

# US and China clash over infrastructure bank

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In a sign of deepening tensions between the world's largest and second largest economies, the United States has made clear its opposition to a \$50 billion Asian infrastructure bank being established by China.

According to a report published in the *Australian Financial Review* (AFR) on Friday, US Secretary of State John Kerry personally asked Australian Prime Minister Tony Abbott to keep out of the bank during a meeting in Jakarta last Monday following the inauguration of Indonesian President Joko Widodo. US President Obama may also have raised the issue in a telephone conversation with Abbott on Wednesday. The AFR said it was "unclear" whether that had taken place.

Last Friday, China and 20 other countries signed a memorandum of understanding in Beijing to establish the Asian Infrastructure Investment Bank (AIIB). Besides Australia, the other notable absentees from the signing ceremony were Japan, South Korea and Indonesia. Among those present were India, Malaysia, Thailand and the Philippines.

The official position of the United States is that it is not opposed in principle to the idea of establishing a bank to fund infrastructure projects in Asia but has "concerns about the nature of the AIIB proposal as it currently stands."

These official reservations are being taken with a large grain of salt. It is widely acknowledged that the real reason for US objections is that the new bank could cut across the activities of the World Bank and the Asia Development Bank where the US and Japan exercise decisive control.

The US and Japan fear that the AIIB could enhance Chinese economic influence throughout the region. In China, the bank, which has been initiated by President Xi Jinping, is seen as a counterweight to the existing financial institutions in which China has sought unsuccessfully to obtain greater influence.

Chinese state-run media gave prominent coverage to the signing ceremony but noted the absence of Australia and other regional powers. The official position is that while they have not signed on to the founding, they are free to join at a later stage.

The lead story in the *China Daily* declared that "the absence of some major economies underscores the difficulty China faces as an emerging power in making global governance initiatives."

The *New York Times* reported that China views the new bank as "a way to increase its influence in the region after years of fruitless lobbying for more say in other multinational lending organizations."

Chinese authorities are hoping that countries eager to take advantage of the economic opportunities opened up by AIIB projects will respond in spite of US objections.

It appears there were differences of opinion within the Australian government with Treasurer Joe Hockey and Trade Minister Andrew Robb in favour of participating. Last week, while in Beijing, Hockey said that Australia had "yet to decide" on the issue.

Foreign Minister Julie Bishop has toed closer to the US line saying that there were a "number of fundamental principles" that had to be met and the final call would be made by the prime minister.

The South Korean government, which, together with Australia, is one of the closest military allies of the US in the region, also appears to be conflicted on the issue. At first it was believed it would sign up to the memorandum of understanding but then decided not to take part.

According to a South Korean diplomatic source cited in the Seoul-based *JoongAng Daily*: "While Korea has been dropped from the list of founding members of the AIIB this time around, it is still in a deep dilemma on what sort of strategic choices it has to make as China challenges the US-led international order."

These comments make clear that far more than the protocols regarding the making of investment loans are at stake and that the US regards the Chinese initiative as a challenge to its financial dominance. This is not a new position. In 1998, following the Asian financial crisis, the US scuttled a proposal by Japan to set up a \$100 billion fund, outside the framework of the International Monetary Fund, to help those countries facing financial problems. The proposal was regarded as a challenge to US interests.

However, US opposition to the new China-backed bank is drawing fire from a number of quarters. Writing in the AFR on September 22, Peter Drysdale, a long-time commentator on economic issues in Asia and now professor of economics in the Crawford School of Public Policy at the Australian National University, pointed out that the Chinese could undertake infrastructure financing unilaterally but had chosen to “offer multilateral partnership in this initiative.”

He dismissed the claim the new bank would lower international standards as “nonsense” and said: “It should take no more than a nanosecond to conclude that countries such as Australia, Korea, Japan and the United States should partner this enterprise.”

A similar view was expressed in an editorial published in the *Guardian* today.

“It is an exaggeration to talk of the pace of reform at the World Bank and the International Monetary Fund, for there has been almost none to these, the so-called ‘Washington institutions’ that, together with the US Treasury, have both sustained and constrained the world economy since 1945. How to reflect the changing balance of economic power has been endlessly discussed but rarely implemented.”

The editorial noted that “strategically” the US could not keep on shoring up an obsolete economic order in Asia. Unlike some other aspects of Chinese policy, the AIIB proposal should be seen within the context of China’s “peaceful rise.” “This is a case for accommodation, not confrontation,” it concluded.

However such views, which are based on a conception of economic rationality, ignore geo-political considerations. The United States, under its anti-China “pivot to Asia,” regards any proposal that could lead to the expansion of Chinese influence as inimical to its objectives which centre on maintaining domination of the region.



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