

2014: A pivotal year for the global economic order by
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Any review of the major international events of 2014 would certainly include Russia's annexation of Crimea, the rise of the Islamic State, and the Ebola outbreak. But the most epochal development of the year may turn out to be China's claim to a leading role in running the world economy. In founding several new international financial institutions and asserting its leadership on trade and investment in Asia, Beijing mounted the first serious challenge to the US-led global economic order established at Bretton Woods 70 years ago. There are questions about how trailblazing – or even sustainable – China's efforts are in substance, but the strategic ambition behind them is unmistakable, and Washington needs to be smarter in its response.

President Xi Jinping spent his first year in office largely focused on domestic affairs: consolidating power and launching a forceful anticorruption campaign. But in 2014, he turned his attention to foreign policy. His speech to the Communist Party's Central Work Conference on Foreign Affairs in late November capped a hyperactive year of diplomacy and was the clearest statement yet of Xi's break with the "hide and bide" strategy that had governed Chinese foreign policy since Deng Xiaoping first enunciated it at the start of the reform and opening era.

Economics has been at the heart of Xi's diplomatic activism. In 2014, China championed the creation of two new multilateral financial institutions. In July, it joined with Brazil, Russia, India, and South Africa to found a New Development Bank – the so-called BRICS Bank – and a parallel contingency reserve fund. In October, it enlisted 20 neighboring countries to launch an Asian Infrastructure Investment Bank (AIIB) based in Beijing. The following month, it established a \$40 billion Silk Road Fund to support Xi's vision of "one belt and one road," a network of infrastructure projects throughout Central and Southeast Asia designed to strengthen regional connectivity – and reestablish Chinese centrality in the region.

Beijing was also active on the trade front. After years of negotiations, it concluded landmark free trade agreements with Korea and Australia. As host of the annual Asia-Pacific Economic Cooperation forum (APEC) in November, Beijing appropriated an earlier US initiative by proposing formal negotiations toward a Free Trade Area of the Asia-Pacific (FTAAP). China capped off a year of active economic diplomacy at the annual G20 summit in Brisbane by edging

out Japan to win hosting rights for the 2016 gathering of world economic leaders.

Like many of its foreign ventures in recent years, Beijing's recent economic activism has been "two steps forward, one step back." Its assertive behavior in the East and South China Seas earlier in 2014 alarmed its neighbors – and not just those directly threatened. While Beijing took a more conciliatory approach later in the year, tamping down maritime disputes with Japan and Vietnam, the damage was done. Already nervous about overdependence on China's massive economy, many neighboring countries had new reason to be wary of a Chinese diplomatic style that seemed to belie its "win-win" rhetoric.

Moreover, for all of Beijing's activism in championing new institutions, it often found itself having to retreat on the substance of its proposals where these diverged from existing rules and norms – or simply from practicality. The paid-in capital to the BRICS Bank was whittled down to only \$10 billion after it became clear that the political imperative of equal shares among the five countries bumped up against the limits on South Africa's ability to contribute. When questions about the AIIB's governance and lending standards were raised by potential members such as Australia and Korea, Beijing was forced to clarify that these would align with existing practices at the World Bank and Asian Development Bank. And China set aside its initial goal of a feasibility study and deadline for FTAAP negotiations when it became clear that the United States and other APEC members were not ready to commit to more than a long-term aspiration.

Yet Washington's reaction to these initiatives showed that it saw them as a threat to the existing order and its leadership in global and regional economic affairs. Unfortunately, the U.S. actions over the year could be characterized as "one step forward, two steps back." Yes, Washington's transparent doubts and backroom cajoling of its allies had the desired effect in substance of rolling back the most objectionable parts of the Chinese initiatives. And President Obama's two trips to Asia over the year were generally successful in underpinning US leadership in the region.

But Washington paid a price for its defensive response to Beijing's initiatives, particularly the AIIB. By remaining silent in public, it allowed others to write the narrative that a declining United States was blocking China's rise to global leadership and arm-twisting its allies into supporting the US position. Once it saw that Beijing was serious about moving ahead with the AIIB, Washington should have gotten ahead of the curve by publicly acknowledging the need for more infrastructure spending in Asia and China's potential contribution to filling this gap, then voicing its legitimate questions about governance and lending standards of the proposed bank – and even the need for a new institution.

Moreover, Washington's leadership in global economic affairs suffered from two non-accomplishments in 2014: the Obama administration's failure to persuade the US Congress to ratify quota reform at the International Monetary Fund – a real thorn in the side of China and other underrepresented emerging economies; and its inability a pivotal year for the global economic order to complete a Trans-Pacific Partnership trade agreement, which would burnish US credentials as a champion of the rules-based economic order. Accomplishing these two critical objectives should be the highest priorities for Obama's international economic policy in 2015.

Despite all the maneuvering of the past year, the United States and China are not as far apart on issues of global economic governance as meets the eye. Both recognize that the existing order has promoted broad prosperity over the past seven decades – not least for hundreds of millions of Chinese. Yet both also recognize that existing rules and institutions, and how the latter are governed, are out of date and need an overhaul. As they did with their historic agreement on climate change in November, Beijing and Washington should spend more time seeking areas of agreement and managing differences where they exist, rather than letting mistrust, misunderstanding, and psychological insecurities blind them to their mutual interest in a cooperative, rules-based economic order.

It is understandable why *Time* magazine named Ebola workers “persons of the year” for 2014. But a century from now, historians are more likely to rate Xi Jinping and Barack Obama as the men who set the course for global prosperity – or otherwise – in this pivotal year.

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