

Summary

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United States-China Relations Forum: The Future of the Asian-Pacific Economic Order

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The China-U.S. economic relationship is best described as competitive interdependence. The half a trillion dollar yearly U.S. trade imbalance with Asia, and China in particular, is matched by Chinese international reserve holdings well over three trillion dollars. At the same time the two nations have embarked on ambitious economic projects that are, at least for now, mutually exclusive. Despite obstacles that could lead some to argue the contrary, the long-term view points to the two superpowers finding avenues to converge their economic projects, especially the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP).

The U.S. TPP Strategy

Economically the U.S. faces two structural problems in East Asia. It must find a way to import less and export more to the region. More fundamentally, the U.S. is concerned with Chinese ambitions. President Obama has repeatedly warned that China wants to “write the rules” in order to benefit its more protected, central-planned economy which will lower environmental and labor standards. The U.S. has a larger economic strategy where by setting high standards through the TPP now, essentially before China becomes too powerful, this

agreement can be used as a stepping stone to further economic liberalization and integration in Asia-Pacific along the lines of the U.S. vision.

To date the TPP has been promoted as something more than an economically beneficial trade deal. It has been described in the starkest terms as paramount to peace and security in the Asia-Pacific and essential to the Pivot to Asia. For the U.S., the TPP symbolizes its staying power in a region which the U.S. sees as an essential part of its national mission.

The Lame-Duck’s Legacy

In the U.S. the debate over ratification of the TPP is spilling over into the presidential campaign. While the trade agreement is not a hot issue specifically, all of the major candidates of both parties have denounced it. Moreover, the electorate is responding to candidates that are openly protectionist and the country does not appear to be in the mood for greater international engagement in a general sense. Despite this, in 2015 the Obama administration won trade promotion authority for the TPP which lowers the legislative hurdles for the trade agreement. Although on the margins of both the congressional left and right caucuses there are representatives strongly against the TPP, there appears to be bi-partisan support for it in the center. Given the electorate’s mood, the only way to win over more representatives and their constituents

will be based on more and better jobs in the U.S. rather than closer economic ties with far off countries. In the coming months the administration is likely to promote the TPP based more on the potential benefits for the U.S. economy and less on a grand strategic vision for the Asia-Pacific. Regardless of how the agreement is sold to the congress and the voters, the agreement does appear likely to pass, though the presidential race could delay that until late into President Obama's lame-duck period.

China's RCEP and AIIB Strategy

The membership rules in international organizations determine which country will lead the decision-making process and how efficient that system will be. Countries constructing multilateral organizations compete in the making of these rules and these rules are a point of contention between China and the U.S. with regards to their respective economic programs in the Asia-Pacific. China has set out lower criteria for the RCEP, while on the other hand, the U.S. and its partners set higher criteria for entry into the TPP. Chinese low entry level for the RCEP is widely criticized for its inability to reach high standards for governance as well as environmental and social safeguards.

China is not officially opposed to the U.S.-lead economic order that was established after WWII. However, China's mass media, for example the People's Daily and China Daily, has denounced the TPP as limiting the China could play. As both newspapers are fully under the Chinese Communist Party's control, these media outlets' opinions correspond with that of the government. China also mentioned that the AIIB and ADB can work in parallel in promoting Asian development. China has differentiated its economic institutions from existing global lending bodies such as the

World Bank in which U.S. has the veto power.

Looking Forward

It is unlikely that either the U.S. or China will be able to dominate economically to such a degree that middle and smaller powers will be forced to choose one or the other. Instead, they appear to be choosing both, with only the U.S. and China left out of each others' arrangements. At the same time the two powers have every reason to move closer together bilaterally, through agreements like BIT, in order to gain better access to each others' enormous market. In the long-run, there appears to be great potential for the TPP and RCEP to develop simultaneously with many overlapping members able to navigate between the two giants. Assuming that the TPP is passed first, the seven member states, including Japan, Malaysia and Vietnam, that are also currently negotiating with China and others on the RCEP will have enormous incentives to push for the RCEP to mimic the TPP on environmental, labor, intellectual property and SOE reform standards. The states that will be members of both agreements will have to follow the standards of the TPP in order to access the U.S. market. If those states that are only RCEP members are following lesser standards, these countries in the middle will be put at a great disadvantage. The great hope is that the middle powers can eventually form a bridge that brings rules and standards closer together to form a larger regional agreement that is dominated by neither the U.S. nor China.

One highlight of the U.S.-China relationship is that the two sides are advancing negotiations of a bilateral investment treaty (BIT). The BIT will accelerate the U.S.-China relationship not only economically, but provide space for cooperation in wider areas and on higher levels. However,

progress has been sluggish and no decisive action on the BIT was reached after President Xi Jinping's state visit to the United States.

As China changed the focus of its economic policy toward strengthening its domestic market, the Chinese Communist Party is supposed to reform the State Owned Enterprises (SOE). However, these moves will likely reduce competition by making the companies bigger and less responsive to market forces. SOEs enjoy access to cheap land, government subsidies and easy access to bank loans. If China is to be eligible for membership in the TPP, the Chinese market, which SOEs have essentially monopolized through state capitalism, should be guided to the more free and open market that the TPP requires. However, it is hard to say that China will easily abandon its dependence on SOEs and truly reform their economy.

Discussion

It seems likely that the U.S. and China will be able to find win-win cooperation despite the fact that they currently seem to be conducting psychological warfare through economic issues. However, there are other important points to point out. It is not obvious that the expansion of free trade agreements between a major economic power like the U.S. and minor economic powers will result in the smaller states providing gains to the major economic power. Instead, the major reason for the U.S. to carry out the TPP is to set up the sole, efficient, and U.S. centered trade institution in the region because the WTO and Doha Development Agenda have not caught up with the swift changes of time, the need for lower tariffs, and it takes a long time for contracting parties to come to an agreement.

Secondly, the U.S. no longer seems willing to

sacrifice itself any longer to maintain its hegemon status. According to the hegemon theory developed by Charles P. Kindleberger, hegemons have a role to play as an open market for goods which stabilizes the international economic system. However, the U.S. is no longer content to play this role alone and is calling on China to also serve as a destination for world goods. The problem is China is also facing its own internal problems such as anxiety over a real-estate bubble and slowing economic growth which has reached its lowest level in decades at 7% GDP growth. Not only may an economic crisis break out in China, but it appears unwilling to take on the burden of being a hegemon.

Finally, there is a question about whether or not the Washington or Beijing Consensus will win out through these trade agreement battles. The Washington Consensus is built on the ideas of trade liberalization, privatization of state enterprises, and legal security for property rights including intellectual property rights. On the other hand the Beijing Consensus highlights government-led gradual development and places lower standards on labor, property rights, and environmental policy. If the U.S. and Chinese economic orders are to merge together, what kind of values would underlie this new international economic order? The Washington or Beijing Consensus? Or some new form?

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