



The Rational Design of the Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank – Power, Politics and the Economic Institutional Framework

Abstract

The basis of this paper is to scrutinize why the Asian Infrastructure Investment Bank has been designed as it has been, and how the specific design of the institution already has and will affect the Asian Development Bank. The general analytical and methodological approach underlining this research is to be found in the Rational Design's rationalistic approach to institutions and their design's. Based on the deductive process, coupled with Rational Design's framework of undertaking a case study, the paper dissects both the AIIB and the ADB, in order to divide the institutions into dependent variables. Hereafter, the paper represents its independent variables stemming primarily from cooperation theory. These independent variables formulate the theoretical foundation of the rational design and coupled with the fragmented empirical material, the paper utilizes an intricate statistical method of cross-referring independent variables with dependent in the context of conjectures, formulated by the Rational Design, in order to analyze the reasoning behind the design choices of the AIIB. After having determined the reasons behind the individual design choices of the AIIB, the Paper presents a line of inquiry; comparing the findings to the design features of the ADB. In this line of inquiry an assertion, of what the AIIB's design, and its creation, will imply for the ADB. Beside these main lines of inquiry, the paper will also address and analyze how the AIIB will affect, and have been affected, by China and the geopolitical climate of the region.

The analytical component of this paper centers primarily on two key aspects of the AIIB its members and its scope. In regards to the membership constellation the paper attempts to apprehend why some members have chosen to join the institution while others haven't. Moreover, the paper tries to utilize the theoretical knowledge of membership politics and preferences in order to comprehend why it has been possible, and why it has been preferable, for the creator of the AIIB to pursue this exact membership constellation and specific mechanism of inclusiveness. In addressing the scope of the AIIB the paper utilizes a three-dimensional approach comprising real economics, geopolitics and the scope of the AIIB.

Lastly the Paper concludes its deductions, clarifying and discussing the findings from the application of the different conjectures. Here, concluding that the findings related solely to the

AIIB's design choices could be explained by a mixture of regional trade, comparative advantages and China's economic profile. However, the analytical aspect investigating from a comparative angle concluded that the design choices of the AIIB were most likely aimed at cooperation and a wish to extend and supplement the already existing regional institutional framework. And lastly, the paper ponders the usability of the Rational Design in order to comprehend a case such as the AIIB. Concluding; that even though the short lifespan of the institution does hamper the analytical process, and the extent of the analysis, the Rational Design does provide a stringent and in depth understanding of the institutions design and how it relates to a similar institution.

Contents

.....	1
Abstract	2
1. Introduction	6
The Asian Infrastructure Investment Bank.....	6
2. Problem Formulation.....	9
3. Methodology	9
Structural Design	9
Research Design	10
Types of Empirical Materials and Document Analysis.....	11
Delimitations	13
3. The Rational Design	14
The Dependent Variable.....	17
1. Membership	17
2. Scope	18
3. Centralization	19
4. Control	20
5. Flexibility.....	25
The independent Variable	25
1. Distribution	28
2. Enforcement	29
3. Number of Actors	31
4. Uncertainty	32
4. The Existing Framework	33
The Bretton Woods	34
The International Monetary Fund	35
The World Bank	36
The Asian Development Bank.....	37
The Dependent Variables of the ADB.....	38
Membership	38

Scope	38
Centralization	39
Control	39
Voting	41
5. Analysis	42
The four assumptions	42
Conjectures	45
1. Membership inclusiveness in relation to the distribution problem	45
The Inclusiveness in the ADB and its ramification for distribution conflicts	50
2. Heterogeneity and its effect upon an institutions scope	52
The Scope of the ADB and its relations to the AIIB	54
3. Membership and preferences	59
4. The control of the AIIB	64
6. Conclusion	68
7. Perspectivation	76
8. Bibliography	77
Appendix:	86

1. Introduction

In this chapter the paper contemplates the creation of the AIIB. This introduction will present the actual facts concerning the creation of the AIIB. Hereafter a short résumé of reactions from international actors, intellectuals and the press will be given. Hopefully generating an interest in the subject and validate the relevance of the inquiry itself.

The Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with headquarter located in China's capital, Beijing. The first mentioning of the AIIB occurred in October 2013 (AIIB, 2016) President, of China, Xi Jinping was touring Southeast Asia. The focus of the bank, he announced, would be to:

"to promote interconnectivity and economic integration in the region" and he added that: "The new bank will cooperate with existing multilateral development banks to make full use of their respective advantages and jointly promote the sustained and stable growth of the Asian economy" (Xinhua, 2013)

The next step towards the realization of the AIIB came a year later in October 2014. It consisted of 22 countries signing a memorandum of understanding. At the 2014 meeting the location of headquarter besides the AIIB's president Mr. Jin Liqun, a former high-ranking Chinese official, was elected. The AIIB went into operation on the 25th of December 2015. (AIIB, 2016).

The AIIB's founding member states comprise nearly of all the Asian countries and the European countries such as Germany, France and the United Kingdom are also among the founding members. Picture 1 illustrates this diversity of the membership, with the countries marked in red being the 57 founding members of the AIIB.



Picture 1, Source: Yanan, 2015.

The creation of the AIIB itself was met with diverse responds. Prominent officials from already existing international institutions such as; Christine Lagarde from the IMF and Jim Yong Kim from the World Bank were keen on cooperating with the AIIB (Abdenur, 2015, p. 4) Among intellectuals, the points of convergence were primarily aimed towards the absence of both Japan and the United States. Pointing at the implication that this split, between the US and its allies, whom had chosen to enter the AIIB, could potentially mean geopolitical. (Lipsy, 2015) (Runde, 2015) Great Britain rarely defies recommendations from the United States but, the possibility of London becoming the financial trading hub for all of Asia was too great an opportunity to miss. This meant that United Kingdom broke the G7 pack as the first country and joined the AIIB on March 16. 2015. (Brown, 2015) United Kingdom entering the AIIB meant the attempt by the United States to convince key-allies not to join the institution, to avoid institutional and political competition, failed. (Abdenur, 2015, p. 3) Instead, The AIIB has by many observers been seen as an alternative to the IMF's and the World Bank's inherent mix of politics and development, often resulting in

terrible scenarios for recipient countries. Politics and development are, on paper, strictly separated in the AIIB and this sets it apart from the established institutions and might provide a different path for countries in need of development. (Liao, 2015) An example of the regional institution being politicized is a decision by the ADB to fund infrastructure investment in the disputed territorial area of India called Arunachal Pradesh. The Chinese government saw this move as a highly political one and encouraged the ADB to initiate countermeasures to reverse the negative political impact for China, without any luck. (SINA, 2009)

The AIIB has the potential to fulfill the unmet need many Asian economies have. The ADB released a study in 2009, which concluded that the Asian region needed infrastructure investment between 2010 and 2020 at a staggering eight trillion US dollars, if economic growth in the region were to continue, at a similar pace. The report recommended that Sixty-eight percent of the infrastructure investments should facilitate new infrastructure. (Firzly, 2015) The AIIB could help fill this gap of missing infrastructure investments in the region. But, the initial stages surrounding the creation of the AIIB have been dubious in character and some have seen it as a challenge to the international system, (Brown, 2015) while others have embraced the institution's in hope it would expedite further cooperation in the region. (Liao, 2015) international scholars are similarly divided: *"The AIIB represent the start of a fundamental challenge to the current global multilateral order."* (Foreign Affairs, 2015) this statement was presented to a pool of experts on international affairs and the result was mixed. Eleven agreed with the statement and twenty disagreed. Francis Fukuyama saw it as a change more than a challenge and Warren Cohen advocated for American participation. However, this question is in its nature international. Conversely, this paper strives to narrow the scope by creating an in depth understanding of the AIIB's composition and its broader institutional implications for the region of Asian.

2. Problem Formulation

“Why is the AIIB designed as it is? And how does these design choices affect the Asian Development Bank? “

3. Methodology

This Chapter aims to showcase the methodological decisions, and their concurrent effects on the construction of the paper. The reasoning for the selected problem formulation, theoretical foundation, empirical material, and an active delimitation, will be given. Firstly, the paper's choice of a research design will be introduced and subsequently an explanation of; how it will be incorporated to create a framework for answering the problem formulation, will be provided. Afterwards, a quick review of the used empirical data will be provided, describing how these data were gathered and their credibility. Hereafter, the chapter concludes whether a fulfillment of the goals of reliability and repeatability, in order to ensure validity, has been upheld. And lastly, the paper will present its active delimitations.

Structural Design

The structural design of this paper will be based on a deductive framework incorporating the analytical assumptions and approach of the Rational Design. The reasoning behind working deductive is to be found in its ability to answer the papers problem formulation. The general wondering, in the paper's problem formulation, is based on the Rational Design's rationalistic approach to institutions and their design's. Based on the deductive process, implying working from specific theory to general knowledge, coupled with Rational Design's framework of formulating conjectures, the paper has chosen a structure providing a logical and continuously analytical path towards answering all aspects of the problem formulation. In order to optimize this progression a twofold line of inquiry, in respect to answering the problem formulation, has been undertaken.

However, before undertaking this twofold line of inquiry the paper will present the idea of the Rational Design and its inherent theoretical assumptions, required to comprehend why institutions are created, or how they are influenced by change, and what certain mechanisms and configurations mean for the design of a given institution. Hereafter, an application of this theoretical knowledge of institutional design will be provided in two stages. The first stage will be sketching out the idea of the “dependent variables” from the Rational Design and applying those onto the empirical knowledge of the AIIB. The second stage will focus on presenting the “independent variables” and the analytical comprehension of the intricate interactions between dependent and independent variables.

Having presented the main body of theoretical and empirical material, an answer for the first line of inquiry will be actualized. This actualization will be built upon the knowledge generated from the two stages and will answer the question of why the AIIB is designed as it is. The theoretical guideline for this actualization will be based on the Rational Design’s conjectures; prescribing how certain independent variables affect dependent variables.

After having determined the reasons behind the individual design choices of the AIIB, the Paper will present a line of inquiry; comparing the findings to the design features of the ADB. In this line of inquiry an assertion of what the AIIB’s design, and its creation, will imply for the ADB, viewed in the theoretical context of the Rational Design. Beside these main lines of inquiry, the paper will also address and analyze how the AIIB will affect, and have been affected, by China and the geopolitical climate of the region.

Lastly the paper will evaluate its own findings and hereafter the usability of the Rational Design theory as a mean to analyze the case of the AIIB and its implications for the ADB.

Research Design

In the paper, the “case design” has been selected due to the choice of Rational Design, which is aimed at illuminating specific institutional cases, and furthermore permits comparative analysis.

“This approach has several advantages. It provides a general framework for a wide range of empirical studies and fosters comparisons across cases while allowing individual analysts to explore the implications of interactions in their particular cases.” (Koremenos, et al, 2004, p. 780)

The benefits of the Case design are multiple; from uncovering complex dynamics and relations, in a given structure, to revealing latent motives and patterns, and enabling testing theoretical predictions. In the process of selecting the empirical case it has been paramount that it contained all the essential aspects for a future analytical examination and that it provided a comprehensive depiction of the observed phenomenon, in order to ensure the most optimal reliable, repeatable and valid research structure (Bryman, 2012, pp. 66-68). The case of the AIIB is unique and it's representative in showcasing institutional change in Asia, making it a suitable case for the chosen methodological approach. Furthermore, there is plenty of empirical material available on the configuration and features of the institution, which will be vital in order to undertake an analytical examination testing assumptions and conjectures and interactions with the existing institutional framework.

In the design choice of the case design, there are multiple ways of applying a case in order to answer to a problem formulation. In this paper the “simple case design” has been chosen to focus on the specific design of the AIIB and its implications for the existing regional institutional framework. Moreover, applying this case design keeps the aspect of the institutional design as the core element of the problem formulation. By crossing the findings from the design of the AIIB, and the ADB, with the assumption and conjectures in the rational design, it should be possible to determine the cause and the effects of institutional design choices.

Types of Empirical Materials and Document Analysis

Most of the quantitative empirical materials gathered in the paper stems from the Articles of Agreement from the AIIB itself, which does provide vast and comprehensive data on its member's contributions and the banks financial and operational capabilities. Other empirical quantitative materials have primarily been extracted from articles from journals and magazines like Foreign Affairs, Foreign Policy, Brookings Institute, BBC, etc. These kinds of material are somewhat biased

due to the fact that they are created by subjective individuals with an agenda or a journalistic guideline or framework. The paper is aware of this bias and has therefore selected some of the most renowned sources on international politics that strives to promote objectivity due to their higher level of credibility. (Duedahl & Jacobsen, 2010, p. 63)

In order to extract information, document analysis has been applied as the methodological tool to collect data from the chosen empirical material. When document analysis is applied to extract information there are some important aspects that need to be taken into considerations, which include authenticity, credibility and the meaning of the documents. (Duedahl & Jacobsen, 2010, pp. 53-67)

In the facet of authenticity, for the chosen empirical material, the paper will view it from two distinct perspectives. In the first perspective, the authenticity of the qualitative data can be said to be considerable high, due to the material being gathered from the source itself the AIIB, which has an incentive to provide accurate data due to credibility among its participating members. Nonetheless, when assessing the authenticity of the AIIB's numbers it's vital to remember that a certain angle and purpose can be latent in the calculations and presentation of the data. Here, the paper uses a lot of material from the institution that it wants to scrutinize, hereby exposing itself to a one sided viewpoint, yet there can be said to be satisfactory validity, since many of the numbers are confirmed from sites such as the U.S. state department, The World Bank and IMF. The second perspective concerns the state of the source material. If for example the release of the Articles of Agreement was still under construction, only certain parts of the material were accessible to the public, or the material were being presented by a second hand source the authenticity of the document would have been lower, luckily this is not the case and the authenticity of the Articles of Agreement can therefore be said to be high. (Duedahl & Jacobsen, 2010, p. 55) Another thing that is of interest when conducting a document analysis is the authenticity of the document is the expressed meaning. A document might have a primary meaning that is hard to extract if the reader does not possess the required professional comprehension. However, the Articles of Agreement 34, 1 states that the working language and the Articles of Agreement subject for a legal interpretations, will be the English version. This fact

makes language barriers smaller to overcome and significantly lower the likeliness of misinterpretation, due to the wordings legal nature. (AIIB, 2015, p. 19)

In regards to the credibility of the used material it is important to remember that all documents are created by authors with a certain reason or agenda. (Duedahl & Jacobsen, 2010, p. 59) The document being scrutinized "the Articles of Agreement" can be classified as highly credible due to the document having been signed by the member countries, and they therefore recognize the authority of the document and its content. (Duedahl & Jacobsen, 2010, pp. 71-73)

Based on this it can be concluded that goals of reliability and repeatability have been upheld, since the sources are credible and the structure of the paper can easily be repeated if new circumstances were to arise.

Delimitations

The purpose of this section is to explain the active delimitation undertaken by the paper, to create a silver lining. In this respect, it is important to carefully delimitate excessive variable, in order to focus on the variables that plays a key role.

The first part of this delimitations concern itself with the theoretical delimitation. In this regard the paper introduces 5 dependent variables in order to showcase the fundamental theoretical deconstruction and understanding of an institution. However, the paper has chosen, due to the AIIB's limited time of operation and the importance of the institutions' founding members, to primarily focus on the scope and the membership variables. Having chosen these two specific variables the paper does limit itself, since variables such as flexibility and centralization could have helped determine the institutional environment of the AIIB. However in order to fully apply the conjectures, of these two variables (Flexibility and Centralization), the paper would have needed a case of an important action or decision, internally and externally, in order to conduct a sufficient analysis.

In the empirical dimension the paper has chosen to delimitate the aspect of monetary politics. The reasoning behind this delimitation is to be found in the AIIB's decision to initially conduct its investments in dollar. If the AIIB had created a currency basket or implemented the Yuan as its

primary currency the dimension of monetary consideration would have been vital to analyze in order to understand the institutions design and its effect on the ADB.

Another delimitation the paper made has been the AIB's impact on the international institutional economic system. Here, the paper does touch upon the differences between China's economic policies and its underlining ideological differences with the Bretton Woods system. Even though this extra layer of analysis could have been very interesting, the Rational Design does not have a sufficient theoretical comprehension of such a delusive concept as global economic ideology and the international system does also challenge the boundaries of the selected case study.

The last delimitation of the paper is the exclusion of any military and border disputes, in order to understand the intricate game among actors and international institutions. The scope of the paper is purely economic, and so is the case, therefore it would only create further confusion and increase unanalyzable factors.

3. The Rational Design

This chapter will present the theoretical foundation for of the Rational Design: The understandings of international Institutions and international politics, derived from the rational regime tradition, and the understanding of Cooperation and actor rationale, derived from Oye's cooperation theory. Moreover short examinations of Rational Design's research design will be provided.

International institutions have, since their conception, been a central, but somewhat tricky phenomenon in international politics. They don't really seem to fit into the realist perspective of the state as the principal and lone actor in an international system, based on anarchy. Nonetheless, realist cannot exclude the autonomy that international institutions comprise, and the benefits and advancements international institutions offer in areas such as the international economy, the environment, and national security. Constructivist's rightly argues the importance of Institution's in determining interstate affairs, by pointing to the inflexibility in institutional practices forcing state behavior. However, in the search for insight into institutional power they seems to put too much emphasis on the norms and values reproduced in the institutions and leave little space to a general analytical approach based on self-interests and power-maximizing

behavior. This creates a need for an approach that accentuates the general rationalist approach but leaves space for the characteristic of the specific institution. (Lipson, et al, 2001, pp.761-763)

It is to solve this inherent problem between general application of rational principles and the significance of the specific institution that the Rational Design has been devised. The rational Design strives to create a coherent analytical approach to understand the design fluctuations in international institutions. The analytical basis of the Rational Design is to be found in the rational regime theory, stating that state actors want to maximize power, and because the configuration of a given international institution does force state behavior, while being hard to alternate after conception, the formulation of an international institution's design can therefore be a vital tool to maximize power. In regards to the Rational Design's contribution to Rational Regime Tradition, the Rational Design does not in itself contribute to the rational regime tradition, it rather tries to implement and develop; a practice of the using underlying theoretical parameters to streamline research projects. (Lipson, et al, 2001, p. 763) This implication is utilized to specifically analyze how power equilibriums among actors, combined with a multitude of other factors, produce a given institutional design.

"(The Rational Design) offer a systematic account of the wide range of design features that characterize international institutions. We explore—theoretically and empirically—the implications of our basic presumption that states construct and shape institutions to advance their goals. The most direct implication is that design differences are not random." (Koremenos, et al, 2004, p. 763)

There are two focal points in the Rational Design; the reasoning behind a certain design configuration of a given international institution, and why such a design was reached by rational states acting in an anarchic system. To accommodate this understanding of actors and institutions, the Rational Design tries to infuse the understanding of Game-theory with certain conjectures about institutional design choices, in order to comprehend how cooperation can occur among actors with no hierarchical authority, and what the outcome of this cooperation means for a given institution. (Koremenos, et al, 2004, p. 764) Emerging from this understanding of state actors and international institution the Rational Design defines International Institutions as:

"We define international institutions as explicit arrangements, negotiated among international actors, that prescribe, proscribe, and/or authorize behavior. Explicit arrangements are public, at least among the parties themselves." (Lipson, et al, et al, 2004, p. 762)

This is a relative broad definition of an "international institution", but this definition allows for a more case oriented specification of a given institution depending on its in-built characteristic and variations from other institutions. The Rational Design uses this understanding of international institutions as arrangements between international actors to express the creation of institutions as a correspondence between states, purposefully deciding to address new circumstances. This creation can be based on already existing functional patterns, either already institutionalized or just occurring as tacit behavior. (Lipson, et al, 2001, pp. 761-763)

"The arrangements themselves may be entirely new, or they may build on less formal arrangements that have evolved over time and are then codified and changed by negotiation." (Koremenos, et al, 2004, p. 763)

In regard to institutional- restructuring, the Rational Design points to actors frequently solve new challenges by imitating features from other institutions that work well in similar settings, or by designing explicit institutions to strengthen already unstated cooperation. (Lipson, et al, 2001 p. 767) This is done in the extent of trying to create an institutional equilibrium, including the new circumstances, rules of the game and the expectations of the actors. (Lipson, et al, 2001, p. 768) Furthermore, institutions may evolve or become downplayed, or outright abandoned, depending on their functionality and ability to address new conditions and problems. (Lipson, et al, 2001, p. 763)

Having now provided an understanding of the theoretical elements of the Rational Design, another important aspect must be inspected, its research design.

The Rational Design does have a very stringent research design, formulated in order to achieve a standardized analytical approach enabling comparative, continuous, repeatable and verifiably

forms of analysis. This research design is structured around the mathematical principle of paring a dependent variable with an independent variable. (Koremenos, et al, 2004, p. 799)

“Our research design is quite simple. We have isolated a set of independent variables that we expect will determine the choice of particular institutional design features— our dependent variables. In our conjectures, we focus on “main effects”—that is, the bivariate relationships between the independent and dependent variables.” (Koremenos, et al, 2004, p. 780)

The Dependent Variable

The Rational Design highlights that when states gather in international institutions it is to promote a common interest and to cooperate on issues that can appear impossible singlehanded. (Koremenos, 2004, pp. 8-9) The Challenge that the AIIB face is the economic growth not being meet with sufficient investment in the Asian/Pacific region, due to the lack of infrastructure. China is the largest economy in the region and because of that China has a special interest in ensuring, the economic growth in the region isn't halted, by structural boundaries in the connection and distribution systems. The ADB highlighted the need for infrastructure investment in a report from 2009 where the ADB estimated that in the years between 2010 and 2020, 750 billion US dollars of annual investment in infrastructure, to sustain economic growth, would be needed. (ADB, 2009, p. 11) How the AIIB is designed to accommodate the infrastructural challenges of Asia will be the task of the following section to clarify and likewise, highlight the most important aspects of the institution for the later analysis.

The Rational Design highlights five key dimensions of international institutions that are vital to cooperation. The design acknowledges that there are other markers that play an important role in analyzing institutions but these five dimensions seem to be applicable to all international institutions. The five dimensions are: membership, scope, centralization, control and flexibility. (Koremenos, 2004, pp. 8-9)

1. Membership

Membership refers to the construction of the institution. Who can join and what are the conditions of membership, are some of the questions that need examination to understand any institution. (Lipson, et al, 2001, p. 10) The membership of the AIIB is restricted to members of the

Asian Development Bank (ADB) or the International Bank for Reconstruction and Development (IBRD). The members of the AIIB are divided into two different groups. The first group is regional-members and the second is non-regional members. The regional-members are those countries located within the geographical area the United Nations classifies as Asia and Oceania, all countries outside this geographical area are the non-regional members. (AIIB, 2015, pp. 2-3) If a non-member state of the IBRD or the ADB desires to become a member of the AIIB or a state failed to file for a membership before the 31. of December 2016, a special majority vote from the board of governors is needed, before admission to the AIIB can be permitted. If an actor is non-sovereign or in another way unable to conduct international relations this actor may apply for the AIIB through a member of the AIIB that can speak on the actor's behalf (AIIB, 2015, p. 3)

2. Scope

Scope refers to the coverage of the institutional framework. What areas does the institution intend to cover and often more important, what areas is excluded from the operational framework of the institution. (Koremenos, 2004, p. 10) The purpose of the AIIB is according to the Articles of Agreement to:

"Foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions." (AIIB, 2015, p. 2)

The AIIB have three projects ongoing and the following will highlight the regional benefits and demonstrate how the goals of the AIIB have materialized in regional projects. The first project is a power grid upgrade in Bangladesh. The government of Bangladesh has identified the lack of a sufficient and reliable power source as a significant constraint to economic growth. The government of Bangladesh has therefore asked the AIIB to help them accommodate this problem. The project involves an extension of the already existing power grid, an upgrade of existing cables, for instance, some of the new cables are going to be placed under ground for higher supply safety, and areas that have been without electricity will be put online so that a total of 12.5 million people will benefit from this investment. This project is the product of local

companies, local politicians and the AIIB working together. (AIIB, 2016) The total cost of this project is estimated to cost 262.29 million US dollars. (AIIB, 2016)

The second project is a road improvement in Tajikistan near the border with Uzbekistan. The project will improve mobility in the region and the AIIB is cooperating with the European Bank for Construction and Development in a joint financing plan. The total cost of the project is estimated to be 105.9 million US dollars.

The last project is the construction of a 64 kilometer four-laned extension of a highway to help provide a faster, safer and more cost efficient connection between the northern part of Pakistan and the southern part of Pakistan. The corridor runs from the southern port city of Karachi and spans 1800 kilometers to the city of Torkham on the border to Afghanistan. More than 80 percent of Pakistan's GDP is derived from this corridor. In addition to making a part of this corridor a faster, safer and more cost efficient connection it also serves as a link between landlocked central Asian countries and the Arabian Sea. The project has an estimated cost of 273 million US dollars and the government of Pakistan has applied for a joint financing from the AIIB and ADB. (AIIB, 2016)

None of the projects are administered by the AIIB. The AIIB only act as a financial support. But the AIIB have already shown that it can work with individual partners, regional and international development banks. The AIIB have, in these three projects, contributed to infrastructure investments that increase and foster economic growth in the region. The scope and the reality are coherent within the institution.

3. Centralization

Centralization refers to the institutional tasks and operations. What organs within the institution hold the power to do what and is a unity needed or can some parts of the group be left out in the decision making process. (Koremenos, 2004, p. 11)

The decision process in the AIIB has a high level of centralization due to article 22 part 1 in the Articles of agreement that states: *"All the powers of the bank shall be vested in the board of governors."* (AIIB, 2015, p. 13) The working language of the AIIB is English and is there for not considered excluding due to the fact that it is a world language. If disagreements should arise, it is

likewise the English edition of the Articles of Agreement that is the document all disputes should be settled in accordance to. Centralization can also mean gathering information and distributing it among the members, creating a database that all the members can retrieve data from if needed. (Lipson, et al, 2001, p. 12) All members of the AIIB will receive an annual report and a supplement of quarterly reports will be available for all members at their request. (AIIB, 2015, p. 19) The Rational Design highlights the lack of willingness from states to give away some of their sovereignty (Koremenos, 2004, p. 12). The Articles of Agreement states that the AIIB is a politically neutral institution and is to be guided only in accordance with the principles of economic rational. This principle of economic rational applies to all members of the AIIB, therefore the sovereignty question does not apply directly from the Articles of Agreement. (AIIB, 2015, p. 18)

4. Control

Control refers to how the institution is financed and how collective decisions within the institution are made. Voting for example is an important aspect of control, how many votes does each member have and does one member hold a veto of some form and on what conditions. How do key officials get elected and what power's is vested in them. (Koremenos, 2004, p. 12)

The voting system in AIIB is comprised by three kinds of votes. "Basic votes", "share votes" and "founding member votes". Firstly, the "basic votes" represent 12 percent of the aggregated sum of: "basic votes", "share votes" and "founding member votes", equally distributed to all members. Secondly, the "share votes" are equal to the number of shares of the capital stock held by the individual member of the AIIB, each "share vote" having a nominal value of 100,000 US dollars. Finally each founding member is granted 600 extra "founding member votes" and Table 1 illustrates how the votes in AIIB allocate into voting power. (AIIB, 2015, p. 16) To be a founding member one must sign the Articles of Agreement and fulfilled the obligations attached to the agreement no later than the 31st of December 2016, unless a majority vote on the Board of Governors for the counter-mater is achieved. (AIIB, 2015, p. 27) There are 1.6 billion US dollars regional and 233 million US dollars non-regional votes that are not allocated and therefor they are not included in Table 1 beneath.

Asian Infrastructure Investment Bank

Allocations of Capital Stock and Prospective Voting Power

1 June 2015

Prospective Members	Capital Allocations (USD million)			Prospective Voting Power		
	Number of shares	Percent of Total	Amount	Number of Votes	Percent of Total	Percent of Regional/ Non-Regional
Regional						
Australia	36,912	3.7607 %	3,691.2	39,942	3.4605 %	4.7215 %
Azerbaijan	2,541	0.2589 %	254.1	5,571	0.4827 %	0.6585 %
Bangladesh	6,605	0.6729 %	660.5	9,635	0.8348 %	1.1389 %
Brunei Darussalam	524	0.0534 %	52.4	3,554	0.3079 %	0.4201 %
Cambodia	623	0.0635 %	62.3	3,653	0.3165 %	0.4318 %
China	297,804	30.3413 %	29,780.4	300,834	26.0637 %	35.5613 %
Georgia	539	0.0549 %	53.9	3,569	0.3092 %	0.4219 %
India	83,673	8.5249 %	8,367.3	86,703	7.5118 %	10.2491 %
Indonesia	33,607	3.4240 %	3,360.7	36,637	3.1742 %	4.3308 %
Iran	15,808	1.6106 %	1,580.8	18,838	1.6321 %	2.2268 %
Israel	7,499	0.7640 %	749.9	10,529	0.9122 %	1.2446 %
Jordan	1,192	0.1214 %	119.2	4,222	0.3658 %	0.4991 %
Kazakhstan	7,293	0.7430 %	729.3	10,323	0.8944 %	1.2203 %
Korea, Rep.	37,388	3.8092 %	3,738.8	40,418	3.5017 %	4.7778 %
Kuwait	5,360	0.5461 %	536.0	8,390	0.7269 %	0.9918 %
Kyrgyz Republic	268	0.0273 %	26.8	3,298	0.2857 %	0.3899 %
Lao PDR	430	0.0438 %	43.0	3,460	0.2998 %	0.4090 %
Malaysia	1,095	0.1116 %	109.5	4,125	0.3574 %	0.4876 %
Maldives	72	0.0073 %	7.2	3,102	0.2688 %	0.3667 %
Mongolia	411	0.0419 %	41.1	3,441	0.2981 %	0.4068 %
Myanmar	2,645	0.2695 %	264.5	5,675	0.4917 %	0.6708 %
Nepal	809	0.0824 %	80.9	3,839	0.3326 %	0.4538 %
New Zealand	4,615	0.4702 %	461.5	7,645	0.6623 %	0.9037 %
Oman	2,592	0.2641 %	259.2	5,622	0.4871 %	0.6646 %
Pakistan	10,341	1.0536 %	1,034.1	13,371	1.1584 %	1.5806 %
Philippines	9,791	0.9975 %	979.1	12,821	1.1108 %	1.5156 %
Qatar	6,044	0.6158 %	604.4	9,074	0.7862 %	1.0726 %
Russia	65,362	6.6593 %	6,536.2	68,392	5.9254 %	8.0845 %
Saudi Arabia	25,446	2.5925 %	2,544.6	28,476	2.4671 %	3.3661 %
Singapore	2,500	0.2547 %	250.0	5,530	0.4791 %	0.6537 %
Sri Lanka	2,690	0.2741 %	269.0	5,720	0.4956 %	0.6762 %
Tajikistan	309	0.0315 %	30.9	3,339	0.2893 %	0.3947 %
Thailand	14,275	1.4544 %	1,427.5	17,305	1.4993 %	2.0456 %

Prospective Members	Capital Allocations (USD million)			Prospective Voting Power		
	Number of shares	Percent of Total	Amount	Number of Votes	Percent of Total	Percent of Regional/ Non-Regional
Turkey	26,099	2.6591 %	2,609.9	29,129	2.5237 %	3.4433 %
United Arab Emirates	11,857	1.2080 %	1,185.7	14,887	1.2898 %	1.7598 %
Uzbekistan	2,198	0.2239 %	219.8	5,228	0.4529 %	0.6180 %
Vietnam	6,633	0.6758 %	663.3	9,663	0.8372 %	1.1423 %
Total Regional	733,850	74.7671 %	73,385.0	845,960	73.2925 %	100.0000 %
Non-Regional						
Austria	5,008	0.5102 %	500.8	8,038	0.6964 %	2.6075 %
Brazil	31,810	3.2409 %	3,181.0	34,840	3.0185 %	11.3020 %
Denmark	3,695	0.3765 %	369.5	6,725	0.5826 %	2.1816 %
Egypt	6,505	0.6628 %	650.5	9,535	0.8261 %	3.0931 %
Finland	3,103	0.3161 %	310.3	6,133	0.5314 %	1.9895 %
France	33,756	3.4391 %	3,375.6	36,786	3.1871 %	11.9333 %
Germany	44,842	4.5687 %	4,484.2	47,872	4.1475 %	15.5295 %
Iceland	176	0.0179 %	17.6	3,206	0.2778 %	1.0400 %
Italy	25,718	2.6202 %	2,571.8	28,748	2.4907 %	9.3258 %
Luxembourg	697	0.0710 %	69.7	3,727	0.3229 %	1.2090 %
Malta	136	0.0139 %	13.6	3,166	0.2743 %	1.0270 %
Netherlands	10,313	1.0507 %	1,031.3	13,343	1.1560 %	4.3284 %
Norway	5,506	0.5610 %	550.6	8,536	0.7395 %	2.7691 %
Poland	8,318	0.8475 %	831.8	11,348	0.9832 %	3.6813 %
Portugal	650	0.0662 %	65.0	3,680	0.3188 %	1.1938 %
South Africa	5,905	0.6016 %	590.5	8,935	0.7741 %	2.8985 %
Spain	17,615	1.7947 %	1,761.5	20,645	1.7886 %	6.6972 %
Sweden	6,300	0.6419 %	630.0	9,330	0.8083 %	3.0266 %
Switzerland	7,064	0.7197 %	706.4	10,094	0.8745 %	3.2745 %
United Kingdom	30,547	3.1122 %	3,054.7	33,577	2.9091 %	10.8923 %
Total Non-Regional	247,664	25.2329 %	24,766.4	308,264	26.7075 %	100.0000 %
Grand Total	981,514	100.00 %	98,151.4	1,154,224	100.00 %	

Table 1 Source: Asiatischen Infrastruktur-Investitionsbank

Table 1 show China has a total of 26.06 percent of the total votes giving China a lead position in the institution and the Maldives is the lowest ranking member with 0.27 percent. To comprehend what kind of power the amount of votes translates into, an understanding of the governance of the AIIB is needed. To help the understanding of the governance in the AIIB, the three main power organs of the AIIB will be dismantled to enhance the understanding of the institution. The highest

ranking Authorities in the AIIB are respectively the Board of Governors, the Board of Directors and the President.

The Board of Governors

The Board of Governors consists of one representative, in form of a Governor from each member. The Board of Governors is the central power organ of the institution and has a veto right in the following matters:

“admit new members and determine the conditions of their admission, increase or decrease the authorized capital stock of the Bank, suspend a member, decide appeals from interpretations or applications of this Agreement given by the Board of Directors, elect the Directors of the Bank and determine the expenses to be paid for Directors and Alternate Directors and remuneration, if any, pursuant to paragraph 6 of Article 25, elect the President, suspend or remove him from office, and determine his remuneration and other conditions of service, approve, after reviewing the auditors’ report, the general balance sheet and the statement of profit and loss of the Bank, determine the reserves and the allocation and distribution of the net profits of the Bank, amend this Agreement, decide to terminate the operations of the Bank and to distribute its assets and exercise such other powers as are expressly assigned to the Board of Governors in this Agreement.” (AIIB, 2015, pp. 13-14)

When voting on the Board of Governors each governor is entitled to cast the aggregated amount of votes that the governor is representing. A majority of any kind contains at least three-fourth of the total voting power. The Board of Governors meets once annually and on special occasions if the Board of Directors summons a meeting or if a minimum of five members requests a meeting. At these meetings at least three-quarters of the total voting power shall be present or the meeting holds no validity.

The Board of Directors

The Board of Directors is the organ that is responsible for the general operations and the everyday management of the AIIB. The Board of Directors is composed of 12 directors, all elected by the Governors. Nine of the directors are elected by regional governors. The last three directors are non-regional. It is mandatory that all directors are nationals of a member state and that only one national from each member state can be chosen. When a director is elected the director holds

office for a term of two years and may be reelected thereafter. All directors have to be individuals with a high-level of insight in the fields of economics and finance. The director represent one or more members and is entitled to cast the aggregated sum of votes that each member holds, if the director is chosen as a representative by more than one member that director may cast the votes of each member separately. In any future scenario where the composition of the Board of Directors might be different, from the 12 directors, there is a maximum for non-regional members of 45 percent of the aggregated votes and a minimum for the regional members of 54 percent. The appointment of a director is carried out on the Board of Governors and each Governor may nominate one person as a candidate. The regional governors appoint the regional directors and the non-regional Governors appoint the non-regional directors. Each governor is voting with the aggregated sum of his basic votes, share votes and founding member votes and is only allowed to vote for one person regardless of the amount of total votes. The Board of Directors is, as mentioned above, the managing organ of the AIIB. They establish the policies and make all the operating decisions concerning: Financing or co-financing, participating or direct loans, supplying equity capital to an institution or an enterprise, giving loans as a guarantor for economic development, deploying special funds resources and providing technical assistance. All these listed decision require a minimum of three-fourth of the total number of votes. On the Board of Governors however no decisions can be made unless a quorum of at least two-thirds of the total voting power is present. (AIIB, 2015, pp. 13-17)

The President

The president is elected by the Board of Governors and has to be a national from a regional member. Three-fourth of the votes to one candidate is needed before the nominee is elected. The president's term is five years and he can only be elected for a maximum of two terms. The president is chairman on the Board of Directors and is additionally allowed to participate in all the meetings at the Board of Governors, but does not have the right to vote in any of the organs. In the daily functions of the AIIB the president is the chief of staff and the legal face of the institution. (AIIB, 2015, pp. 17-18)

The financing of the AIIB

The authorized capital stock of the AIIB is US dollars one hundred billion (100,000,000,000). The one hundred billion is divided into one million shares with a fixed value of hundred thousand each. 20 percent of the amount will be paid-in shares and 80 percent callable shares. (AIIB, 2015, p. 3)

5. Flexibility

Flexibility refers to how the institution adapts to changes in member preferences or how the institution reacts to unforeseen challenges that might disturb the very scope of the institution. In the part about control it was presented that changes concerning structure about capital, membership or rules are subjects for the Board of Governors to handle. (AIIB, 2015, pp. 13-14) All those structural changes is impossible without a majority of three-fourth which essentially mean, due to China's 26.06 percent of the votes, that China can veto against any decisions regarding these structural changes. The same is true at the operational level of the AIIB, because all the important decisions, made by the Board of Directors, need a majority vote of three-fourth. The subscription mechanism of the AIIB is done in a pay-to-play arrangement and functions accordingly. The agreed amount that a member will pay for subscription to the AIIB is to be paid in five instalments of 20 percent each, unless the member is considered a less developed country. The first payment has to be paid within 30 days after acceptance of the Articles of Agreement, ratification and application approval by the AIIB. The remaining four payments must fall with an interval of one year after signing the deal. (AIIB, 2015, pp. 4-6)

Withdrawal from the AIIB can begin six months after the member decides to withdraw. In case a member withdraws from the AIIB, the member is kept liable for all commitments agreed upon in the process of becoming a member. In case of a suspension of membership a majority vote on the Board of Governors by three-fourth is needed. This grants the members of the bank a certain amount of safety, because 75 percent of the aggregated voting power is needed for the suspension to be enforced. (AIIB, 2015, pp. 22-23)

The independent Variable

The Independent Variables in the Rational Design is designated to explain variations in the institutional design such as its restrictiveness towards new members, the scope of the institution

or its distribution of votes. The five independent variables in Rational Design are constructed as an extension of Oye's three variables in his cooperation theory. (Koremenos, et al, 2004, p. 773)

The Five independent Variables are:

1. Distribution
2. Enforcement
3. Number
4. Uncertainty - About the World.
5. Uncertainty – About others preferences and behavior.

Each of the variables has their own individual reasoning connected to the theoretical practices of the Rational Design. In contrast to many other cooperation theories the Rational Design priorities distribution over enforcement, as the key to comprehend how and why institutions can actually exist in an international system of anarchy. In regards to the category of "Distribution" the emphasis is on bargains and how they are achieved and transcends into institutional operation. "Enforcement" in the Rational Design is the recognition of the theoretical presumption of enforcement as a vital ingredient to reinforce cooperation where incentives for some actors might tend towards deflection. The category "Number" addresses the asymmetry of power in institutions. This asymmetry stemming from special key actors, blocks of actors, hegemony and the linkage of regionalism to global politics. "Uncertainty" has always been an important aspect in determining classical International relations' issues such as security and economy, and an important aspect to incorporate in order to understand actor's interactions and the decision making process in any given institution. (Koremenos, et al, 2004, p. 773-774)

"Enforcement and distribution problems emerge in any strategic situation. Number is the central variable of collective-action theory, and we broaden it here to include explicitly the asymmetries that are so important in international affairs. Finally, many important theoretical developments in game theory over the past two decades center on uncertainty." (Koremenos, et al, 2004, p. 774)

Cooperation theory (Extended)

As previously mentioned Rational Design derives its understanding of cooperation from Oye's cooperation theory. Oye's theory of cooperation is based on Game theory, or more specific the folk theorem, a class of theorems concerning Nash equilibriums payoff profiles in repeated games, centering on institutions promoting cooperation. In Rational design a more extended approach is utilized; using more independent variables, based on their influence on the configuration of institutional design, in order to create a more case oriented approach. Oye's cooperation theory focuses on three variables in order to understand cooperation under a system of anarchy. Here, the most important of these variables are "the shadow of the future" this variable is important to incorporate in order to understand why cooperation occurs in the first place. But this factor is not that important to integrate in relation to the Rational Design, since its focus is on international institutions, where actors are highly interdependent and likely to be so for a long time (There are no signs that the sovereign state system will collapse anytime soon), and therefore the probability that actors will defect, instead of cooperate, is not very likely, hence it is not a vital driver in states configuration of institutional designs. Therefore instead of using "the shadow of the future" as the main independent variable, Rational Design uses variations in enforcement related issues to determine institutional design. (Koremenos, et al, 2004, p. 774)

Oye's second variable is simple 2 X 2 Games being played with an emphasis on a prisoner's dilemma understanding. However, Rational Design tries to outmaneuver this simplistic approach due to the over emphasis on cheating and under emphasis on distributional conflicts. This over emphasis stems from the set-up of just one unattainable point of mutual cooperation, an unattained Pareto optimum. This is a very simplistic way of understanding cooperation, since actors in international cooperation often will have a wide range of possible cooperative outcomes. (Koremenos, et al, 2004, p. 765) Therefore, the Rational Design instead views "distribution problems" as a second independent variable. Distribution problems arises when actors prefers different outcomes and consequently argue over which outcome to choose. Or in other words, how should they share the mutual gains of cooperation? This kind of conflicts never arises in a simple 2x2 prisoner's dilemma, even though it could prove a serious hurdle to international cooperation. (Koremenos, et al, 2004, p. 765)

This approach is based on the logic of James Fearon's argument; that all cooperation in general has the same strategic nature, and actors only choose what cooperation to enter into and how well institutional enforcement is ensured. (Lipson, et al, 2001, p. 774)

The last variable of Oye's theory is "number" used to address the complications linked to cooperation with a large number of actors. In Oye's theory this complication is circumvented by dissecting interactions between actors into smaller and more manageable groups, but Rational Design aims to look beyond this crude methodology, because some collective-action problems cannot be decomposed due to technical aspects, other due to the requirement of joint action by all. (Koremenos, et al, 2004, p. 765) Rational Design tries to address the variable of "number" by analyzing the actors associated with a given cooperation by looking at the asymmetries among actors in terms of real power capabilities. This extension is important in order to include factors such as hegemonic power, and how different size actors share control in international institutions. By including this refined understanding a more in depth understanding of distribution of both cost and benefits of cooperation can be achieved. (Koremenos, et al, 2004, pp. 774-765)

Finally Rational Design adds "Uncertainty" as two new categories of independent variables, due to new advances in theories of economic uncertainty and game theory. Uncertainty can hinder cooperation, but uncertainty is indisputably also a factor in cooperation and must be managed by institutions in order to attain constructive results. It is this management that Rational Design through game theory integrate, to determine its effect on institutional design. (Koremenos, et al, 2004, pp. 774-775)

Having now presented the core of Rational Designs understanding of cooperation in the settings of Game theory the five independent variables of the design can be presented individually.

1. Distribution

When more than one cooperative agreement is possible actors may face distribution problems. The magnitude of a distribution problem depends on how each actor compares its preferred alternatives to other actor's preferred alternatives. –Distribution problems do not arise in a pure coordination game, where both actors prefer the same coordination point. But in a coordination game such as "Battle of the Sexes", a distribution problem is inherent and the magnitude of this distribution problem can be determined by the intensity of either player's

preferences' for an alternative coordination point. The same scale of understanding can be applied to different actors' placement on the Pareto frontier in a Prisoners Dilemma with multiple efficient equilibria. The place where the Distribution problem is worst is in zero-sum games, hence one actor's gains is based on another's loss. (Koremenos, et al, 2004, pp. 774-775)

"Distribution problems are closely related to bargaining costs. In general, where the distributional implications of a choice are small (such as when only one efficient outcome is possible or the shadow of the future is short), bargaining costs will be relatively small. In situations where the distributional implications are large (such as when there are multiple, substantially different efficient outcomes or the shadow of the future is long), bargaining costs will likely be large." (Koremenos, et al, 2004, p. 775)

In relation to other independent variables it is important to remember that distribution costs can interact with other independent variables, but should never be directly mixed together with other variables, such as "uncertainty". Distribution problems are a separate entity, because they follow a particular reliable pattern, while for instance "uncertainty" arises whenever a player cannot calculate the results of a given outcome. More precisely formulated, in a distribution problem all actors know the overall outcome of cooperation, only the distribution of this total outcome varies. Therefore, the act of distributing the overall outcome makes up the problem, while uncertainty could help explain the size of the outcome, this is not relevant in the given distribution phase. (Koremenos, et al, 2004, p. 775) An example of a classic distribution problem could be distributing quotas for salmon fishing between Canada and the United States. Both actors know the total number of fish that will be caught, but the allotment of these fish and how this allotment is to be formulated is unknown, classifying it as distribution game.

2. Enforcement

Enforcement problems are also closely related to parts of game theory, in which actors have more than one optimal coordination point. If the individual actor wish to "cheat" on a given agreement, or set of rules, such behavior is classified as an enforcement problem. Actors might even find unilateral noncooperation so tempting that they sacrifice long-term cooperation or even abandon

completely cooperation that benefits all, in order to reap unilateral gains. The severity of an enforcement problem can be measured by the minimum discount factor (a state's valuation of future, as opposed to current, benefits) that is needed to uphold cooperation. Basically, the discount factor is based on; the payoffs from cooperation in contrast to the benefits from defection, seen in the perspective of how frequently the actors interact. Hence, in order for cooperation to manifest; the payoff from cooperation has to be relatively high compared to the instantaneous benefits one can reap from defecting and noncooperation, especially in cases where transactions among actors are rare. As previously mentioned the Rational Design is meant as a model for case studies of international institutions and therefore operate with a high degree of interdependence and repeated interactions among its actors. Therefore cooperation is often a possibility, but enforcement problems can vary greatly on different issues. On one end of the spectrum, cooperation with little incentives to defect and a long "shadow of the future" may easily arise. On the other end of the specter, if incentives to defect are strong, interactions are less frequent, enforcement problems emerge. (Koremenos, et al, 2004, p. 776)

Distribution- and enforcement problems will often correlate. For instance, the choice of a given set of rules can result in different cost for different actors; hereby creating an enforcement problem (the choice of rules, prescribing different cost for actors) and a distribution problem (the distribution of cost from following a given set of rules). (Koremenos, et al, 2004, p. 776) An example of such a correlation could be:

"(...) efforts to halt stratospheric ozone loss, for example, the ozone regime needed to set targets for reducing global chloro-fluorocarbon (CFC) emissions and establish rules for cutting back CFC production and use. Different rules obviously impose quite different costs on various states. Whatever rules are chosen still have to be enforced. Knowing this, states may choose particular rules partly because they are easy to monitor and enforce." (Lipson, et al, 2001, p. 776)

The Rational design does not provide any analytical insight into the more nuanced interactions between distribution and enforcement, however by separating the two variables an analytical approach can be undertaken in order to classify, which is the dominant and how they separately

affects institutions design when states attempt to accommodate these problems. However, the act of separating distribution and enforcement related problems is an analytical choice made in the Rational Design, in order to consider and assign problems distinctly. Again, it is important to keep enforcement problems isolated as a variable, even though uncertainty and large numbers can exaggerate enforcement issues, the real course of enforcement issues should always to be viewed in its “structural” context, since enforcement issues can always arise, even in repeated-game situations with small numbers and no uncertainty. (Koremenos, et al, 2004 pp. 776 – 777)

3. Number of Actors

The independent Variable “number of actors” describes actors who are implicated in any potential cooperation because their actions affect other actors and vice versa. In the Rational Design, the number of actors in a given case are primarily determined by relevance through technology or geography, but can be included by prior political or institutional arrangements. In this regard it is important to note that there is a noticeable difference between the independent Variable “Number of actors” and the dependent variable “membership”. Here, the “number of actors” is determined by external features linked to any given process and does not have to be strictly linked to a given institutional framework, whereas membership is an internal process, where an institution actively decided through rules, which actors are to be included. This could even mean that relevant actors are excluded from the cooperative process. “Number of actors” is not only concerned with the sheer amount of actors but also their individual importance for a given output. Here some actors can be numerically few compared to the aggregated amount of relevant actors but still be the driving force behind cooperation. It is this power asymmetry the category “Numbers” aims at encapsulating by measuring capabilities and influence over a given process. (Koremenos, et al, 2004, pp. 777-778) An example of such power asymmetries could be the decision making process of the WTO (World Trade Organization). A multitude of states are conducting trade and are therefore affected by world trade, however not all states are members of the WTO, and many member states are not directly involved in the decision-making process, and only a few key actors such as the United States have the means to change the institution. (Koremenos, et al, 2004, p. 778)

4. Uncertainty

In regards to “Uncertainty” there are, as previously mentioned, two types of uncertainty. As a common denominator uncertainty reflects the extent to which actors are not fully informed. The first category of uncertainty reflects the lack of information about other actors’ behavior and preferences, the second reflects the uncertainty about the state of the world. In the Rational Design “Uncertainty” is relevant to three types of strategic behavior; choices, consequences and preferences. If uncertainty exists in any type it may have huge implications for the given institutional design, through any or all of these strategic behaviors. (Koremenos, et al, 2004, p. 778)

“For example, uncertainty about behavior makes cooperation more difficult in many cases, but uncertainty about the state of the world may, under certain conditions, make cooperation easier.”(Koremenos, et al, 2004, p. 778)

The Rational Design utilizes the method of using “Uncertainty” as variables; to comprehend a given uncertainty’s implications for an institutional design feature and does therefore not necessarily include the generic implication for a given uncertainty. In applying “Uncertainty” to a given institutional design choice, the Rational Design operates with two categories of “Uncertainty”; Uncertainty about behavior and preferences, and uncertainty about the state of the world. (Koremenos, et al, 2004, pp. 778-779)

Uncertainty about behavior arises from lack of information and the possibility of non-compliance with a given agreement. Enforcement often comes with a high price tag and no surveillance can truly be omnipotent of other states compliance, to a given agreement. States that pursue a compliance oriented strategy are therefore vulnerable to non-compliance by other states, since defection can have huge negative implications for them. This again leads to more uncertainty of behavior, since the element of uncertainty often creates incentives to cheat on a given agreement, just because others might do the same. In regards to uncertainty about preferences the same patterns emerge due to ambiguity of the wants and likes of other actors. States often have a good image of their own preferences but determining the preferences of other states can be difficult at

best, because states' actions can be interpreted in multiple ways. In some cases states can even benefit from miscommunicating their own preferences, which leaves plenty of room for anxiety and little space for cooperation. (Lipson, et al, 2001, pp. 778-779) A classic example of uncertainty of preferences is inherent in the security dilemma, where:

"A key problem underlying arms competition is determining whether another state is simply seeking its own security or is greedy and expansive. Does India's nuclear testing reflect a desire to aggrandize itself at Pakistan's expense or to defend itself against China?"(Koremenos, et al, 2004, p. 779)

"Uncertainty about the state of the world" is a more general approach to uncertainty in a global world connected by international institutions. The world, state actors and international institutions are extremely complicated; states will often operate and make decisions with little knowledge of their real outcome and the consequences and unintended consequences of such outcomes. Moreover, uncertainty about the state of the world also incorporates the uncertainty / short comings of technology and science in interpreting the material state of world, for example:

"Consider the dispute over the Spratly Islands, which lie off the southern coast of China and have been claimed by a number of states. Any agreement governing the dispute would have to take into account that no one knows how much oil is actually there or its future value."(Koremenos, et al, 2004 p. 778)

4. The Existing Framework

Before the international economic system of the modern world can be fully comprehended an understanding of why and when this notion of cooperation started, has to be presented. The framework, in which, international institutions operate in today originated in a post WWII setting where some states had a different role than the one they poses today. How powerful states are at

the creation of an institution, play a significant role in what position they are entitled to within that very institution. Therefore it is important to understand the historical and institutional background for the contemporary institutions prior to assessing any new institution.

International Institutions

The notion of an international institution or a multilateral institution is relatively new. The Versailles Treaty of 1919 is, by some, considered the first attempt to construct international cooperation. It was called the League of Nations. This attempt however did not get much support from the Senate in the United States. It was the Second World War that sparked the will to join force internationally to avoid previous mistakes and a reoccurrence of the horrors of the Second World War. The number of international institutions rose tremendously in the 20th century. In the year of 1910 the number of intergovernmental institutions was 30, in 1940 it was 70 and by 1981 there were more than 1000. One of the reasons for joining international institutions is highlighted by Keohane to be; predictability. Even strong states have an interest in the world system to have some sort of consistency. By removing some of the uncertainties, in the international system, the states can reduce the costs of making and enforcing agreements and gain collective gains like for example the General Agreement on Tariffs and Trade (GATT) that boosted international trade by 90 percent among the participating countries. (Keohane, 1998)

The current international economic world system was established after the Second World War with United States as the main architect. The United States set out to create a liberal international system that materialized in the Bretton woods agreement. The following will briefly explain the three ground pillars of the Breton Woods system, the three institutions: the World Trade Organization, the International Monetary Fund and the World Bank.

The Bretton Woods

The name Bretton Woods stems from the New Hampshire town where all of the post-war international economic planning took place. One of the most famous architects behind the system was the British economist John Maynard Keynes. He wanted a balance between state interests and international economic stability. The idea was that all states have legitimate economic interests like, high employment rates, low inflation and continued economic growth. To achieve

these interests the Bretton Woods system required states to pursue the liberal doctrines based on the three founding pillars: monetary stability, trade and economic development. (Pease, 2012, p. 159)

The International Monetary Fund

The IMF was created in 1944 at the Bretton woods conference and was created with the purpose of stabilizing the international monetary system. To do this, the IMF helps coordinate the international currency exchange, the balance of international payments and national accounts. This task is a monumental and difficult one to fulfill and basically there are three main factors that the IMF had to be able to control in order to sustain a stable international monetary order: Liquidity, adjustments and confidence. (Pease, 2012, p. 193)

“Liquidity refers to the amount of currency needed to conduct transactions. Adjustment refers to the mechanism through which national accounts are settled. Confidence refers to a widely held subjective belief that the currency is, and will continue to be, worth the governments or traders says it is worth.” (Pease, 2012, p. 193)

At the beginning the IMF had a fixed exchange rate tied to gold. One ounce of gold equaled US\$35 dollars. This made the US Dollar the main currency in the international monetary system and served the purpose of providing stability due to the fixed value of the dollar. Now there was a “standard” to measure the local currency, of a country, against and the liquidity of the IMF could now be created through deficit spending both domestic and internationally. The adjustment where done by the IMF’s staff. The idea was that when states joined the IMF they would pay some of the entrance fee in gold and some in hard currency. Then if a member state at some point needed adjustments in national accounts they could use that liquidity or borrow additionally from the IMF to balance the accounts. The confidence came from the US gold reserves. The main idea behind the IMF was to create a central bank for central banks, a world central bank. And much of the stability in the Japanese’s and the European markets is accredited to the IMF in the early post World War II years. (Pease, 2012, p. 193)

The World Bank

The World Bank has 189 member states with headquarter located in Washington DC, United States. It was created in 1944 at the Breton Woods conference. (World Bank, 2016). Each state is a shareholder in the bank and the World Bank is headed by the board of governors. The board of governors consists of one governor from each member state and they meet minimum once a year to provide the long-term strategy. The decisions made by the board of Governors are based on a weighted voting system where the state acquires voting rights through the contributions to the bank. The daily administrative operation of the bank is conducted by the board of directors. There are 24 directors whom are elected by the board of governors. The member elected by the governor on the board of directors is in charge of representing that member's interests and votes in the daily functioning of the bank. The board of directors elects the face of the bank, better known as the president. (Pease, 2012, p. 192)

The World Bank is made up by two development institutions to help facilitate development. The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) The IBRD is a multilateral lending agency created to be the development drive behind the Breton woods system. The original objective of the IBRD was the rebuilding of Europe after the Second World War and it was not until the late 1950s that the IBRD extended its loan giving to the developing world. The idea behind the lending was that it was to be supported by private investments to enhance the process. To get private investments the projects needed some degree of payback. By giving the opportunity for private investment it was hoped that the money would flow where it was the most needed and where it would yield the highest return. (Pease, 2012, p. 190) The IBRD is considered a conservative lending organ within the World Bank. It is considered so because it almost only gives loans to governments with development in focus. The loans are typically at a lower interest rate than that of commercial banks and the lending decisions are based on a voting principal. The votes are distributed according to the proportion of shares, and the shares are a reflection of the amount of capital that each member state has contributed to the collective amount. Meaning the IBRD is a shareholder-owned institution. The lending policies are at the highest level of the institution, decided by the board of governors. (Pease, 2012, p. 190)

The Asian Development Bank

The idea about the Asian Development Bank sprung out of a necessity to help, one of the poorest regions in the world. The Philippine Capital of Manila was chosen as the place for the headquarter and the ADB became a reality on 19th of December 1966. (ADB, 2016) The United Nations Economic Commission for Asia and the Far East, today's Economic and Social Commission for Asia and the Pacific (ESCAP), based in Bangkok, highlighted three objectives that the creation of the regional bank had to fulfill. The region lacked financing and the bank should provide additional funding to projects in the region as well as to help insufficiently funded projects becoming real, to help foster economic growth. The last object was mediation. The institution where to act as a mediator in economic cooperation throughout the region aiming at minimizing conflicts over national interest and minimize the impact of national disputes on economic progress. A latent reason behind the creation is likely that the World Bank, which where the bank Asian countries had to apply to, for funds, prior to the creation of the Asian Development Bank, where western in values and scope. The governance of the international institutions was likewise western and there existed a wish to change that. (Faure, 2010, pp. 163 - 165)

The Asian Development Bank was not confined to Asian countries. Many industrialized nations joined the bank and the initial number of members was 31 and it today have a total of 67 member states where 48 are regional members and 19 are non-regional members. (ADB, 2016) Japan was the only industrialized country, in the region, at the time. Therefore, Japan has gained an important role in the institution from the start. All presidents, since the creation have been Japanese and many of the top officials from the Japanese finance ministry have gained important positions in the institution, granting Japan significant political power in the institution. In order to gain power in the institution Japan has become the main contributor to the bank. The number of votes in the bank is related to the number of shares and officially United States and Japan has the same number of votes. Japan has contributed to additional extra funds like the Asian development fund, Japan Special Fund and Technical Special Fund. Japan has been the main contributor to so many extra funds within the institution and has therefore gained a de facto dominating role despite objections from United States. (Faure, 2010, pp. 165 - 168) .

The Dependent Variables of the ADB

The previous section explained the history of the ADB. This section will demonstrate how the five dependent variables apply to the institution. The five dependent variables that are essential to how international institutions cooperate: membership, scope, centralization, control and flexibility.

Membership

“Membership” refers to composition of the institution. What are the criteria’s to become a member and is membership restricted in any way. It could be restricted to a region or a task. “Membership” to the ADB is restricted to members and associated members of the United Nations Economic Commission for Asia and the Far East. For countries not a member of the United Nations Economic Commission for Asia and the Far East the membership is open if they are a regional or a non-regional developed country that are a member of the United Nations. (ADB, 1967, p. 5)

Scope

The Scope of an institution refers to the broadness of the area and tasks covered. It is important not to widen the scope of an institution too broadly because it can make possible members shy away from the institution in question. The more the scope is focused the more efficient prospective members can evaluate their role within the institution should they decide to join. (Koremenos, et al, 2004, p. 770) The Scope of the ADB is to:

“Foster economic growth and co-operation in the region of Asia and the Far East and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually.” (ADB, 1967, p. 4)

The main issue fulfilled by the ADB has been to fight regional poverty. The ADB have been confronting this task from three different angles: The first angle has been to generate “economic development” in the region, the second has been “social development” and the last has been “good governance”. To realize this honorable goal the ADB have identified three areas that are in focus to make the agenda come through: Development of the private sector, Regional cooperation and environmental protection. (Faure, 2010, p. 168)

Centralization

Centralization refers to the notion of one central organ within the institution that gathers either power or information around it. Centralization is often a disputed area in international politics because it often involves national sovereign states to give some of their sovereignty to an international institution. (Lipson, et al, 2001, p. 771) In the case of the ADB the members does not give any sovereignty to the ADB due to article 14 that states that the ADB: *"Shall not finance any undertaking in the territory of a member if that member objects to such financing"* (ADB, 1967, p. 11). This article gives the full sovereignty to the individual member and renders the ADB incapable of overruling a national decision. The main power in the Institution is centralized at the Board of Governors. As the next part of this section will describe in detail, all important decisions essentially have to go through the Board of Governors. The working language of the ADB is English which lowers the possibility for Babylonian problems of communication but it also centralizes the spoken language to one vocabulary. (ADB, 1967, p. 23)

Control

Control refers to how the institution is financed and how collective decisions within the institution are made. Voting for example is an important aspect of control, how many votes does each member have and does one member hold a veto of some form and on what conditions. How does key officials get elected what power is vested in them is also of importance for the control variable. The ADB's organizational structure is built around three main organs: A Board of Governors, a Board of Directors and A president.

The Board of Governors

The Board of Governors is the main power organ and it is on the Board of Governors that the highest ranking decisions are made. The Board of Governors consists of one person from each member to the ADB and the selected person is serving the interest of the member on the board. (ADB, 1967, p. 18) The powers vested in the Board of Governors are the following:

"admit new members and determine the conditions of their admission, increase or decrease the authorized capital stock of the Bank, suspend a member, decide appeals from interpretations or applications of this Agreement given by the Board of Directors, authorize the conclusion of general agreements for co-operation with other international organizations, elect the Directors and the

President of the Bank, determine the remuneration of the Directors and their alternates and the salary and other terms of the contract of service of the President, approve, after reviewing the auditor's report, the general balance sheet and the statement of profit and loss of the Bank, determine the reserves and the distribution of the net profits of the Bank, amend this Agreement, decide to terminate the operations of the Bank and to distribute its assets and exercise such other powers as are expressly assigned to the Board of Governors in this Agreement.” (ADB, 1967, pp. 18-19)

All other decisions than the above listed, the Board of Governors can delegate to the Board of Directors. The Board of Governors attends one meeting annually, unless the Board of Directors with at least five members of the ADB requests it. Any meeting where the Board of Governors assembles at least two-thirds of the voting power has to be attending, if not, the meeting holds no credibility. (ADB, 1967, p. 19)

The Board of Directors

The Board of Directors originally consisted of ten members seven representing the regional members and three representing the non-regional members. However that number have been alternated on the fourth meeting of the Board of Governors to a total of twelve members, eight representing the regional members and four representing the non-regional members (ADB, 1967, p. 2) The Directors are to be chosen for their meritocratic skills rather than political concerns especially economic and finance related skills are high valued. The director gets elected by the Board of Governors and each governor is permitted to cast the votes that he/she represents once. (ADB, 1967, pp. 38-39) The term of the director is two years and the director can be reelected. It is the task of the Board of Directors to handle the daily operations of the ADB. The tasks include preparing the reports and work details for the Board of Governors so they can follow the ongoing progress within the scope. The directors are in charge of taking decisions regarding borrowing, guarantees, loans, technical assistance, approve the budget, investment and other daily operations. All the decisions are taken in line with what the Governor and the Director representing the Governor has agreed to. The directors are obliged to meet as often as the daily operations require it. Any decision making process in the Board of Directors have the same proceedings as on the Board of Governors when regarding decision making, two-thirds of the aggregated voting power has to be attending the meeting. (ADB, 1967, pp. 20-21)

The president

The president is elected by the Board of Governors and has to be a national from one of the regional members. Moreover the election process has to involve a majority of the governors and a majority of the aggregated voting power. The President is elected for a period of five years and can be reelected if the Board of Governors accepts it. The president is the legal and official face of the ADB and is the chief of staff. (ADB, 1967, pp. 34-35)

Voting

In the ADB there are two kinds of votes, the basic votes and the proportional votes. The basic votes are twenty percent of the aggregated sum of the proportional and basic votes divided between all the members. The proportional votes are equal to the number of shares that each member holds. (ADB, 1967, p. 21) One share in the ADB represents ten thousand US dollars and the total capital resources of the ADB were in 2015 117.697 million US dollars (ADB, 2015) the allocation of votes are illustrated in Table 2 in the appendix section.

Table 2 shows that Japan has the highest single voting power with 12.840 percent of the total voting power and United States right behind with a total percentage of 12.752 of the total votes. Together they hold more than one-fourth of the vote and can due to that veto on decisions and they have a history of working together ever since The Second World War (Manning, 2016).

Flexibility refers to the institutions ability to adjust to unforeseen circumstances. These circumstances can be clusters of states wanting to change the institution from within but it can also be states that want to exit the institution or simply the existential reasons for the institution that have changed. (Koremenos, et al, 2004, p. 773) In the case of the ADB the institutional flexibility is relatively high. Withdrawal from the ADB can be executed with a time table of six months and if there is a specific problem with a member the Board of Governors can with a majority vote suspend a member which immediately removes the member in question's voting rights and terminate the membership within a year (ADB, 1967, p. 24)

5. Analysis

This chapter will firstly describe the four major assumptions derived from the theoretical foundation and its interaction with a given empirical case. Based upon these theoretical assumptions, relevant conjectures will be presented, selected in order to undertake an analytical approach of AIIB's design and its chances of becoming a successful institution.

The four assumptions

Conjectures in the Rational Design represent generalizations based on a common rational-choice theoretical framework. The conjectures are not formally derived from rational-choice, but they are all closely linked to tradition and its underlying logic. Even though all of Rational Choice's conjectures encompass this line of thought, each conjectures individually has its own logical built upon assumption(s) that will only be applicable unto certain circumstances. It therefore becomes impossible to utilize all conjectures, since some of the assumptions are excluding the use of others through conflicting assumptions in the Rational Design. Creating the possibility for the individual case to assemble sets of conjectures that comprise the most optimal, specific and including line of analysis. The only important factor being that all conjectures needs to be logically consistent with each other. (Koremenos, et al, 2004, p. 780)

The Rational Design provides a guideline for choosing conjectures that connects the right logical assumption and their applications to a given empirical material depending on a selected case. In this regard the Rational Design operates with four broad assumptions that accentuate conjectures.

- 1. Rational design: States and other international actors, acting for self-interested reasons, design institutions purposefully to advance their joint interests. (Koremenos, et al, 2004, p. 781)*

The assumption being that all actors have rationally derived preferences in respect to a given objective, and that these preferences are pursued in the context of; what other actors' preferences are, the relative cost / benefit of different outcomes of a deal, and the actor's perceived constraint of their own capabilities. Based on this belief the Rational Design does not strive to understand contentions between actors and their quarrels in individual matters, but instead aims at

comprehending their logic behind selecting a given form of institution. The selection of certain characteristics for an institution does not comprise the combined set of actors' preferences, but rather their joint efforts and compromises in order to select an equilibrium outcome, based on the strategic scene they operate on.

"That is to say, they concern the equilibrium outcomes that result from the strategic interaction of states, each of which has preferences." (Lipson, et al, 2001, p. 781)

2. *Shadow of the future: The value of future gains is strong enough to support a cooperative arrangement. (Koremenos, et al, 2004, p. 781)*

This assumption is built upon the mechanisms of game theory and prescribes that as long as actors have a frequent amount of interactions and there exists a sufficiently high discount factor, cooperation is potentially sustainably. The main part of this assumption lies in the assumption that international interdependence exists among actors in international institutions and the "shadow of the future" therefore generally is long in any game being played out among actors. However, Rational Design does recognize that the shadow of the future can vary greatly across certain issues in international politics. Cooperation therefore only materializes when the prospect of repeated interactions are recurrent enough, to create incentives for actors to cooperate.

"unilateral incentives to defect or distributive differences may make cooperation difficult. A variety of other circumstances—especially uncertainty and large numbers—may make cooperation not only difficult to achieve but also difficult to enforce. Therefore, general international circumstances may be propitious for cooperation, but the particular circumstances in any issue may be problematic." (Koremenos, et al, 2004, pp. 781-782)

3. *Transaction costs: Establishing and participating in international institutions is costly. (Koremenos, et al, 2004, p. 782)*

Whenever an institution is under construction the founding states will need to acquire information on the issues being handled, the institution's members and the cost of alternative institutional forms. This process will often occur in the form of negotiations or the creation of safeguards to

ensure compliance with the rules and continuous cooperation, “(...) *these safeguards may include sanctions, hostages, and dispute-resolution arrangements.*” (Lipson, et al, 2001, p. 782)

All the above mentioned methods of securing cooperation and compliance compose transaction cost on member states and its these cost that the Rational Design assumes will vary depending on the independent variables. One example could be the independent variable of numbers, representing a vast amount of actors in a given negotiation, resulting in a negotiation process that is both inefficient and expensive to conduct. The same relationship applies to independent variable of “Uncertainty”, which also have an effect transaction costs, which again underlines the importance in keeping these variables separate in order to conduct a more refined and nuanced analysis. (Koremenos, et al, 2004, p. 782)

4. *Risk aversion: States are risk-averse and worry about possible adverse effects when creating or modifying international institutions.* (Koremenos, et al, 2004, p. 782)

The fourth assumption handles states willingness to handle risks, and the basic assumptions that states will always prefer an outcome that is certain to an outcome containing risk, when the value of the outcome is the same. This assumption is built upon the realist assumption that states always strive to secure sovereignty in the international system and by doing so, avoid any risk that might jeopardize or endanger this dominant goal. However, realists do acknowledge that states may trade sovereignty whenever there is a opportunity to secure a large enough gain. Institutions do also recognize that states are risk-adverse, but they operate with a much broader spectrum of what states’ referrer and value. (Lipson, et al, 2001, p. 782)

Having now presented the four main assumptions this knowledge must be applied to the specific empirical case. Rational Design does this by creating conjectures that individually address how an independent variable affects a chosen dependent variable. Using this trait of methodology imitating the operational approach of comparative statistics, the rational design can isolated comprehend how a given independent variable such as “uncertainty” has formed or will affect a dependent variable such as “membership”. This approach will enable the paper to firstly apply

relevant conjectures to the current design of the AIIB in order to answer if the design of the institution were constructed in a manner that are capable of handling distribution problems, uncertainty, numbers etc., which should provide an answer to the problem formulations wondering if the AIIB is going to be a successful institution given its regional circumstances. One last thing to notice is that the Rational Design does operate with the assumption that everything else remains unaffected, when comparing variables. (Koremenos, et al, 2004, pp. 782-783)

Conjectures

1. Membership inclusiveness in relation to the distribution problem

This first conjecture is based upon the dependent variable; membership. Here the Rational design prescribes that when the dependent variable of membership is coupled with the independent variable of a distribution problem:

"Inclusive membership increases with the severity of the distribution problem." (Koremenos, et al, 2004, p. 784)

The reasoning behind this conjecture is found in the realist argument (Observed in game theory) that states does not only consider their own outcome of a given cooperation, but also consider the size of other state's outcome in set negotiation. Therefore, cooperative agreements contain an element of relative gains, hereby creating zero-sum considerations that constitute a distribution problem. As previously described, distribution problems can result in a hampering of cooperation among participating states, in a given international institution, due to each state pursuing a strategy of "". One way to solve distribution problems is via a restructuring of power and a rearrangement of the distribution process, taking changes into account and forming a new equilibrium among participants. However, such a process of internal balancing is very difficult given that actors, whom already benefit from the unequal distribution, would see this as a twofold loss, due to the nature of their gains, again being relative towards others perceived loss. Moreover, such a transaction / restructuring would also be costly and resource demanding, due to new gathering of information, planning, negotiations etc. The second way of addressing this kind

of a distribution problem is through a logical mechanism proposed by the Rational Design in this conjecture. The conjecture stating; that if an international institution increased its amount of members, or seek a broad inclusion of “new” member states, the relative nature of the zero-sum game would disappear or at least be diminished. The argument being:

“Including additional members may also mediate distributional problems by expanding the possibilities for tradeoffs among the members. Thus an agreement might give state X the short end of the stick compared with state Y but compensate state X with the long end of the stick compared with state Z and so forth. This is one advantage of multilateral trade agreements.” (Koremenos, et al, 2004, p. 785)

The Rational Design in this conjecture prescribe that if there is a perceived or real distribution problem based of zero-sum games, created due to relative gains among actors, one solution that international institutions often choose is to include more or outside members, because they can change the power dynamics of the institution and also help create new power equilibriums, and acquire comparative advantages; creating plus-sum games. (Lipson, et al, 2001, pp. 784-785)

If this theoretical logic is to be applied to the AIIB, the rational thing to do is to assess the relations between China (the creator of the AIIB and biggest nation in the region), and its regional neighbors, since this is a regional (Asian) institution. By undertaking this theoretical examination any traces of a relative gain mentality inherent in the AIIB will be exposed.

Throughout the 90's and 00's China's impressive economic growth created an immense trade surplus with mainly western powers (especially the United States). This growth were mainly fueled by heavy investment in, and modernization of, China's industrial sectors, combined with an unprecedented urbanization securing China's production facilities with unlimited amounts of cheap labor. However, throughout most of this era China ran a negative trade surplus with many of its neighboring countries, creating deep trade ties between China and almost all Asian states, creating the belief that China's rise is a windfall for the entire region. China's unparalleled size of production, a politically controlled and backed manufacturing sector coupled with an export driven strategy based on currency pegging, has lately altered the trade balance between China and

its neighboring countries. (Picardo, 2014) This has sparked dissatisfaction and complaints from many ASEAN member countries who are particularly hard hit by this shift. This has sparked dissatisfaction and complaints from many ASEAN member countries who are particularly hard hit by this shift. The Block having grown accustomed to a decade with China running trade deficits' as high as 20 billion dollars, now having to settle for a deficit as low as 535 million dollars, according to China costume figures.(Wines, 2009) This low has created sentiments for a race to the button mentality, with Vietnam having just devaluated its currency 5 percent in order to keep up with China's "unfair" monetary advantage, following in the wake of the Asia-Pacific Economic Cooperation urging countries to adopt a "market-oriented exchange rate", which must be seen as a not so subtle nod at China's artificially undervalued currency. Additionally, India has filed several unfair trade complaints against China and Indonesia having second thoughts about its own free-trade agreement with China. (Wines, 2009)

All of the above draws a picture of an increasing regional tendency towards perceiving trade with China as a zero-sum game and its governmentally controlled industries, backed by an artificially low currency, is a treat to must Asian economies. (Wines, 2009) And, it is not only regionally that China is getting an unfair advantage, due to low prices and a failing demand on the international commodity market (especially the US import market losing steam), with China's governments still promoting high growth rates and an almost zero-rate loan policy to industrial production; have promoted a commodity dumb at an especially low price, which have hurt many Asian economies who themselves live off these exact commodities. (Wines, 2009) Another important aspect of China's and Southeast Asian nations' complicated relationship stems from the presence of the substantial and extremely rich Chinese ethnic groups living in most of the south Asian nations, trying to use their wealth and connections to strengthen their respective nations ties to China, resulting in anti-Chinese sentiment in many countries. As of this moment, no government in the Asian Pacific region has implemented any anti-China policy, however:

"sporadic anti-Chinese riots have occurred in Malaysia, Indonesia, the Philippines; and strong resentment against the Northern economic and cultural invasion has surfaced in Myanmar (former Burma), Thailand, Vietnam, and other countries. Even Singapore—the self-proclaimed third Chinese territory in addition to China and Taiwan—was upset by China's strong hand in 2004 after

Lee Hsien Loong, the soon-to-be-inaugurated Prime Minister of Singapore, visited Taiwan..”(Xia, 2015)

Taking all of the above mentioned into account, it is evident that China being the architect behind the AIIB the institution could be seen as a treat, at the same time it is also important to remember that:

“the Chinese leadership has realized the urgency to calm down these concerns and to build a supportive international environment for its ascendancy.” (Xia, 2015)

China will have a hard time to quickly normalize its trade relations with its neighbor, but China's grand strategy to become the ruling power in Asia has forced China to rethink its relationships with its neighbors. The strategy chosen by the Chinese government, to limit any pressure and complaints against China, can be analytically observed as dualistic with both facets reflected in the membership constellation of the AIIB. (Xia, 2015) The first aspect reflects the theoretical idea of the membership conjecture of the Rational Design:

“Including additional members may also mediate distributional problems by expanding the possibilities for tradeoffs among the members.” (Koremenos, et al, 2004, p. 785)

China is using the inclusion of non-regional members to the AIIB in several ways in order to avoid distributional conflicts with its neighbors. Firstly the inclusion of foreign state do legitimize the AIIB, secondly it generates a broader international allure, and underscores China's statue as a non-revisionist state, which obeys and act within the international standards of conduct while carrying its own responsibility in the international system of governance. Moreover, the inclusion of foreign states can also be analyzed in the context of the realist tradition as a balance of power mechanism; somewhat shrouding China's real influence in the institution by transcending a regional power perspective, while inflating the relative amount of votes, creating a possibility of constructing a coalition of members to balance China. An additional benefit of including western powers is the AIIB's possibility to act together- and share burdens and information costs with international- and European investment banks. The combined credibility, influence and the diplomatic pressure of the western powers adds to the AIIB makes it hard for any established international institution to flat-out decline cooperation. (Shanghai, 2014)

“the AIIB would “learn from the good practices of existing multilateral development banks but also take a detour from their path so as to reduce costs and increase operating efficiencies”. (Anderlini, 2015)

Though the inclusion of western states could prove to be a double edge sword for the AIIB, since its western members might use the same pressure and influence to limit the AIIB's maneuverability and subdue it to the existing international banking framework. Whatever the case, the AIIB seems to be satisfied to limit its initial projects as pure funding operations under the administration of already established investment banks. For example The AIIB's first project to build a 64 km motorway in Pakistan, was funded with collaboration of the ADB and the UK department for International Development (DFID), using the project guideline and procedures of the ADB. The same pattern can be observed at the AIIB's second project in Tajikistan. Here the project is a joint venture between the AIIB, ADB and the European Bank for Restructuring and Development (EBRD), again displaying a pattern of the AIIB's ready and willingness to use the existing international- framework, funds, administrative organs and standards to pursue its own ends. (Panda, 2016)

The second part of the strategy is to include a broad array of regional members to utilize the short end of the stick approach, which is highlighted by the Rational Design as one way of minimizing distributional problems stemming from relative gains among members. Here, one nation might be worse off, because of a given agreement, but as long as they are better off than before or someone else is even worse off the distributional conflict is greatly diminished. (Koremenos, et al, 2004, p. 785) By applying this approach China partly compensates its neighboring states for any eventually unfair trade practices it might have employed and the potential hindrance that any such practices could have had on their modernization process and manufacturing development. Meanwhile, diversifying its own investment portfolio and creating a market for its export of building material such as concrete, steel, machinery etc. Securing that even if China might have the upper hand in trade relations with one of its neighbors, it is able to compensate for this through investments and creation of infrastructure. And, by having added almost all of the Asian nations, China will be able to use the overall unmet need for investment to maneuver among the AIIB's member states and avoid that anyone country in particular feels threatened, encircled or left out,

since this state could potentially be the next to benefit from the investment bank, again minimizing any chances of a relative gains scenario arising. (Wang, 2015)

All of this leaves China in an advantageous position strengthening the infrastructure that binds the other Asian nations to China such as highways, express railways, pipelines and ports, all while investing its large trade surplus outside the European and American economies that have been plagued by volatility and increasing risk, since the financial crisis of 07. (Wang, 2015)

The Inclusiveness in the ADB and its ramification for distribution conflicts

When analyzing if any potential distributional conflicts, due to relative gains among members, might exist in the ADB, it is important to remember the first assumption embedded in the rational design:

“States and other international actors, acting for self-interested reasons, design institutions purposefully to advance their joint interests.” (Lipson, et al, 2001, p. 781)

In this regard the creator of the ADB, Japan, has utilized this approach to construct the ADB to favor its own interests in the Asia Pacific region. The benefits of this utilization have been very beneficial towards Japan and the United States, since it has secured these two main contributors major advantages in voting shares, scope and regional influence. However, this lucrative arrangement has also caused problems, as the institutions uneven distribution of shares compared to “investment”, and the de-facto veto power of the US and Japan have cultivated the perfect conditions for a zero-sum mentality among the institutions members, something which will also be elaborated in the later part of the analysis. The nature of such an institutional situation can also be analyzed enforcement problem with an insufficient minimum discount factor. As the conjecture declares the ADB could have solved this distributional problem via a restructuring of power and a rearrangement of the distribution process.

“One remedy is to rearrange the terms of cooperation so that benefits are more equally balanced, but this may be difficult or costly.” (Koremenos, et al, 2004, p. 785)

Taking the economic and political changes into account and forming a new equilibrium among participants, giving China a more relative share of institutional power compared to money invested in the institution. Instead the institution chose to maintain its model, prioritizing relative gains and Chinese encirclement. (Shanghai, 2014) Even the creation of the AIIB could possibly have been inhibited due to the costs of founding an institution, as assumption number declares:

"There are severe transaction costs for Establishing and participating in international institutions."
(Koremenos, et al, 2004, p. 782)

From this statement it can be concluded that the cost to benefits, of expanding China's role in the ADB, must have been higher than the cost of establishing a new institution. Yet, seen from the aspects of membership constellation and the commonality of the institutions purpose, the creation of the AIIB does not necessarily have to be a bad thing for the ADB. There is a broad consensus among experts that the AIIB is not a direct threat to the ADB.

"Instead of directly challenging the current existing international institutions, the Chinese are trying to create new platforms that Beijing can control or substantially influence. Through these new initiatives, (...) Beijing wants to gradually take progressive, but not provocative, steps forward in these endeavors." (Wang, 2015)

The employment of this moderate reform policy, based on the existing institutional framework, in shaping the outline of the AIIB might even have proven to be a key aspect of getting the western states to join the institution. (Hong, 2015) However, in order to fully understand how China is balancing between promoting its own institutional agenda while still utilizing the already established international framework, one needs to examine the scopes of the AIIB and the ADB.

2. Heterogeneity and its effect upon an institutions scope

Based on the Rational Design's conjecture concerning diverse interests among members in an institution and its association to further issue linkage and spill-over effect at both the national and international level of policy, the analysis will undertake an examination of institutional members' preferences and the scope of an institution. The conjecture is built upon the interaction of the dependent variable "scope" and the independent variable "numbers". The assumption being that when a large number of actors in a given institution are opting for cooperation the institution's scope will increase, to solve any problems derived from diversity. The conjecture also states that by creating issue linkage on a supranational level, states might also resolve stagnant interstate issues and produce the possibilities for new mutual benefiting agreements. (Lipson, et al, 2001, pp. 785–786)

Conjecture S1: *Issue scope increases with greater heterogeneity among larger number of actors.* (Koremenos, et al, 2004, p. 785)

The basic theoretical knowledge behind this analytical approach is primarily based on the assumption that when states share a position on a given issue, they will often cooperate to create a collective policy that fit this position, easily resolving any given issue related to this position. Conversely, when states that are qualitatively different cooperates on crafting a collective policy it is harder to attain a result due to conflicting interest, so instead states will often include new issues in order to resolve gridlocks and conflicts. This analytical approach is derived from James K. Sebenius demonstration of how adding issues:

"can yield joint gains that enhance or create a zone of possible agreement." (Koremenos, et al, 2004, p. 786)

An example of this kind of behavior is the gains achieved from trading. Here, both parties do benefit from the physical exchange of goods, creating a plus sum game. The same thing can also be said to be true in a broader sense, when two parties both benefit from creating a connection of issues. For instance when actor A values a benefit, attained from a given connection of issues, more than he regrets the potential loss of the issue connection, and the same can be said for Actor

B, then both are better off by agreeing to defer to each other on this issues. (Koremenos, et al, 2004, p. 786)

Applying this analytical model directly to the actual scope of the AIIB might prove a bit inconclusive, because the institution have only carried out a few actual projects and these might just have the characteristics of an institution in a start-up phase. Yet, applying this analytical scope could broaden the nuanced comprehension of the conception of the AIIB.

As mentioned in the above analysis, the creation of the AIIB could be seen as a result of unfair practices and the biased design composition of the ADB. Prompting the creation of the AIIB, since the cost of creating a new institution, would be more lucrative than expanding its presence in the already established institutional framework. Yet, another motive behind the creation of the AIIB can be identified by looking at the issue connection argument set forward by James K. Sebenius, in the light of China's own economic weaknesses.

"China has over capacity problems in industries that are related to infrastructure, such as cement, iron and steel, therefore an emphasis on infrastructure also caters to China's own economic needs. Sun Xiao, Chairman of the Board of Maanshan Rural Commercial Bank."(Hong, 2015)

Seen from this perspective China's move to build infrastructure in neighboring countries could be viewed as a reflection of an attempt to reorganize an economy that it is heavily dependent on production and manufacturing related to infrastructure, and a highly inflated domestic construction and production sector. (VanderMey, 2013) (Anderlini, 2015) Therefore, exporting some aspects of its production and construction unto its regional neighbors could prove a valuable strategy, for both parties. The AIIB can be seen as a vessel to carry out this export oriented strategy, creating an issue linkage between infrastructure and related production to close regional ties, a bound of necessity and interdependence between itself and its neighbor. China could also reap an advantage in the form of minimizing environmental impacts by diminishing smog generated by for instance steel factories in the north of the country. By modernizing the regional infrastructure, China could allocate harmful industries and pollution related manufacturing hubs to other nations in the region. (Wang, 2015) Deeper trade ties, exchange of technology and a more friendly bias towards China could enhance the market for goods "Made in China" and it may also encourage China's neighbors to increase their reliance on the Chinese market and capital.

However, in the last century anti-Chinese sentiment has been on the rise in many Asian countries with populations growing weary and unhappy in regards to the major Chinese presence already in their home. A new wave of Chinese investments could therefore potentially lead to an even higher level of tension (Woo-duk, 2015).

"Influence does not derive from a country's coffers, but rather from the promotion of shared values and soft power." (Woo-duk, 2015)

Therefore, the importance of the AIIB becoming a success; by diminishing zero-sum conflicts, create win-win scenarios by issue linkage, reestablish its reputation and establish relations of dependence with its neighbors, in relation to China hope of becoming leader in the region, cannot be underestimated. Furthermore, the increase in scope arising due to the AIIB's utilization of issue connection to enhance cooperation with a broad number of actors not necessarily having a pro-Chinese sentiment, but wanting to benefit from China's export of infrastructure and investment could prove to be a key initiative in solving many of the inherent problems, of not only China's domestic economy, but also the un-met regional investment potential. Moreover, a successful AIIB could also prove to be vital tool in a broader international perspective by functioning as a balancing element to the U.S. pivot to Asia. (Woo-duk, 2015)

The Scope of the ADB and its relations to the AIIB

When analyzing the ADB in a comparative contrast to the AIIB in the light of the dependent variable "scope" there only seems to be superficial differences as both institutions are concerned with investment and infrastructure in Asia. Yet, the ADB and the AIIB do seem to have some contrasts that could have huge implications for the future existence of both organizations and their respective creators, China and Japan.

When analyzing the scope of the AIIB and the ADB it is important to remember that the ADB is an older institution than the AIIB and given that the two organizations almost have an identical framework and goal (to use investment to fund projects in order to create real economic growth.) the analytical approach in the eyes of the Rational Design provides a two-step approach to understand institutional creation and change:

“First, participants may modify institutions in stages, by making purposeful decisions as new circumstances arise, by imitating features from other institutions that work well in similar settings, or by designing explicit institutions to strengthen tacit cooperation. Second, institutions may evolve as states (and other international actors) select among them over time. States favor some institutions because they are better suited to new conditions or new problems and abandon or downplay those that are not.” (Koremenos, et al, 2004, p. 767)

Based upon this analytical understanding the slight differences in scope of the two institutions can be analyzed in the light of heterogeneity, both internally among the institutions' members and the heterogeneity between the two institutions, in order to understand why the AIIB was created and what its implications for the ADB might be.

The differences between the ADB's scope and the AIIB's are primarily to be found in the subtle underlining ideological dimensions behind the two institutions: The one road one belt and the Bretton Woods system.

The AIIB is one component in China's broader regional infrastructure plan, known as “One Belt, One Road”, which aims to expand rail, road and maritime transport links between China, central Asia, the Middle East and Europe. (Wildau, 2015) Furthermore, the AIIB can be regarded as China stepping up its international responsibilities while maintaining and projecting its international stand on non-interference as an alternative to the west spreading of liberal democracy. (Liao, 2015) However, the AIIB's own definition of its scope is eerie similar to that of the ADB.

“Foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.” (AIIB, 2015, p. 2)

Though, one crucial point of divergence is the AIIB's emphasis on lending to state run projects and its inclusion of undeveloped nations. (Jaber, 2016)

The ADB's core ideological component is the Bretton woods system. Being an Asian subdivision under the World Bank the ADB strives to fight regional poverty, by generating “economic

development”, “social development” and lastly promoting “good governance”. This is by far a more subjective scope than that of the AIIB, since good governance often relates to the principles of western liberalism. Moreover, the ADB primarily focuses on development of the private sector, Regional cooperation and environmental protection, in order to secure economic growth. (Faure, 2010, p. 168)

Based on the Rational Design’s analytical understanding the first question arises, whether the AIIB was created by as an institution aimed at facing new circumstances by imitating already existing institutions or it was created based on an already tacit cooperation. To analytically address this question the knowledge from conjecture (s1) can be utilized once again.

“Issue scope increases with greater heterogeneity among larger number of actors.” (Koremenos, et al, 2004 p. 785)

In this part of the analysis, the conjectures does not address the number of states in a given institution, but number of similar institutions in the region as a whole. It is clear that the pure scope of the Bretton Woods system has “failed” to fully comprise and include the entirety of the region and its political entities. The entirety of nineteen countries have joined the AIIB whom are not a member of the ADB, (Member overview, Appendix) and the creation of the AIIB can be seen as an increase in heterogeneity in the form of an extra dimension to banking and development in Asia as an example, the ADB does not allow non-members to bid for projects undertaken by the bank, the AIIB does. (Magnier, 2015) Therefore, the AIIB is the reaction to new circumstances having arisen in the region, broadening the regional institutional scope. And the slight differences in scope and its different membership constellation of the AIIB have been able to reach some actors and areas of investment that the ADB could not. Moreover, since there were no direct institutional alternative to the ADB, no tacit regional institutional interactions could have taken place and it is therefore safe to conclude that the AIIB was created, *“by imitating features from other institutions that work well in similar settings”*.(Lipson, et al, 2001 p. 767)

Having now determined that the AIIB can be analyzed as a broadening of the regional scope encompassing a greater heterogeneity in the region by using the principal structure of the ADB, while still having its own ideological characteristic, it is time to conclude the impact that the

creation of the AIIB will have for the ADB. In this regard the Rational Design highlighted two possible outcomes for an institution faced by institutional changes.

"(...) institutions may evolve as states (and other international actors) select among them over time. States favor some institutions because they are better suited to new conditions or new problems and abandon or downplay those that are not." (Koremenos, et al, 2004, p. 767)

These two possibilities analyzed in the context of scope do provide a somewhat inconclusive answer to the effects of the creation of AIIB on the ADB. The scope of the AIIB and the ABD does have an overlap, since both institutions strives to provide lending for infrastructural projects, however as Bloomberg reports:

"(...) the creation of two blocs of economic influence in Asia: one led by China and the other by the United States and Japan. Demand for infrastructure investment is large enough to accommodate both — even a third development bank could probably find demand" (Takahashi, 2015)

This clearly points in the direction that the implication of the AIIB is primarily to function as an external evolvment of the ADB, accommodating an un-meet demand for investment, funding for state run projects and the inclusion of non-member states of the ADB. Even the AIIB's expression of its own scope seems to point to a bi-lateral biased framework, stating:

"Improve infrastructure connectivity in Asia, (...) addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions."(AIIB, 2015, p. 2)

The coordinated initiate projects of the AIIB, with the ADB, even points toward a potential strengthening of the ADB. By tapping into the resources available in the AIIB, the ADB could see its own influence and power grow along with the AIIB's. Furthermore, the possibility to cooperate with the AIIB could also help the ADB to gain some freedom to access projects and countries that would be outside its own ideological sphere of influence, since it could use the AIIB as a gateway. (Zhenglong, 2014) (Brace, 2015)

However, the initiate cooperation between the AIIB and the ADB is not a given, and If a rivalry between the two institutions were to emerge, one or both of the institutions might suffer. The same factor that has made cooperation possible does also encompass the possibility for conflict,

similarities in scope. Because both the AIIB and the ADB have similar interests and operate in the same region conflict due to conflicting ideological or logistic disputes on the same issue could arise, hereby creating a schism for its respective member states. Such a schism could especially spell bad news for the ADB, since:

"States favor some institutions because they are better suited to new conditions or new problems and abandon or downplay those that are not."(Koremenos, et al, 2004 p. 767)

In a given conflict, the AIIB's scope is less restrictive and therefore more flexible to address new circumstances. (Prodi, 2015) Moreover, China's growing economic influence and importance in the region, might pressure many Asian nations to side with China in an institutional conflict, which could eventually leave the ADB sidelined. Additionally, the AIIB's inclusion of many of ADB's key members can be seen as a slight shift away from the ADB, because:

"Institutions may evolve as states (and other international actors) select among them over time."

Key members of the ADB such as Korea, Australia and the Germany joining the AIIB does not necessarily have to be analyzed as an active delamination of the ADB, but it still have to be understood as a loss, as Japan and the US feverishly fought against the creation of the AIIB and put pressure on allies in the Asia Pacific, and beyond, region not to join the institution. (Sakamoto, 2015) (Gaouette, 2015)

Still, the only real long term issue having the potentiality to force a regional institutional schism is the absence of the regions second biggest economy from the AIIB, Japan (not taking into account any regional military and boarder disputes). The absence of Japan; being the biggest regional rival to China, the creator and the most significant member of the ADB, with deep economic and influential ties to many of the Asian nations, does contain a certain degree of risk for the AIIB. (Bastin, 2015) Moreover, Japan and the ADB represent an alternative to China's state lead communism and a potential trade or monetary conflict could create a quandary of loyalty for many Asian nations. Hereby, generating the possibility that both nations would force or pressure its ally's and neighbors to choose between their respective economic institutions. This scenario does however not seem likely.

Even though Japan was fiercely opposing the creation of the AIIB, it seems that an acceptance of the Chinese led bank has occurred and Japans ambassador to China has already stated that Japan will likely join the AIIB in the near future. (Bastin, 2015) Hereby, minimizing a schism, since both Japan and China seem to acknowledge each other's right to existence and has chosen a path of cooperation and engagement instead of isolation and conflict. Moreover, the ADB and the World Bank, representing the institutional dimension, has both welcomed the AIIB's foundation and chosen a path of cooperation. (Sakamoto, 2015) So to conclude the AIIB is most likely, especially if Japan joins the institution, to become a successful institution serving as an expansion of the scope, preliminary set up by the ADB, just with a slight difference in ideological orientation and having more flexibility due to its undefined identity, broader economic scope and profile and inclusive behavior. Besides, the creation of the AIIB could also lessen regional tensions, since a close cooperation between the AIIB and the ADB could serve as a bridge between China and Japan, strengthening relations and tacit cooperation and lessening any institutional rivalry, a point that will be further elaborated in the analysis. (Bastin, 2015)

3. Membership and preferences

In this part of the paper the dependent variable "membership" will be analyzed in reference to the Conjecture M2. The "membership" variable refers to the composition of the actors within an institution. Who can join and under what conditions are admission allowed. The Conjecture M2: "*Restrictive membership increases with uncertainty about preferences*" (Koremenos, et al, 2004, p. 784) should be understood as a tool to analyze the membership-inclusiveness of an institution. By requiring concessions, an institution deliberately forces prospect members to adjust behavior. As an example joining NATO requires a certain degree of military spending and domestic political conditions to be fulfilled. (Lipson, et al, 2001, p. 784)

In previous sections the variable "membership" from the Rational Design theory was applied to the ADB and the AIIB and the requirements were explained. Here in the analysis, the paper will compare the important requirements to highlight the differences. Membership to the ADB is restricted to members and associated members of ESCAP. Membership to the ADB is similarly

attainable for regional and non-regional developed countries that are a member of the United Nations. The membership of the AIIB is restricted to members of the ADB and the IBRD. The difference on paper might appear minor but in reality the membership requirements of the AIIB as an institution are significantly less restrictive. All countries with the possibility of attaining a membership to the ADB are able to join the AIIB however the opposite is not the case. Undeveloped countries that are not a member, or associated member, of the ESCAP are not able to join the ADB, but they are able to join the AIIB. To fully understand how inclusive the AIIB is, a closer look at members of the institutions able to join the bank will be undertaken. The members allowed to join the ADB are allowed access to the AIIB, and the IBRD members are also allowed access to the AIIB. The IBRD has 189 members of which 131 are not a member of the ADB. There are four Non-regional countries (Belgium, Canada, Ireland and the US) that are a member of the ADB and not the AIIB. There are twenty-three countries in total that holds membership to the ADB that are not a member of the AIIB. (Member overview, Appendix) The other way around, fifteen countries are a member to the AIIB that does not hold a membership to the ADB. The most significant countries being: Russia, South Africa, Brazil, Iran and Saudi Arabia. (Member overview, Appendix) One possible explanation for the missing membership might be the lending criteria of the ADB. The lending criteria are slightly different in the ADB to that of the AIIB. The AIIB requires legally transparency and social and environmental concerns to have emphasis whereas the ADB focuses on private sector development, regional cooperation and environmental protection. The main difference, and maybe some of the reason why the US and Japan chose to stay out of the AIIB, is the development of the private sector. When the private sector is involved projects are required to be profitable to a greater extent than what the AIIB is aiming at attaining. An example could be clean water for a community. With the criteria put forward by the ADB the water price in the area might have to be increased to help facilitate the loan. A different structure exists in the AIIB where governmental subsidies, i.e. non-private actors, could be a possible solution to the financing of the project. (Lee, 2015) Another reason for countries like Iran, Russia and Brazil are excluded in the ADB and the AIIB might be the difference in market structure. Privatization has a stronger focus in countries like Canada, Belgium and Japan whom are a member of the ADB and not the AIIB.

The theory states that: *"When membership rules are a significant hurdle, they say something significant about members as well."*(Koremenos, et al, 2004, p. 24) The idea here is that if all countries in a region, except one, agree to enter a peace treaty, the focus for the remaining countries, will be on the country in question. In this scenario the country in question unintentionally, or perhaps deliberately, expresses signs of aggression towards the rest of the region. The point is that not entering an institution is also an active choice that the remaining actors will interpret with individual motives that might be different from the original one held by the non-complier.

The theory states:

"Ideally, a state that values the goals of an organization will want to join, whereas one that wants a free ride will find it too costly to join a regime they intend to violate."(Koremenos, et al, 2004, p. 24)

The theory claim that if a state value the goal of an institution the state would want to join. The goal of the AIIB is:

"to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia..... and promote regional cooperation....."(AIIB, 2015, p. 2)

The example from above with the one country in the region that did not want to join the rest becomes very real in the case with Japan. Japan is the third largest economy in the world and the second largest in the region only trumped by China. (Bajpai, 2016) It therefore appears odd that Japan is against sustainable economic development in Asia. Not wanting regional cooperation and improved infrastructure connectivity appears to be counterproductive to the purpose (and scope) of the ADB. The purpose of the ADB is to: *"foster economic growth and foster cooperation in the region."* (ADB, 1966, p. 1) The two institution's goals seem similar and in reality the ADB and the AIIB are already working in collaboration on building a four-laned highway in Pakistan. The argument that more collaboration between the ADB and the AIIB will facilitate is not only rooted in their similar purposes but the theory highlights:

"Membership enables states to learn about each others' preferences if the membership mechanism can distinguish cooperators from non-cooperators."(Koremenos, et al, 2004, p. 24)

The theory here suggests that when two states are in an institution together they form a bond that will make future cooperation even more likely, if the preferences are compatible. In this case however the mechanism might prove to work by institutional cooperation. Japan and China have mutual economic benefits from economic growth in Asia. With economic growth follows a higher purchasing power which essentially leads to more potential customers for both nations. Japan is not a part of the AIIB but the ADB and AIIB have signed a memorandum of understanding on the second of May this year, agreeing to work even closer together for their joint goal of economic development in Asia. They agreed to work together on several issues to help spur the much needed development. Areas like co-financing, strategic planning, technical assistance and joint policy dialogue are the most significant areas that they have agreed to work closer together on. (ADB, 2016) The memorandum of understanding does mirror being in an institution together and it is likely that over time Japan might join the AIIB. If not for economic reasons, then because the two institutions have a lot in common and it will only increase with time. The longer Japan waits, the longer it will risk being sidelined on the projects that the AIIB initiates on its own, or in collaboration with other institutions. The countries in the region, and the rest of the world, will find the non-membership increasingly odd and add pressure on Japan. Therefore the paper finds it highly likely that Japan will become a member of the AIIB at some point. If Japan chooses not to join the AIIB, China might interpret it as an offensive move by Japan and reinforce the encirclement argument. By joining the AIIB Japan would express signs of cooperation and eliminate some of the fears of encirclement, but also foster the peaceful rise of China. The Chinese government has already tried to channel some of the growing internal nationalism towards Japan and the US. More cooperation between the two nations would make the nationalist agenda of framing Japan and the US as external tyrants, which wants to encircle China, harder to promote and perhaps push China further against the peaceful rise. (XIA, 2015)

The US is a member of the ADB and it is likewise a developed country that is a member of the UN. There is therefore no restriction in the membership requirements to the AIIB that inhibits the US from joining. Applying the same part of the theory to the US vociferously highlights the question: does the US not want the AIIB to become a successful institution? Not only did the US not join the institution. It perfidiously tried to convince its allies not to join, Japan as the most significant ally

chose to follow the advice, but many of the European allies chose to join the AIIB. The most significant country is the UK, they have a historical relationship with the US that is unparalleled by any other state. France and Germany likewise chose to join even though the US advised them not to. This has been seen as a diplomatic victory for China and as a defeat for US. (Lee, 2015) One explanation for the European nations joining the AIIB could be the way in which they assess China. The United States tends to analyze China through a lens of power and security politics, whereas the European countries tend to value economical perspectives. This could be true due to the fact that out of the twenty-five largest construction, engineering and procurement companies in the world twenty-three are European or Asian and only two are America. The AIIB therefore represent an economic opportunity for the European countries, with its focus on infrastructure, which does not exist for the United States. (Khanna, 2016) Another reason for the European nations to join could be the slightly downplayed role of China within the AIIB. The theory of Rational Design highlights:

"States are risk-averse and worry about possible adverse effects when creating or modifying international institutions. Risk-averse actors prefer a certain outcome to a chancy one when each has the same expected value." (Koremenos, et al, 2004, p. 782)

The risk attained from joining the AIIB by the European nations would have been higher if it the veto rights of China had been different and permitting China a more dominating role. Following the theory's logic the European nations must have calculated the risk of joining the AIIB as being low compared to the gains attained from joining the institution. (Hong, 2015) China has tried to gain further influence in the existing international economic framework with Chinas growing economy and its increasing importance to the world economy as argumentation for the increased influence. In 2010 the IMF, and president Barak Obama, agreed to grant China a more significant role within the institution. The decision was however blocked, internal in the US, and the process was delayed so the change seemed unrealistic within a near future. (Ayres, 2016) The rigidity of the international system might have contributed to the creation of the AIIB. What is noticeable about the lack of reform inside the IMF is that it was China and India that where to gain the highest voting share increase from the reform, but due to the lack of willingness inside the current system China and India are now the two largest contributors to the new international

institution. (Ayres, 2016) In addition to the rigidity of the international system undeveloped Asian Countries that rejected the privatization paradigm put forward by the ADB were unable to secure funds for their national development plans. Before the AIIB the international system pressured them to reform or stay in a stage of stagnation. The membership conjecture from Rational Design states: *"Restrictive membership increases with uncertainty about preferences"* (Koremenos, et al, 2004, p. 784) The membership concessions of the AIIB do not exclude Japan and the United States and if the conjecture from the theory is valid then they must have other preferences than that of the AIIB. The Japanese led ADB have signed a memorandum of understanding with the AIIB and will likely join the institution over time leaving the United States. The United States have an aggregated voting power of fourteen percent in the World Bank and ADB combined giving them a shared preference with the AIIB. (Morris, 2015) Not entering an institution reveal something about a state's preferences and the United States preferences is different from the economical realm that this paper is limited to. One argument that might help explain the absence of the United States could be the encirclement argument put forward earlier.

4. The control of the AIIB

The dependent variable control refers to the composition of the institution. Earlier chapters explained how the theory understands control, but to guide the reader a short description will be presented. The two most important aspects surrounding the variable control is rules for electing key officials and voting. These variables are always present, in international institutions, and are therefore easy to compare and analyze. The voting structure within the AIIB will be the first to be analyzed starting with how votes are attained and what they mean for the structuring of the AIIB, then the mechanism behind electing key officials will be analyzed.

The voting structure of the AIIB consists of three kinds of votes. "Basic votes", "share votes" and "founding member votes". The share votes represent a mechanism best described as: one vote, one share. Each member is given one vote for every one-hundred-thousand US dollars contributed to the total amount. As earlier accounted for China has contributed just below 30 billion US dollars essentially giving them the right to thirty percent of the voting power. In reality China holds less than what they are entitled to and have just above twenty-six percent of the total vote. The "basic votes" and the "founding member votes" are designed in a way so that the smaller members get a

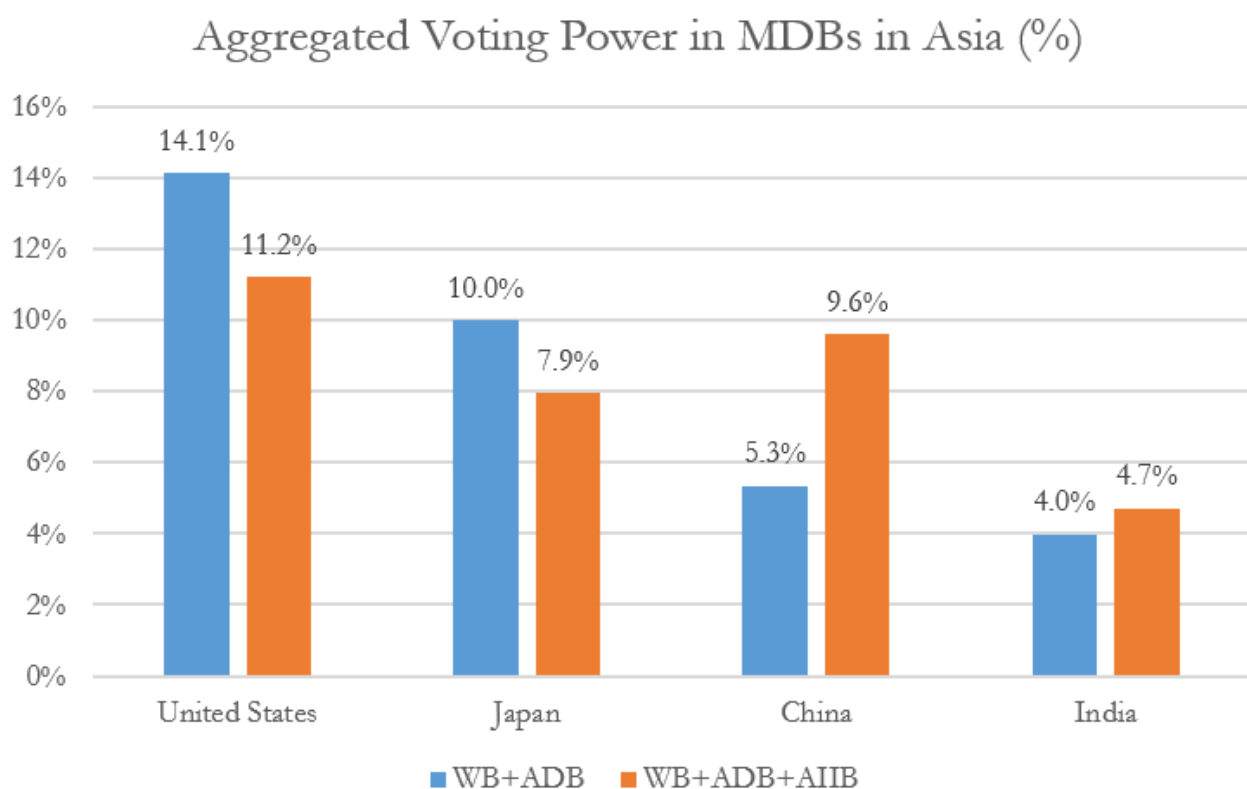
larger say in the decision making process within the institution. Denmark as an example hold 36.950 “share-votes” amounting in 0, 38 percent of the total share-amount but because of the “founding member” shares and the “basic votes” Denmark arrive at 0.58 percent of the total amount of votes, giving Denmark significantly more influence than what they financially are entitled to. The Rational Theory Conjecture V2 prescribes: *“Asymmetry of control increases with asymmetry among contributors”* (Koremenos, et al, 2004, p. 791) The conjecture implies that if an actor is important to the institution the actor will have an equally important position within the institution. With China holding above the twenty-five percent needed to block major decisions about structure, membership and loan giving, securing it a very central role to the institution. It is also by far the largest contributor with India as the second largest contributor, contributing just short of eighty-four billion US dollars. Even though China holds significantly more voting power than India, respectively twenty-six and seven-and-a-half, it does not translate the AIIB into a China dominated institution. The Board of Governors has twelve members of whom three should be from the non-regional members and nine from the regional members. The voting mechanism of the AIIB only allows a country’s votes to be used once, and upon one Governor. This voting structure renders a lot of Chinese votes unusable or wasted but it ensures them one Governor. India with seven-and-a-half, Russia with six and Germany with four percent of the total votes are also sure of getting a Governor elected. (Morris, 2015) Here the asymmetry among contributors becomes visible. Due to the larger share of the total amount of votes these four countries are ensured an extra amount of control over the institution, creating asymmetry among the members. It is likewise very hard imagining an institution focused on infrastructure in Asia, having any success without China, India, and Russia simply because of their sheer size. Giving India and Russia key positions in the AIIB aligns with the conjecture about control in Rational Design theory illustrated above.

The Rational Design Theory highlight a key feature about control: *“Membership and voting rules typically formalize.... control”* (Lipson, et al, 2001, p. 792)

In an earlier chapter the paper explained that a Super Majority vote needs two-thirds of the total number of Governors and those two-thirds of the Governors must represent at least seventy-five percent of the aggregated voting power. Article 29 part 1 of the Articles of Agreement states: *“The*

Board of Governors..... Shall elect a president of the Bank by a Super Majority vote as provided in Article 28.” (AIIB, 2015, p. 17) i.e. if China does not want someone elected it cannot happen. Therefore, it is highly likely that the president will be of Chinese origin which correlates with the Rational Design theory because China can secure this key position in the AIIB. It is not a revolutionary act by the AIIB because all the nine presidents of the ADB have been Japanese and the twenty-six percent of the aggregated votes does give China a chance to secure the presidency and block undesired election outcomes. This sets the AIIB apart from the ADB because no country has a “veto” in selecting the president in that institution. (Morris, 2015)

Above this part of the conjecture concerning control was highlighted: *“an actor’s control over an institution relates to the actor’s importance to the institution”* (Koremenos, et al, 2004, p. 792) in graph 1 below the voting power ratio in Asian Multilateral Development Banks (MDB) between the United States, Japan, China and India.



Graph 1 Source: Center for Global Development.

It illustrates China's relative voting power to the United States and Japan has increased and almost doubled with the creation of the AIIB. In part 3 of the analysis it was argued that rigidity in the existing institutions made it impossible for China to attain a larger share of the shares of the votes in the existing institutions. The status quo where China had five percent of the voting power in institutions operating in China's sphere of interest was unacceptable. (Kamp, 2015) Japan had twice the voting power and they are the third largest economy in the world China being the second largest. The Rational Design theory's conjecture about control does not correlate with the Asian setting prior to the creation of the AIIB. The theory however states that: *"The institutions cannot be changed swiftly or easily to conform to changing configurations of international power"* (Koremenos, et al, 2004, p. 762) The ADB was created in 1966 at a time where China's role in the region was different to its current role. The Theory insinuates the creation of the AIIB could be due to the institutional design of the ADB and the time of creation. The lack of Chinese influence compared to the present importance of China to the region points in that direction. The US had almost three times the influence before the creation of the AIIB and the creation changes the scene completely.

China now has a larger total voting power in the Asian region than Japan. China likewise, is only 1.6 percent short of the voting power of the US. This fact could prove to become a game-changer because the voting power ratio could easily change if the AIIB's authorized capital is increased and the World Bank's and the ADB's is kept at status quo.

6. Conclusion

In this chapter, the paper will recap and discuss the main conclusions from the analytical chapters. This recap will conclude why specific design choices were made and what these specific design choices mean for the institution, based on theoretically derived conjectures, and the geopolitical, plus economic climate in the region. The findings will be comparatively analyzed to recognize the differences and similarities between the AIIB and ADB, in the context of the Rational Design, in order to comprehend fully answer the papers problem formulation:

“Why is the AIIB designed as it is? And how does these design choices affect the Asian Development Bank?”

The first analytical undertaking of the paper was to address the question of the institutions creation and its assemblage of founding members. Here, the paper set out to establish; whether any distributional conflicts stemming from relative gains could be detected in the regional relationship between China and its neighboring countries in the Asian region. It quickly became clear that China's export oriented economic policies had created an environment where China's economic success were no longer seen as a windfall for the entire region, but instead loomed as a growing threat, painting China as a potential economic rival and competitor to most economies. Based on this, the paper applied a theoretical conjecture to interpret if the inclusion of western nations could be attributed to China wanting to solve its regional distributional conflicts. Here, the paper concluded that the inclusion of the western states did reduce the zero-sum nature of China's relationships in two ways. Firstly the inclusion of the western states could be analyzed in the context of the realist tradition as a balance of power mechanism; somewhat shrouding China's real influence in the institution by transcending a regional power perspective. Secondly, this inclusion raised China's chances of undertaking joint ventures with already established international investment banks, securing the benefits of experience and low information costs, although simultaneously representing a danger for the AIIB, in the form of being trapped in the established banking network, reducing the institutions freedom to act.

Making a strong case that the conjecture was true and China did include the western states in order to reduce the distributional conflict between itself and its neighbors. However, the paper also applied the second part of the same membership conjecture, which recognizes a broad membership inclusion as a way to apply a short end of the stick approach to solve distributional conflicts.

This short end of the stick approach explicated that, by adding a broad array of members, it becomes possible to use one another's' weaknesses in order to compensate exposed states from potential losses of

cooperation. The paper concluded that China had used this approach to partly compensate its neighboring states for any eventually unfair trade practices and the potential hindrance that any such practices could have had on their modernization process and manufacturing development. Securing that even if China might have the upper hand in trade relations, with one of its neighbors, it would be able to compensate for this through investments and the creation of infrastructure.

This seems to be a much more probable way of China handling its distributional conflict, since all of this leaves China in an advantageous position, strengthening the infrastructure that binds the other Asian nations to China, while investing its large trade surplus and exporting its own industry and construction sector into the region. Therefore, this approach would reduce any distributional conflicts significantly more than adding western states, because the Western states had a relative low influence in the institution due to the voting structure, total amount of shares and possibility to appoint the governors and president, as observed in part 4 of the analysis, leaving the non-regional members unable to effectively function as a balancer of power to China. However, the legitimacy and the connection to the established international system that the western nations provided did make an appealing argument that China included the western nations in order to lure in other Asian nations. Hence, the inclusion of western nations can be explained by distributional conflict just as the conjecture does propose.

Having now concluded the AIIB's design choice in regard to membership, the paper shifted its focus towards the ADB and its distributional conflicts. Here, the paper utilized the Rational Designs first assumption:

"States and other international actors, acting for self-interested reasons, design institutions purposefully to advance their joint interests." (Lipson, et al, 2001, p. 781)

Deriving from this theoretical assumption; that the ADB had created an enforcement problem with an insufficient minimum discount factor, constituting a distributional conflict powerful enough to force China into constructing its own institution, instead of developing the already existing one. Utilizing the membership conjecture, the paper analyzed that the ADB could have solved this distributional problem by adjusting the institution towards a new equilibrium, incorporating China's new role as the biggest economy in Asia. Nonetheless, the ADB chose not to, facilitating in the creation of the AIIB. This conclusion even seems more likely in the light of the scope and membership design choice in the AIIB. In these two design choices, China has chosen to almost mirror the institutional design of the ADB in order to secure cooperation with the already established international institutions, securing the inclusion of western nations and allies of Japan and the United States, while avoiding information and administrative costs.

Based on these findings it seems that the broad membership inclusion of the AIIB can be understood in the context of China wanting to diminish any potential distributional conflicts between itself and its neighboring states. Furthermore, China has included sufficient non-regional members to dilute its own direct influence over the institution, while creating an international allure and giving its institution a political legitimacy

As mentioned the creation of the AIIB was concluded to be a result of the ADB not sufficiently providing a discount factor for cooperation, hereby prompting China to initiate the construction of its own investment bank, based on the same principles with a slightly different political scope. Yet, the first part of the Analysis did also reveal that China had made use of the AIIB to convert its economic strength into a compensation for its neighbors, affected by the unfair trade practices, ensuing from China's export oriented strategy. This economic approach also helps unmask another motivation behind the construction of the AIIB, especially when taking the findings from the second part of the analyses emphasizing the economic benefits attained by China.

In the second part of the Analysis, the Rational Designs conjecture, relating to how heterogeneity among actors affect the scope of an institution, where utilized in order to firstly understand how the differences among participants of the AIIB could explain the scope of the institution. In this regard the argument of issue connection by James K. Sebenius were put forward in order to understand the creation of the AIIB and how the scope of the institution could be a reflection of China's wish to build infrastructure in neighboring countries in order to satisfy the country's own dependence on production and manufacturing, related to infrastructure, while creating close regional ties, a bound of necessity and interdependence between itself and its neighbors. All of this resulting in; deeper trade ties, exchange of technology and a more friendly bias towards China, enhancing the market for goods "Made in China" and encouraging China's neighbors to increase their reliance on the Chinese market and capital.

This economic approach of utilizing each other's weaknesses to create a plus-sum game seems adequately to explain the AIIB's scope. It is also important to note that this finding does somewhat dilute the claim that the reason for the creation and the design of the AIIB is to be found in the ADB's insufficient inclusion of the AIIB.

Another essential aspect of the AIIB's scope was analyzed in comparison to the ADB; the slight differences existing in the respective institutions ideological tradition. The paper's principal discovery, from analyzing the variations in ideology, was that the AIIB had been able to reach some actors and areas of investment which the ADB could not. Moreover, the paper also concluded that the scope of the AIIB could be viewed as a regional institutional extension of scope, with a foundation build upon *"imitating features from other institutions that work well in similar settings"*, with its own ideological characteristic. The implications of this for the ADB were analyzed in the dualistic understanding of how institutions either evolve or gets downplayed or abandoned.

"Institutions may evolve as states (and other international actors) select among them over time. States favor some institutions because they are better suited to new conditions or new problems and abandon or downplay those that are not"

Depending on how one view's the scope of the AIIB and the ADB, the potential for rivalry or potential cooperation varies.

The first interpretation institutes that even though the creation of the AIIB does constitute an Institutional change it does not directly threaten the ADB, since the demand for infrastructure in Asia is large enough to accommodate both institutions. Hereby, accentuating that the AIIB does function as an external expansion of the ADB, accommodating un-meet demand for investment, proving funding for state run projects and implementing states that were not able to join the ADB, due to its restrictive nature. Concluding that the AIIB's scope has been derived from the ADB and the slight differences in scope serves as an extension of the existing regional institutional framework. Hereby, hinting at the possibility that the impact of the AIIB might be an evolvement and strengthening of the ADB, by increasing it accessibility to resources and connectivity across the region.

The second interpretation appraises the notion that the AIIB's scope is constructed around China's One Belt One Road strategy and the similarities in scope of the AIIB and the ADB can be understood as of a pure economic nature. The AIIB's scope serving as a mean to exploit the international framework, in order to reap economic gains, as showcased by the analytical understanding of issue connection and the short end of the stick approach. Creating a platform

upon which China can dictate the rules, set the agenda, and enjoy the role as leader. From this perspective the AIIB can be viewed as serious competitor to the ADB, and could in a theoretical understanding of institutional development one day cause the ADB or the AIIB to be sidelined or down played. Still, the paper concluded that the only real long term issue, which contained the potentiality to force a regional institutional schism, was the absence of the regions second biggest economy from the AIIB, Japan. The absence of Japan; being the biggest regional rival to China, the creator and the most significant member of the ADB, with deep economic and influential ties to many of the Asian nations, could create a quandary of loyalty for many Asian nations. However, the paper found that even though Japan was fiercely opposing the creation of the AIIB, it seems that an acceptance of the Chinese led bank has occurred and Japans ambassador to China has already stated that Japan will likely join the AIIB in the near future. (Bastin, 2015)

Definitively concluding, which of these two interpretations of the AIIB's scope is right, is almost impossible, and both might also be true at the time. However, analyzing the initial projects of the AIIB highlight a certain inclusive and cooperative approach, which could point towards a future where both institutions might reap mutual benefits from cooperation, and even facilitate a bound of trust between China and Japan, strengthening relations and tacit cooperation and lessening rivalry.

In the third part of the analysis the paper once again turned its attention towards membership in order to comprehend how the requirement to join both the AIIB and the ADB had affected the two institutions. The first point the paper derived at where that membership of the AIIB were restricted to members of the ADB and the IBRD, while membership of the ADB required membership of ESCAP or the status of a developed UN-nation. This difference between the two institutions could at first glimpse seem insignificant but in reality the membership requirements of the AIIB as an institution were significantly less restrictive. Hereby, underscoring the point made in the second part of the analysis that the AIIB served as a broadening of the ADB. Applying the theoretical conjecture "*Restrictive membership increases with uncertainty about preferences*" to understand how the AIIB's membership politic were formulated, the paper found that the AIIB's membership restrictions were largely based on an emphasis on the requirements of legally transparency and social and environmental concerns. The paper hereafter concluded that the

reason the AIIB might have a less restrictive membership politic, than that of the ADB, could be found in the financial structure of the two institutions. In this regard, the ADB priorities development of the private sector with a clear income plan aimed at facilitating the loan. The AIIB on the other hand allowed governmental subsidies, i.e. non-private actors to serve as a possible financier of the project.

The above argument does seem to hold some sway; since some of the most strikingly absent states from the ADB, Russia, South Africa, Brazil, Iran and Saudi Arabia do arguably priorities state intervention as a mean of financing and administration. Conversely, this financial argument could not explain why the four members of the ADB; Belgium, Canada, Ireland and the US had not joined the AIIB. Therefore, the conjecture of membership from the Rational Design was once again utilized: *"When membership rules are a significant hurdle, they say something significant about members as well."* The idea being that if all countries, except one, agree to enter a peace treaty, the focus for the remaining countries, will be on the country in question. From this analytical standpoint Japan's absence from the AIIB could be seen as a statement of; Japan being against sustainable economic development in Asia. Though, not wanting regional cooperation and improved infrastructure connectivity appears to be counterproductive to the purpose of the ADB. Therefore, the paper concluded that the referendum of understanding and the initial cooperation between the AIIB and the ADB probably would lead to Japan joining the AIIB, since: *"Membership enables states to learn about each other's preferences if the membership mechanism can distinguish cooperators from non-cooperators."* Furthermore, by applying this theoretical conjecture the paper also verified the findings from analysis part 2, since the appliance showed that further cooperation and membership would lead to the peaceful rise of China, while Japan staying out of the AIIB would signal encirclement and could also help inflame nationalistic sentiments in China.

The next subject investigated were the United States absence from the AIIB and its implications for other countries participation. The paper concluded that the reason The United States did not join the AIIB could originate in a combination of a strategy of encirclement and a lack of real economic incentive to join the institution. Moreover, by considering the United States' failure to reform the IMF, in order to give China and India a bigger voting share, an incentive to create the AIIB were

born. This failure to reform, almost mirroring the ADB's failure, analyzed in part 1, to solve its distributional problem by providing a sufficient minimum discount factor, had pushed China into creating its own institution.

The last part of the analysis focused on the theoretical concept of control. Here, the first part of the analysis examined the AIIB's voting structure and the mechanism behind the election of key officials. The paper found that the Bank had three kinds of votes: Basic votes", "share votes" and "founding member votes". The primary voting structure of the bank was based on a simple 1:1 principle of 100.000 dollars equaling 1 vote. This structure alone would have given China 30 percent of the aggregated votes, however the existence of share votes and founding member votes, decreased China's share to 26 percent. This was because, the "basic votes" and the "founding member votes" were designed in a way so smaller members get a larger say in the decision making process within the institution. The next step of the analysis was to understand how the theoretical wisdom of *"an actor's control over an institution relates to the actor's importance to the institution"* correlated with the AIIB. Here, the analysis pointed towards China as the largest shareholder, holding above the twenty-five percent of the total shares, making the country indispensable due to its ability to block major decisions about structure, membership and loan giving. However, the paper also found that China's majority in votes did not translate into a total domination of the AIIB, since a country's votes can only be cast once, and upon one Governor, hereby rendering a lot of China's votes redundant and insignificant. Moreover, the paper also showed that the AIIB in accordance with the conjecture, *"Asymmetry of control increases with asymmetry among contributors"* (Koremenos, 2004, p. 791), has given its biggest cofounding members an asymmetric power by awarding them with the possibility to elect one governor each.

The analysis did also conclude that China as the biggest contributor, had latently inbuilt an asymmetric level of control in the process of electing the institutions president. This control stemming from Article 29 part 1 of the Articles of Agreement states: *"The Board of Governors..... Shall elect a president of the Bank by a Super Majority vote as provided in Article 28."* (AIIB, 2015, p. 17) Hereby proving China with the possibility to veto any presidential candidate it does not seem fit.

Lastly the paper turned its attention to the ADB and its structure of control. In this regard the conjecture proved to be a bit insufficient. In the ADB there were clearly signs of asymmetry of control especially in the favor of Japan and the United States; however China did not receive its share of control given it's relatively size in the institution, and can therefore be seen as an exemption. Nonetheless, accounting the aggregated voting power in the Asia pacific region, after the creation of the AIIB, China seems to have corrected the asymmetry claiming its rightful share in the institutional framework.

7. Perspectivation

Having now gone through all of the major point of the paper its seems clear that the construction and the design of the AIIB both reflects China's wish to create its own platform from which it can use institutional mechanism to benefit its own economy. Whether the ADB's failure to properly include China or the economic necessities of an inflated domestic construction sector, or a combination of both, were the true catalyst behind the creation of the AIIB is hard to analyze from the theoretical tools provided by the Rational Design, however this question does also transcend the original goal of the case study. The rational Choice and its conjectures have efficiently provided a clear cut analytical approach to understand the design choices of the AIIB and with the slight exception of the conjecture in analysis part 3, and its failure to fully comprehend why the United States did not join the AIIB, all conjectures proved to successfully calculate why certain design choices had been made. The failure of the theory could stem from the delamination of the paper. Even though the paper utilized the Rational Design to go beyond simply understanding the AIIB's design in order to analyze these design choices impact on the ADB, the theory proved to conjure a dualistic and complex interpretation of possible scenarios. The only real issue with analyzing the AIIB, as a case, employing the Rational Design's dependent and independent variables, were the lack of concluded projects and the missing independent institutionalized behavior. The absence of these pivotal benchmarks for an institution made it hard to make any definite deductions.

8. Bibliography

Abdenur, Adriana E

2015, *The New Multilateral Development Banks and the Future of Development: What Role for the UN?*, United Nations University Center for Policy Research.

ADB

1966, Articles of Agreement, visited July 2016, Retrieved from:

<http://www.adb.org/sites/default/files/institutional-document/32120/charter.pdf>

ADB

2009, *Infrastructure for a Seamless Asia*, Asian Development Bank 6 ADB Avenue Mandaluyong, 1550 Metro Manila Philippines

ADB

2016, *ADB, AIIB Sign MOU to Strengthen Cooperation for Sustainable Growth*, visited may 2016, Retrieved from: <http://www.adb.org/news/adb-aiib-sign-mou-strengthen-cooperation-sustainable-growth>

ADB

2016, visited May 2016, Retrieved from: <http://www.adb.org/about>

AIIB

2015, *Articles of Agreement*, visited July 2016, Retrieved from: <http://www.aiib.org/uploadfile/2015/0814/20150814022158430.pdf>

AIIB

2016, visited April 2016, Retrieved from: <http://euweb.aiib.org/html/aboutus/introduction/aiib/?show=0>

AIIB

2016, visited May 2016, retrived from:

http://euweb.aiib.org/html/2016/PROJECTS_0426/101.html

AIIB

2016, Visited April 2016, retrieved from:

<http://euweb.aiib.org/html/aboutus/basicdocuments/AOA/?show=2>

AIIB

2016, Visited May 2016, Retrieved from:

http://euweb.aiib.org/html/2016/PROJECTS_0516/112.html

AIIB

2016, Visited May 2016, Retrieved from:

<http://euweb.aiib.org/uploadfile/2016/0516/20160516095341591.pdf>

Aming, Liu

2013, *China weighty factor in US pivot policy*, Visited May 2016, Retrieved from:

<http://www.globaltimes.cn/content/765683.shtml>

Anderlini, Jamil

2015, *China: Overborrowed and overbuildt*, Visited June 2016, Retrieved from:

<http://www.ft.com/cms/s/2/8b2ce9c4-a2ed-11e4-9c06-00144feab7de.html#axzz4FSTY5AaY>

Anderlini Jamil, Mitchell Tom and Parker George

2015, *UK move to join AIIB meets mixed response in China*, Visited June 2016,

Retrieved from: <http://www.ft.com/cms/s/0/c3189416-c965-11e4-a2d9-00144feab7de.html#ixzz4BqtK67en>

Asiatiscen Infrastruktur-Investitionsbank

2015, *Botschaft über den Beitritt der Schweiz zur Asiatischen Infrastruktur-Investitionsbank*, Visited May 2016, Retrieved from:

<https://www.admin.ch/opc/de/federal-gazette/2015/7331.pdf>

Ayres Alyssa, Economy Elizabeth and Markey Daniel

2016, *Rebalance the Rebalance*, Visited July 2016, Retrieved from:

<https://www.foreignaffairs.com/articles/china/2016-07-13/rebalance-rebalance>

Bastin, Mike

2015, *With the AIIB, there is no pain for the West, only gain*, Visited July 2016,

Retrieved from: <http://www.telegraph.co.uk/sponsored/china-watch/business/11763107/aiib-investment-will-benefit-the-west.html>

Brace, Rebecca

2015, *Will corporates benefit from two new funding powerhouses?*, Visited July 2016, Retrieved from:

[http://www.afponline.org/pub/res/news/Will Corporates Benefit from Two New Funding Powerhouses .html](http://www.afponline.org/pub/res/news/Will_Corporates_Benefit_from_Two_New_Funding_Powerhouses_.html)

Brown, Kerry

2015, *The UK Shows Leadership, and Strategic Clarity, in Joining AIIB*, Visited May 2016, Retrieved from: <https://www.chathamhouse.org/expert/comment/17261#>

Bryman, Alan

2012, *Social research methods*, 4th edition, Oxford University Press, Oxford

Bajpai, Prableen

2016, *The world's top economies*, Visited May 2016, Retrieved from:

<http://www.investopedia.com/articles/investing/022415/worlds-top-10-economies.asp>

Duedahl, Paul and Jacobsen, Michael H.

2010, *Introduktion til dokument analyse*, Bind 2, Syddansk Universitetsforlag,
Narayana Press, Gylling

Faure, Guy

2010, *NEW DYNAMICS BETWEEN CHINA AND JAPAN IN ASIA: How to Build the Future from the Past?*, World Scientific Publishing Co. Pte. Ltd, Singapore

Fensom, Anthony

2014, *Analyst: China's Encirclement Could Spark War*, Visited April 2016, retrieved from: <http://thedi diplomat.com/2014/10/analyst-chinas-encirclement-could-spark-war/>

Firzly, M.Nicolas J.

2015, China's Asian Infrastructure Bank and the 'New Great Game', ANALYSE FINANCIÈRE, Page: 8-10

Foreign Affairs

2015, *Should Washington fear the AIIB?*, Visited April 2016, retrieved from: <https://www.foreignaffairs.com/articles/china/2015-06-11/should-washington-fear-aiib>

Gaouette, Nicole and Mayeda, Andrew

2015, *U.S. Failure to stop China bank unmask world finance Fight*, <http://www.bloomberg.com/news/articles/2015-04-07/u-s-failure-to-stop-china-bank-unmasks-fight-over-world-finance>

Hong, Yelin

2015, *The AIIB is seen very different in the US, Europe and China*, Visited April 2016, Retrieved from: <http://thedi diplomat.com/2015/05/the-aiib-is-seen-very-differently-in-the-us-europe-and-china/>

Jaber, Sultan Ahmed al

2016, *The AIIB has been designed to benefit all*, Visited July 2016, Retrieved from:
http://www.chinadaily.com.cn/opinion/2016-06/25/content_25848685.htm

Kamp, Jake

2015, *Creation of AIIB all about Chinas hubris*, Visited July 2016, Retrieved from:
<http://www.scmp.com/comment/insight-opinion/article/1756229/creation-aiib-all-about-chinas-hubris>

Keohane, Robert O.

1998, *International institutions: can interdependence work?*, *Foreign policy*, issue 110, 82-94.

Khanna, Parag

2016, *The New Arms Race: Connectivity and Competition*, Visited April 2016,
Retrieved from: <https://www.foreignaffairs.com/articles/2016-02-15/new-arms-race>

Koremenos, et al Barbara, Lipson, et al Charles and Sindal Duncan

2004, *The Rational Design of International Institutions*, Cambridge University Press,
Cambridge

Lee, Jason

2015, *China's AIIB to offer loans with fewer strings attached*, Visited April 2016,
Retrieved from: <http://www.cnbc.com/2015/09/01/chinas-aiib-to-better-world-bank-ADB-on-loan-terms.html>

Li, Minqi

2008, *The rise of China and the demise of the capitalist world-economy*, Pluto Press,
London

Liao, Rebecca

2015, *Out of the Bretton Woods: How the AIIB is Different*, Visited May 2016,
Retrieved from: <https://www.foreignaffairs.com/articles/asia/2015-07-27/out-bretton-woods>

Lipscy, Phillip Y.

2015, *Who's Afraid of the AIIB: Why the United States Should Support China's Asian Infrastructure Investment Bank*, Visited May 2016, Retrieved from:
<https://www.foreignaffairs.com/articles/china/2015-05-07/whos-afraid-aiib>

Lipson, et al Charles, Koremenos, et al Barbara and Snidal Duncan

2001, *The Rational Design of International Institutions*, International Organization, 55, pp 761-799.

Magnier, Mark

2015, *"How China plans to run the AIIB: leaner, with veto"*, Visited May 2016,
Retrieved from: <http://www.wsj.com/articles/how-china-plans-to-run-aiib-leaner-with-veto-1433764079>

Morris, Scott

2015, *I just read the Articles of agreement, and here's what I think*, Visited July 2016,
Retrieved from: <http://www.cgdev.org/blog/i-just-read-aiibs-articles-agreement-and-heres-what-i-think>

Morris, Scott and Higashikokubaru, Mamoru

2015, *Doing the math on AIIB governance*, Visited July 2016, Retrieved from:
<http://www.cgdev.org/blog/doing-math-aiib-governance>

Panda, Ankit

2016, *Revealed: The Asian Infrastructure Investment Bank's first projects*, Visited July 2016, Retrieved from: <http://thediplomat.com/2016/04/revealed-the-asian-infrastructure-investment-banks-first-projects/>

Pease, Kelly-Kate S.

2012, International Organizations Edition no. 5, Pearson Education, Glenview, IL, USA

Prodi, Romano

2015, *The beginning and future of ASEM: The potential of the Silk Road and the AIIB*, Visited July 2016, Retrieved from: <http://www.asef.org/press/corporate/news-3683-the-beginning-and-future-of-asem-the-potential-of-the-silk-road-project-and-the-aiib->

Picardo, Elvis

2014, *Why China's currency Tangos with the USD*, Visited July 2016, Retrieved from: <http://www.investopedia.com/articles/forex/09/chinas-peg-to-the-dollar.asp>

Runde, Daniel

2015. *Britain Launches European Rush to Join AIIB. Now What?* Visited May 2016, Retrieved from: <http://foreignpolicy.com/2015/03/17/uk-washington-china-world-bank/>

Sakamoto, Mie

2015, *Boycott of China-led AIIB poses risks for Japan, where companies may lose out in infrastructure building work*, Visited May 2016, Retrieved from: <http://www.japantimes.co.jp/news/2015/04/01/business/economy-business/boycott-china-led-aiib-poses-risks-japan-companies-may-lose-infrastructure-building-work/>

Shanghai, S.R.

2014, *Why china is creating the new "World Bank" for Asia*, Visited April 2016, Retrieved from: <http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6>

Sina

2009, *China slams ADB over India funding*, Visited April 2016, Retrieved from:
<http://english.sina.com/china/2009/0618/249531.html>

Soergel, Andrew

2016, *The fog of uncertainty*, Visited April 2016, Retrieved from:
<http://www.usnews.com/news/articles/2016-06-24/trumps-economic-plans-bring-a-fog-of-uncertainty>

Takahashi, Maiko

2015, *Japan Estimates Potential AIIB Membership Would Cost \$US3 Billion*, Visited July 2016, Retrieved from: <http://www.bloomberg.com/news/articles/2015-04-14/japan-estimates-potential-aiib-membership-would-cost-3-billion-i8gua3bi>

Wang, Zheng

2015, *China's Alternative Diplomacy*, Visited July 2016, Retrieved from:
<http://thediomat.com/2015/01/chinas-alternative-diplomacy/>

Wildau, Gabriel and Clover Charles

2015, *AIIB launch signals China's new ambition*, Visited June 2016, Retrieved from:
<http://www.ft.com/cms/s/0/5ea61666-1e24-11e5-aa5a-398b2169cf79.html#axzz4FSTY5AaY>

Wines, Michael

2009, *China's economic power unsettles the neighbors*, Visited June 2016, Retrieved from: http://www.nytimes.com/2009/12/10/world/asia/10jakarta.html?_r=1

World Bank

2012, *Articles of Agreement*, Visited April 2016, Retrieved from:
http://siteresources.worldbank.org/BODINT/Resources/278027-1215526322295/IBRDArticlesOfAgreement_English.pdf

World Bank

2016, Visited June 2016, Retrieved from:

<http://www.worldbank.org/en/about/leadership/members>

World Bank

2016, Visited April 2016, Retrieved from:

<http://www.worldbank.org/en/country/china/overview#3>

World Trade Organization

2016, Visited May 2016, Retrieved from:

https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm

Woo-duk, Han

2015, *South Korea should embrace benefits of AIIB*, Visited May 2016, Retrieved

from: http://www.chinadaily.com.cn/opinion/2015-03/20/content_19862495.htm

Xia, Ming

2015, *"China Threat" or a "Peaceful Rise of China"?*, Visited July 2016, Retrieved

from: <http://www.nytimes.com/ref/college/coll-china-politics-007.html>

Xinhua

2013, *China proposes an Asian infrastructure investment bank*, Visited April 2016,

Retrieved from: http://www.china.org.cn/world/201310/03/content_30194806.htm

Yinan, Zhao

2015, *Nations investing faith in Asian bank plan*, Visited April 2016, Retrieved from:

<http://www.telegraph.co.uk/sponsored/china-watch/business/11563429/aiib-asian-bank-plan.html>

Zhenglong, Wu

2014, *The benefits of the Asian Infrastructure Investment Bank*, Visited July 2016,

Retrieved from: <http://www.chinausfocus.com/finance-economy/the-benefits-of-the-asian-infrastructure-investment-bank/>

Appendix:

Members, Capital Stock, and Voting Power (as of 31 December 2014)

	Year of Membership	Subscribed Capital ^a (% of total)	Voting Power ^b (% of total)
REGIONAL			
Afghanistan	1966	0.034	0.326
Armenia	2005	0.300	0.538
Australia	1966	5.812	4.948
Azerbaijan	1999	0.447	0.656
Bangladesh	1973	1.026	1.119
Bhutan	1982	0.006	0.304
Brunei Darussalam	2006	0.354	0.582
Cambodia	1966	0.050	0.338
China, People's Republic of	1986	6.473	5.477
Cook Islands	1976	0.003	0.301
Fiji	1970	0.068	0.353
Georgia	2007	0.343	0.573
Hong Kong, China	1969	0.547	0.736
India	1966	6.359	5.386
Indonesia	1966	5.131	4.404
Japan	1966	15.677	12.840
Kazakhstan	1994	0.810	0.947
Kiribati	1974	0.004	0.302
Korea, Republic of	1966	5.060	4.347
Kyrgyz Republic	1994	0.300	0.539
Lao People's Democratic Republic	1966	0.014	0.310
Malaysia	1966	2.735	2.487
Maldives	1978	0.004	0.302
Marshall Islands	1990	0.003	0.301
Micronesia, Federated States of	1990	0.004	0.302
Mongolia	1991	0.015	0.311
Myanmar	1973	0.547	0.736
Nauru	1991	0.004	0.302
Nepal	1966	0.148	0.417
New Zealand	1966	1.543	1.533
Pakistan	1966	2.188	2.049
Palau	2003	0.003	0.301
Papua New Guinea	1971	0.094	0.374
Philippines	1966	2.393	2.213
Samoa	1966	0.003	0.301
Singapore	1966	0.342	0.572
Solomon Islands	1973	0.007	0.304
Sri Lanka	1966	0.583	0.765
Taipei, China	1966	1.094	1.174
Tajikistan	1998	0.288	0.529
Thailand	1966	1.368	1.393
Timor-Leste	2002	0.010	0.306
Tonga	1972	0.004	0.302

Turkmenistan	2000	0.254	0.502
Tuvalu	1993	0.001	0.300
Uzbekistan	1995	0.677	0.840
Vanuatu	1981	0.007	0.304
Viet Nam	1966	0.343	0.573
Subtotal		63.480	65.112

	Year of Membership	Subscribed Capital ^a (% of total)	Voting Power ^b (% of total)
NONREGIONAL			
Austria	1966	0.342	0.572
Belgium	1966	0.342	0.572
Canada	1966	5.254	4.502
Denmark	1966	0.342	0.572
Finland	1966	0.342	0.572
France	1970	2.338	2.169
Germany	1966	4.345	3.775
Ireland	2006	0.342	0.572
Italy	1966	1.815	1.751
Luxembourg	2003	0.342	0.572
The Netherlands	1966	1.030	1.123
Norway	1966	0.342	0.572
Portugal	2002	0.114	0.390
Spain	1986	0.342	0.572
Sweden	1966	0.342	0.572
Switzerland	1967	0.586	0.767
Turkey	1991	0.342	0.572
United Kingdom	1966	2.051	1.940
United States	1966	15.567	12.752
Subtotal		36.520	34.888
TOTAL		100.000	100.000

Table 2, Source: ADB

Member overview**Member of IBRD but not a member of ADB**

Albania
 Algeria
 Angola
 Antigua and Barbuda
 Argentina
 Bahamas, The
 Bahrain
 Barbados
 Belarus
 Belgium
 Belize

Benin
Bolivia
Bosnia and Herzegovina
Botswana
Brazil
Bulgaria
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Chile
Colombia
Comoros
Congo, Democratic Republic of
Congo, Republic of
Costa Rica
Cote d'Ivoire
Croatia
Cyprus
Czech Republic
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt, Arab Republic of
El Salvador
Equatorial Guinea
Eritrea
Estonia
Ethiopia
Finland
France
Gabon
Gambia, The
Ghana
Greece
Grenada
Guatemala
Guinea

Guinea-Bissau
Guyana
Haiti
Honduras
Hungary
Iceland
Iran, Islamic Republic of
Iraq
Ireland
Israel
Jamaica
Jordan
Kenya
Kosovo
Kuwait
Latvia
Lebanon
Lesotho
Liberia
Libya
Lithuania
Luxembourg
Macedonia, FYR of
Madagascar
Malawi
Mali
Malta
Mauritania
Mauritius
Mexico
Moldova
Montenegro
Morocco
Mozambique
Namibia
Nicaragua
Niger
Nigeria
Oman
Panama
Paraguay

Peru
Poland
Portugal
Qatar
Romania
Russian Federation
Rwanda
San Marino
Sao Tome and Principe
Saudi Arabia
Senegal
Serbia
Seychelles
Sierra Leone
Slovak Republic
Slovenia
Somalia
South Africa
South Sudan
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Sudan
Suriname
Swaziland
Syrian Arab Republic
Tanzania
Togo
Trinidad and Tobago
Tunisia
Uganda
Ukraine
United Arab Emirates
Uruguay
Venezuela, Republica Bolivariana de
Yemen, Republic of
Zambia
Zimbabwe

Non-regional and regional members to the AIIB that are not a member to ADB

Regional

Iran

Israel

Jordan

Kuwait

Oman

Qatar

Russia

Saudi Arabia

United Arab Emirates

Non- regional

Brazil

Egypt

Iceland

Malta

Poland

South Africa

Non-regional and regional members to the ADB that are not a member to AIIB**Regional**

Afghanistan

Armenia

Buhtan

Cooks Islands

Fiji

Japan

Kiribati

Marshall Islands

Micronesia

Nauru

Palau

Papua New Guinea

Samoa

Solomon Islands

Timor-Leste

Tonga

Turkmenistan

Tuvalu

Vanuatu

Non- regional

Belgium

Canada

Ireland

USA

Sources:

<http://www.adb.org/about/members>

<http://www.worldbank.org/en/about/leadership/members>

