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China's Bank & Waning USA Hegemony

A Global Economic 'Grand Game'?

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Two events occurred last week that mark a further phase in the waning of US global economic hegemony: China introduced its own Economic Development Bank, the 'Asian Infrastructure Investment Bank' (AIIB); the IMF simultaneously announced it will decide in May to include the Chinese currency as a global reserve-trading currency alongside the dollar, pound, and euro—an almost certainly 'done deal' as well.

The dual moves caught the US off guard, especially as the USA's erstwhile main economic ally, Britain, was the first to announce it would join China's AIIB as a founding member. That announcement set off a quick succession of further announcements by major western economies that they too were now joining the AIIB—by Germany, France, Italy, Luxembourg, and Switzerland—as major European capitalist economies scurried to ensure a piece of the Asian economic action and to tap China's huge foreign currency reserves for investment in their own economies. Singapore and Australia followed within days. South Korea and Canada are now reconsidering joining, as are other once solid USA economic allies.

The initial USA response to Britain was to accuse it of "constant accommodation" of China. US Treasury Secretary, Jack Lew, even made telephone calls to British finance minister, George Osborne, requesting that he 'hold off' after Britain's initial announcement, according to reports in the international business press. That effort was apparently to no avail, however, as British politicians, including prime minister, David Cameron, facing re-election within weeks, chose to leverage the decision for political purposes as well as economic. Reportedly the US also attempted to strong-arm Singapore into not joining, but failed there as well.

The entire affair caught USA political bureaucrats by surprise. The matter of joining the AIIB was thought to have been raised in European centers at low levels, but not at senior financial minister or ambassador levels. No decisions appeared imminent. Events in recent weeks show the Europeans successfully kept USA out of the loop concerning their real intentions, as Britain last week 'jumped the gun', as they say, with British government officials giving the reason for their decision to join the AIIB as "We want to be a Chinese partner of choice in international finance"(read: we want a slice of the economic pie before someone else gets to eat it).

The China-UK Connection

In making their announcement, British officials vowed that they want the UK to become the main destination for Chinese investments. In 2013-14, when the British and Euro economies were in particularly bad shape, major trade delegations from China repeatedly visited both Britain and Germany on numerous occasions. Much of Britain's recent tentative economic recovery the past two years has been driven by infrastructure and property deals that have been heavily financed by massive China private capital inflows into London real estate, infrastructure projects, and south England investments. Deals to revitalize investment in Britain's nuclear power sector are also being financed by China investment. Without China investments in the UK in recent years, and other capital inflows from emerging markets, British economic 'recovery' would have remained British 'stagnation' at best.

USA vs. China policies toward British banks offer another example of a growing divergence of interests between the USA and Britain with regard to China.

USA bank regulators have been targeting and fining London banks for their repeated scandals, money laundering, global interest rate (Libor) manipulations, and speculative excesses. London in recent years has become a veritable 'wild west' of international banking. The US levying of fines on UK banks has been justified. But banking is one of the few industries that keep Britain from becoming a 'third tier' economy. British Prime Minister Cameron therefore has done—and will do—whatever it takes to protect and advance the economic interests of his so-called 'City of London' (UK banking sector). He is even prepared to leave the European Union, if necessary, to prevent re-regulation of the British banking sector. So it should not have been a surprise to the USA when Cameron and other conservative British politicians turned to China and quickly joined China's AIIB. All the signals were there already. British finance capital had already last year, in 2014, announced an agreement with China that London would become the global trading center for China's currency, the Yuan. And Britain has become increasingly dependent on China money capital inflows in recent years, as noted. So the recent AIIB decision is just a logical consequence of deepening British-China economic relations that have been already underway now for some time, even though the USA didn't totally 'see it coming'.

Deepening China-Europe economic relations extend to the Eurozone and eastern Europe economies as well, not just to Britain. Trade integration between China and Germany has been growing sharply. China is Germany's fourth largest trading partner. China has been setting up investment funds in eastern European economies from the Baltics to the Balkans; China has an offer on the table to buy Greece's main port at Pireaus; and in recent years has been repeatedly purchasing Italian and other southern European countries sovereign bonds to help those economies weather their recent debt crisis.

Origins of the AIIB

The origins of the AIIB announcement trace back at least to 2010, when the USA quietly agreed to allow China to increase its influence in the USA-dominated international economic institution, the International Monetary Fund (IMF). Since then, however, the USA has reneged on that agreement, in order to ensure that China's influence in the IMF would remain minimal. So China went off last October 2014 and formed its own AIIB, in what amounts in effect to a fundamental challenge to the IMF's parallel USA-dominated institution, the World Bank.

With 27 nations having already signed on, including Britain and other Europeans, Australia, Singapore, and others, the AIIB represents a major challenge to the USA-dominated development banks, the World Bank, as well as to the Asian Development Bank (USA and Japan dominated ADB) located in Manila, Philippines. Initially the AIIB is to be funded with $50 billion to invest in Asian infrastructure. That compares with $160 billion in the Asian Development Bank (ADB). However, the near term AIIB target is to provide $100 billion in funding. And by 2020, potentially up to $730 billion. That's a lot of projects and potential profits for European and British businesses.

Britain and the other European economies were quick to join China's AIIB because it allows their own companies almost guaranteed participation in the AIIB's lending projects—thus giving them a 'leg up', as they say, in their competition with USA and Japanese companies involving development and infrastructure investment projects in the EMEs. It also gives them, the British and the Europeans, the opportunity to redirect some of that investment capital to companies inside their own economies, where their own companies get to provide semi-finished goods and services to the infrastructure projects in Asia that the AIIB will approve with its initial (and no doubt soon to expand) $50 billion fund.

Indeed, Europeans have become increasingly frustrated with USA dominated World Bank and IMF, in which the USA typically vetoes decisions of those institutions that it dislikes with as little as 20% of the 'voting rights' in those bodies. At the same time, conservatives in the US Congress continue to refuse to provide the US's share of the operating funds for those institutions. China's AIIB enters the global infrastructure investment field with a promise by China not to veto and to hold no more than 49% of voting rights in the AIIB. It is an attractive alternative to the USA's World Bank and IMF dominated bodies. Not surprising, Europe and other major economies are therefore seriously interested in participating in the AIIB. However, to the extent they do, it represents a waning of USA economic influence over its once, almost completely economically subservient allies.

The 'Old Order' of US Economic Hegemony

The USA's dominance of the IMF and World Bank since 1945 has provided Washington with great leverage in influencing both political events and economic directions in emerging market economies (EMEs). Often multi-billion dollar lending projects are dangled before an EME, or threatened with suspension, if the EME in question fails to do the bidding of Washington involving a political decision Washington wants, or an investment concession Washington wants from the EME for a US bank or company.

A good example of the kind of 'economic arm-twisting' by the USA still going on today is the pressure exerted by USA government and courts to force Argentina to agree to terms demanded by USA shadow banksters with regard to the repayment of loans; or the moves underway by USA government and banksters to drain Venezuela's currency reserves to effect a collapse of its currency, the Bolivar, to set off import inflation to set the stage for another coup and political intervention. Those are extreme, but not untypical, examples; countless 'lesser' forms of pressure on EMEs occur frequently by the USA through its control of decisions by the IMF and World Bank. Ukraine is another, perhaps more traditional example, where the USA has influenced the IMF to install US citizen, shadow bankers, like private equity CEO, Natalia Jaresko, to run the Ukraine's economy as finance minister as a condition for the Ukraine receiving IMF loans.

But by providing an alternative source of infrastructure project funding, the China AIIB reduces potential USA economic and political influence over EMEs.

From 1944 to 1973 the U.S. maintained more or less total economic hegemony in the global economy. The U.S. dollar was the prime currency for trading and reserve purposes. This dominance was challenged in the post-1973 period briefly, however, as the U.S. economy experienced an economic crisis at that time. The institutional arrangements by which the U.S. retained dominance from 1944 to 1973 were restructured and rearranged. The U.S. economy and its world dominance was restored in a new set of arrangements and relationships with other states and economies starting in the 1980s, which is sometimes referred to as 'Neoliberalism'. The symbol of that economic dominance, the U.S. dollar, after having seriously weakened in the 1970s was restored again to unchallenged status as the global currency in the 1980s and after.

But the restructuring of the global economy in the 1980s, led by the United States (and a junior partner the UK) has now run its course for a second time.

Once the unchallenged global currency, the U.S. dollar is once again facing challenge as the dominant global currency. US dominated global institutions like the World Bank and IMF are being challenged by alternative institutions, like the AIIB. The focal point of that *challenge*, today and in the years ahead, is China. The Yuan will not overturn or replace the US dollar tomorrow, or even in the near term. The World Bank and Asian Development Bank won't be displaced by the AIIB. But in the longer term it is inevitable, should China continue to grow at its recent rates and the USA continue to lag with its recent below historic average growth rates.

Recent events surrounding the AIIB, and the IMF adding the Yuan to its currency mix, are just a subset of the broader and even more strategically significant rise of the Yuan as a global trading and reserve currency and of alternative institutions developed that break the hegemonic control of global economic institutions by the USA.

A Global Economic 'Grand Game'?

As China continues to successfully target Europe for economic integration, the USA has been clumsily targeting Russia for European de-integration.

What's ironic is that the USA today is directing its most aggressive efforts against Russia, in an attempt to prevent Europe from deepening its economic relationships with that country and to roll back those relationships by means of economic sanctions. Since at least 2010, Europe's growing resource and trade integration with Russia since has made the USA increasingly nervous. Much of the USA's policies toward Ukraine (especially the USA initiated coup there in 2014), and subsequent efforts to get Europe to impose severe sanctions on Russia, should be viewed in this light. The USA wants to sever the growing Europe (especially German)-Russian trade connections and, in particular, Europe's recent growing dependence on Russian energy. It is at least arguable that the USA initiated and supported the coup in the Ukraine with that in mind: i.e. to provoke a Russian military response, in order to force Europe to impose severe sanctions leading to a roll back economic relations with Russia. The USA sees its economic influence in Europe as strategic. Severing Russia economically from Europe ensures that. It would ensure Europe's continuing dependence on the USA, economically, and therefore politically and militarily. The Ukraine-Russia conflict should thus be viewed in the context of a much bigger 'competition' between Russia and the USA over economic influence in Europe.

But while the USA focuses on undermining economic relations between Europe and Russia, China continues to 'slip in the back door' and deepen its economic relationships with Europe. Today it's the AIIB. Tomorrow the Yuan as an officially accepted trading currency. Thereafter the Yuan as the dominant trading and reserve currency, and an even deeper European dependence on China money capital flows.

China thus represents by far a much greater challenge to US economic hegemony in Europe, and indeed globally as well. But the USA blindly continues to engage in economic adventurism in Europe to contain a Russian threat there that doesn't exist.