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"The United States, China and the Asia-Pacific: The Shifting Economic Agenda"
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The United States, China and the Asia-Pacific: The Shifting Economic Agenda

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Since the opening to China in the 1970s, U.S. foreign economic policy toward the country was an integral part of the U.S.'s broader defense of a liberal, rule-based global economic system. The core to this strategy was the integration of China through the negotiation of binding rules, with China's entry into the WTO as the crowning moment of the approach. Despite disagreements at the margin, this strategy not only united the U.S.'s two political parties; it also enjoyed support among U.S. allies.

Since 2016, however, this approach has virtually collapsed under the weight of developments on both sides of the Pacific. In the U.S., the Trump administration unambiguously rejected basic premises of the liberal institutionalist approach. In China under the leadership of Xi Jinping, there has been a return to a more statist, developmentalist posture toward economic policy, with new industrial policies, greater emphasis on state-owned enterprises, and a strengthened Communist Party role.

This paper begins with a brief consideration of possible growth trends going forward and their implications. We will then examine the U.S.-China conflict in more detail and consider a number of possible scenarios for both the short- and intermediate run.

China's Growth History: Policy and Prospects

Since the onset of "reform and opening" in 1978, China has undergone dramatic economic and political changes, but with a noticeable policy turning point in 2006-2007. China's export ratio (exports/GDP) increased steadily up this point, with an especially rapid increase in 2002-2005 following its entry into the WTO. Since 2006-2007, China's export ratio has declined just as inexorably, although it may now (2019) be stabilizing.

This shift in the role of trade was related to broader changes in China's development trajectory, which were in turn related to the country's secular slowdown. From 1978 through 2010, annual GDP growth averaged 10%. After 2010, the growth rate began to decline, falling below 8% in mid-2014, and now approaching 6% (from above). Even if China does not experience a sharp "hard landing" associated with the unraveling of excess indebtedness (discussed later), growth will likely continue to slow. This slowdown arises from challenges in raising productivity as China nears the technological frontier—at least in some areas—as well as labor market dynamics. Most long-run forecasts predict a significant "kink" in growth around 2028. At that point, China's labor force will begin to decline much more significantly than today, just as the burden of an aging population begins to kick in.

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It is therefore extremely unlikely that China will grow 6.5% over the medium term. OECD projections have China growing at 3% after 2030. We favor an intermediate projection of growth at about 6% until 2028, then stepping down in 0.5% increments every five years and landing around 3.5% per year in 2044.

It is important to underline, though, that this is still a relatively optimistic baseline projection, given that China's GDP would surpass that of the U.S. (growing at 2%) in 2030 if not before; and reach the "developed country" threshold of $30,000 per capita in 2046. Moreover, these growth rates still exceed those of the OECD by substantial margins up through the middle of the century. This implies that the center of world economic gravity will continue to shift toward Asia.

However, even with this shift, the combined GDP of the OECD economies will continue to outweigh China's well into the middle of the 21st century and beyond. China, big as it is, is not by itself big enough to dominate the global economy. Therefore, the most intriguing questions center not so much on China's rising share of world output, but rather on the relation between China and its Asian neighbors. Some of these are growing slowly—Japan, Korea, and Taiwan—but others are catching up along with China, most notably India but possibly others such as Indonesia as well.

Before turning to some possible political consequences of China's continued growth, one important caveat is in order. China has seen a massive accumulation of both foreign and domestic debt since the Global Financial Crisis. This growth of debt initially reflected a Keynesian effort to offset the shock of the Global Financial Crisis, but credit growth continued more-or-less uninterruptedly after that. Total debt of the non-financial sector was stable at around 140% of GDP before the crisis (through 2007), but has since soared to 255% of GDP in 2017, before stabilizing over the course of 2018.

To be sure, the Chinese leadership enjoys a number of advantages in managing the risk of crisis, for example in its massive foreign exchange holdings, control over a variety of fiscal and monetary policy instruments, and ability to both use and support state-owned entities.

However, offsetting these advantages is the fact that China has already pushed hard on these instruments to keep growth from dropping more rapidly. It is entirely conceivable that China will experience significant financial distress, in the same way that many Asian high-growth economies did: Japan, Korea, Indonesia, Thailand and Malaysia. This means the risks to the growth projections given above are primarily on the downside. Clearly in such a circumstance, the effects of a crisis would weigh heavily on the world economy but would likely force difficult adjustments on the political leadership as well.

A Closer Look: The Political Economy of Chinese Growth in the Medium-Run

The broader political economy of China's growth strategy can be briefly considered by looking first at some of the external manifestations, and then turning to internal ones, including possible effects on domestic politics. Through 2006, policy emphasized export promotion, attraction of foreign direct investment (FDI) and, more generally, maximization of economic growth. The Central Bank accumulated reserves to keep the RMB from appreciating and maintain export competitiveness. Later, as export growth moderated, the central bank stopped accumulating official foreign exchange reserves, and indeed at times has run down reserves (by $1 trillion) in the face of substantial capital outflow pressure.

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These obvious external manifestations reflect deep changes in the Chinese political economy. As growth has slowed, China's chronic surplus saving has become available to be invested abroad in different forms, and China became a net foreign investor. The Chinese government has struggled with a new set of issues. To what extent should the government seek to control these outward investments and shape them to perceived national interests? To what extent should policy accommodate private and state enterprise capital outflows, boosting "national champions"? Who would benefit from these measures?

The answers are complex, but one obvious implication is that initiatives such as the formation of the Asian Infrastructure Investment Bank and the Belt and Road Initiative are not idiosyncratic. Although they bear Xi Jinping's personal stamp, they also reflect China's new status as a global investor: as a leader of new multilateral initiatives that will cement China's role not only in the Asia-Pacific but in South and Central Asia and beyond.

A second shift in policy is associated with a historic rebalancing from a reliance on exports for growth to the domestic market and a greater emphasis on innovation and productivity growth. To date, though, China has not chosen to do this by means of a more market- and reform-oriented approach: allowing domestic market growth, the exchange rate and changes in relative prices to do the work. Instead China has taken a different route of seeking to direct this crucial transformation through more extensive state intervention; we return to the implications of this below.

The result of these changes has been an unusual level of uncertainty about the overall direction of economic policy, even without the additional questions raised by Xi Jinping's increasingly autocratic rule. Through 2006, promotion of export-led growth was a key motive of policy-makers; interest groups formed that were created by export-led growth; and these interest groups tended to support policies favorable to the country's post-reform development strategy.

Since 2007, this picture has changed dramatically as growth strategy has shifted. The structure of interest groups seems to have shifted. As China has changed from an important recipient of incoming foreign direct investment (FDI) to an important source of outgoing foreign direct investment (OFDI), new opportunities for lobbying and new interest groups have sprung up, for example among China's state-owned banks and corporations which have themselves gone global. Yet policy shifted dramatically at the end of 2016 from welcoming aggressive corporations expanding abroad to reigning them in sharply (for example Hainan Airlines, Wanda Corporation, and Anbang Insurance). The government now seeks to channel resources into state-controlled initiatives, both in the Belt and Road Initiative (BRI) and in international extensions of government-led technology initiatives. These steps were leading to heightened international conflict even before China's foreign economic environment was disrupted by the Trump shock.

Finally, we should make mention of politics. It has long been held not only as a statistical regularity but as a virtual law that when countries reached a certain threshold—around $6,000 in 1990 dollars or about $10,000 today—they were highly likely to democratize; the exceptions were largely oil states. China to date has not only proved an exception to this rule, but seems to be moving in the opposite direction under Xi Jinping. China is becoming more rather than less authoritarian.

This tendency could affect the domestic political economy in several ways, including through greater risk of policy errors, especially given the deeply ingrained fear among Chinese elites that declining growth will be associated with increasing discontent. For our purposes here, however, it is only worth noting that the relatively closed nature of the political system is itself a source of international concern given the difficulty of reading China's policy intentions.

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U.S. Strategy: Integrating China into a Rules-Based Order

The traditional U.S. approach to China involved emphasizing China's role as a "responsible stakeholder" in a global system of which it had been an enormous beneficiary. The approach was by no means static; as China's comparative advantage shifted, the U.S. sought concessions in areas that reflected changing U.S. comparative advantage, particularly as regards the investment and regulatory climate for American firms. Efforts to encourage China to sign up to international institutions with binding rules or to negotiate transparent bilateral commitments, however, were a key component. These were coupled with dispute settlement mechanisms for enforcement. In addition, foreign actors—including but not limited to the U.S.—presumed that an evolving legal and administrative system in China itself would provide the basis for foreign parties and their allies to check executive discretion and backsliding, thus keeping the reform process moving forward.

In the years between 1978 and 2005 there was enormous progress in this direction, culminating in China's WTO membership which became fully effective at the end of 2004. This progress encouraged hopes in some quarters that China might actually converge toward a form of mixed, market-oriented economy. If not exactly similar to other advanced economies, China's economic rise could at least be absorbed on the basis of a grand bargain. The world's absorption of China's exports would be matched by growing opportunities in the China market itself, both through trade and foreign investment. Trade disputes would be reduced to the same sorts of conflicts that occur not only with emerging markets but among the advanced industrial states as well.

But even in the absence of such benign developments, integration through a complex network of institutions and bilateral arrangements would serve to manage if not altogether prevent conflicts from escalating. Some trade disputes could be worked through the WTO. The U.S. did not choose to push China too hard on WTO compliance because it maintained hope of further reform. New agreements, such as a bilateral investment treaty (BIT), could support ongoing reform in China. High-level bilateral meetings such as the Strategic and Economic Dialogue (created in 2009, after China's help in managing the Global Financial Crisis was acknowledged) would manage other issues on an ad hoc basis. An agreement on protocols regarding cyber issues coming out of the 2013 Sunnylands summit during the Obama administration was exemplary of such an ad hoc but nonetheless rule-based approach.

The Trans-Pacific Partnership (TPP) and U.S. bilateral FTAs (with Singapore, Australia and Korea) also played a role in this strategy, albeit indirectly. China was never going to be a founding member of the TPP. But by laying down markers for "high quality" trade agreements, these arrangements would signal the issues on which the U.S. and the other advanced industrial states had strong material interests: intellectual property, competition policy, the role of state-owned enterprises, and particular services sectors involving complex regulatory environments such as finance and telecom. Moreover, social issues, including labor, the environment, and corruption, would have increased salience. Building consensus around these issues would ultimately stimulate either emulation on China's part or—admittedly down the road—an interest in signing on to the TPP or other such agreements directly. While these expectations now appear somewhat fanciful, it should be noted that they stimulated a debate within China at the time about whether TPP was merely a hostile effort to exclude China or whether it offered positive benefits as a mechanism to advance internal reforms.

This liberal institutionalist approach enjoyed at least a reasonably firm political foundation in the U.S. It could rely on a modicum of bipartisan consensus, albeit with dissent from the nationalist wing of the Republican Party, among labor constituencies in the Democratic Party as well as those focused on human rights in both

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parties. Again, the TPP is exemplary. Initiated in the region, it was then picked up by a Democratic administration as part of "the pivot to Asia," and would clearly have relied on Republican support to pass.

Finally, this model rested on presumptions about who had leverage over whom. To be sure, the U.S. and China were clearly co-dependent. In the U.S., a coalition of powerful American firms had strong vested interests in the relationship because of their investments in China. These investments produced low-cost sourcing networks for a vast range of goods and also provided goods and services for the Chinese domestic market. The U.S. also benefitted from inflows of official Chinese capital to keep government borrowing costs low. Yet China was ultimately portrayed as the more vulnerable partner, needing access to the U.S. market and investment not only for economic reasons, but to deliver robust growth for domestic political reasons.

Challenges to the Liberal Approach: The U.S. Home Front

A number of developments are clearly challenging this rule-based approach, starting with the radical departure from elite consensus reflected in the election of Donald Trump. There is ongoing debate about whether Trump's approach is personal and idiosyncratic. If so, then trade policy will simply "snap back" to the post-Trump consensus under a new president, whether Democrat or Republican. Although such a reversion to the historical mean is possible, there is a growing consensus that a genuine partisan realignment has occurred around trade issues, with the Republican base now more skeptical of globalization than its Democratic counterparts. Pressure to "do something" on trade vis-à-vis China is likely to persist regardless of who is in the White House or in control of Congress, in part because of rising concerns about Chinese grand strategy.

Trump's impulses on trade were initially held in abeyance during the first year of his administration, in part through summitry. The Mar-a-Lago summit of April 2017 appeared to strike a deal in which Xi Jinping would commit to assist the United States with North Korea through continued pursuit of sanctions while the U.S. held off on pursuit of its trade policy agenda.

Into 2018, though, the Trump policy package clearly shifted. February 2018 saw the ascent of USTR Robert Lighthizer and special adviser Peter Navarro, followed by the departure of pro-trade advisers such as Gary Cohn and Rob Porter and the downgrading of Chief of Staff John Kelly's control over access to the president and the trade agenda.

The initial perception was of an administration committed to unilateralism and flying off in a variety of different directions, targeting close allies as much as adversaries and with China by no means at the center of the administration's focus. Domestic political constituencies seemed to dictate priorities. For example, restraints on steel and aluminum initiated on national security grounds hit a range of American allies and neighbors: Korea, Japan, Canada, Mexico and Europe among others. Similar actions were threatened, although never carried out, with respect to automobiles. Prominent on the agenda was the renegotiation of existing agreements, most notably KORUS and NAFTA. Even though criticism of Chinese trade policies had been a leitmotif of Trump's campaign, China was not particularly prominent over the first year of the Trump administration.

Over the course of 2018, though, some truces were called. Negotiations were completed on the KORUS, leading to largely cosmetic changes, and of the NAFTA, which ironically incorporated a number of elements from the failed TPP. Negotiations were opened with both Europe and Japan on more limited agreements. These new

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efforts drew on many TPP-like provisions, creating the possibility that the Trump administration was groping towards effectively reviving the TPP, albeit through a series of bilateral negotiations.

With these truces reached, the focus on China became more apparent and left China exposed. President Trump personally rejected two tentative agreements that came out of the U.S.-China negotiations initiated at Mar-a-Lago. In August 2017, President Trump issued a memorandum directing the USTR to determine if China's policies regarding intellectual property rights theft and forced technology transfers warranted retaliatory action under Section 301 of the 1974 Trade Act. This choice of policy instrument was telling as it had been used throughout the late 1970s and 1980s to go after Asian trading partners and was widely seen as exemplary of U.S. "unilateralism." These actions ultimately culminated in the roll out of an escalating set of tariffs and the ultimate threat that if a deal were not reached, the U.S. would impose trade restrains on virtually all of China's exports.

Challenges to the US Approach: China Reimagined

This story would appear to be one in which Trump's idiosyncratic views and exploitation of executive prerogatives were largely responsible for the changes noted. But presumptions about China were undergoing a much broader shift in the U.S., and as the political campaigns of both Hillary Clinton and Bernie Sanders showed were by no means limited to the Republican Party.

First, while China continues to be a relatively open economy for its size—measured by trade as a share of GDP—there is growing evidence that its hybrid model is by no means trending in a more liberal direction. Although industrial policy never completely went away, the commitment of resources to industrial policy accelerated steadily since the shift noted above that occurred around 2006. In addition to the ongoing focus on exports, new attention was paid to achieving competitiveness in a range of cutting-edge industries. The roll-out of a series of policy tools mobilized to support these programs was emblematic of the new state-led push to foster indigenous innovation and upgrade manufacturing. Moreover, these developments were taking place in sectors that not only had relevance for China's economic position but for its military modernization as well (see Cheung 2019).

The formalization of the Strategic Emerging Industries program in 2010 marked a new stage of resource mobilization. Subsequently, the broadening to an "Innovation-Driven Development Strategy," wrapped up a huge share of industry in policy initiatives. The Made in China 2025 plan (MC2025) launched in 2015 attracted a disproportionate share of the attention abroad, but was in fact just one of a series of related plans that reflected the new industrial policy focus. These included the "Internet (Plus)" and initiatives with respect to artificial Intelligence, smart manufacturing, biopharmaceuticals and many other sectors. As with other Asian countries earlier in their developmental trajectories, the approach combines a continued focus on exports with strategic efforts to substitute for imports and develop local capabilities, in short a "neo-mercantilist" or "developmental state" approach. For example, by 2025 the MC2025 plan foresees China domestically producing 70% of key components for industrial robots (such as servo-motors and display panels).

The policy tools that have been deployed to support MC2025 run up against the rule-based approach outlined above at virtually every turn: in the mobilization of state-controlled financial resources, in restrictions on market access for foreign firms in targeted sectors; in the frequent unbalanced use of competition policy to target foreign competitors; in renewed use of government procurement to support national champions; and in government-

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supported acquisitions of foreign technology, including through aggressive acquisition strategies. Lurking behind all of these discrete developments is the aggressive use of the state-owned financial system.

Second, the liberal presumption that the existing institutions constitute the only meaningful game in town is also being challenged. While the United States and Western Europe re-evaluate the efficacy of a rule-based approach, China is building its own international institutional alternatives. These include its tacit alliance with ASEAN on the Regional Comprehensive Economic Partnership (RCEP), a more-or-less explicit alternative to the TPP. Progress in RCEP has been slow in part because of the greater heterogeneity of the parties, most notably in India's foot-dragging. However, RCEP has potential strategic influence because it is an intra-Asian not trans-Pacific entity. Moreover, its consensus-driven approach to trade policy has a profound political logic: "low-lying fruit" and "early harvests" yield gains to the parties while difficult issues are pushed off. Although technically in violation of Article XXIV of the WTO, which calls for FTAs to liberalize "substantially all trade," the RCEP may be rewriting rules around a looser, more iterative approach to trade policymaking that yields somewhat less but locks parties into an alternative to TPP-style negotiations.

By far the most significant Chinese initiative, however, is the complex of policies that are commonly known as the Belt and Road Initiative (BRI), but which in fact constitute an even wider collection of quite diverse initiatives. The most interesting feature of the "BRI complex" is precisely that it is not rule based nor even really multilateral. Rather it emphasizes investment in physical capital, including but by no means limited to infrastructure. Moreover, it is structured around a set of bilateral, "hub-and-spoke" deals—none of which is particularly transparent—in which China can negotiate very particular interests. These include agreements with strategically significant countries that would, for example, provide land access through Southeast Asia or a presence on the Indian Ocean, naval basing rights and even a foothold in Europe (for example, in Greece and even Italy).

A looming question for the region is the extent to which the BRI complex is complementary with a gradual evolution of trading and investment rules among the countries in question or whether it is effectively a club good, the boundaries of which China effectively controls. The answers to this crucial question are still out. To the extent that infrastructure provides opportunities beyond any particular bilateral agreement reached between China and its partners, the BRI is responding to deep demand for improved infrastructure in Asia that will ultimately support its growth and opening. Japan, the U.S. and the multilateral institutions have themselves acknowledged this infrastructure deficit and scrambled to launch initiatives—most with a private sector focus—to address it.

On the other hand, as details of particular BRI initiatives have been revealed, concerns have grown. Headlines have focused on the indebtedness associated with BRI projects and environmental concerns, but also on lack of transparency and corruption. The problems are arguably even deeper: that the hub-and-spokes approach to China's near abroad involves what amounts to an extension of China's planning process not simply to the external sector but to neighbors. Some of the problems have erupted into the open even more quickly than anticipated: Pakistan has been forced to approach the IMF for a bailout, and Malaysia has declared a pause on BRI-related projects. And this is quite apart from the security implications, which go beyond the scope of this paper.

These emergent problems, perhaps inadvertently, reveal an important underlying reality: China now wields substantial leverage over its trading partners, a leverage it has not hesitated to wield. Nor is that leverage simply through the constraints of manipulating trade ties or even resorting to sanctions. It also comes through the ability to dispense largesse and, at a deeper level still, to set its own standards: from the nature of its trade agreements to

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product and other commercial standards that lock in competitive advantage. Particularly significant may be China's ability to spread a new set of telecom, data, and internet protocols that will be attractive to many countries, and supported by dynamic and highly cost-competitive Chinese companies.

As of this writing, it appears that the Trump administration will reach a short-term arrangement with China that will forestall further escalation of the conflict. But if the agreement fails or trade tensions re-emerge, we can expect China to continue to diversify, not only by continuing with its BRI but by expanding trade relations with other partners. A thaw has already been in evidence in bilateral relations with Japan. In the European Union, China has already established an important political foothold among counties in Eastern Europe.

Future Prospects and Medium-Run Scenarios

The effects of China's rise on the multilateral trading system and the various regional alternatives or complements have been partially obscured by the short-term uncertainties of the so-called "trade war." Both countries have vulnerability to continued hostilities. On China's side, there can be little question that the Trump approach has generated significant nervousness. China is still significantly dependent on world markets, even if the U.S. share of China's exports is now far below its peak in the 1990s. China's stock market has seen significant losses in 2018, and this—combined with Xi's re-politicization of all economic decision-making—has certainly made the growing investor class nervous. If China is unable to "manage" the Trump shock, it will shake the extraordinary degree of confidence the government has been able to build up over the years of successful economic performance. The Chinese regime has managed, since the Global Financial Crisis, to put a floor under growth (still over 6%) by deploying a wide range of tools, but especially massive credit expansion. Serious questions loom about whether the leadership can continue on this track indefinitely or whether it will ultimately need to call a truce.

Nor is the United States immune from the risks of a continued standoff. The key factor strengthening President Trump's bargaining hand has been the continued robust growth in the American economy, growth which has tended to offset the costs of the trade war. Moreover, Trump's corporate tax cuts have given him a means to drown out corporate discontent about the disruption of their China networks.

Still, the Trump tariffs have begun to bite, and the U.S. stock market's sell-off at the end of 2018 suggests vulnerability. A few sectors have already been hit—such as soybean growers, despite efforts to compensate them—and these costs became more and more visible over the course of 2018. Following the most recent imposition of tariffs, USTR has been flooded with requests for exemptions on the part of industrial consumers. As the economy will almost inevitably slow in 2019 as a result of the exhaustion of the business cycle and rising interest rates—both short- and long-run--the Trump administration has been looking for exit ramps as well.

What can we say about the prospects for U.S.-China relations going forward, looking not only at the short-run but the intermediate term? Three possible scenarios present themselves. The first possibility is that the "reverse course" visible in the two countries will prove to be an aberration. In this scenario, Trump's legacy is not enduring. In 2020, the U.S. turns back toward the well-worn divisions over trade policy, but with adequate bipartisan support for liberal rules of the road. This would not mean the end of pressure on China, but it would occur within established bilateral dialogues and through use of WTO and other bilateral mechanisms.

In this scenario, China moves back toward a path that is—to be sure—state socialist but with more

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pronounced market and reform characteristics. This shift in turn would make it easier for the bipartisan consensus in the U.S. to reconsolidate.

Supporting this scenario is the fact that Trump's diplomacy seems preoccupied with optics and "wins," some of which may not be that earth-shattering in economic significance. For example, the "completely rewritten" NAFTA, now called the US-Mexico-Canada Agreement, made some protectionist moves with respect to autos, but the changes will not fundamentally alter the regional division of the labor, only providing modest gains to auto firms in the three countries at the expense of outsiders. Indeed, as mentioned earlier, the USMCA imported a number of disciplines contained in the TPP, and given that both Mexico and Canada have already decided to to participate in the TPP without the US, the impact of the changes will be extremely modest.

The outlines of a US-China agreement have already been hinted in previous offers, and appear to include some marginal liberalization with respect to the operation of foreign firms with some symbolic actions such as the signing of some business deals or commitments to import goods that would have likely been imported anyway. Both sides would declare victory and go home. To be sure, to make this work would also require some flexibility on the part of Xi Jinping, who would have surrender at least some part of his ambitious industrial policies. But he would calibrate these changes in such a way that at least some core initiatives could be retained even if in modified form.

A second possibility, one we think more likely, is that skepticism about China in the U.S. will continue to rise and that Xi's legacy of a more statist political economy will endure in China. Yet even with the new directions staked out by Trump and Xi, the two countries might manage to negotiate a modus vivendi, however brittle, that would persist across administrations. Both sides would make compromises. Xi would need to make some concessions, most notably with respect to IPR issues, and Trump would not only have to roll back sanctions but promise—perhaps privately—to forego their use going forward. This path would not necessarily reflect a fundamental departure in worldviews; rather it would be driven by pragmatic concerns and rising uncertainties on both sides about the sustainability of trade conflict as costs mount.

Yet this outcome should not necessarily be seen as a stable one, as each side would be giving up on core commitments, some of which are quite foundational. If Trump and Xi are not passing moments but reflective of more fundamental changes in the two countries, then we cannot necessarily count on the prospect that such a truce will stick.

Finally, the third possibility is for a period of sustained conflict in the U.S.-China relationship and even the possibility of what is now called "decoupling." Unfortunately, there are already elements of this possibility in the National Security Strategy and other documents dealing with U.S. defense posture. The implications of chronic system conflict for the world economy are potentially grave and we can at least imagine the conflict generating a worldwide downturn. Yet we can also imagine this conflict taking very different forms, such as a gradual disengagement of the Chinese and American economies as both seek to diversify and build coalitions of support through their favored policy approaches.

Meanwhile, both sides might reject significant concessions which they see as having negative long-run strategic consequences for what the Chinese call "core interests." For China these include the ability to pursue industrial policies in sectors deemed to have long-run strategic significance, and to maintain the Communist Party's freedom of action domestically. For the United States, these interests include a desire to retain discretion over American economic policy, and maintain a degree of primacy on the global scene. In this scenario, the U.S.

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view would harden that the conflicts with China are increasingly systemic in nature. Already, the view is growing that China is a country that can effectively compete across a range of economic and security domains, but is competing on the basis of a neo-mercantilist or developmentalist strategy. Moreover, China seeks to build international institutions that not only pose challenges to a rule-based order but that exclude the U.S.

In both the second and third scenarios—but in very different ways—China and the U.S. would compete to strengthen alliances in East Asia and build new systems of collaboration among the East Asian countries. Whether this competition takes place in the context of a somewhat amicable divorce, or in a charged and risky strategic contest, will depend on the wisdom of leaders as well as broader economic and political forces. In neither case will a renewed appeal to a liberal, rules-based order be easy or even straightforward. Rather, in both scenarios sustained competition and even conflict over the architecture of the Asia-Pacific—trans-Pacific or inter-Asian?—will persist and be a key determinant of ultimate global trends. ■

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