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Report – In-House Meeting

“Dr. Lai-Ha, Visiting Fellow, Princeton University”

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Pictures of the Event



The Institute of Strategic Studies Islamabad (ISSI) hosted an In-House Meeting with Dr. Lai-Ha Senior Lecturer, Social & Political Sciences Program, University of Technology Sydney, Australia and visiting Fung Global Fellow at Princeton University.

Dr. Lai-Ha gave a presentation on “*US Pivot to Asia: China's Geostrategic Rationale for Establishing the AIIB*”.

Dr. Lai-Ha spoke about the concept of aid in the liberal international order which is mainly advocated by the United States. When developed countries provide aid even under the banner of IMF or the World Bank, some conditions are always attached in which the recipient country has to modify its political system and economic structure. On the other hand, China does not impose these kinds of conditions. The rise of China has instigated a lot of debate at the international level. Limiting her focus on development aid under the Asian Infrastructure Investment Bank (AIIB), Dr. Lai-Ha put forward two questions: what is the rationale for China to establish the AIIB; and, how effective is China's soft balancing strategy?

She pointed how the existing literature mainly focused on two major concerns: how the AIIB will rival the World Bank and the Asian Development Bank (ADB); and, how these organisations go about providing aid to developing countries. Another concern she said, is how the international influence and clout of the institutions established under the Bretton Woods system and eventually, the US-led liberal international order will diminish if the AIIB comes into play.

She then turned to the reasons of why China established the AIIB, some of which are the region's increasing demand for infrastructure investment and exporting China's productive capacity. She also talked about the “dollar trap”. Despite the global financial crisis, capital still continued to flow to the US, while China suffered a financial setback. In order for China to avoid this trap, China is looking to internationalise its currency. AIIB helps China achieve this counterbalance because it provides China with its own financial institution. The frustration over reforming the International Monetary Fund (IMF) and World Bank along with President Xi Jinping's assertive foreign policy has also prompted the establishment of AIIB.

The main argument given for the establishment of the AIIB as China's economic soft balancing is that it is a policy response to an imminent threat: the US Pivot to Asia. Explaining the soft balancing strategy, she said that it does not directly challenge the unipolar leader's military preponderance, but they can delay, complicate or increase the costs of using that extraordinary power. This policy also has a regional focus, so the AIIB is an institution which can help counter the influence of the hegemon in Asia.

She explained Obama's Pivot to Asia Policy which circled around three approaches; military, economic and ideational. Militarily it focused on strengthening the hub and spoke system. It also included decreeing more troops to Australia and Singapore, expanding military cooperation with Japan and South Korea, and setting up blocs. The US also tried to bring India into the fold as well and tried to include it into the Asian military balance. To counter China, Obama even proposed the Trans Pacific Partnership (TPP) which Trump has now scrapped. Here Trump had

excluded China but included Vietnam. Ideationally, the US promoted free trade and opposed state capitalism.

Essentially, China's soft-balancing geo-strategy is either to offset the US Pivot to Asia policy, or aimed at providing financial support for infrastructure development in countries along the OBOR and promoting economic cooperation, while the US Pivot to Asia is primarily aimed at building a network of like-minded states that sustain and strengthen a rule-based regional order. China's response to this is common security that rejects the idea of security for some countries while leaving the rest insecure. China believes that strengthening of military alliances targeted at a third party is not conducive to common security.

She went on to present Australia and South Korea as case studies which are quite similar. She explained the dilemma faced by these countries as, China maintains economic preponderance in the region, while the US has a more dominating role in security. The US is more important than China to South Korean security against the threats from North Korea. In another case, Australia backed out of joining AIIB initially due to the US influence, but eventually joined it after countries like France and Great Britain became a part of it.

During the discussion that followed, Mr. Najam Rafique highlighted the United States' uni-power role in the world which would make it difficult for emerging powers to push any new course they want to take. Academics, he said, tend to agree that the coming decades will be based on regional alliances rather than the order which was established after the Second World War. Here the question arises: Will the US be willing to provide space to the new emerging powers? Throughout history, war has always been a constant, and given the current scenario, the struggle between the old and the new emerging powers will continue. We see that in the case of the Middle East, Afghanistan, and, the South China Sea. The million-dollar question is whether the US would be willing to share its spheres of influence with China. Of course President Trump agrees to a one China policy, but at the same time he is trying to perpetuate the US influence, particularly the military influence in the South China Sea with the deployment of the THAAD missile system in South Korea.

Dr Lai said that China is aware of the fact that it cannot gain by using hard power against a hegemon. However, its economic statecraft is pushing forward its interests. Many US allies such as France, Germany, UK and Canada have joined the AIIB. She also added that there is strong resentment against the liberal order. Developing countries argue that it only serves the interest of United States and does not benefit them economically. They are increasingly endorsing China's approach, thereby further raising the influence of China.

A researcher asked that how can the AIIB be a better institution than the ones made by the United States. Dr. Lai replied that AIIB will follow similar standards like the Asian Development Bank and the World Bank. Since there are many European countries in the AIIB, so the Chinese are looking to maintain a system that is more familiar for its members.

In response to a comment that if China wants to replace, or put in place new international institution, then the UN system must also be readdressed, she stated that China is happy with the old United Nations system because of its Permanent 5 (P5) membership and wants to maintain it.

With respect to the China-Pakistan Economic Corridor and differences in Pakistan among the provinces, Dr. Lai was assured that even though the CPEC had garnered certain reservations, but these had been resolved following the All Parties Conference in January 2016, as well as post the 6th Joint Cooperation Committee (JCC) meeting in Beijing in December 2016, all the provinces have now agreed to put aside their differences over CPEC.