

Who Lost China?

The U.S. Congress.

BY DAVID HALE

Recent events illustrate how the United States is failing to grapple with the re-emergence of China as a great economic power due to political gridlock between the White House and Congress.

The brouhaha over the membership of China's proposed Asian Infrastructure Investment Bank is a clear sign of failure in U.S. foreign policy. When China became the world's second-largest economy in 2010, there was a broad perception that China's economic ascendancy justified reforming the International Monetary Fund and World Bank to give China a quota increase. The Obama Administration proposed increasing the quotas for a variety of emerging market countries, with the largest gain for China, whose share would rise to 6.1 percent from 3.8 percent, just behind Japan. The loser would be Europe, not the United States. The United States would continue to be the only country with an ability to veto policy changes unilaterally at the IMF. Although Washington has been discussing these reforms for over five years, Congress has always refused to enact them. The United States has also been unwilling to change the tradition that a European should lead the IMF and an American the World Bank.

This gridlock offended China and persuaded her that she should develop new multilateral institutions where she could play a leadership role. The Asian Infrastructure Investment Bank and a new BRICS development bank are two of those institutions. China is already playing a major lending role in the developing countries through two domestic institutions, the China Development Bank and the Export-Import Bank. They now provide more loans to Latin America than the World Bank and the Inter-American Development Bank combined—and more loans to Asia than the World Bank and Asian Development Bank. They are also major lenders to Africa.

The next major foreign policy challenge for the United States in Asia will be to enact the Trans-Pacific Partnership agreement. The Obama Administration announced a pivot toward Asia three years ago and the TPP would be the first step. This agreement will include several East Asian countries as well as Japan, Canada, and Mexico. The Democrats do not support FTAs because of opposition from the trade unions. The Republicans don't have this problem, but many could withhold support for TPP because of their opposition to Obama. The President needs trade promotion authority—fast track—from the Congress to complete the TPP negotiations. It is impossible for Obama to effectively negotiate with other countries when they know that Congress might renege on any deal he makes.

The TPP agreement will produce modest trade benefits for the U.S. economy over several years, and is sorely needed not just for trade in physical goods, but to remove barriers to the transfer of data from one country to another, a market segment where the United States leads. It will open Japanese markets by removing a variety of trade barriers and create new opportunities in Southeast Asia. If the TPP appears to be working, other Asian nations, such as Indonesia and Korea, may join.

Asian countries regard TPP as not just a trade agreement, but also an attempt by the United States to strengthen its pivot toward Asia and serve as an offset to the rise of Chinese power. Failure to enact TPP will be viewed as a sign that the United States will gradually give up its role as a major power in Asia and relinquish leadership to China.

A new trade agreement comes into effect at the end of this year between China and other Asian nations: the Regional Comprehensive Economic Partnership. China is already the major trading partner for many of these countries as well as for Japan, so they welcome any effort to improve their trade relations. Intra-Asian trade accounts for 22 percent of ASEAN's total trade and nearly 60 percent of that is with China. The United States was the major trading partner for many Asian countries before but has now lost out to China, so it needs to take steps to improve its trade relationships in the

region. In fact, China is now the major trading partner for 124 countries worldwide, while the United States is down to 76.

Managing the rise of China as a great economic power will be a complex challenge for the United States, and once the tide turns in Asia, it will be difficult to reverse. The two countries have created bilateral institutions such as the Strategic Economic Dialogue to serve as a forum for negotiations. But despite such efforts, the U.S. Congress did not increase China's IMF quota and thus encouraged her decision to create new multilateral institutions. The United States has tried to discourage her allies from joining the AIIB, but during recent weeks Britain, Germany, France, Italy, and Luxemburg have announced plans to join. Australia and Korea are now following.

The Obama Administration has treated TPP as an exercise in trade policy. The reality is much larger. The Administration has to persuade the Congress that it is the only way the United States can maintain its role as a great power in Asia and the Pacific and attempt to check the rise of Chinese power. The enactment of TPP should be viewed as a great victory for U.S. foreign policy. American credibility in Asia depends upon it. ♦

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