China Divides the West

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Abstract

China has been at a disadvantage with its representation in the international financial institutions. When it therefore proposed its very own creation, a new development bank for Asia – the Asia Infrastructure Investment Bank –, there was ample reason for Western countries invited, to discuss membership. The United States refused categorically to consider it. Great Britain, however, in its own race against Germany for a closer relationship with the People's Republic, announced, dead-set against U.S. wishes, it would become a founding member. A week later, Germany, France, and Italy followed suit. All this without sufficient reflection among finance experts, without a G7 or a transatlantic discussion, without a consensus in the European Union. Deepening relations with China is tempting – obviously more so than the value attached to Western unity.

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Analysis

When the German, the French and the Italian ministers of finance announced on 17 March that their three countries would accept the Chinese invitation to become founding members of the China-conceived Asia Infrastructure Investment Bank (AIIB), they did so in clear opposition to the outcome United States had hoped for. Now, there is anger in Washington, and expectations in Asia that next, countries such as South Korea and Australia might also join – again against Washington's wish.

The AIIB was proposed by China to – according to Chinese Foreign Ministry spokesman Hong Lei – set up a "professional infrastructure investment and financing platform to contribute to regional infrastructure and economic development." That is something which in fact both the Asian Development Bank and the World Bank already do – this is the American argument against the AIIB. However, China feels underrepresented and arbitrarily sidelined mainly by the United States in the existing institutions. So why not set up a new institution, now heavily financed, and dominated, by China? When the United States, supported mainly by Japan, made clear it would not join, China increased the pressure: Only countries that join before end of March have a chance to occupy senior positions in the new institution.

Certainly there are many reasons to regard the United States' decision not to join the AIIB as unnecessarily defensive – a "rebalancing to Asia" should, maybe, also mean to be close to America's major competitor in China. The United States participating in China's first true international institutional invention also might enable it to shift the weight somewhat away from Beijing. But while this dispute is important, and indicative of future controversies with China in the field of international governance, something else is far more worrying: the complete lack of transatlantic – or even intra-EU – coordination.

It was British Prime Minister David Cameron's government that announced on 12 March, as the "first major Western country" (British Chancellor of the Exchequer George Osborne), that it would join the AIIB. Cameron's objective, however, was certainly not to antagonize the United States, nor was it to bring about a new Asia-based financial institution. Cameron's decision was aimed first of all at Germany, playing its role as China's major partner in the European Union.

Germany in the past decade has come to dominate the EU's economic exchange with China. German-Chinese trade accounts for almost forty percent of total trade between the European Union and China; it is about four times as much as French-Chinese trade and almost three times as much as UK-Chinese trade; the other 25 member states trail behind. And while France and Britain regularly run a large deficit with China, Germany's deficit is slim.

These figures do not even tell the whole story. Germany is the only country in Europe that has an agreement with China to hold annual joint German-Chinese cabinet meetings, which means annual visits by the heads of government accompanied by a large part of their ministers in both directions. Despite possible different political viewpoints obviously, they understand each other and how they tick.

This in principle benefits all of the European Union. The EU is China's biggest trading partner world-wide, and if there is at least some political comprehension for one another through the German channel, then that might help prevent or defuse frictions. It is sensible to expect that this is reflected in the EU's China policy, but it carries obvious risks.

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The British geo-economics expert at the London-based think tank European Council on Foreign Relations (ECFR), Hans Kundnani, suspects, in Foreign Affairs: “China may see Germany as the key to getting the kind of Europe it wants.” Now this may have been proven true indirectly; Cameron's effort to catch up with Germany may have led him to push ahead to become the first G7 country to join the AIIB – right into the face of the United States. “We are wary about a trend toward constant accommodation of China,” a U.S. government representative told the Financial Times.

Whatever Cameron's logic may have been, he has also led the way to disregard the need for consensus in a matter which concerns the basics of the West's relationship with the major new rising power in Asia, and which is of great importance to the United States. Germany, France and Italy have followed Cameron into the AIIB: There has been no thorough transatlantic discussion, no G7 evaluation, and no public discussion that would have involved the financial and business actors concerned. Under the time pressure China has configured, there has been no effort to arrive at a consensus in the European Union. After China had sown confusion when in 2013 it created a grouping with 16 Central Eastern European countries, among them eleven EU member states, now further frictions and conflicts inside the European Union, in the G7, and across the Atlantic are foreseeable. “Divide and rule” is an art mastered long ago by Beijing.

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Remarks: Opinions expressed in this contribution are those of the author.

About the Author of this Issue

Dr. Volker Stanzel served as the German Foreign Office’s Political Director from 2007-09.

From 2009 to 2013, Dr. Stanzel served as the ambassador of the Federal Republic of Germany to Japan, and from 2004 to 2007, he was German ambassador to the People’s Republic of China.

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