Britain's decision to join China's new Asian Infrastructure Investment Bank is a revealing example of one of the key realities of the new international order. Not only are geopolitics and geoeconomics intimately linked, but the latter will increasingly trump the former in the absence of outright war.

In this regard, Australia may be one of the last American allies still privileging the idea that it enjoys a "special relationship" with the US. And yet the signs are that even Australian policymakers are reluctantly coming around to the idea that narrowly conceived national interests may not be worth sacrificing in the name of the alliance.

In the new world order in which the old multilateral institutions created under American auspices are no longer as effective or capable of addressing global problems, states everywhere are increasingly looking to regional powers and organisations to solve collective action problems.

Given the current obsession with terrorism and so-called asymmetric threats, it is possible to forget that inter-state warfare, by contrast, still remains rare and exceptional. Even in East Asia where the danger of conflict has undoubtedly increased, it remains unlikely – at least as the consequence of coolly calculated strategic advantage.

In such circumstances, geoeconomics – or war by other commercial means, to paraphrase Clausewitz – is the principal focus of inter-state competition. While there may be many real, relatively uncontroversial, benefits to be had from the establishment of a regional infrastructure bank, there is no doubt that China sees the creation of the AIIB as one way of employing its growing economic leverage to achieve long-term geopolitical goals.

The creation of a new "Silk Road", linking Beijing to its immediate neighbours, will not just dramatically increase regional productivity and trade. It will stand as an enduring, very tangible expression of China's material centrality in Asia and beyond.

That Britain recognises how economically important "the Far East" has become, and just how high the potential costs of exclusion might be from the region China once again dominates, is telling evidence of this. It is also a dramatic illustration of America's reduced ability to influence the foreign policies of even its closest and formerly most reliable allies.

But it is not only traditional alliance relationships that are in play here. Chancellor George Osborne's frank admission that British enthusiasm about the joining the AIIB is motivated by the "unrivalled opportunity for the UK and Asia to invest and grow together" is only part of the story. By signing up as a member of the AIIB, Britain is becoming a player in a wider geopolitical and geoeconomic game.

As a recently released report by the World Economic Forum (WEF) points out, some of the real losers of the new international order are the global institutions associated with American hegemony – even if the WEF baulks at describing it in quite that way.

However, the WEF does borrow another bit of Marxist-inspired jargon to describe the development of "core-periphery relations" as a key feature of the new geopolitical landscape.

Seen in this context, the AIIB also has a potentially important ideological role. The struggle to define the norms, rules and practices that will determine the environment in which states and corporations operate in the 21st century is one of the most important expressions of heightened geoeconomic competition.

For better or worse, the so-called Beijing consensus is gaining ground on its rather discredited rival from Washington.

This is why the US is so concerned about what might otherwise be seen as a welcome, productive and positive expression of China's growing economic power. Otherwise, who could possibly object to the creation of an institution designed to provide infrastructure funding in a part of the world where it remains sorely need?

There is no doubt that many countries in the Asia-Pacific are profoundly disconcerted by China's rise and the difficulty of deciding whether it represents more of an opportunity or a danger. The desire to "hedge" against a possible Chinese military threat explains the strengthening of alliance relations with the US across the region in the wake of America's own strategic “pivot” toward East Asia.

The challenge for all these increasingly nervous lesser powers is not just whether they can retain a degree of policy independence, but whether they can reconcile potentially incompatible geopolitical and geoeconomic goals. This is the defining foreign policy conundrum for Australia, too.

It is no coincidence that apparent splits within the Abbott cabinet on whether Australia should join the AIIB mirrored wider geopolitical and geo-economic imperatives. That such debates appear to have been definitely resolved in the affirmative suggests that Chinese geoeconomic power may trump American geopolitical power in the absence of more traditional threats to national security.

Interesting times, indeed.

Mark Beeson does not work for, consult to, own shares in or receive funding from any company or organisation that would benefit from this article, and has no relevant affiliations.

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