CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES | SIMON CHAIR IN POLITICAL ECONOMY

Global Economics Monthly

VOLUME VII | ISSUE 11 | NOVEMBER 2018

THE POWER OF TALK

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Upcoming Events

- November 30 – December 1: 13th G20 Leaders' Summit (Buenos Aires, Argentina)
- December 1: U.S. president Donald Trump and Chinese president Xi Jinping meet in (Buenos Aires, Argentina)
- December 3: The Article II Mandate: Forging a Stronger Economic Alliance between the United States and Japan (CSIS)

There is an old joke among economists: "Talk is cheap because supply exceeds demand." Those of us who follow international economics began this month expecting talk to be at a steep discount. November is summit month when the leaders of 21 Asia-Pacific economies hold their annual gathering, and Group of 20 (G20) heads of government generally do the same. These events are often dismissed as "mere talking shops," though as I have argued elsewhere, they can solve problems, set agendas, and build habits of cooperation. In any case, it may turn out in hindsight that productive talk was actually at a premium this month, with communiqués unissued, U.S.-China talks possibly breaking down, and unfortunate turns of phrase by two senior White House officials.

APEC and the G20: A Failure to Communiqué?

As widely reported, Asia-Pacific Economic Cooperation (APEC) leaders failed to issue a joint statement at the conclusion of their annual summit in Papua New Guinea (PNG) this month, for the first time since the forum was elevated to leaders' level in 1993. The agreement reportedly fell apart when China objected to language proposed by the United States on "unfair trade practices." PNG's prime minister Peter O'Neill was forced to issue a "chair's statement," a device resorted to at other summits when participating countries cannot agree on a joint statement.

The breakdown at APEC has fueled speculation that the G20 summit in Argentina on November 30 and December 1 may also end without a formal communiqué. Again, this would be a first since that forum was raised to leaders' level in 2008. The G20 brings together countries representing over 80 percent of the global economy—about half of them APEC members, including the United States and China.

At last year's summit in Hamburg, the first G20 gathering attended by U.S. president Donald Trump, the German hosts were able to broker a compromise in the face of U.S. resistance to standard language on trade and climate change. On the former topic, new language on "unfair trade practices" and "the role of legitimate trade defense instruments" was inserted, while the G20's traditional call to "fight protectionism" was preserved. On climate, the 2017 communiqué noted the U.S. withdrawal from the Paris agreement, said the other countries would move ahead with implementing the accord in any event, and highlighted consensus on "helping increase clean and efficient use of fossil fuels and deployment of renewable energy sources." No doubt Argentine president Mauricio Macri and his G20 "sherpa" are working hard to find similar middle ground this year.

Do communiqués matter? Reading through scores of dense, consensus-based paragraphs on arcane policy issues is enough to make even the most committed summit wonk cynical. But sometimes communiqués do capture important statements of collective action, as the early G20 ones at Washington, London, and Pittsburgh did. And even when light on tangible actions, as more recent documents have been, communiqués serve the valuable function of agenda-setting. When leaders of four-fifths of the world's economy declare that an issue—say, combatting tax avoidance or empowering women—is a priority, that sends an important signal to bureaucracies and non-governmental stakeholders in member countries. It arms those who want to push policy change with language on paper endorsed at the highest political level.

Failure of the G20 to issue a communiqué would not be the end of the world but would be a missed opportunity. Moreover, since the likely fault lines would run between the United States and China, it would not augur well for the broader direction of U.S.-China relations.

THE POWER OF TALK *(continued)*

Trump-Xi: Deal or No Deal?

Far more interesting to most observers than what happens in the G20 plenary room will be the conversations between leaders on the sidelines. While other bilateral meetings will draw interest—including Trump's huddles with Russian president Vladimir Putin and Saudi crown prince Mohammad bin Salman—the scheduled meeting between the U.S. and Chinese presidents will clearly be the main event.

The hottest bet in Washington is on whether Trump and Xi Jinping will agree in Buenos Aires to a ceasefire in their trade war or merely have an icy handshake and go back to the trenches. At a recent CSIS press briefing, I put a 51-49 probability on the former outcome. My argument is that both Trump and Xi have a strong incentive to call a truce because of the uncertain economic outlook and volatile market conditions in each country. The prospect of raising the current 10 percent tariffs on half of all U.S. imports from China to 25 percent, as the Trump administration has scheduled for January—let alone imposing new tariffs on the remaining $267 billion worth of Chinese products, as Trump has threatened—seems likely to rattle uneasy markets and consumers in both countries.

That said, the risks of a breakdown in Buenos Aires are high, given President Trump's unpredictability and the limits to how much President Xi can concede. Even in the best-case scenario, a deal would not come close to resolving the serious economic differences between the United States and China over subsidies to state-owned enterprises, forced technology transfers and intellectual property theft, and barriers to market access. The best that can be hoped for is a time-limited bilateral process to discuss these issues and a temporary reprieve on new tariffs.

Better Left Unsaid

The words that may or may not be said in Argentina are not the only ones that deserve scrutiny this month. Two senior White House officials, Vice President Mike Pence and senior trade advisor Peter Navarro, made statements on China-related matters that raised eyebrows.

During a weeklong tour of Asia filling in for Trump at the annual summits in the region, Pence doubled down on his fiery rhetoric on China the previous month in a speech in Washington. Meeting leaders of the Association of Southeast Asian Nations (ASEAN) in Singapore, Pence said, in a none-too-subtle reference to China, "We all agree that empire and aggression have no place in the Indo-Pacific." Later, in his speech at the APEC CEO Summit, Pence implicitly criticized Beijing's Belt & Road Initiative (BRI), saying that when the United States offers development assistance, "We do not offer a constricting belt or a one-way road."

To be sure, there is plenty to be concerned about in China's assertive foreign policy, including BRI. Many of these concerns are shared by U.S. allies and partners in Asia. But Pence's trip was billed in advance by the White House as an effort to reassure Asians of a continued, positive U.S. commitment to the region. Instead, the vice president left the impression that Washington expects allies and partners to choose between the United States and China. As I wrote here last month, that is not a choice that Asians want to—or can—make.

And then there were the words uttered by Peter Navarro in a speech at CSIS earlier this month. In a presentation ostensibly about the U.S. defense industrial base, Navarro forcefully criticized prominent Americans trying to bring about an economic ceasefire between Beijing and Washington. He lashed out at "Wall Street bankers and globalist elites" acting as "unregistered foreign agents" trying to pressure President Trump into a deal. Navarro went on to say that if these "agents" continue to meddle, "there will be a stench—a stench around any deal that's consummated because it will have the imprimatur of Goldman Sachs and Wall Street."

Attacking private citizens in this way for trying to find a sensible middle ground in a policy conflict that could do serious damage to U.S. economic interests is unreasonable. Worse, the references to "Goldman Sachs," "globalist elites," and "foreign agents" struck some listeners as an anti-Semitic dog whistle. Even if that was not the intent, senior White House official s should be more careful in their choice of words. Navarro's colleague Larry Kudlow was right to distance himself from the remarks the following day.

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