

US blocks Australian participation in China-backed bank

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A significant conflict has broken out in Australian political circles with far-reaching implications for the country's relationships with the United States and China.

The immediate issue is Australia's decision not to participate in the China-backed Asian Infrastructure Investment Bank (AIIB), which was launched in Beijing on October 24 with the backing of some 20 countries in the region.

The longer-term issues go to the question of how far Australian integration into the Obama administration's "pivot to Asia," which involves increasing diplomatic and military pressure against China, is going to cut across the development of vital economic ties with the world's second largest economy and its chief export market.

Initial reports suggested that the treasurer in the Abbott Liberal government, Joe Hockey, had merely indicated support for the Chinese investment bank, with the backing of Trade Minister Andrew Robb. However, according to Monday's *Australian Financial Review*, Australia was offered a senior role in running the bank if it became a founding member, and cabinet gave in-principle approval.

Australia then pulled out at the last minute after heavy intervention from the United States, involving Secretary of State John Kerry and President Barack Obama. Their insistence that Australia not join was pursued by Foreign Minister Julie Bishop. Working through the national security committee of cabinet, she secured a reversal of the previous decision to take part.

The official reason given by the US and Japan, which also expressed its opposition to Australian participation, is that codes of practice for the AIIB are not up to international standards.

The real reasons are two-fold. The bank is seen as

potentially undermining the role of the World Bank, which is dominated by the US, and the Asian Development Bank, where Japan exercises a considerable degree of control. In addition, the US and Japan maintain that infrastructure projects financed by the new bank, especially for ports, could enhance Chinese military capacities in the region.

However, there are concerns in Australian political and business circles that if Australia simply toes the US line then valuable opportunities flowing from closer economic involvement with China will be missed. This dilemma has been the subject of private discussions for some time.

The debate burst into the public arena last week when the *Australian Financial Review* (AFR) led its front page last Thursday by reporting an interview with former Australian Labor Prime Minister Paul Keating, in which he severely criticised the decision not to sign up to the AIIB.

Keating told the AFR it was "the worst policy decision" the government had made since taking office in September 2013. "It is the worst because of the far-reaching implications and consequences of deciding to have nothing geo-economically to do with China at a time when China is prepared to step up to greater responsibilities in the region," he said.

Keating dismissed the US argument that the Asian Development Bank should be the main lender, saying that one institution could not meet all of Asia's needs and Japan did not have the capital necessary to expand the bank.

Referring to the intense lobbying by Secretary of State Kerry against Australian participation, Keating said: "What would the Americans say if we advised them about their trade policies in South America? What sort of short shrift would we get?"

Following the AFR interview, the government decided it had to hit back. The following day the lead article on the front page of the *Australian*, written by Paul Kelly, the newspaper's leading journalist, reported that Australia's non-participation was the result of a national security committee decision.

The article said Prime Minister Tony Abbott shifted his position, from an initial inclination to support participation, to oppose it "on strategic grounds." It also confirmed suggestions that President Obama directly intervened through a phone call to Abbott. "This was part of a strong US regional diplomatic offensive in collaboration with Japan revealing deep US concerns over this issue," the article stated.

Foreign Minister Bishop took those concerns into the national security committee. Clearly briefed by government sources, Kelly wrote: "Ms Bishop provided scenarios of how China could convert financial power via investment loans into direct military advantage in vulnerable nations close to Australia."

There were divisions in the cabinet. Kelly reported that some members believed that Bishop had gone too far in signalling to the US that Australia would stay out of the bank's founding. The article described the pressure from the Obama administration as "intense," with interventions not only by Obama and Kerry but also Treasury Secretary Jack Lew.

According to a report in the *Sydney Morning Herald* on Saturday, Bishop argued that Australia should not agree to provisions that could enable the establishment of commercial ports, for example, in Papua New Guinea, which might be used by an expanding Chinese navy.

Given that virtually every commercial infrastructure project, from the construction of major roads to airports and ports, has a potential military use, this implies that there are no circumstances in which Australia would take part, whatever guarantees and conditions were met by the AIIB.

Keating's opposition to the government's decision was implicitly backed by economic analyst Ross Garnaut, an advisor to the former Labor government of Prime Minister Bob Hawke on its relations with Asia. "The world needs much larger transfers of income-earning investments into infrastructure," he told the *Australian*. "Australia should welcome China's

commitment to this infrastructure bank."

Mike Smith, the chief executive officer of the ANZ Banking Group, which wants to expand its activities in China, told the AFR: "It does not make a real lot of sense for Australia to be excluded. I believe Australia will be part of this in the long term and I believe it should be."

Smith pointed to a possible Chinese push back against the decision during negotiations with Australia over a free trade agreement. "There will be ... fairly robust negotiations going on in terms of the free trade agreement ... you never know, this may be part of that consideration," he said.

A comment by the AFR's Asia Pacific editor, Greg Earl, published under the headline "Containing Beijing turns economic," pointed to the significance of the decision. He said China had "grudgingly" accepted a tightening of the Australia-US military alliance but the shift to "economic containment" involved new risks. What he called the "entente balance" between Australia and China "has now clearly shifted when Beijing plans for more infrastructure finance are seen by Australia as a national security threat even though the country is so economically dependent on China."

Earl insisted that any business with a growth strategy based on China should know more about why the Australian government "has rejected new infrastructure money from a country which wants to invest its funds abroad."

That question will not, however, get an answer because that would involve revealing the full scope of the escalation of US military drive against China, which Washington's intervention over the Chinese-backed AIIB clearly signifies.



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