TALKING POINTS

Asan Plenum 2015: "Is the U.S. Back?"
www.asanplenum.org

RELEASE EMBARGO DATE: April 28, 2015 at 9:00 AM

Panel: Geopolitics of Finance
Date/Time: Tuesday, April 28, 2015 / 12:30-13:45
Talking Points for: Benn Steil, Council on Foreign Relations

New multilateral institutions, from the BRICS New Development Bank (NDB) and Contingent Reserve Arrangement (CRA) to the Asian Infrastructure Investment Bank (AIIB), reflect growing dissatisfaction among the emerging economic powers towards the financial and monetary architectures inherited from World War II. But how much will actually change going forward? A number of preliminary judgments can be drawn.

First, the high-profile launch of AIIB represents a failure of American diplomacy deriving, in considerable part, from dysfunction in the American policymaking process. Refusal of the Republican-controlled Congress to ratify IMF reform, in spite of it representing no threat to U.S. prerogatives at the Fund, helped make the case for new institutions, where the United States will have no voice, more compelling. Against this backdrop, the Obama Administration lobbying its allies against joining was a tactical error, and its failure leaves it looking impotent geopolitically. This may be expected to undermine its soft-power influence in other arenas.

Second, and in spite of the above, the dominant global role of the U.S. dollar—and that of the institutions that steward it, the Federal Reserve and U.S. Treasury—remains, and has actually been strengthened by the financial crisis. The BRICS NDB, which is entirely dollar-capitalized, creates a new source of global demand for dollar-denominated assets, and is thus furthering that dominant role. Paradoxically, the growth of China's central bank swap lines around the globe may also provide a new vehicle for countries under financial strain to access dollars, by borrowing RMB in order to sell it for U.S. currency—as Argentina has allegedly done.

Third, the United States has made extraordinarily effective use of the dollar's key role in global finance to further its diplomatic efforts, particularly with regard to sanctions on Iran and Russia. Yet in Larry Summers' words, the United States "cannot expect to maintain the dollar's primary role in the international system if [it is] too aggressive about limiting its use in pursuit of particular security objectives." This is because its targets, and potential targets, can be expected to take action to avoid American sanctions, such as the use of other state currencies, gold, and crypto-currencies, and thereby provide impetus for the development of financial infrastructure to accommodate their use, beyond the reach of U.S. authorities.