

Divisions emerge between Britain and US over China bank

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A significant rift has opened up between the UK and the US following the decision by the Cameron government last week to defy the wishes of the Obama administration and become a founding member of the \$50 billion China-backed Asian Infrastructure Investment Bank.

In a sharp rebuke, an unnamed White House official told the *Financial Times* the British government had been engaged in a “constant accommodation” of China.

The decision came after the US earlier had applied great pressure to its allies in the region—South Korea, Japan and Australia—not to become members, out of concern the bank would undermine the influence of the US-dominated World Bank and cut across US plans for the diplomatic and military encirclement of China under the Obama administration’s “pivot to Asia.”

Last October, intense lobbying by the Obama administration saw the Australian Liberal government of Prime Minister Tony Abbott overturn a previous decision to take part in the establishment of the AIIB.

Secretary of State John Kerry took up the issue with Abbott during a meeting in Indonesia, and his efforts were followed by a telephone call by Obama to Abbott as well as an intervention by US treasury secretary Jack Lew.

Following the pressure from this “troika”, foreign minister Julie Bishop secured the overturn of the previous decision through the national security committee of the Australian government.

While the official reason given for US opposition is that the new bank will not meet “acceptable” investment standards, the essential motivation was laid out by Bishop, who expressed concerns that funding from the bank would be used to finance infrastructure projects such as airports and upgraded naval ports that would enhance China’s military capacities in the region, citing possible projects in Papua New Guinea.

The attitude of the US to China-funded projects has been graphically demonstrated in strategically important Sri Lanka. The US-backed Sirisena government, which came to power through the carefully organised American regime change operation in January, is now reviewing Chinese funding for the Colombo-based port city project.

Aware of the US position and that any prior public

announcement would bring intense US pressure, the Cameron government clearly decided to provide minimal information to the Obama administration of its plans.

According to the *Financial Times*, a “senior administration official” told it the British decision had been taken after “virtually no consultation with the US” and at a time when the G7 group of major economic powers had been discussing their approach to the bank.

“We are wary about a trend toward constant accommodation of China, which is not the best way to engage a rising power”, the US official said.

Britain’s chancellor of the exchequer, George Osborne, made no apology for the manner of the decision, however. Britain had not acted out of the blue, he said, and there had been a month of intense discussions in the G7, including with Jack Lew.

He said Britain should be present at the start of the bank, ensuring that it acted in a transparent way in filling an important gap in the provision of infrastructure in Asia.

“Joining the AIIB at the founding stage will create an unrivalled opportunity for the UK and Asia to invest and grow together,” he said, before delivering another blow to the US by noting that he expected other western governments that had been making positive noises about the bank to become involved.

That prediction was not long in being fulfilled with a report in today’s *Australian* that Abbott is now “seized by the regional potential of the bank” and is considering making an announcement that Australia will join, possibly later this week.

Pointing to the motivations for the British government decision, the *Financial Times* noted: “It has been keen to establish the City of London as a platform for overseas business in the Chinese currency as it starts to play a bigger role in the global economy.”

Notwithstanding the supposed “special relationship” between Britain and the US, the intense American opposition was palpable. The *Financial Times* described the two countries as being at “loggerheads” over the investment bank, while the *Guardian* pointed to “US anger” in the headline of its article on the decision.

In an editorial comment, the *Guardian* said it was an

“exaggeration to talk of the pace of reform at the World Bank and the International Monetary Fund,” because there had been almost none, and it was “no surprise” that China was promoting a solution to the shortage of infrastructure capital in Asia.

The US, it said, “cannot keep on shoring up an obsolete economic order in Asia,” and China was not withdrawing from the Washington institutions but was supplementing them. “Unlike certain other aspects of China’s policy, this development is properly seen in the context of the ‘peaceful rise’ which China’s leaders have proclaimed. This is a case for accommodation, not confrontation.”

However, so far as the US is concerned, the advance of China’s economic influence in the region and the enhancement of its military and strategic capacities cannot be separated. They are both part of a growing threat to the US position.

The same attitude is reflected in the US drive to secure agreement on the Trans Pacific Partnership, which excludes China. Together with the effort to secure a similar agreement with Europe, the goal of the TPP has been described as an attempt by the US to write the rules for trade and finance in the 21st century.

An article by *Sydney Morning Herald* China correspondent John Garnaut, published last Wednesday, cited Australian trade minister Andrew Robb as saying that conclusion of the deal would “mark a major strategic win for the United States, as it wrestles with China for regional leadership.”

Robb said the TPP was “very important” for the Obama administration “in terms of being a symbol of its pivot to Asia. It has that strategic importance attached to it,” he said.

Other commentators cited by Garnaut made it clear that more than symbolism was involved.

According to Ely Ratner, a deputy director at the Center for a New American Security, “Failure of the TPP would create a vacuum to be filled by China in ways that would almost assuredly run counter to...the US visions of an open and inclusive regional order in Asia.” In this context, “open and exclusive” means a trade and financial system in which US interests are able to dominate.

Robert Atkinson, president of the Information Technology & Information Foundation, warned that failure of the TPP would mean “China, with its focus on mercantilism and restricted freedom of information, will soon be dictating the terms of trade in the world’s fastest-growing economic sector.”

However, other major powers are coming to question whether their economic interests in the region are best served by aligning themselves with the US push to maintain its economic and military position, under conditions where they fear losing lucrative opportunities. These concerns are certainly behind the British decision.

But this poses a dilemma: how far do they go in pursuing those interests without jeopardising the strategic relationship with the US as the dominant military power?

Some of these issues were ~~Financed~~ in a editorial on Saturday. After noting that in the “special relationship” between Britain and the US it was “unusual for one side to rebuke the other publicly”, it said American sensitivity to the creation of banks such as the AIIB was “understandable.”

However, while the US may want to stop the growth of such bodies, “its lacklustre stewardship of the Washington-based institutions is one of the reasons rivals are proliferating.” The influence of the World Bank had declined because of restrictions on lending to poorer countries, and the US had failed to secure enhanced voting rights for rising powers such as China in the International Monetary Fund.

The editorial pointed to claims of “opportunism” in the British decision with “Osborne pitching for the City of London in its attempt to capture a portion of the renminbi trade and other Beijing goodies.”

At the same time, it pointed to strategic considerations, saying that Britain’s move would “encourage China to continue pursuing its strategic goals through a policy of divide-and-rule and that it would have been preferable had the G7 adopted a united strategy towards the AIIB rather than seeing a nation break way in its own interests.”

Pointing to longer-term issues, it said the decision should prompt some “hard thinking” about the role Britain would play in the world. For most of the post-war period, Britain had been able to “punch above its weight” because it was a staunch ally of the US, but now that relationship was under strain.

It concluded that stewardship of the global financial system was up to the United States. However, Washington seemed “flatly opposed to anything which raised China’s profile and threatens the status of the dollar.” A policy of “keeping China at bay at all costs” would only encourage Beijing to build its own parallel system from scratch.



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