



ANALYSIS

US global economic leadership: Responding to a rising China

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EXECUTIVE SUMMARY

As its economic weight grows, China is seeking a bigger role in global economic governance. While the country's uncertain growth prospects means that China is unlikely to be the world's sole economic leader, the United States will have to share global economic leadership with China, even if unequally. So far, however, the United States is not adapting to this eventuality very well.

Washington's mishandling of its response to the Asian Infrastructure Investment Bank, Congress' failure to ratify IMF reform, and the decision to exclude China from the Trans-Pacific Partnership suggest that the United States is struggling to accommodate China's desire to have a greater say in the way that the global economy is run. As shown by the issue of climate change, if Washington and Beijing can work together, it has the potential to lead to positive outcomes for the global economy. But if the United States does not work with China, it may well undermine its own leadership position over time.

The Chinese-led Asian Infrastructure Investment Bank (AIIB) was officially launched on 30 June 2015. The institution has drawn support from 50 countries, despite Washington's opposition to key aspects of the proposal and active US attempts to prevent countries from joining. These developments have led to widespread debate over the respective economic leadership roles of the world's largest and second largest economies. Harvard University's Larry Summers has suggested that the creation of the AIIB was the symbolic moment when the United States "lost its role as the underwriter of the global economic system,"¹ while Australian defence commentator Hugh White has asserted that the consensus within the United States on how to respond to China's challenge to US primacy in Asia is unravelling.²

These observations imply that US economic leadership is somehow diminishing. This is true to a certain extent, but claims that the end of US global economic leadership is imminent are premature. The United States remains the established economic power and the key financial centre for the world. The enduring size and resilience of the US economy continues to underpin its centrality in global economic and financial affairs.

China's growth miracle means that it now occupies a major place in the global economy. Yet China continues to face a complex set of macroeconomic challenges that make it highly unlikely that China will wrest global economic leadership from the United States. Much more likely is a situation in which China and the United States will share a role — and not necessarily an equal one — in shaping the future rules of the global economic game and responding to international economic challenges.

The United States is, however, clearly struggling to adapt to a world in which it will have to share economic leadership with China. Its instinctive reaction against the AIIB coincided with its push for mega-regional trade agreements such as the Trans-Pacific Partnership (TPP), the membership of which excludes China. While the ongoing failure of the US Congress to pass even modest reforms that would grant emerging markets a greater say in the governance of the IMF reflects more complex causes, it too suggests that Washington is looking uneasily over its shoulder at China's advance. Indeed, many of these positions are undermining the global leadership the United States is keen to protect.

A coherent world economic structure needs the United States and China to cooperate in shaping the rules and responding to challenges. As former World Bank President Robert Zoellick recently highlighted, the United States should be taking the initiative in adapting to the

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international economy and supporting China's economic reformers, instead of resisting change.³ This will be particularly important heading into the Chinese Presidency of the Group of Twenty (G20) in 2016. Cooperation between the United States and China could spur on multilateralism, helping to provide global public goods for the world's benefit.

This Analysis explores the implications of the China–US relationship for some of the key economic issues requiring multilateral solutions: the international financial architecture, trade, investment, and climate change.

A WORLD OF SOLE CHINESE ECONOMIC LEADERSHIP IS NOT IN PROSPECT

The spectacular rise of China's economy over the past four decades has coincided with its gradual embrace of the global institutions and norms established by the United States and its partners over the past 70 years. The numbers are staggering: the Chinese 'growth miracle' has seen a 9.8 per cent average growth rate sustained between 1978 and 2010 and has brought more than 600 million people out of poverty.⁴ In late 2014, the IMF calculated that China is the largest economy in purchasing power parity terms.

However, the macroeconomic challenges that China still faces suggest that sole Chinese economic leadership remains unlikely. Projecting a country's growth prospects is generally a fraught exercise, but a few factors seem salient. First, Chinese domestic growth is slowing, and it is not clear where these levels will 'bottom out' or what a sustainable long-term growth rate will be. Second, Chinese growth is dependent on its economy's ability to readjust and evolve. China has done this consistently since 1976; for example, it was able to correct its current account surplus from 10 per cent of GDP in 2008 to around 2 per cent in 2012 and reduce reliance on exports for growth.⁵ But China now faces challenges in 'rebalancing' its economy from high levels of investment (currently half of GDP) to a more sustainable consumption-driven model, managing demographic trends, and improving productivity levels. Third, China is at risk of falling into a middle income trap in which wage growth makes it uncompetitive in the export of manufactured goods, but where it cannot match advanced economies in the high value-added market. Fourth, continued development of the Chinese economy necessitates steps to open the Chinese capital account. Financial liberalisation is an important dimension of the transition to a more balanced and robust economy, and offers the potential for Chinese investors to seek higher returns on their savings and bring Chinese business and investment to the world, but it is a risky process and creates the potential for China to import financial shocks from abroad.

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However, none of this changes the fact that China's current economic weight makes it an important player in the global economy and a central player in policy discussions on evolving economic issues. Indeed, China is seeking a greater role in global economic governance for a number of reasons. Increased representation for China can be seen as an end in itself. More influence also means a greater ability to respond to emerging economic and governance developments that could undermine Chinese interests. Greater representation also allows China to 'learn by doing' and improve its domestic capacities in economic diplomacy and governance.⁶

DOES NOT ALWAYS PLAY WELL WITH OTHERS

Despite recognising the size and importance of the Chinese economy, the United States is struggling to accommodate China's desire to play a greater role in global economic affairs. There appear to be a range of reasons for this, and not all of them seem to reflect a coherent, high-level policy decision to exclude China from global economic governance. In the case of the AIIB, for example, poor bureaucratic decision-making and coordination seemed to play a significant role. In other cases, notably the Congressional deadlock on IMF reform, US domestic politics seems to be the culprit. In trade, however, a stronger case can be made that the United States is in fact actively seeking to exclude China.

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INVESTMENT: THE AIIB

The \$US100 billion AIIB is modern China's most ambitious foray into global economic governance. The AIIB has two stated goals: to contribute to global efforts to plug Asia's large infrastructure funding gap; and to deepen regional cooperation.⁷ The economic imperative behind this decision is clear. The Asian Development Bank (ADB) has estimated Asian funding needs between 2010 and 2020 at \$US747 billion per year in national infrastructure and \$US29 billion per year in regional infrastructure.⁸ The infrastructure demand is far greater than the ability of existing multilateral development banks to meet it. The ADB has a capital base of \$US165 billion, and the World Bank has \$US223 billion.⁹

Despite this rationale, the geopolitics around the bank has been contentious. Lou Jiwei, the Chinese Finance Minister, stated at the official launch of the AIIB that the bank represented "China assuming more international responsibility for the development of the Asian and global economies." Although China argues that the AIIB will create 'win-win' solutions to infrastructure challenges, there is no doubt that it will enhance China's direct influence over the scope and type of future public infrastructure projects in Asia. The AIIB, like the raft of investment initiatives that are part of the 'belt and road' development initiative, helps to consolidate China's position as Asia's economic hub and establish its credentials as a regional political leader.¹⁰

Fears that the AIIB will expand China's presence and influence at the expense of the United States and Japan have seen both nations decline invitations to be founding members of the bank. US officials also tried to actively dissuade other countries from joining the AIIB. They publicly questioned the governance arrangements, pressured Australia and South Korea to decline invitations in October 2014, and pointedly rebuked the United Kingdom when it chose to join in March 2015.¹¹

While governance concerns associated with the level of influence China would wield within the bank had some credence, particularly in the early stages of negotiations, China has demonstrated a willingness to negotiate and adapt. China has embarked on a significant 'charm offensive' in its approach to soliciting membership. As part of this effort it has sought to portray the AIIB as a multilateral institution and opened membership to a wide range of countries. China has been willing to make accommodations on key terms of the articles of association and has given up a veto over routine institutional decisions. China has also continued to emphasise the economic and commercial potential of the arrangement, which has increased as the bank's starting capital has doubled from an initial goal of \$US50 billion to \$US100 billion. It is clear that China sees the AIIB as a means of improving its international diplomacy and developing technical expertise.

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The US's initial resistance to the bank won it few friends and stoked perceptions that it was simply opposed to a new Chinese-led institution. Washington's approach has been criticised heavily for overlooking the daunting series of challenges facing the international financial system, and for being inconsistent with its own call for Beijing to be a more responsible stakeholder in global affairs.

The failure of Washington's approach to the AIIB reflects two tactical errors: underestimating the nature of the AIIB as 'just another Chinese investment initiative'; and misreading the appeal of the new arrangements to the international community. In both cases the mishandling of the AIIB issue seems to have stemmed from bureaucratic mistakes rather than any well-considered decision to oppose the bank. In particular, as one US official remarked, there was insufficient 'adult supervision' at the US Treasury, and Asian foreign affairs experts were not appropriately consulted in the course of negotiations.¹² This led to a contradiction between behind-the-scenes bureaucratic opposition to the bank and the official US line, which has continually welcomed the idea of an infrastructure bank for Asia while insisting that it meet international standards of governance and transparency.¹³

Many in the United States now recognise that the government handled the AIIB poorly.¹⁴ As former US Secretary of State Madeleine Albright argued: "The bottom line, I think, is that we screwed up. We should not have done it this way."¹⁵ In the words of one former multilateral development bank official:

“US government officials could have just asked the question, ‘What is China’s vision for the new bank and how would it be different from the ADB and World Bank?’ and then sat back and seen how things developed. But they attacked it instead, lobbied others not to join and, having failed to stop the Brits from joining, committed the original sin of whining to the world about their failure.”¹⁶

INTERNATIONAL FINANCE: THE IMF AND RENMINBI

A second example of the United States’ failure to accommodate China in global economic governance concerns the IMF. The 2010 reforms to IMF quota and governance arrangements aim to increase the voice and representation of fast-growing emerging markets in decision-making, and reduce the overrepresentation of European countries on the IMF Executive Board. When implemented, the reforms are expected to result in a larger shift in quota shares to China and other emerging market economies, and will also help to secure a larger permanent resource base for the fund. Although modest in nature, the governance reforms would make China the third-largest member of the IMF. In addition, the governance reforms were intended to set in motion other governance changes, including a review of the formula for determining quota allocations in December 2015, that would lead to bigger shifts in quota shares to China and other emerging market economies.

The original date for implementation of the reforms by all countries was the end of 2012, but the US Congress has blocked the reforms.¹⁷ IMF reform cannot proceed without the US vote, as it has a veto share of 16.75 per cent of IMF votes and the required majority threshold for the decision is 85 per cent.¹⁸

The IMF has long been a controversial institution in the United States, and US congressional challenges to IMF reform are not new.¹⁹ The successful advancements in the IMF agenda following the global financial crisis probably stemmed from an exceptional set of circumstances. Strengthening the IMF was identified as a necessary part of the global policy response to the crisis, and it helped that the Democrats controlled the White House as well as both houses of the US Congress. Times have now changed, however. The Republicans who now control Congress are sceptical of the IMF. The chances of IMF reform in the short term are therefore limited at best.

At stake, however, is not just a failure to recognise the stake of China and other emerging markets in global governance. The IMF needs China and other emerging markets to help it deal with some of its key challenges. But unless China is given a greater say in how the organisation is run, it may not help. The most pressing issue is what will happen to \$US369 billion in bilateral loans between the IMF and member countries that were agreed to in 2012 and that will largely expire

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in late 2016 and 2017.²⁰ Although these loans have not yet been called upon, they provide an important reassurance to financial markets that the IMF has the necessary discretion to make important decisions. An additional \$US500 billion of IMF resourcing comes from 'New Arrangements to Borrow' — borrowed funds that need to be renewed every six months. With a bigger stake in the IMF's future, for example, China might use its term as G20 President in 2016 to lead negotiations around a deal on IMF resourcing.

Delays in IMF reform have sparked discussion about what can be done to give effect to the reforms in the absence of US ratification. In particular, a set of creative but highly technical 'Plan B' alternatives have been canvassed within the IMF, but such proposals are modest in nature and these discussions have not been able to produce substantive outcomes. There have also been calls to explore options outside the IMF, such as enhancing regional alternatives to the IMF, including the Chiang Mai Initiative Multilateralisation and the BRICS Contingent Reserve Arrangement; China is a part of both initiatives. However, these regional options are more symbolic than substantive and contribute little to the existing rules-based order.²¹

While China has found obstacles at the IMF, it has been able to expand its bilateral links within the international monetary system. The People's Bank of China has extended bilateral swap lines to approximately 30 central banks worldwide since 2008.²² More controversially, China has also provided bilateral assistance to Argentina, Russia, and Venezuela in recent times.²³

Washington's poorly handled response to the AIIB and the failure of US Congress to ratify IMF reform places additional pressure on the looming decision on Special Drawing Rights (SDR). The SDR review at the end of 2015 will consider whether to add the renminbi to the basket of currencies that form the IMF's de facto reserve currency, currently made up of the US Dollar, Yen, Euro, and Pound Sterling. The United States could veto the decision, as the inclusion of the renminbi in the SDR basket potentially requires an 85 per cent supermajority of voting shares on the IMF's Executive Board.²⁴ China has been actively campaigning to promote its currency in regional trade and reduce dependence on the US Dollar. There has been a growing internationalisation of the Yuan, although the US Dollar is still used to settle the vast majority of international trade and investment transactions.²⁵

The pace of advancement in reforming yuan convertibility has led IMF Managing Director Christine Lagarde to state that China's accession to the SDR basket is not a question of if, but when.²⁶ However, 2015 may still be too soon. As Chinese IMF Deputy Managing Director Zhu Min noted, "there are still some obstructions" to a freely usable renminbi.²⁷ Nonetheless, if the United States exercises its veto to block the SDR basket addition, this could be interpreted as further evidence of

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Washington standing in the way of China assuming a bigger role in the international monetary system.

TRADE

Trade is the main area where US policy seems most explicitly aimed at containing China's role in the global economy. Since 1948, the global economy has prospered through a rules-based global trading system administered by the third pillar of the Bretton Woods' system, the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT). The WTO has helped to ensure that the world is not plagued by protectionism and retaliatory trade wars between countries. China itself has benefited from the system. Its accession to the WTO in 2001 coincided with its remarkable economic and trade growth.

However, in the last 20 years, multilateral efforts in the WTO have yielded few results. Many countries have turned to bilateral and regional trade agreements as well as mega-regional trade negotiations such as the TPP, the Transatlantic Trade and Investment Partnership (TTIP), and Trade in Services Agreement (TiSA). These agreements are shifting international trade rules.

These mega-regional trade negotiations are ambitious in scope. The TPP is being negotiated across 12 countries with a combined GDP of \$US28 trillion and a total population of 800 million.²⁸ The negotiations extend beyond traditional trade considerations to 'behind the borders' issues such as intellectual property, legal and institutional issues, and environmental issues. However, it is difficult to know what specific issues will be agreed because the negotiations have been conducted in secret. Importantly, these major rules-setting agreements exclude most emerging market and developing countries, notably Brazil, India, and China. Although details remain unclear, there are reasons to suspect that the economic benefits will be small in magnitude, and as with any regional (or bilateral) arrangement, they carry a strong risk of leading to trade diversion rather than trade creation.

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It is also clear that the TPP has purposes beyond just trade. US Defense Secretary Ashton Carter has argued that the TPP will deepen US alliances and partnerships abroad, underscore a lasting commitment to the Asia-Pacific, and help promote a global order that reflects both US interests and values. Amid a divisive domestic political debate around the topic, US President Obama has stated that "if we do not help to shape the rules so that our businesses and our workers can compete in those markets, then China will set up rules that advantage Chinese workers and Chinese businesses." More bluntly still he said, "we have to rewrite the rules for the global economy before countries like China do."²⁹

The idea that the United States must write the rules while it has the chance reinforces the perception in Beijing that Washington is seeking to exclude it from the process of setting new regional trade rules. This rhetoric has helped to shift Chinese domestic opinion against the TPP, despite the fact that the TPP's focus on high standards for state-owned enterprises, labour, and the environment are generally supported by advocates for economic reform within China.³⁰ Against this background it is not surprising that China is pushing the negotiation of the Regional Comprehensive Economic Partnership (RCEP), an alternative mega-regional trade arrangement, on a broad range of issues including trade, services, intellectual property, competition, and investment.

THE ADVANTAGES OF WORKING TOGETHER

The inability of the United States to fully accommodate China's desire for a greater say in the way the global economy is run does not just have negative consequences for the global economy or indeed for the leadership position that the United States is trying to protect. There are a range of positive outcomes that could result from Washington being more accommodating of China's wishes, without completely capitulating to them.

INVESTMENT

Even the AIIB with its \$US100 billion capital base will contribute only a fraction of the funds needed to plug the investment gaps in Asia. Moreover, the AIIB still has a long way to go before it will be in a position to lend responsibly. Lowy Institute Nonresident Fellow Mike Callaghan emphasises that the bank needs a business plan with proper processes and procedures relating to financing, procurement, safeguards, and recruitment. The bank will also need to establish the roles, responsibilities, and expectations of its board, management, and staff.³¹

By providing technical advice and expertise the United States could help ensure that AIIB delivers the best infrastructure projects possible. Once the AIIB is functioning, it will also need to complement the World Bank, the ADB, and other development banks if the multilateral development banking system is collectively to deliver the best infrastructure projects for the Asian region. As the biggest stakeholders in these institutions, cooperation between the United States and China (and other regional powers like Japan) will determine how these banks interact and, ultimately, how much they achieve in addressing the investment challenge and contributing towards global growth.

TRADE

Despite the current exclusion of China, the United States may eventually find its commercial interests are better served by opening access to the TPP (and TTIP and TiSA) on equal terms to China and other key

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emerging markets. Increasing the scope of mega-regional arrangements to additional countries ensures that US-driven rules and norms are adopted by a broader representation of the global community. A comprehensive agreement that more closely resembles a multilateral trade agreement carries more economic benefits as it lessens the risk of trade diversion.

The United States has itself foreshadowed that China may one day be invited to join the TPP.³² However, as already noted, the way that the United States has approached and talked about the TPP has made such a prospect less appealing in China domestically. A possible compromise might be a combination of the TPP and RCEP (once both are finalised), or at least complementary dimensions of the two agreements, into a 'super-mega-regional arrangement'. This could be a way for the United States and China to forge a consensus in areas of mutual interest and collectively contribute to the setting of international trading rules.

From a global trade perspective, even this would be far from ideal. These deals are not really compatible with a trading system dominated by global value chains and goods that are 'made in the world'. A regional focus also ignores the many large trade issues that are best tackled in genuinely multilateral forums, such as trade facilitation, financial liberalisation, telecommunications liberalisation, and the reduction or removal of farming subsidies. The United States and China would better serve the interests of the global economy by spearheading efforts to fix the WTO. This could start with its negotiating structure, so that the institution is able to successfully oversee common global standards in light of the proliferating mega-regional trade arrangements.

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IMF REFORM

It is likely that China will continue to be frustrated by the lack of progress on IMF reform in the short term. This will be exacerbated by the lack of pragmatic and substantive alternatives available in the monetary system. If the renminbi joins the SDR basket in 2015, this will provide a symbolic boost to China. However, this is not guaranteed because there are technical criteria that need to be met and important work is still needed to ensure that market forces determine the price of the yuan. If 2015 is too soon, the next SDR review in 2020 is too far away. A reasonable compromise could be to bring forward the next review to 2016 or 2017. It will require a delicate balancing act to support China while maintaining the independence of IMF processes.

This is one realm in which the benefits of US–China cooperation would lead to outcomes that disproportionately benefit China. By being steadfast and patient, both in terms of timeframes for the inclusion of the renminbi in the SDR basket and in discussions on IMF resourcing and the renewal of bilateral loans, China will go a long way towards reassuring the international community that it is intent on becoming a

responsible global stakeholder. If China were to champion efforts to secure the IMF's resourcing as part of its G20 Presidency in 2016, it would demonstrate a commitment to delivering outcomes that are in the global public good. It may also facilitate compromise on China's priorities in other areas of the G20 agenda.

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CLIMATE CHANGE

A clear example of what can be achieved if the United States and China work together is in the setting of carbon emissions targets. At the 2014 APEC Summit, President Obama and President Xi jointly pledged to reduce carbon emissions. The United States aims to reduce its emissions by 26 to 28 per cent below 2005 levels by 2025, while China aims to reach 'peak emissions' around 2030 and increase the share of non-fossil fuels to 20 per cent of total energy use.³³ President Obama's new 'Clean Power Plan' could contribute up to a quarter of the reductions needed for the United States to meet its national emissions target.³⁴ The United States has also been integral to the June 2015 G7 commitment to 'decarbonise' the global economy by 2100.³⁵ China in turn announced a hard target for emissions in which it pledged to reduce the ratio of carbon dioxide emissions to its GDP by 60 to 65 per cent below 2005 levels by 2030.³⁶

It remains to be seen whether the US–China agreement will be a catalyst for climate change action. Ongoing leadership from both powers is needed in brokering a technical agreement on emissions. Two key events will be crucial in effecting a global agreement: the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties negotiations in Paris in December 2015 (COP21) to broker a technical agreement on emissions; and the G20 Leaders' Summit a few weeks beforehand, when leaders from the world's largest carbon-emitting countries will have an opportunity to make their intentions known. Climate change was controversial at the November 2014 Brisbane G20 Leaders' Summit, with the G20 unable to reach consensus even on the timeframe for reporting country commitments. Despite the US–China agreement, the G20's indecision robbed climate discussions of much-needed momentum. This was further eroded during the painstaking negotiations on technical issues at the UNFCCC COP20 in Lima in December 2014.

The chequered history of global climate change negotiations shows that reaching an international agreement on reducing emissions will be very difficult. But with the United States pushing the G7 to commit, and China's potential to be an influential voice for major emerging market economies, there are signs that the two countries may just be able to provide the joint global leadership that is required.

WHAT DOES THE TEMPESTUOUS US–CHINA ECONOMIC RELATIONSHIP MEAN FOR AUSTRALIA?

Australia has important bilateral relationships with both the United States and China. The United States has long been a strategic ally and an important economic and trading partner, while China is now Australia's largest trading partner and a major source of demand for key Australian sectors. It is in Australia's interests to promote US–China economic cooperation through regional and multilateral architecture. Australia also benefits greatly from international economic rules.³⁷

Australia should encourage the United States to accommodate China's desire to play a greater role in global economic governance where possible and practicable, while protecting the interests of smaller Asian players. But Australia will also need to be wary of Chinese efforts. Australian officials will need to engage allies and strategic partners in efforts to draw China into playing a global leadership role within the rules-based system. Australia should also encourage decision-making through multilateral forums that bring together the world's major advanced and emerging economies, for example the G20, and maintain a constructive approach towards such forums. This approach also means supporting China's constructive additions to the global institutional regime, such as the AIIB, and engaging actively in efforts to contribute to a better Chinese understanding of multilateralism.

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CONCLUSION

Through the establishment of the AIIB, China has signalled that it is willing to play a more prominent leadership role in the global economy. China's ongoing economic challenges means that Beijing is not about to supplant Washington's leadership in global economic governance. Nevertheless, the size and importance of the Chinese economy underlines that Beijing will want a bigger say in defining global economic rules.

The inability of the United States to accommodate China's rise in global economic governance has negative consequences for both the health of the global economy and for the United States' current leadership role. China is prepared to work around US resistance by cooperating with the broader international community, including US allies, which may ultimately undermine the very leadership position that Washington is trying to protect.

A renewed effort is needed to ensure that China's economic weight is brought into the existing rules-based international order. There are several practical steps to do this. The US Congress should pass IMF quota and governance reforms, as the world needs an effective cornerstone institution for the international monetary system. Meanwhile, the international community should forge ahead with a deal on the

renewal of IMF bilateral loans, and China should use its 2016 G20 Presidency to demonstrate a pragmatic commitment to the rules-based order by making this an international priority. A better functioning international trading system is crucial for boosting global growth. Any efforts to reinvigorate the multilateral trade agenda by addressing the way that international trade deals are made will depend on US–China cooperation. As the issue of climate change demonstrates, cooperation between the United States and China carries the promise of economic solutions that deliver global benefits.

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NOTES

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¹⁴ This sense was picked up across a range of discussions with officials, academics and think tank experts in recent travels in Washington. It accords with that of Leon Berkelmans in "AIIB: China About to Learn a Hard Lesson in Leadership," *The Interpreter* (blog), 5 May 2015, <http://www.lowyinterpreter.org/post/2015/05/05/AIIB-China-about-to-learn-a-hard-lesson-in-leadership.aspx>.

¹⁵ David R. Sands, "Democratic Titans Say Obama 'Screwed Up' and Gave Rise to China's New Bank," *The Washington Times*, 1 April 2015, <http://www.washingtontimes.com/news/2015/apr/1/efforts-to-head-off-china-development-bank-called/>.

¹⁶ "China's AIIB Recasts Development Finance — and U.S. Influence," *Knowledge @Wharton* (blog), 16 April 2015, <http://knowledge.wharton.upenn.edu/article/chinas-aiib-recasts-regional-development-finance-and-u-s-global-influence/>.

¹⁷ A good summary of US positions, a recent history of US interest, and the many congressional roadblocks at the IMF can be found in C. Randall Henning, *US Interests and the International Monetary Fund*, Peterson Institute for International Economics Policy Brief PB-09-12, June 2009, <http://www.iie.com/publications/pb/pb09-12.pdf>.

¹⁸ Mike Callaghan and Tristram Sainsbury, "Memo to IMF Reformers: Don't Let Congress Get You Down," *The Interpreter* (blog), 4 February 2015, <http://www.lowyinterpreter.org/post/2015/02/04/Memo-to-IMF-reformers-Dont-let-Congress-get-you-down.aspx>.

¹⁹ An illustrative case is in 1997 where the IMF Board of Governors agreed to a proposed amendment to the IMF's articles of agreement (the fourth amendment) that would bring all members' cumulative allocation of special drawing rights (SDRs) up to the percentage of their quotas. The changes would mean that members that had joined after 1981 — a full one-fifth of the IMF's membership — were allocated SDRs and were able to participate in the SDR system on an equitable basis. Yet it wasn't until 2009, more than a decade after the Board of Governors agreed to the shift, that the US congress finally ratified the changes. The US Treasury Secretary had indicated at the time that there may only be one

shot at Congress when it comes to getting through any legislation on the IMF, and that it needs to be worthwhile.

²⁰ International Monetary Fund, *Factsheet: Where the IMF Gets Its Money*, 9 April 2015, <https://www.imf.org/external/np/exr/facts/finfac.htm>.

²¹ Regional financing arrangements vary in their size, structure and effectiveness — from the European Stability Mechanism (which played a major role during the 2010 euro crisis) through to the Chiang Mai Initiative Multilateralisation (which has been described as unusable) — rendering the effective resources available well below the nominal amount. Further, all regional financing arrangements face some relatively strong issues: the closeness of countries that participate in regional arrangements can make imposing painful (but necessary) conditions for assistance difficult and uncomfortable. The narrower base of resources means they are less reliable, less diversified, and more risky. Finally, regional surveillance may be partial as the global picture is not necessarily obvious.

²² Zhu Yihong, “Swap Agreements and China’s RMB Currency Network,” *CogitASIA* (blog), 22 May 2015, <http://cogitasia.com/swap-agreements-chinas-rmb-currency-network/>.

²³ China has been able to make arrangements with these countries on the basis of business interests (such as contracts for Chinese companies in strategic sectors of oil and food), and loans have not been tied to conditions on traditional macroeconomic/market access considerations. Yet without strong conditions these investments are risky; and it remains far from certain that loaned funds will be repaid: *The Economist*, “Yuan for All,” 29 January 2015, <http://www.economist.com/news/leaders/21641203-chinas-loans-foundering-governments-may-seem-challenge-imf-biggest-risks-are>; and *The Economist*, “Rich but Rash,” 29 January 2014, <http://www.economist.com/news/finance-and-economics/21641259-challenge-world-bank-and-imf-china-will-have-imitate-them-rich>.

²⁴ It remains unclear whether the move would require 70 per cent or 85 per cent of the vote under the IMF’s bylaws: Andrew Mayeda and Fion Li, “Yuan Has Real Shot at IMF Blessing on Reserve Status,” *Bloomberg*, 11 December 2014, <http://www.bloomberg.com/news/articles/2014-12-11/yuan-has-real-shot-at-imf-blessing-on-reserve-status>.

²⁵ Bank for International Settlements, “Triennial Central Bank Survey: Foreign Exchange Turnover in April 2013: Preliminary Global Results,” Monetary and Economic Department, September 2013, <http://www.bis.org/publ/rpfx13fx.pdf>.

²⁶ Jana Randow, “Bundesbank Sees IMF Decision as Key to Yuan as Reserve Currency,” *Bloomberg*, 18 May 2015, <http://www.bloomberg.com/news/articles/2015-05-17/bundesbank-sees-imf-decision-as-key-to-yuan-as-reserve-currency>.

²⁷ Paul Taylor, "China Knocking on Door of IMF's Major League, U.S. Wavers," *Reuters*, 2 April 2015, <http://www.reuters.com/article/2015/04/02/us-china-imf-sdr-insight-idUSKBN0MT0LB20150402>.

²⁸ Department of Foreign Affairs and Trade website, <http://dfat.gov.au/trade/agreements/tpp/Pages/trans-pacific-partnership-agreement-tpp.aspx>.

²⁹ Bloomberg, "Obama Warns TPP Failure Would Let China Write Trade Rules," *Japan Times*, 18 April 2015, <http://www.japantimes.co.jp/news/2015/04/18/business/economy-business/obama-warns-tpp-failure-would-let-china-write-trade-rules/#.VcwWZ2eJiUk>; and "Obama: US Should Set Rules for World Economy," *Sputnik International*, 2 July 2015, <http://sputniknews.com/us/20150702/1024142710.html>.

³⁰ Min Ye, "China Liked TPP – Until U.S. Officials Opened Their Mouths," *Foreign Policy*, 15 May 2015, <http://foreignpolicy.com/2015/05/15/china-liked-trans-pacific-partnership-until-u-s-officials-opened-their-mouths-trade-agreement-rhetoric-fail/>.

³¹ Mike Callaghan, "Beijing Should Hasten Slowly on the AIIB," *The Interpreter* (blog), 1 July 2015, <http://www.lowyinterpreter.org/post/2015/07/01/Beijing-should-hasten-slowly-on-AIIB.aspx>.

³² Wong Wei Han, "Door Open for China to Join TPP: US Officials," *Today*, 9 December 2013, <http://www.todayonline.com/business/door-open-china-join-tpp-us-officials>.

³³ The White House, "U.S.-China Joint Announcement on Climate Change," media release, 12 November 2014, <https://www.whitehouse.gov/the-press-office/2014/11/11/us-china-joint-announcement-climate-change>.

³⁴ Frank Jotzo, "Obama's Clean Power Plan Just the Tonic for Paris Climate Talks," *The Interpreter* (blog), 5 August 2015, <http://www.lowyinterpreter.org/post/2015/08/05/Obamas-clean-power-plan-just-tonic-for-Paris-climate-talks.aspx>.

³⁵ Group of Seven, Leaders' Declaration G7 Summit, Schloss Elmau, 7–8 June 2015.

³⁶ Frank Jotzo, "China Makes its Formal Climate-Change Pledge," *The Interpreter* (blog), 1 July 2015, <http://www.lowyinterpreter.org/post/2015/07/01/China-makes-formal-climate-change-pledge.aspx>.

³⁷ For a clear summary of metrics which explain Australia as a top 20 country, see Minister for Foreign Affairs, The Hon Julie Bishop MP, Address to the G'Day USA Australian Outlook Luncheon, (speech, the Harvard Club, New York, 24 January 2014), http://foreignminister.gov.au/speeches/Pages/2014/jb_sp_140124.aspx?ministerid=4.

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