

ISSUES IN PERSPECTIVE

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The Waning U.S. Influence in Asia

Since World War II, three major international financial institutions have facilitated (and dominated) the world's investment in development opportunities in roads, airports and other infrastructure issues throughout Asia (and much of the world)—the International Monetary Fund (IMF), the World Bank and the Asian Development Bank. The leadership of these organizations has been restricted to Europeans, Americans and Japanese; China has been excluded. But China has the world's largest foreign reserves (an estimated \$4 trillion) and is quite eager to invest these reserves overseas. Hence, China has embarked on building the Asian Infrastructure Investment Bank (AIIB); in effect, to establish a parallel economic order that, over time, would weaken the World Bank, as well as the IMF and the Asian Development Bank. Its goal is to provide \$8 trillion in infrastructure projects throughout Asia. Since last October, AIIB has picked up 26 Asian members, from Vietnam to Bangladesh. On 17 March 2015, Germany, France, Luxembourg and Italy announced that they would join AIIB and Australia and South Korea are expected to soon follow. Most shockingly for the United States was the decision of Great Britain to also join AIIB, "with virtually no consultation with the US." Editorially, the *Wall Street Journal* observed: "The AIIB is likely to enhance China's influence far more than it will help its supposed beneficiaries. Poor regimes willing to stay on Beijing's good side will earn cheap loans on lax terms, but the bank will promote a version of China's state capitalism, not transparent markets." Understandably, the Obama administration has sternly warned its allies about joining AIIB, even opposing the concept of AIIB as unnecessary. But no one seems to be listening to President Obama.

AIIB is a direct threat to both the post-World War II financial institutions led primarily by the United States and to President Obama's famed "pivot to Asia." Paul Haenle, director of the Carnegie-Tsinghua Center in Beijing, argues that "The administration made a major mistake in its opposition [to AIIB]. It was very shortsighted. The bank was going to go ahead whether we supported it or not." That Britain joined AIIB is a clear "sign of China's sophisticated strategy of winning friends and of Washington's failure to respond effectively." The central issue remains that the U.S. did not offer an alternative to China's call for more infrastructure spending in Asia. Indeed, the World Bank and the Asian Development Bank, both dominated by the U.S., have been unable to fulfill the infrastructure needs of the Asian continent. Haenle strongly suggests that "there is a strain in Washington that if the U.S. is not in the lead, then the U.S. should not be a part of it." Most analysts now believe that early on the U.S. should have tried to be a power of influence in the creation of AIIB rather than try to block its creation entirely.

China was also upset with the U.S. for another reason. After the 2008 financial crisis, Congress rejected legislation intended to increase Beijing's role in the World Bank and the IMF. Hence,

sitting on over \$4 trillion in foreign exchange reserves, it is no wonder that China then decided that it would use its reserves to form its own development bank for Asia—the AIIB. Lawrence J. Brahm, an American who worked to help China gain entrance into the World Trade Organization, demonstrates that China has decided to use its excess capacity in steel, concrete and pipes to build up the neighboring economies of Asia, which will then benefit the Chinese economy: “China’s economy will benefit from the export of its own labor to build the infrastructure in the region.” Jane Perlez of the *New York Times* concludes that “China would use the bank for its own pet projects in Asia and try to knit together the poorer countries of Southeast and Central Asia into an economic sphere of influence . . .” But the U.S. offered no positive approach to meeting the Asian infrastructure challenge, only vehemently opposing the establishment of AIIB. Fred Hu, the founder of Primavera Capital, a private equity firm in Beijing, argues that “The truth is no one in the region wants to choose between the United States and China, but Washington’s hostility to AIIB made countries choose in China’s favor.” The end result, six years into the Obama administration, is the distressing truth that the U.S. has lost its influence around the world—with its friends as well as with its adversaries.

As with many aspects of the 21st century world, the postwar global economic order, founded by the United States and its European allies, is breaking down. China, the world’s second-largest economy and a major export and investment market, is replacing the U.S. as the dominant economic power in Asia. Nothing illustrates that truth better than the AIIB. The decision by Great Britain to join AIIB was an especial affront to the U.S. But it should not come as a surprise. The U.S. offered no positive alternative to AIIB and London, already a world financial center that rivals New York City, will become a base for the first clearinghouse for the Chinese yuan (i.e., the Chinese currency) outside of Asia. What is quite clear is that the United States has no coherent, well-thought-out plan for dealing with the AIIB. Increasingly under President Obama, U.S. foreign policy is a reactive one. The U.S. reacts with speeches and talk, but has no decisive plan on how to respond (e.g., the Ukraine crisis, the Syrian crisis, etc.). Further, when there is a plan, such as the nuclear deal with Iran, the president pursues the goal not caring about the other Arab nations, about Israel or about the American people. He will not present it to Congress and will not accept input from anyone. As with the postwar global economic order breaking down, the postwar Middle East is breaking down—and the U.S. seems powerless to do anything about either.

A new order is emerging in the 21st century world and one thing seems certain: The U.S. will play an increasingly smaller role in shaping this new order. China will most certainly play a decisive role in shaping the Asian aspect of this new order. Russia, under Putin, desires to play an increasingly destabilizing role in this new order. Decisive, prescient, strategic leaders are needed for this new order. Within the U.S., there is much work that needs to be done, but, with a dysfunctional government and a go-it-alone president, the waning influence of our nation worldwide seems almost unstoppable.

See *Wall Street Journal* editorial (21-22 March 2015); *New York Times* editorial (20 March 2015); and Jane Perlez’s article on AIIB in the *New York Times* (20 March 2015).