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As Trump Retreats, China Scales Up Global Economic Leadership

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Next month world finance ministers descend on Washington for the spring meetings of the International Monetary Fund (IMF) and the World Bank. For the first time since they were founded, it is not clear that the ministers or the institutions themselves will be welcomed.

Last week President Trump submitted a budget that indeed cut World Bank contributions by $650 million, and reduce s US participation in the IMF.

As the US scales back, China has been scaling up. Ever since the financial crisis Chinese institutions have been providing lifelines to foreign countries and billions of dollars in development finance.

In terms of providing a backstop for international liquidity, China's central bank, the People's Bank of China (PBOC), is playing a growing role. In the wake of the crisis, PBOC governor Zhou Xiaochuan raised global eyebrows when he said that "The desirable goal of reforming the international monetary system, therefore, is to create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies."

In addition to strong words, the PBOC governor has been practicing what he preaches. According to a forthcoming paper by Syracuse University professor Daniel McDowell the PBOC has made available roughly $US 550 billion in local currency swaps around the world.

As Eswar Prasad has noted in a new book, these swaps don't mean that the yuan is taking over, the dollar is still the world's major currency and the Federal Reserve made unlimited amounts of dollars available in the wake of the crisis. That said, China's swaps are massive and provide a real backstop for some countries, help facilitate trade, and may pave the way to bigger things to come.

In addition, China is also leading by example. In a step more in tune with what the framers of the Bretton Woods agreements intended, and that the IMF has come around to again recently, the PBOC has been re-regulating capital flows to mitigate financial instability and prevent a massive devaluation in its currency. At the same time, the Trump administration is pledging to rollback the financial regulations put in place after the crisis.

China has emerged as a leader in development finance as well. The global wing of China's national development bank, the China Development Bank, has a global loan book of close to $400 billion. Its partner the Export-Import Bank of China holds approximately another $300 billion. The two together have a larger basket of assets than the World Bank and all the regional multilateral development banks combined.

In addition to these two banks China has created about $116 billion in bi-lateral and regional funds such as the Silk Road Fund that will invest in China's "Marshall Plan" the Belt-Road Initiative. Other funds include the China-Latin America Fund and the China-Africa Development Fund that are providing support for infrastructure and industrial transformation.

Of course, China has also taken the lead in creating two new development banks, the Asian Infrastructure Investment Bank (AIIB), and the BRICS' New Development start with $50 billion in start up capital but aspiring to have close to $350 billion by 2020.

What is more, China's institutions appear to be more flexible. As former World Bank chief economist Justin Lin notes in a new book with Yan Wang titled *Going Beyond Aid: Development Cooperation for Structural Transformation*, China's development institutions blend concessional and non-concessional financial instruments with grants and commercial sector involvement in creative ways that are unimaginable for the Washington-backed international financial institutions.

Jin Liqun, head of the new China-backed Asian Infrastructure Investment Bank recently told the Financial Times, "Now that China has developed, it is our turn to contribute."

On many levels, China's new contributions couldn't come at a better time. The financial crisis proved that the IMF and the Federal Reserve need more firepower to prevent and mitigate a crisis. What is more, the world economy needs to invest $6 trillion per year over the next fifteen years into developing country infrastructure gaps and to rebuild the neglected infrastructure of industrialized countries and transform it into one that is climate change resilient and socially inclusive. And although great progress has been made, there are still over 700 million people living in extreme poverty on the planet.

The Trump administration's proposed cuts to global economic institutions appear to be yet another sign of an American retreat to isolationism on the global economy. Rather than retreating, Washington should be leading the way to embrace China's efforts and figure out ways to coordinate with and compliment China's new global economic prowess.

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