Grenoble School (see de Bernis, 1981; Byé, 1987) and the Parisian school (see Aglietta, 1979; Lipietz, 1982; and Boyer, 1986) as the most important branches (for a discussion see Van der Pijl, 2009, p.152-153; Jessop, 1990; Jessop & Sum, 2006). The first generation of Regulation scholars is connected with the French Communist Party (*Parti Communist Français, (PCF)*). Boccara, a chief economist in the PCF introduced the concept of '*régulation*' to describe how the inherent tension between overaccumulation and devaluation in capitalism was mediated by the state in different stages of capitalism (Boccarra, 1973; Jessop & Sum, 2006, p.22). This early approach focused on state monopoly capitalism (Jessop & Sum, 2006, p.23). Perroux, an economist who analyzed US influence in France, contributed to the early foundations of Regulation Theory and brought in a systemic understanding of capitalist economies (Van der Pijl, 2009, p.151). The Regulation School gained recognition and international attention by

Aglietta's (1979) analysis of Fordist accumulation regimes during the recession of the 1970s. Due to the increased attention to this particular strand of the Regulation School, the approach is often linked to Fordism. The focus on Fordism as a historical manifestation of the accumulation of capital is however only a small part of Regulationists analysis. A wider array of types of capital accumulation was developed to explain how capitalist social relations can be (temporarily) stabilized (Van der Pijl, 2009, p.155). Before outlining how Regulation School evolved and developed different concepts, the core assumption on which it builds has to be understood, and therefore a discussion on capitalism is included.

#### **1.4.2 The Inherent Contradictions in the Accumulation of Capital and the Structural Problem of Overaccumulation**

The notion of inherent contradictions and crisis within capitalism is a key anchor point in Regulation Theory. To understand this fundamental starting point, it is important to engage with the debate about capitalism. For contemporary Marxists the 'crisis of overaccumulation' is the fundamental crisis of the capitalist system (Harvey, 1989, p.181; Keucheyan, 2013, p.105). This crisis comes forth from the basic features of any capitalist mode of production. First, capitalism is necessarily growth-oriented. The expansion of output and economic growth in real values is key to sustain the continued accumulation of capital (Harvey, 1989, p.180). Secondly, growth and expansion rests on the accumulation of surplus capital, which is the wealth generated to create more wealth. There are basically two ways in which surplus capital can be accumulated. Firstly, productivity can be increased through efficiency gains in the organization of the production process. An example of this is labor saving technology that increases the physical productivity of labor (Harvey, 2006, p.108, 159). Secondly, variable production costs, such as labor costs, can be reduced to create more surplus value. For example in the form of the non-compensation of a portion of the labour time, be it unpaid overtime, (below) subsistence wages, or more generally a degradation of working conditions (ibid., p.160-162). As the owners of the means of production – the so-called capitalists appropriate a part of the surplus value, while labour receives only a share of the surplus value in the form of a salary, capitalist expansions ultimately rests on the exploitation of labour forces. Capitalist production thus involves a division of classes, in its most basic and abstract form between capital and labor (Harvey, 1989, p.180).

The continued accumulation of capital is inherently crisis prone, because the necessary growth-expanding conditions of capitalist modes of production are unable to generate stable linear and exponential growth (ibid.). Capitalist accumulation cannot continue trouble-free because the relative rates of reinvestments do not occur in ways that total demand for the means of production exactly equals the total demand for consumer goods (Harvey, 2006, p.168). Because inherent contradictions in capitalism hinders a profitable reproduction of capital accumulation, a crisis can become manifest in the form of periodic and thus recurring phases of overaccumulation (Harvey, 1989, p.180), referring to the absence of sufficient outlets to reinvest surplus capital profitably in the sphere of production, also called

the ‘the capital surplus absorption problem’ (Harvey, 2010, p.45). Harvey defines overaccumulation as “a condition in which idle capital and idle labor supply could exist side by side with no apparent way to bring these idle resources together to accomplish socially useful tasks” (Harvey, 1989, p.180). Indicators of overaccumulation can be overproduction (an oversupply of commodities and excess of supply), overcapacity (useless productive capacity), underconsumption (stagnating aggregate demand), or a surplus of money capital and high unemployment (ibid., p.181; Harvey, 2006, p.195).

In instances of overaccumulation several options are possible to (temporarily) solve this problem. First, capitalists may pursue a ‘wait and see’ strategy and temporarily hold on to their surplus capital (Wigger, 2015). In an instance of overaccumulation this leads to a devaluation of the surplus capital (Harvey, 2006, p.193; Harvey, 2010, p.46). Since capital is value in motion, it can only remain value through circulation (Harvey, 2006, p.194). At some point profitability has to be restored through reinvestments beyond the confines of a given market. Capital then has to move from the so-called primary circuit to the secondary or tertiary circuit of capital (Harvey, 2016, p. 62-69). Capital has to circulate again to create its surplus value. Overaccumulation may temporarily be settled by expanding capitalist production and export surplus capital to geographically new areas or by deepening capitalist production through the commodification of ever-new domains of social interaction in the secondary and tertiary circuits of capital (ibid). In this light Harvey introduced the concept of ‘spatio-temporal fixes’ (2016, p.248), referring to the process that capital is invested in new external markets, outside the markets and geographical areas in which the invested capital was accumulated. These reinvestment options create new production capacities, resources, social and labor possibilities elsewhere (ibid.; Jessop, 2014). On the other hand the temporal element of the spatio-temporal fix also includes capital investment in long-term capital projects or social expenditures, such as infrastructure projects (Jessop, 2014). Spatio-temporal fixes can also go beyond the realm of production. Profitable capital investments may be found in speculation and investment in financial markets, land, real estate or mergers and acquisitions (Choonara & Harvey, 2009).

Periodic phases of overaccumulation can never fully be eliminated under capitalism. As such phases emerge from the necessary conditions of the capitalist mode of production, it is an intrinsic problem of capitalism that cannot be solved by capitalism itself. To create new outlets for surplus capital and hence ways to absorb or manage overaccumulation tendencies within the confines of a given market, regulation is needed. This is where Regulation Theory comes in and tries to explain how the crisis-prone tendency of overaccumulation in capitalism is managed and the accumulation of capital is stabilized, at least temporarily.

### 1.4.3 Key Concepts of Regulation Theory: Regimes of Accumulation and Modes of Regulation

#### *Regime of Accumulation*

To concretize the essence of Regulation Theory, Regulation scholars use two key concepts to explain how inherent tensions in capitalist accumulation can be temporarily stabilized. These concepts are, 'regimes of accumulation' and the 'mode of regulation'. According to Lipietz a 'regime of accumulation' is "a macroeconomic mode of systematic 'distribution and reallocation of societal values that has over a long period of time generated a specific correspondence between changes in production conditions ... and changes in the conditions of final consumption.'" (Lipietz in Bieling, 2014, p.35). A regime of accumulation displays a complementary pattern of production and consumption over a longer period (Jessop & Sum, 2006, p.42). On a less abstract level, it relates to national modes of growth (ibid.), and in analyses it is often used in this way by focusing on prevailing growth or accumulation strategies. Regulation School particularly focuses on the contradictory nature of accumulation regimes. The approach concurs with the idea that the accumulation of capital is pervaded by inherent contradictions which - once they intensify - can lead to periods of crises (ibid., p.4). Scholars have studied how accumulation of capital takes place, and what tensions originate from several types of accumulation regimes. Regulation School uses the insights into the contradictory nature of accumulation regimes to analyze how the reproduction of capital is secured (Bieling, 2014, p.34; Jessop & Sum, 2006, p.4).

Regulation Theory studies a wide range of accumulation regimes. The first generation of Regulation scholars identified various successive stages of accumulation regimes. By expanding research to non-industrialized societies or societies in transition, scholars realized that a singular pattern of stages of accumulation did not reflect reality (Jessop & Sum, 2006, p.226). More types of accumulation regimes gained recognition, which allows researchers to apply the theory to a broader range of cases. Thereby, current Regulation Theory goes beyond the Western-centered bias of previous generations of Regulationists, which is particularly useful because this thesis focuses primarily on Asian accumulation regimes. Incorporating a wider range of accumulation regimes improves the relevancy of the approach.

#### *Axes of accumulation*

There are several ways to identify different types of accumulation regimes. Becker et al. (2010, p.227) distinguish between three different typological axes of accumulation, which together constitute a regime of accumulation (Becker et al. 2010, p.227). The three axes are productive versus financialized accumulation, extensive versus intensive accumulation and introverted versus extraverted accumulation. The first axis of *productive versus financialized accumulation* makes a distinction between investments into the 'real' economy or investments into the financial sphere. Financialization here is defined as "a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production" (Krippner, 2005, p.174). Within the financial sphere two different types of investments can be distinguished. The first type of accumulation is based on the growth of

fictitious capital, such as financial assets, while the second type of accumulation is based on interest-bearing capital, such as credit (Becker et al., 2010, 227). Although financialized accumulation is opposite to productive accumulation, the first is never fully autonomous from the second. Assets and credit represent to some extent the surplus value of production outside the financial sphere (ibid.). The second axis of *extensive versus intensive production* describes the form of productive accumulation. Extensive accumulation refers to the increased intensity of work, such as the extension of a workday, while intensive accumulation refers to the production of more relative surplus value by cheapening wage-goods, and in this way stimulating mass consumption (Becker & Jäger, 2012, p.172). The last axis makes a distinction between *introverted accumulation*, which means that there is a focus on the domestic market, while *extraverted accumulation* refers to a strong outward orientation of trade flows, money and capital (Becker et al., 2010, p.227). Within this category, passive extraversion refers to a high import-dependence, while active extraversion refers to export-oriented outward modes of growth (Becker & Jäger, 2012, p.172).

The typological axes of Becker et al. (2010) make it possible to concretize the way in which capital is accumulated. A crystal-clear understanding of which types of capital accumulation dominate national modes of growth is important, because it exposes which tensions arise within a regime of accumulation. For example, an economy can be dependent on one type of accumulation, through exports of commodities, or it has multiple options for capital accumulation, through the financial sector, domestic markets and international trade. In the first case, a decline in demand for commodities can severely damage the continuation of capital accumulation, while in the latter case capital can be reproduced in various ways. Moreover, insights into different axes of the accumulation regime also show whether a particular type of capital accumulation is reproduced or is subject to change. The concept ‘accumulation regime’, which is concretized above, thus provides Regulation Scholars insight into the crisis tendencies within different types of capital accumulation. The ultimate goal of Regulation Theory is however to explain how new and altered structures and changing mechanisms secure the reproduction of capital and temporarily stabilize accumulation regimes (Bieling, 2014, p.34; Jessop & Sum, 2006, p.4). Therefore, the approach has introduced another concept, namely the ‘mode of regulation’.

### *Modes of Regulation*

Only considering regimes of accumulation is not sufficient to understand the fundamental underpinnings of capitalism. Aglietta (1979) argues that ‘regimes of accumulation’ and ‘modes of regulation’ are twin faces of capitalism. A purely economic analysis of accumulation regimes lacks to include social relations that are essential to understand capitalism, its crises and transformations (Aglietta, 1979, p.16). Therefore a clear conceptual understanding of ‘modes of regulation’ is spelled out.

A ‘mode of regulation’ is an institutionally stabilized structure that arranges social capitalist relations within a specific framework of capital accumulation in such a way that it allows the contradictions that

are inherent in the system to be processed (Bieling, 2014, p.35). The mode of regulation consists of institutional forms which mediate these inherent contradictions (Boyer & Saillard, 2002, p.39). Institutional forms evolve through struggles between social forces and the state, that take place in a specific historic context in which a particular type of capitalist social relations prevails (Jessop & Sum, 2006, p.173). These institutions or 'structural forms' need to be seen in an inclusive manner. They have both economic and non-economic characteristics and therefore do not only entail material institutions, but also norms, organizational forms, social networks and patterns of conduct (ibid., p.42). The function of regulatory institutions is to stabilize the conflicts that the type of capital accumulation inherently produces and in this way guide the decisions of agents to reproduce a certain accumulation regime (Becker & Jäger, 2012, p.172-173; Jessop & Sum, 2006, p.60). Aglietta (1982) identified five structural forms in which regulation takes place, namely the wage-labor relation (reproduction of working power, social security, family relations), the capital relation or forms of competition (relocation of capital, the forms of competition and cooperation, forms of enterprise organization), the money relation (meaning and mode of operation of capital, organization of banking, credit and insurance markets, its dominant form and emission, the allocation of money capital to production, circulation and articulation of national monies and international currencies, basic institutional features of the monetary regime), the state (forms of state intervention, the institutionalized compromise between capital and labor) and international regimes (trade, investment, monetary and political arrangements that link national economies and states to the world system) (Bieling, 2014, p. 35; Jessop & Sum, 2006, p.42).

#### *The relationship between 'accumulation regime' and 'mode of regulation'*

While the key concepts 'regime of accumulation' and 'mode of regulation' provide conceptual guidance in the analysis of (global) political economy phenomena, its explanatory power depends on their relationship. Important is that the object of regulation, the accumulation regime, does not solely pre-exist and thereby determines the mode of regulation. There is no clear-cut causal relationship between a certain accumulation regime that consistently contributes to a specific mode of regulation or vice-versa (Jessop & Sum, 2006, p.313). Both concepts influence each other in a specific historical setting, which means that simply stating the one before the other leads to an unsatisfactory explanation of the phenomena of interest (ibid.). There are many diverse ways in which 'accumulation regimes' and 'modes of regulation' can influence each other. A mode regulation for example can influence both an accumulation regime and other modes of regulation at the same time. The regulatory mode does this, for example when it solves a 'switching crisis' (Harvey, 2016, p.70). This means that the regulatory mode helps to reorganize and restructure capital flows and restructures the role of already existing and mediating institutions in order to open up new channels for productive investments (ibid.). The mode of regulation thereby facilitates new spatio-temporal fixes to overcome the crisis of overaccumulation (Jessop & Sum, 2006, p.316-18; Harvey, 2016, p.248). This is one way in which modes of regulation try to stabilize the inherent tensions of capitalist accumulation and try to fix the failure of already existing

modes of regulation. Social relations and struggles that take place within regulatory modes determine which spatio-temporal fixes prevail over others (Jessop & Sum, 2006, p.316-18). If for example the state has a strong and institutionalized connection with trade unions over businesses, then a domestic temporal fix could be preferred over geographical expansion of businesses. It is thus important to analyze social relations and the political context within a mode of regulation to understand how the regulatory mode mediates tensions derived from the prevailing accumulation regime. The domination of a specific accumulation regime or mode of regulation thus depends on specific social and spatio-temporal circumstances of capital accumulation and regulation (ibid.). By linking the concepts 'accumulation regimes' and 'modes of regulation', Regulation School tries to analyze 'modes of development'. These modes of development describe the way in which an accumulation regime and a mode of regulation stabilize themselves over a long period of time and how they enter periods of crisis and renew themselves (Boyer & Saillard, 2002, p. 41).

#### **1.4.4 Strengths and Weaknesses of the Regulation Approach**

Regulation Theory and its concepts 'accumulation regime' and 'mode of regulation' are very suitable to remedy the critique on liberal institutionalism and social constructivism. First of all, Regulation Theory displays the explanatory power of structural material elements by emphasizing the relation between accumulation regimes and modes of regulation. The approach grounds accumulation patterns in material capitalist structures. The structural instabilities that come forth from these accumulation regimes, such as crises of overaccumulation, are exposed and taken into the ontological rationale of the theory. The structural material underpinnings of (inherent contradictions within) accumulation regimes are then used as explanatory mechanisms to describe the emergence of and changes within institutions. According to Regulation Theory the structural material dimension thus matters, because the emergence of new institutions is grounded in the dynamic nature of capitalism. Moreover, in the case of Regulation Theory the ideational dimension is not left out. Social relations, and thereby also ideas and norms play an important part in regulatory modes (Jessop & Sum, 2006, p.173). Regulatory modes can even take the shape of norms or social networks (ibid.) Regulation Theory thereby acknowledges that the ideational dimension is part of social reality. The emphasis on 'accumulation regimes' in the explanatory framework however shows that the ideational cannot be understood in isolation and that also the material dimension has explanatory power. Regulation Theory thus includes materialist structures and the ideational dimension in a comprehensive theoretical framework.

Secondly, Regulation Theory recognizes the importance of the historical and spatial context in which new institutions emerge. The approach emphasizes that modes of regulation emerge to mediate tensions within capital accumulation. How these tensions appear however depends on the historical context in which capital accumulation takes place (Jessop & Sum, 2006, p.214). Economic relations are therefore always historically specific and socially embedded (ibid.). Regulation Theory thereby surpasses the ahistorical nature of liberal institutionalism and social constructivism. The emergence of a new



institution can be situated within larger accumulation processes and understood in the historic specific circumstances under which other modes of regulation fail to provide for temporal stability. Moreover, the emphasize on the dynamic and historic nature of capitalism also exposes uneven social and spatial developments that come forth from capitalism (Jessop, 2014). This component is not incorporated in social constructivist or liberal institutionalist analyses. The strengths of Regulation Theory, ensure that when applied properly, the research goes beyond superficial analyses of interests of states, which leads to the emergence of institutions. In the approach, interests are not pre-determined but have to be placed in a historical and spatial context that is influenced by material, economic as well as ideational and extra-economic forces.

That said, there are also some weaknesses. A pitfall in Regulation Theory is that it creeps towards functionalism (Clarke, 1988, p.67-70; Jessop, 1990, p.185-186; Van der Pijl, 2009, p.151). Functionalism refers to the idea that a system structurally regulates certain actions, without agents within that can change the course of these actions (Van der Pijl, 2009, p.149). In the case of Regulation Theory, functionalist logics are entailed in the fact that the attention centers on how capitalist relations are maintained (Clarke, 1988, p.8). The approach emphasizes how capitalism continues to function, and thereby it moves away from the notion that capitalism can be fundamentally transformed. Criticism points to the fact that Regulation Theory does not pay sufficient attention to underlying social processes detrimental to how capitalist relations are reproduced or resistance to it takes place (*ibid.*). Secondly, it presupposes successive phases of stable and instable periods of capital accumulation that are in line with an appropriate mode of regulation (*ibid.*; Jessop & Sum, 2006, p.238). This suggest an automatic transition from one phase to the other, with necessarily a certain mode of regulation that fits to the type of capital accumulation. Former generations of Regulation Theory for example have been accused of explaining a Fordist mode of regulation by linking it to the pre-existence of a fitted accumulation regime (Jessop, 1990, p.185). This specific functionalist critique refers back to the falsely pre-ordained object of regulation in relation to the mode of regulation (*ibid.*, p.186).

The last point of criticism is particularly based on empirical research that applies Regulation School and its concepts in a functionalist manner. The pioneer texts on which Regulation Theory is built emphasize discontinuities in accumulation regimes and the dynamic forms of modes of regulation (Jessop & Sum, 2006, p.238). The core of the theory thus moves away from a stringent account of successive phases of accumulation regimes (*ibid.*, p.226). New generations of Regulation Theory also emphasize the diversification of accumulation regimes and research how accumulation regimes and modes of regulation are co-produced (*ibid.*, p.238). The approach thus steps away from preordained functionalist relations between accumulation regimes and modes of regulation. However, the functionalist critique which emphasizes that transformation of capitalism is not considered possible within Regulation Theory is not tackled by this. While Regulation Theory was founded as a response to overcome total

structuralism, there are still functionalist elements in the approach that show the lack of attention towards agency (Clarke, 1988, p.67-70; Jessop, 2013, p.22; Jessop & Sum, 2006, p.103, 256).

Specifically undertheorized is the relation between social forces and the state in explaining how specific forms of modes of regulation emerge (Jessop & Sum, 2006, p.103, 256). A better understanding of the role of social forces is important, because it provides insight into how capitalism can be transformed, besides the core focus of Regulation School on reproduction of capitalist accumulation patterns. To deal with this undertheorized element of the approach, this thesis incorporates the notion of 'strategic selectivity'. Strategic selectivity occurs within modes of regulation and it means that social relations in regulatory modes are structurally organized, thereby creating a bias towards political action in favor of social forces with particular strategies (Jessop, 2007). Strategic selectivity then poses constraints on the options social forces have to carry out strategic actions in regulatory modes. The structural constraints present itself differently to different agents, and thereby shape the strategic room for these agents (Jessop, 2009). Where for one agent strategic selective processes can bring a 'conjunctural opportunity' to guide the course of regulation, for the other agent it can pose more constraints limiting its opportunities to influence the course (Jessop, 1988, p.38). The context in which the agent finds itself influences where room for social agency lies. Social forces are aware of strategic modes of conducts they can employ to sustain or transform an existing mode of regulation (Jessop, 2007; Werner, 2016). Social forces use the room for agency to carry out actions that are perceived to be in their interest. There is thus room for political agency of social forces. However, the structural bias that exists towards political action in the mode of regulation can hinder the expected outcome of the actions of social forces. For example, agents can contest a specific type of capital accumulation by using their agency and set up distinct regulatory modes. However, because the political bias is structurally encribed, the 'contestation strategy' has less effect than the strategies of agents that want to reinforce the regime of accumulation. Strategic selectivity thus provides room for political agency and transformation of systems, but shows how structurally encribed power relations between social forces complicate transformational processes. Strategic selectivity is often reviewed in relation to the state and within state relations (ibid.). In this research, this concept will be stretched towards an international level, by reviewing which national and international social forces profit from 'conjunctural opportunities' to influence international developments, in this instance the emergence of the AIIB.

Theorizing on social forces through the concept of 'strategic selectivity' also displays the important relation between the state and social forces, especially when it comes to the mediation of tensions in accumulation regimes. States structure the way in which social forces can manage capitalist accumulation and the crisis of overaccumulation. Surplus capital needs reinvestment through spatio-temporal fixes to remain profitable. However, expansion and free movement of capital is mitigated by territorial constraints. States are involved in 'structuring coherence' in regions, facilitating capital movements and surplus value creation (Harvey, 2016, p.65; Jessop, 2014). Thereby, states impose

economic and extra-economic conditions such as financial and regulatory powers to facilitate further capitalist accumulation, which creates the rise, consolidation and strategic capacities of regional ruling class alliances (ibid.). While states reproduce regimes of accumulation as a regulatory mode, they also influence the strategic position of social forces. Especially in the context of spatio-temporal fixes, which challenges the role of territorial boundaries, the state plays this role.

The analysis on the concept 'mode of regulation', but also the notion of 'strategic selectivity' shows the spatial bias of Regulation Theory. The approach particularly focuses on modes of regulation on a national level (Saillard, 2002, p.183; some examples are some examples are Aboites et al., 2002; Coriat, 2002; Inoué & Yamada, 2002; Mjøset, 2002). Consequently, political tensions between social forces are also only considered at the national level. Regulation scholars have been skeptical towards the analysis of international regulatory modes. According to early Regulationists, international regimes, such as the trade regime or monetary regime do not satisfy the criteria of duration, legitimacy, and stabilizing adjustments that modes of regulation should entail (Saillard, 2002, p.187). These regimes display a rather 'weak' type of regulation. If Regulation School strictly follows its national focus, it risks to lose some of its relevancy. The development of a transnationalized global economy and the emergence of different extensive regulatory bodies such as the EU show that there is a potential to study 'international' regulation (Saillard, 2002, p.187-188). Because Regulation Theory has not followed this avenue yet, the relationship between national modes of regulation and international regulatory modes is undertheorized. It could be possible that international modes of regulation take up a complementary function, consistent with national regulatory modes, because both are influenced by the same, or at least overlapping groups of social forces. Because social forces play a role on both the national and international level, Regulation Theory has to develop theoretical expectations about how national regulatory modes influence the emergence of new international regulatory modes. This research tries to surpass the national focus within the Regulation School by analyzing the AIIB from a multidimensional perspective, incorporating national, international and transnational levels. Moreover, the thesis explicitly tries to expose the influence of national modes of regulation on the AIIB as international regulatory mode.

#### **1.4.5 Conclusion - The AIIB and Regulation Theory**

The theoretical framework outlined in this chapter can guide the analysis on the emergence of the Asian Infrastructure Investment Bank in its current form. Regulation School would categorize the AIIB as a mode of regulation that is set up to temporarily cope with inherent contradictions in capitalist dynamics, especially with the problem of overaccumulation. The crisis of overaccumulation spurs from the capitalist accumulation regimes of the AIIB members. The AIIB regulates this crisis by facilitating new spatio-temporal fixes. More specifically, the AIIB can be seen as a regulatory element that tries to temporarily solve what Harvey calls a 'switching crisis' (2016, p.70). The function of the AIIB is to reorganize and restructure capital flows and at the same time restructure the role of already existing and mediating institutions so that new channels for productive investments open up.

The notion that the AIIB regulates a ‘switching crisis’ also incorporates other modes of regulation into the explanatory framework. The AIIB and other (national) modes of regulation, particularly the state, money relation and international regime, influence each other and can impact the form the regulatory modes take. It is expected that other modes of regulation have a complementary function and also tend to regulate the crisis of overaccumulation. In this thesis the notion of ‘strategic selectivity’ and political agency lies within these modes of regulation. The specific modes of regulation thereby influence the strategic selective position of social forces and can explain to what extent and in which form, the political agency of these social forces has influenced the emergence of the AIIB. Digging deeper into the mutually constitutive role of regulatory modes in this thesis, contributes to the theoretical development and explanatory strength of Regulation Theory.

Moreover, lining out regimes of accumulation and relating it in an embedded way to other modes of regulation, makes it possible to explain the rationale for the emergence of the AIIB on the basis of structural developments dynamic in time and place. The incorporation of the historical and spatial dynamic of capitalist development within Regulation Theory makes it possible to take into account the uneven development of different accumulation regimes in the Asian region as well. This gives the explanation more depth and ensures that this research steps beyond the superficial analysis of pre-determined interests or ideational perception of states.

To recapitulate, the theoretical approach is very useful to research the emergence of the AIIB because it treats the AIIB as a specific regulatory mode which emergence and form is both influenced by the inherent crises of capitalist accumulation regimes and developments within other modes of regulation. The pitfall of functionalism is avoided by incorporating strategic selectivity. Moreover the historical context ensures an in-depth explanation in which all key concepts of Regulation Theory are integrated.

## **Chapter 2: Epistemology, Methods and Operationalization**

### **2.1 A Critical Realist Epistemology**

Epistemology deals with the philosophical question of how knowledge can be acquired and critical theories go paired with a great variety of epistemological stances and assumptions. Regulation Theory in particular is rooted either explicitly or implicitly in critical realism (Jessop & Sum, 2006, p.290-310), which distances itself clearly from both positivist and interpretivist approaches (Sayer, 2000, p.3). In this chapter, the epistemological underpinnings of critical realism are discussed with the purpose to show how the specific ontological understanding is coupled with knowledge creation. A critical realist epistemology provides in-depth accounts on the socioeconomic reality and brings in the historical context, without elapsing into relativism. After a discussion on epistemology this chapter focuses on methodology and the operationalization of key concepts of Regulation Theory.

#### **2.1.1 Positivism and relativism**

A critical realist epistemology rejects both the positivist and the relativist epistemological approach. Positivists assume that all scientific knowledge is embedded within empirical regularities. Knowledge about reality can be found by observation (Wight, 2007, p.382). Then knowledge can be articulated through law-like generalizations, which entails a particular form of causation. These generalizable laws and patterns have an explanatory and predictive function (Easton, 2010, p.118). Spelling out hypotheses which contain law like regularities, is hence considered an important tool to generate knowledge about reality (Wight, 2007, p.382). Positivists falsify or validate theories by evaluating law-like generalizations deducted from theories through empirical observations. Critical realists reject the epistemological understanding that empirical observations can verify or falsify theories. The mere focus on theory-testing by positivists, gives hypo-deductive testing primacy over explaining social reality. As a result theories determine what researchers look at, which limits the options to research factors that actually explain social reality. Critical realists therefore challenge the positivist epistemological fallacies by giving primacy to ontology over epistemology. Since the ontological approach of critical realism gives priority to the complex stratification of social reality and the complex interplay of agency and structures, the ideational and the material realm, it incorporates a variety of factors which are part of explaining social reality. The future is considered open-ended, leaving room for social agency understood in terms of its transformative capacity. A purely relativist epistemological approach, on the other hand, rejects the possibility to know reality (Easton, 2010, p.123). Critical realism takes a stance against reducing social science to the interpretation of meaning (Sayer, 2000, p.3). The ontological foundation of critical realism draws on a deeply structured reality with an opened ended future and rejects both the positivist law-like nature of the social world and the relativist epistemology of interpretationist, post-structuralist sciences.

### 2.1.2 Critical Realist Epistemology

A critical realist philosophy of science thus preordains ontological questions over epistemological questions. What is the case of knowledge must be addressed prior to the discussion of how knowledge can be created (Joseph, 2007, p.346). Critical realists link the epistemological focus to the prior specification of the object of inquiry. Moreover, they reject the idea that reality is directly traceable to what can be observed (Wight & Joseph, 2010, p.12). Critical realists distinguish between the *intransitive dimension*, consisting of the reality that exists independently of our knowledge of it, and the *transitive dimension*, consisting of our knowledge at a given time (Bhaskar 1975, 21-24; 1979, 11-17). Hence, ontology concerns the intransitive dimension, whereas epistemology deals with questions related to the transitive dimension.

The goal for critical realism is to acquire knowledge in the realm of the ‘real’. Critical realists however admit that it is hard to achieve knowledge from the realm of the ‘real’. It is hard, because knowledge comes forth from a transformation of pre-existing knowledge (ibid., p.12). The different elements that inform knowledge, namely theories, models or beliefs are generated as part of a social process, which impacts the articulation of knowledge. In this social process, historical and social circumstances influence the process of acquiring knowledge. Knowledge is historically specific, which means that knowledge and its truth claims only exist in a certain historical timeframe, and cannot be distinguished rationally outside of this frame (ibid., p.13). The research into social phenomena, thus always has to be understood against the backdrop of historical circumstances. Knowledge therefore can be fallible and describe the object under investigation in a ‘false’ way which does not coincide with what constitutes the realm of the ‘real’ (ibid., p.12-13). Critical realism therefore draws on epistemological relativism; however, without being relativist regarding the realm of the real that exists independently of our knowledge. Scientific research however is not considered relativistic per se as scientists can make a rational judgment about what knowledge is “better” than others. Thus, a distinction can be made between the quality of knowledge that is gathered. There remains a belief in the independent existence of reality that is open to investigation and although impossible to reach fully, it can still be approached (Joseph, 2007, p.345; Yalvaç, 2010, p.169).

To approach as close as possible how the causal mechanism in this ‘real’ realm work, critical realists outline the necessary and sufficient conditions of a given explanandum (Jessop, 1990, p.165; Jessop & Sum, 2006, p.303). It gives insight into the underlying properties and causal mechanisms in specific structures to establish conditions under which these elements are set in motion. An explanation is only valid given the specific explanandum. This method of research is called ‘retroduction’ (Jessop & Sum, 2006, p.16; Sayer, 1992, p.107). Sayer describes this as the “mode of inference in which events are explained by postulating (and identifying) mechanisms which are capable of producing them” (1992, p.107). Retroduction safeguards the room for the researcher to move away from the level of events, and bring rather ontological depth into the analysis (Downward & Mearman, 2006, p.12). Regulation

scholars follow this epistemological and methodological line of reasoning. They employ a dual method of ‘articulation’ (Jessop & Sum, 2006, p.304). This means that in order to identify the necessary and sufficient conditions of a specific explanandum one has to move from the abstract to the concrete. The phenomenon of interest is explained in more specific terms (ibid., p.303). Besides this there also has to be a move from the simple to the complex, which means that a broader range of mechanisms, relations that go beyond the empirical realm, are introduced and related to the phenomenon under investigation (ibid.). Through the dual method of articulation, the researcher tries to gain a better understanding of what concepts actually mean in the realm of the ‘real’. This is eventually the goal of the researcher. Theory is used to develop concepts, which must be continuously redefined. It helps research to go further and establish the necessary and sufficient conditions of a specific explanandum. Regulation scholars in this sense use (empirical) knowledge about phenomena to improve their knowledge about underlying structures and mechanisms that generate them (ibid., p.307). Its goal is in no means verification of a theory, because theory is not a final product, but rather an open process (ibid., p.306, 308). The epistemological approach of Regulation Theory means that for this thesis a hypothetic-deductive approach would be incoherent with the critical realist ontology and epistemology. Regulation Theory and its concepts are not transformed into testable hypotheses, which eventually are used to verify or falsify the theories’ expectations. Rather concepts will be operationalized, and broader expectations are set up with the ultimate goal to improve these concepts and its relational mechanisms through empirical research into the case of the AIIB. A retroductive method is applied to this case, which helps developing theoretical concepts and provides more in-depth insight into the causal mechanisms in a particular historical and spatial context.

This thesis applies the method of retroduction, first of all through the step from the simple to the complex, which should contribute to an in-depth explanation of the emergence of the AIIB. On the other hand, it also makes the move from the abstract to the concrete, by concretizing the concepts and relational mechanisms of ‘regimes of accumulation’ and ‘mode of regulation’. The latter move is somewhat underdeveloped within Regulation Theory. The mere explanatory focus of Regulation School research lies on a move from the simple to the complex. What hinders the concretization of concepts is the fact that Regulationist scholars pay emphasis to the extra-economic factors as essential to the economic world (Jessop & Sum, 2006, p.309). It rather takes up more elements that have explanatory power within concepts and therefore makes it more complex. While it improves the explanatory depth, it makes it hard to split natural necessities from contingent events and expose concrete generational mechanisms (ibid., p.315). Although the focus on both extra-economic and economic factors makes it hard to incorporate both moves from the method of articulation within a Regulationist approach, it is important to incorporate them for the development of the theory. Spelling out concepts and elements more concretely, without losing the complex explanatory power calls for a relative approach in each phase of the movement from the abstract and simple to the concrete and complex (ibid., p.316). This

has consequences for this thesis. Boundaries must be set to recognize the natural necessities needed for the emergence of the AIIB as a mode of regulation. Clearly spelling out what crisis in capitalism the AIIB is related to is important. Additionally, the historical and social circumstances are stressed, to derive (temporal) necessities from the empirical material. Concretization of concepts through empirical material can afterwards inform conclusions about underlying structures. Therefore theory will be handled in an open manner, which has consequences for the methodological approach.

## **2.2 Methodology**

Approaching the case of the AIIB in line with a critical realist epistemology calls for a methodological approach that gives room for concretization of objects and its causal mechanisms. Downward and Mearman (2006) argue that a critical realist epistemology of retrodution requires the ‘triangulation’ of research methods (p.2). Triangulation means that a combination of different insights is used to investigate one phenomenon (ibid., p.4). It can imply that different types of data are used, at different times or in different situations, while it also entails that different research methods are used, incorporating both qualitative and quantitative measures for example (ibid., p.5). There are basically two reasons to involve triangulation as a methodological approach to research. The first is to create persuasive and complete accounts of evidence to make your case. It is aimed at enhancing the ‘validity’ of insights (ibid., p.6). A second reason to use this approach is out of pragmatic grounds, to counter difficulties in gathering evidence, which relies on one single source. Triangular research copes with the problem of poor or insufficient data (ibid.). The use of different methods and different types of data is thus seen as a strength, one that facilitates and is closely related to the ontological depth that a critical realist approach entails (ibid., p.14).

This thesis employs data triangulation, which means that multiple forms of data are incorporated to analyze the emergence of the AIIB. Primary sources, media articles, official documents of governments, such as speeches and policy documents and policy papers of think tanks and research groups are used as qualitative sources to get a grip on the role of agents and different modes of regulation in particular. Secondary sources consist of academic articles and books and provide for the historical contextualization of political and economic developments in the Asian region, and particularly China. While these different qualitative sources provide a wide range of information, also quantitative data are used, particularly to gain insight in the types of accumulation regimes of AIIB members. Quantitative data, taken from the United Nations Data Bank and World Bank Data Set will provide insight into whether an accumulation regime has become financialized or not, or whether it has become extraverted or not. This type of data thus provides an overview of specific trends within accumulation regimes. They are not used to apply a quantitative statistical analysis. Evidence found from quantitative research, as well as qualitative sources will be linked together to provide for an in-depth explanatory narrative on the emergence of the AIIB. Quantitative sources complemented by qualitative sources exemplify more



structural trends. Qualitative sources on the other hand are used to expose political factors within the modes of regulation. Both quantitative and qualitative sources therefore try to expose generative mechanisms that explain the emergence and form of the AIIB. The explanation will be lined out through a narrative. Special attention will be derived to the historical and spatial circumstances which set important conditions that activate generative mechanisms.

A different method that complements the critical realist ontological and epistemological approach is the explanatory narrative inquiry. This type of method explains a certain phenomenon by laying out a story. Such a narrative provides causal factors to be incorporated in historical circumstances. It orders experiences and pieces found in social reality in such a way that it clarifies which factors influenced each other under which circumstances (Dray, 1985, p.126). It highlights when certain causes come in, and are relevant to explain the phenomenon of interest (ibid.). An explanatory narrative thereby moves away from simple cause and effect explanations, but describes the development of what it wants to explain in more depth, and displays how actions create new situations of which agents can take advantage (ibid.; Ryan, 2016, p.15). An explanatory narrative thus tries to make a series of happenings more understandable without simply lining out the events, but instead contextualizing them in an historical timeframe (Dray, 1985, p.126).

## **2.3 Operationalization**

Regulation Theory provides this thesis with several useful concepts that can explain the emergence of the AIIB. The most important concepts are ‘accumulation regime’, ‘modes of regulation’, and ‘overaccumulation’. In this chapter the concepts will be operationalized and concretized which enables the research to apply Regulation School to the case of the AIIB. Therefore specific indicators are given for how to measure key concepts of Regulation Theory. This helps connecting the dots and thereby explains the emergence of the AIIB in its current form. Before operationalizing the central theoretical concepts, the time setting and geographical focus need to be justified. The time period analyzed in this thesis stretches from the late 1970s until 2015 when the AIIB was established. This time period allows for reconstructing the historical depth needed to assess ascending and descending accumulation structures. Particularly since the period from the 1990s onwards the Asian region has seen tremendous economic upswing consisting of GDP growth rates between 5 and 10 percent for the region as such (World Bank Data, 2016b). The economic growth of Asian economies shows the economic and capitalist dynamics within this time frame. The quantitative measurement of accumulation regimes starts from 1990 and ends at 2015. This time range for quantitative indicators is taken, in order to avoid large amounts of missing data. Recognizing trends and important conjunctural events that relate to the capitalist dynamics is possible within this time frame. The geographical focus lies first and foremost on the Asian continent, given the AIIB’s regional composition and orientation to provide infrastructure investment on this continent. The majority of members and largest shareholders are Asian states. A special focus

lies of course on China as the initiator of the AIIB and the largest shareholder of the institution. The regional role and global economic importance of China constitutes a vital analytical component to answer the research question. Besides China, other Asian states that are explicitly dealt with in greater detail are India, as the economically most important powerful state of South Asia and also the second largest shareholder of the AIIB; South Korea, a highly industrialized and modernized country in East Asia; and Indonesia, the largest country of South-East Asia and a developing country. Incorporating this broad range of Asian states safeguards a representative analysis for the Asian continent in general. Besides highlighting these cases, capitalist developments in the Asian region as a whole are discussed. The unevenness of economic trends, policies and (economic) challenges in the region stand at the center of this discussion. Although the core focus is on Asia, also non-Asian countries are incorporated in the analysis. This is in line with the broad membership the AIIB exposes and the great attention the AIIB gained globally, because of the political significance of the membership of Western countries. Here the focus lies on Germany and the UK. Germany is the biggest European shareholder of the AIIB and the UK was the first European country to apply for membership of the AIIB.

Within this timeframe and geographical focus, the empirical material is gathered related to the key concepts used in Regulation Theory. The major distinction is made between ‘accumulation regimes’ and ‘modes of regulation’. Moreover, ‘overaccumulation’ is a key concept to understand the crisis of capitalist accumulation to which the AIIB responds. The explanatory logic of the analysis is that the export-led and financialized accumulation patterns of many AIIB members, primarily of China, create various economic instabilities which becomes manifest in a crisis of overaccumulation, a crisis of capitalism that the AIIB needs to regulate. An uneven development of accumulation patterns in Asia enhances the viability of a regulatory mode such as the AIIB. Although this thesis does not explicitly test hypotheses, some expectations can be set up from the explanatory logic.

It is expected that highly extraverted and financialized accumulation regimes face the interruption of continued accumulation of capital, which becomes manifest in a crisis of overaccumulation. New outlets for profitable reinvestments of surplus capital are needed to solve the crisis. Because accumulation patterns are developed unevenly on the Asian continent, outlets for investment are expected to be available in states with an introvert, nascent extravert and non-financialized accumulation regime. The AIIB regulates the overaccumulation crisis and emerges as an outlet to reinvest surplus capital for states with extravert and financialized accumulation patterns. The AIIB’s investments in infrastructure also sustain capital accumulation patterns of introvert, nascent extravert and non-financialized accumulation regimes.

These expectations are related to the concept ‘accumulation regime’ of Regulation Theory. To determine the accumulation regimes of AIIB members, this thesis uses two out of three typological categories introduced by Becker et al. (2010, p.227). The second axis from Becker’s et al. (ibid.) conceptualization,

namely *intensive versus extensive* production is excluded from the analyses, because it describes the organization of labor in a specific accumulation regime, which is primarily focused on domestic issues and therefore less relevant when it comes to the functions of an international financial institution, such as the AIIB. Because of the international and regional aspect of the AIIB, accumulation regimes need to be understood from a global perspective. Therefore the *introvert versus extravert accumulation* pattern is incorporated. This axis gives insights into what degree global economic relations contribute to capital accumulation. The axis *productive versus financialized accumulation* is also incorporated, because the degree of financialization of an economy points to the possibilities of reinvestment for surplus capital beyond the productive sector. Because it is expected that the AIIB emerges as a tool for reinvestment of surplus capital, it is important to consider this axis. The indicators for the axes *introvert versus extravert accumulation* and *productive versus financialized accumulation* are justified below.

(1) The first axis - *introvert vs. extravert accumulation* – is determined by qualitative historical evidence, in combination with quantitative economic indicators. In general an extravert accumulation regime has strong connections with the global economy through trade in goods and/or services, and through investments, either receiving or outgoing. It represents a mode of growth that is open towards the global economy. An introvert accumulation regime derives its investments and income more from the local economy. The first indicator to measure whether a country is extravert or introvert is called “Foreign Direct Investment Net Inflows (% of GDP)” and is derived from World Bank Data (World Bank, 2016a). This indicator takes the sum of equity capital, reinvestments of earnings, and other capital that a country receives from foreign investors and measures direct cross-border equity investment flows in which a resident of one country takes at least 10 percent or more of ordinary shares of voting stocks in an enterprise that is resident in another country. When a country or region is experiencing high or growing rates of FDI compared to its GDP, it has an extravert accumulation regime. A growth in FDI can show the move towards a more open economy.

Also a distinction can be made between passive and active extraversion, which shows whether an economy is active in the world market as an exporter or importer. The indicator used here is “External balance on goods and services (% of GDP)” derived from World Bank Data. This indicator measures the export of goods and services minus the imports of goods and services (World Bank, 2016b). A positive figure shows an active extravert accumulation regime, while a negative figure shows a passive extravert accumulation regime. The combination of the two indicators “Foreign Direct Investment Net Inflows (% of GDP)” and “External balance on goods and services (% of GDP)” gives insights into whether an accumulation regime is introvert or passive or active extravert. To substantiate the claim whether an accumulation regime is introvert or extravert, qualitative sources, such as official government reports, reports from international organizations, policy briefs and media briefings will give more insights into trade relations, and general economic position of Asian and western economies. If these sources describe an economy of one of the respective countries under investigation as export-

oriented, then the accumulation regime is active extravert, if they describe an economy as import-dependent or inward-looking, then the accumulation regime is either passive extravert or introvert.

(2) The second axis - *productive vs. financialized accumulation* - can be observed by the strength and size of the financial sector in the overall economy of the selected countries (Van der Zwan, 2014, p.103-104). This can be measured through both quantitative and qualitative sources. In this paper two quantitative economic indicators are used. The first indicator is called “Value added by financial and insurance sector as percent of GDP”, which is obtained from the United Nations (UN) data set ‘Value added by industries at current prices’. This indicator measures the weight of different industries to the GDP of a country, distinguishing a range of industries, wherein the financial sector is combined with insurance sector. Because the indicator used here includes both the financial and insurance sector, assessing the role of the financial sector alone is tricky. If this indicator measures the financial and insurance sector as a large percentage of GDP, it can be interpreted as the development of a financialized regime, while actually insurance can be a driver of the figures displayed by this indicator. Relying on this indicator alone makes it difficult to assess the role of financial markets in the respective economies.

Therefore also included is a measure that characterizes the role of the productive sector in the economy. This indicator is called “Gross Capital Formation as percentage of GDP”. This indicator measures the amount of investments that is made by domestic and foreign businesses or the government in the domestic economy. These are investments in the ‘real economy’, which includes productive sectors, such as land, infrastructure or manufacturing companies (excluding the financial and insurance sector) (World Bank, 2016). A high percentage of this indicator points to investments in the productive sphere – as opposed to the financial circulation sphere. The combination of growth in the financial industries as a percentage of GDP, with a decrease of the gross capital formation as a percentage of GDP indicates that the accumulation regime is moving towards financialization as the dominant pattern of accumulation.

Besides these quantitative indicators, also qualitative sources will be used. Especially economic and financial liberalization policies of the respective countries are an important qualitative factor for determining whether or not a country’s accumulation regime moves towards financialization. Government policies such as liberalization of the financial sector; opening the financial markets for foreign investors; opening up financial and stock markets for domestic businesses and consumers; and legislation that grants room for public funds to invest in financial assets are all important indicators that point to the financialization of accumulation patterns. The measurement here particularly provides insight into the degree of financialization. The more policies that are set up to develop the financial sector and attract capital to this sector, the more financialized an accumulation regime becomes. The concept ‘money relation’ also assesses the role of financial markets, but rather looks at the specific form of financialization.

As this thesis expects that the AIIB emerges as a regulatory mode to mediate the crisis of overaccumulation, this concept also needs to be operationalized. Overaccumulation occurs when there are insufficient outlets to reinvest capital profitably in the sphere of production (Harvey, 2010, p.45). Indicators that point to a crisis of overaccumulation are a high rate of foreign exchange reserves or reserves in general; overinvestment in the domestic economy; underconsumption in the domestic economy, combined with the growth of financial investments and accumulation. Both qualitative sources, policy papers, academic research and media articles and quantitative sources are used to measure overaccumulation. A quantitative indicator is called “Total reserves (includes gold, current US\$)”, drawn from World Bank Data. This measure includes holdings of monetary gold, special drawing rights, reserves of IMF members held by the IMF and holdings of foreign exchange under the control of monetary authorities (World Bank, 2016c). Indicators for overinvestment are declined rates of profitability in the productive sector. Underconsumption can be observed when domestic companies derive only a small part of their income from domestic sales, or when a majority of consumers’ income is used for savings.

Besides ‘regimes of accumulation’ and ‘overaccumulation’ also different ‘modes of regulation’ need to be operationalized. With regard to the ‘modes of regulation’ three of the five forms that can be distinguished from the theoretical framework will be addressed in this thesis. The three modes of regulation, ‘international regime’, ‘money relation’ and ‘the state’ are expected to have the most influence on the form of the new regulatory mode, the AIIB, because these modes of regulation relate to both the domestic and international level of capital accumulation and regulation. The ‘wage-labor relation’ and ‘capital relation’ are not included, because they merely regulate national accumulation patterns and therefore are expected to have less influence on international regulatory institutions. The three types of regulatory modes will be operationalized, and indicators are given on how to recognize the relation between regulatory modes on the AIIB.

The first mode of regulation is the ‘international regime’, which in the case of the AIIB is the international financial and monetary regime. An international regime consists of institutions and norms that constrain or enable room for agents to operate in international networks (Vidal, 2002, p.109). This thesis operationalizes the IMF and World Bank as institutions that represent the international financial and monetary regime. If an actual disequilibrium between voting shares of states in the IMF and World Bank and the global economic position of states occurs, then this indicates that the international financial and monetary regime as a regulatory mode fails. A disequilibrium can be measured if net capital importers have a larger role in the World Bank and IMF, then net capital exporters. If a disequilibrium in the institutions is combined with critique on the governance, functions and legitimacy of the IMF or World Bank by AIIB members then it is likely that new initiatives are set up to restore the regulatory function of the ‘international regime’. Especially if net capital exporters express criticism, then this is a sign that political pressure is high and tense. Whether there is critique or not is measured by looking at

negative and positive statements of official government leaders or civil servants in newspapers, official government documents and secondary literature about the respective institutions. If one measures an adjustment in the disequilibrium within the World Bank and IMF in favor of net capital exporters, then strategic selective processes will also turn in favor of capital exporters and more room for political agency occurs for this group.

The second mode of regulation is the ‘money relation’, consisting of several indicators such as the banking and credit system, the allocation of capital to production and the circulation of national monies and international currencies (Jessop & Sum, 2006, p.42). The banking and credit system can be recognized through the way loans are granted. More concretely, credit is, for example supplied by public or private banks, which receive investments from public savings, bond markets or private enterprises. For production purposes, companies can gain credit through different financial tools, for example through the financial market, stock markets, government funds and private equity funds for specific sectors or investment banks. It is precisely in the area of the ‘money relation’ that an overlap exists with the qualitative operationalization of financialized accumulation regimes. The difference is that qualitative indicators of the accumulation regime try to measure the degree to which financialization plays a role in capital accumulation, while here the focus lies on the specific type of credit supply, and how this can stimulate or hinder specific types of financialization. The emphasis lies on the regulatory role rather than trends in accumulation patterns. A different indicator to measure the ‘money relation’ is through the role of national and international currencies. This is assessed by reviewing the role of the Renminbi (RMB) as international currency and regulatory mode within the Chinese economy. Internationalization of the RMB can be assessed by reviewing whether the RMB is present in the IMF currency basket, or if international trade in the currency grows. It is expected that the AIIB is a response to the failure of the money relation as regulatory mode. The AIIB is influenced by other national modes of regulation and therefore the form of the AIIB will adjust to characteristic elements of the money relation in the Asian context.

The third and last mode of regulation relevant to the case of the AIIB is the ‘state’. Here the relation between the state and the economy, more specifically civil society, stands central (Théret, 2002, p.123-124; Delorme, 2002, p.118-120). The state is operationalized as official government institutions, agencies or ministries. Civil society consists for example of businesses and interests groups. The relation between these groups can be recognized by facilitating state-economic policies or political linkages between the state and civil society. Concrete examples are subsidies programs of ministries to stimulate a specific sector of the economy; the emergence of public-private funds and public-private cooperation; or the importance of state-owned enterprises for economic growth. To assess which linkages between the state and the economy exist, newspaper articles, policy papers and secondary literature about the subject state-owned enterprises, state-led economic-stimulus programs and public-private investments are studied. The outlined indicators can help explain the form of the AIIB and the choice to fund

infrastructure projects. Moreover, they can show which groups are favored in strategic selective processes. If from qualitative primary and secondary sources appears that the same groups or sectors in society receive most of the investments from subsidies programs, stimulus packages and public-private partnerships, then these groups are given more political agency and strategic selective room to influence government decisions, in this case the AIIB.

## Chapter 3: Empirical Analysis

### 3.1 The Asian Infrastructure Investment Bank – emergence and orientation

In October 2013, Xi Jinping, President of the People's Republic of China, proposed the establishment of the Asian Infrastructure Investment Bank at the annual leaders' meeting of the Asia-Pacific Economic Co-operation (APEC) forum in Bali, Indonesia (The Economist, 2013). Xi announced that the envisaged bank would focus its operations on infrastructure financing in order to promote interconnectivity and economic integration in the region. The new bank would moreover cooperate with existing multilateral development banks and take full advantage of their strengths in promoting economic development in the Asian region (CCTV, 2013). Shortly after Xi announced his proposal at the APEC summit, the process of establishing the AIIB accelerated considerably. The Chinese Ministry of Finance set up multilateral talking groups, consisting of representatives from Asian governments. Shortly after, the Chinese government arranged a series of bilateral talks with Asian governments addressing the construction of the AIIB (Wan, 2016, p.3.1-2). These talks culminated in a memorandum of understanding, signed by China and twenty other states on 24 October 2014. In the months that followed, a range of other governments declared an interest to join the new bank, including a few European governments. The day of 31 March 2015 was chosen as a deadline for becoming a founding member. The UK joined the bank on 12 March 2014, which triggered other European states to join as well in the weeks before the deadline (ibid., p.3.4). Eventually 57 states became founding members of the AIIB (see Appendix). Negotiations on the Articles of Agreement (AoA) took place and were finalized on 29 June 2015, when all the 57 governments signed the final agreement (Mishra, 2015, p.2).

Besides the fact that the agreement set out the focus on the infrastructure sector, the agreement also stipulated that regional members were given 75 percent of the voting shares, compared to 25 percent of non-regional members (Wan, 2016, p.3.5; Ito, 2015, p.3). The distribution of voting shares displays the distinct regional composition and focus of the bank. China is by far the largest shareholder, accounting for 26,6 percent of the voting shares. Thereby China holds a *de-facto* veto, because all major decisions about the institution's governance procedures, financial position of the bank and decisions on special investments excluding direct loans and investments in equity funds, require a 75 percent approval of the voting shares (AIIB, 2015). India and Russia follow China as the largest shareholders with respectively 7,5 percent and 5,9 percent of the voting shares. The largest non-regional shareholders are Germany (4,15 percent of the voting shares), France (3,19 percent), Brazil (3,02 percent) and the UK (2,91 percent) (Wan, 2016, p.3.5). Beyond voting arrangements, the dominant role of China is moreover reflected in the AIIB's governance structure. The Former vice-president of the Asian Development Bank (ADB) (August 2003-July 2008), Ji Lin Qin, a Chinese national, was appointed as secretary-general of the AIIB (Wan, 2016, p. 4.16). Although the Board of Directors will determine budgets and projects



(Sun, 2015), President Ji Lin Qin possesses additional leeway to formulate the AIIB's policies, because the Board of Directors will not be residential and the function is unpaid (Wan, 2016, p.4.17). The Board of Governors and Board of Directors, consists of nine regional and three non-regional directors respectively (ibid.). Certainly, this construction safeguards some checks and balances against Chinese power from the Board of Directors; however, the unpaid and non-residential element of the board will in practice mean a limited day-to-day shareholder oversight of AIIB operations, thereby weakening the shareholders' position, for example in the case of loan approvals. Furthermore, the President can directly approve loans under \$300 million (public sector) and \$200 million (private sector), without requiring board consultation (Humphrey et al., 2015, p.6-7). These arrangements amount to a concentration of power at the bank's management, the Presidency of the AIIB, which is currently governed by a Chinese official (Kawai, 2015, p.8). The equipment of the Presidency with such far-reaching discretionary powers is unique in so far as, the Board of Directors in other MDBs is usually highly politicized, allowing to block a loan approval (ibid.). The rationale that has been given for the empowerment of the Presidency has been that the AIIB would strive to downplay bureaucracy and take decisions faster, compared to the already existing MDBs (Humphrey et al., 2015, p.6; South China Morning Post, 2015). The non-residentiality of the Board of Directors has also been defended in terms of saving expenditure for field offices and staff (South China Morning Post, 2015).

The AIIB will finance its operations similarly to the World Bank and the ADB using the US dollar as the main currency. Thus, the dollar will be the only currency in which loans are provided; yet member states can contribute their share of funds in dollars or other convertible currencies (AIIB, 2015; Can, 2015; Wildau & Mitchell, 2016). In marked contrast to other MDBs, the AIIB will not grant concessional loans, at least not in the beginning (Kawai, 2015, p.7). Concessional loans are usually loans with zero to very low interest rates, designed for the long run and low-income countries in particular (ibid.). From a creditor's perspective, such loans are less profitable. The AIIB will be profit-oriented however, meaning that loans by the AIIB will come with interest rates. The profit-orientation has been justified in terms of safeguarding a high credit rating, as well as the stability of the institution (South China Morning Post, 2015). Profitability and stability will furthermore be ensured through the collaboration with other financial institutions, including other MDBs, public-private partnerships or sovereign wealth funds (Humphrey et al., 2015; South China Morning Post, 2015a). As stipulated in the Articles of Agreement, one of the overarching goals of the AIIB is to promote both public and private investment in infrastructure (AIIB, 2015, p.2). The Bank does not only finance direct loans, but seeks to provide a possibility to invest in equity funds of private institutions or enterprises (ibid., p.8). The World Bank and ADB operate in a quite similar way, which means that they also partner with private investors and closely cooperate with other MDBs or publically financed institutions (ADB, 2001; The World Bank, 2016). The loans of the AIIB appear to be granted without political and economic conditionalities, although AIIB officials do not publically confirm this (South China Morning Post,

2015). This means that borrowing states do not have to fulfill privatization or deregulation policies to receive the loan, as is the case with other MDBs. Besides the form in which the loans will be granted, the bank's officials have repeatedly stated that standards of legal transparency will stand central and that the AIIB will take into account social and environmental concerns (Humphrey et al., 2015; Xinhua, 2016).

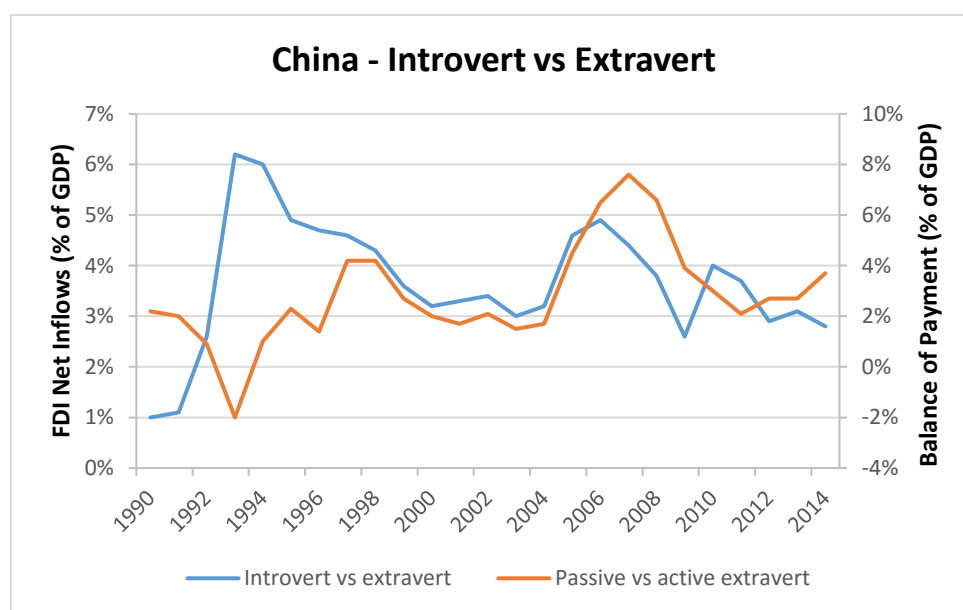
### **3.2 Analysis: The Chinese crisis of overaccumulation – the AIIB to the rescue**

The accumulation regime of the initiator and biggest funder of the institution, China, will be analyzed in order to explain the emergence of the AIIB. Capitalist regimes of accumulation trace inherent contradictions in them, which result in temporal crises. Therefore, instabilities that derive from the Chinese model of economic growth stand central to the review of the Chinese regime of accumulation. The most striking instabilities are the dependence on export; decreasing growth rates; and domestic overinvestment. While economic instabilities led to economic downturn after the financial crisis, surprisingly Chinese foreign reserves have grown at the same time. To understand how the AIIB can mediate the imbalance between declined growth and rising capital reserves, one has to understand how this imbalance emerges from the Chinese accumulation regime.

#### **3.2.1 Trends in China's accumulation regime**

China's current export-led growth model took off in 1979 under the guidance of Deng Xiaoping who undertook a range of economic reforms. Special Economic Zones (SEZs) were created to attract foreign direct investments (FDI) (Naughton, 2007, p.94; Overbeek, 2015, p.9). New Chinese private companies emerged and state-owned enterprises (SOEs) were partially privatized (Palley, 2005, p.4). The marketization of the Chinese economy, spurred by FDI which entered the country, fueled industrialization processes, in particular manufacturing aimed for export (ibid. p.5). Foreign direct investment flows rose from 0,2 percent of GDP in 1982 and settled at a rather consistent range between 3 and 5 percent in the 90s and 2000s (see Figure 3.1), which is a relatively high percentage, especially compared to other Asian states (WTO, 2011, p.53). China's accession to the WTO in 2001 strengthened its status as an important outlet for foreign capital and integrated China into the capitalist world economy. Simultaneously foreign trade grew exponentially. Exports rose from 7,8 percent in 1982 to a staggering 35,7 percent of GDP at its height in 2006 (World Bank Data, 2016). In 2010, China took over the lead from Germany as world's biggest exporter (Li et al., 2012, p.2). The export-led growth model enabled GDP growth rates over 10 percent each year (Overbeek, 2015, p.12). China's accumulation regime developed from a closed agricultural society in the 1970s to a fast-growing export economy, closely tied into the global economy in the 2000s.

Figure 3.1: China's active extravert accumulation regime (1990-2015)

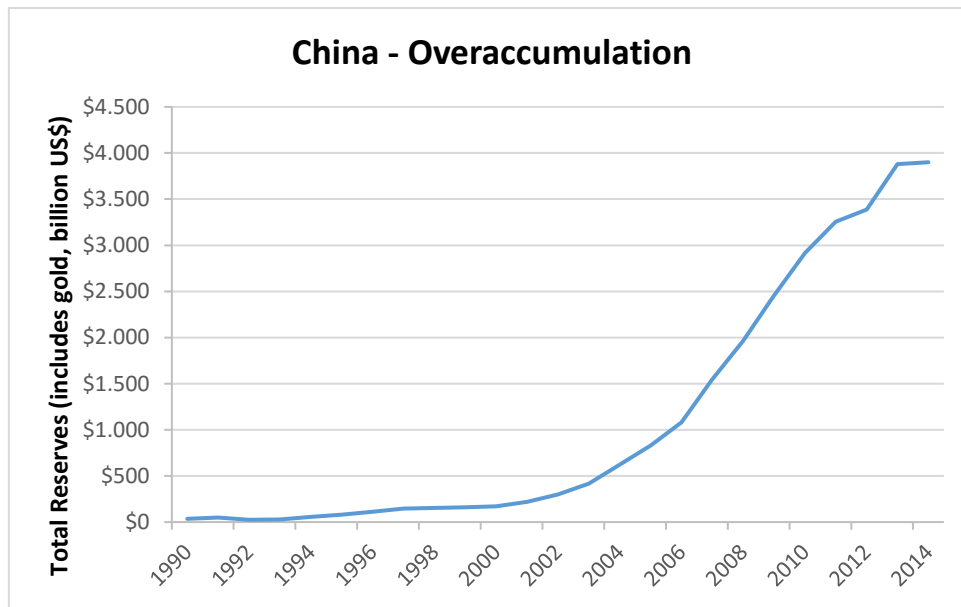


Source: own graph, data from World Bank, 2016d

#### *'Twin surpluses', the imbalance of growth and the stockpile of reserves*

The active-extravert accumulation regime that emerged from export-led growth fueled imbalances in the amount and specific ways of how capital was gathered. First of all, the major role for exports in GDP contributed to large current account surpluses in China. Especially after accession in WTO in 2001, China's imbalance between expenses for imports and revenue from exports grew, which resulted in a growing current account surplus (Yang, 2012, p.127; see Figure 3.1). Secondly, transnational capital through FDI investments moved in, which created again surpluses, but now on the net capital and financial account (ibid.). The imbalance of the *'twin surpluses'* (ibid.) in both the Chinese current and capital account enabled the Chinese government to build up massive currency reserves (Chinability, 2016; Overbeek, 2015, p.12) (see Figure 3.2). Between 2002 and 2015 China's foreign reserves increased over 13 times into a staggering US\$ 3.813,4 billion (Chinability, 2016). As a result of China's dependence on US demand, the dollar dominates the foreign reserve currency basket of the Chinese government (Overbeek, 2015, p.14; Palley, 2005, p.6). The growth of foreign exchange reserves stimulated by surpluses in trade and investments, both elements of an active extravert accumulation regime, spurred imbalances in the Chinese economy. While the Chinese economy thrived the imbalance of *'twin surpluses'* led to economic instabilities. Surplus capital was available, however reinvestment opportunities were limited. It was the global financial crisis that exposed the structural limitations of the imbalanced growth China had experienced over the past decades.

Figure 3.2: Chinese total reserves (1990-2015)



Source: own graph, data from World Bank, 2016d

### 3.2.2 Instabilities of Chinese capital accumulation

The outbreak of the financial crisis in 2008 brought structural instabilities in the Chinese growth model to the forefront. These instabilities consisted of dependence on exports for growth, a lack of domestic demand and the vulnerabilities of foreign reserves investments. Several strategies for reinvestment were set up to deal with and solve these instabilities. Some of them were more successful than others. It is important to understand the failure of some strategies over others in order to explain the emergence of the AIIB as a new mode of regulation. However before that, the three core instabilities in the Chinese economy need to be outlined in greater detail.

The first instability that came to the forefront as a result of the financial crisis was the dependence on exports in the Chinese growth model. The banking crisis and euro crisis in the US and Europe and the economic recession that followed had a severe impact on demand for Chinese goods. Western demand for Chinese exports plummeted which led to an overall decrease of export earnings by 17 percent in 2009 (Li et al., 2012, p.3) As the Western market was the most important market for Chinese exports, and the Chinese economy relied on exports for economic growth, the financial crisis of 2008 put pressure on the Chinese growth model. The export model could not uphold economic growth rates anymore. Therefore, new strategies of wealth accumulation were needed.

A second instability was the lack of domestic demand in China (Hung, 2008, p.161-64). The domestic market consisting of businesses and consumers was not developed well enough to replace the export market as main driver for economic growth (Yang, 2014, p.150-51). Although wages have risen in China since the year 2000, they have not risen sufficiently to enable Chinese citizens to consume at a level

high enough to equal losses from export earnings (ibid., p.140). Market shares of domestic sales are rising, however Chinese businesses are still primarily aimed at the export market, and a rather small percentage of its earnings is derived from domestic consumption (ibid.). The Chinese export-led accumulation regime did not only show a high reliance on foreign trade for economic growth, it had also failed to create a domestic base for economic growth.

A third instability that came to the forefront as a result of the financial crisis was the vulnerable position of Chinese foreign reserves. The major stockpile of Chinese foreign reserves were kept by large in US government bonds and securities (Overbeek, 2015, p.14). The US debt was financed by Chinese capital and made the US the largest net capital importer in the world (David, 2009). The economic recession in the US showed that dependence on one specific outlet for capital could risk the profitability of investments. While the acquirement of US government bonds and securities had functioned for many years as an easy and profitable outlet for Chinese capital, the financial crisis showed that Chinese foreign reserve investments needed more diversification.

### **3.2.3 Responses to the crisis – failing temporal fixes**

Despite the economic downturn, the imbalance of capital accumulation through ‘twin surpluses’ did not fade away. On the contrary, Chinese reserves almost doubled since the crisis began in 2008 (see Figure 3.2). The Chinese government, faced by decreasing economic growth rates and instabilities in the economy had large amounts of foreign reserves available for reinvestment. The challenge was to make these capital reserves profitable in order to temporarily solve economic problems which stemmed from the export-led growth model. The Chinese government applied several strategies to reinvest capital and prompt economic growth. Some of these strategies were more successful than others. Two of the most important strategies of the government to spur economic growth were stimulation via domestic investments and the development of the domestic financial sector.

#### *The waste of domestic overinvestment*

To cope with the negative economic consequences as a result of the global financial crisis in 2008-2009, the Chinese government set up large stimulus packages meant to stimulate domestic production and consumption. A stimulus package of 586 billion dollar was set up in 2008 (which accounted for almost 15 percent of China’s GDP), followed by stimulus plans in 2009 and 2012 of more than 157 billion dollar each (Jiang, 2015, p.366-67). The large majority of these packages has been invested in sectors with vested interests such as the auto motives, steel and manufacturing industries (ibid.). Many new infrastructure projects were financed in this period. Railways, roads and housing projects got approval by National Development and Reform Commission (NDRC) or the State Council (ibid.). These investments funded by the stock of capital reserves of the Chinese government, fueled Chinese economic growth. The official target of eight percent GDP growth was achieved, with the stimulus program contributing around two to three percent (ibid.).

The investments in the domestic economy through these stimulus packages however failed to provide a persistent profitable outlet. Research of the NDRC estimates that in 2009 and 2013 alone, almost half of all investments into the Chinese economy were “ineffective” (Anderlini, 2014). The official report sketches a picture of overinvestment and waste of investments of the crisis-stimulus packages (ibid.). GDP growth was achieved, and with this political stability (Jiang, 2015, p.373-74). However, due to massive overinvestment in export-oriented state-owned enterprises (SOEs) and infrastructure projects, already in the years before the crisis, there was no room for absorption of new capital. In the years before the crisis, especially since the mid-1990s, the Chinese economy has experienced a large credit boom (Dobbs et al., 2013; Hung, 2008, p.158-61). Chinese banks fueled debts of local governments and SOEs, which invested their capital in large production facilities aimed at exports, infrastructure or housing projects (ibid.). There are many examples of so called ‘ghost towns’, which are entire cities built on credit of local governments and Chinese banks, and can accommodate several million citizens, but are entirely deserted (Anderlini, 2014). Infrastructure projects also lost profitability. For example, China’s toll roads have lost 25 billion dollars in 2014 alone (Denoon, 2015). When as a consequence of the crisis the Chinese government searched new profitable outlets for the surplus capital in sectors such as infrastructure, real estate and export-oriented SOEs, these sectors were already filled with capital. There was no room for absorption and multiple credit bubbles emerged in these sectors, which severely damaged the profitability of capital investments (ibid.). Besides the fact that capital investments were not profitable, they also failed to improve domestic consumption rates (Yang, 2014 p.150-51). The crisis policies carried out by the government only spurred short-term growth, but failed to tackle the more structural economic instabilities that came forth from the export-led growth model.

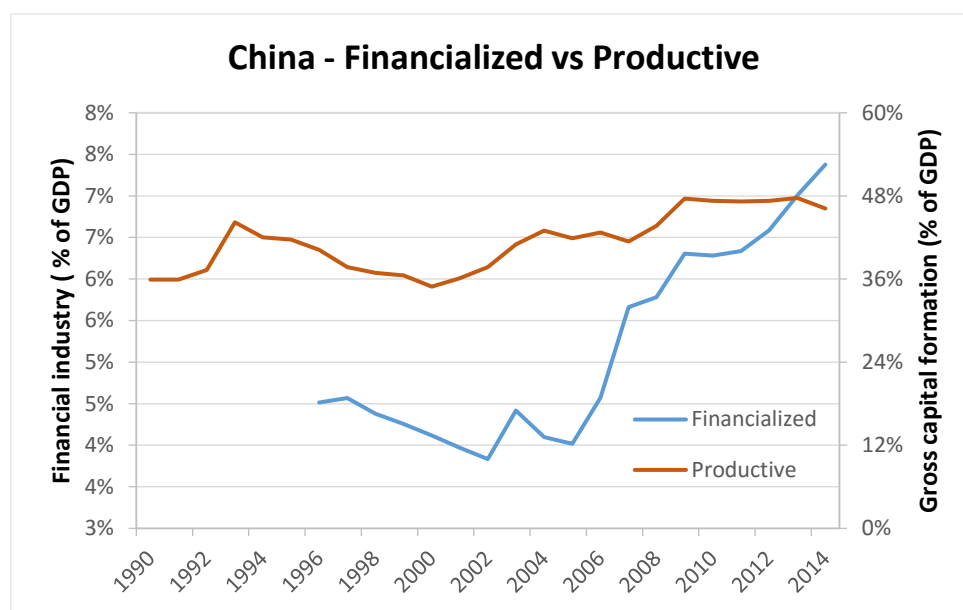
#### *The failure of the financial sector as a temporal fix*

The government failed to tackle economic problems by reinvesting capital into the domestic economy. It did not make the economy less dependent on exports, and domestic consumption failed to grow. There simply was no room for more absorption of capital in the domestic productive sphere. The ‘real’ economy was already exhausted. A different way in which the government tried to increase the profitability of capital was by expanding the (domestic) financial sector.

The Chinese financial sector gained importance alongside the impressive Chinese growth in the beginning of the 21<sup>st</sup> century. The sector was liberalized as part of the WTO accession in 2001 (Hung, 2009, p.47). In the first period of the 2000s until the outbreak of the global financial crisis, the growth of foreign financial services in China was linked to the manufacturing industries and productive sector of the economy (Liu & Kurmanalieva, 2008, p.351, 353). The financial sector grew strong as the domestic banking sector provided major funds of credit meant for SOEs, infrastructure and real estate projects before and during the financial crisis (Dobbs et al., 2013; Edwards, 2016). The growth of the financial sector in this instance was linked to the productive sector of the Chinese economy. The

financial sector however grew further even after the profitability of investments of Chinese banks in the productive sector stocked. The growth of the financial sector after the financial crisis can be attributed to the boom of the Chinese stock market (Wildau, 2015). Investors needed an outlet for profitable investments and turned from the collapsed real estate sector to the stock market (Hsu, 2015). Simultaneously, stimulated by the growth of stock exchange trading in China, ever more financial institutions and financial intermediaries started to operate from and within China (Bloomberg News, 2015). The growth of the financial sector, which was the fastest growing service sector of the last five years (Wildau, 2015), contributed more than 7 percent to the Chinese GDP in 2014 (see Figure 3.3). The Chinese economy financialized slowly more and more.

Figure 3.3: China's financialized accumulation regime (1990-2015)



Source: own graph, data from UN 2016; World Bank, 2016d

While the financial sector provided an outlet for investors to absorb excessive capital, it also showed instabilities, most recently in the Chinese stock market crash in July and September of 2015. Shares decreased dramatically, and profits from stock-trading evaporated (Hsu, 2015). The stock market exchange rates were in no way representative for the value of the real economy, but were fueled by the lack of other investment opportunities (ibid., p.4-5). Although the financial sector provided an outlet for absorption of more capital, its underdevelopment undermined its ability to be a profitable alternative for reinvestment. The temporal fix did not hold and it was therefore not a sustainable tool for capital reinvestment. The move towards a financialized accumulation regime cannot accommodate the amount of capital that needs reinvestment. Therefore the Chinese government had to search for a diversification of profitable investment tools.

This analysis shows that both reinvestment of capital in the domestic productive sector as well as the financial sector did not contribute to profitable solutions that can spur Chinese economic development. The diversification of strategies for capital absorption is essential to mediate the economic instabilities that arise from China's accumulation regime. Therefore Chinese companies, stimulated by the government, have diversified its outlets for investment and gained ground across borders. Besides the financialized regime of accumulation, China's economy becomes more interlinked in the global economy by the accumulation of wealth overseas. The shift towards wealth accumulation abroad is important to understand the emergence of the Asian Infrastructure Investment Bank, as the AIIB is one of the regulatory modes that facilitates a shift within the extravertive accumulation regime.

### **3.2.4 China's new extravertive accumulation regime – the spatial-temporal fix**

The shift in the extravertive accumulation regime of China can be characterized by first the increased importance of FDI outflows versus FDI inflows and second the increased interconnectivity of development through regional supply chains on the Asian continent. The AIIB as a mode of regulation contributes to this shift, first of all because its activities contribute to the spatial diversification of Chinese investments. Secondly, it mediates the economic instabilities that stem from the current Chinese export-led development model, because it grants direct support to Chinese companies and institutional investors in the infrastructure sector, and it contributes to the development of new markets for Chinese products. The change of focus within the extravertive accumulation regime will show that the AIIB, influenced by other regulatory modes, mediates economic imbalances by the creation of a spatial-temporal fix as described by Harvey (2016, p.246-50).

#### *OFDI and the state as regulatory mode*

Since 2002, China's interference in the world economy is not only determined by FDI inflows, but complemented by an increase in FDI outflows (OFDI) (Ma & Overbeek, 2015, p.441). OFDI experienced such an impressive growth (Freeman, 2013, p.3), that by early 2015, China became a net capital exporter for the first time in history (Xinhua, 2015). Most of the Chinese OFDI is regional, with almost 70 percent directed towards other Asian countries (Ma & Overbeek, 2015, p.442). Chinese state institutions stimulate the accumulation of wealth through OFDI with a broad range of investment policies. It acts as a mode of regulation to sustain the extravert accumulation regime. Besides the fact that state policies on OFDI encourage the reproduction of a certain accumulation regime, it also determines the political importance of some groups over others, in this case vested interests linked to the Chinese infrastructure sector. OFDI-state policies thus regulate tensions that are inherent to an accumulation regime and thereby shape the political appeal of new regulatory measures over others. It influences the strategic selectivity of political agents in new regulatory modes. To explain the emergence of the AIIB as a new regulatory mode which functions as an outlet for investments and contributes to the diversification of strategies of wealth accumulation, specific state policies concerning OFDI thus



have to be outlined. Only in this way it is clear why a new regulatory mode as the AIIB focuses on the Asian continent and infrastructure in particular.

The most important Chinese government policy to stimulate OFDI is the *Going Global Policy*, which was established in 2001 and incorporated into the Tenth Five-Year Plan (2001-2005). This policy encouraged the internationalization of Chinese companies while it also aimed to adjust these companies to the domestic industrial sector (Ma & Overbeek, 2015). The aim was to strengthen the international competitiveness of Chinese companies (ibid., p.449). The policy provides support to Chinese companies abroad in several ways. They can make use of direct or indirect financial support and acquire credit from several financial institutions or even sovereign wealth funds (Hildyard, 2012, Annex 1). Ministries such as MOFCOM or the National Development and Reform Commission (NDRC) can provide risk-safeguard mechanisms (Ten Brink, 2015, p.675). The Chinese government has also relaxed currency mechanisms, so that Chinese companies experience less restrictions when investing abroad (ibid.).

Already a decade ago, the *Going Global Policy* was set up as a long-term economic strategy to overcome overinvestment and actively use the stock of foreign exchange reserves (Tiezzi, 2014). Through this policy the Chinese state tried to mediate the imbalances that were prone to the export-led accumulation regime. When after the financial crisis, domestic overinvestment in sectors such as manufacturing, infrastructure and real estate came to the forefront, the *Going Global Policy* could contribute to its long-term economic goal (Albert et al., 2015, p.11-14). The sectors hit by domestic overinvestment became the most important sectors to benefit from state-led OFDI policies, especially on the Asian continent.

The Chinese government has pushed particularly Chinese companies in the energy and transportation sector to invest abroad (Tiezzi, 2014). Outward foreign direct investment in these sectors is mainly driven by Chinese SOEs. They contribute to almost 70 percent of the non-financial, outward FDI (Tiezzi, 2015). The infrastructure sector is the most crucial sector of Chinese OFDI investments in the ASEAN region. Big Chinese infrastructure companies are active in Asia. Companies such as State Grid Corporation of China (SGCC) or China National Overseas Energy Company (CNOOC) together alone employ almost two percent of the Chinese workforce (Taggart, 2016). The importance of the Chinese construction sector can also be seen in the fact that in 2015, 50 Chinese companies in this sector are listed in Forbes' Global 2000 list, which ranks the 2000 biggest publicly listed companies in the world (Chen, 2015). The construction companies are thus crucial for providing jobs and economic growth in China. Chinese OFDI policies reflect and strengthen the political importance of the infrastructure sector, which thereby gains more strategic selective room to influence the course of policymaking in general. The strategic selective choices made in other regulatory modes, in this instance the 'state' of which the OFDI policy is an important element, influences the appeal of a new regulatory mode over the other. The AIIB in this case reinforces the strategic selective choices made through the state-led OFDI policies. The new institution can be used as a tool to mediate the vulnerable position of the SOEs as a result of

domestic overinvestment. It does so by reinvesting capital outside its borders, but directed towards similar companies in the construction sector. In this way it safeguards jobs and economic growth for the Chinese economy, while it provides a new avenue for profitable investments for the stock of foreign capital reserves.

The Chinese role in the AIIB's Presidency and its fast decision-making procedures can safeguard the viability of Chinese construction companies. It is likely that loans of the AIIB go to state-owned enterprises (SOEs). Infrastructure investments in Asia are particularly risky, because of uncertain political, regulatory and legal environments (BMI Research, 2015). Chinese companies can take more risks because they are backed by the Chinese state and its different sources of funding, such as the Chinese Central Bank, Export-Import Bank of China, China Development Bank, and several other infrastructure funds, such as the Silk Road Fund or sovereign wealth funds (*ibid.*). The AIIB is an extra institution that can provide Chinese companies with capital and take away some risks which private investors are less likely to take. The fact that the AIIB will grant only concessional loans in the first years of operation, safeguards the choice for only profitable infrastructure projects in the region. Profitability is important as the construction sector is of vital interest to China's economic growth and foreign reserves need profitable outlets.

Besides safeguarding direct investments for Chinese companies, the AIIB also mediates risks for Chinese institutional investors in private infrastructure equity funds. After the financial crisis many equity funds aimed at infrastructure have emerged (Hildyard, 2012). A growing group of investors in these funds are public institutions. Besides the AIIB as a potential institutional investor in these funds, other Chinese institutions also increasingly have stakes in private equity funds. The National Security Fund (\$134 billion in funds), the Chinese sovereign wealth fund 'China Investment Corporation' (\$200 billion), China National Development Bank, or its Export-Import Bank all have stakes in infrastructure private equity funds (*ibid.*). Making sure that infrastructure is profitable and less risky requires public institutions to invest in it. A big multilateral institution as the AIIB can take away some risks, from which also the other Chinese institutional investors in infrastructure benefit.

In the light of a more diversified extravert accumulation regime, the AIIB emerged as a new regulatory mode to mediate the vulnerable position of large construction companies after the financial crisis of 2008 and period of domestic overinvestment until 2012. Other regulatory modes, especially the state, had strengthened the position of Chinese companies abroad and thereby facilitated the profitability of OFDI through the already existing Going Global Policy. The regulatory policies taken by the Chinese state in turn contribute to the profitability of the AIIB as an institution. Both Chinese companies as well as Chinese institutional investors can profit from the AIIB in this sense. Moreover, the institution also strengthens regional trade relations, which in turn mediates the Chinese export-dependency problem.

### *The Asian market – China's new export target*

As shown above, one of the weaknesses of China's export-led growth model is that it heavily depends on demand from the West. To mediate the imbalanced distribution of China's export earnings, new markets will have to be explored. The AIIB facilitates the long-term strategy of expansion of Chinese exports into the Asian continent. This is achieved through the proposed increased regional connectivity and stimulation of economic growth in Asian states as a result of infrastructure investments.

The accumulation regimes of Asian countries have become more intertwined over the past decade (Ahearne et al, 2009, p.8-9). Vertical trade connections in Asia make individual countries more dependent on each other. While China assembles the final product, the single components of that product are made in other Asian countries, and thereafter exported to China. The production of intermediate goods has become regionalized evermore. The interregional trade of intermediate goods grew between 1995 and 2009 (WTO, 2011, p.87). The growth of regional value chains through cheap labor has spurred development in (South-) East Asia, just as the export-led growth model created economic growth in China (Van Trotsenburg & Times, 2014; Wan, 2008, p.8.1). The Chinese economy can profit from development on the Asian continent. More development, means more demand for goods. These goods can be provided by Chinese companies. The Chinese export industry can in this way reduce its dependence on the Western market and move more of its economic activities towards its Asian neighbors. An essential element to achieve this is however a well-functioning infrastructure network (WTO, 2011, p.30). Infrastructure development increases the productivity and competitiveness of the region. Furthermore, it incentivizes regional trade which opens up opportunities for Chinese companies to explore new markets (Bhattacharyay, 2010b, p.3-5). The AIIB as an institution therefore also mediates the instabilities of the Chinese export-led growth model on the long run, through the spatial diversification of Chinese wealth accumulation. The AIIB as a regulatory mode in this sense contributes to the spatial-temporal fix, as described by Harvey (2016, p.246-250).

Although the AIIB promotes a specific version of the spatio-temporal fix, the institution as a mode of regulation cannot permanently solve the inherent contradictions and imbalances that come forth from the export-led accumulation regime in this context. The need to reinvest capital through a diverse set of strategies, creates short-term instabilities and contradictions especially with regard to other modes of regulation that should limit the crisis-prone tendency of capitalist accumulation regimes. The use of the dollar as the main currency in the AIIB supports the view that foreign exchange reserves, which are by majority held in US dollars, need an outlet. In the case of China it however creates tension on the short term with a different mode of regulation, namely with the internationalization of the Renminbi (RMB).

### *Internationalization of the RMB suspended – modes of regulation and the hierarchy of crisis solutions*

When the AIIB was established, analysts expected the institution to be used as a tool for the internationalization of the Chinese currency, the Renminbi (RMB) (see for example Weijia, 2016; Xue,

2015, p.31). The internationalization of the Chinese currency is one mode of regulation that mediates the economic instabilities of the export-led growth model on the long term. This strategy was set in motion by the Chinese government almost a decade ago. It is particularly used as a tool to become less dependent on the export-market and US dollar, and steer the economic system towards more domestic consumption and financialized accumulation within China (Zhang & Tao, 2014, p.20). Several policies have contributed to the internationalization of the RMB. In 2005 the RMB became a managed peg with increased flexibility to the US dollar (East Asia Forum, 2016). The Chinese government has allowed pilots schemes to cross-border trade settlements. Cross-border direct investments, such as foreign direct investments are increasingly made in RMB and ever more financial transactions are also allowed to be made in RMB (Zhang & Tao, 2014, p.6). The IMF has also added the RMB to the pool of reserve currencies (Mayeda, 2015a). Some states, such as Cambodia, Malaysia, the Republic of Korea and Russia have a limited amount of RMB added as a reserve currency (Zhang & Tao, 2014, p.7). Besides that, Singapore and the UK have responded to the increased internationalization of the RMB and have developed their financial centers as important hubs for Renminbi trading (Grant, 2015; Trotman, 2015). Moreover, the Chinese government has slowly appreciated the RMB over the last decade (Roach, 2015).

However, pressures on the growth model of China, especially during and after the financial crisis, also put pressure on the Chinese policy of currency appreciation as a tool to mediate the economic imbalances of the export-led accumulation regime. Temporal economic relief through depreciation of the national currency became more attractive as economic growth rates declined. The Chinese government suspended the renminbi-appreciation process during the crisis years in 2008-2010, and still has strong control over this policy (ibid.). Internationalization of the Chinese currency reduces Chinese trade competitiveness and the policy autonomy of the Chinese government to use exchange rates as a tool for economic relief (Zhang & Tao, 2014, p.20). The failed attempt to reform the economic system in China itself, through consumer spending and accumulation in domestic financial markets also put pressure on the internationalization of the Renminbi as a mode of regulation. The international status of the Chinese currency could not contribute to more stability in wealth accumulation, and failed to bring short-term relief. To mediate economic imbalances on the short term, new regulatory tools therefore could temporarily contradict the process of internationalizing the RMB. This is exactly what the AIIB does.

The fact that the AIIB uses the dollar as its main currency, contrasts the strategy to internationalize the RMB. The use of the dollar in the AIIB presents the hierarchical order of regulatory modes. Temporal mediation of the imbalance of the Chinese economy through reinvestments of the stock of foreign exchange reserves is chosen above the long-term regulatory strategy to increase domestic consumption and rely less on the US dollar. The rationale behind the use of the dollar is thus less ‘practical’, as President Jin of the AIIB suggested (Wei, 2016). It is influenced by political considerations of how to tackle economic instabilities. The reinvestment of surplus of foreign exchange reserves in dollars is in this instance a priority. However, the AIIB can on the long term function as a beneficial contribution to

the strategy of internationalization of the RMB. President Jin stated furthermore that in the future the AIIB might raise capital in different currencies (ibid.). In this way, the use of the dollar in the AIIB does only undermine the regulatory function of the internationalization of the Renminbi on the short term, as the AIIB does not rule out capital to be raised in yuan in the future. The choice for the dollar as currency within the AIIB however shows how specific historical circumstances can influence political decisions that determine the hierarchy of regulatory modes.

Following from the above, the rationale behind the emergence of the AIIB stems from the need to temporarily fix imbalances in wealth accumulation, inherent to the Chinese export-led growth model. These imbalances came to the forefront after the global financial crisis. While the Chinese government tried to fix the economic downturn through domestic investments and the financialization of its accumulation regime, both strategies spurred overaccumulation and failed to absorb sufficient amounts of capital. The strategies of the Chinese government failed to produce profitable outlets for reinvestment. When the failure of these policies became clear to the Chinese decision-makers from 2012 on (Jiang, 2015, p.374), new regulatory modes were needed to diversify reinvestment strategies. Above all, foreign exchange reserves in China kept growing during and after the financial crisis, which put pressure on policymakers to find new profitable tools for reinvestment. The AIIB as an institution contributes to the diversification of reinvestment strategies and temporarily fixes the overaccumulation problem China faces. It does so, because it enables a spatial and profitable variety to Chinese capital investments. The use of the dollar in the AIIB contributes to effective reinvestment of Chinese foreign exchange reserves. As the AIIB functions as a tool for reinvestment, it simultaneously supports vested interests of the Chinese infrastructure sector and institutional investors, which are important actors in the Chinese economy. Moreover the AIIB reduces the dependency on Western markets for exports, which is one of the biggest structural problems of the Chinese economy. Overall, from a Chinese perspective, the emergence of the AIIB must be understood as the emergence of a new regulatory mode. Besides the Chinese, the AIIB can also be a tool to regulate other Asian regimes of accumulation.

### **3.3 The ‘ASIAN’ Infrastructure Investment Bank – strengthening “Asian” accumulation regimes**

The Asian Infrastructure Investment Bank is a multilateral institution, in which not only China participates. The receiving end of the institution consists of Asian developing states, which need infrastructure investments to reinforce the export-oriented model of capital accumulation. On the one hand for the (South-) East Asian states, infrastructure can reinforce the extravert accumulation regime by strengthening interregional ties through trade. On the other hand, for South Asia, and India in particular, infrastructure can contribute to diversify strategies of wealth accumulation to sustain its economic growth by the increase of exports. To attract capital and spur economic growth within the several national regimes of accumulation, Asian states with relative limited capital stocks, have to balance between the nascent development of their financial sector and state interference into the

economy. As the analysis below will show, the AIIB is an attractive regulatory mode for Asian states to counter the tension between capital needs and underdevelopment of the financial sector. The AIIB provides capital, while it also stimulates the profitability of infrastructure projects. The AIIB in this sense complements the state as a regulatory mode in the infrastructure sector. This regulatory mode consists of state policies and the financialization of the infrastructure sector. The AIIB provides an extra benefit to capital importers. The institution is also funded by other capital exporting states, which is beneficial to Asian states that have relatively low levels of credit for infrastructure projects. The AIIB as a tool for capital investment therefore also regulates the imbalance that exists between capital-exporters and capital-importers in the Asian region.

### **3.3.1 Asia's accumulation regimes – developing countries**

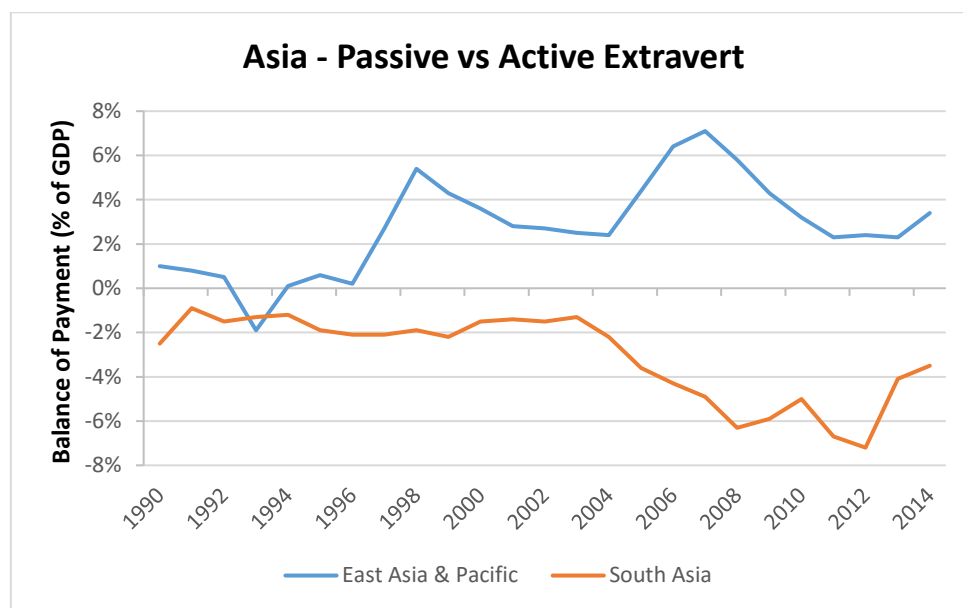
The AIIB mediates the needs that stem from specific Asian accumulation regimes. The Asian accumulation regime can be characterized as an active extravert accumulation regime. Over the past twenty years, export earnings contributed to the economic growth of the Asian developing states. Most of the states have become major trading powers, through the export of manufactured goods made possible by cheap labor (Van Trotsenburg & Times, 2014; Wan, 2008, p.8.1). The connection with the world market is also visible given the high rates of foreign direct investments (FDI) in the region. Foreign capital has flown into East Asia consistently after the Asian financial crisis in 1998 (Wan, 2008, p.7.5-6, 9.22). Compared to 1990, FDI inflows in 2008 rose from US \$23 billion to US \$307 billion (WTO, 2011, p.50). The flows of FDI coupled with export earnings have contributed as a major component to economic growth in Asian states (Wan, 2008, p.7.8). Particularly the South-East Asian region has grown over the past five to ten years, due to the increased importance of these states in global value chains (UNCTAD, 2015, p.21).

The trade in intermediate goods within Asia, interconnects the accumulation regimes of the Asian states (Ahearne et al., 2009, p.8-9). The regionalization of value chains has encouraged more Asian states to participate in vertical trade connections. More states have become involved, and more diverse interactions are made (WTO, 2011, p.74-76). While the core focus is still on China, other Asian states, such as Thailand, Malaysia and Vietnam gained more influence in regional value chains (ibid., p.77). These states take up a larger share of the added value of traded goods, while at the same time they trade more and through a diversified set of linkages within the region (ibid.). The vertical trade linkages imply interrelated trends of capital accumulation. Once there is a demand for products, several states benefit from this. Distinct components of one product are produced in several states, and are traded throughout the region before the final product is assembled.

In the Asian region there is however a distinction between East Asian regimes of accumulation and South Asian accumulation regimes. South Asian accumulation regimes drive less on export.

Additionally, they are also less integrated into regional value chains. Where the East Asian region<sup>2</sup> displays surpluses on the current account balances, which highlights the export-led growth models of this region, South Asia<sup>3</sup> displays negative figures, which points to a reliance on imports (see Figure 3.4). South Asia however is catching up on East Asia regarding its incorporation into the world economy (WTO, 2011, p.23, 55). FDI inflows into South Asia over the last decade grew at a faster pace than FDI in East Asia (see Figure 3.5). Much of these FDI inflows have gone to the service sector, which constitutes a large part of India's exports (ibid.). The FDI inflows into South Asia partially restore the uneven development that has taken place in Asia.

Figure 3.4: Asian Accumulation Regimes Compared – Balance of Payment

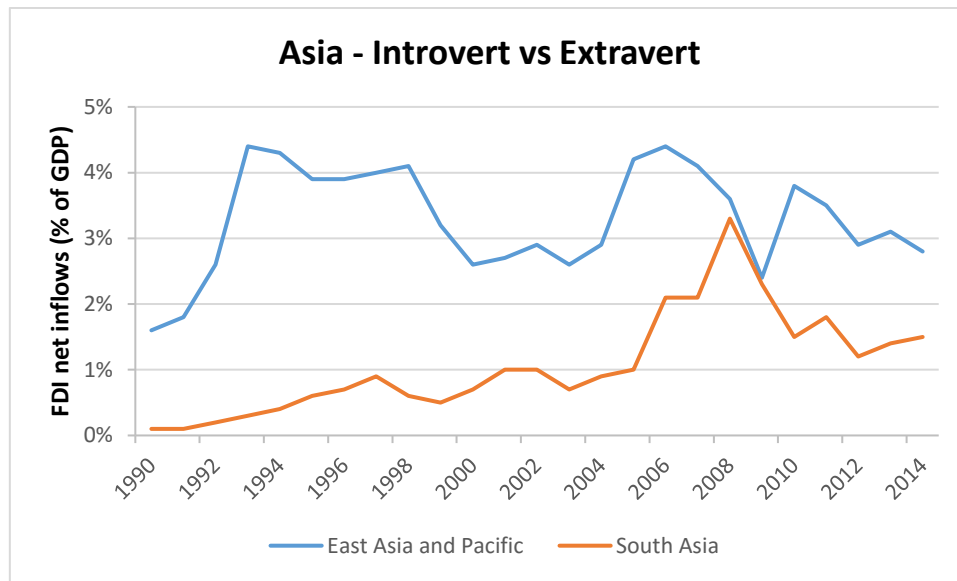


Source: own graph, data from World Bank, 2016d

<sup>2</sup> This category is in line with the World Bank Data group "East Asia and Pacific (developing only)" which consists of the following countries: American Samoa, Myanmar, Cambodia, Palau, China, Papua New Guinea, Fiji, Philippines, Indonesia, Samoa, Kiribati, Solomon Islands, Korea, Dem. People's Rep., Thailand, Lao PDR, Timor-Leste, Malaysia, Tonga, Marshall Islands, Tuvalu, Micronesia, Fed. Sts., Vanuatu, Mongolia & Vietnam

<sup>3</sup> This category is in line with the World Bank Data group "South Asia" which consists of the following countries: Maldives, Bangladesh, Nepal, Bhutan, Pakistan, India, Sri Lanka.

Figure 3.5: Asian Accumulation Regimes Compared – FDI Inflows



Source: own graph, data from World Bank, 2016d

### 3.3.2 Infrastructure - a crucial element for capital accumulation

Both the East Asian and South Asian region however require investments into the infrastructure sector to sustain growth rates of six percent or higher (World Bank Data, 2016b). For South-East Asia well-functioning infrastructure networks are detrimental to economic growth as these states depend on interregional trade for their income (WTO, 2011, p.30). Operative roads, railways, and energy infrastructure networks facilitate low-cost and efficient transportation. The idea is that investments in infrastructure thereby contribute to the productivity and competitiveness of the region, which is reflected in high economic growth rates (Bhattacharyay, 2010b, p.3-5). Financing regional infrastructure projects can be beneficial to multiple states, as the accumulation of wealth in the region depends on each other. Infrastructure networks have improved over the last decade in the South-East Asian region, but they are not that well-developed as in East Asia, considerably China, Japan and Korea. Compared to China, other South-East Asian states have invested far less in infrastructure as a percentage of its GDP. Indonesia, Thailand and the Philippines have invested approximately two percent of its GDP to infrastructure, compared to over eight percent China spend on average during 1992-2011 (Inderst, 2016, p.4). The investment rates of many South-East Asian states lay under the average spending rate of the developing world. The need for investments in infrastructure is high and room for absorption of capital in this sector is still available (ibid., p.4-8).

For South Asia the need for infrastructure is even more important. Investments in this sector are crucial to catch up with the South-East Asian development. Despite of high economic growth rates, India's infrastructure falls short to sustain these growth rates in the future. The state is far less urbanized then the South-East Asian region (Andrés et al., 2014, p.2). The export of services alone cannot accommodate



the continuation of high economic growth rates of the last decade. South Asia, and India in particular, therefore seeks to couple its development with regional and global value chains (DIPP, 2016). Therefore the diversification of wealth accumulation strategies is set in motion. To reach this goal, infrastructure networks require renovation while new networks need to be created (Andrés et al., 2014, p.2.). Without new investments in infrastructure, the growth potential of South Asia is not reached, and it risks falling behind on the South-East Asian states.

In both South-East Asia and South Asia, infrastructure investments stimulate the accumulation of wealth. In South-East Asia infrastructure contributes to stronger regional ties and low-cost production of manufactured goods. This spurs the export-led growth model on which the region relies for the accumulation of wealth. For South Asia, infrastructure investments are detrimental to catch up with the development of other states in the Asian region. Moreover it contributes to the possibility for diversification of its accumulation regime, making the shift from reliance on service exports, to manufactured exports and domestic trade. In this way infrastructure investments mediate the economic imbalances of South Asia's regime of accumulation. While Asian developing states benefit from infrastructure investments, they lack tools to acquire enough capital for this purpose. A tension between financialization and funding for infrastructure investments exists in these states. The AIIB is a tool that tries to mediate this tension.

### **3.3.3 Regulating the form of the AIIB**

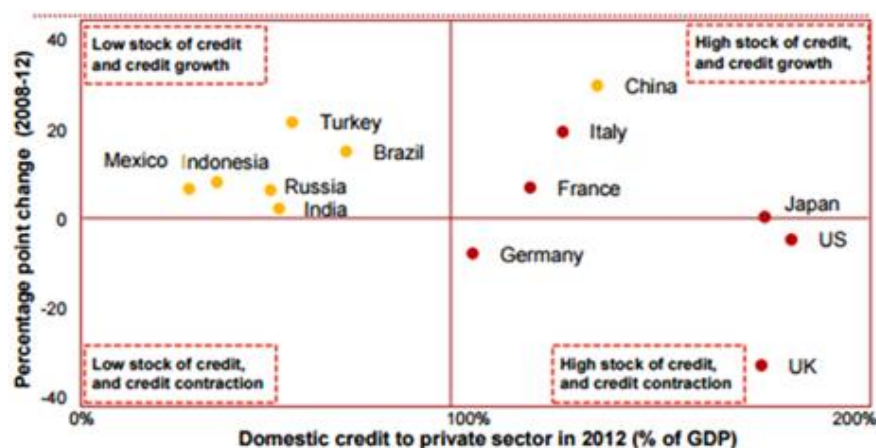
There is demand for capital in the infrastructure sector in Asia. The way in which capital is gathered for this purpose is determined by several factors, most noticeably the degree and form of financialization in Asian states. The form of the Asian Infrastructure Investment Bank, as a public institutional vehicle for capital investments in infrastructure, which aims at working through both public, public-private and private financing mechanisms can be explained best by analyzing the financialization of infrastructure on the Asian continent. In this regard, particularly other regulatory modes, such as the role of the state and the money relation that have spurred financialization in this sector, require attention. The form of the AIIB characterized by its cooperation with private sector financing initiatives, is therefore influenced by other regulatory modes.

#### *Capital formation in Asia's developing countries*

The way in which capital formation takes place on the Asian continent is quite diverse. One overarching characteristic is that East Asian states show rather large figures of domestic capital formation, because of their historically high saving rates (Wan, 2008, p.9.7). These large amounts of capital, including domestic savings and foreign reserves of all Asian states combined, are in theory sufficient to solve the continent's infrastructure needs (Bhattacharyay, 2010a, p.1-2). Capital is however not evenly distributed and those states which require infrastructure investments have a relative small capital market compared to the size of its economy (see for example India and Indonesia in Figure 3.6). To attract sufficient

capital for infrastructure investments, Asian states use a diverse set of tools. The most common source of financing runs through banks. Per state differences to the degree of privatization and financialization can be recognized. Much of the banks in Indonesia for example have been liberalized and privatized (Srivinas, 2013), while India on the other hand runs a banking system that offers room to both private and public banks (The Economist, 2013a). Other sources of funding are primarily under public supervision. Bond markets are for example controlled by governments (Srivinas, 2013; Wan, 2008, p.9.12). The financial sector is not widely developed in Asian states, which is expressed in the limited diversification of financing sources (Boxshall et al., 2014; Srivinas, 2013). For governments with enough capital reserves, investments for infrastructure are managed through funding from the reserves of banks. States which are relatively low in capital formation compared to their infrastructure needs, struggle to acquire capital on the short term, because they lack a diversified set of financing tools. The reliance on banks for capital creates tension here. In this instance, the money relation, which determines the way in which capital is gathered and flows back to the productive sector, fails to successfully regulate capital flows. To solve the need for capital, within a rather underdeveloped financial system, Asian states have contributed to the financialization and privatization of the infrastructure sector. Thereby, the states try to improve the regulatory function of the ‘money relation’. The type of financialization in this sector involves, opening up the infrastructure market for external private funds as well as fostering cooperation between public and private organizations and institutions.

Figure 3.6: Domestic credit relative to the size of the economy – E7 countries



Source: Boxshall et al., 2014, p.1

### *The state and financialization of infrastructure*

Asian states contribute to the financialization and privatization of infrastructure funding in several ways. A range of Asian developing countries set up facilitative measures to increase the funding of infrastructure by the private sector. For example the amount of public-private partnerships has grown in many Asian developing countries (Hildyard, 2012). Furthermore, Indonesia, India and the Philippines have rolled back social and environmental legislation and decreased regulatory and legal obstacles, for

example on land issues, to attract private parties to invest in their underdeveloped infrastructure networks (Hildyard, 2012, p.9-10). India has even imposed very lucrative tax exemptions for companies that are willing to invest in Indian infrastructure (ibid.). These facilitative measures taken by the state have attracted much private investments into the Indian infrastructure sector (ibid., p.10). The main aim of these measures is to limit the risks of investments in infrastructure for private investors (ibid.). These risks are particularly high in the Asian infrastructure sector (BMI Research, 2015). Besides facilitative measures to limit risks, India has also relaxed the rules on buying Indian infrastructure bonds. With this measure it tries to attract more private capital (ibid., p.15). Public financing tools have opened up to private investors, which broadens the range of parties that can contribute capital into a diverse set of financing mechanisms. Deregulation, privatization and the establishment of more financial tools is only one way for states to stimulate capital investments in infrastructure.

The state itself also has an increased interest in the profitability of infrastructure. A second aspect of how the state enables capital accumulation in this particular sector is through the involvement of public funds in private equity investment tools. Developing states have introduced regulation that makes it possible for public funds to invest in privately funded infrastructure programs (Hildyard, 2012, p.11). India for example has set up laws that allow public pension funds to invest in private equity or set up their own private infrastructure equity funds (ibid., p.11). In the Philippines, public funds are already active investors in infrastructure. The Philippine Investment Alliance for Infrastructure (PIAI), which accounts for \$557 million dollar, was set up to invest public pension funds in infrastructure projects (ibid., p.24). The investments of Asian public funds through private investments in infrastructure raises the public interest in the profitability of the infrastructure sector. Interests of states and private capital are increasingly intertwined. Besides the benefits of infrastructure investments for economic growth, Asian states now also have a direct stake in the profitability of private investments in infrastructure.

The way in which the Asian states have tried to fulfill their needs for infrastructure funding has contributed to the increased importance of private actors in infrastructure sector. Facilitative measures, as well as the linkages between public and private funds has changed the perspective of Asian states concerning infrastructure investments. The increased importance of private investments for infrastructure funding is reflected in the way the Asian Infrastructure Investment Bank was set up. Apart from the fact that the specific accumulation regimes of Asian developing countries encourage the establishment of a financing tool aimed at infrastructure, the AIIB's form of openness towards private actors, can be explained by the way in which Asian states try to solve the tensions that stem from their underdeveloped financial system.

To recapitulate, also from the perspective of borrowers within the AIIB, the institution can contribute to the accumulation of wealth. Infrastructure investments made possible by the AIIB spur the development of the export-led growth model in South-East Asia, while it allows South Asia to catch up on economic

development in the Asian region. For South Asia, and India in particular, the AIIB contributes to fulfill India's growth potential, because infrastructure investments make the diversification of the Indian accumulation regime possible.

The way in which the AIIB is set up, as publically funded investment bank, working together with multiple actors, both public and private (AIIB, 2015; Humphrey et al., 2015) can be explained by the tension between the geographical uneven distribution of capital reserves and underdevelopment of the financial sector in many Asian developing countries. Asian governments therefore seek external sources of funding. That the AIIB is a welcome source of funding to Asian developing countries is exemplified by the eagerness of President Jokowi of Indonesia to attract loans from the bank. Indonesia's current economic growth thrives for a large part on infrastructure investments (Brummit & Amin, 2016). Almost 70 percent of infrastructure needs, essential for Indonesia's economic growth, requires external funding. Jokowi wants to borrow one third of these loans through the AIIB (ibid.).

Asian states collect more external funding from private investors through facilitative state policies such as deregulation and risk-safeguarding mechanisms (Hildyard, 2012, p.9-10). Furthermore the interests of states in the infrastructure sector are increasingly linked with the private sector. Borrowing states also have an interest in the profitability of private investments, as returns from private equity funds flow back to public investors in these funds as well. The AIIB incorporates the private sector as an important partner regarding its operations. The institution contributes to safeguard risks of infrastructure investments for private partners. Moreover intermediate finance, through private equity funds or infrastructure funds has proven to be a profitable business for other Development Finance Institutions (DFI's) (Hildyard, 2012, p.28). The World Bank for example has made returns of almost 20 percent on these type of intermediate investments (ibid.). Institutional investors from the respective Asian states benefit from the AIIB in this sense, as it also increases the profitability of public investments in private equity funds while at the same time limits risks of these investments.

The AIIB does not only sustain the growth of Asian accumulation regimes. It also contributes to the mediation of tensions in accumulation regimes of developed economies. As a considerable share of the AIIB members stem from Western, developed economies, this category also deserves a place in the analysis.

### **3.4 The AIIB beyond Asia – Developed Economies**

The application of Western and developed economies for membership of the AIIB spurred the international allure of the institution. After the UK was the first state to join, many other Western states followed and international media reported on the diplomatic tensions this created with the US (see for example Anderlini, 2015; Wright, 2015). Although the decision to become a founding member of the AIIB is inherently political, one has to look further than pure geopolitical interests here to explain the emergence of the AIIB from a Western perspective. Again, the rationale behind the AIIB, also from the

perspective of developed economies, lies in the way the AIIB mediates tensions within the regimes of accumulation of these economies. The AIIB performs the function of an outlet for surplus capital and manages in this way the crisis of overaccumulation.

### 3.4.1 The high-end export-oriented growth model

South Korea and Germany are both developed economies that joined the AIIB. Both states have an extravert accumulation regime as they export high-value added products. Germany is the third-largest exporter in the world and trades mainly with other Western industrialized states, although China is the exception with six percent of German exports going into this state (Trading Economics, 2016a). Germany's position as a large exporting nation has contributed to a large current account surplus. The account surplus grew impressively from 0,3 percent in 2000 to 6,7 percent in 2014 (see Figure 3.7). Although the financial crisis impacted demands for German export negatively, the current account surplus bounced back to the same height before the crisis.

Figure 3.7: Germany – Current Account Surplus



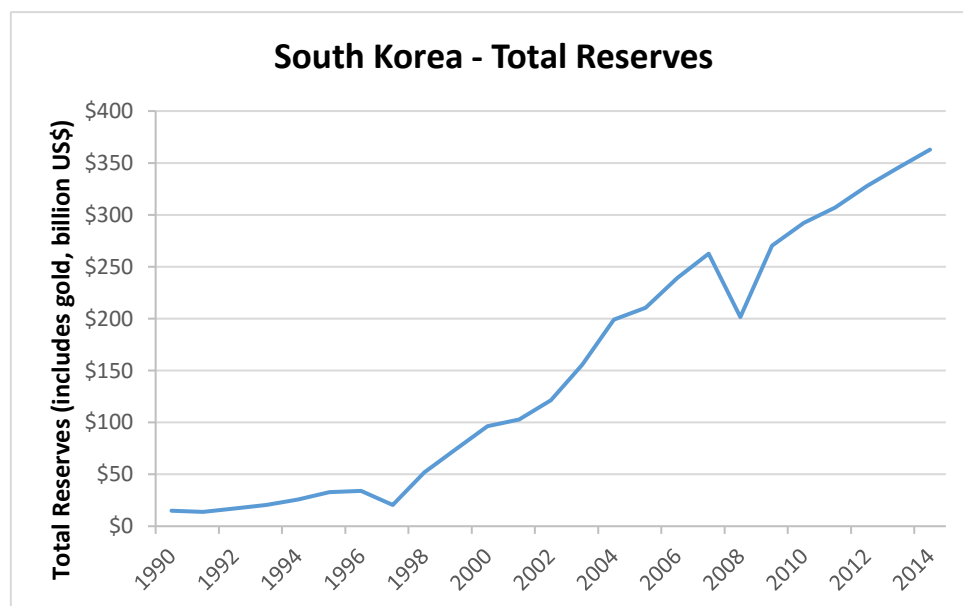
Source: own graph, data from World Bank, 2016d

The export-led accumulation created vast amounts of foreign exchange reserves. Between 2004 and 2012 the value of foreign exchange reserves had more than doubled (World Bank Data, 2016a). To increase the profitability of these reserves, German companies seek investments overseas, also beyond the EU. Asia is an important outlet for these investments (Deboonme, 2012). The AIIB is one investment tool that can absorb some of Germany's foreign exchange reserves. In this way Germany can profit directly from the AIIB, and increase the profitability of its reserves. Secondly, the AIIB can contribute to sustaining Germany's export-led growth model. Germany's exports mainly consist of high-end products, such as manufacturing machines and other equipment. This equipment is often used for mass

production of low-end products, which takes place particularly in Asia. Asian states import these machines from Germany (ibid.). As the AIIB increases regional connectivity in Asia through infrastructure, this strengthens the Asian regional value chain and export-led accumulation regime. In turn this has a positive impact on demand for German manufacturing machines. On the long run the AIIB thus also indirectly stimulates demand for German exports in Asia.

Another developed economy and member of the AIIB that has economic interests as a high-end exporter in the Asian market is South-Korea. Almost 50 percent of South Korea's GDP consists of income from exports. Similar to Germany, Korea expanded its total reserves at an impressive rate since the late 1990s (see Figure 3.8). Korean exports also resemble Germany's type of exports. The most of South Korea's exports consist of machinery and transport equipment (Trading Economics, 2016b). By far its biggest export partner is China, which takes up around a quarter of all Korean exports (ibid.). In 2015, Chinese demand fell, which impacted the Korean economy severely (ibid.). South Korea's regime of accumulation for a large part depends on the ability of China to produce economic growth, and thereby produce a demand for high-end goods. As already showed in this chapter, the AIIB is such an institution that can provide a way to temporarily keep economic growth going on the Asian continent. Thereby it also mediates the instabilities that arise from the export-led accumulation regime such as the South Korean one.

Figure 3.8: South Korea – Total Reserves



Source: own graph, data from World Bank, 2016d

### 3.4.2 Financialization – UK financial market and infrastructure as an asset class

From the perspective of the UK, membership of the AIIB improves the profitability of its financial sector. The accumulation regime of the UK is highly financialized. In the 2000s the financial sector in

the UK grew at a fast pace and accounted for almost ten percent of its GDP in 2009 (The Guardian, 2014). Although the financial crisis in 2008-2009 affected the growth of the financial sector, it still remains an important part of the UK's economy. Of all exports, 29 percent consist of financial services. This makes the financial sector in the UK one of the biggest related to the size of its economy (Burrows & Low, 2015). Membership of an overwhelmingly Asian institution as the AIIB opens up ways to attract income from Chinese currency trading or other Asian financial tools. Infrastructure in Asia has become one of the sectors in which financial markets have gained an increased interest over the past years (Hildyard, 2012). The UK's large financial sector has contributed highly to this. Many British companies and financial intermediaries have opened up their own specialist infrastructure funds (Hildyard, 2012, p.18). An example is the British-India Roads Group (BRIG) which constitutes over 20 leading British construction firms and finance companies (ibid.). Moreover, the British government has financial ties with large private infrastructure equity funds, primarily through the CDC Group, which is the UK's Development Finance Institution (Hildyard, 2012, Annex 1). Other types of equity funds that opened up infrastructure funds in Asia have their base in the financial center of Europe, London (for example Berkeley Energy, Ecofin, Eredene Capital) (ibid.). The AIIB, as a new financial tool to provide for investments in the infrastructure sector, which at the same time also works together with other financial investors, can increase profitability of infrastructure as an asset class. Thereby the AIIB helps to sustain the UK's financialized regime of accumulation.

In addition to the UK also other Western states, which are also members of the AIIB, invest in infrastructure from an institutional point of view. Pension funds from Australia, The Netherlands, Scandinavia and Germany all have part of their assets reserved for investments in infrastructure equity funds aimed at Asia (Hildyard, 2012, p.25). Also for these states the AIIB can improve the profitability of its public investments.

In sum, the AIIB also works as a regulatory mode that stimulates the regimes of accumulation of developed economies. For Germany and South Korea it provides an outlet for the surplus of reserves, while it also stimulates the export-led growth model based on high-end products. For the UK, the AIIB provides a tool to broaden its income from financial services. The focus on infrastructure falls in line with the strategy of financial and public investors from developed economies to diversify its assets and gain income from infrastructure funds which invest in Asia.

### **3.5 The Conjunctural Opportunity – Political Agency and the Regulatory Crisis of the IMF and World Bank**

The analysis of the accumulation regimes of China, Asian developing states and developed economies as members of the AIIB clearly shows how the Asian Infrastructure Investment Bank can provide an outlet for surpluses of capital into the infrastructure sector. The timing of pressure on the instabilities in several accumulation regimes can explain why the AIIB came up only in 2015. Besides that, as seen in

the previous chapters, the broad range of instabilities it tackles in a diverse set of accumulation regimes explains the broad range of membership in the institution. Moreover, different modes of regulation, the state and the money relation, have influenced the form of the AIIB, in particular the big role of China in decision-making procedures, the use of the dollar as currency, as well as the cooperation it aims to achieve with other public and private investment tools for infrastructure financing. However one last element that needs explanation concerns the form of the AIIB as a multilateral development bank (MDB), quite similar as the World Bank or ADB. The need to form a new multilateral development bank comes first and foremost from the failure of the international monetary and financial regime to contribute as a mediating force to a broad range of accumulation regimes. This comes forth from the inadequate representation of capital importing and capital exporting economies within this regime. Secondly, a conjunctural political opportunity, namely the financial crisis, enabled emerging economies to take political agency and set up a new institution which temporarily mediates failures within the international financial and monetary regime.

### **3.5.1 The imbalanced development of the Bretton Woods institutions**

The Bretton Woods system was formed in 1944 to ensure economic stability by enabling governments to control speculative and disequilibrating financial flows (Helleiner, 2014, p.178). The system functioned as a mode of regulation to mediate the tensions that capitalist wealth accumulation brings forth. Two important institutions were set up as mediating tools. The first was the International Monetary Fund (IMF). Its mission was to resolve instabilities that came forth from the imperfections in markets. The IMF's specific task was to bring temporary relief and shorten crises of imbalances of payments between states in the international system (ibid.). In such a way, it would contribute to the stability of monetary cooperation. Therefore it provided short-term loans to states with a temporary deficit on the balance of payments (ibid.). The other institution set up in 1944 was the International Bank for Reconstruction and Development (IBRD), known as the World Bank. This institution provided long-term loans, aimed at economic development. At first reconstruction and infrastructure projects received funding, later also social and environmental projects were financed. The major goal of the World Bank became to reduce poverty (Vines & Gilbert, 2004, p.12). Both the IMF and the World Bank were merely funded by Western states, as these states possessed capital to invest in the respective institutions (Helleiner, 2014, p.179).

The role of the IMF as a mediation tool to cope with temporal crises of balance of payments changed. Since the 1980s the IMF has expanded its activities and now exercises surveillance and influence over macroeconomic policies worldwide (Vines & Gilbert, 2004, p.13). The IMF provides policy advice and technical assistance, loans attached with conditionalities and research and economic analysis. The economic policies the IMF promotes through its activities have a neoliberal focus, which means that liberalization and privatization of diverse sectors of the economy is encouraged, combined with special attention to foreign investments and exports (Ahluwalia, 1996, p.193). Structural Adjustment Programs



(SAPs) forced governments to reform their economic policies in line with the neo-liberal vision of globalization (WHO, 2016). As a result of the expansion of activities, the IMF and World Bank now only focus on developing and emerging economies, while the relationship with advanced economies is limited as funding sources of the institutions (Vines & Gilbert, 2004, p.13).

The new role of the IMF and the changed position of developing and emerging economies versus developed economies within the institution were not coupled with changes in global economic relations. Emerging economies, especially the BRICs (Brazil, Russia, India and China) gained greater policy autonomy from the Bretton Woods Institutions (Ban & Blyth, 2013, p.242). The BRICs challenged the North-South divide the IMF replicated in its institution and activities by increasingly gathering capital on their own and investing it outside its borders in both developing and developed economies (ibid., p.243). At the same time the economic role of the US as creditor of the Bretton Woods institutions became more remarkable from a global economic point of view. The US has increased its current account deficit since the 1990s (Coughlin et al., 2006). By 2008 it became the largest capital importer in the world (David, 2009). In the top ten creditors of the US, China (first place), Russia (fifth) and Brazil (seventh) take a prominent place (David, 2009a). By providing the US with cheap credit, these states restored the imbalances of the United States' economy temporarily. Cheap credit of the BRICs in this way somewhat took over the mediating role of the IMF, which formerly provided short term loans to restore current account deficits, compared to that of the US. While in practice credit of emerging economies contributed to restoring imbalances in the world economy, they did not have the opportunity to play such a regulatory role within the Bretton Woods institutions. Even though economic relations had changed, it were still the US and other Western states that dominated the IMF and World Bank with large shares of quotas and voting shares. The advanced economies had over 60 percent of the voting shares in the IMF in 2006, compared to 39,4 percent for all the developing countries and emerging markets. The US acquired 17 percent in total (IMF, 2011).

The changed position of emerging economies as a mediating force in the international economy, providing cheap credit to the US, was thus not reflected in the IMF as an institution. Not in the voting shares and not in its activities, which still reflected the superficial divide between developed and developing economies. At the same time, the neoliberal policy measures of the IMF and World Bank were criticized by developing states. Structural adjustment programs did not contribute to economic growth in developing states (Buirra, 2003, p.2) and it limited the policy autonomy of governments in these states (Eurodad, 2006, p.3). The Bretton Woods institutions did not deliver on their tasks as regulatory mode. They failed to mediate international economic instabilities, the BRICs in part took up this task, while the added value to development was also contested. The financial crisis in 2008 created a conjunctural opportunity which created room for emerging economies to take up political agency and come up with a new institution within the international financial and monetary regime.

### **3.5.2 The financial crisis and unwillingness to reform**

When in 2008 Western countries were severely hit by the banking crisis, the BRIC countries as most powerful developing countries, stepped up to demand reforms in the international financial institutions, particularly the IMF and World Bank (BRICS, 2008). They demanded a more “equitable voice and participation balance between advanced and developing countries” (ibid.). According to the BRIC countries the structures within the IMF and World Bank needed to be revised in order to strengthen the representation, legitimacy, effectiveness and capacity of these institutions (ibid.). With the demand for reform, they actively tried to show that economic relations had changed, and that emerging economies as net creditors could and wanted to contribute to the international and financial system. In 2009 the emerging economies strengthened their message when China, India and Russia decided to help capitalize the IMF (Bittar, 2009). The political pressure did have effect, and in November 2010, the IMF members decided to reform its governance system, which created more room for emerging economies in the voting arrangements, and more influence of emerging and developing economies in the executive board (IMF, 2010). Through this reform, the imbalance in the regulatory mode of the international financial and monetary regime was partially restored, because the emerging economies as net creditors actually gained shares in the IMF.

However, the IMF 2010 reform did not materialize until 2016, because it was blocked by the US Congress. The BRICS spelled out their dissatisfaction with the obstruction by the Americans (BRICS, 2015). It took until December 2015 before the US had ratified the reform, and only in 2016 the IMF reform could take place (IMF, 2016; Mayeda, 2015). In the meantime the surplus of capital in emerging markets, and China in particular grew (see Figure 3.2), while no solution to the imbalance in the international financial and monetary regime was found. This created an extra push for China and other emerging economies to set up new institutions on their own. One example here is the ‘New Development Bank’ (NDB), which is set up by the BRICS (BRIC countries and South Africa) and similar to the AIIB, finances infrastructure projects (NDBBRICS, 2016).

### **3.5.3 The AIIB and the international financial and monetary regime**

The emergence of the AIIB in the form of a multilateral development bank has to be understood in the context of the failed attempt to transform the IMF back to its mediating function, providing economic stability. A financing tool in the form of a multilateral development bank not only absorbs surplus capital, it can also fix some of the imbalances in the international financial and monetary regime as a regulatory mode. The AIIB is therefore not a challenger to the IMF, and looks quite similar to the World Bank, because it tries to restore the regulatory function of the international financial and monetary regime. To restore their regulatory function, international institutions need to reflect shifts in economic power. The AIIB contributes to this, since it gives emerging and developing economies a bigger voting share compared to the IMF or World Bank. It furthermore pressures the international financial

institutions to take the economic role of emerging economies seriously and adopt reform. Moreover, the financial crisis weakened the position of Western states, which provided a conjunctural opportunity for emerging economies to openly contest the international financial institutions. In addition, the continued growth of capital reserves after the crisis has pressured the need for immanent reform within the international financial and monetary regime. These two factors can explain the timing of the AIIB, as well as the fact that it was set up as a multilateral development bank.

### **3.6 Summary and key findings of the empirical analysis**

The emergence of the Asian Infrastructure Investment Bank required explanation. The institution was set up in a time when already existing MDBs, with a similar institutional outlook and public and private financing tools focused on infrastructure investments as well. A new institution; which focuses on infrastructure; in the form of a multilateral development bank; under the heading of China; which uses the dollar; works together with other public and private investors; and which does not present itself as a challenger to the IMF or World Bank. A long range of factors which gained attention, some more than others, in international media and politics. The analysis of the inherently crisis-prone nature of capitalist accumulation regimes of members of the AIIB in this chapter, particularly China, shows that the AIIB as a new institution copes with the crisis of overaccumulation. China's export led growth model triggered imbalances in the Chinese economy. 'Twin surpluses' on both the current account and capital account fueled the growth of foreign exchange reserves. These foreign exchange reserves were reinvested through the Chinese economy. The global financial crisis however pointed out that investments of foreign exchange reserves in the domestic economy could not mediate the economic instabilities of the Chinese export-led economy. Profitability was lost. The Chinese government sought to diversify its strategies of investment and found a spatio-temporal fix for its stock of foreign exchange reserves in the form of the AIIB. The AIIB absorbs Chinese reserves and finds profitable avenues for investment in the Asian infrastructure sector. Moreover, the infrastructure investments contribute to the development of new markets for Chinese exports, and therefore also mediate the economic instabilities of the Chinese export-led growth model on the long run. The state as a regulatory mode paves the path for the choice for infrastructure in the new institution. State facilitative policies regarding OFDI, represent the strong ties between the Chinese infrastructure sector and the overall economy. The AIIB as a regulatory mode however also hinders the regulatory function of the internationalization of the Renminbi on the short term. This particular case shows that a specific historical context can explain the hierarchy of one regulatory mode over the other.

Besides China, also Asian developing countries and (Western) developed economies can use the AIIB as a tool to spur the accumulation of wealth or mediate tensions within their regimes of accumulation. For South-East Asia, the AIIB facilitates the growth of the export-led accumulation regime. For South Asia, India in particular, the AIIB facilitates the diversification of its accumulation regime, and enables

the country to continue the accumulation of wealth at a similar pace. The uneven development within the Asian region ensures the profitability of infrastructure projects. On the other hand the underdevelopment of the financial system and the uneven distribution of capital on the Asian continent provides tensions regarding the role of public institutions in infrastructure finance. Asian states therefore facilitated the deregulation, privatization and financialization of the infrastructure sector. The interests of the public and private actors in the infrastructure sector also converged. The AIIB, influenced by former regulatory actions from the Asian states, provides the opportunity to work together with private investors as a result. Moreover, cooperation with the private sector stimulates the short-term profitability of infrastructure investments, which is also beneficial to Asian developing economies.

The UK, with a large financial sector profits from the financialization of the infrastructure sector as well. Also for export-led economies as Germany, and South-Korea, the AIIB proves to be an institution in which they can reinvest some of its foreign exchange reserves, while at the same time it fosters the continued growth of export-led accumulation. At last, the form of the AIIB as a multilateral development bank can be explained from the failure of the international financial and monetary system to stabilize the world economy. The global financial crisis brought the failure of this specific regulatory mode to the forefront, and created political room for emerging economies to set up a new institution.

The analysis on the emergence of the AIIB reveals the importance of underlying economic structures in the political context of regulatory modes. It shows that inherent contradictions in capitalist development have to be regulated, but that decisions on how and when to regulate are inherently political. Choices within regulatory modes affect the development of accumulation regimes, while it also forms the room for political contestation and distribution of power. Therefore one cannot analyze the emergence of a regulatory mode in isolation. The influence of other types of regulatory modes and accumulation regimes play a central part in explaining the emergence of the AIIB.

## **Chapter 4: Conclusion, reflection and avenues for further research**

The question at the center of this thesis was: What explains the emergence of the AIIB as a new lender in infrastructure projects in Asia in the presence of already existing MDBs and other public and private financing tools, which perform the very same tasks in a similar way? Rather than approaching the AIIB as a case of a rational decision of agents to solve a collective action problem or an ideational construct, this thesis sought to explain the case from a historical context, which outlines the deeper lying economic structures as an important explanatory factor. To do so, a critical realist philosophy and insights from Regulation Theory were used. The analysis shows that the emergence of the institution can be explained best by pointing out how the AIIB regulates the imbalances in the accumulation regimes of the AIIB members. Its particular form moreover stems from the way other regulatory modes influence the type of wealth accumulation and political context.

The answer to this research question involves several steps. First of all, the main type of crisis the AIIB tends to regulate is the crisis of overaccumulation. The institution functions as a form that can expand the continued growth of capital through spatio-temporal fixes. It does so for a broad range of states, all AIIB-members, with different accumulation regimes, to a different extent. Moreover, already existing regulatory modes, on a national scale (the state and money relation) or international level (the international financial and monetary regime) contribute particularly to the specific form of the AIIB. It is the interaction within and between these modes of regulation that creates political room for agency of states to set up the AIIB as a multilateral development bank; to focus on infrastructure; for China to take a leading role in the institution; to use the dollar in the AIIB and to cooperate with a broad range of investors, both private and public.

This analysis demonstrates the applicability of Regulation Theory to the study of new institutions in the global political economy and emerging economies in a broad sense. The use of concepts such as ‘regime of accumulation’ and ‘mode of regulation’ as framework, contributes to the explanatory strength and brings ontological depth to this study. On the other hand, this study tries to expand the explanatory value of these concepts by outlining the specific linkages that exist between these concepts, since this is a rather underdeveloped element of Regulation Theory. The thesis for example touched upon the hierarchy that can exist between modes of regulation and the interdependent influence of regulatory modes on issues of political agency. This said, however also some limitations of the research need to be addressed. First of all, the thesis focuses primarily on states as regulatory and political agents and less on other societal agents. As the AIIB is a multilateral institution, this choice can be justified to sustain a clear research focus. Incorporating other agents, such as businesses and the labor force closely to the analytical framework could grant the thesis insights into the influence of other regulatory modes, such as the wage-labor relation and capital relation. Second, the economic indicators used as quantitative data

are imperfect measures of the two axes of accumulation. Although qualitative measures are used to tackle this problem, the chance is available that the quantitative data is somewhat misleading and thereby the degree of financialization or extraversion of an accumulation regime is exaggerated or downplayed. Third, although the thesis tries to incorporate a broad range of members of the AIIB, not all countries are addressed. This is justifiable regarding the large range of members of the institution, but also hinders the generalizability of the results in light of other new international institutions that arise. Central Asian countries, countries from the Middle East and the BRICS also play a role in the AIIB. With different types of accumulation regimes, these countries also deserve analytical attention. This reaches however beyond the scope of this study, but is important to consider, as these countries, as well as African countries are involved in setting up new institutions in the global economy.

Future research therefore might address other newly founded economic or financial international institutions or initiatives, such as the Shanghai Cooperation Organization, or the BRICS and its 'New Development Bank'. It would be interesting to investigate how a different composition of states in institutions or economic initiatives influence the ways regulatory modes can have impact on the emergence and form of that institution or initiative. When is there more room for political agency, and under what circumstances does a regulatory mode influence this? The 'New Development Bank' (NDB) is by definition an interesting case to consider, as both the NDB and AIIB aim to finance infrastructure and all the BRICS countries are members of both the AIIB and NDB. Combined with the fact that both the NDB and AIIB are set up in the same time period, the comparison of these two cases could provide an excellent way to further theorize on the explanatory power of modes of regulation.

A different avenue for research could be to incorporate insights from the Regulation School, particularly the conceptual framework used in this thesis, to the specific policies of MDBs and other financing initiatives. While this strand of research is already covered by 'mainstream' approaches, the critical political economy approach of Regulation School could contribute greatly to the explanatory strength of these subjects in political science. It could provide a more in-depth historical and structural analysis of why policies within international financial institutions change. Especially with the changing role of emerging and developing economies in this field, it is important to go beyond rationalist and constructivist explanations, but also incorporate structural factors that determine the global political economy.

Although this thesis has explained the emergence of the AIIB, it remains to be seen whether the institution can fulfil its potential and actually finances development. Can Asian developing countries really benefit from new infrastructure projects financed by the AIIB, and does the institution actually stabilize some of China's economic instabilities? The success of the AIIB depends on many factors, most importantly on the political will of the member states to develop the institution and learn from failures of other multilateral development banks. Moreover, the role of China in the institution can be

decisive for the future of the AIIB. China faces economic problems and the transition to a more diversified and innovative economy is paired with shocks and economic downturns. Although China commits itself to Asian development through the AIIB, economic instabilities in the country can put pressure on China's regional leadership role. The Chinese government managed to stabilize the economy for now, but how long can this last? And what if the Chinese bubble bursts, will the AIIB go down with it? To determine the AIIB's future we thus have to keep an eye on capitalist dynamics in Asia, and particularly China. After all, the story of the AIIB does not end here, it has only begun.

## Appendix

**Table 1: Member States AIIB – Shares - Votes**

<b>Country</b>	<b>Shares</b>	<b>% of shares</b>	<b>% of votes</b>
Regional Members			
Australia	36,912	3,76	3,46
Azerbaijan	2,541	0,26	0,48
Bangladesh	6,605	0,67	0,83
Brunei Darussalam	524	0,05	0,31
Cambodia	623	0,06	0,32
China	297,804	30,34	26,06
Georgia	539	0,05	0,31
India	83,673	8,52	7,51
Indonesia	33,607	3,42	3,17
Iran	15,808	1,61	1,63
Israel	7,499	0,76	0,91
Jordan	1,192	0,12	0,37
Kazakhstan	7,293	0,74	0,89
Korea	37,388	3,81	3,50
Kuwait	5,360	0,55	0,73
Kyrgyz Republic	268	0,03	0,29
Lao People's Democratic Republic	430	0,04	0,30
Malaysia	1,095	0,11	0,36
Maldives	72	0,01	0,27
Mongolia	411	0,04	0,30
Myanmar	2,645	0,27	0,49
Nepal	809	0,08	0,33
New Zealand	4,615	0,47	0,66
Oman	2,592	0,26	0,49
Pakistan	10,341	1,05	1,16
Philippines	9,791	1,00	1,11
Qatar	6,044	0,62	0,79
Russia	65,362	6,66	5,93
Saudi Arabia	25,446	2,59	2,47
Singapore	2,500	0,25	0,48
Sri Lanka	2,690	0,27	0,50
Tajikistan	309	0,03	0,29
Thailand	14,275	1,45	1,50
Turkey	26,099	2,66	2,52
United Arab Emirates	11,857	1,21	1,29
Uzbekistan	2,198	0,22	0,45
Vietnam	6,633	0,68	0,84
Unallocated	16,150		
<b>Total Regional</b>	<b>750,000</b>		<b>75</b>
Austria	5,008	0,51	0,70



Brazil	31,810	3,24	3,02
Denmark	3,695	0,38	0,58
Egypt	6,505	0,66	0,83
Finland	3,103	0,32	0,53
France	33,756	3,44	3,19
Germany	44,842	4,57	4,15
Iceland	176	0,02	0,28
Italy	25,718	2,62	2,49
Luxembourg	697	0,07	0,32
Malta	136	0,01	0,27
Netherlands	10,313	1,05	1,16
Norway	5,506	0,56	0,74
Poland	8,318	0,85	0,98
Portugal	650	0,07	0,32
South Africa	5,905	0,60	0,77
Spain	17,615	1,79	1,79
Sweden	6,300	0,64	0,81
Switzerland	7,064	0,72	0,87
United Kingdom	30,547	3,11	2,91
Unallocated	2,336		
<b>Total Non-Regional</b>	250,000		25
<b>Total</b>	1,000,000	100	100

Source: AIIB, 2015, p.29-31

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