

Financial news outlets have extensively covered the formation of the Asian Infrastructure Investment Bank (AIIB) in the past few weeks. If you're not involved in the world of economics or finance, this is the sort of issue that understandably causes your eyes to glaze over.

But the significance of this new bank really cannot be understated. With only a small degree of hyperbole, Larry Summers, former US Secretary of the Treasury [declared](#) in a Financial Times op-ed that, "This past month may be remembered as the moment the United States lost its role as the underwriter of the global economic system."

So why all hand wringing? Why should those who don't routinely follow financial news care?

The new bank's significance can be best judged in the context of two related issues. The first concerns the current debate in the US about the significance of China's phenomenal growth. The second concerns the relative importance of each country in the aftermath of the global financial crisis that began in 2007.

Hawks and Doves

Let's look at how the debate over China divides between foreign policy hawks and doves. Hawks, dating back to the end of the Cold War, have focused on policies that ensure no other country emerges that can question America's global [supremacy](#). That dominance relies, broadly speaking, on two factors: America's unrivaled military power and its role as the center of the global economy, a position it has largely occupied since 1945. Hawks now regard China as the rising power that if left unchecked, will soon challenge American supremacy.

In contrast, many American liberals take a more "dovish" approach to China. Famed Harvard political scientist Joseph Nye recently reiterated that the best way to deal with China is by a process of [engagement](#), a position he has maintained for well over a decade. Some are less sanguine, such as Robert Zoellick, former Deputy Secretary of State and subsequent president of the World Bank. A decade ago, he famously implored China to become a "[responsible stakeholder](#)" in the global community, rather than pursuing its narrow self interest.

China's new investment bank challenges US influence on global economics

Written by The Conversation

The media routinely invokes these two images of China – as challenger and as a partner to the US. And both doves and hawks each have a story to tell, each reliant on reasonably accurate facts. They are just different facts.

The hawks focus on China's rapidly growing military expenditures, even though it is about [half](#) the GNP expenditure of the US. They point to China's effective use of [checkbook diplomacy](#) across Africa, Asia and Latin America in exchange for natural resources, China's capacity for trade and investment at a [cost of human rights](#), its low-level use of [cyber espionage](#), and its growing claims to [sovereignty](#) in the air and on the seas of Asia. Hawks see China steadily moving to challenge the global rules and institutions constructed by the US after 1945.

The liberals stress the significance of China's [integration](#) into the global economy; the indispensable [role](#) it played in supporting the world's economic system during the depths of the Great Recession; the growth of China's [middle class](#) as a force in favor of democracy; and its oft-repeated goal of a process of "[peaceful development](#)." For doves, time and patience are required as China inevitably moves towards its position as America's economic and political partner.

The role of the AIIB in the debate

The establishment of the new AIIB now becomes very significant in this debate. The AIIB potentially threatens to disrupt a system set up by the US after World War Two. At that time, the US created several important economic organizations. The International Monetary Fund was designed to oversee global financial policy; and the World Bank was intended to provide assistance for development aid in what we today call the Global South. Although countries received voting rights in proportion to their monetary contributions, the US has ensured it retains a controlling vote in both organizations, often leading to [accusations](#) that both institutions are simply instruments of American power.

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Although their roles have waxed and waned over the decades, the importance of these two organizations was largely uncontested – until the Great Recession. Then a cash-rich China began to [spend more money](#) on development aid than even the World Bank. And unlike the World Bank, the Chinese make no demands in terms of labor or human rights, as the World Bank generally does. Indeed, Chinese firms often even [provided the labor](#) for infrastructure development, exporting Chinese nationals to build the roads, bridges or ports. And those roads often led to mines or refineries – with the Chinese being [repaid](#) with natural resources. In other words, the Chinese introduced a whole new conception of aid: loans without the protection – or even use – of local workers and infrastructure in exchange for resources.

Still, many countries needed the cash injections and agreed to these terms, even if they later had “[buyers regret](#) .”

The US, sensing the significance of these developments, has resisted China's expanding economic influence. Since 2010, the US Congress has refused to approve China being awarded voting rights consistent with their economic contributions at the [IMF](#) . Moreover, the Obama Administration has not encouraged cooperation between the World Bank and the Chinese because of then country's disregard for human and labor rights.

The Chinese response, in effect, has been to organize the creation of new financial institutions. One, the [BRICs Bank](#), is a possible challenger to the IMF's central role. Both the [Silk Road Fund](#) and, now, the AIIB are designed to encourage infrastructural development across Asia. They both offer an alternative to the World Bank.

The AIIB therefore represents a snub towards the US, the World Bank and – regionally – the Asian Development Bank. American policymakers tried for months to discourage US allies and partners from signing on as members. But this resistance was effectively broken when the British signed on. A cascade of applications followed, with the total reaching 53 by the deadline at the end of March. This included some of America's [closest allies](#) : Western European nations, Australia, New Zealand and South Korea. Even Japan is considering joining. Every applicant has to be approved – by the Chinese.

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The US has clearly lost this diplomatic offensive; American officials are reputedly [furious](#) at what they regard as the defection of close allies. Now, all parties are trying to save face or maintain decorum by talking about how these various organizations can work together.

But clearly, the creation of the AIIB, the fact that so many close US allies defied US pressure, and the potential marginalization of America's cherished World Bank all symbolize an important turning point for the US. The AIIB's impact goes well beyond the pages of the financial section and into the realm of global political influence.

What the Chinese decide to do with that influence – and whether the hawks or the doves are correct – will only emerge over time.

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