

Washington Misses Bigger Picture of New Chinese Investment Bank

The Asian Infrastructure Investment Bank (AIIB)

By [Jim Lobe](#)

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Bibi Netanyahu's election, persistent violence through much of the Middle East and North Africa, and intensified efforts to forge a nuclear deal between the P5+1 and Iran topped the news here in Washington this week. But a much bigger story in terms of the future order of global politics was taking place in Europe and Beijing.

The story was simply this: virtually all of the closest European allies of the United States, beginning with Britain, [defied pressure from Washington](#) by deciding to apply for founding membership in the Asian Infrastructure Investment Bank (AIIB). This Chinese initiative could quickly rival the World Bank and the Asia Development Bank as a major source of funding for big development projects across Eurasia.

The new bank, which offers a serious multilateral alternative to the Western-dominated international financial institutions (IFIs) established in the post-World War II order, is expected to attract about three dozen initial members, including all of China's Asian neighbors (with the possible exception of Japan). Australia, Russia, Saudi Arabia, and other Gulf states are also likely to join by the March 31 deadline set by Beijing for prospective co-founders to apply. Its \$50 billion in initial capital is expected to double with the addition of new members, and that amount could quickly grow given China's \$3 trillion in foreign-exchange reserves. More details about the bank can be found in a helpful Q&A [here](#) at the Council on Foreign Relations website.

Along with the so-called BRICS bank—whose membership so far is limited to Brazil, Russia, India, China and South Africa—the AIIB poses a real “challenge to the existing global economic order,” which, of course, Western nations have dominated since the establishment of the International Monetary Fund (IMF) and the World Bank in the final days of World War II. As [one unnamed European official told *The New York Times*](#), “We have moved from the world of 1945.”

That Washington's closest Western allies are now racing to join the AIIB over U.S. objections offers yet more evidence that the [“unipolar moment”](#) celebrated by neoconservatives and aggressive nationalists 25 years ago and then reaffirmed by the same forces after the 2003 Iraq invasion is well and truly. And yet, these same neoconservatives continue to insist that—but for Obama's weakness and defeatism—the United States remains so powerful that it really doesn't have to take account of anyone's interests outside its borders except, maybe, Israel's.

(That Washington's closest Western allies are now racing to join the new bank over U.S.

objections could also presage a greater willingness to abandon the international sanctions regime against Iran if Washington is seen as responsible for the collapse of the P5+1 nuclear negotiations with Tehran. Granted, Iran's economy—and its potential as a source of investment capital—is itsy-bitsy compared to China.)

Indeed, commentators are depicting US allies' decision to join the AIIB (see [here](#), [here](#), and [here](#) as examples) as a debacle for U.S. diplomacy. The *Wall Street Journal* editorial board [has predictably blamed](#) Obama for defeat, calling it a “case study in declining American influence” (although it also defended Washington's decision against joining and accused Britain of “appeasing China for commercial purposes.”)

What the *Journal* predictably didn't mention was a key reason why the administration did not seek membership in the new bank: there was virtually no chance that a Republican-dominated Congress would approve it. Indeed, one reason Beijing launched its initiative and so many of our allies in both Asia and Europe have decided to join [is their frustration with Republicans](#) in Congress who have refused to ratify a major reform package designed to give developing countries, including China, a little more voting power on the Western-dominated governing boards of the IMF and the World Bank. The Group of 20 (G20) biggest economic powers actually proposed this reform in 2010, and it doesn't even reduce Washington's voting power, which gives it an effective veto over major policy changes in both institutions. As a result of this intransigence, the United States is the only G-20 member that has failed to ratify the reforms, effectively blocking their implementation. As noted by a [New York Times editorial](#) Friday,

Congress bears considerable blame for refusing to pass legislation to shift voting power more fairly among IMF member states, including China. China's move to create the new development bank is part of the price being paid for that obstruction.

Indeed, Treasury Secretary Jacob Lew made this point implicitly in testimony this week in which he also restated U.S. reservations about the AIIB:

Our continued failure to approve the IMF quota and governance reforms is causing other countries, including some of our allies, to question our commitment to the IMF and other multilateral institutions that we worked to create and that advance important US and global economic and security interests.

...The IMF reforms will help convince emerging economies to remain anchored in the multilateral system that the United States helped design and continues to lead.

Now, of course, China would probably have created the AIIB on its own even if the Congress had ratified the IMF package. But the repeated congressional refusal to do so gave the Europeans (who have supported the reforms despite the fact that they would lose the most voting power if the reforms were implemented) and other U.S. allies an additional reason to join up. And none of this absolves the Obama administration of its own diplomatic failure in persuading its allies to hold back. Or the administration might have tried a different strategy: joining the Bank and then trying to get Congress on board. Surprisingly, Sen. Tom Cotton (R-AR), the upper chamber's new neoconservative heartthrob, [told an audience at the](#)

[Hudson Institute](#) this past week that it would have been better for the U.S. to sign up so as to gain some influence over the Bank's operations and policies. (However, one of Cotton's reported sugar-daddies, [Sheldon Adelson](#), has always been [loathe to alienate Beijing's leaders for fear they could interfere with his lucrative casino interests in Macao.](#)) After all, as more than one commentator has noted, the Obama administration has long argued that Beijing should assume a leadership role in global affairs commensurate with its wealth and geo-strategic importance.

Given all the negative commentary by Asia and development specialists, it's still possible that Obama may reconsider U.S. opposition to membership before the March 31 deadline, [as suggested by Elizabeth Economy](#) of the Council on Foreign Relations and others.

But the main point here is that official Washington—including Republicans in Congress and the mainstream media—is not paying adequate attention to major shifts in the global order and how isolated the United States has become vis-à-vis the “international community,” especially its most important allies. Still stuck shoulder-deep in the Middle East, the vaunted “pivot” to the Pacific looks increasingly hollow, especially with a Republican Congress agitating to dig us in even deeper by, for example, sticking slavishly by a Netanyahu-led Israel and trying to sabotage an Iran deal. Active Republican resistance to even modest moves advocated by the administration on global warming is also harming our credibility with allies, as well as others, as it has since George W. Bush renounced the Kyoto Protocol. One could go on and on. It's very difficult to exercise global “leadership” when you've isolated yourself from the rest of the world and fail to take account of how much the world has changed from that much-cherished “unipolar moment.”

*The Washington Bureau Chief of the international news agency, Inter Press Service, **Jim Lobe** is best known for his coverage of U.S. foreign policy.*

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