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The AIIB's Implications to the Sino-US Relations



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Title page

The following study represents my master's thesis in a Joint Master's Program called China and International Relations (CIR), offered by Aalborg University, Denmark and University of International Relations, the People's Republic of China.

Master's Thesis

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The above student hereby declares that the current Master's thesis was written independently and that no content included therein was obtained in contravention of the applicable regulations. The Master's thesis was not previously presented to another examination board and has not been published.

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Abstract

The establishment of the Asian Infrastructure Investment Bank (AIIB) has aroused wide attention among the world and caused heated discussion in academic circles. On the one hand, it marks the status transformation of China from a world order follower to a game changer due to its growing comprehensive national power and enhanced international image; on the other hand, some of the US's important allies have joined the AIIB despite opposition from the Washington, which renders the newly established institution a diplomatic victory, the US's power reduce and hegemony decline on the Asia-Pacific region. China intends to provide collective goods, infrastructure investment in specific, under the framework of the AIIB, this action will further strengthen China's importance and prompt its strategy of power pursuit and interest chasing according to the realism thoughts. The US rejects the invitation of becoming a member ever since its initiation and takes actions correspondently. The Sino-US relations has always been featured with power struggle, hegemony contest and dominator-aggressor competition, the AIIB might cast some new light on this topic.

Keywords:

Sino-US relations, Asian Infrastructure Investment Bank, power pursuit, world order

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1. Background

On October 24th 2014, 21 Asian countries including China, Singapore and India signed “Memorandum of Understanding” in Beijing, illustrating their common intention on the establishment of the Asian Infrastructure Investment Bank (AIIB). All of the BRICS countries, 5 of the G7, 15 of the G20 and 4 of the UN Permanent Members had become the participating countries of the AIIB, some of which are the US’s important allies and partners such as the UK, Germany, South Korea, India. The former US Treasury Secretary Lawrence Summers said correspondently that the certain month should be remembered for the United States losing its leadership of global economic order.¹ The AIIB was officially founded on December 25th 2015, marking the first successful attempt of China in proposing an international multilateral financial institution. At the time of writing, there has been 80 countries that joined the AIIB, and this figure is officially believed to increase to 90 by the end of 2018 (Xinhua, 2018).

China has been inviting the whole world including the United States to join the AIIB, intending to show its resolution on cooperating with different countries, regions and institutions indiscriminately. It also articulates its main purpose, as the name suggests: on the one hand to provide capitals and technology to developing countries within the area as well as those outside the area, by focusing on infrastructure construction and productive sectors the AIIB could prompt Asia’s sustainable economic development and improving infrastructural interconnectivity among the region, even the other part of the world subsequently; on the other hand to enhance the partnership and build cooperation with other bilateral and multilateral developing institutions, in

¹ Former US Treasury Secretary and Harvard University President Lawrence Summers reacted to the US refusal to participate in the AIIB as follows: "This past month may be remembered as the moment the United States lost its role as the underwriter of the global economic system." Retrieved at <https://www.amchamchina.org/news/chairman-us-should-reconsider-its-aiib-strategy>, 2018.4.28.

which way could they better confront the upcoming global challenges (Ministry of Foreign Affairs of the People's Republic of China, 2016). Up to now it has successfully funded more than 20 projects, which helped the AIIB and China gain reputation and support from the countries in the area (AIIB official website, 2018).

Apart from those achievements and China's own declaration, there are voices from international community considering this China-led institution one of the China's vehicles of strengthening economic influence, even political leadership in the area, so as to contend with the US's strategy of "rebalance to Asia" and to shake its long-standing status as a regional dominator. China also admits that the AIIB is an action following the New Development Bank(NDB) and the Shanghai Cooperation Organization Development Bank to take a leading position in the international financial system (Murphy, 2015). Under this circumstance, the US has never shown any intention to become an AIIB member, not only discouraging its allies from joining the AIIB but also adopting countermeasures in order to maintain the current political layout of the Asia-Pacific region and the world order that have been shaped by the US-led western world.

2. Problem formulation

The Sino-US relations have been a hot topic in the discipline of International Relations ever since the People's Republic of China's establishment, its following developments also witness this topic grows more popular. The interactions between the US, the largest developed country, and China, a developing country growing increasingly stronger, have drawn great attention. In addition, China's development in recent decades has made some scholars believe that China is a revisionist country that is trying to gain a greater say in the US dominated international community. The case of the AIIB may not be sufficient enough to fully demonstrate and analyze the present Sino-US relations, but it is a typical and researchable starting point. The AIIB plays a strategically important role in China's rise, the effect of infrastructure investment is always attached with great value in both domestic development and diplomacy. The projects approved by the AIIB have contributed a lot to the related area in terms of energy, transportation and water, etc. The covered region is of great importance to China's foreign policies as well. Under this circumstance, studying the topic of AIIB is not only attractive but also valuable. The US has been regarding China as one of its critical strategic competitors in the world, and the only challenger in the Asia-Pacific region. Although three and a half years have passed since China proposed the AIIB, the US has been an outsider. For this reason, this thesis is aimed at answering the question that is formulated as: **Why the United States does not join the AIIB?**

The topic is of great interest to me, the successful progress of the AIIB turns out to be not only a compelling event on the world stage, but also a trend illustrating China's rise. While China seems to not only strive for power within the region but also exert influence on other parts of the world, the US is protecting its voices and the balance of power in the world by staying outside and striking back. In order to solve the problem that is raised above, three sub-questions below will be analyzed in order to draw a feasible conclusion in the end:

- Why does the AIIB avail China's rise instead of US-led institutions?
- What are the implications of the AIIB to the US?
- How does the US respond to the AIIB and why it does so?

To find the answers to those three sub-questions, the realist approaches from disciplines of International Relations will be utilized, to be more specific, offensive realism, power transition theory and hegemonic stability theory. In the "Methodological considerations" section, the way in which the theories are integrated with the analysis will be demonstrated, together with the elaboration of how the problem is analyzed and the data are dealt with. Then the theories in detail will be introduced and the reasons why they are chosen will be explained in the "Theories and theoretical application" section. Finally, after each sub-question gets its own answer subsequently, the thesis will come to its "Conclusion" section, where the answer to the main problem will be offered.

3. Methodological considerations

This section is designed to illustrate the basic layout of the thesis, as well as the ways in which the related data and sources are collected and processed. Therefore, the aim of the thesis is to draw conclusion validly and reasonably and to analyze scientifically.

3.1 Analysis plan

A demonstration of the relations between the theories utilized and the research problem will be presented in the next section of “Theories and theoretical application”, in this way could the analysis be supported by recognized theories to make sure more convincing and plausible. In the “Analysis” section, background knowledge on the topic will be presented at first, such as the accomplished and proposed projects funded by the AIIB and the comments on them made by the international community, and the questioning voices as well, the United States especially. Then it will come to the actual analyzing part, where the three sub-questions above will be thoroughly elaborated.

The sub-question 1 is “Why does the AIIB avail China’s rise instead of US-led institutions?”. It will be started from making comparison between the AIIB and other US-led institutions, such as International Monetary Fund (IMF), the World Bank and Asian Development Bank (ADB), though the last one is operated by Japan, the international community still regards it as a de facto US-led institution due to the strong treaty alliance relationship between Japan and the US (Beeson, 2009). The differences will be mainly elaborated from the aspects of purpose and functions of their establishment; rules of capital shares, subscription and payment; responsibility and allocation of net income of participating members, etc. The part stressing the reasons why the AIIB is suitable to the rise strategy of China whereas other institutions are not is presented, elucidating that the AIIB plays an important role in China’s pursuit for

power within the region, which posts a great challenge to the US in terms of power and hegemon status.

The sub-question 2 is aimed at analyzing the influences the AIIB has already imposed on the US or will in the future, which goes as “What are the implications of the AIIB to the US?”. During the research, three clues under the theory of hegemonic stability theory will be followed: economic, political and security implications, all of which can be understood and further dissected in the perspective of power (the concept of power will be present in the next section). When it comes to the economic implication, how the AIIB pushes the process of Renminbi (RMB) internationalization and how this trend affects the US’s financial hegemonic stability will be analyzed; in the part of political implication, the case of “the Belt and Road (the B&R)” will be used to illustrate that the AIIB challenges the US’s power on the region through investing on projects under the framework of the B&R, which is considered China’s main strategic action towards the US’s “Pivot to Asia” strategy; and finally in this part examples about the AIIB’s projects related to military such as financing military infrastructure and base with the area will be given, which again causes the US to concern about its power layout on the Asia-Pacific (Wyne, 2015).

The sub-question 3, “How does the US respond to the AIIB and why it does so?”, will start from introducing the US’s responses to the initiation, establishment and function of the AIIB, then the reasons of why it reacts so will be analyzed, this is the place where the power transition theory will be underlined. The US has been a hegemon since the decline of the United Kingdom, the AIIB is considered by the US one of the signals of China’s rise in terms of its capabilities and its resolution to take on more responsibility as well as to gain more power (Summers, 2018). When the status quo of the power distribution between China and the US has changed or is possible to change, conflicts not limited to war but also in other forms are incline to appear.

In the “conclusion” section, the power struggle between the US and China in perspective of the AIIB and how the actions taken by both sides affect the power layout of the region will be summarized. Then the answer to the main problem about why the US does not join the AIIB will be consequently offered.

3.2 Theoretical choice

Specifically speaking, the theory of offensive realism, hegemonic stability theory and power transition theory will be applied to the analysis of the problem, all of which are the realist approaches. Although there are several differences among them regarding the understanding of states’ goals and dynamics as well as explanation of states’ behaviors and decisions, they follow the same central propositions and are under the same framework built by some core elements, which can be described as: states, rather than individuals or international institutions, are the central actors in an anarchic international political system without any supranational authority, thus the states are rational in looking for maximum self-interest, in this way could they gain as much power as to ensure their survival (Goodin, 2010).

In this thesis, realism theories show great relevance to the topic in question. They highlight the importance of great powers, in this case China and the US, suggesting that the two states as main actors on the present world stage, under no upper-level authority’s absolute control, are striving for hegemony and pursue power (Lieber, 2002). International relations’ history is filled with events where countries resorting to conflicts to improve and ensure their long-term security, based on which scholars came up with the concept of “Thucydides² trap” referring to the conditions, that an

² Author’s note: according to Thucydides, "What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta.", hence caused the Peloponnesian

established power tends to escalate conflicts in fear of a rising power's challenge towards the former's security or power (Mueller et al., 2006). China's marching out in recent decades can be considered an emerging great country looking for more power and voice to ensure its security, and the US's international activities are apt to maintain its established power layout and counterbalance China's rising in fear of challenges it cast on the US.

3.3 Methods

As a thesis of international relations discipline, the topic stays inside the field of social scientific study that focuses more on exploratory and evaluative research or comparison. The purpose of the thesis is to present the understanding about the implications of the AIIB to the US and the reactions of the US, thus acquire more knowledge on the Sino-US relations. During the decision-making procedure, the qualitative method is found to be more compatible with the topic and the analysis process because the qualitative analysis such as mathematical modeling is unnecessary in exploring implications and making comparisons.

The qualitative data-based analysis starts from the main characteristics of the research objects, using primary data consisted of statistics and official white books as well as secondary sources from qualified literatures and academic works, both of which could offer some authentic viewpoints of the topic. Some basic elements are necessary here, which are, universally recognized theories, reasonable logical process, large spheres of historical facts, etc. During the preparation for writing, sources have been reviewed including governmental documents of both China and the US³; official

War.

³ Author's note: sources of this like are found on official websites such as Ministry of Foreign Affairs of the People's Republic of China, State Council of the People's Republic of China,

website files of the AIIB, the IMF, the World Bank and the ADB; academic literature such as journals, papers and books⁴; commentary articles and online institutional reports. Relevant documents on that issue are in a large amount, the author will browse intensively and estimate objectively to the most of the ability to make this thesis more reliable and valid. Most of the contents being analyzed are better described and illustrated by words, still some fundamental quantitative analysis are included in the thesis, mainly comparison and basic calculation.

The international relations especially the Sino-US interactions are subject to frequent change, and too comprehensive to thoroughly consider about every detail (because domestic and international issues that cast influences on policy-making process and national behaviors change all the time), therefore there can be limitations exists in the thesis. In addition, defectives occur due to lack of first-hand, instant data and academic capability. Regarding the facts above, the purpose of this thesis is to look for possible answers to the problem that is of great interest and may contribute to the domain of the major of international relations, in other word, to achieve the principle of problem based learning.

Ministry of Commerce of the People's Republic of China, the White House, United States Department of Defense, the Federal Reserve, the Treasury of the United States, etc.

⁴ Author's note: sources of this like are found from think tanks and established institutions such as the RAND Corporation, The Council on Foreign Relations, the Brookings Institution, the Peter G. Peterson Institute, China International Studies Institution, etc.

4. Theories and theoretical application

After studying reliable academic works and resorting to textbooks, realism tends to offer an easier and convincing way of understanding the Sino-US relations in perspective of the AIIB. It builds the theoretical framework of this thesis, under which sub-questions and conclusions will be analyzed with its branch theories, namely offensive realism, hegemonic stability theory and power transition theory. Although those theories differ in some aspects of explaining certain concepts and dynamics of international relations, they all could provide reasonable understanding of the current research that is conducted.

4.1 Basic concepts

Concepts in international relations discipline are indispensable, however, there are invariably different explanations of the concepts among various schools of thought. Regarding that, it is necessary to elaborate which definitions are applied in this thesis, ensuring they are consistent with the theories and the analysis process.

4.1.1 Power

Realists believe that the states are existing in an anarchy world, where they make policies and take actions on premise of ensuring national interests, which are based or driven by power (Gilpin, 1975). Scholar of classical realism Hans Morgenthau argued that “*international politics is governed by objective, universal laws based on national interest defined as power*” (Morgenthau, 1985). Power, the most critical concept of the social science domain, possesses multiple definitions and measurements. In terms of its widely accepted literal meaning, power refers to the ability of getting other actors to do what they would not otherwise have done, or not to do what they would have done (Dahl, 1970). Kindleberger defined power in an intertwined contexts of economic and political aspects, that is, power is the strength together with the capability of utilizing

it effectively (Kindleberger, 1970).

In this thesis, the power will be defined as capability that is able to influence others and is easy measure, following the assessments of Gilpin, Mearsheimer and Kindleberger,. In order to figure out why China tends to pursue power and why the US pays much attention to maintaining power or regaining lost power, it is vital to measure countries' capabilities. However, sometimes capability is complex to assess, because states possess multiple kinds of potentials varying from territory, population, military force to resources, total GDP, technology level, industrialization degree and so on (Goldstein, 1994).

And in this thesis, the concept of relative power will also be included, due to the fact that a state can possess power only in relativity to others. This concept is determined by the ratio of two states' capabilities used to bear against each other. In this way it matters little when a state's power is rising or declining in absolute considerations, but only comparatively overtaking or lagging behind the capabilities of counterpart in question (Goldstein, 1994).

4.1.2 Hegemony

Realists argued that the structure of the international system encourages states to pursue hegemony, which is the best way to guarantee ones' national interest, at least survival (Mearsheimer, 2002, pp. 4, 12). According to the Oxford Advanced The American Dictionary and the American Heritage Dictionary, hegemony refers to "*the political, economic, or military predominance or control of one state over others*"⁵. Hegemony suggests the domination of the whole system, which usually implies the

⁵ Retrieved at http://www.oxfordlearnersdictionaries.com/us/definition/theUSn_english/hegemony, 2018.3.13

entire world. Nevertheless, when surveying certain issues, the concept is possibly to be narrowed down to particular geographical areas, in this thesis the Asia-Pacific region which is of great strategic importance to both the US and China. Thus it is possible to distinguish between hegemonies that dominate the world and regional hegemonies under the definition of hegemony.

To make it more clear, a hegemon is a state so powerful that it dominates all the actors in the system in some or all aspects. Sometimes it is defined as the only great power in the global system (Gilpin, 1981, pp.29). Under this proposition, even a state is dramatically more powerful than other great powers in the system, it is not considered a hegemon, because it also faces other great powers or in fear of others' challenges. According to this definition, the US may not be the global hegemon at the moment, considering the existence of other great powers in the world. But it is still the regional hegemon of the western hemisphere with no other countries having the sufficient power to challenge it. Whereas in Asia-Pacific region, it confronts China's rise, hence it is not the only great power widely recognized.

4.2 Offensive realism

This is a theory offered by Mearsheimer in his masterpiece "*The Tragedy of Great Power Politics*", having an aptitude for describing how great powers act towards each other and explaining why they do so, it follows the tradition of well-acknowledged realist ideas⁶. He argues that "*structure of the international system encourages, sometimes forces states that look only for security nonetheless to act aggressively toward each other*" (Mearsheimer, 2002, pp. 3). When elaborating why states are

⁶ Author's note: such as E. H. Carr and Hans Morgenthau (*Politics among Nations*) who represent classical realism, and Kenneth Waltz (*Theory of International Politics*) who speaks for structural realism or neorealism. They all follow the basic nature of realism domain.

always in pursuit of power and hegemony, he offers five “bedrock” (Mearsheimer, 2002, pp. 30-33) that are: the anarchic international system provides no authority to states’ rescue when emergency happens, thus the security can only be made sure by oneself; the great powers have prevailing capabilities signaled by offensive military, which enable them to attack even devastate others; intentions of every state can never be confirmed by others; great powers’ foremost goal is to survive; great powers are rational when making decisions and conducting actions.

This theory is competent in providing this thesis with platform to observe the reasons behind China’s initiation of the AIIB and the reasons how the US’s responds to it. The case fits into the 5 bedrocks introduced above. The current international environment is absent of a supranational government that can ensure the security of countries, and the great powers in question have the capabilities of fighting against and hurt each other not only in terms of military force but also economy and shared value in this thesis. Moreover, the intentions of the AIIB, though according to China authority, is to achieve cooperation and win-win situation, is doubted by the US, and neither of them can be certain of their counterpart’s actual purpose. Still, both countries are rational in dealing with each other. So the theory is closely relevant to the present research.

However, limitations cannot be entirely avoided when combining the theory with the practice. As Mearsheimer himself holds, the underestimation of domestic structure is subject to be questioned. Particularly in this thesis, the internal considerations of both countries’ development and citizen welfare might not be able to analyzed by offensive theory. When expanding to the level of international community, sometimes it is defensive realism that has more exploratory ability, which believes structural distribution of power is the main dynamics of nation’s behaviors, and countries are only asking for minimum of their survival which is the prerequisite of achieving other goals,

let alone taking aggressive actions when not facing conflicts (Waltz, 1979).

4.3 Hegemonic stability theory

Initially set forth by Charles Kindleberger, this theory holds the viewpoint that the existence of a hegemonic power (although the terms of “leadership” and “responsible” are more favored by him) is indispensable to an open world economy symbolized by free trade and market⁷. It argues that great power’s hegemonic structures are significantly conducive to the establishment and development of strong international regimes, whose regulations and rules are more accurate and convincing when compared with otherwise. This kind of power, or capability, should be mastered by a single nation, once the hegemonic stability was broken, in other words the origin hegemon’s power declines, the effectiveness and strength of the correspondent international regime is prone to decrease (Keohane, 1980, p. 132). That is to say, the hegemon in discussion is not only able but also willing to build up and maintain the rules and norms of a free and open world economic order, as well as to provide with sufficient and serviceable public goods on the international level.

The so-call liberal world economy is not paradoxical with the realist framework of this thesis, because it refers to a certain type of economic order which exists in an anarchic world where countries pursue their self-interest and survival. Taking the US

⁷ Author’s note: the situation of an open and free world economy is of no controversy with the framework of realism, the former concept is defined and explained in domain of economics which categorizes trade and investments into protectionism and liberalism. While the latter one is more of an international relations or politics terminology. For instance, free trade among countries is possible in an anarchy world system where nations are seeking power and security as it is the current international situation, and countries that invest directly to each other may also possess offensive military purpose at the same time, for self-interest matters the most, no matter in terms of wealth or power.

and China into consideration, both of them have benefited a lot from free market and free trade of the world economic system, but they conduct commercial activities out of realist mentality to gain capabilities measured by wealth and income, etc. After the World War II, the US naturally became the hegemonic power who took the lead in establishing world economic order and providing international collective goods such as norms⁸, technologies and infrastructure investments in terms of capital and skills, etc. (Gilpin, 1987, p.72-74). Therefore, when China deems the behaviors of the hegemon, the US, begin to imply an obvious self-serving trend, which is contrary to even harmful to China's political and economic interests, China is incline to break the stability by setting up new orders which will shake the hegemonic structure; in addition, if China regards the US's capability in collective goods provision as insufficient or ineffective, it would also volunteer to substitute its hegemonic role in the related region. Hence the AIIB could better serve China's rising and newly-attained world status, according to Xinhua News Agency commentators. That is why this theory is believed to be persuasive in analyzing Sino-US relations in perspective of the AIIB.

There are inevitably limitations of the theory, one of the most typical criticism comes from Duncan Snidal who contends that the coverage of the hegemonic stability theory is constrained in too narrow and special conditions, and the application of the theory is only empirically valid in certain case due to the lack of examples and defective in generally applications (Snidal, 1985). Also in this thesis the theory is not strong enough to explain when the US government frequently changes its attitude and behavior towards the world economy, it tends to swing between protectionism and liberalism with time passing by, and as the definition of the theory suggests, it fits into the

⁸ Author's note: The US's hegemonic power was utilized subsequently in reducing trade barriers by promoting liberal international economy orders, which was embodied by the establishment of the General Agreement on Tariffs and Trade (GATT) and the IMF, both of them follow the principles of liberal economy after the World War II.

conditions only when the world economy is open and free. Still, this thesis finds the theory suitable to be applied in explaining conditions between the US and China under the framework of the AIIB.

4.4 Power transition theory

First released by the textbook “*World Politics*”, this theory was founded by A.F.K. Organski referring to the situation where competitive great powers are likely to start conflicts when the allocation of power between them are quite even in terms of economy, politics and security (or military capability) (Organski, 1958). It argues that a peaceful world will emerge and be better preserved with power imbalance between the relatively advantaged and disadvantaged states, the latter are countries that originally weaker longing for getting more power thus more satisfied. Under this circumstance, they tend to take aggressive actions to the former regional hegemon in order to gain more power to enjoy the same favorable treatments or privileges as it does. That is the critical timing when power is transitioned between them and the balance is broken (Lemke, 2002).

This theory is always linked to the hegemonic stability theory, which can explain the phenomena that when power starts to transit between great powers, the already established hegemonic stability is subject to break. It is also considered feasible to combine with this thesis, regarding the definition of the theory, the present distribution of power between the US and China is becoming increasingly even and the gaps in terms of economic, political and military capabilities are dramatically narrowed down. Moreover, the AIIB is an illustrative example of China trying to catch up with the US, whereas the latter considers China an aggressor and may prefer to strike back to maintain the power imbalance.

This theory focuses on the competition and conflicts between great powers seizing the domination or hegemonic position of the world order, providing enlightenment on clarifying causal relationship between structural changes of power and presence of conflicts. One must notice that here the power transition is constrained to the scope of two (groups of) great powers, i.e. hegemon and challenger, rather than generally understood concept of change in power allocation structure which involves more than two countries. That is the basic symbol of international order alteration, the relation between the hegemon and the challenger is the most important issue in international relations in this consideration (Organski, 1958).

The questioning voices towards this theory are not rare, underlying that power transition theory puts too much attention to national-level analysis of power and conflicts. Structural realists specifically hold that with massive focus on interaction between great powers, particularly the hegemon and the challenger, the consideration on international structure and power reallocation are largely neglected, whose influences are as well vital on Sino-US relations and the AIIB which both exist in a structural-level international system (Tammen, 2000).

After the detailed introduction of the three branches theories of realist approach, I find them feasible and convincing to be combine with the topic, each of them is capable of providing angles of thought in analyzing the AIIB's implications or China's underlined intentions to the US and the US's responses to the AIIB, to be more specifically, China. The sub-questions will be analyzed separately below under the framework built by these theories, they might be utilized correspondently to some aspects but that does not suggest that the theories are disconnected or broken down.

5. Analysis

As the core section of the thesis, this part will be processed in three interconnected sub-questions which are in a causal relationship. In order to explore the answer to the problem of why the US does not join the AIIB, first of all, it is important to understand the specialties of the AIIB which the US-led institutions do not have in propelling China's rise; then the implications of the AIIB to the US are also worth discussing to give deeper perspectives about the US's decision-making process and principles; finally, the US's responses to the AIIB during the period from its initiation to fruition will be surveyed and the reasons driving the US's counter measurements will be studied.

5.1 An overlook of the AIIB.

The AIIB officially started to operate on the date of 16th January, 2016, after when 15 months were spent by the 57 initial founding members to collaborate in order to shape the institution's core operating platform, objectives, principles, policies, and the shared senses of value. Built on the understanding of the experience to successful corporates in private sectors and established multilateral development financial institutions all around the world, the AIIB claims that it aims at creating a more promising prospect for billions of world citizens by investment of sustainable infrastructure in Asia and beyond (the AIIB official website, 2016). By the time of writing, the Board of Directors of AIIB has approved 25 projects which absorb altogether 4.4 billion US dollars and proposed 12 projects which are expecting further investment in capitals and technologies. Though the number of approved projects is not as much as those of other international financial institutions, the process of decision-making is guided by the strategic goal and thematic priorities of the bank, benefiting the interest of Asia particularly, the details of the approved projects are shown in the chart 1.

Chart 1:

The 25 approved projects of the AIIB

Project name	Region	Sector	AIIB financing	Approval date
IFC Emerging Asia Fund	Asia	Multi-Sector	150 million USD	27 th .09.2017
Trans Anatolian Natural Gas Pipeline Project	Azerbaijan	Energy	600 million USD	21 st .12.2016
Bangladesh Bhola IPP	Bangladesh	Energy	60 million USD	9 th .02.2018
Natural Gas Infrastructure and Efficiency Improvement		Energy	60 million USD	22 nd .03.2017
Distribution System Upgrade and Expansion		Energy	165 million USD	24 th .06.2016
Madhya Pradesh Rural Connectivity Project	India	Transport	141 million USD	11 th .04.2018
Bangalore Metro Rail Project		Transport	335 million USD	8 th .12.2017
Transmission System Strengthening Project		Energy	100 million USD	27 th .09.2017
Gujarat Rural Roads (MMGSY) Project		Transport	329 million USD	4 th .07.2017
India Infrastructure Fund		Multi-Sector	<150 million USD	15 th .06.2017
Andhra Pradesh 24x7 – Power For All		Energy	160 million USD	2 nd .05.2017
Beijing Air Quality Improvement and Coal Replacement		China	Energy	250 million USD
Round II Solar PV Feed-in Tariffs Program	Egypt	Energy	17.5-19million USD	4 th .09.2017
Batumi Bypass Road Project	Georgia	Transport	114 million USD	15 th .06.2017
Dam Operational Improvement and Safety Project	Indonesia	Multi-Sector	125 million USD	22 nd .03.2017
Regional Infrastructure Development Fund Project		Multi-Sector	100 million USD	22 nd .03.2017
National Slum Upgrading Project		Urban	216.5million USD	24 th .06.2016
Myingyan Power Plant Project	Myanmar	Energy	20 million USD	27 th .09.2016
Oman Broadband Infrastructure Project	Oman	Telecomms	239 million USD	8 th .12.2017
Duqm Port Commercial Terminal and Operational Zone Development		Transport	265 million USD	8 th .12.2017
Tarbela 5 Hydropower Extension Project	Pakistan	Energy	300 million USD	27 th .09.2016
National Motorway M-4 Project		Transport	100 million USD	24 th .06.2016
Metro Manila Flood Management Project	Philippines	Water	207.6million USD	27 th .09.2017
Nurek Hydropower Rehabilitation Project	Tajikistan	Energy	60 million USD	15 th .06.2017
Dushanbe-Uzbekistan Border Road Improvement Project		Transport	27.5 million USD	24 th .06.2016

Source: The AIIB official website⁹, sorted out by the author.

⁹ Retrieved at the AIIB official website: <https://www.aiib.org/en/projects/approved/index.html>.

April 2nd, 2018.

The projects above have been undertaken successfully to different extent under the financial support of the AIIB, thus enhanced China's image among the related regions and increased its voice, in other word, economic power in Asia. And the number of approved and proposed projects of the AIIB is yet to increase, according to the trend and the official report. Moreover, AIIB is actively recruiting new members without country strategies for the participants, suggested by its released declaration. It is willingly to lend to not only the Asian countries who are looking forward to development, but also members beyond Asia whose projects deliver potentially true benefits to the area.

The achievements and prospects of the bank are widely recognized and discussed by the international stakeholders, ranging from policy-makers, government officials to academic scholars and businessman, meanwhile it also confronts reservations even questioning voices from some of them. According to Rand, a world famous think tank in international relations discipline, some arguments from the academic works suggest that the AIIB is obviously China's another conspiracy or scheme trying to change the world order in its favor and to counter the US's "pivot to Asia" (Reuters, 2016). In terms of economic concerns, condemnns are China is trying to gain profits from infrastructural investments to developing countries whose markets have not yet saturated like itself, thus transferring overcapacity in production at the expense of others' (Tiezzi, 2015b). Besides, the doubts in political terms are more about China's attempt to become a colonist in Asia through fund and capital, thus gain hegemonic status not only to compete with the US, but also to rule over the whole world (Elizabeth, 2014).

5.2 The AIIB's availing China's rise instead of US-led institutions

In order to figure out this question, some comparisons between China-led AIIB and US-led institutions have to be made. This part will focus on the aspects that the AIIB

benefits China's rising strategic when the IMF, the World Bank and the ADB fail this job. That will provide some enlightenments on why China sets up the AIIB and why the US stays outside of it.

5.2.1 Similarities of present international financial institutions

As introduced in the beginning, the purpose of the AIIB, according to China, is to “(i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in confronting development challenges by working in close collaboration with other multilateral and bilateral development institutions.”¹⁰ In terms of the IMF, it is aimed to “ensure the stability of the international monetary system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.”¹¹ Meanwhile, The World Bank Group has two goals set for the world to achieve by 2030 which are : “to end extreme poverty by decreasing the percentage of people living on less than \$1.90 a day to no more than 3% and to promote shared prosperity by fostering the income growth of the bottom 40% for every country.”¹² Finally, the ADB is established to: “foster economic growth and co-operation in the region of Asia and the Far East (hereinafter referred to as the "region") and to contribute to the acceleration of the process of economic development of the

¹⁰ Retrieved at the AIIB official website: https://www.aiib.org/en/about-aiib/basic-documents/download/articles-of-agreement/basic_document_english-bank_articles_of_agreement.pdf, March 23rd, 2018.

¹¹ Retrieved at the IMF official website : <http://www.imf.org/en/About>, March 23rd, 2018.

¹² Retrieved at the World Bank official website: <http://www.worldbank.org/en/about/what-we-do>, March 23rd, 2018.

developing member countries in the region, collectively and individually.”¹³

The purpose and function of an institution can best illustrate the founders’ outward image they tend to present and the basic code of conduct they must obey. Although the details may differ in some perspectives, the general outline of the above purposes are quite similar, which is to achieve win-win cooperation and to promote international development. However, after browsing the rest parts of those agreements and resorting to academic works as well as empirical cases, some implicate angles worth further consideration have been found out.

5.2.2 World order constructed by the US

Compared with the US-led institutions¹⁴, the AIIB provides China with more favorable terms and rules, with the absence of the US’s domination in world order. The IMF, the World Bank and the ADB are representatives of the US’s domination or hegemony of international order. During the Second World War, allies consisted mainly of the United States, the Soviet Union, the United Kingdom and China defeated fascist states and achieved world peace at the moment, hereafter the US started to construct a new order for the international system, which was referred to as Bretton Woods System (Takatoshi, 2012). It set up international financial institutions, stipulated rules of development in global commerce, finance and trade, and henceforth dominated the world economy ever since. By those events the US gained hegemonic position among the western hemisphere or advanced industrialized countries. It strictly followed the

¹³ Retrieved at the ADB official website: <https://www.adb.org/sites/default/files/institutional-document/32120/charter.pdf>, March 23rd, 2018.

¹⁴ Author’s note: in this thesis I deem the ADB as led by the US, though it is presently in charge of Japan government, there is no doubt among the international community that it is the US’s most loyal ally and follower, so I categorize the its multilateral development institution into US-led with the United States has the biggest and dominated say over its operation.

principles of realism, that is, the actions are all taken out of self-interest, including making rules, providing public goods and establishing regime.

Other countries obtained interests or at least survival through what is called “free-riding¹⁵”, this international-level phenomenon is consistent with the hegemonic stability theory (Ikenberry, 1999). The US is the only great power at that time who had the capabilities to set up and guaranteed effectiveness of the rules which were considered reasonable and convincing. Scholars commonly hold that the international financial institutions and world order were monopolized by the US since then, they did to some extent promote the postwar economic recovery and political development. However, its features of unfairness and inequality become increasingly standing out, including but not limited to uneven distribution of value added¹⁶ as well as division of labor in international production network, unequal exchange in world trade system, monopoly-based international financial order, etc. (Wohlforth, 1999).

5.2.3 China as an emerging power in the current world system

According to Organski, when a nation’s capability increases to at least 80% of the contemporary hegemon’s, it is regarded as getting the potential to become an aggressor or challenger to the hegemon’s power as well as controlling force in the world order it constructed (Organski, 1958). After China carried out “the reform and opening-up policy” in 1978, the world has witnessed its significant increase in economy and development in politics and society. Moreover, its accession to the World Trade Organization and status escalation in peer international institutions has been considered

¹⁵ Author’s note: an actor is said to be free riding when it does not pay for its share of the cost of producing or consuming a public good.

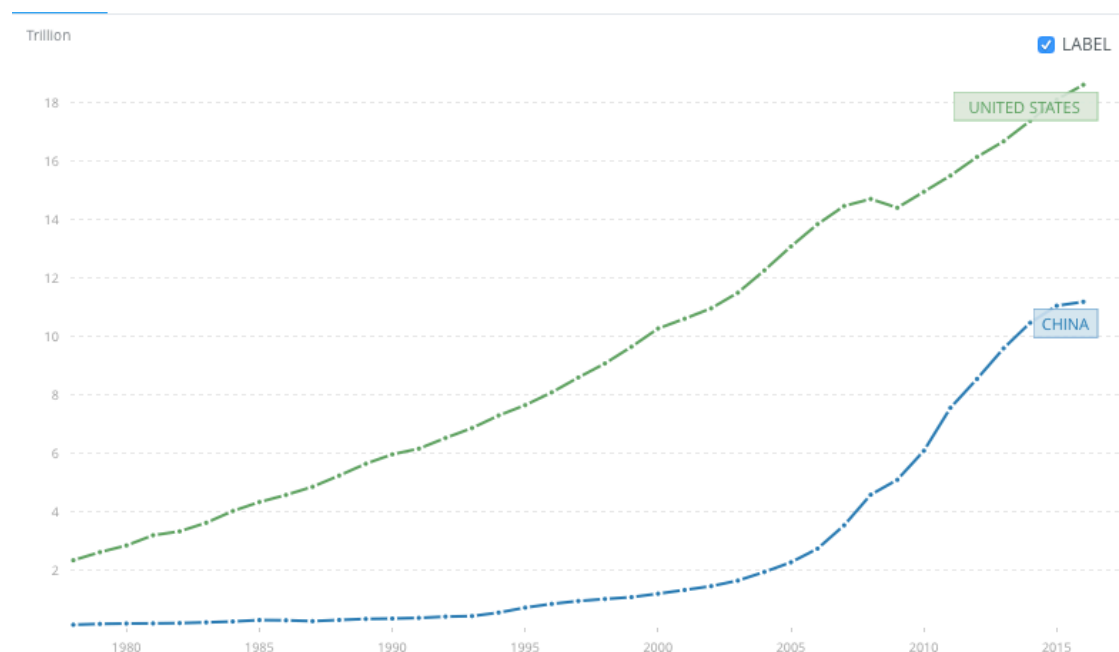
¹⁶ Author’s note: value added is the sum of the profit, the depreciation cost, and the labor cost. Here the profit refers to as difference between the sale price and the production cost of a product.

its impetus for rising as a great power. In terms of economic volume, as is shown and analyzed in diagram 1 and diagram 2, China has been sometimes considered the challenger to the US hegemonic position as defined in the concept of theory.

Diagram 1:

GDP of the United States and China (1978~2016)¹⁷

(current US\$, trillion)



Source: The World Bank Database¹⁸.

¹⁷ GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. For a few countries where the official exchange rate does not reflect the rate effectively applied to actual foreign exchange transactions, an alternative conversion factor is used.

¹⁸

Retrieve

at:

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2016&locations=CN-US&start=1978&view=chart>, March 23, 2018.

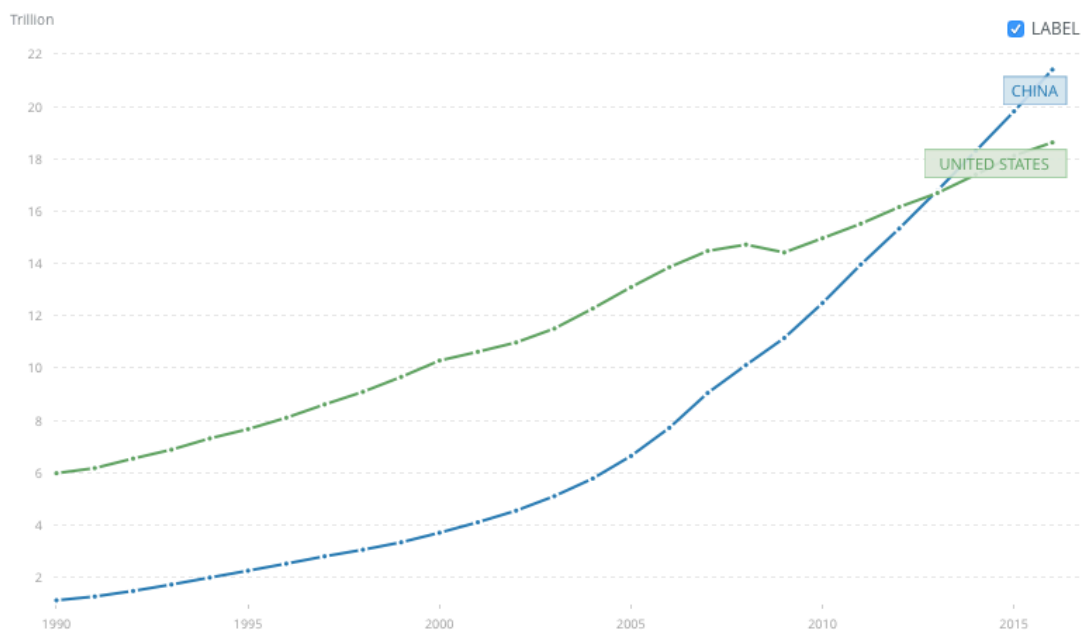
When making fundamental economic comparisons between two countries, Gross Domestic Product (GDP) is always an illustratively effective index which suggests a country's capability in production and capital accumulation, thus the potential in further development. According to diagram 1, there is a wide gap between the US and China, and China has not yet reached 80% of the US's GDP, however, the pace of China's development is becoming faster. In addition, in the current academic works, GDP based on Purchasing-Power Parity (PPP) enjoys a great popularity among scholars for its taking consideration of errors caused by domestic market prices differentiations. Hence when looking at these figures of the two countries, it is obvious to conclude from diagram 2 that China has not only reached 80% of the US's GDP based on PPP, but also outnumbered it in the year of 2013. That is to say, regarding economic capability roughly measured by GDP, China has become a great power which affects the hegemonic position of the US, according to the definition given by Organski.

Getting a higher status in the world economic system is fairly enough to prove China's changed identity from a "sleeping lion" to one that could pose a challenge to the standing regional hegemon The US, let alone China's increasingly spectacular performance in politics and military fields, featured by expansion in scope and enlargement in degree of participating in international events (Rapp-Hooper and Glaser, 2015). Moreover, a large amount of states, developing ones particularly, have not only admitted China's heightened image but also become more dependent on China's support varying from capital to technologies, this phenomenon can be found from events where those countries accept China's investment and give positive comments through news agencies or diplomatic occasions. That simultaneously implies the US's relative decline in capability.

Diagram 2:

GDP, PPP (current international \$) of the United States and China (1990~2016)¹⁹

(current US\$, trillion)



Source: The World Bank Database²⁰.

5.2.4 China's AIIB initiation under the current world order

According to offensive realism, a nation with strengthened capacity needs a compatible world position to ensure further development and more guaranteed security, it also needs more power as well (Zhang, 2018). China's economic development has

¹⁹ Author's note: PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current international dollars.

²⁰ Retrieved at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?end=2016&locations=CN-US&start=1978&view=chart>, March 23, 2018.

improved its standards and efficiency in providing commercial goods and services for the world market, thus gaining more interests and reputation from other countries and regions, ranging from its neighbors in Asia to commercial and political partners in other parts of the world. Moreover, this suggests that China is more adaptive to the current world order by meeting its requirements which tend to be more favorable to developed countries, especially the US. Though in some occasions, China are being more accepted and embraced by international financial and development institutions, they are governed or dominated all along by the US who has the overwhelming influence on the decision-making procedure, it casts influences on China's international activities indirectly.

For instance, Chinese renminbi (RMB) was finally included into the special drawing rights (SDR) basket by the IMF official in 2016, together with U.S. dollar, Euro, Japanese yen and Pound sterling, all of which serve as supplementary to international reserves and “*representing a claim to currency held by IMF member countries for which they may be exchanged*”²¹. This event suggests that RMB internationalization has made a big step and China's financial status has lifted world-widely. However, this extent of improvements in international economic environment may not be enough for China's development strategy and does not match its capacity at present, let alone the US has the veto power right in institutions alike where every move of China will be strictly monitored and controlled (Yu, 2015).

According to those implications of the AIIB to China, the initiation of it seems essential and reasonable to China, which indicates China's attempt to reshape world order in its favor, particularly the monetary and trading system, and it could as well

²¹ Retrieved from the IMF official website at: <http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR>, "Factsheet: Special Drawing Rights (SDRs)". March 23, 2018

enlarge China's power and voice on world stage. As is illustrated in power transition theory, the narrowing gap between two great powers implies a power-transit tendency. In other words, the dissatisfied and disadvantaged challenger will take aggressive actions towards the hegemon to obtain the position and privileges it deserves, in this thesis, the AIIB is deemed as a sign of challenge posed by China. This again proves the argument of this theory that changes in countries' capacities lead to dynamics in structure of hegemon-challenger power, which makes the conflicts more likely to happen.

Besides, the hegemonic stability theory also makes sense in this condition, China officially declares its resolution in maintaining free trade and free market, which are supposed to be guaranteed by the current world order. As is defined, the US should not only be able to but also be willing to provide collective goods such as order and regulations ensuring the openness and freedom of the world economy. Thus, when this prerequisite is undermined in the perspective of China, the latter tends to obtain the hegemonic position to take the responsibility to reshape a more efficient and equal international regime, and meanwhile to provide adequate collective goods, just as implied by the AIIB that claims to achieve cooperation and to supply for public goods.

To conclude the analysis of the first sub-question, the US has ruled the world system under the orders it constructed ever since the Second World War. However, the significant development of China and its growing capacities in terms of economy as well as other critical aspects suggests two facts: (i) China is now a great power that asks urgently for a more favorable world order to keep its high speed of development and to gain the capabilities in fulfilling ambitions; (ii) China's increase in power and capacities poses a great challenge to the US's hegemonic position and presages conflicts between the two greatest powers in the present world. This will be discussed in the next sub-

question. So it is the AIIB rather than US-led institutions that could provide China with a compatible and privileged order, which will subsequently push the rise of China and facilitate it with more power and voices.

5.3 The implications of the AIIB to the US

According to the academic works and international news, it is widely recognized that the AIIB is of great strategic importance to China, meanwhile gains extensive attention from the whole world that cares about the change in power distribution and hegemonic transition, in particular United States (Ross, 2005). Understanding the implications of the AIIB to the United States thoroughly will be greatly helpful and reasonable to analyze the US's responses and the reasons behind them.

Diagram 3:

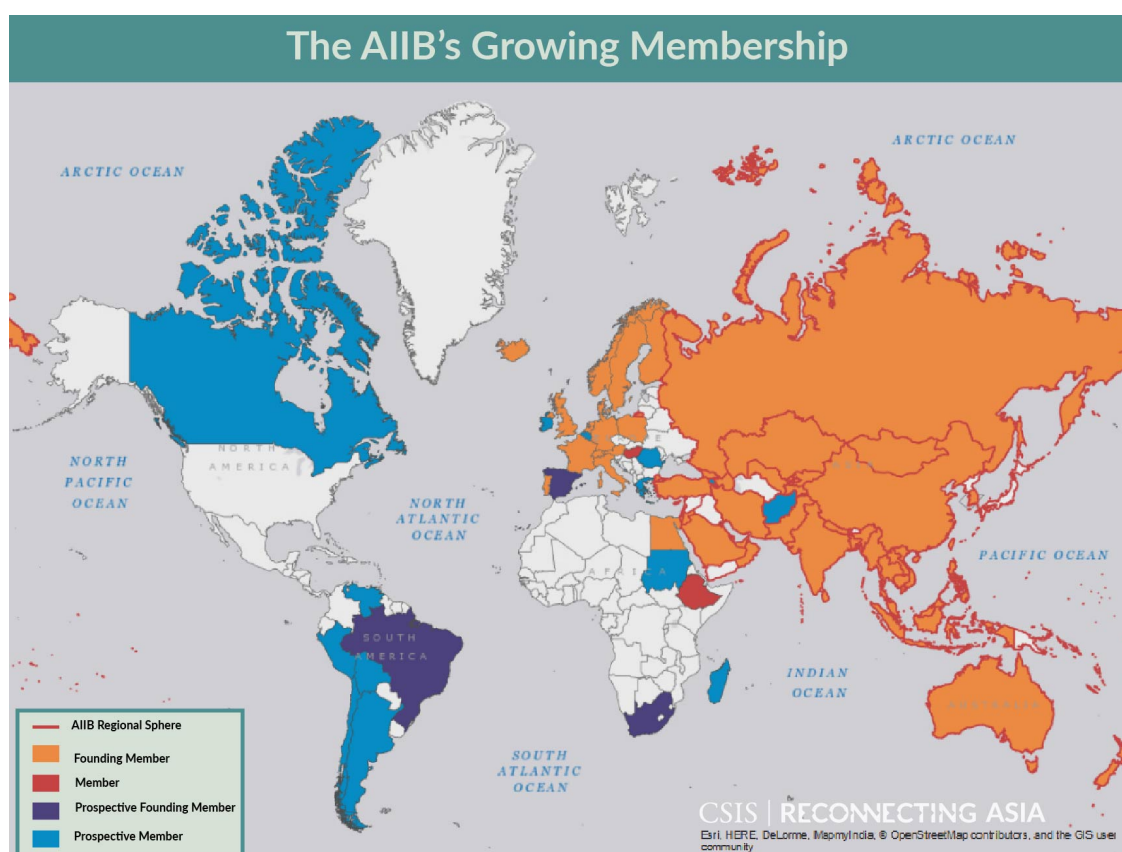


Source: People official website²².

²² Retrieved at: <http://en.people.cn/business/n/2015/0416/c90778-8878820.html>, April 25, 2018.

The diagram 3 shows the geographic layout of the 57 AIIB founding members in the May of 2015 (the beginning of the AIIB’s initiation), however, at the time of writing the number of its participating countries has reached 84 claimed by the AIIB office. The scope of its influence has extended to other continents by the increase in non-regional members, as suggested in diagram 4, nearly the whole world is rushing to join this alternative offered by China to the US-influenced institutions (Ebersole, 2017). With the World Bank having 188 members and 233 billion dollars in capital and the ADB having 67 members (including the United States) and 160 billion dollars in capital, 96 billion dollars of total subscriptions from 84 members of the AIIB is comparatively weaker. The members’ decisions of joining it, however, show their interests and trust in China’s future, hoping to have another option when borrowing capital instead of taking or giving up the terms regulated by the US-led international bank.

Diagram 4:



Source: CSIS database.

The numbers of membership and projects fulfilled in the AIIB suggest China's change of role, which has various implications to the US. The points of view to this thesis will be illustrated in three angles in the following which are economic, political and security implications.

5.3.1 The AIIB's economic implication to the US

As the only nation being in charge of the construction and maintenance of the world order for 60 years, the United States is recognized as the hegemon, obtaining respect and obedience from the world. The economic system it built performed satisfactorily, especially in offering collective goods and in keeping world market open and free, which can be proved by a relatively stable rate of world economic growth, the western hemisphere specifically. However, just like any kind of container has a volume limitation, the world economy accelerated and dominated by the US also confronts the point of satiation in growth, where countries start to doubt The US's ability in staying rational and objective towards its policy-making process (Kim, 2015). The failures in reforming the defective regulations of leading financial institutions made the situation even worse. This signals the break of hegemonic stability according to the definition given by the theory, that is, when the present hegemon is doubted or even challenged by others, the original balance in hegemonic structure is disturbed. When it comes to the AIIB, it provides China with a starting point of power pursuit in conditions of hegemonic instability.

At this critical point for China, who is conducting power pursuit and initiating the AIIB, it intends not only to accommodate its significant economic development and rising strategy, but also to push up good impression thus win over its neighbors as well

as other countries who are also expecting improvements in the international economic environment (Murphy, 2015). Together with the increase in China's economic capacity, a strengthened and powerful voice in economic rule-making process will enhance China's status, consequently erode The US's hegemonic position of the region.

Moreover, the volatility of the US dollar (USD) currency rate attributes to the risks transfer and crisis intensification among countries. That is because the domination and the reputation of the US has made the combination of USD and petroleum possible, thus incurs "dollar hegemony", which refers to the phenomenon where a nation's currency dominating the world financial system by simply floating exchange rate and currency convertibility (Beeson, 2009). The dollar hegemony benefits the US under four circumstances: 1. To obtain seigniorage²³ generated by international inflation (Feige, 1997); 2. To facilitate the US in striking balance of international payment by free operation of the USD; 3. To protect the US enterprises from risks caused by fluctuation in exchange rate; 4. To offer The US-led financial institutions more room for interests gaining. Those are the privileges that other countries do not have, and that the US cannot accept to see it reduces, let alone taken by others. However, the application of AIIB also makes faster and stronger the process of RMB internationalization, and by combining RMB with infrastructure which is no less minor than petroleum, China can also expect a trend of "RMB hegemony" (Greenwood, 2016). Since the competitions between two currency appear, there is no hegemony any more. Other countries can resort to RMB after its fully internationalization when risks incurred by volatility of the USD reduce their interest or jeopardize their economic development.

²³ Author's note: seigniorage is considered by economists a form of inflation tax, redistributing real resources to the currency issuer. Issuing new currency, rather than collecting taxes paid out of the existing money stock, is then considered in effect a tax that falls on those who hold the existing currency

To sum up, the establishment of the AIIB marks China's primary success in economic power pursuit. The infrastructure investment with less conditions compared to the US-led institutions earns some popularity for it among the region, together with its important role in gearing up the process of RMB internationalization, all of them enable China to challenge The US's international financial hegemony. The loss of the US caused by those is not only in the form of tangible capitals, but also form of intangible hegemonic status and leadership position.

5.3.2 The AIIB's political implication to the US

The Belt and Road initiative (B&R)²⁴ is undoubtedly recognized as China's most important foreign policy and development strategy by the whole world. It demonstrates China's ambition of rising by reshaping the world political order, starting from making an overall arrangement among the area. Again, China's enhancement of leadership in Asia equals to The US's power decrease. The AIIB is of great strategic and economic importance to the implement of the B&R, being regarded as its tool of finance and attracting members, the AIIB's actual establishment explicitly displays China's resolution in carrying out the B&R (Shatz, 2016).

China claims to uphold an open world economy and regional collaboration by five kinds of connections under the framework of the B&R, that are: policies (or politics) coordination, transportation connectivity, investment and trade collaboration, financial

²⁴ Author's note: The B&R refers to "the Silk Road Economic Belt" and "the 21st-Century Maritime Silk Road" initiated in the year of 2013 by China president Xi. The former connects China to Europe via Central and Western Asia, while the latter links China, Southeast Asia, Africa and Europe together. The overall layout is shown in diagram 5. Countries on the B&R are also members of the AIIB that could receive financial support from it when officially requesting and being approved.

integration (by using RMB as general currency) and civilian communication²⁵. Those goals or principles above, according to China, are supposed to be made true by funding directly or financing indirectly the regional infrastructure investment and construction, which will better equip the “hardware” of the B&R (Brant, 2015). To provide some detailed evidence, an improved transportation channel will be largely convenient to international trade among that region, some well-established schools and hospitals will bring welfare to the locals in terms of health and education, advanced electric power stations will better utilize the large amount of resources even wastes, etc.

The cases are not limited to what were mentioned above, according to the official reports of the AIIB, it has financed multiple projects²⁶ under the framework of the B&R, most of which are actively requested by countries in the area and go on smoothly. China’s reaching out can be analyzed by theories introduced above, great powers are rational and logical in making decisions, and the AIIB’s investment to regional infrastructure has more meanings than China’s being charitable, it also suggests deeper implications to the US in economic and political perspectives.

On the one hand, it will facilitate the underdeveloped area with better hardware to make easier their trade with China and to make possible China’s transferring its redundant production capacity to the area, which will enhance China’s economic capacities greatly, reshape the world order and to counterbalance The US’s leadership as well as its “pivot to Asia” strategy (Tortajada, 2014); on the other hand, the AIIB has direct political implications to the US mainly through two paths: one is in terms of geopolitics, the infrastructure investment stretches out all the way from Asia to Europe as

²⁵ Re-edit by the author from the website of National Development and Reform Commission, 2015.

²⁶ Author’s note: those projects involve the fields of energy, transportation, water, telecoms and urban development, and cover dozens of countries on not only Asia continent.

is shown in diagram 5, the former is strategically important to the US and the latter is The US's established hegemonic front; the other can be understood as China trying to win over the US's allies thus lessen its influence within the region and enlarge that of China's.

Diagram 5:

Silk Road Economic Belt and Maritime Silk Road in the making



Source: Xinhua News Agency²⁷.

5.3.3 The AIIB's security implication to the US

As the empirical evidence suggest, the development of a country's economy is always closely linked to its investment in the fields of security (Gilpin, 1981). Apart from financing and supporting China's strategies in economic and political aspects, the AIIB also gives a hand to China's rise by investing in security domain. Considering the propositions claimed by the theorists of offensive realism, the only resort that can be asked for help when conflicts or even wars happen is the nation itself, so the current

²⁷ Retrieved at: <http://n.cztv.com/news2014/1082149.html>, March 25, 2018.

two great powers in the world, both the US and China are striving to ensure their own security as well as power proportion. The reasons behind their worries about the conflicts and their pursuit of power lie in the thought that the two countries possess adequate military capabilities to start wars and the outcome of their decisions remains unknown; meanwhile the two states have no idea about and are not able to predict each other's actual intentions, let alone to forecast the next move.

China has been negotiating with African country the Republic of Djibouti on the topic of military base construction ever since their establishment of diplomatic relations , and have already signed “mutual defense treaty” with Egypt, Zimbabwe, Djibouti, Kenya, Madagascar and Mozambique²⁸ . With the investments expanding to the field of security and the enhancement in security cooperation, the cohesive force of the US will be dramatically impaired, thus inflame the tense situation between the largest two great powers in the world. Specifically speaking, Djibouti locates in Africa's Cape of Good Hope and overlooks Aden, it also residents the US's most important military base in the Africa, there is no doubt that the US put great focus on its relations with China. China also pays great attention to this country for its strong strategic significance in coastal ports and geographical location. The deepened bilateral relations between China and Djibouti reflects vividly the US's status and power being threatened, and to some degree even shaken (Wyne, 2015).

Countries in the area that used to apply for loans from US-led institutions begin to resort to AIIB in order to evade the sometimes unfavorable political terms or legal demand required by the US. However, they still have to abide by regulations set by the AIIB and in some occasions compromise its own interest to that of China's (Wang,

²⁸ Retrieve at China Daily News Agency:
http://www.chinadaily.com.cn/interface/toutiao/1139301/2015-3-30/cd_19948580.html,
March 25, 2018.

2015). The order they observed transferred from that ruled by the US to that of China's represent power transition between the two countries once more, according to the theory definition.

Examples that are also convincible to imply the AIIB's security implications to the US include investment in Colombo port of Sri Lanka, Gwadar port in Pakistan and other strains of ports among the region such as Bangladesh and Burma, etc. They are claimed by the Chinese government as trading ports to gain economic benefits, but regarded as military-used ports by other countries, the US particularly. The AIIB's investment in infrastructure among this strategically vital region manifests the attempt of gaining popularity from the countries that used to depend on the US. Considering from the aspect of economy, the AIIB could support the development of China's military bases overseas, this security implication is worthy of the US's paying great attention.

As demonstrated above, these three aspects are inseparably interconnected, different as they may apparently present to the world, those implications share the same characteristics, namely they all suggest that the AIIB led by China will substantially undermine the US's position in hegemonic sense. No matter it is in the field of economy, politics or security, the act of AIIB causes imbalance in the hegemonic stability kept by the US, presages conflicts in the future, at least a new round of power struggle between the US and China.

5.4 The US's response to the AIIB

The AIIB's initiation together with the projects it has approved have grabbed attention from countries both hold hostility and friendliness towards it, among which the response of the US is the most complex to understand thoroughly. After its

establishment, the attitude of the US is opposed at first, then it refuses to be part of it and rejects its invitation, subsequently it spares no effort to discourage its allies such as the UK, Australia and South Korea from joining it, according to scholars from some recognized Think Tanks²⁹ (Liu, 2015). In this part the US's response to the AIIB in three actions and analyze the reasons behind each of them will be generalized.

5.4.1 Discouraging other countries from joining the AIIB

The US has openly expressed its dissatisfaction towards China's attempt in the AIIB even before its being set out, and has made great effort to prevent its allies from supporting China's ambitious rise and obeying to the economy order ruled by it. According to the US and Japan, the AIIB shares multiple similarities with the ADB backed by the US, ranging from name, region spans to organizational constitution, thus tends to duplicate the ADB's role and overlap with its function (Wang, 2015). Moreover, the US claims that the AIIB does not abide by high established standards of credit worthiness and transparency. Therefore, not only does it reject the invitation of the AIIB, but also urges other countries to do the same. Worth mentioning, the US Congress remains unwilling in reforming the IMF to make it less controversial, let alone such a significant change in outline and order of the world economic system.

The countries in question can be classified into three types and discussed separately in the following part. Firstly, leading European countries, such as Germany and France that are advanced in economic development, Eastern Europe including Hungary and Poland, and Nordic countries of Denmark, Sweden and Norway alike that have achieved high level of democracy. Europe obtained economic rescue from the US after

²⁹ Author's note: extracted from the arguments of scholars who work for famous think tank, seeing works of Ali Wyne, Rebecca Liao, C. Fred Bergsten, Jonathan D. Pollack and Richard Cronin.

the Second World War, known as “Marshall Plan³⁰”, and that is the critical moment for the US to get the hegemonic status from the Europe and enhance its power structure. Their joining the China’s AIIB displays a political preference to China, which cast challenges to the US’s hegemonic status and impair its existing allocation of power between the two countries (Wayn, 2015).

Secondly, the US’s strategically important allies including Australia, Canada and South Korea nonetheless joining in the AIIB against the US’s will has two implications. On the one hand, this shows the decrease of the US’s prestige among its loyal allies; on the other hand, their support and trust (in the forms of membership and subscription in the AIIB) will not only gain economic back up but also raise aspiration of other part of the world that believe in their decisions in joining the AIIB. Both of them are regarded by the US as power transition, thus it makes sense that the US trying hard to talk them out of joining the AIIB.

The third type refers to other countries in the area of B&R coverage. Geopolitical consideration is too crucial an issue worth attention. Neighbors of China becoming members of the AIIB and receiving infrastructural investment from it presents a similar process of the US-led World Bank recruiting members and providing economic aids to the region thus the whole world. China’s neighboring countries depending on

³⁰ Author’s note: The “Marshall Plan (officially the European Recovery Program, ERP)” was an The USn initiative to aid especially Western Europe, where the US gave over \$13 billion (nearly \$110 billion in 2016 US dollars) in economic assistance to help rebuild Western European economies after the end of World War II. The plan was in operation for four years beginning on April 3, 1948. The purposes of the United States were to rebuild regions damaged by war, to remove trade barriers, to modernize industry, to improve European prosperity, and to prevent the spread of Communism. The Marshall Plan required a lessening of interstate barriers, a dropping of many regulations, and encouraged an increase in productivity, trade union membership, as well as the adoption of modern business procedures. (extracted from Wikipedia: https://en.wikipedia.org/wiki/Marshall_Plan, retrieved at March 26, 2018.)

China instead of the US will better facilitate China with regional advantages, thus undermines the US's distribution of powers in Asia (Bhattacharya, 2014).

5.4.2 Highlighting the importance of its Asia-Pacific economic strategy

The AIIB's functions in terms of economy will greatly assist the B&R strategy, it is going to build a great network of energy tunnels, highways and high-speed railways that are invested by the AIIB. China will bind the related countries together and form a system that is centered in China, covering from production to sales, this is considered a substitute of Trans-Pacific Strategic Economic Partnership Agreement (TPP) popularized by the US (Bower, 2016). To achieve and maintain extensive goals of politics and security, the US is urgently taking timely actions to carry out more overall Asia-Pacific economic strategies to regain and reserve its power and interest in the region.

The US has three goals to achieve through the application of Asia-Pacific economic strategies for years, namely: to accelerate economic growth and employment; to maintain or modify the rules of the world economic order in the US's favor. Take TPP as an example though the US has withdrawn from it, it intends to set up new rules for the regional commercial activities on the related countries' market; to support the well-established and long-lasting power. Take U.S.-Korea Free Trade Agreement (KORUS FTA) as an example, it will helpfully pacify The US's allies on the area and boost prosperity and security of the region (Sutter, 2006).

Japan has been the most loyal ally of the US that insists in not joining the AIIB, also is the US's most trusted friend in Asia-Pacific region even the world at the moment. The US raised the bilateral cooperation with Japan to new heights in order to balance the power distribution of the area against China's power expansion and capability increase. After the AIIB provides funds and technology in infrastructure fields to the

Asia-Pacific countries and gains popularity among them, the US has also set up policies addressing the infrastructural investment, the US-led institutions are still stronger than the AIIB in terms of capital volume.

According to the theory of hegemonic stability, one of the most crucial roles of a hegemon is to provide and to keep an open and free market, thus the hegemon itself must possess as well a free and open domestic market and economy environment (Gilpin, 1871). Regarding this, the US suggests that China's wish of becoming a new hegemon providing public goods and preserving free world economic system makes no sense, because China itself does not serve its people with a free domestic market. To counter the AIIB's influence, the US not only carries out KORUS, but also plans to initiate more (Runde, 2016).

5.4.3 Intensifying crises incurred by the existing territorial disputes

The realists argue that in an anarchy world the states tend to make rational decisions based on the calculation of relative gain and relative power. Though many Asian countries have joined the AIIB and some of them benefit from it, there are still AIIB members in southeast Asia having increasing tension with China on the issues about the South China Sea³¹, those fiercely demanded water becomes one of the most useful

³¹ Author's note: The South China Sea refers to a marginal sea that is part of the Pacific Ocean, encompassing an area from the Karimata and Malacca Straits to the Strait of Taiwan of around 3,500,000 square kilometers (1,400,000 sq. mi). The sea carries tremendous strategic importance; one-third of the world's shipping passes through it carrying over \$3 trillion in trade each year, it contains lucrative fisheries that are crucial for the food security of millions in Southeast Asia, and huge oil and gas reserves are believed to lie beneath its seabed.

According to International Hydrographic Organization it is located: south of China; east of Vietnam; west of the Philippines; east of the Malay peninsula and Sumatra, up to the Strait of Singapore in the western, and north of the Bangka Belitung Islands and Borneo. (Extracted from Wikipedia, retrieved at: https://en.wikipedia.org/wiki/South_China_Sea, March 26, 2018.)

indicators testing China's capability in power pursuit process (Kim, 2015). Moreover, the disputes caused by border issues between China and India has lasted for centuries, known as Sino-India border dispute³², it remains to be a load to both countries and significantly undermine their collaboration (Ramachandran, 2008). Thus it is not difficult to understand why the US provokes crises using the deep-rooted territorial disputes between China and its neighboring countries.

According to a report released by think-tank Globalsurvey, among all the countries, Vietnam, Japan, India, the Philippines and South Korea score the highest subsequently on the question about "do you think your country has serious territorial dispute with China?", and all the five states show agreement on the statement of "do you want the US to interfere with the dispute?"³³. Therefore, those disputes play a critical role in Sino-US tension caused by controversy towards China's ambitious rise. China tends to reshape the regional order as a great power against The US, the latter's principles are to safeguard the supremacy and to preserve regional alliances.

To summarize, there are three reasons for the US to step in the Asian territorial

³² Author's note: Aksai Chin is located either in the Indian province of Jammu and Kashmir, or the Chinese province of Xinjiang, in the west. It is a virtually uninhabited high-altitude wasteland crossed by the Xinjiang-Tibet Highway. The other disputed territory lies south of the McMahon Line.

The 1962 Sino-Indian War was fought in both of these areas. An agreement to resolve the dispute was concluded in 1996, including "confidence-building measures" and a mutually agreed Line of Actual Control. In 2006, the Chinese ambassador to India claimed that all of Arunachal Pradesh is Chinese territory amidst a military buildup. At the time, both countries claimed incursions as much as a kilometer at the northern tip of Sikkim. In 2009, India announced it would deploy additional military forces along the border. In 2014, India proposed China should acknowledge "One India" policy to resolve the border dispute. (Extracted from Wikipedia, retrieved at: https://en.wikipedia.org/wiki/Sino-Indian_border_dispute, March 26, 2018.)

³³ Retrieved at: <http://world.huanqiu.com/exclusive/2014-12/5229729.html>, March 26, 2018.

disputes: to start with, it can be a rare opportunity for the US to present its hegemonic resilience in the form of military or security capabilities, which are utilized in protecting and supporting its allies in the area who however joined the AIIB against the US's will (Kim, 2016); then, the US's involvement in the disputes will intensify the conflicts by strengthening these countries' military and political capabilities, thus cut down China's power and attention set on the ambition of re-establish the world order, when China is busy on its own sovereign issues, it might be lack of vigor in maintain the AIIB and carry out the B&R, let alone chasing for the status as regional hegemon (Fravel, 2007'); finally, by intervening the contest between China and its neighbors will estrange their relations built up by the investment from the AIIB alike under the framework of the B&R, losing favors of countries on the area where China tends to start its reshaping process and become a powerful hegemon is definitely imbued with a sense of threat and failure.

To summarize the answers to this sub-question, the US has taken actions against the AIIB's establishment that are: to discourage others from joining thus enable China's supporter-searching strivings, to highlight the regional economic strategies in order to protect hegemon position in setting up rules of the world order, and to stimulate territorial disputes among the region which could impair China's capability and energy used in B&R application. After all, according to realism, great powers' final purpose is always to maximize power and being hegemon, in the form of China's pursuing for power and the US's protecting hegemonic stability.

6 Discussion

In order to figure out why the US does not join the AIIB, several questions have been analyzed in the section above. This newly established financial institution shares some general characteristics with other institutions especially the US-led ones, however, it possesses features that could specially avail China's economic and financial development. On the one hand, it mainly provides capital for infrastructure investments in Asia, the approved and planned projects are supposed to improve the regional connections and to facilitate interactions among countries (Ji, 2016); on the other hand, it suggests that China has started to cast influence on world economic order and rules, which is always considered process of power pursuit or even world order challenger. The present world order is constructed and maintained by the US since the end of the WWII, the power distribution structured then guarantees the hegemonic position of the US.

China's emerging as a newly industrialized great power has to some extent changed the stable power structure, especially the diplomacy policies it makes and the international activities it conducts in recent years has pose some effects on the world present conditions, sometimes regarded as power transition (Rapp-Hooper and Glaser, 2015). The rapidly growing economy of China starts to suffer from incompatibility between itself and the world order set up by the US.

To fully understand the reasons why the US rejects China's invitation to the AIIB, implications of the AIIB to the US from different aspects are presented. The AIIB will not only support the B&R strategy but also stimulate the process of RMB internationalization. The former will enlarge China's power and voice in Asia-Pacific region, while the latter can strengthen China's economic influence on the world. Moreover, the AIIB's investment and support in military-related projects or to security-

sensitive region also to some degree cast challenges to the present world condition. Though it will take unpredictably long time for China to become competent enough as the US in terms of comprehensive national force, it undoubtedly has become a great power that worth paying attention to (Wyne, 2015). T

he US making prudent decisions on whether or not to join the AIIB is based on rational consideration. The US has made great efforts to prevent its allies and partners from joining the AIIB, which is followed by dissatisfying outcome of AIIB's expansion in membership. By initiating and implementing economic strategies the US has somewhat counterbalanced the effects of the AIIB, but in this term the AIIB can in turn be regarded as China's countermeasure against the US's diplomatic policies. It also intensifies territorial disputed which has been deep rooted within the region, some bilateral relations between China and related countries have been hurt and China's attention on promoting the AIIB has also been distracted to some extent.

The hegemonic stability theory supports China's establishing the AIIB when it considers the world order set up by the US not compatible with China's rapid growth; this certain theory also backs up the US's rejection to the AIIB when it believes that China is not capable of providing public goods and maintaining free market. The power transition theory can be combined with the fact that the power imbalance between the US and other part of the world will guarantee world peace, and when China becomes increasingly stronger, it is believed to take aggressive actions towards the hegemon, AIIB is one of its steps aiming at gaining power and security.

Both of the countries are rational on self-help, power pursuit and security maintenance, suggested by offensive realists. Whether the US will accept China's invitation to join the AIIB and cast influence or even control from inside-ward, or will stay outside of the bank and take actions according to its move remains to be mysterious.

But at the moment the US's decision on not joining the AIIB and responses towards it can be understood by combining the theories with the common sense.

7 Conclusion

By resorting to the offensive realism theory, hegemonic stability theory and power transition theory, the problem of “why the United States does not join the AIIB?” is solved to some extent in this thesis.

The research on sub-question 1 about why the AIIB avails China’s rising strategy while the US-led institutions does not is conducted by making comparisons. Differences between the AIIB and institutions including the ADB, the IMF and the World Bank backed by the US suggest that the orders set up by the US are no longer compatible with a fast-growing China, even can be detrimental to the future development of this emerging power (Zhang, 2015). However, the rules of the AIIB made by China are more suitable to and in favor of China, concurrently disturb the hegemonic stability and power structure established by the US.

When it comes to the second sub-question, namely the AIIB’s implications to the US: in the economic sense, the AIIB will reshape the world economic order set by the US, and its acceleration of the RMB internationalization will erode the dollar hegemony which the US cannot bear to lose; in political sense, the AIIB plays a critical role in the application of China’s most important development strategy---the B&R, its investing in infrastructure of the related countries will counterbalance the US’s strategy of “Pivot to Asia” and win over its allies, suggesting a trend of power transition between the US and China, thus shaking the US’s hegemonic status in the area; in the security sense, the AIIB’s investing in military base and ports construction to the sensitive countries which are of great geographic and military importance to both great powers will threat not only the US’s hegemony but also its security situations.

In terms of sub-question 3, that is, how does the US respond to the AIIB and why

it does so, the thesis takes examples of the actions taken by the US and analyzes its starting point. Briefly speaking, the US counters the China's ambition of power pursuit and hegemony chasing by: talking other countries out of the will of joining the AIIB to keep China away from allies; paying great attention to regional economic strategies thus maintaining power of ruling the world order; escalating China's territorial disputes with its neighbors to consume China's power and energy in power competitions with the US, meanwhile to isolate China from its potential allies.

The thesis has no intention to predict the future decision of the US nor prospect of Sino-US relations, however, the thesis believes that the China's significant development is a threat or challenge to the US by definition but not yet an enemy that possesses the similar amount of capabilities as the US and could possibly devastate the current world largest power and regional hegemon. According to the methodology introduced above, the US does not join the AIIB by now, in my view, is consideration for security maintenance, hegemonic stabilization and power preservation.

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