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# Economic-Security Nexus in the AIIB: China's Quest for Security Through Eurasian Connectivity

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## Abstract

The Asian Infrastructure Investment Bank (AIIB) is mainly considered as a commercial-connectivity and sustainability-oriented infrastructure development bank, but there are also international security dimensions to the Bank. China's geo-strategic and security motivations are said to be behind its spearheading of the AIIB. This essay highlights that China's national and international security calculations have evolved in the period after the Bank's opening. In the initial phase of the AIIB's formation, 2013-2017, the Bank's creation was part of Beijing's pursuit of a more outwardly ambitious and bold national/international security agenda of new institution-building, looking to reshape the system of global governance. But since 2017, China's leadership has responded to sustained international pushback against its ambitious agenda, especially but not exclusively from the United States, and it has refocused its national security priorities onto protecting national economic growth, national sovereignty and regime preservation. Beijing has supported moves to put some distance between the AIIB from the Belt and Road Initiative (BRI), and Chinese strategists have shifted to seeing the AIIB as helpful for mitigating an economic downturn across Eurasia, and preserving China's continuing growth, and regime survival in what they perceive as a period of external threat.

How does international security intersect with the economic and development work of the Asian Infrastructure Investment Bank? The Asian Infrastructure Investment Bank (AIIB) itself does not refer to 'international security' factors or implications in its main policy documents. Nor do the senior management of the Bank or its Board members normally talk about the international security considerations of the AIIB. The preference, or tendency, of the AIIB staff, and its backers, is to focus on the international development work or economic considerations of the new Bank. But it is suggested here that international security considerations have also been a key set of motivations behind the creation of the AIIB, and continue to underlay the work of this new international financial institution.

This essay argues that China has been motivated not only by international development and economic considerations in creating and sustaining the AIIB, but

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also, importantly, though more quietly, by national security considerations, and that these security considerations have been evolving. The analysis here differs from other literature that has addressed China's international security motivations and the AIIB, as it has tended to focus on how the AIIB fits into the China-led Belt and Road Initiative (BRI). This is understandable to some extent, as these two initiatives were launched by China around the same time period, and there is overlap between the geography and substance of the two initiatives, in terms of encouraging international connectivity and infrastructure development. The related assumption in much of the literature on BRI is that it is evidence of China's attempt to rival the United States, or the liberal order, for regional or global leadership – and that the AIIB is basically a tool for pursuing the expansionist BRI agenda.

There is a tendency especially within the International Relations literature to overstate China's self-confidence and assertiveness as a global leader-in-waiting, and to conflate the analysis of the AIIB with the BRI. Here, it is argued, instead, that although China's power and capabilities, ambitions, and role in the contemporary world have undoubtedly been growing, it is also important not to conflate the analysis of the AIIB and the BRI, and to examine the specific international/national security calculations that underpin China's relationship with the AIIB. Moreover, the AIIB is understood here to be a new multilateral organization that is striving to meet or exceed global standards and practices, and within which China is trying to act multilaterally, and not only or mainly according to its own national self-interests – not a small challenge for Beijing (see Chin's "Introduction" for this collection). Finally, it is suggested here that China's national security calculations have evolved, from when it was supporting the AIIB's creation (2013-17), to the current phase (2017-onwards) when it is helping to sustain the Bank's operations, working with 99 multilateral partners in the Bank. In brief, China's national security motivations have evolved, or shifted in the last six years (2013-2019), from a somewhat outwardly ambitious set of goals to more defensive, preservationist national security motivations.

In the period from 2013-2017 (the first phase of our study), Beijing was rather bold and somewhat ambitious when it launched a series of new international initiatives and platforms, including the AIIB, the BRICS-led New Development Bank and the BRI. The establishment of a new multilateral development bank, the AIIB, in and of itself was no small achievement; it was a masterful diplomatic coup, arguably the most ambitious project of multilateral institution building to be accomplished by a non-Western power after the end of the Cold War, and reflective of Xi Jinping's 'new era' of Chinese foreign policy. The entry of the AIIB into the landscape of multilateral development finance, in spite of overt push-back from the United States (see Freeman essay in this collection), exposed what many countries consider the anachronistic geopolitical monopoly claimed by Washington and its allies in this realm since the 1944 Bretton Woods conference.

My central argument is that, although the creation of the AIIB was driven by a phase (2013-17) of bold Chinese foreign policy and international security power-rebalancing considerations, from 2017 onwards, China's security considerations, including those related to the AIIB, have shifted to a more defensive and national preservationist set of motivations. The perception of external threat from the United States has grown inside Beijing policy circles, due to the worsening trade war, and geopolitical tensions between the Donald Trump-led US administration and the People's Republic of China. Moreover, the escalating volatility in the international environment, combined with deep-rooted economic imbalances in China's domestic context, and pressurized fragmentation within the Party-State are exacerbating the latent sense of insecurity of the Chinese leadership. Chinese strategists have been redefining the notion of 'national security' that is guiding China's behavior, with national interests shifting increasingly onto preserving and protecting the Chinese nation by ensuring national survival and economic development as a sovereign state within the international community (Feng and Zhang 2019, 18).

The main finding is that, for Beijing, the AIIB is being reconsidered within this national-international security context of rising external threat, and the pursuit of connectivity across Eurasia and beyond is less and less about expansionist grand strategy to claim the 'global centre' (Yang 2017) by the world's second largest economy, and more and more about the economic-security nexus in China's calculations. Beijing is hoping that its financial capital and political capital invested into the AIIB, and multilateralized, will be helpful for protecting and preserving sustained growth across the Eurasian pan-region from what it sees as the rising external threat from the United States. As such, the hope of Chinese strategists is that the AIIB, by promoting ties of connectivity and integration across the large Eurasian zone, can contribute directly to China's continuing growth, and that of the region, and indirectly to the defense of China's regime survival and national economic development, against what it sees as an increasingly hostile threat from outside of Eurasia.

### **Original Chinese Security Visions on the AIIB**

During the lead up to the opening of the AIIB (2013-2015), across China's trade, financial and business communities most observers saw the primary goals of the AIIB as economic and commercial. These analysts did not reject the notion that there was geostrategic utility to the Bank, but they emphasized that the AIIB aims to function as a commercially-oriented infrastructure development bank. Among the AIIB membership there was reluctance to allow geostrategic considerations to overtly interfere with the AIIB's decision-making. Notwithstanding these cautions and reservations, a number of Chinese analysts did speak about the geopolitical and strategic motivations for the creation of AIIB, particularly those of China.

Senior Chinese officials initially referred to the AIIB and the BRI as conjoined initiatives. China's most powerful leader, State President and Chinese Communist Party General Secretary Xi Jinping, initially spoke about the AIIB as helping to implement the BRI (or what the Chinese call the "One Belt, One Road" initiative). Shortly after the initial international agreement was signed to create the AIIB, in November 2014, Xi said: "China's inception and joint establishment of the AIIB with some countries is aimed at providing financial support for infrastructure development in countries along the 'One Belt, One Road', and to promote economic cooperation." At a session of China's legislature in March 2015, parliamentarian Fu Ying remarked that "AIIB and the Silk Road Fund are both created for the better implementation of 'One Belt, One Road'."

In brief, originally, most Chinese analysts and officials viewed the AIIB as the mechanism for providing financial and technical support to implement the BRI, and for realizing China's strategic aspirations with the BRI. From 2013 to 2016, Beijing's national and international security aspirations were boldly-stated and outwardly ambitious (for China's bold external behavior in this period see Chin 2015). Strategic considerations that lay behind the creation of the AIIB included the hope that China's financial contributions to regional infrastructure and economic development, via the AIIB, would improve China's overall relations and status with nations in its neighborhood (Chin 2016). More outwardly ambitious in their thinking, some Chinese security analysts hoped that the regional infrastructure networks and the trade promoted via the AIIB would tighten the ties of economic interdependence between recipient countries and China, and translate also into strategic influence within the region. The hope of other security strategists was that AIIB projects would provide a more neutral channel and concrete incentives to 'unaccommodating nations', through which to help reverse the trend of growing tensions between China and neighboring countries over territorial and maritime disputes, and help improve China's reputation and image (discussed in Sun 2015). To quote a representative view in *China Securities* (a leading Chinese financial news source), the AIIB could help "strengthen ties anchored on interests among Asian countries and ease the current geopolitical tension in Asia, especially in the East Asian region. For China, this is conducive to the neighborhood diplomacy of being 'benign partners of our neighbors' and promoting joint development in the East and South China Seas."

Chinese security analysts traced the origins for the BRI and the AIIB to Peking University professor Wang Jisi's "Westward strategy", published in late 2012. Wang proposed that China pivot, geo-strategically, to focus on deepening relations with nations in the vast Central and West Asian interior, in order to avoid confrontation with the US in coastal East Asia and maritime Asia, where Beijing was facing growing tensions in the South and East China Seas. The Westward strategy also had the national/international security benefit of enabling China to focus on countering terrorism, religious extremism (and separatism) in the Central and West Asian region, which Wang suggested was a shared interest of the US and



China. Chinese authorities have drawn causal connections between economic backwardness, lack of connectivity and conflicts caused by frustrated groups.

It is suggested, here, that the desire to establish a *cordon sanitaire* against factors of instability, in partnership with Central Asian states, that lays in the deeper (Chinese) memory behind the AIIB, can be traced back to the late 1990s, when Beijing first pursued partnership policies with the newly-independent Central Asian states to accelerate the industrial development in Xinjiang in the far West of the country. The formation of the Shanghai Cooperation Organization (SCO) in 2001 was actually the first instance of new multilateral institution-building spearheaded by China in the international security realm, with a focus on securing post-Soviet Central Asia, China's near abroad. The 'Silk Road Economic Belt' across the Eurasian landmass (under the BRI), and the AIIB, more recently, were launched as parallel regional initiatives to further support Beijing's pursuit to stabilize China's north-western region and surrounding periphery; by turning the region into a gateway for transport and trade corridors that connect China to Central Asia and eventually to markets in Europe (and Africa). Chinese strategists therefore suggested, at the time of the creation of the AIIB, that the Bank should move rapidly to support the Beijing-Baghdad railway and the Pakistan-China economic corridor, in the interest of national and international security, and to strengthen economic and other connectivity ties between China, Central Asia and the West Asian nations.

Chinese strategists were also aware that AIIB projects could potentially contribute to a third dimension of traditional Chinese national security: continued access to resources, chiefly energy, in a future instance of US containment. Anticipated scenarios point to an exacerbation of Beijing's dependency on foreign energy sources. Credible estimates suggest that coal dominance in China's energy mix will keep declining from 60% in 2017 to 35% in 2040: the rising share of renewables (from 3% in 2017 to 18% in 2040) and other sources would not suffice to compensate the transition, increasing demand for oil (+19%) and gas (+166%) to the extent that oil import dependence would reach 76% in 2040 (+9% on 2017) and gas import dependence 43% (+5%). Land-based pathways across Central Asia are thus key to China to secure the inflow of raw materials and energy vital for its manufacturing activity, and they are not as vulnerable to potential interference by Western forces as the maritime domain, considering China's relative military capabilities.

However, the AIIB is not merely a 'tool' of China's national and regional security agenda. Although increased investment by the AIIB in China's neighboring countries could improve the corridor of stability around China, or would cohere with China's desire to unlock the growth potential of its 'greater neighboring areas' – one of the pillars of Xi Jinping's 'big power diplomacy with Chinese characteristics' (有中国特色的大国外交), advocated by Xi himself at the Conference on "neighborhood diplomacy" (周边外交工作座谈会) in November 2013 – the AIIB has been careful not to over-invest, early on, in areas which are (or are

perceived as) high investment risk, despite whatever infrastructure financing gaps. So far, for instance, the AIIB has only 2 projects out of 50 specifically in Central Asia – both in Tajikistan - and no new ones have been approved here in the past two years. The committed funds of about US\$100 million amount to just 1.17% of the Bank's total loans as of mid-2019, less than one tenth of the US\$1.007 billion subscribed by Kazakhstan, Tajikistan, the Kyrgyz Republic, and Uzbekistan when joining the AIIB.

It should also be noted that although the points above indicate that China's decision to create the AIIB was related to China's outwardly ambitious national/international security agenda from 2013-17, China's self-confidence as a global leader-in-waiting tends to be widely overstated. China has remained ontologically embedded in a Leninist system, and a latent sense of vulnerability remains pervasive across the Chinese Party-State. This helps to explain Beijing's reticence in the face of external pleas for transparency on its decision-making processes, and with regard to its fast-growing material capabilities (Mastro 2016). Managing the outside perceptions of China's intentions is perhaps the chief challenge facing China's leaders and diplomats today.

But has Beijing succeeded with its AIIB-related international reassurance agenda? The sections below suggest that the emergence of black swans, or unforeseen game changers, has reset the global strategic terrain for China, and complicated the international and national security calculations for China, the AIIB and AIIB members.

### **Pushback and Separating AIIB from BRI**

Even as Beijing headed toward launching the AIIB, other powers had started to push back against China's outward projection, and had started to shift towards a more confrontational response. In late 2011, the US administration of President Barack Obama had started to pursue 'constructive containment' under the rubric of the US 'pivot and rebalancing to Asia'. Light on security, except for increased US naval pushback in the South China Sea and support for Japan in the East China Sea, Washington's approach was otherwise oriented toward increasing diplomatic engagement in the East Asian region, and especially focused on competing with China on trade and commerce.

The Obama administration injected particular energy into the negotiations of the Trans-Pacific Partnership (TPP), which was set to become the world's largest free trade agreement, covering some 40 per cent of the global economy. The chief justification that President Obama provided for the US to pursue the TPP was so that the US and its allies – “not China” – would write the rules of commerce for the Twenty-first century. Significantly, the TPP also featured as a centerpiece of the US strategy in the Asia-Pacific region in keynote speeches by the Secretary of Defense. The “bold financial diplomacy” (Li 2016) undertaken by China through the

establishment of the AIIB was not only met with skepticism in Washington, but spurred American tactics to counterbalance China's economic influence by revising international rules (for a similar view see the Freeman essay).

Chinese scholars saw the moves of the Obama administration as the return to a thinly-veiled form of containment, a policy which has become far more aggressive under his successor, who has identified China as a major adversary and the central challenger to the "rules-based order" (Foot and King 2019). Since the onset of the Donald Trump presidency, Chinese scholars maintain that although the Trump administration has withdrawn from the TPP, the American overhaul of international economic institutions, including the WTO, might still pose a great threat to Chinese interests. They are concerned that the United States, Europe, and Japan might forge a new economic bloc to put coordinated pressure onto China, especially on its state-owned corporate champions (Zhao 2019, 382). Unsurprisingly, this has led both Chinese analysts and senior officials to caution against the renewed risks of "ideological wars without smoke of gunpowder"; in other words, Western attempts to destabilize China's regime security (Wang and Hu 2019).

However, the United States is not the only country to have pushed-back against Beijing's efforts to establish the AIIB. Japan, traditionally the main financial powerhouse in the region and the leading player in the Asian Development Bank (ADB), has interpreted China's new institution-building in multilateral development finance as Beijing's attempt to create "its own international order", in the words of the *2019 White Paper on the Defense of Japan*.<sup>10</sup> Though Tokyo has not ruled out joining the AIIB eventually, it declined China's proposal to join as a founding member, which came with the offer of vice president of the Bank. Rather, in May 2015 Prime Minister Abe Shinzo announced at the 21<sup>st</sup> International Conference on the Future of Asia to commit US\$110 billion in Japanese aid for supporting high-quality infrastructure throughout Asia as part of Tokyo's new "Partnership for Quality Infrastructure".<sup>11</sup> Chinese observers interpreted Japan's move, totaling 10 per cent more than the AIIB's own authorized capital, as an attempt to counter the new Beijing-backed MDB (Jiang 2018).

There have also been some gestures of cooperation between Beijing and Tokyo on infrastructure investment in other countries in the region. In October 2018, on the occasion of the first official visit by a Japanese Prime Minister to China in seven years, the governments of the two countries signed a memorandum of understanding for corporate cooperation in fifty infrastructure investment initiatives in third countries. A few months earlier, executives from the AIIB and the ADB emphasized that the two multilateral lenders are not competitors but rather complementary partners in a region whose funding needs are too great for any one player to satisfy.<sup>12</sup> However, Tokyo's ongoing preference to hedge against the AIIB, and China more broadly, was again apparent in September 2019, when Japan signed the EU-Japan Partnership on Sustainable Connectivity, in which the two sides agreed to build infrastructure in transportation, energy and digital



services, to strengthen connectivity between Europe and Asia. Here, Tokyo is attempting to highlight Japan's capacities to build high-quality infrastructure, and Europe's preferences, in contrast to China's lower cost, quickly-built infrastructure. Just as with the TPP, the emphasis on "high quality" in the Japan-EU pact entails a normative judgement, relating to Japan's support for high versus low quality, adherence to "environmental and financial sustainability", and "rules-based connectivity" in the service of "free and open" trade, and commercial reciprocity, i.e. in contrast to China.<sup>13</sup>

India is a third, albeit different, instance of pushback against China's activism in the Eurasian region. Contrary to the US and Japan, India not only is a founding member of the AIIB, it holds the second-largest voting share in the Bank after China, and it currently tops the list of grantees of the Bank's loans by number of projects financed and overall investment (see the Kumar and Arora essay on South Asia and the AIIB). However, Indian officials and scholars have opposed the BRI from its inception, out of concern for China's growing influence in India's neighborhood, and especially in Pakistan, which has been the recipient of the largest total amount of BRI-related investment at more than US\$60 billion through the China-Pakistan Economic Corridor (Fu and Xu 2017). Delhi pushes back against any notion of the AIIB being a tool to promote the Belt and Road Initiative. The Indian Foreign Secretary draws a clear distinction between connectivity "through consultative processes", as per the AIIB, and "unilateral decisions" in pursuit of "hard-wiring that influences choices", which "should be discouraged", i.e. the BRI.<sup>14</sup>

China's leaders have reacted to the international pushback against Beijing's ambitious agenda of Eurasian connectivity by gradually distancing the AIIB from the Belt and Road Initiative, at least rhetorically. Previously, in March 2015, the first official document articulating the BRI, 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road', specifically advocated the establishment of the Asian Infrastructure Investment Bank and of the BRICS New Development Bank as instances of "financial integration [...] underpinning [...] the Belt and Road Initiative".<sup>15</sup> Even at the May 2017, first Belt and Road Forum for International Cooperation, President Xi Jinping specifically listed the AIIB alongside a host of Chinese and multilateral financial institutions expected "to support Belt and Road related projects".<sup>16</sup> However, by 2016-17, AIIB President Jin Liqun started to put some distance, rhetorically between the AIIB and the BRI. In his 2018 address to the AIIB's Board of Governors in Mumbai, Jin stated that the BRI is only one of several regional infrastructure and trade arrangements that the AIIB is considering involvement.<sup>17</sup> By April 2019, Xi made no conjoined references to the AIIB and the BRI in several speeches he delivered at the second Belt and Road Forum, in which he admitted to some "some inevitable difficulties and setbacks".<sup>18</sup> In 2019, Jin called the second Forum "a great success", but went on to specify that the AIIB has never – and never will – "label projects 'Belt and Road' or 'non-Belt and Road'".<sup>19</sup> Given that the AIIB's approved projects largely overlap with the geographic area of the BRI, the actual degree of separation between the Bank

and the BRI remains somewhat controversial, but the Chinese appear keen not to attract accusations of seeking to manipulate multilateral finance for development to serve its domestic or foreign policy interests.

### **Game Changer: Trump Administration and Recasting China's National Security**

Management of expectations and of external risks is an especially critical undertaking for Beijing, given that China's rising asymmetric economic power is not likely to work as a silver bullet to induce accommodation even by economically dependent small states within its neighborhood (Ross 2019, 304). Failure to reassure others that their own national interests will be 'encapsulated' in Xi Jinping's 'China dream' of national rejuvenation could end up replicating the legitimacy challenges of the multifaceted containment pursued by the United States (Etzioni 2016).

The election of Donald Trump as US president in November 2016 has been the game changer for how China defines its national security during the Xi Jinping-led 'new era.' No longer diverted by the 'war on terror' and the fallout from the 2008 financial crisis, Washington's strategic gaze has shifted squarely on the China challenge to US primacy. The Trump administration has unleashed what is ostensibly bipartisan support in Washington for a tougher position on China. Given the bipartisan support domestically for taking a more confrontational stance on China, and the penchant for zero-sum calculus within the Trump administration, the more assertive US foreign policy toward China is seen by Chinese strategists as potentially undoing or at least narrowing the 'period of strategic opportunities' (Da 2019) for national development articulated in 2002 by the Chinese Communist Party (CCP) at its 16<sup>th</sup> national congress in 2002, and reaffirmed in 2014 with Xi Jinping's bold foreign policy for China at the 19<sup>th</sup> Party Congress.

The confrontational trade policy pursued by the Trump administration started in 2018 and with the EU's decision in 2019 to brand China 'an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance'<sup>20</sup> shortly before introducing a framework for tougher screening of Chinese foreign investments. The shifts in the US and EU policies illustrate the deteriorating context facing Xi's China. The launch of Beijing's 'Made in China 2025' industrial strategy in May 2015, with its corollary of international acquisitions targeting key western technologies and other strategic assets, has been met with increasingly stern reactions from Europe and the United States. The acquisition of German industrial automation company Kuka by the Chinese Midea Group in 2017 was widely perceived inside Europe as the tipping point of European acquiescence toward the combination of aggressive Chinese industrial competition and China's reluctance to address the uneven playing field long lamented by the European Union Chamber of Commerce in China.<sup>21</sup>

The implications of this hardening stance toward China in the West have not been missed by the Chinese leadership. Today, China's economy, finance, science and technology are more exposed to the world, and hence more vulnerable to external threats, than ever before. But it was specifically the shift in US policy toward China that intensified the sense among China's political and national security elite that the nation is facing a serious existential threat, and has led them to recast their mental constructs about the need to take action to protect China's national security. A *Xinhua* commentary in May 2019 stated that China is threatened not only by the global economic slowdown that has been generated by the 'black swan' of the US-China trade war, but also and especially by the growing pressure from the US government and others to try to force China to restructure its state-owned enterprises (SOEs). This is deemed by Chinese strategists to amount to an 'invasion of economic sovereignty' and a violation of China's 'core interests'.<sup>22</sup>

The response of the Chinese political and security elites should not be surprising, because, after all, a large grouping of SOEs remains at the core of China's economy: recent estimates suggest that, after four decades of 'reform and opening' policies, at least 20-25% of China's GDP is still generated by companies directly owned by the state (Zhang 2019). While these figures may be lower than commonly thought, they underline the particular nature of the 'socialist market economy with Chinese characteristics'. By comparison, in the West, in the mid-1970s, well before the privatization drive of the 1980s and 1990s, the weight of the public enterprise sector across mixed Western economies (such as France or Italy) was 9.5% of GDP (Floyd et al. 1984). Nor does Beijing's stewardship of the national economy end with direct state ownership; the Communist Party also intervenes to shape the strategic business calculus of private Chinese companies. In September 2017 the CCP Central Committee and the State Council jointly issued an unprecedented set of 'Opinions on creating a healthy growth environment for entrepreneurs', which highlighted the need to improve Party-building across non-public enterprises and to elicit patriotic behavior from entrepreneurs.<sup>23</sup>

For the Chinese leadership, the shift in US policy toward a more aggressive stance on China means a heightened sense of a 'terrain of hazards', and renewed focus on the Chinese Party-State needing to navigate to preserve its integrity (Nathan and Scobell 2014). China's leaders see and speak of the most immediate threat facing China as a threat to the unity of China and to the enduring viability of the Chinese polity. The notion of 'overall security' (大安全) of the nation was first introduced as a new paradigm during the first meeting of the newly-established Central National Security Commission in April 2014, and it specifically correlates domestic security challenges with foreign sources of threats (Hu 2016, 168). A particularly salient demonstration of the new paradigm is the handling of the Xinjiang Uighur Autonomous Region. One of the most pressing policy issues during Xi's first term in office, Xinjiang has long been testing Beijing's capacity to respond to widespread disaffection among a robust Muslim ethnic minority, spread over a vast and strategic territory, that borders Central Asia, and is porous, allowing for the flow of radical, fundamentalist and separatist movements.

## Re-Envisioning the AIIB's Role and Eurasian Connectivity

In recasting its definition of national security, China has returned to the politically charged language of “core interests” (核心利益) – first officially deployed by Beijing in 2009 during Barack Obama's first visit to China as US President - to highlight the non-negotiables over which Beijing will not compromise. China has further returned to an expanded concept of national economic security, that is rooted in the fundamental organizational bases of the Leninist Party-State system, that stretches beyond the material dimensions of “economic security” (经济安全), as seen in the debates and literature of Chinese scholars in the late 1990s (Yeung 2008). To quote Hu Xiongbin, the wider notion of national economic security covers “the changes in economic development that influence the [...] safety of the State” (Hu 2002: 11), but also extends to threats to the capacity of the Party-State to maintain control of what Lenin in 1922 called the 'commanding heights' of the economy – and arguably also includes ensuring the benefits for the members of the most senior CCP elite with revolutionary lineages.

As the ruling Chinese Communist Party hones in on protecting regime survival, exogenous pressures need to be considered in combination with the domestic dynamics that define the current 'new normal' phase of economic development. Beijing is still setting a growth target of around 6-6.5% year on year for the immediate future, though skepticism around these figures has been widespread among economists for some time.<sup>24</sup> Over the last decade, particularly in the immediate aftermath of the 2008 global financial crisis, the Chinese government has relied mostly on fixed investments to generate growth and preserve employment, while internal demand - especially household consumption - has grown less than previously projected. The debate over the sustainability of the current growth trend has long been intense among Chinese experts and top officials. In 2007, then Premier Wen Jiabao famously commented that the country's economic trajectory was 'unstable, unbalanced, uncoordinated and unsustainable'. Recently, both the IMF and the Bank for International Settlements put China's total debt at over 250% of GDP, and the semi-official Institute of International Finance estimated it at 303% of GDP in the first quarter of 2019,<sup>25</sup> an unprecedented debt burden for a developing country of China's magnitude.

While the general consensus is that Beijing still has room for maneuver to mitigate sudden shocks, many analysts, including influential economic advisors in the Party elite, argue that the need for China to undertake rebalancing is inescapable.<sup>26</sup> The official consensus increasingly maintains that the debt positions of the central government and of households are relatively healthy, but the viability of core elements of the traditional corporate sector are beset by moral hazard in credit allocation, with the State banking system still widely supporting inefficient and even 'zombie' firms (often SOEs), and making poor-quality investments.



Initially, at the Third Plenum of the CCP Central Committee in 2013, it appeared that a political decision had been made to afford the market a “decisive role” in allocating resources in the Chinese economy. However, the Party has seemingly gone back on its 2013 agenda. In 2015, the Chinese government switched to advocating ‘supply-side reforms’ and it issued its “Made in China 2025” strategic plan (MIC2025), arguably the most ambitious industrial policy blueprint ever pursued in the country’s history. MIC2025 essentially envisages for China to shift away from being the ‘world’s factory’: it aims to ensure that it escapes the ‘middle-income trap’ by establishing a world-class innovation system that will allow Chinese companies to achieve global dominance in key technologies ranging from aerospace to robotics and high-tech ships. While the private sector is expected to play an active role in this program, Chinese State-owned enterprises will continue to dominate ‘pillar industries’ directly associated with the MIC2025 policy. At the 19<sup>th</sup> Party Congress in 2017, General Secretary Xi Jinping explicitly called for SOEs to become stronger, better, bigger. Rather than let the market play a decisive role, the Party-State seems to have returned once again to protecting and promoting China’s ‘national champion’ SOEs, ultimately prioritizing government control over corporate efficiency on market terms (Lardy 2019). By 2018, MIC2025 had drawn the ire of the Trump administration, and turned into a cause of irritation for the governments of the leading Western European countries, where anxiety has been mounting about Beijing’s techno-nationalist ambitions and possible implications for national security, especially in the field of telecommunications. As the trade war with the US worsened, China’s State Assets Supervision and Administration Commission (SASAC) has called on the country’s biggest (97) industrial conglomerates, to play their part as ‘stabilizers’ of the national economy, by boosting their profits by 9 per cent in 2019.<sup>27</sup>

Let us return, then to the AIIB and the economic-security nexus, and whether, and if so how, China’s expanded concept of national economic security is shaping China’s interaction with the AIIB. When Chinese officials have engaged the AIIB from 2018 onwards, is the broader concept of national security reflected in their engagement with the Bank, or reflected in the policy or operations of the Bank? It is suggested, here, firstly that both public discourse and academic literature inside China are displaying greater caution not to link the AIIB with the Belt and Road Initiative for fear of adverse repercussions, as argued early on by Ding Yifan (2015). Secondly, that the AIIB’s willingness to work with SOEs concurs with China’s recast national security agenda. With regard to the AIIB’s investment operations, i.e. its support for non-sovereign and private sector projects, and for sovereign projects, the AIIB is open to financing projects of SOEs, as well as sub-national entities, private sector companies, PPPs, or hybrid structures (with sovereign guarantees for sovereign projects). In this regard, the AIIB is similar to the New Development Bank, another new China-backed MDB, which is also open to working with SOEs.

It is important to note, however, that Chinese officials and China’s leaders are being careful to engage with the AIIB as a multilateral institution, and to minimize China’s *direct* interventions in the Bank. Scholars in Beijing readily accept that the



establishment of the Bank was mostly motivated by domestic concerns, chiefly the need to accelerate China's economic transformation and reduce over-reliance on developed markets (Huang 2017). However, rather than treating the AIIB as an instrument of China's grand strategy, purportedly emanating from Xi Jinping's Zhongnanhai, Chinese officials see the Bank's work and investments as helpful to China, including in defending its national economic security, though indirectly, not directly. These indirect contributions to China's national security are not insignificant. Amid the new era of heightened US-China tensions, and slowing global and Chinese domestic growth, Beijing sees the AIIB's support for developing Eurasian connectivity as beneficial in five ways.

First, increased connectivity and economic integration between countries in Asia, and between Asia and Europe, helps to secure better access to markets and supports market development, and it helps to mitigate or potentially even reverse recessionary headwinds for AIIB member states and China (see the essay by Kostem on Turkey). Such support from the AIIB is especially timely as the global economy seems to be slowing due to the US-China trade war. Second, major infrastructural projects financed by the AIIB can help in addressing overcapacity in the Chinese manufacturing and construction sectors, and to the benefit of unprofitable and profitable SOEs. Unlocking demand abroad that may be serviced by China's national champions eases the adjustment pressures on Chinese corporations, as the domestic economy undergoes the aforementioned rebalancing. A third benefit of the 'hardware-first' strategy, which the AIIB appears to have in common with the BRI, is that it creates external demand for Chinese technology, equipment and knowhow (OECD 2018, 74), supporting China's push to move up in the value-added chain towards high technology and services sectors. Fourth, the global receptivity of Chinese corporate expansion abroad, facilitated by the AIIB, supports China's transition toward 'high quality development' as envisaged in MIC2025. Such Chinese corporate entry into foreign markets could also pave the way for strategic assets acquisition abroad, and in turn, the indigenization of technology in critical sectors, over the medium term. Finally, all of the above dynamics are supported through loans that involve certain financial risks: the establishment of the AIIB with the participation of many other countries allows China to spread the risks which it would otherwise bear on its own, as is the case across many BRI projects.

### **Concluding remarks**

In this essay I have assessed the economic-security nexus in the AIIB. I have argued that international security considerations have been a key set of motivations behind China's decision to spearhead the creation of the AIIB, and that such considerations continue to intersect with the economic developmental work of the Bank.

However, in much of the literature and international commentariat there is a tendency to overstate China's self-confidence and assertiveness as a global leader-in-waiting, and to conflate the analysis of the AIIB with the BRI. Moreover, China's national and international security calculations for supporting the AIIB's creation have evolved, from when it initially led the creation, to the current phase. Initially, in the 2013-2017 period, Beijing moved boldly and ambitiously, to launch a series of new international initiatives and platforms, including the AIIB, openly showcasing a new ambition for institution-building, and potentially unprecedented ambitions for parallel institution- or order-building (Chen 2016). But there has been a marked shift in the Chinese attitude towards the Bank since 2017. Sustained pushback from the U.S. and Japan, coupled with anxiety on the part of India and especially the EU vis-à-vis the Belt and Road Initiative, have led Beijing to attempt to distance the AIIB from the BRI, at least rhetorically. At the same time, challenges from Donald Trump's erratic presidency and persistent threats of trade war have made China's leadership more cautious, about the need to protect national growth and integrity, and preserve regime stability, and they appear less bent on projecting influence globally. They are more keen to ensure that the financial and political capital invested into the AIIB helps preserve sustained growth across Eurasia, promotes ties of connectivity and integration across the large pan-region – and in so doing, the AIIB can contribute *directly* to China's continuing growth, and *indirectly* to the defense of China's regime survival and national economic development.

As China's national security focus shifts towards a more preservationist agenda, particularly in an international context of uncertainty, the International Relations theory of 'ontological security' would suggest that the Chinese Party-state, like other states, is not only pursuing physical and wider political-economic security imperatives, but also aiming to secure its inter-subjective 'sense of being' in the world (Vieira 2016, 291-292). Ensuring a consistent sense of 'self', and having that sense affirmed by others, defines the 'ontological security' of a state (Zarakol 2017, 48): it sustains the coherence of its society internally, while externally it allows other states to anticipate how to act, and what actions to expect in return. (Wendt 1992).

Future research on China's conduct inside existing multilateral bodies, and its formation of the AIIB as a new multilateral organization, should assess Beijing's behavior through the theoretical framework of ontological security calculations as well as material power. To summarize, an ontological security research agenda for the study of China's national security and the AIIB should involve at least the following theoretical and empirical dimensions, and working hypotheses:

- (1) Consideration of how and why, for Chinese leaders, acquiring ontological security is a critical and urgent goal, but remains elusive;
- (2) Assess whether ontological security remains elusive due to China's track record of shifting identities;
  - (a) analysis of how and why, domestically, throughout its modern history, China has suffered major disruptions in its sense of a continuous

biographical narrative from the start of the Opium wars to Xi Jinping's tightly controlled 'China dream of national rejuvenation';

(b) study whether, on the international front, China faces two main challenges to its ontological security: the transition in its self-identification from the 'largest developing country' to a 'big power in developing' (Hu 2016, 165) destabilizes its identity in its international relations (Lee and Chan 2014, 304); and reinvigorates proponents of the 'China threat' theory;

(3) Examination of whether and in what ways this is an ideational confrontation requiring institutionalized and soft power, and whether China commands such ideational and soft power less effectively than hardware (Zhu 2013);

(4) Analyze whether the main challenge facing Chinese foreign policy is not that of Realist material power, but a Constructivist-type 'identity dilemma' (Callahan 2016, 227), and the degree to which Beijing is aware of the exact nature of the challenge;

(5) Assess whether and how the AIIB represents a test case for assessing China's ontological security, through Beijing's policy decisions, and its conduct as first shareholder. In particular, examine whether, how, and to what extent, Chinese leaders are able to reconcile the multilateral ethos of cosmopolitan technocrats such as AIIB President Jin Liqun and officials in the Ministry of Finance or the People's Bank of China with the leadership's 'centennial goal' to position the country at the center of the global stage through the preservation of 'Chinese wisdom', China's authoritarian political regime, and what some call, China's "Sino-Capitalist" political economy (McNally 2012) – and to do so within a coherent national identity.

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