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Dissociation via Alternative Institutions: The Establishment of the Asian Infrastructure Investment Bank and US-China Conflict

Sinan Chu *

Abstract: »Dissoziation durch alternative Institutionen: Die Gründung der Asiatischen Infrastruktur-Investitionsbank und der US-China-Konflikt«. How does the nature of a dissociation conflict affect its management by parties on opposite sides and, consequently, the interstate relations between the parties? In this paper, I seek to address this question through a case study of the establishment of the Asian Infrastructure Investment Bank (AIIB), understood as dissociation by creating alternative institutions, and its impact on the relations between China – the initiator and leading country of the new bank – and the US – the main stakeholder of the established global financial architecture. Based on my analysis of the interaction between the two countries during the AIIB's founding process (2013–2016), I argue that US-China relations saw moderately increased tensions due to the fact that the North American country had been overall more concerned with the ideational challenges posed by the AIIB than the material ones. I further postulate that the structural rivalry between the two countries has contributed significantly to the US perception of the AIIB representing an ideational challenge, thereby fostering the former's opposition of China's initiative. However, this dissociation conflict did not directly contribute to the deterioration of US-China relations under the Trump administration.

Keywords: Dissociation, alternative institutions, AIIB, global financial governance, rivalry, USA-China conflict.

1. Introduction

The topic of dissociation from international institutions has received increasing attention in recent years, as research began to acknowledge its impact not only in terms of causing existential crises for institutions themselves but also disrupting if not damaging interstate relations (Dembinski and Peters 2019; see also, their coauthored piece in this HSR Forum, Dembinski and Peters

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2022). Within this emerging literature, one important yet understudied question is how the nature of dissociation conflict affects its management by parties on the opposite sides and, consequently, the interstate relations involved therewith. In this paper, I contribute to the discussion of this question through a case study of a particular subtype of dissociation, defined by Dembinski and Peters (2022, in this issue) as setting up alternative international institutions that differ from and/or compete with existing ones. Specifically, this study focuses on the contested process of creating the Asian Infrastructure Investment Bank (AIIB) under the leadership of the People's Republic of China (PRC), and how it affected the relationship between China and the United States, the main stakeholder of the existing global financial architecture and main opponent to the former's new institutional initiative.

The AIIB was officially founded in January 2016 with over 50 members and an initial subscribed capital of USD 100 billion. By early 2022, this Beijing-based multilateral development Bank (MDB) had expanded its membership base to 105 countries across six continents, among them the majority of the Group of Twenty (G20) members and received the highest ratings ("AAA") from all three major international credit rating agencies (AIIB 2022). Shareholdings and voting rights within the bank are allocated unevenly among member states, depending on the status of being a regional (Asian) member or a nonregional one, of being a founding member or not, and on the size of one's national economy, among other things (AIIB 2015a; Weiss 2017, 9). During its founding process and the initial years of operation, the AIIB had been the focus of a global debate regarding its potential impact on the international system (Yang and Van Gorp 2018). As China not only played the leading role in its establishment but also holds – until the present day – *de facto* veto power due to its ability to block a supermajority decision with its larger-than-25-percent voting rights, the AIIB has raised suspicions among observers, academics, and policymakers alike in many countries. Frequently heard questions include whether and how the AIIB will challenge established institutions such as the World Bank and International Monetary Fund (IMF), erode the norms of multilateral development finance, upset the liberal international order, and more besides (Weaver 2015; Wang 2017; Weiss 2017; Hameiri and Jones 2018; Stephen and Skidmore 2019; Kim and Kim 2022).

These concerns are related to the broader, ongoing debate about the implication of a rising China in global governance (Ikenberry 2008; Schweller and Pu 2011; Acharya 2014; Norrlof et al. 2020). While the AIIB should be understood as part of the Chinese party-state's international strategy, it is important not to conflate the establishment of a single MDB with the range of policies, institutions, bilateral/multilateral agreements, and other instruments that together constitute the latter. Despite trying to promote a "state-enhancing" illiberal globalization that rejects political democratization, economic privatization, and the universalization of liberal values (Zhao 2021, 238), China has

been pursuing those goals not through outright rejection of existing global governance institutions. Rather, it has sought both to increase its influence within the present system – particularly the United Nations and the Bretton Woods institutions – by claiming leadership positions and increasing its voting shares, and by creating new international institutions parallel to existing ones such as the AIIB, the New Development Bank (NDB, also called the BRICS Development Bank), and the Belt and Road Initiative (BRI) (Cai 2018; Chen and Liu 2018; Zhao 2021).

The present paper does not attempt to offer a full assessment of China's international strategy. Instead, by taking the establishment of the AIIB as an example of China's dissociation from the established global financial architecture, the paper seeks to shed light on the impact of dissociation conflicts on interstate tensions by examining the interactions playing out between the main opposing parties – China and the US – in the process hereof. An act of dissociation, as defined by Dembinski and Peters (2019), is understood not simply as a member leaving an existing institution but as an umbrella concept that includes several distinct behaviors on the part of state actors vis-à-vis international institutions. Specifically, dissociation can refer to when a state either revokes its institutional membership, keep its membership with an institution yet refuse to abide by its rules, or sets up alternative institutions that differ from and/or compete with existing ones. The inclusion of the last subtype, i.e., creating alternative institutions, is important as it allows us to capture and examine those implicit acts of dissociation where states do not formally renounce their membership in the existing institutions but seek to circumvent and/or undermine them through creating or cultivating institutional competitors.

Applying the conceptual category of creating alternative institutions on the case of the AIIB nonetheless requires a note of justification. Under the broad umbrella of China's international strategy, the establishment of the AIIB can be reasonably considered the foremost example of that country's attempts to build alternative international financial institutions taking form parallel to existing ones and targeting similar functional needs yet simultaneously embodying different rules and norms (Heilmann et al. 2014; Paradise 2016). As the global debate surrounding its establishment shows, the AIIB has not only been perceived as a China-led alternative designed to compete with established players in multilateral development finance such as the US-led World Bank and Japan-led Asian Development Bank (ADB) but also as a challenge from a major emerging, non-Western power to the US over global leadership in the 21st century (Hooijmaaijers 2015; Etzioni 2016).

The AIIB, however, was not created single-handedly by China nor in such a manner that the East Asian country had dominated the process of its establishment and/or dictated the terms of its operation. Rather, China had collaborated with various global and regional actors, many of which were and

remain members and important stakeholders of the existing financial institutions, to create the bank, and continues the collaboration in running it (Wilson 2017; Chen and Liu 2018). Additionally, China not only has shown no intention to withdraw from those institutions of which it is also a member but remains actively engaged in them while continuing to advocate institutional reforms from within (Strand, Flores, and Trevathan 2016). Last but not least, the AIIB has been welcomed by existing international institutions as a promising partner in global governance. Notably, a dozen MDBs and other international financial institutions have signed a memorandum of understanding (MoU)¹ with the new bank and have been collaborating with it through project cofinancing, knowledge sharing, and other pursuits (Cai 2018, 834-7).

Nevertheless, given China's de facto leadership within the governing structure of the AIIB, the country's undisputedly prominent role in the global economy, and its evidently growing interests to influence international rules and norms in various domains according to its interest, the new bank has the potential to support and/or facilitate China's dissociation from the existing global financial architecture by virtue of being a competitive alternative to the Western-dominated ones (Chen and Liu 2018). In this sense, the institutional change that can be reasonably expected from the creation of the AIIB still involves the (relative) distancing of a state (China) from the existing institutions (e.g., World and ADB). As such, it should be treated as a case of dissociation by creating alternative institutions with interesting nuances that do not invalidate its classification under this particular subtype. Consequently, it serves as a good case for the study of both this specific dissociation subtype and China's ongoing dissociation from the international financial institutions within its evolving approach towards global financial governance.

In line with other case studies in this forum, the present paper seeks to unpack the impact of dissociation conflict on interstate relations through distinguishing material and ideational conflicts involved in the dissociation process. To that end, I compare the relative weight given to each type of conflicts by the affected parties so to understand how the dissociative act translates into either intensified or moderated interstate tensions. The findings would help us better understand how the management of dissociation affects the relationship between those states finding themselves on opposite sides of this process.

¹ These include Asian Development Bank (May 2, 2016), European Bank for Reconstruction and Development (May 11, 2016), European Investment Bank (May 30, 2016), New Development Bank (April 1, 2017), International Bank for Reconstruction and Development, International Development Association, International Financial Corporation, Multilateral Investment Guarantee Agency (April 23, 2017), Inter-American Development Bank and Inter-American Investment Corporation (May 16, 2017), African Development Bank and African Development Fund (April 18, 2018), Islamic Development Bank (June 25, 2018), Eurasian Development Bank (Oct 31, 2018), International Fund for Agricultural Development (July 12, 2019), and OPEC Fund for International Development (May 12, 2022). Source: AIIB, <https://www.aiib.org/> (Accessed July 1, 2022).

Extant studies have shown that during the AIIB's founding, the US government was one of the strongest opponents of China's initiative and had reportedly lobbied several of its allies to not join (Etzioni 2016). Despite US efforts to limit the new MDB, however, China managed to rally sufficient support from countries in Asia and beyond. To date the US and Japan remain the only two major economies outside the bank. The persistent resistance of the US stands in contrast to both the apparent willingness on the Chinese side to work with advanced economies and the existing international institutions in creating and designing the new MDB, as well as the widely positive reaction from the latter – evident in the bank's global membership and institutional collaboration. What could we learn from this case from the perspective of dissociation management? Do we find support for the main hypothesis proposed by Dembinski and Peters (2022, in this issue), namely, dissociation processes treated mainly as ideational conflicts are more likely to produce rising tensions between the states involved than those treated as material conflicts?

Based on my analysis of the interaction between the US and China during the AIIB's founding process (2013–2016), I argue that US-China relations saw moderately increased tensions during those years due to the fact that the North American country has been overall more concerned with the ideational challenges posed by the AIIB than the material ones. I further postulate that the structural rivalry between the two countries has contributed significantly to the US perception of the AIIB representing an ideational challenge, thereby fostering the former's rejection of China's initiative. The resulting dissociation conflict did not exacerbate the tensions between the two countries, as the US dropped its opposition to the AIIB during the last period of the founding process (see section 3.3). Neither did it directly contribute to the adoption of a more confrontational China policy by the North American country under the Trump administration, which led to a significant deterioration of US-China relations that persists until the present day.

The rest of the paper proceeds as follows. I first review the structural and strategic context of China's dissociative act, specifically its relations with the US in the lead up to the inception of the AIIB's founding process in 2013 as well as the East Asian country's overall approach to global financial governance in the first decade of the new millennium. Then, I analyze the evolution of US-China interactions during the establishment of the AIIB from late 2013 to late 2015 in three chronological phases, each of which captures a distinct dynamic between the opposing parties. In the discussion section, I summarize and assess the findings against the aforementioned main question of this forum: that is, whether the relative weight given to material versus ideational conflicts affects conflict management during the dissociative process. In the conclusion, I suggest how the discussion about the AIIB could be further extended. Specifically, one could compare historical and contemporary cases of creating alternative institutions to assess the effects of rivalry on conflict

management in instances of dissociation. I also discuss the differences between China's approach to the creation of the AIIB and its much more aggressive international behavior in the years since so as to highlight the need for separate analyses of other instances of China's dissociation and the deteriorating bilateral relationship between China and the US in the years that followed.

2. Structural and Strategic Context to the Dissociation

2.1 US-China Relations before 2013

Following the US-China rapprochement in 1972, one key policy objective of the US had been to facilitate China's integration into the existing international system. China's opening to the world and its embrace of the market economy were widely believed to be in the interest of the US. The idea relied in part on the widespread faith among US policymakers in modernization theory, according to which assisting China's economic liberalization would help to promote its democratic transition.

This was one of the twin pillars of justification for US engagement with China up until the end of the 1980s. The other was the structural rivalry between the US and Soviet Union. Both pillars, however, were shaken at the turn of the 1990s. The violent repression of pro-democracy protests by the People's Liberation Army during the Tiananmen crackdown in 1989 crushed optimism about democratization spontaneously following economic liberalization. The dissolution of the USSR and the disintegration of the Eastern Bloc removed the primary security threat and political rival of the US and its allies, which until then had used China as a key geopolitical counterweight against the former. As a result of this "double blow," the US government recalibrated its China policy, shifting from the earlier, overall positive frame to a more balanced "comprehensive engagement" that saw the East Asian country as both an important strategic partner and a potential competitor (Garrison and Wall 2016, 50). Balancing the pragmatism-driven "engagement" logic on the one hand and the security-driven "hedging" on the other, the US government managed to maintain a largely stable relationship with China built around peaceful competition and cooperation throughout the years of the Bill Clinton and George W. Bush administrations (*ibid.*).

By the time Barack Obama took office in 2009, however, China had become not only economically powerful – with it about to replace Japan as the world's second-largest economy – but also increasingly politically assertive (Barboza 2010; Doshi 2019). The 2007–2008 financial crisis had generated further anxiety across the globe regarding the shifting balance of power between the US and China (Friedberg 2010; Garrett 2010; Yan 2010). Importantly, the episode

triggered a shift in China's perception of how the global balance of power stood and encouraged its foreign policy behavior to become more hawkish toward the US, in anticipation of a rapid decline of the heretofore sole hegemon (Zhao 2015, 380). This was evidenced by, for example, Chinese vessels' interception of the USNS Impeccable, a US Navy surveillance ship, in the South China Sea in March 2009 (The New York Times 2009), and China's strong protest – on the grounds of infringement of its sovereignty – against Malaysia and Vietnam's joint submission to the Commission on the Limits of the Continental Shelf in May 2009.

As Zhao Suisheng (2015, 381) observes, underlying these behaviors was a redefinition and expansion of China's core interests to include territorial claims in the South and East China Seas, besides traditional ones regarding Taiwan, Tibet, and Xinjiang. China also resolutely refused to accept any outside monitoring of greenhouse gas emissions at the Copenhagen climate change conference in December 2009, against US insistence (Broder and Kanter 2009). The Chinese leadership transition from Hu Jintao to Xi in 2013 only further reinforced this tendency of going its own way.

A corresponding change of perception also occurred on the US side. Following the financial crisis, the latter began to see China as no longer being a developing country; rather, the North American country now expected it to take on greater international responsibilities (Garrison and Wall 2016, 51-2). Consequently, the Obama administration assigned key priority to China in its foreign policy agenda from the very beginning, being intent on expanding the cooperative aspect of bilateral relations. More concretely, the new administration sought to engage and encourage emerging powers, such as China, to become responsible and constructive stakeholders upholding the existing international rules and norms. At the same time, it also recognized that China, with its growing economic and political clout, would continue to be both a necessary economic and political partner to the US as well as a potential threat to many regional players – and, by extension, US interests – as the extra-regional hegemon. As a result, the Obama administration tried to walk a fine line between cooperation and competition in its approach to China in seeking to both benefit from this relationship and simultaneously protect its core interests (*ibid.*, 51-2).

This initial strategy, and the optimism that drove it, did not last very long, however. From 2009 onward, tensions between the two governments mounted. The responses to the aforementioned assertive stance of Beijing in the East and South China Seas was the US's announcement of a 6.4 billion USD arm deal with Taiwan in January 2010 and the Dalai Lama's visit to the White House a month later. The joint US-South Korean military exercise off Japan and the Korean Peninsula, announced in July 2010, elicited not only strong objections from Beijing but also the latter's decision to hold a “counter”

military exercise in the Yellow Sea in September of the same year (Bumiller and Wong 2010; BBC News 2010).

These developments were soon followed by a shift in strategic thinking on both sides. In 2012, the Obama administration redefined its China policy from a focus on bilateral relations to a “Pan-Asia” approach, under the title “Pivot to Asia” or “Rebalance toward Asia.” This included not only continuing competitive-cooperative engagement with China, but also strengthening relations with traditional US allies and other regional players such as the Association of Southeast Asian Nations, Japan, and South Korea in areas such as territorial disputes (the East and South China Seas), security (North Korea), trade (Trans-Pacific Partnership), and the environment (climate change) (Garrison and Wall 2016, 52-8). Predictably, China perceived the Pivot to Asia as an attempt by the US and its allies to contain its growing influence in Asia-Pacific, despite reassurances to the opposite (Zhao 2015, 383). Even with growing disagreement and small-scale conflicts between the two sides (particularly concerning the East and South China Seas), however, until the early 2010s these tensions did not escalate to open confrontation (Garrison and Wall 2016, 58-9). It is against this background that the establishment of the new MDB took place.

2.2 China and Global Financial Governance since the Turn of the New Century

Before ultimately announcing its intention to create the AIIB in 2013, China had been experimenting with different approaches to global financial governance for over a decade. In 1980, the PRC assumed membership of the World Bank and the IMF, replacing the government of the Republic of China (ROC) in Taiwan – which has been with both organizations since their founding in 1945. The relationship between the PRC and the postwar international financial institutions during the 1980s can be described as one of mutual dependence. From the World Bank and the IMF, China needed concession loans, managerial experience, and technology transfers. In turn, these organizations benefited from having a big client such as China to boost their legitimacy as global institutions (Sohn 2013, 633). Starting from the 1990s, however, the relative importance of these organizations to China declined as its economy grew and the country gained additional sources of capital and advice, evidenced by its unparalleled capacity to attract foreign direct investment and its growing creditor power over other developing countries. In the aftermath of the global financial crisis of 2007–2008, the IMF faced further pressure to solicit contributions from China to help refinance itself (*ibid.*, 633).

At the same time, China became increasingly confident in its selective adoption of standards and norms regarding financial governance from those

global institutions – referred to as a “tailored approach” by some scholars (Gruin, Knaack, and Xu 2018). Despite accepting many of the global standards recommended by the World Bank, the IMF, and other global regulatory agencies, China resisted the policy suggestion regarding capital account liberalization – an act that scholars considered instrumental in helping it to survive both the Asian financial crisis of 1997–1998 and the global financial crisis playing out a decade later. China also selectively adopted the Basel regime on global banking standards to accommodate its own domestic financial reform. In addition, the East Asian country had been experimenting with regional financial governance through different multilateral frameworks, especially in the years since the Asian financial crisis, while at the same time keeping these arrangements compatible with and complementary to the existing G7-centered global institutions. Examples in this regard include the Chiang Mai Initiative (CMI) – which was created in 2000 and would eventually be transformed from an early network of bilateral currency-swap arrangements into a multilateral one called the Chiang Mai Initiative Multilateralization in 2009 – as well as the Asian Bond Fund (ABF) existing since 2003, both of which China has been making a significant contribution to (Sohn 2013, 634-5). Relatedly, China also actively advocated reforms of the international monetary system through proposing a super sovereign currency and elevating the international status of Renminbi (RMB) (Zhang 2017, 374).

However, China has shown itself to be hesitant to undermine the existing global institutions or replace them with ones of its own. Rather, as Injoo Sohn has observed, Beijing seems to be “walking a fine line between assimilation and confrontation” (Sohn 2013, 631). This is largely a product of the Chinese government’s perception of both ambiguity and uncertainty regarding the future of global financial governance, which itself also has to do with the fragmented domestic economic policymaking (Zhang 2017, 382-3). On the one hand, mainland Chinese experts across the ideological spectrum remain by and large convinced of the value in China staying within the existing global financial architecture for obtaining managerial experience, financial support, and regulatory knowledge helping facilitate the development of its own financial market and regulations (Sohn 2013, 636). On the other, the governing elites have understood the importance of not blindly embracing everything from the existing institutions – instead creatively adapting to the environment and pushing for incremental reforms to advance China’s own interests. Its efforts to reform the G7-centered global institutions have mainly been motivated by and directed toward a number of systemic deficiencies, ones long recognized by observers and widely lamented by developing countries such as China and India. These include the lack of formal representation of the developing world, only modest focus on the international regulatory framework (e.g., hedge funds, transnational capital flows, offshore financial centers) in comparison to on domestic reform, as well as diverging interests

between the developed and developing countries more generally (*ibid.*, 637-8).

Concretely, this translates into Beijing's risk-averse strategy of combining active participation in the existing global institutions with pushing for their incremental reform on the one hand and developing regional alternatives to them so as to avoid overdependence on the other (while not endangering China's relationship with the former). Examples of the first aspect include China's support for the institutionalization of the G20 summit and the reform of the Financial Stability Forum (succeeded by the Financial Stability Board after the 2009 G20 summit in London), acceptance of IMF regulations on sovereign wealth funds in 2008, and participation in several other global-standard institutions. The latter include the Basel Committee on Banking Supervision, the Technical Committee of the International Organization of Securities Commission, and the Committee on Payment and Settlement Systems, among others. Examples of the second aspect include China's strong advocacy on multilateralizing the CMI – thereby reducing both the influence and financial burden of big regional players such as itself and Japan – while keeping both the CMI and the ABF open to existing global institutions through arrangements such as the CMI-IMF and Asian Bond-Eurobond linkages as well as ABF-BIS (Bank for International Settlements) collaboration. These also helped China to win support from other regional major players (e.g., Japan) and to reduce risks in overseas lending (Sohn 2013, 643-5). In sum, one could say that it has been Beijing's calculated choice to manage the uncertainties associated with the evolving global financial order through a dual-track "hedging" strategy involving both adaptation and innovation.

3. Tracing Dissociation: US-China Interaction during the AIIB's Establishment

The structural and strategic context discussed above has played an important role in shaping the interaction between China and the US throughout the course of the former's dissociation from the global financial architecture. Below I focus on this interaction specifically during the founding of the AIIB, particularly regarding how the two countries (mis)managed the tensions arising herewith between them. The chronological tracing of the interactions between the two countries presented below prepares the basis for the discussion of the main question stated earlier: does the relative weight given to material versus ideational conflicts affect conflict management during the dissociative process?

3.1 China's Proposal and the US's Passive Countercampaign: October 2013–September 2014

The initial idea for the AIIB can be traced back to 2007, when Zheng Xinli, a senior advisor in the Policy Research Office of the Chinese Communist Party's Central Committee, visited villages along the Mekong River in Laos and realized that the underdevelopment of local infrastructure could be an opportunity for China (Perlez 2015b). The idea was turned into a formal proposal in 2009 at the Boao Forum, after Zheng had left his old job to become vice president of the newly created yet politically influential think tank, the China Center for International Economic Exchanges. In Zheng's original proposal, he advocated for the creation of two regional banks in fact: the AIIB and the Asian Agriculture Investment Bank respectively (Yuan 2009; Callaghan and Hubbard 2016, 121).

Top decision-makers in Beijing, however, did not take up this idea until 2013, when Xi became the country's new leader (Perlez 2015b). The initial announcement of China's intention to create an AIIB was made by the new president during his visit to Indonesia in early October 2013 – ahead of the Asia-Pacific Economic Cooperation (APEC) meeting to be held later the same month. Later in Bali, US Secretary of State John Kerry reportedly said “[t]hat's a great idea” to Xi in reference to this proposal (Perlez 2015b). While brief, this was the first public comment made by an American official regarding the AIIB and one of the few (if not the only) public positive ones from the US government for the next two years.

It was widely reported that the Obama administration opposed the bank. Much less noticed by researchers, however, is the long period of silence from the US government immediately after Kerry's comment. In the six months after this exchange, as Tobias Harris (2015, 46) observes, US diplomats and officials across Asia would simply watch the bank take shape without getting much of a response from Washington. This is also evident in the Congress Research Service Report on key policy issues concerning international trade and finance, published in late January 2014, which makes no mention of either the AIIB or NDB. The section on China highlights only industrial policies, intellectual property rights, renminbi currency policies, and Chinese economic reform, but nothing about the East Asian country's proposal for new multilateral institutions ([Redacted] and Coordinator 2014). This suggests that the absence of any official response to China's proposal was not deliberate. Despite knowing China's plan since October 2013, the Obama administration did not consider it to be important for the US to take any immediate action.

It was not until early 2014 that the North American country began to show more interest in the bank after it realized that Chinese officials were fleshing out the proposal and widely enlisting countries to become bank members. The Chinese government was reportedly not very confident about how many

countries would react positively to its proposal (Liang 2020, 287). At first, China seemed mainly interested in recruiting regional – that is, Asian – countries. Lou Jiwei, the finance minister, revealed in early March 2014 that China was “in negotiation with interested Asian countries regarding the establishment of the AIIB” and would like to see bank membership first open to regional countries before extra-regional ones joined according to a principle of “open regionalism” (PRC Ministry of Finance 2014a). In other words, Western countries were not the primary target of China’s campaign – at least not at this initial stage. But the Chinese government soon sent out a different message. One month later at the Boao Forum, Premier Li Keqiang stated in his speech that “China is ready to intensify consultations with relevant parties in and outside Asia on the preparations for the Asian Infrastructure Investment Bank” (2014).

As negotiations over the AIIB expanded beyond countries in Asia, the Chinese side likely did not immediately reach out to the US to further clarify their intentions and plans regarding the bank. The relatively scarce information available about the AIIB at this point was therefore insufficiently meaningful to dispel mounting US skepticism (Harris 2015, 50). At the same time, as tensions continued to rise in the East and South China Seas (Cooper 2014; Perlez 2014a) and in cyberspace (Sanger 2013; Wong 2014), US officials were inclined to believe that China did not have genuine intentions to set up a fully transparent MDB and that it would ultimately instrumentalize the bank for its own foreign policy interests. Consequently, the general mentality in Washington was not whether and how the US should engage with China’s proposal but how it could resist the expansion of the bank by preventing allies from joining it and thereby further boosting its legitimacy. Guided by this understanding, the Obama administration chose to talk directly but quietly with China’s potential partners to sway them away from the future bank (Perlez 2014b).

This US “counter” campaign against the AIIB during the course of 2014, according to officials from the various governments involved, was carried out with “unexpected determination” (Perlez 2014b). On the Chinese side, Jin Liqun – whose previous posts included Alternative Executive Director of China to the World Bank Group, Vice President of the ADB, and Vice Finance Minister of PRC – led the recruitment campaign for the AIIB (Perlez 2015b). On the other side, Caroline Atkinson, the US deputy national security adviser for international economics under the Obama administration and “a strong defender of the existing system” as described by the media, led the National Security Council (NSC) debate about the bank (Perlez 2015b). Both China and the US spent a significant amount of effort lobbying Australia and South Korea, two of the North American country’s regional allies that its East Asian counterpart was courting as potential founding members of the bank (Perlez 2014b; Harris 2015, 47). Atkinson reportedly expressed US concerns about South Korea joining directly to a senior ROK government official. The

Australian government was also asked by the US to refrain from joining as a founding member (Freeman 2019, 669). As revealed later by ROK and Australian officials, the U.S. Department of the Treasury had criticized the bank as “a deliberate effort to undercut the World Bank and the Asian Development Bank” (Perlez 2014b).

The US efforts proved to be effective for a while. By the end of summer, none of the major economies that China had approached – including Australia, Japan, South Korea, and the United Kingdom – had signed up. After a series of failed attempts to persuade US allies, Jin finally made his trip to Washington, D.C., in September 2014 to meet with US government officials so as to discuss the AIIB (Perlez 2015b). At this point, the US already recognized that the bank would likely go ahead given the endorsement it had received from a dozen Asian countries. Nonetheless, the majority of the participants in the internal US debate on the AIIB were against taking a more nuanced approach toward China’s initiative, preferring instead that the administration stuck to a strategy of passive opposition – meaning undermining the bank’s influence and prestige by preventing major economies from becoming members of it. Domestic politics in the US – in particular, Congress’s reluctance to approve proposed IMF reforms to make China the third-largest shareholder and to honor the North American country’s commitments to established financial institutions such as the ADB and the Asian Development Fund – might have also played a role in reinforcing this position (Harris 2015, 50-1; Callaghan and Hubbard 2016, 125). Ultimately, despite Jin’s efforts to reassure his counterparts – including making an appeal that the US would act as an “ombudsman on transparency” – the latter declined to consider joining the bank (Perlez 2015b).

3.2 Bank Expansion and US Open Disappointment: October 2014–March 2015

On October 24, 2014, some 21 Asian countries signed a MoU on founding the AIIB in Beijing (Xinhua 2014). Speaking to Chinese media on October 27, Lou summarized the progress thus far regarding the bank’s establishment and affirmed again a “complementary rather than competitive relationship” taking shape between the AIIB and existing MDBs, as well as China’s continuous support for the existing global institutions (PRC Ministry of Finance 2014b). He mentioned for the first time since his statement in March that the AIIB would collaborate with the World Bank, ADB, and other multilateral or bilateral developmental agencies in different ways, such as on project cofinancing. Lou also revealed that China would not necessarily offer up to 50 percent of the bank’s financing and had no intention to become the single, dominant shareholder in it. Finally, he said that the AIIB would be an “open, inclusive

institution” and there would be more countries to join in the future (PRC Ministry of Finance 2014b).

Seizing the moment, Chinese state media argued that the US’s opposition revealed the latter’s paranoia and deviation from “its own economic philosophy (of free-market)” (Zhiqin Liu 2014). Still hopeful for a change of mind in Washington, the same newspaper also made sure to point out that “the AIIB is also a beneficial supplement to the World Bank, the ADB, and the US-led global financial system [and] in no way seeks to overturn them but aims to advance their reform” (Zongyi Liu 2014). In November 2014, the AIIB Multilateral Interim Secretariat was formed in Beijing to lead the bank’s establishment. Both the World Bank and ADB immediately began working with and giving support to the Secretariat (AIIB 2015b, 2015c).

Taking note of China’s progress, the US began softening – but not dropping – its opposition. According to Freeman (2019, 669), toward the end of 2014 US officials were instructed by the White House to refrain from publicly criticizing the bank and focus instead on asking allies that were set to join to pressure the AIIB to adopt high standards of transparency, social and environmental principles, procurement requirements, and the other safeguards of the established MDBs. The January 2015 commentary of Nathan Sheets, Under Secretary for International Affairs at the U.S. Department of the Treasury at the time, was illustrative of this new position:

Two new institutions seem poised to join this existing architecture: the Asian Infrastructure Investment Bank and the BRICS’ New Development Bank, whose primary mandates will be to finance infrastructure. [...] The United States stands ready to welcome new institutions into the international development architecture, provided that they share the international community’s strong commitment to complementing the existing institutions and maintaining time-tested, and ever-improving, principles and standards. (2015)

As one can see, different from its earlier, more hostile attitude, the US now seemed to accept by this point that the AIIB would become reality. Given this fact, the US should rather focus on how the bank would operate once established via the indirect influence of its allies among its members. However, as Harris observed, even at this point, the US did not offer any recognition of the infrastructural gap in Asia – and among developing countries in general – that had motivated China and other cofounding member states’ decision to create the AIIB. Nor did it admit that China had chosen to lead a multilateral effort to tackle this problem, instead of using bilateral mechanisms – as had been the case for the majority of China’s overseas lending (Harris 2015, 45). As Sheets’s comments indicated, from the US perspective there was no urgent need for either reforming the existing institutions or creating new ones, as the old institutions have already “offered rapid and effective responses to emerging challenges” and “continue to evolve to meet the defining challenges of the future” (Sheets 2015). In other words, behind its “grudging acceptance”

(Harris 2015, 46), the US still did not fully embrace the legitimacy of China's institutional initiatives but rather focused its efforts on minimizing the impact of the new institution – both ideationally and materially – on the existing global development architecture, which the US “has worked hard to ensure [meets] the highest standards of transparency and sound governance, debt sustainability, environmental and social safeguards, and procurement” (Sheets 2015).

The US government's implicit position that the AIIB should not be allowed to acquire more legitimacy internationally beyond the membership of a handful of Asian countries was further made evident when the UK suddenly announced its decision on March 12, 2015, to join the China-led bank. Washington immediately registered its disapproval, which it sharply criticized as both going “against Mr. Obama's desires” (Erlanger and Perlez 2015) and indulging China with “constant accommodation” (Blakely 2015). What irritated the US was not only the UK's decision to join the AIIB despite the former's repeated requests to the contrary, but also the fact that both the latter – an ally with a “special relationship” with the North American country (Erlanger and Perlez 2015) – and China had kept their negotiations secret. Sources from the Obama administration revealed to the media later that the UK had given the US only 24 hours' notice after reaching its decision to join (Perlez 2015b). China also made no mention of its negotiation with the UK. Just two weeks before the announcement, Lou stated at a press conference that while some European countries had expressed a willingness to join the AIIB the general consensus of the 27 states (those that had publicly signed up for membership) remained that the bank should be open only to the home region at first and would not consider applications from extra-regional countries (Xinhuanet 2015).

The complete silence before the sudden, unexpected decision of one of the US's closest allies left Washington in shock. Publicly, however, the Obama administration tried to maintain a consistent position. The NSC's spokesperson made no direct criticism of the act but simply stated that the US would hope and expect “the U.K. will use its voice to push for the adoption of high standards” (Erlanger and Perlez 2015). Within days, Australia, France, Germany, Italy, the Netherlands, Norway, and South Korea also announced their decision to join the AIIB as founding members before the deadline of March 31, 2015 (Higgins and Sanger 2015; Murphy 2015; Kim and Yoo 2015; Reuters 2015; Ministry of Foreign Affairs of Norway 2015). This development not only astonished the US but also China, which, according to a Beijing-based Chinese scholar, did not anticipate the “last-minute surge to join the bank” (Perlez 2015a). It was revealed, however, that Chinese negotiators had proposed to some European countries that the PRC would forgo its veto power – doing so in the weeks before the end of March so as to make joining the bank more attractive (Wei and Davis 2015). By the March 31 deadline, the number

of prospective founding members of the AIIB had increased to 57 – including 37 regional and 20 extra-regional countries, with still more members to be expected (PRC Ministry of Finance 2015).

Caught by surprise yet trying to salvage this awkward diplomatic situation, the US sent Secretary of the Treasury Jacob J. Lew to Beijing to assure China that the North American country looked forward to cooperating with the bank. In his public remarks immediately after returning home, Lew reportedly said that the US would welcome the AIIB as long as it “complements existing international financial institutions [...] and share[s] the international community’s strong commitment to genuine multilateral decision making and ever-improving lending standards and safeguards” (Asia Blog 2015). According to Chinese state media, Lew claimed that the US would cooperate with the AIIB not via direct participation as a member but through “the China-US Strategic and Economic Dialog (SED), the World Bank and the ADB, and any other mechanisms accepted by the two countries” (China Daily 2015).

3.3 Bank Establishment and US Reluctant Acceptance: April 2015–September 2015

The message that Lew relayed to Beijing was the result of a further recalibration following the US’s earlier half-hearted acceptance of the bank in January 2015. In the wake of the UK’s sudden announcement, Lew testified before the U.S. House Committee on Financial Services on March 17 regarding the state of the international financial system, with specific reference to the new institutions being set up by China and other emerging powers. The hearing suggested that, on the one hand, the US would remain strongly committed to existing international financial institutions, including the IMF and various MDBs, so as to both promote its own strategic interests as well as international stability more broadly, because “no other institutions so effectively leverage our limited resources in service of our national and global interests” (Lew 2015).

On the other, the US finally acknowledged that there was a real need – and thus a valid reason – for new institutions such as the AIIB to join the ranks of MDBs, and that the North American country would not oppose setting up new institutions – it only wished to see them operate according to high international standards. Lew’s hearing notes – written by Deputy Assistant Secretary for International Development Policy at the U.S. Treasury, Alexia Latortue – made this second point clear, and thus it is worth quoting at length here:

Speaking to this issue [AIIB] in his testimony, Secretary Lew said: “There are obviously vast needs in Asia and many parts of the world for infrastructure investment. Our concern has always been not is there going to be an investment institution, but will it adhere to the kinds of high standards that the international financial institutions have developed? Will it protect the rights of workers, the environment, deal with corruption issues

appropriately? Our point all along has been that anyone joining needs to ask those questions at the outset. [...] The United States and our partners around the world – including China – have a stake in seeing the AIIB complement existing institutions and uphold high standards [...]. Some of our partners may choose to join the AIIB and work from within to encourage the institution to adopt high standards, while others may engage in other ways. For the United States, we will continue to engage directly with China and to coordinate with the rest of our international partners to provide concrete suggestions on how the AIIB can best adopt and implement high quality standards. (Latortue 2015)

The well-known Rose Garden speech by Obama a month after the March deadline to become AIIB founding members further clarified and reinforced this position. In it, Obama explicitly denied that the US had ever opposed the bank or prevented other countries from joining. Instead, he claimed that the only thing that the US cared about all along was whether the bank would comply with “best practices”; if so, then the US would be “all for it” (The White House, Office of the Press Secretary 2015a).

This position was repeated with a more approving tone in September of the same year when Xi visited the US. This time, Obama went as far as calling both the AIIB and the BRI “open, transparent, inclusive” and “consistent in serving the interests of the U.S. and other countries’ interests” (The White House, Office of the Press Secretary 2015b). Almost half a year after the UK’s announcement that it would join the AIIB and three months after the signing of the related Articles of Agreement by 50 countries – including four G7 ones (France, Germany, Italy, and the UK)² – the US finally decided to drop its opposition hereto, signaling its intention to now work with the new bank.

4. Managing Dissociation: US-China Rivalry and Conflict Management during the AIIB’s Establishment

As the preceding section showed, while the AIIB’s founding did not significantly affect the US and China’s bilateral relationship, it nonetheless constituted a focal point of tensions between the two sides for more than a year – that is, from early 2014 to late 2015. To understand why the standoff between them evolved the way it did during this process, this section will investigate the relative weight given to ideational versus material conflict in both countries’ management of the dissociation occurring here. The AIIB was considered by the US from earlier on as an alternative institution designed to compete with rather than complement the existing multilateral financial

² A fifth G7 member, Canada, officially joined the AIIB in March 2018. Its application for membership had been approved one year earlier, in March 2017 (Reuters 2017).

institutions, particularly the World Bank and the ADB. This is evident from both the NSC debate in 2014 and the message from the US to its allies, for example Australia and South Korea, on why they should refrain from joining.

Guided by this understanding, the US neither acknowledged nor seriously engaged in any tangible way with China's publicly stated rationale that there was a serious infrastructural gap in Asia (and among developing countries more generally), further to also noting that more funds were needed than what the existing institutions could afford to give if that gap was to be bridged. Different from its allies in Asia, Europe, and the Americas, the US had never seriously entertained the possibility of working with China and other countries within the new institution to address those issues that motivated the initiative and others' participation in the first place. Rather, the anxiety or fear of losing its dominance over the international financial architecture to China was always of the utmost importance in its policy reasoning. Consequently, the US categorically declined to join the AIIB while passively resisting the bank's membership expansion among the ranks of its allies. Evan S. Medeiros, NSC senior advisor on China, responded to Jin's appeal for US membership in September 2014 with the line "I am not going to buy the cake you have cooked" (Perlez 2015b).³ This very much reflected the first aspect to his country's initial position. The disapproving message from the NSC in reaction to the UK's decision to join the AIIB captures the other aspect.

Publicly, meanwhile, US officials consistently highlighted their concern that the AIIB would likely not abide by international standards and could consequently undermine the existing global norms in multilateral development finance by spurring a "race to the bottom" (Perlez 2014b). These reservations were debated and disputed from the beginning. Senior U.S. Treasury officials and development experts questioned the rationale behind their country's objection to the bank by emphasizing the existence of "undisputed needs on the ground in Asia [that] existing institutions have been unable to meet" (Perlez 2014b). Media observers also pointed out the unlikelihood of the AIIB posing a substantial challenge to the old institutions with "an initial capital of just \$50 billion, one third that of the Japan-led Asian Development Bank, and none of the World Bank's expertise or institutional heft" (The Washington Post 2015).

But these voices did not represent the majority opinion within US policy-making circles vis-à-vis international economics, where the fear of China assuming greater influence in setting international rules on finance and trade prevailed (Harris 2015, 50). Before the 2014 APEC summit in Beijing, Atkinson said "I think the world is looking increasingly to China to abide by the international rules of the road that have supported its growth over the past 25

³ In a later update to the original article written by Jane Perlez and published by the *New York Times* on December 4, 2015, it is said that the person quoted on the conversation involving the "cake" analogy argued that this specific exchange had not taken place. However, "the original source who described the conversation stood by the account."

years” (Mufson 2014). The creation of a China-led multilateral institution did not fit this expectation. It was only after observing the wide support for the AIIB from its close allies that the US began to adjust its position from passive opposition to reluctant acceptance, even though it still maintained the cautious tone that the new bank might not abide by international standards or promote best practice in multilateral finance. This latter position is best exemplified by Lew’s aforementioned hearing as well as by the Rose Garden speech given by Obama in March and April 2015 respectively. Outside the White House, however, US analysts complained about the government’s response to the bank, calling it “a major mistake,” “very short-sighted,” and “confused and contradictory” (Denyer 2015).

Overall, the US seemed to have paid much more attention to the ideational – one might even say the ideological – implications of China’s initiative to create a new MDB than the material aspects hereof. The passive opposition demonstrated through its attempted dissuasion of other countries from joining, the open disappointment at its allies’ “betrayal,” the persistent refusal to engage with China’s proposal, and the seeming unwillingness to offer an effective, meaningful counterproposal – promoting reform within and/or strengthening existing institutions, for example – all point to the US prioritizing ideational aspects in its response to China’s chosen course of action. By way of comparison, it is instructive to note that Japan – which also remains outside the AIIB to this day and very much shared the US’s concerns during the bank’s establishment phase – has mobilized domestic resources to strengthen the financial capacity of the ADB – which it and the US are the largest shareholders in – as part of its attempt to counter the potential influence of China’s own initiative (The Japan News 2015; Kameda 2015). No such efforts were made – or from the public records, entertained – by the US. To be fair, given Congress’s stance on international finance, it was perhaps also simply not possible that any meaningful countermeasures comparable to the Japanese ones could have been made. In this sense, the US’s decision to focus on the ideational rather than the material dimensions hereof was perhaps also compelled by circumstance rather than a deliberate choice.

In contrast, China had tried to convince not just the US but also other countries of its nonthreatening intentions by consistently highlighting both the ideational alignment and material complementarity of the AIIB with the existing global financial architecture. This is evident from the various speeches and interviews given by Chinese officials throughout the entire establishment process of the new bank. They repeatedly emphasized the shared material interests between both developing and developed countries in increasing infrastructural investment in Asia, the complementary role of the AIIB to existing multilateral financial institutions, and the adherence of the bank to established international standards (PRC Ministry of Finance 2014a, 2014b). The Chinese government also mobilized various channels – including bilateral

and multilateral governmental meetings, domestic political events, and domestic and international media – to publicize and disseminate its views on the new MDB and its role in and impact on global financial governance. Importantly, Chinese state media not only helped to defend the new bank and dispute the US’s articulated criticisms and doubts but also tried to ease the tensions between the two countries when it perceived there to be a tendency for confrontation. For example, following the UK’s announcement that it would join, the Chinese state media, *Global Times*, published an editorial stating: “China will not turn the issues around the AIIB into a gamble between China and the US. [...] An approach that sets the US as an adversary is contrary to China’s doctrine” (Global Times 2015).

As the initiator of the AIIB, China also listened to and took in the opinions of other countries in the course of designing the new bank’s format and operation, which should also have served to send a message of collaboration and cooperation to the US. The fact that China has deliberately chosen to take a multilateral approach in building its alternative financial institutions evidences its intention to work with the international community – especially the established powers and the global institutions dominated by them – in addressing the problems of developmental finance rather than trying to circumvent or marginalize those other powers. As one commentator noted, the East Asian country was “deliberately forgoing some of its leverage” – in effect being “a concession that China’s established practice of promoting bilateral initiatives in the developing world has backfired” (Hung 2015). It can be debated whether China could have done better in terms of clarifying early on its plans for the new institution to the stakeholders in the existing global financial order. Nonetheless, despite its efforts to advertise the new bank as neither ideationally nor materially threatening, China did not manage to reassure the most important stakeholder, the US, in its attempt to dissociate from the global financial architecture. How can we best explain this?

As discussed earlier, before the establishment of the AIIB China had already been experimenting with different approaches to global financial governance for over two decades. The founding of the AIIB further exemplifies the country’s hybrid approach, which combines adaptation and innovation to cope with the uncertainty associated with the evolving global financial order. As Hongying Wang (2019) has pointed out, the AIIB is modeled on established traditions within the family of MDBs. For this reason, it was perhaps natural for China to perceive its initiative as both a continuation and an incremental reform of the existing global financial architecture, of which it remains a beneficiary. The onus that the AIIB puts on obtaining high ratings (such as the aforementioned AAA one) from international credit rating agencies – despite critiques of those very agencies by emerging powers for being Western-centric in tandem with their unsuccessful attempts to create alternative ones

(Helleiner and Wang 2018) – further shows China’s interest in upholding the existing system while overseeing gradual, incremental reform.

On the other hand, before the AIIB’s inception, the US under Obama had shifted its China policy from expecting the latter to be more cooperative on various bilateral and multilateral issues to a greater emphasis on working with traditional US allies and regional players in Asia besides China. This shift was largely in reaction to the series of low-level conflicts between Washington and Beijing since the beginning of Obama’s time in office, most notably in the East and the South China Seas but also with regard to the North Korea nuclear talks and climate change negotiations. Consequently, when China announced its decision to create the AIIB, the US was more inclined to see a revisionist if not somewhat confrontational agenda behind it than a half-status-quoist, half-revisionist one.

In sum, the tensions between the US and China, rooted in their structural rivalry, seemed to have fostered more contentious interactions between the two as the latter further navigated its hedging approach vis-à-vis global financial governance while the former sought to prevent the emergence of an international financial structure centered around the East Asian country meanwhile. Specifically, this structural rivalry induced the US to give prominence in its strategic thinking to the ideational conflict emerging between China’s alternative institutions and the existing global ones. As a result, the US adopted early on and then stuck to a passively oppositional stance – only wavering once the bank was finally established with the support even of its major allies. China, on the other hand, managed to convince a substantial number of the stakeholders in the existing international financial architecture to support its institutional initiative. Other issues aside, the failure of the US and China to reach early understanding on cooperation within the framework of the latter’s new banks would contribute to the increased tensions subsequently seen in their bilateral relationship.

5. Conclusion: Dissociation under Great Power Rivalry

The case examined in this paper largely supports the hypothesis proposed by Dembinski and Peters (2022, in this issue). That is, the relative weight given to ideational versus the material conflicts in the management of the dissociation process affects the level of tension arising between parties on the opposing sides of the process thereof. Based on the evidence presented and discussed above, we can see that China’s attempt to build an alternative institution to the existing global financial architecture elicited a negative reception from the US, mainly because the latter focused above all on the ideational challenges that the institution might come to pose and thus sought to dissuade its allies from endorsing these proposals on the same grounds. The

opposition of the US to China's new institutional initiative had led to a moderate increase of tension between the two countries during the major part of the dissociation process. However, the two sides managed to reduce the tension towards the end, as the staying party – the US – adjusted its view of the ideational challenges presented by the AIIB.

One might reasonably further ask: To what extent is this outcome explained by the structural rivalry between the two countries? To answer this question, it would be useful to compare the experiences of other postwar MDBs with that of the AIIB. As scholars have noted, the family of MDBs has expanded in several waves via the emergence of various regional ones – as happening, by and large, in reaction to major international political developments and geopolitical shifts. The era of decolonization (roughly occurring from the mid-1950s to the mid-1970s) saw the establishment of the Inter-American Development Bank (IADB) (1959), the African Development Bank (1964), the ADB (1966), the CAF / Development Bank of Latin America (1968), and the Islamic Development Bank (1975). Following the end of the Cold War and the disintegration of the Eastern Bloc, the second period (from the early 1990s to the early years of the new century) saw the establishment of the European Bank of Reconstruction and Development (EBRD) (1991) and the expansion of the European Investment Bank. The establishment of the AIIB is the most recent expansion and the first instance in the 21st century, which reflects the growing influence of emerging economies such as the BRICS countries (Wang 2017, 113-4).

The US, on the other hand, had repeatedly withheld its support for regional MDBs until it could be sure that the new institutions would behave in accordance with its interests. It had initially opposed both the ADB and the IADB. It had also delayed its membership in the concessional lending facility associated with the African Development Bank. Finally, before joining the EBRD as a founding member, the US had also expressed skepticism that the latter would replicate World Bank functions (Freeman 2019, 667). Looking into these historical precedents and their geopolitical contexts can help to put the present case into perspective. In particular, doing so helps us to better understand how being the single most powerful country in the postwar international system might have predisposed the US to be extra cautious if not hostile toward institutions led by other actors. Consequently, further light is shed on how the rise of China and the increasingly conflictual relationship between it and the US have rendered the management of their tensions in the context of the East Asian country's new institutional initiatives particularly challenging.

Looking from today's perspective, the AIIB's establishment also presents an interesting contrast to the deteriorating relationship between China and the US in the years that followed. Despite the moderately increased tensions between the two countries regarding the AIIB during its founding process, a stable bilateral relationship was maintained up until the end of Obama's time in

office. However, it took a dramatic downward turn under the subsequent Trump administration, a time period which also saw rising tensions between the PRC and other Western governments. Yet the conflict over the AIIB did not appear to have played a significant role in those developments. The initial period of the Trump administration saw revived hope among policy observers that the US under the new leadership might reconsider its rejection of the AIIB (Cai 2018, 843). A Congressional Research Service Report released in March 2017 also recommended the US Congress to reconsider whether the US should join the bank (Weiss 2017, 17-8). Little evidence shows that the moderate conflict over the AIIB had directly led to the subsequent dramatic shift in US-China policy under the Trump administration or the ensuing intense conflict between the two countries.

Beyond the US-China dyad, the changes to bilateral relationships between China and several Western countries also appear unrelated to the AIIB. The China-led bank continued to recruit new members after its formal establishment in January 2016, including a number of Western countries such as Belgium, Canada, Greece, Hungary, and Ireland. However, following China's increasing authoritarianism both at home and abroad under Xi – particularly its repressive practices in Xinjiang, tightening of control in Hong Kong, and the aggressive, “wolf-warrior” diplomatic stance toward foreign countries amid the COVID-19 pandemic – a growing number of countries including many of the advanced economies have begun to reevaluate their relationship with the East Asian country (Zhao 2021). For instance, since 2018 Australia has embarked on a major “reset” of its China policy in reaction to the latter's increasingly assertive foreign policy (Köllner 2021). In 2019, the European Commission labeled China a “systemic rival” for the first time in its “Strategic Outlook.” In 2021, the European Parliament passed a resolution with an overwhelming majority refusing to ratify the European Union-China “Comprehensive Agreement on Investment,” citing the latter's human rights violations and sanctions against Europeans critical of its government (Ewing 2021). The resolution, which came less than six months following the deal's conclusion at the end of 2020, is one of the most recent signs of intensifying confrontation between China and the West (Ewing and Myers 2020).

These developments could be interpreted as part of the broader dissociation that China has either embarked on by its own choice or unintentionally triggered due to miscalculation. Whichever is the case, the founding of the AIIB presents us with a somewhat different instance of dissociation in which the departing party, China, has managed to rally the majority of the existing global institutions' stakeholders to its cause, doing so through an inclusive process of institution-building. Understanding better the deteriorating relationship between China and Western countries in the years following the establishment of the AIIB, therefore, calls for a careful analysis of both the structural environment and strategic choices of the main actors in different

issue areas. Moreover, comparing the relatively smooth dissociation examined here with the ongoing attempts of “decoupling” from China initiated by different countries would be useful for grasping not only what has led to such widely negative reactions to it from many of its partners but also whether and to what extent conflict perceptions and the corresponding reactions of the parties involved have been similarly affected by the condition of rivalry, as was suggested in the present study.

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