

## Major European “Allies” Desert Obama, Join China-led Infrastructure Bank: Plan B?

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It appears the sea of de-dollarization has reached the shores of Europe. With [Australia](#) and UK having already moved in the direction of joining the China-led AIIB, [The FT reports](#) that France, Germany, and Italy have now all agreed to join the development bank as ‘pivot to Asia’ appears to be Plan B for Europe. As Greg Sheridan previously noted, “the saga of the China Bank is almost a textbook case of the failure of Obama’s foreign policy,” but as The FT concludes, the European decisions represent a significant setback for the Obama administration, which has argued that western countries could have more influence over the workings of the new bank if they stayed together on the outside. [As Forbes notes](#), this leaves Obama with 3 uncomfortable options...

As The FT reports,

France, Germany and Italy have all agreed to follow Britain’s lead and join a China-led international development bank, according to European officials, delivering a blow to US efforts to keep leading western countries out of the new institution.

The decision by the three European governments comes after Britain announced last week that it would join the \$50bn Asian Infrastructure Investment Bank, a potential rival to the Washington-based World Bank.

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The European decisions represent a significant setback for the Obama administration, which has argued that western countries could have more influence over the workings of the new bank if they stayed together on the outside and pushed for higher lending standards.

The AIIB, which was formally launched by Chinese President Xi Jinping last year, is one element of a broader Chinese push to create new financial and economic institutions that will increase its international influence. It has become a central issue in the growing contest between China and the US over who will define the economic and trade rules in Asia over the coming decades.

This follows Australia and UK...

Australia, a key US ally in the Asia-Pacific region which had come under pressure from Washington to stay out of the new bank, has also said that it will now rethink that position.

When Britain announced its decision to join the AIIB last week, the Obama

administration told the Financial Times that it was part of a broader trend of “constant accommodation” by London of China. British officials were relatively restrained in their criticism of China over its handling of pro-democracy protests in Hong Kong last year.

Britain tried to gain “first mover advantage” last week by signing up to the fledgling Chinese-led bank before other G7 members.

Britain hopes to establish itself as the number one destination for Chinese investment and UK officials were unrepentant.

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[Which, as Forbes explains](#), leaves Obama with three options...

- 1) Continue to press its allies not to join the AIIB until governance procedures for the bank are assured;
- 2) Join the AIIB itself; or
- 3) Drop the issue.

Option one is clearly a losing proposition. There is no sense expending further political capital trying to persuade regional and other actors not to join the bank. It is a small-potato issue that is making the United States look weak at a time when U.S. influence in the region is otherwise quite strong.

Option two, which I—along with virtually every other China analyst outside the U.S. government—supported back in October is that the United States join the AIIB. There are several reasons why this is a good idea. It would allow the United States a seat inside the tent where it could be both a positive force for best governance practices and an internal critic if things go awry. It also would likely help ensure that U.S. companies have fair access to the bidding opportunities that will arise from the AIIB’s investment financing. Joining now will be hard to accomplish in a face-saving manner, but the United States could begin by publicly recognizing the need for the financing capabilities in Asia that the AIIB can provide and by moving quickly to work with Australia, South Korea, and Japan to work out common principles of accession.

Option three is for the United States to back away from the AIIB, release other countries from any pressure they might feel from the United States not to join, and let the AIIB rise or fall on its own merits. Chinese-led resource and infrastructure investment has encountered significant difficulty in a number of countries, including Zambia, Myanmar, Vietnam, Brazil, and Sri Lanka, among others. If the AIIB does not do a better job than China’s own development banks, it will be a stain not only on Beijing but also on all the other countries that are participating. If it does operate at the same standard as the World Bank and Asian Development Bank, then it will be a welcome addition to the world of development financing. The United States does not have to be in every regional organization in the Asia Pacific; it is not in the Shanghai Cooperation Organization, for example, and it is only an observer in the Conference on Interactions and Confidence-Building Measures in Asia. It can sit out the AIIB or assume observer status as well.

Washington’s priority should be on advancing U.S. ideals and institutions through the pivot or rebalance rather than blocking Chinese initiatives unless absolutely necessary. (Let’s not confuse China’s effort to develop the AIIB with its push to implement an Air Defense Identification Zone, for example.) Opposition to the Asian Infrastructure Investment Bank has become a millstone

around Washington's neck. It is time to remove it one way or another.

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De-dollarization continues... [As Simon Black recently concluded, now we can see words are turning into action...](#)

[The Allies] might be too polite to tell the US straight up- "Look, you have \$18.1 trillion in official debt, you have \$42 trillion in unfunded liabilities, and you're kind of a dick. I'm dumping you."

So instead they're going with the "it's not you, it's me" approach.

But to anyone paying attention, it's pretty obvious where this trend is going.

It won't be long before other western nations jump on the anti-dollar bandwagon with action and not just words.

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Bottom line: this isn't theory or conjecture anymore. Every shred of objective evidence suggests that the dollar's dominance is coming to an end.

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