Clash of Powers: US-China Rivalry in Global Trade Governance with Dr Kristen Hopewell, Canada Research Chair in Global Policy

This is a written transcription of Kristen Hopewell’s Global Development Institute webinar. You can find a video or audio of the lecture below.

YouTube video: https://youtu.be/a1Z_HkJWs6o


Kristen Hopewell: I'm really excited to have the opportunity to present some of the material from my new book that Sophie mentioned.

So the book I’m presenting materials, as Sophie said, it's entitled 'Clash of Powers: US-China rivalry and global trade governance' and I want to start by thanking the funders of the project, the UK Economic and Social Research Council and the Global Challenges Research Fund.

Great, I've just advanced my slides just to check everyone can see that? Excellent, all right we're good to go with that.

So, as we know, trade has become a big flashpoint of conflict between the US and China. We've seen a dramatic escalation in trade tensions between the world's two largest economies. Attention has overwhelmingly focused on the bilateral trading relationship between the two; things like the size of the US trade deficit with China, allegations that China is engaged in unfair trading practices, and, under President Trump, the US imposing tariffs on Chinese imports and igniting a trade war. In this book I focus on a critical aspect of their growing rivalry that's been largely overlooked and that's their battle over the global institutions, and rules, governing trade.

So for over 70 years, the US has been the dominant state in the global economy and its governance. As John Ikenberry puts it from its position of global hegemon, meaning the world's dominant power, the US effectively "ran the system". It constructed the institutions of global economic governance institutions like the World Trade Organization (WTO), the IMF and the World Bank; these institutions served as an important channel for the projection of American power and their rules also reflected its primacy. But now, after four decades of rapid and sustained economic growth, China has emerged as the world's leading trading state, and its second largest economy.

So this has given rise to two major debates. First, are we in the midst of a hegemonic transition from the US to China, or does the US maintain its dominance? And second, how will the rise of China affect the system of global economic governance constructed under American hegemony?

So the book intervenes in each of these debates by analysing China's impact on global trade governance, which is really at the heart of the US-led liberal international economic order; and by liberal international economic order, I'm referring to the institution's rules and laws that were
created under US hegemony. This is typically referred to as a 'Liberal order' because it's broadly based on the principles of open markets and free trade.

So I focus on two key multilateral institutions for governing trade: the World Trade Organization (WTO) which is really the core institution created to govern the global trading system, and is a key pillar of the US led liberal international economic order, and a second institution, the OECD arrangement on export credit; which has received much less attention from scholars but as I show, has also played a critical role in maintaining a liberal trading order.

Many disciplines claims about the rise of China, and a decline in USA hegemony, are exaggerated or overblown. They point out that by virtually every conventional measure of power, whether economic, military or soft power, the US still has "a huge lead" as Daniel Drezner puts it, and remains vastly more powerful than China. Even just in economic terms, for example, the Chinese economy is still only about 65% of the size of the US misleads many to conclude that China is not an imminent threat to American dominance and that the US remains secure in its position as the world sole superpower.

Comparisons have frequently been drawn to earlier erroneous predictions, in the 1980s and 90s, that a rising Japan would surpass the US and bring it into its dominance; with the argument being that China's purported threat to American hegemony will prove similarly fleeting and illusory.

With regard to the second debate concerning China's impact on global economic governance, many assume that since China has benefited from an open and rules based trading system, which has enabled it's remarkable economic growth and development, that it's therefore heavily invested in maintaining that system. The general consensus, even among scholars coming from very different theoretical perspectives in IR, is that China is not seeking to overthrow the existing global economic order, but instead is fundamentally supportive of its overarching goals and principles and seeking to sustain it.

So much as seem to rest on the willingness of the US to incorporate China into existing global governance institutions and to give it appropriate weight and authority and decision making. If so, it's argued that China will readily integrate into, and support, those institutions and that they'll continue to function smoothly and effectively. So in sum, the prevailing view is that the US maintains its dominance in the international system. China does not possess sufficient power to pose a real threat to US hegemony and even if it did, China would likely support rather than challenge the existing system of global economic governance that the US has created.

The book, however, challenges each of these assumptions. I argue that China's rise has in fact proven far more destabilizing, both to US power and for global economic governance, than previously recognized. I show that China has proven a significant counterbalance to American power that has sharply curtailed the US is institutional power, meaning its power over the institutions and rules that govern the global economy. Existing trade institutions created under American hegemony are being undermined and US efforts to construct new trade rules have been repeatedly thwarted by a rising China. Despite the US has superior power resources. it's greater levels of economic, military and soft power, China has been able to persistently block the US from achieving its objectives across a wide range of different areas of trade governance. Amid the rise of China I argue,
the US’s ability to dominate the governing institutions of the trading system, and to write the rules of global trade, has been substantially weakened. So in contrast to the assumption that a rising China can be smoothly integrated into the system of global economic governance created under US hegemony, I show that China’s rise has created serious challenges for the multilateral trade regime. The US and China are engaged in a struggle over the rules of the game and specifically whether and how the rules will apply to China. I demonstrate that this conflict between the two dominant powers has profoundly undermined the established system of global trade governance by eroding the efficacy of existing institutions and blocking global rulemaking in trade. So institutions that are essential to ensuring stability and order in the international trading system have been severely weakened. I construct this argument drawing on field research conducted over an 11 year period at the WTO in Geneva and the OECD in Paris; as well as in Washington, Beijing, Brussels, Tokyo, Brasilia, New Delhi, and Ottawa. And I draw on three sources of data: over 200 interviews with trade negotiators, senior government officials, and representatives of industry and NGOs, extensive documentary analysis, and direct observation.

So the book analyses a number of different areas of global trade governance. A comprehensive trade round, the Doha Round, subsequent negotiations at the WTO, on both agriculture and fisheries which has been two of the key core areas of multilateral negotiations since the collapse of the Doha Round, and then case studies of export credit, and export credit for coal fired power plants.

So part of the goal of the book is to go beyond a narrow focus on US-China relations to examine the broader systemic implications of this power struggle between the US and China. In other words, to show why US-China rivalry matters, not just for great power politics, or for the interest of these two particular states, but because it has critical implications for vital areas of global governance and policy. What several of these cases underscore is that the breakdown of global rulemaking and trade has significant consequences, not only for the governance of global markets and trade, but also for efforts to try to use trade rules to address pressing global problems related to both global development and the environment.

So I’d be happy to talk about some of those issues related to development and environment, or the larger book, in more detail in the Q and A, and in particular the agriculture and fisheries subsidies cases are both ones in which well...you know they haven’t gotten a lot of attention from the wider world of trade pendants and foreign policy watchers. These are areas in particular where China’s trade policies have significant consequences for other developing countries and are proving increasingly harmful for the rest of the global South. So that’s something I’d be happy to talk more about in the Q and A, if that’s of interest to people. But for now I’m going to focus on one specific case, the impact of a rising China on the export credit regime, and this is also been published as a standalone article in the journal Regulation and Governance.

So, export credit is an area of the trading system, as I said, that’s received comparatively little attention from scholars of global economic governance and from IPE, and this is in part because until recently, this was a fairly quiet area of global economic governance that worked relatively smoothly and without incident. But as I show it’s becoming increasingly contentious area of both economic policy and international negotiations.
So export credit is the use of loans, and other forms of financing, by states, to promote their exports; and if provided at below market rates, state backed export credit can act as an export subsidy, and thus have significant consequences for international trade patterns.

The existing system of governance for export credit was created under the auspices of the OECD, the Organization for Economic Cooperation and Development in the 1970s and it’s been repeatedly strengthened since then. It limits the ability of states to use export credit to subsidize, and thus artificially boost, their exports. And for decades, this was held up as an example of a highly successful global governance regime with it’s system of disciplines proving very effective in restricting the use of export credit as a form of state subsidy. I demonstrate though, that the rise of China has profoundly altered the landscape of export credit and disrupted its governance arrangements.

Over the past two decades there’s been a dramatic expansion in the use of export credit by China. China has emerged as the world’s largest supplier of export credit, providing volumes of financing four times greater than any other state. State backed export credit is a key tool of China's development strategy, used to foster industrial upgrading, and the international expansion of its domestic industries and firms. As I show, the US and other established powers have attempted to either incorporate China into the established global governance regime for export credit or to engage it in the construction of a new regime, but China has refused to accept any international disciplines on its use of export credit. As a result I argue, this explosion in the use of export credit by China is eroding the efficacy of existing international rules intended to prevent an export credit subsidy war. I contend that the disruption of the export credit regime highlights the conflict between the liberal principles of the existing global governance architecture and the economic development objectives of China and other emerging powers.

So that last point is important because the existing literature has often tended to take for granted the inherent goodness and desirability of the liberal international economic order constructed under US hegemony. It’s thus frequently assumed that China's goals must be illegitimate if they clash with the existing US led-liberal international economic order. Much analysis of China, as well as other emerging powers, has been shaped by a narrow framework for understanding their agendas and impact. If they don't support the status quo rising powers are often labelled "spoilers" or "shirkers". The disruptive effects of emerging powers are attributed to the fact that they're "irresponsible", "troublemakers" who hold inappropriate "core values" and lack an adequate sense of "international civic duty". I argue however, that the case of export credit problematises such interpretations.

While China's rise is indeed disrupting the global governance of export credit, it's not simply because China is irresponsible or recalcitrant as many allege, but because it has important objectives that conflict with the overarching goals of the regime.

The export credit regime is a quintessential liberal economic governance regime it's based on the principle of minimizing state intervention in the economy; preventing states from distorting markets and trade, and ensuring that competition in the global economy isn’t distorted by state subsidies. The US and other established powers have an interest in preserving the liberal regime they created with states voluntarily cooperating to avoid a costly and self-defeating subsidy war; whereas China
and other emerging powers have an interest in maintaining their ability to use export credit, as part of their strategies for national development. So this is in short, I argue, a clash between liberalism, meaning economic liberalism, and development.

So to briefly provide a bit of background on export credit. Almost every major economy has an export credit agency, an ECA that provides various forms of financing to facilitate and expand exports. Including things like direct loans to foreign buyers, insurance and loan guarantees, and finance for large scale infrastructure and industrial projects. States provide approximately $300 billion in official trade related export credit finance annually.

Export credit can be used to address market failure; with ECA stepping in to fill gaps and the availability of private financing. But extra credit is also used as an important tool of industrial policy and export promotion. State backed export credit is concentrated in capital equipment and services sectors so called 'big ticket' exports. Things like aircraft, satellites, industrial plants, infrastructure, transportation, construction, oil and gas, mining, and energy projects.

States are heavily involved in long term expert financing, particularly for complex multibillion dollar sales, and state backed export credit is particularly important in facilitating sales to emerging markets where less developed banking and capital markets often limit the availability of private sector financing.

So to provide an illustration of how this works, in the US for example, the US Export-Import Bank (Exim) supports the exports of many different American industrial sectors. Here I'll take aircraft as just one example. Exim Bank supports the US aerospace sector by supplying financing to facilitate the sale of Boeing jets to foreign buyers. Given the size of these transactions, a single aircraft can sometimes cost as much as nearly half a billion dollars, the purchasing airlines rarely pay cash, but instead require loans in order to make the purchase possible. So the US Exim bank can step in to provide direct loans, where commercial financing is unavailable, or to guarantee and thereby reduce the cost of commercial loans. So Aerospace is just one example of the types of industries that are supported by the US Exim bank, and its counterpart export credit agencies around the world.

So one thing that's important for the story here is that export credit is a key tool of the developmental state toolkit; virtually all of the successful late developers such as Japan and the the East Asian NICs have used export credit as a key part of their strategies for economic development, and for catching up with more advanced industrialised states.

Now the principal governance issue related to export credit arises from the fact that it may be subsidized by states as a means to make their exports more competitive, which can quickly lead to a destructive competitive spiral of state subsidization by export credit. So if one state uses export credit to give its exports a competitive advantage in global markets, other states will respond by increasing their subsidies and, you know, quickly countries could be spending massive amounts of money in a competitive battle to try to support their exports, and that would only not only distort trade but also, you know, deplete national budgets. And this is in fact exactly what was happening in the 1970s and what prompted the creation of the current regime governing export credit.
So export credit is governed by a set of rules established at the OECD, an institution comprised primarily of advanced industrialized states, and that's often described as a rich man's club. The OECD arrangement on export credit was created in 1978 in the context of a global subsidy war, based on export credit. The arrangements, disciplines, place strict limits on the financing packages that states may offer to borrowers defining the most favourable terms under which credit may be granted. And over the past 40 years the arrangement has been continuously revised and updated to tighten its disciplines. Now this governance regime was very much a creation of US hegemony; the US was the key driver behind the creation of the arrangement, as well as the continual strengthening of its disciplines, sometimes using fairly aggressive strong arm tactics in order to force other countries to cooperate. In the 1970s and 80s for example, countries like France and Japan, with more interventionist economic models, were very reluctant to accept disciplines on their use of expert credit subsidies, but the US used discursive power to overcome their resistance and force them to participate and accept disciplines on their use of export credit. So the goal of the US was to bring the global provision of export credit closer to market principles, so that states weren't using subsidized financing to distort trade and that's exactly what wound up happening.

So this is sort of what the key provisions of the arrangement look like today, and it's you know, very sort of technical, nitty-gritty stuff, and it's not necessary to go into too much detail here but I wanted to provide you with just an overall sense of how its disciplines actually work. The most obvious way that a state can subsidize expert credit is by providing a below market interest rate; and even a relatively small change in the interest rate makes a big difference in the cost of a loan. So the arrangement sets out the minimum interest rate that states are required to charge, but interest rates are just one part of the story. There are many other factors that go into determining the cost, or the attractiveness, of an export credit loan. And if any of these elements departs from market conditions, it could act as a subsidy and be used by states to give their exports an unfair advantage.

So the arrangement regulates each of the key terms and conditions of export credit lending to ensure a level playing field amongst its participants. And the arrangement also contains strict rules on tied aid, which is aid that's tied to the procurement of goods and services from the donor country, and this operates, similarly to export credits, so if not regulated could be used to circumvent the export credit disciplines. And that would have negative consequences, not just for the perspective of trade, but also from the perspective of development as well.

So in addition, the arrangement also has specific rules governing export credit in specific sectors, as well as provisions governing environmental and social due diligence, debt sustainability, and corruption. One of the key features of the arrangement is that it has very strict transparency and monitoring requirements; so every time a state provides export credit in advance of the transaction, it's required to report to the other participants in the arrangement and provide a full confidential disclosure on the terms of that transaction. So there's real time, transparency and there's no secret financing terms permitted; states know exactly what their competitors are doing, and they can confirm that they're following the rules. This effectively works as a sort of a built in surveillance mechanism to ensure that no one change cheats on the arrangements and it's worked quite effectively. Although the arrangement is an informal, consensus based so called gentleman’s
agreement it’s nonetheless proven remarkably effective. It succeeded in virtually eliminating the subsidy component of export credit amongst its participants.

In recent years, though, the global landscape of export credit has changed dramatically due to an explosion and export credit provision by China, as well as other emerging economies. Since 2000, the BRICS (Brazil, Russia, India and China) have increased their official export financing from less than 3% to 40% of the world total. And the vast majority of this increase has come from China, which constitutes 90% of the export credit activity of the BRICs, and which is now the world’s largest export credit provider by far. China has three export credit agencies, as you can see here, the Export-Import bank of China, SinoSure and the China Development Bank. Through these institutions in 2014 China supplied $58 billion in export credit support, far more than the $12 billion provided by the US, and indeed more than all of the G seven rich countries combined. And on top of that, it also provided an additional $43 billion in overseas investment financing to promote its exports.

So, as you can see here, this is a chart showing the world’s largest providers of export credit, and as one US official said about China, they just "dwarf" everyone else. The other emerging economies are also becoming increasingly significant providers of export credit, particularly in certain sectors, such as Brazil in construction, aircraft, and mining; Russia in energy; and India in energy and infrastructure. But, as you can see here, they’re still nowhere near the level of China.

So export credit is a key part of China’s development strategy; it’s one of the prime means by which China is deploying its newfound financial power, including its massive foreign exchange reserves, to give its firms a competitive advantage in global markets, while fostering industrial upgrading and the development of strategic sectors. So what China does first is develop an infant industry domestically and then it uses export credit to enable firms in that industry to expand globally. First, by moving into emerging markets in Africa, Latin America and developing parts of Asia, and then into more advanced economies. And this has been critical in enabling China to move up the value chain; from low wage-low value manufacturing, into more technology intensive and higher value added industries, where it’s increasingly competing directly with advanced industrialized countries like the US, UK, EU, and Canada.

Export credit plays an important role in China’s ‘Made in China 2025’ industrial strategy, where China is seeking to foster the development of more sophisticated, advanced manufacturing in order to enable its manufacturing sector to catch up with, and eventually surpass, the advanced industrialized countries to become the world’s leading manufacturing power. So export credit is an essential part of China’s effort to try to escape the middle income trap and develop into a high income country.

Export credit has also been the driving force behind the expansion of China’s activities in Africa, Latin America and elsewhere. While often mistakenly described as aid, much of China’s much publicized lending in Africa, and other parts of the developing world, is in fact export credit loans tied to the export of Chinese goods; and similarly, much of the financing for China’s belt road initiative (BRI), where China is building power plants, ports, high speed rail line, and other infrastructure across large parts of the world, much of that financing for the BRI is also in the form of export credit.
So, China has been characterized as conducting the most aggressive export credit financing campaign in history and the strategy is proving highly effective, to quote one trade official "in almost every capital goods sector China's going from being a bit player to one of the biggest." China's use of export credit is seen as a serious competitive challenge to advanced industrialized states like the US, and a significant threat to the export credit regime.

China is not a member of the OECD, nor bound by the rules of the arrangement, and given the scale of its export credit support its non-participation threatens to undermine the established system of global governance for export credit. Many OECD countries believe that China is using its ability to extend expert credit on more favourable terms, in order to gain an advantage over participants in the arrangement. So, to quote one official, "What China is doing is riskier transactions with fewer rules; slightly less cost, longer terms and a lot more flexibilities. When you combine all of these things, it can be quite an attractive package."

Since financing can account for as much as 40% of the cost of a project, attractive expert credit terms give China's exports a significant competitive edge. So to go back to that slide setting out the key provisions of the arrangement, for China, deviating from the arrangement on any of these terms can be used to undercut its competitors who are required to abide by the rules. And there's evidence that China is providing export credit that violates virtually all of these provisions, including subsidized below market interest rates, lower no risk premiums, considerably longer repayment periods and grace periods and there's also evidence that China's violating the arrangements provisions on tied aid as well.

Rail equipment exports provide an illustration of how China's ability to provide more favourable credit terms advantages it's firms and helps to drive its process and industrial upgrading. This is a big market, valued at about $120 billion a year and it's one of 10 priority industries that China has targeted for overseas expansion as part of the effort to transform the country into an advanced manufacturing powerhouse.

China has the world's largest high speed rail network and its firms now participate in hundreds of overseas rail projects. In 2015, China's two state owned rail equipment makers merged to create CRRC, an industrial giant that dwarfs its rivals. CRRC has been aggressively targeting emerging markets in Africa, Latin America and Southeast Asia, as well as increasingly winning big contracts in advanced countries as well. According to industry analysts although China's rail technology is less sophisticated, its main competitive strength is that its technology is offered as part of a package that includes highly attractive export credit financing. So these are just a couple of examples, and it's important to remember that even just a slightly lower interest rate, or premium fee, can give Chinese exports, a significant cost advantage. A difference of just one to two points in the interest rate, for example, increases total financing costs by 18% to 30% for a 12 year loan, for example. So on a sale of rail infrastructure to Pakistan, China's Exim bank offered a risk premium fee of just 8%, while the arrangement requires a minimum fee of 21%. On a sale of rail exports to Argentina, the China Development Bank charged an interest rate of live-work plus 6% well below market rate, so at least live-work plus 9.35%.
Extended repayment periods also significantly increase the attractiveness of financing, because it allows the importer to discount the loan over a longer period, and shifts the risk to the lender. While the arrangement allows a maximum loan tenor of 12 to 14 years for rail exports, China's repayment terms often exceed 20 years and have even been as high as 30 years in some cases.

So these differences in things like interest rates, premium fees, and repayment terms, providers exports with a significant advantage over its OECD competitors and they've played an important role in helping to fuel CRRC's global expansion.

The traditional big players in the sector, Germany's Siemens, France's Alstom, Canada's Bombardier, and the US's GE have all been finding it extremely difficult to compete with CRRC and the cheap credit that it's exports received through the Chinese Government. This dramatic expansion of CRRC through the subsidize financing has really made it difficult for these other companies to compete and has put intense pressure on them. So Siemens and Alstom, for example, recently sought to merge in an attempt to better compete with CRRC. France and Germany wanted to try to create their own European champion to better compete with this massive giant, but they were blocked by EU competition authorities. Meanwhile, both Bombardier and GE have had to sell off their rail businesses. So rail is just one example of the many industries where China is using more favourable export credit terms to give its firms a competitive edge in global markets.

So the argument coming from many of these countries is that you know, while China's a developing country using export credit as part of its development strategy, at this point, China has gone beyond merely 'catching up' with its established competitors to actually, you know, crushing many of the leading firms in sectors like rail equipment, and many other advanced manufacturing high-tech sectors.

So the ICT sector (Information and Communications Technology) provides another example. Now this is also another priority industry targeted under the Made in China 2025 industrial strategy. And here too China's export credit agencies have been aggressively supporting the international expansion of its ICT firms. China Development Bank, for example, has provided Huawei with a $30 billion line of credit, which has enabled it to offer below market financing rates and terms that are simply unmatchable by its competitors. Fuelled by this kind of massive financial support from the Chinese Government, Huawei has become one of the world's largest telecom equipment manufacturer, has become the largest telecom equipment manufacturer, overtaking Eriksson the European multinational in 2012. Similarly, the global expansion of ZTE and other major Chinese telecom equipment manufacturers has been driven by a $25 billion credit line from CBD and the China Exim bank. So in this way, China is using cheap export credit to support the development of its national champions and to fuel their global expansion.

So OECD export credit agencies have been receiving mounting complaints from their exporters, that they're losing contracts to Chinese firms, because of the more favourable financing packages that China is able to offer. In the words of the US Export-Import Bank Chair, "...they're winning deals in part because they're not playing by the rules."
As one ECA official from an OECD country put it, "We’ve seen them coming in to areas where they’re competing with our exporters, often with very cheap money, and often with tied agreements." So as another one put it, "everyone feels under attack."

This has raised significant concerns about the future of the expert credit arrangement. One arrangement participants summed up the situation as follows, "You have this Arrangement that’s worked well for decades and overtime has gotten better and better as its disciplines bite more and more. The problem is that they were universal rules; everyone who exported capital goods was a member, but now the world has changed completely. Now there’s almost no sector where China is not a major exporter of capital goods, what happens to your export credits arrangement if China is not a participant? If the arrangement is going to operate in a meaningful way, it has to involve all the major exporters of capital goods meaning it has to involve China. Everyone who exports capital goods needs to be part of the system or it can’t work."

So, given the massive volume of financing that it’s providing, incorporating China into global rulemaking and disciplines on export credit became a key priority of the US, EU and other advanced industrialized states. As the head of the US Export-Import Bank put it, "it's important that they play by the rules that everyone else is playing by."

Now although based at the OECD, states are not actually required to be OCED members in order to participate in the export credit arrangement. Any state that's a major provider of export credit is eligible to participate and the US has strongly pressed China to join the OECD arrangement, but its efforts have been unsuccessful.

Beijing has indicated that it will not join a set of rules that it played no role in creating, and that don't reflect its development objectives. China's position as articulated by a high ranking official in the Ministry of Commerce, "Is that the OECD arrangement aims to solve the problems of international competition among developed countries, and does not reflect the development concerns of developing countries like China. So as a result, China has refused to join the OECD arrangement or to subject itself to its disciplines." There are thus fears amongst the OECD countries that the arrangement risks becoming obsolete. As one negotiator put it, "The Arrangement becomes pretty irrelevant pretty quickly if the world's biggest exporter won't participate."

Now thwarted in its efforts to try to convince China to join the arrangement, the US tried a different tack. In 2012 the US drove the creation of a new international working group on export credit, involving 18 major developed and developing countries, including China, in an effort to try to negotiate a successor to the OECD arrangement that would encompass the emerging economies. This was a US-led initiative pushed at the highest levels that came out of the bilateral US-China strategic and economic dialogue, and meetings between then President Obama and President XI Jinping. It was China that insisted on the participation of eight other emerging economies in order to ensure balance between developed and emerging economies, and to bolster its side in the negotiations by ensuring that it would not be outnumbered by arrangement participants. As a result, compared to the arrangement, the IWG was considerably more inclusive, in that nearly half of its participants are developing countries. From the perspective of the US and other developed
countries, the IWG was very much a second best solution. As one US negotiator put it, "We had dreamed of dragging China into the OECD arrangement, but the failure of that effort is what led to the IWG."

Seeking to reign in export credit provision by China, the IWG represented that attempt by the US to maintain a liberal regime for export credit governance, by replacing the arrangement with a new version that would incorporate the major emerging economies. The US identified this as a key strategic priority in its economic relations with China, and negotiators report that it pushed China very hard to enter into and engage in the negotiations. As one US official stated, "Everyone's hopes are resting on the IWG. That it will be able to control China's ability to take everyone's lunch." Other OECD countries have backed the US and place similar emphasis on the IWG as a means to create new, more universal, rules on export credit.

Yet, given the centrality of export credit to its development strategy, China has little reason to subject itself to international disciplines. A negotiator for an OECD country summed it up as follows, "China has vast resources, the amount of money available now is almost beyond belief. Their view is why the hell should we agree to not use these resources? These guys are trying to constrain our ability to achieve our rightful place in the world. They don't see anything in it for them. It's not in their interest to accept these constraints. They provide so much export credit it's astounding. Beside the Chinese, the US Export-Import Bank looks like a corner bank in Ames, Iowa. China's doing this on a scale that just works what's happening in the rest of the world, why should they let anyone stop them."

Consequently, although China formally agreed to participate in the IWG it consistently thwarted the negotiations. Despite intense pressure from the US, as well as other advanced industrialized states, China refused to budge. In fact, it refused to take even the first preliminary steps that would be necessary for negotiations to actually begin in earnest; including, for example, refusing to provide even basic information about its export credit programs. As a result, as one negotiator stated, "The process has been going on for years and there's been zero progress. States were meeting multiple times a year for negotiations but China was foot dragging, throwing up all kinds of process based hurdles and basically doing everything that it could to impede the negotiations for moving forward. And, of course, nothing could move forward without China."

So states were going through the motions, continuing to meet regularly for negotiating sessions, but there was a huge amount of frustration amongst negotiators from the OECD countries, that this was a futile process. According to a senior US official, "What the US, EU and other OECD members want is a new version of the arrangement, a comprehensive set of rules that incorporates emerging economies but that's exactly what China is not going to agree to." So, after eight years of fruitless negotiations, and with no prospect of any agreement on the horizon, the IWG was officially abandoned at the end of last year.

The simple fact is that China has little incentive to accept disciplines that would limit its use of export credit and thus potentially inhibit its future growth and development prospects. And it's a sign of
China’s power that it’s been able to successfully resist being pressured into a set of rules that it sees is fundamentally against its interests.

So, to conclude, as the case of export credit shows, as well as the other cases analysed in the book, global trade governance has been profoundly destabilized by the rise of China. As an analysis of the OECD and IWG negotiations shows, contemporary power shifts are making multilateral cooperation to govern export credit increasingly difficult. From its hegemonic position in the international system, the US was the driving force behind the creation of the arrangement and the continual strengthening of its disciplines. However, its current inability to press China into existing, or new, governance arrangements suggests that the capacity of the US to steer global rulemaking is diminishing amid the rise of China. And beyond the export credit regime that I’ve been talking about, we also have seen very similar dynamics taking place in the World Trade Organization, the WTO.

In the case of export credit, China’s emergence as a major provider of government backed trade finance has proven highly disruptive to the transparent, rule-bound, orderly system for the governance of export credit. Reluctant to relinquish an important industrial policy tool that’s vital to its continued development, China has valid reasons to resist external disciplines on its use of export credit. Nonetheless however, it’s unwillingness to join existing governance arrangements or subject itself to new disciplines threatens what has, until now, but a highly effective regulatory regime and risks prompting a re-emergence of destructive competition via export credits subsidies.

So the case of export credit throws into stark relief the tension between the development objectives of China, and other emerging economies, and the American led liberal international economic order. If development requires significant scope for state intervention, then can this be accommodated in, or reconciled with, liberal global governance institutions? From the perspective of the US and other established powers, the export credit regime and its disciplines, are essential to fostering an open and fair global trading system, with competition taking place on a level playing field undistorted by state subsidies.

But from the perspective of China and other emerging powers, a system that constraints their scope for development by requiring them to relinquish their use of an important industrial policy tool cannot be considered fair. What the established powers perceived as a level playing field is, in fact, one that serves to perpetuate their industrial and economic supremacy.

So whether and how this fundamental conflict can be resolved or reconciled isn’t clear but it represents one of the central challenges currently facing the existing system of global economic governance. So I’ll wrap up there, and look forward to our discussion, thank you.

***************END***************