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US warns of loss of influence over China bank

Shawn Donnan and Geoff Dyer in Washington [Author alerts](#) ▼



US Treasury secretary Jack Lew

America's "international credibility and influence" is under threat as China sets up rivals to the International Monetary Fund and World Bank and draws the support of long-time US allies, the US Treasury Secretary warned on Tuesday.

Jack Lew said that the US would lose some of its ability to mould international economic rules if Republicans in Congress did not drop their opposition to reforms of the IMF that would give China and other emerging economies a greater voice in the fund.

"Our international credibility and influence are being threatened," he said. "To preserve our leadership role at the IMF, it is essential that these reforms be approved. The alternative will be a loss of US influence and our ability to shape international norms and practices."

Mr Lew's warning came as a growing number of Washington's European allies, led by the UK, have signed on to become founding members of the new, China-led Asian Infrastructure Investment Bank despite vigorous US lobbying to stop them joining.

The decision by the Europeans to join the new bank has left the Obama administration scrambling for a new approach towards the AIIB, which US officials fear could end up being used as a tool of Chinese foreign policy in the region.

As well as the UK, France, Germany and Italy, which have all indicated they will become founding members of the AIIB, Australia and South Korea are now thought likely to join. The initial British move to sign up for the bank last week brought accusations from Washington about London's "constant accommodation" of China.

The dispute over the AIIB is part of what the US sees as a broader strategic contest with China for control of the rule-setting bodies for the international economy.

Beyond its efforts to defend the power of the IMF and the World Bank, the US is negotiating the Trans-Pacific Partnership trade deal with Japan and 10 other economies which pointedly does not include China.

Speaking at a congressional hearing on Tuesday, Mr Lew said the US was not opposed to the creation of the AIIB and recognised the need for greater infrastructure spending in Asia.

But he said the US was concerned that the new bank would not live up to "the highest global standards" for governance or lending and urged those now joining the bank to consider that.

"Anyone joining needs to ask those questions at the outset," he said.

Eswar Prasad, a former head of the IMF's China department, said the Obama administration's inability to get Congress to back the 2010 IMF reforms that it had pushed for was steadily eroding its credibility with allies.

"When the US exercises leadership but then fails to deliver at the finish line that does lead to a marginalisation of US influence," he said. "The fact that the old players like the UK and Germany are falling over each other to prostrate themselves before China is certainly a sign of the new world order."

Daniel Blumenthal, director of Asia studies at the American Enterprise Institute, said that the administration had been giving too much attention to the AIIB, which was a much less important part of the region's emerging economic architecture than the TPP trade deal.

"The administration should stop its pattern of lecturing our closest allies and instead finish the TPP which offers a real economic vision for Asia," he said. "The AIIB is just a stagnating China's way of recycling dollars."

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Matthew Goodman, a former senior White House official now at the Center for Strategic and International Studies in Washington, said that China would probably end up with some form of veto power at the new bank, given that it will be the main shareholder.

However, the new European members would likely influence the way the bank is run over issues such as procurement rules, the social and environmental standards attached to new loans and the ability of borrowers to repay loans — all of which would make it harder for China to use the AIIB as a tool of economic diplomacy.

“The US has lost a round in this match, but the irony is that the entry of the Europeans is likely to push the bank in a direction that is more favourable to US interests,” he said.

Ted Truman, a former assistant Treasury secretary for international affairs, said the Obama administration had made a tactical error in not trying to join the AIIB. “If you want to influence that [the bank’s lending standards] you should be inside the tent rather than outside the tent,” Mr Truman said. However, the US Congress would block any US effort to join.

“The US to some degree is withdrawing from the world and it’s true that our role in the world is going to continue to shrink and it’s difficult for us to accept it,” he said.

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