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# **The Asian Infrastructure Investment Bank: a Dilemma for Hong Kong and Mankind**

**Chow Pok-yin Adrian**

## The Lobbying

It was reported that representatives from the consulates of 14 European countries met Hong Kong's legislators on 3 and 4 June 2015, expressing their hopes that Hong Kong ("HK") would pass the electoral reform package.<sup>1</sup> The delegation included consuls from Britain, Italy, France, Switzerland, the Netherlands and Spain. In spite of EU's subsequent public note denying such lobbying,<sup>2</sup> legislators who were present in those meetings did recall having felt such "between-the-line" efforts of persuasion. Wordings such as "why not accept the package as it is, now that everyone knows China won't practice democracy?" or "democratic development should be a gradual process" were quoted to have been used by the delegates.<sup>3</sup> The electoral reform package concerned means the reform bill that is proposed by the HKSAR Government on electing the Chief Executive ("CE") by universal suffrage in 2017 and will be tabled at the Legislative Council on 17 June 2015 ("Reform Bill"). It is designed in line with the decision of the National People Congress Standing Committee of the People's Republic of China ("PRC") made on 31 August 2014 ("831 Decision"), one that imposed various restrictions on the 2017 CE election, with important implications on, inter alia:

1. The number of members, composition and formation method of the nominating

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<sup>1</sup> Report of China Daily Asia on 5 Jun, 2015: [http://www.chinadailyasia.com/hknews/2015-06/05/content\\_15272859.html](http://www.chinadailyasia.com/hknews/2015-06/05/content_15272859.html)

<sup>2</sup> Note from Vincent Piket, Head of the EU Office to Hong Kong and Macao, to the editor of China Daily Hong Kong edition, 5 June 2015. See: [http://eeas.europa.eu/delegations/hong\\_kong/index\\_en.htm](http://eeas.europa.eu/delegations/hong_kong/index_en.htm)

<sup>3</sup> <http://www.singtaousa.com/199164/post-%E6%AD%90%E7%9B%9F11%E9%A0%98%E4%BA%8B%E6%99%A4%E6%B3%9B%E6%B0%91%E2%80%82%E6%B8%B8%E8%AA%AA%E3%80%8C%E8%A2%8B%E4%BD%8F%E5%85%88%E3%80%8D/?variant=zh-hk>

committee (1200 people elected from the very narrow based “4 constituencies” in accordance with that of the Election Committee for the Fourth CE in 2012);

2. The number of candidates allowed to run for the CE election (2 to 3 candidates);

3. The threshold of a candidate becoming a nominee at the initial voting of the nomination committee so that he/she is available for voters’ election at the “universal suffrage” (each candidate must have the endorsement of more than 50% of the committee members),<sup>4</sup> rendering the CE general election a “counterfeit”, with candidates pre-selected for voters’ voting. Given this nature of the Reform Bill, why would the delegates from those European countries which have supposedly been promoters of representative democracy be so enthusiastic in selling it to the HK legislators? Are they aware of the fact that the “democracy” under the Reform Bill is quite inconsistent with that which they hold out to the world as being a definitive version?

State behavior in international politics has always and without exception been driven by interests consideration, not by morality or ideology. It’s hence not at all difficult to answer the above question if one considers what went on recently in relation to the Asian Infrastructure Investment Bank (“AIIB”). The AIIB is an inter-governmental regional development institution in Asia. Initiated by the PRC, it purports to provide finance to infrastructure projects in the Asian region. 21 Asian countries signed a MOU on 24 October 2014 to become AIIB’s founding members.<sup>5</sup> The European countries abovementioned are also founding members outside of the Asian region, with UK and Switzerland the earliest ones getting their applications approved on 28 March 2015. It is expected that these founding members will complete the signing and ratification of the Articles of Agreement in

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<sup>4</sup> Full text of the “831 Decision” at: [http://news.xinhuanet.com/english/china/2014-08/31/c\\_133609238.htm](http://news.xinhuanet.com/english/china/2014-08/31/c_133609238.htm)

<sup>5</sup> [http://news.xinhuanet.com/english/business/2014-10/24/c\\_133740149.htm](http://news.xinhuanet.com/english/business/2014-10/24/c_133740149.htm)

2015 and the AIIB will be formally established by year's end.<sup>6</sup> Naturally, the founding of the AIIB is seen as a challenge to the US's economical and political dominance. The White House national security council said the US agreed there was a pressing need to enhance infrastructure investment, but had concerns about whether the AIIB would meet "the high standards, particularly related to governance, and environmental and social safeguards" of the World Bank and regional development banks.<sup>7</sup> The US has also lobbied Australia, South Korea and others to steer clear of the new institution to no avail. Being long-term allies with the US, those European countries and especially UK seem most unusual to join the AIIB notwithstanding US's opposition. But as the UK spokesman for the British Prime Minister said, this move was in UK's national interest,<sup>8</sup> which must be so huge that it justifies an open clash with the US.<sup>9</sup> And in order to pursue this interest and stay within the AIIB camp, it is most natural for those European countries, either as a gesture of partnership or as compliance with some unsung exchange conditions imposed by the PRC, to act in line with the PRC's national interests. Convincing HK legislators to pass the Reform Bill definitely is one of those acts.

### The Grand Plan

How is the mode of HK's electoral reform a matter of the PRC's national interests? If one considers this question from the altitude of the PRC's grand plan in the international arena and observes the recently frequent activities of the PRC in relation to the AIIB, one may see some lights. First of all, apart from just being another regional financial institution, the AIIB is the vehicle of financial synergy for PRC's "One Belt, One Road" ("OBOR") strategy announced in late 2013.

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<sup>6</sup> Ibid.

<sup>7</sup> <http://www.theguardian.com/world/2015/mar/13/support-china-led-development-bank-grows-despite-us-opposition-australia-uk-new-zealand-asia>

<sup>8</sup> Ibid.

<sup>9</sup> It is contended that such interest conflicts with US's financial policies which led to the European debt crisis. Also, IMF's resistance to reform and inability to cope with changing global financial needs result in an escalating demand for a new international financial institution. AIIB seems to fill this void at the right moment. See Wong, Erebus, 關於一帶一路和當前國際局勢的一些思考, 2015, p. 6.

It refers to the New Silk Road Economic Belt, which will link the PRC with Europe through Central and Western Asia, and the 21<sup>st</sup> Century Maritime Silk Road, which will connect the PRC with Southeast Asian countries, Africa and Europe. The two are collectively known as the Silk Road Initiatives. Neither the belt nor the road follows any clear line geographically speaking; they serve more as a roadmap for how the PRC wants to further integrate itself into the world economy and strengthen its influence in these regions. Many of the countries mentioned have traditionally had close trade and investment relations with the PRC, which says they should deepen cooperation, especially in terms of building infrastructure and other development projects. The strategy underlines the government's push to have a bigger say in global economic and political affairs, and to export PRC's enormous reserve of funds, technologies and production capacity in oversupplied areas such as steel manufacturing.<sup>10</sup>

When considering the global landscape, one should notice that the OBOR initiative covers 3 huge regions. The first one is the Middle East and North Africa which have become the epicenter of turbulence, regional war, conflict and hatred. The Arab Spring of 2010 triggered a major political earthquake in this region. A number of strong men fell down. The Syrian War has lasted for more than three years, with 200,000 dead and millions homeless. This war is still going on. The war between ISIS and anti-ISIS alliances is raging. Some parts of Libya have become the stronghold of ISIS in North Africa. The second region is Europe which finds itself in the epicenter of financial crisis. This crisis broke out first in the United States in 2008. A worsening sovereign debt crisis in Portugal, Spain, Italy, and Greece shifted the epicenter of the financial crisis to Europe. The European Union is still struggling to overcome the consequences of this crisis. The third region is East Asia which has become the global growth center. The last three decades witnessed steady and robust growth causing East Asia to become the most dynamic and fastest growing region in the world. With 2.2 billion people, East Asia continues to grow steadily. South Asia is catching up and Central Asia is lagging behind currently. However, the economies of these three regions

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<sup>10</sup> <http://english.caixin.com/2014-12-10/100761304.html>

are highly complementary.<sup>11</sup>

What really drives the PRC to pursue a plan so huge in scale and ambitious? It is contended that the reasons are threefold, namely internal, diplomatic and ontological. Internally, the PRC is facing among other problems a serious one of overproduction. Since the global financial crisis, the PRC has been stimulating economic growth principally through monetary expansion, giving rise to overproduction caused by excessive investment. Take steel for example, the PRC owns six of the world's top ten steel companies. Crude steel output reaches approximately 50% of global <sup>12</sup>production. In other words, about half of the world's steel comes from the PRC. This surely puts pressure on the price of steel and in turn on the profitability or even the survival of steel enterprises at home. Government's initiatives to reduce overproduction however met with local officials' resistance who were protective of local jobs and business interests, adding further tension to the already tensed and complicated central and local governments' relationship.<sup>13</sup> Looking for outlet to absorb these overproduced products seems to be the only solution, and boosting local infrastructure and real property markets are in fact what the PRC has been doing for the past few years. Nonetheless, local infrastructure has already reached saturation and the real property sector has created bubbles that need to be curbed. With dead-ends everywhere, the idea of promoting foreign infrastructure especially in the areas covered by the OBOR strategy thereby absorbing local overproduction comes as a stroke of genius.

Diplomatically, the PRC needs to breakthrough the "siege" of the US under its "return to Asia-Pacific" policy. Japan with which the PRC enjoyed quite an amicable relation during the "ASEAN Plus Three" era (around a decade or more

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<sup>11</sup> <http://www.chinausfocus.com/finance-economy/one-belt-and-one-road-far-reaching-initiative/>

<sup>12</sup> Chang Kyu Lee, *Overproduction and Trade Frictions in China*, Korean Institute for International Economic Policy, 11 December 2014.

<sup>13</sup> <http://blogs.wsj.com/economics/2014/07/16/chinas-steel-industry-still-overproducing/>

since 1997) has turned to the US ever since the center-to-right wing Liberal Democratic Party returned to power in 2012 (some believe to be a result of the US's orchestration). Conflicts over the sovereignty of Daiyou Dao have become more acute in recent years. Russia, with its relationship with the US turned particularly sour because of its recent military operations over Ukraine and Crimea, seems to be a possible ally. In fact, the joint naval exercise between Russia and the PRC in the Black and Mediterranean Seas, along with President Xi Jinping's visit to Moscow in May 2015 saw the growing ties between Eurasia's two great powers.<sup>14</sup> However, Russia has always been more keen on reclaiming its leading position in Europe than becoming just an Asian power (not to mention sharing such status with the PRC!). It is only the US's sanctions as a result of Russian-Ukraine conflict that draw the two closer together.<sup>15</sup> Besides, the two are unlikely long-term partners for reasons ranging from their unequal economic footings to border disputes that happen every now and then. They don't treat each other without skepticism.<sup>16</sup> Meanwhile, being a close ally of the US, Singapore is in control of the strategic Strait of Malacca which is the main shipping lane between the Indian Ocean and the Pacific Ocean. It is a crucial supply lane of oil from the Middle East to the PRC, as well as transport channel for Chinese export products. Given the imminent risk of it being manipulated by Singapore to PRC's disadvantage (out of the US's pressure perhaps), it would be unwise for the PRC not to co-opt Singapore somehow. The AIIB becomes one of the options and Singapore has become a founding member since 24 October 2014. All in all, there is no one for the PRC to turn to when trying to break the US's isolation. She has to pursue her own initiatives.

That said, however, it is contended that the main reason for the PRC to embark on the OBOR project is ontological. As in Halford Mackinder's famous quote "who rules East Europe commands the Heartland; who rules the Heartland commands the

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<sup>14</sup> <http://www.rand.org/blog/2015/05/how-durable-is-the-china-russia-friendship.html>

<sup>15</sup> Wong, Erebus, 關於一帶一路和當前國際局勢的一些思考, 2015, p. 2.

<sup>16</sup> <http://www.rand.org/blog/2015/05/how-durable-is-the-china-russia-friendship.html>

World-Island; who rules the World-Island commands the world”,<sup>17</sup> the OBOR is precisely a plan for the PRC to exert greater command and influence over the World-Island. US’s experience in the Latin America since after WWII illustrates. Via investments in “aiding” Latin America’s industrialization, the affiliates of the US giant corporations jumped over custom barriers (erected paradoxically against foreign competition) and took over Latin America’s internal industrialization process. These imperialist capital captured the local markets from within. While local enterprises continued in control of already established and less sophisticated industries and techniques, US’s private investment rapidly increased its participation in certain dynamic industries which require a relatively high technical level and are more important in determining the course of the place’s economic development. While advocating this process as “civilizing missions” and was a “blessing” to the countries being invested, the US was in fact satellitizing its own industries in Latin America.<sup>18</sup> Though the present circumstances in Eurasia are somewhat different, infrastructure investment by Chinese giant corporations under the OBOR umbrella can achieve similar results in the region concerned. Moreover, the “success” of the International Monetary Fund (“IMF”) in Latin America is a tempting reference for the PRC. In the name of “monetary stabilization”, IMF imposed on Latin America such policies as liberalizing trade by banning direct exchanges & barter agreements, forcing the contraction of internal credits, freezing wages, discouraging state activity (cutting public expenses), asking local governments to devalue their currencies which aimed apparently at stimulating export, but ended up accelerating internal concentration of capital in ruling class’ hands and facilitating absorption of national enterprises by foreigners at low costs, and hastening denationalization (privatization) of industries in the name of “free trade”, “free competition” and “freedom of movement of capital” (while blatantly ignoring the US’s enormous system of protectionism like tariffs, quotas and internal subsidies). Due to the overwhelming dominance of the US in

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<sup>17</sup> Mackinder, Halford, *Democratic Ideals and Reality: A Study in the Politics of Reconstruction*, UK: Henry Holt & Company, 1919, p. 150.

<sup>18</sup> Galeano, Eduardo. *Open Veins of Latin America*, New York: Monthly Review Press, 1973, pp.205-208. See also Chow, Adrian, *The Umbrella Movement: the Bigger Picture Behind and its Broader Imaginations*, CUS508 Term Paper, 2015, p.13.

the IMF and the hegemony of USD as international currency after WWII, the IMF was effectively created to institutionalize Wall Street financial dominion over the whole planet.<sup>19</sup> All these serve as references as to what the AIIB can do in (a) exporting PRC's conditionalities and ideology (so to speak) to the region concerned; and (b) helping to establish the RMB as a global currency alternative to (or at least in competition with) the USD. So despite the PRC's repeated utterance of its national policy of "peaceful development" and "never engaging in foreign aggression",<sup>20</sup> becoming a world power via apparently non-military means has never been more prioritized in the PRC's agenda. The OBOR strategy and AIIB ("the Grand Plan") are the vehicles towards this end, and they are of ontological importance to the PRC. This is the underlying and true version of President Xi's "Chinese Dream".<sup>21</sup> Wordings like "the AIIB being complementary to existing development banks" or "the OBOR initiatives fostering economic connectivity and a new-type of industrialization in the Asia Pacific area, and thus promoting the common development of all countries as well as the peoples' joint enjoyment of development fruits"<sup>22</sup> were just used to sweet-talk the international community and for the sake of political correctness.

With a project as huge and critical as this, no wonder billionaire investor George Soros expressed his worry in a recent Bretton Woods conference about the outbreak of WWIII should this Grand Plan fails. He warned that China's difficulty in transitioning from an export economy to a domestic demand-led system could force Beijing to whip up a conflict with an external enemy in a bid to keep the country

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<sup>19</sup> Galeano, Eduardo. *Open Veins of Latin America*, New York: Monthly Review Press, 1973, pp.220-221. See also Chow, Adrian, *The Umbrella Movement: the Bigger Picture Behind and its Broader Imaginations*, CUS508 Term Paper, 2015, p.14.

<sup>20</sup> <http://www.reuters.com/article/2015/03/28/us-china-diplomacy-idUSKBN0MO04U20150328>; and [http://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/xjpxcxdsjhaqhfbfwhlfgdgbshlhgjkzbbom\\_zb\\_666590/t1143914.shtml](http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpxcxdsjhaqhfbfwhlfgdgbshlhgjkzbbom_zb_666590/t1143914.shtml)

<sup>21</sup> The "Chinese dream" is a much-discussed concept that has been brought to prominence by PRC's President Xi Jinping since late 2012. It is widely understood to mean the renewal of the Chinese nation. See also: [http://news.xinhuanet.com/english/china/2013-05/04/c\\_132359537.htm](http://news.xinhuanet.com/english/china/2013-05/04/c_132359537.htm)

<sup>22</sup> [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1250585.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1250585.shtml)

from collapsing, and suggested said the only solution to the prospect was to allow China to join the IMF's basket of global currencies so that it could compete with the USD. Without this measure, Soros warned that "there is a real danger that China will align itself with Russia politically and militarily, and then the threat of third world war becomes real, so it is worth trying."<sup>23</sup> In fact, PRC's Navy has repeatedly issued warnings to US's surveillance planes flying over the South China Sea in May. Beijing is attempting to increase its influence by building a series of man made islands in the region.<sup>24</sup>

Coming back to HK's electoral reform. Comparing with this Grand Plan, HK's CE election should really be a minute business not even worthy of PRC's glancing. However, there are at least two pre-requisites to the success of the Plan, namely PRC's territorial integrity and social stability. Put it simply, the PRC needs to remain a "continental country" in one piece. Geographically, as mentioned, the PRC needs that to command the Heartland. USSR's disintegration in the 90's and its ever declining power over Europe and international theatre serve precisely as a precedent to be avoided by the PRC at all costs. Separatist movements in Tibet and Xinjiang all these years have been kept under strict containment via a stick and carrot approach (brutal military crackdowns<sup>25</sup> and provision of economic / cultural incentives<sup>26</sup>). Since the two regions represent the western and north-western gateways of the PRC to Central Asia, and if they go independent or somehow fall into the hands of her competitors (like the US), PRC's outlet to the west will completely be blocked and the Grand Plan will just fail. The two regions are of utmost strategic importance. Politically, the social stability of the PRC is extremely fragile. Conflicts exist in every dimension of the society, be they within the ruling elites, between state capital and foreign capital, between the ruling elites and the middle class / grass-root mass, between the central government and the

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<sup>23</sup> <http://www.marketwatch.com/story/soros-sees-risk-of-another-world-war-2015-05-19>

<sup>24</sup> <http://www.infowars.com/george-soros-we-are-on-the-threshold-of-a-third-world-war/>

<sup>25</sup> Example of a recent crackdown in Xinjiang: <http://www.bbc.com/news/world-asia-china-32895245>

<sup>26</sup> Example of a recent crackdown in Xinjiang: <http://www.bbc.com/news/world-asia-china-32895245>

local officials, or between the urban and rural areas. The craze for infrastructural development in recent years (as mentioned, to absorb overproduction) has created countless cases of unfair land acquisition and caused severe environmental hazards. Moreover, inequality of wealth distribution is extremely serious, talking about the annual income of the richest 10% population being 25 times of that of the poorest 10%.<sup>27</sup> All these have gathered severe social resentments and been pushing the PRC society to the edge of large scale social turmoil. Lacking in governing legitimacy (as a result of the 1989 June Fourth Massacre) and failing to construct cultural hegemony, the only way for the PRC government to prevent such turmoil is by tightening state control which is supported by ever expanding domestic security budget.<sup>28</sup> This budget has already reached 769.1 billion yuan in 2013<sup>29</sup> and keeps increasing even beyond the national defense counterpart. Countless activists with more prominent ones including Gao Yu (journalist), Xu Zhiyong (legal scholar) and Pu Zhiqiang (civil rights attorney) were arrested, imprisoned or detained. The apparent social stability is maintained at incredibly high costs and is extremely vulnerable to the slightest of social trembling. Under these circumstances, HK's democratization becomes no longer a trivial matter but one of great national interest. HK's social movements fighting for more "radical" electoral reform, especially the "Umbrella Movement" of last year<sup>30</sup> must be tackled with firmness without concession, for any concession made sends out signal confirming the effectiveness of social movement, and this signal will definitely spark off similar movements in Tibet, Xinjiang and other sectors of the PRC's society where grievances have been great and resistance tightly suppressed. These movements, if they take place, will surely disrupt the PRC's already fragile social stability and even endanger territorial integrity. Even if chaos can be contained,

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<sup>27</sup> Wong, Erebus, 中國當前社會變動分析：三層金字塔、八大力量、十大作用面, 2015.

<sup>28</sup> Ibid.

<sup>29</sup> <http://www.reuters.com/article/2014/03/05/us-china-parliament-security-idUSBREA240B720140305>

<sup>30</sup> Commonly agreed to commence on 28 September 2014 and end on 15 December 2014. However, I reckon the movement is still undergoing, only the occupying phase of it has ended.

it must be done at gigantic costs, somewhere commensurable with that paid for the 1989 Tiananmen massacre. In either case it means the Grand Plan going south, “Chinese Dream” being shattered. This is something that the PRC’s ruling alliance and especially Xi Jinping won’t allow to happen.

To the PRC, HK’s electoral reform may be a minute business, but it equally is an unsettling hassle which may tip the balance between the life and death of the Grand Plan. That’s why they stand firm on the 831 Decision which guarantees state manipulation of the result in HK’s CE election and made no concession to the Umbrella Movement. That’s why the Movement has been labeled by senior Chinese officials as the “HK version of color revolution” as early as in October 2014.<sup>31</sup> That’s why the People’s Daily and official line-to-take have always accused the Movement of being tainted with “foreign influence”.<sup>32</sup> That’s why Lei Fei<sup>33</sup> stressed on different occasions that the Reform Bill must be drafted in line with “PRC’s development interests” and “national security”.

The PRC really wants HK to pass the Reform Bill so that she can hold out to the international community as having honored her constitutional promise (of letting HK enjoy universal suffrage and democracy) and can put this HK business all to rest, then concentrate all attention to the Grand Plan. However, in light of Bill very likely to be rejected by the HK pan-democrats legislators (who publicly expressed that they would vote against it), mobilizing her new found European friends in the AIIB to be lobbyists seems all the more a logical thing to do.

### The Dilemma<sup>34</sup>

To a democracy loving HK individual, the success of the Grand Plan means the failure of HK’s democratic movement. For reasons mentioned above, the PRC will

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<sup>31</sup> <http://www.scmp.com/news/hong-kong/article/1613980/peoples-daily-accuses-us-colour-revolution-bid-occupy-central?page=all>

<sup>32</sup> Ibid.

<sup>33</sup> Deputy Secretary General of China's National People's Congress Standing Committee

<sup>34</sup> Some parts in this section have their wordings borrowed from: Chow, Adrian, *Reading Report on Chapter 1 and 12 of Debt, The First 5,000 Years by David Graeber*, CUS511A, 6 May 2013.

make sure that HK's democratic development is kept under strict control and its democracy won't go beyond the limits of the 831 Decision. Even if the Reform Bill gets rejected by pan-democrat legislators, the 2017 CE will be "elected" by reverting to the 2012 design, that is by a 1200-person election committee. The PRC has nothing to lose in terms of state manipulation of election result. So, the Grand Plan is not something to be particularly fancy with in this sense. However, to a world citizen at the same time, the emergence of the AIIB as another institution to balance the overwhelming influence of the US and IMF may not be a bad thing. The IMF's stringent debt enforcement practices and how the US maintains USD's global dominance may illustrate my point.

Being an international organization formed in 1945 to, inter alia, contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy,<sup>35</sup> the IMF in effect acts as a debt enforcement agent for the creditors against the debtors of international loans, and will impose on the borrowing countries such austerity programs (if the latter wants to obtain refinancing) as abandoning price supports on basic foodstuffs, free health care and free education.<sup>36</sup> In the extreme case of Madagascar where malaria once raged, the government needed money to maintain the mosquito eradication program to make sure mosquitos wouldn't breed again. But owing to IMF imposed austerity requirements, the government had to cut this monitoring program, and consequently ten thousand people died.<sup>37</sup> As simple, logical and unchallengeable as it seems, human lives must prevail over a creditor's right. However, IMF's stringent enforcement practice can reach this level of illogicality and cruelty. So, when the White House national security council said the US had concerns about whether the AIIB would meet "the high standards, particularly related to governance, and environmental and social safeguards" of the World Bank

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<sup>35</sup> Article I(ii), Articles of Agreement of the IMF.

<sup>36</sup> Graeber, David, *Debt, the First 5,000 Years*, New York, Melville House, 2011, p.2

<sup>37</sup> Ibid, p4.

and regional development banks,<sup>38</sup> they don't seem to know how ironic they sounded.

As for USD's world dominance, it was maintained by the US through deceitful playmaking and extreme violence throughout the last 40 some years. In 1971, President Nixon unilaterally abolished the pact between U.S. Dollars (USD) and gold as confirmed by the Bretton Woods at the end of WWII. The act, generally believed to be forced by the rising costs of the Vietnam War, meant that holders of USD overseas who used to be able to exchange their USD in hand for gold by the rate of \$35/ounce could no longer do so after 15 August. From then on Nixon initiated the regime of free-floating currencies that continues till now.<sup>39</sup> The immediate effect was to cause the price of gold to skyrocket, while USD plummet. Since the US was in possession of a large proportion of the world's gold reserves and while most poorer countries kept their reserves in USD, the result was a massive net transfer of wealth from poor countries (which lacked gold reserves) to rich ones like the US that maintained them.<sup>40</sup> But paradoxically, despite the slump in USD' value, and since USD replaced gold as the world's reserve currency for those overseas countries, US was yielded enormous economic advantages.<sup>41</sup> Together with the US's military predominance in the world which no one ever come close, a case could be made that it is this very power that holds the entire world monetary system organized around USD together.<sup>42</sup>

Moreover, because of US's trade deficits at that time, huge numbers of dollars circulated outside the country. Foreign central banks have little they could do with these dollars except to use them to buy US treasury bonds. These bonds are supposed to be loans that will eventually mature and be repaid. But in fact they never did. As long as these bonds are being built into the world's monetary base, they will not

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<sup>38</sup> P. 2 of this paper.

<sup>39</sup> Graeber, David, *Debt, the First 5,000 Years*, New York, Melville House, 2011, p 361.

<sup>40</sup> Ibid, pp 361-362.

<sup>41</sup> Ibid, p 365.

<sup>42</sup> Ibid, p 365.

have to be repaid but are to be rolled over indefinitely.<sup>43</sup> In other words, forcing the US to repay these loans will lead to a lose-lose situation: a collapse of the US economy as a result of her bankruptcy means a collapse of the world's economy as well.

Since Nixon's time, the most significant overseas buyers of US treasury bonds tended to be banks in countries that were effectively under US military occupation like West Germany, Japan, Taiwan and South Korea. What's more, the global status of USD is maintained in the large part by the fact that it is since 1971 the only currency used to buy and sell petroleum, with any attempt by OPEC countries to start trading in any other currency stubbornly resisted by Saudi Arabia and Kuwait, which are also US's military protectorates. When Iraq made a bold move of switching from the dollar to the Euro in 2000, followed by Iran in 2001, they quickly met with the US's bombing and military occupation. Though nobody knows to what extent this represents the true reason behind those US bombings, nobody can ignore such coincidence and possibility.<sup>44</sup> Anyway, by maintaining its worldwide military strength and keeping the rest of the globe in terror, USD becomes the foundation of the worldwide economy. This at the same time helped evolve the situation where there US "wins all": if you don't lend me money, I bomb you; if you force me to repay, I die and you go to hell with me.

These are the horror and hegemony of the US (and the IMF) that need to be stopped, and now seems to be the historical moment when the PRC's Grand Plan can at least start counter-balancing them (if not taking over in the short-run). Those European countries aforementioned may also see this opportunity and thus join the AIIB notwithstanding the US's protest. However, is the AIIB or the Grand Plan something really to be celebrated? One thing is for sure, and that is the nature of debt-induced domination remains entirely unchanged. The people within the region under the AIIB's financial "assistance" will equally suffer from some stringent debt enforcement practices similar to the IMF's, only the creditor this time speaks

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<sup>43</sup> Ibid.

<sup>44</sup> Ibid, p 367.

Mandarin. They will very likely suffer from the plunder of industrial development similar to what the IMF did to the Latin America since after WWII. More importantly, they (and human beings in general) will definitely suffer from severe environmental damage caused by the large scale infrastructure programs brought about by the PRC and their local governments, the primary purpose of which is however not for the good of their communities, but for absorbing PRC's overproduction! People in the OBOR region may truly need infrastructural improvement, but does it need to be in such scale? It comes with what price? Will they be consulted and given the chance to make decisions regarding those infrastructure programs? Will those European countries' participation in the AIIB ensure better governance and monitoring? Or are they just another bunch of rentiers chasing solely for financial gain after all? Is the "Chinese Dreams" going to be the world's nightmare?

HK's Financial Secretary Mr. John Tsang once advised that by participating in the AIIB initiative, HK could grasp the need and direction of Asian countries' development. HK's enterprise and professionals could join in those development projects, thereby benefitting HK trade in general<sup>45</sup>. However, apart from considering whether this means the end of HK's democratic development, we as members of mankind should perhaps also consider whether to forever perpetuate this kind of debt-driven economy. To imagine or not to imagine, that's the real dilemma.

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