

# Ongoing tensions in South China Sea as Chinese-led investment bank formally launched

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The Chinese led Asia Infrastructure Investment Bank (AIIB) was formally launched in Beijing on Monday, with 50 countries signing the bank's charter. Representatives of another seven countries were in attendance, but held off signing up. At the same time, the US and its key allies in the Asia-Pacific region have continued to ratchet up pressure on China over territorial disputes in the South China Sea.

According to the *Financial Times*, Chinese Finance Minister Lou Jiwei told those gathered in Beijing on Monday that the establishment of the AIIB was "a first step in an epic journey." She asserted that it represented "China assuming more international responsibility for the development of the Asian and global economies."

The AIIB was first proposed by Beijing in 2013 and became a focal point of the US campaign against China's rising economic influence in the Asia-Pacific region. In October last year, the Obama administration placed intense pressure on the Australian government to reverse an in principle agreement to join the bank. South Korea and Japan were likewise encouraged by Washington not to sign-on to the initiative.

In March, Britain unexpectedly announced that it would join the bank. The move led to a series of countries signing on, including close US allies in the Asia-Pacific such as Australia and South Korea. The flood of support for the AIIB marked a major blow to the United States, and the entire international monetary and economic framework that it spearheaded in the post-WWII period.

The bank will start operations with an authorised capital pool of \$100 billion, 75 percent of which is to be drawn from countries in the region.

China is the largest contributor to the bank's funds at

around 30 percent, followed by India, Russia, Germany, South Korea and Australia. According to media reports, China will control 26 percent of the votes, giving it effective veto power, as major decisions will require a super-majority of 75 percent. Chinese officials have said that it will seek to begin operations by the end of this year.

The apparent success of the bank has prompted questions regarding a US response. In April, after suffering the debacle of Britain and other close allies signing up to the AIIB, US President Barack Obama absurdly claimed that the US had never opposed the establishment of the bank.

Some figures with close ties to the US establishment have suggested that Obama will raise the issue in talks with Chinese President Xi in Washington in September. Stephen Hadley, former US national security advisor under the Bush administration, told the *South China Morning Post*: "I think there is an opportunity at the September summit for President Obama to clarify the US role... and for Xi to welcome US participation, with the goal of ensuring the bank operates transparently by international standards ..."

Along similar lines, Paul Haenle, the director of the Carnegie-Tsinghua Center in Beijing, told the *Wall Street Journal*: "The administration led with 'No.' In retrospect, I think it is clear the better starting point would have been 'Yes, but ...'"

In other words, the Obama administration may be considering shifting tack by participating in the bank and attempting to blunt Beijing's influence through a campaign for "transparency" and "international standards." Such terms are the code words for the economic dictates of the US government and American

financial institutions.

At the same time, escalating tensions in the South China Sea may impact on the fortunes of the AIIB. Representatives of the Philippines, which has been prosecuting an international legal case against China over disputed territory in the South China Sea, and has been at the forefront of US-led provocations in the region, attended but did not sign the charter. Last month, Philippines Finance Secretary Cesar V. Purisima declared that he wanted to ensure the actions of the AIIB were not tied to the “vagaries of politics between our countries.”

The Obama administration is also stepping up its campaign for the Trans Pacific Partnership (TPP), a trade agreement directed against China. On Monday, the US president signed “fast track” legislation giving him authority to take measures aimed at hastening the passage of trade agreements. Central aims of the TPP include the exertion of pressure on governments, including China, to open up state-owned and regulated sections of their economies. The TPP includes provisions providing major corporations with powers to sue foreign governments.

The US is continuing to ramp up pressure on China, on the diplomatic and military fronts. High-level bilateral talks in Washington last week were accompanied by media hysteria over unsubstantiated accusations of Chinese hacking. On Thursday, an Obama administration official directly accused Beijing of responsibility for alleged cyber-attacks, while President Obama reportedly reprimanded China over tensions in the South China Sea in his talks with Chinese officials.

On Friday last week, US Deputy Secretary of State Antony Blinken likened China’s activities in the South China Sea to alleged Russian actions in Ukraine. Blinken claimed that China’s land reclamations were “a threat to peace and stability” and provocatively declared: “In both eastern Ukraine and the South China Sea, we’re witnessing efforts to unilaterally and coercively change the status quo – transgressions that the United States and our allies stand united against.”

The comparison of the situation in the South China Sea to that in Ukraine is significant, given that in the latter case the US has accused Russia, without any evidence, of invading a sovereign country. In reality, the crisis in the South China Sea is a product of the US

military’s massive military build-up in the Asia-Pacific region, and its encouragement of the provocative actions of the Philippines, Vietnam, and other regional partners such as Australia and Japan.

Blinken’s remarks were aimed at legitimising more forms of military intervention against China by the US and its allies. On Monday, Australian Prime Minister Tony Abbott, speaking in Singapore declared, “we certainly deplore any unilateral alteration of the status quo,” in the South China Sea. Australia has played a particularly provocative role in the developing crisis, with reports in May that its government was considering deploying aircraft or warships into areas claimed by China.

Also on Monday, Japan’s *Gendai Business* reported that Japanese Prime Minister Shinzo Abe privately told a group of leading media figures that Japan’s “security policy bills are targeted at China in the South China Sea.” He also reportedly told the media heads that Japan should invoke collective self-defence and side with the US in any conflict in the South China Sea.

The Abe government has conducted a protracted campaign to remove the “pacifist” constraints of the country’s post-WWII period, aimed at reviving Japanese militarism. The US has recklessly backed these moves, as part of its military buildup against China. Last week, Japanese spy planes carried out provocative flights over Chinese claimed territory in the South China Sea, in collaboration with the Philippine military.

China’s Foreign Ministry spokeswoman, Hua Chunying, responding to the reports of Abe’s remarks, called on people to remain on “high alert” regarding Japan’s turn to militarism. He stated: “We urge Japan to learn from the lessons of history, follow the path of peaceful development and act prudently on military and security affairs to avoid making the same mistakes.”

Hua’s comments obliquely pointed to the fact that the rise of Japanese militarism contributed to the emergence of a catastrophic conflagration in the Asia-Pacific in World War II.



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