

# The White House Loses Face

The Obama administration has shown a lack of historic understanding concerning its policy towards China's proposal to establish the Asian Infrastructure Investment Bank (AIIB). The White House must understand that its policy lacks judgment when former Secretary of State Madeleine Albright, in unladylike language, refers to it as "we screwed it up." The kindest remark she might have made is that the White House misread the situation.

The president now faces a self-inflicted predicament of possible strained relations with an increasing number of major countries, allies that have defied American pressure and decided to join the AIIB.

The planned establishment of the AIIB is a new factor in the challenge by China and other powers to American leadership in global financial institutions, and what some consider excessive dominance as well as for leadership of the world economy. The AIIB is an obvious rival to the World Bank that the IMF created, largely by the decisions of John Maynard Keynes and Harry Dexter White, at the Bretton Woods Conference in 1944 to oversee development of the world economy and to establish management of exchange rates. The two institutions did contribute significantly to the growth of the world economy after World War II, and clearly the U.S. has been the dominant factor in this.

Noticeably, the U.S. has 17% of voting share at IMF, compared with China's 4%. China has long wanted a larger participation in both. Both developed and developing countries in the world have objected to American dominance of both the IMF and World Bank. The president of the World Bank by tradition is American; the head of the IMF is French. Equally, the Asia Development Bank, a regional bank with 67 member countries started in 1966 to provide loans and grants to help developing

member countries in Asia evolve into modern economies, has a Japanese citizen as president. Both the World Bank and the IMF have declined in significance in recent years for financial and technical reasons.

The objective of AIIB is to provide funding for development of roads, ports, water, energy, sanitation, and telecommunication projects. It is one of a number of institutions started or proposed by China to create a financial center to compete with the Western-led institutions. The bank, with an initial capitalization of \$50 billion, and anticipated \$4 trillion in reserves, will be run by a multinational secretariat and have a recognized management structure. China is providing half of the initial financing.

The Obama administration lobbied hard on the issue in the attempt to prevent countries from joining the bank that would be an obvious rival to U.S.-dominated international institutions, and perhaps be an expression of Chinese economic, political, and military interests. In its pressure, the U.S. expressed concern that the bank would not meet the high standards of the World Bank, especially the standards of transparency.

It came as a surprise to the White House that a number of important countries have declared they will join the nascent AIIB, the details of which are still being formulated. For the American administration it was particularly troubling that George Osborne, British Chancellor of the Exchequer announced, with the approval of Prime Minister David Cameron, on March 12 that the UK would join and become a founding member of the Bank. Osborne had made no secret of his intention to increase in London overseas business transacted in Chinese currency.

At its meeting in January 2015 the Group of Seven, the world's leading economies, agreed not to join AIIB unless they could reach a consensus, but this could not be done. The U.S. did not provide leadership on the issue. Britain was the first G7

country to join the Bank, thus giving it greater credibility.

By now, more than 50 countries have announced their intention to join the AIIB. Among them are New Zealand, Luxembourg, Switzerland, France, Germany, Italy, Austria, and Israel, as well as Asian and Middle Eastern countries. They believe that since the bank is a multilateral investment institution it is not likely to become an instrument of Chinese foreign policy.

All the countries that intend to join the bank have been eager to extend their business and financial arrangements with China. In 2013 the UK welcomed China in every part of the UK economy, including the financial district and the nuclear power sector.

The Chinese economy, measured in purchasing power, is now larger than that of the U.S., and will probably, because of its size, population, expanding consumer market, fast economic development, large amount of venture capital finance, and foreign-exchange reserves, soon be greater than the American in absolute terms. It can be expected to play a larger role in the world economy. Though China is less powerful militarily than the U.S., it is increasing its military budget, and may be considered a challenge to U.S. prominence in the Asian and Pacific region.

It is evident that China is planning to exercise more power in the Asian region. It has promoted an Asia-Pacific free trade deal, different from the one sponsored by the U.S. If not a vehicle of its foreign policy, the AIIB will allow China more political and economic influence in the world, not only Asia. The Chinese leader, Xi Jinping, has already initiated an ambitious economic policy to expand Chinese influence. He unveiled plans for two large multibillion trade and infrastructure projects connecting China and Europe: the New Silk Road Economic Belt, and the New Maritime Route. Already,

China had set up a security group of nations, the Shanghai Cooperation Council, as the center of a group of eastern and central European countries to provide investment to the 16 member countries.

While China may not soon replace the United States as the foremost player in the global economy, the White House should have taken more care in its consideration of the proposal for the new bank. As in the case of relations with Israel, the White House has displaced its peevishness towards traditional allies. In doing so it has lost both face and clout.

First published in the