

# Further blow to US as Australia signs up to China-backed bank

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Australia has joined a rush by a number of countries to sign up to the China-backed Asia Infrastructure Investment Bank (AIIB). It is another blow to the United States, which has lobbied heavily against its allies taking part.

Prime Minister Tony Abbott yesterday announced the Australian step, which had been expected following the British decision to join earlier this month. A statement from the prime minister's office said signing the AIIB memorandum of understanding would "allow Australia to participate—as a prospective founding member—in negotiations to set up the bank."

Those negotiations will play a critical role in determining the structure and activities of the bank, which is now expected to have initial capital of \$100 billion, as opposed to \$50 billion when it was first proposed. The talks will cover issues such as the location of the AIIB's headquarters, governance questions and whether China will have veto power over its decisions.

Russia, Denmark and South Korea also announced they would join, following the earlier moves by Britain, France and Germany to sign up.

The Australian decision is one of the most significant from the standpoint of the US. Washington is intent on securing economic and military dominance over the Asia-Pacific region through the Obama administration's "pivot" to Asia and its push to write the rules for trade and finance through the Trans Pacific Partnership, which is designed to exclude China.

Last October, the Australian government made an in-principle decision to join the AIIB, but that was overturned by the cabinet national security committee following heavy intervention by the Obama administration, including from the president himself.

The issue was re-opened following the British move

to sign up, pushing aside strong opposition from the US. Canberra's final decision to join was taken after close consultations between Abbott and Obama. As a result of those consultations, the Australian government issued a series of conditions to full participation.

In line with US objections over what it calls governance issues, Abbott said he still had such concerns. Australia wanted to ensure that the AIIB's board of directors had authority over key investment decisions and that "no one country controls the bank."

Abbott said: "Good progress has been made on the bank's design, governance and transparency over the past few months, but we still have issues that we will address through consultations."

The Australian shift reflects pressure from corporate and financial interests, which voiced strong opposition to the decision last October not to sign up. The head of ANZ, one of Australia's big four banks, Mike Smith, said Australia should have been "right in on the ground" and the issues concerning governance and transparency did not have to be raised at the time.

Hugh White, professor of strategic studies at the Australian National University, said the shift was significant. "This marks a very sobering moment for Australia as until now we have subcontracted to the US our policy in relation to how to respond to China's rise," he said. "This gives real pause for thought in how Australia positions itself for the future." White has long maintained that Australia cannot simply follow the US on China.

It is not clear, at this point, whether the Abbott government's caveats on final agreement are an attempt to placate the US or whether, as seems more likely, they have been formulated on the Obama administration's behalf to try to lessen Chinese control of the bank.

The AIIB is viewed as a threat to US interests in two major aspects. Firstly, it undermines the economic control that the US and its ally, Japan, exert through their domination of the International Monetary Fund (IMF), the World Bank and the Asia Development Bank. Secondly, key infrastructure projects, such as roads, rail ports and airports, financed by Chinese capital, could enhance Beijing's military capacities in the region.

The role of the new bank's board is set to become one of the critical points in deciding its structure. The Chinese government favours a non-resident board of directors who would play far less of a hands-on role than their counterparts at the World Bank. China wants management to run the bank and be accountable to government shareholders.

These views were strongly voiced over the weekend at the Boao Forum, an annual meeting of government and business leaders held on the southern Chinese island of Hainan. Li Rugou, a former chairman of China's Export-Import Bank, stated: "This newly established institution cannot be a clone of the old ones; we are working in a very different environment." Earlier, Chinese Finance Minister Lou Jiwei expressed disagreement with the view that the IMF and World Bank represent the world's best practice.

Australian Finance Minister Mathias Cormann, who attended the forum, said it was not realistic to have every decision "ticked off by the board," but the "key decisions" should be endorsed by directors. While Cormann did not make the point, having the board of directors decide on critical issues would be one way of ensuring that US allies represented on the bank's governing authorities could lessen Chinese control and influence.

However, there is support for the Chinese position that different governance rules are needed. Former Pakistan prime minister Shaukat Aziz said the days were gone when resident boards sat on the same floor as management. Asia's infrastructure needs were "colossal" and the new bank needed to be a "world-class institution."

Former New Zealand prime minister Jenny Shipley also leant in the direction of the Chinese position, saying the AIIB should have a "global board," with directors who set strategy after receiving management advice.

The intense geo-political tensions surrounding the bank, and the decision by US allies to join in spite of fierce opposition from Washington, was highlighted by an article in the London-based *Financial Times*.

It reported that Britain's chancellor of the exchequer, George Osborne, overrode "strong objections" from the UK Foreign Office in deciding that Britain should join. According to the report, British diplomats warned that the move would alienate Japan and the US. Osborne, however, won the day "by raising the issue at a meeting of the National Security Council [NSC], at which the prime minister [David Cameron] gave his assent."

The fact that the NSC, the British government's highest foreign policy-making body, placed commercial and financial interests above what the foreign office considered to be vital strategic and political considerations points to the extent of the rift between the US and Britain over this question.



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