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# **SINO-AMERICAN RIVALRY IN THE CONTEXT OF ASIA-PACIFIC ECONOMIC REGIONALISM**

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## **SINO-AMERICAN RIVALRY IN THE CONTEXT OF ASIA-PACIFIC ECONOMIC REGIONALISM<sup>3</sup>**

The rise of Asian regionalism and Sino-American rivalry are determining trends in the Asia-Pacific region. Asian economic indicators remain stable and growing even during the severe global crisis of 2008 and have become more and more comparable to those of developed countries. The current trend creates a basis for Asian states to concentrate on domestic needs for development rather than export orientation, which leads to a new model of cooperation in the region.

China's growing assertiveness in international affairs and the US 'Pivot to Asia' have triggered confrontation and tensions which have negative effects on economic cooperation boosted by Asian regionalism and influence its institutional framework. Sino-American rivalry is also provoking a power shift which is reshaping the relations between all the regional actors.

This article analyses Asian regionalism and Sino-American rivalry as two objective processes in the Asia-Pacific region and shows their effects on regional development using the examples of TPP and RCEP initiatives.

JEL Classification: Z

Key words: Asian regionalism, Sino-American rivalry, institutions, integration initiatives in Asia-Pacific

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## **Introduction**

The rise of Asia and the rise of Asia-Pacific regionalism may be considered as the two main trends determining future of the Asia-Pacific region and the evolution of the global economy and the international system. The speedy growth of China and other developing countries of the region has already accelerated the largest redistribution of global wealth and power in history – probably even more significant than the loss of the Chinese economic supremacy in the 19th century. However, along with the impressive growth of per capita and national income in countries which just a half-century ago were plunged into poverty and social disorder, this process produces certain negative political consequences. The rise of the economic potentials changes the regional balance of power, while the emerging security threats are challenging regional economic development.

Among these, the current Sino-American contradictions are without doubt the most important. Rise of China and the US ‘Pivot to Asia’ have triggered competition between the two main powers in the Asia-Pacific region. This potential rivalry produces a set of political risks for international stability both on the regional and global scales. While the preservation of economic growth remains an uncontested condition for the further successful integration of China into the international system as a responsible player, at the same time growing Chinese economic potential is becoming the main challenge to US regional supremacy, making certain tensions unavoidable.

The rise of Asia-Pacific regionalism may be considered a response to this contradiction. The development of a regional institutional framework is required to smooth potential tensions and strengthen intra-regional cooperation. The dynamics and logic of the regional economic development—trade and investment within the region has been growing permanently since the Asian crisis of 1997—makes Asia-Pacific regionalism in the economic dimension an objective and influential process rather than just a policy. However, recent trends in regional institution building means it is a much more complex process, whose logic is determined by political factors rather than economic ones.

This article focuses on the contradiction between the dynamics of these two processes: rising Asia-Pacific regionalism and the political and economic competition between the US and China. Our view is based on the assumption that mutually influencing each other, these two trends undergo certain deformations, both positive and negative. While the institutionalization of multi- and bilateral economic cooperation has shown its potential to smooth Sino-American rivalry, preventing it from slipping into a strategic confrontation, the process of regionalism itself is becoming a field of competition.

## **Asia-Pacific regionalism: sources and contemporary trends**

We can define modern regionalism as one of the distinctive features of contemporary international relations and economics. Despite the rising interest in this problem there is no clear consensus on what constitutes a region and what therefore constitutes regionalization and regionalism.

Regions are usually defined as “an area, especially part of... the world having definable characteristics but not always fixed boundaries”<sup>4</sup>. In the case of international relations, it usually means a number of geographically close countries with certain political and economic relations. Regionalization and regionalism imply the existence of strong economic, social and political ties within a group of states which produce a high level of interdependency and drive them to specify or establish certain norms and rules within their group. Regionalism does not always correlate with a geographical location. While geographically East Asia includes countries of Southeast Asia, China, South and North Korea and Japan, it is difficult and unreasonable to exclude from East Asian regionalism Australia and New Zealand, taking into account the high level of cooperation between them. The absence of clear regional borders produces the problem of how wide the regional institutional framework should be.

The lack of conceptualization in defining and differentiating “regionalization” and “regionalism” is another theoretical challenge. A variety of concepts suggest regionalization as a feature of regionalism<sup>5</sup> or propose a wider definition of regionalization, as “a process that engages actors” which actually makes regionalization both a political and economic process, while regionalism is only a process involving institutionalization practices<sup>6</sup>.

A variety of scholars define regionalization as a “process driven by economic and social forces”, while regionalism is considered to be a political process based on institution building and the creation of intergovernmental organizations at the highest level<sup>7</sup>. From this point of view, regionalism is a set of political practices involving institution building on a regional scale, based on a process of regionalization, which creates the economic foundations for political interaction. Such a conceptualization based on the separation of two dimensions—economic (regionalization) and political (regionalism)—is reasonable and shared by most researchers. We use this approach in this paper.

The neoliberal approach strongly emphasizes the ability of international institutions to smooth contradictions between actors<sup>8</sup>. This assumption allows some scholars to consider

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<sup>4</sup> Oxford Dictionary - <http://www.oxforddictionaries.com/definition/english/region>

<sup>5</sup> Hurrell A. Regionalism in Theoretical Perspective//Regionalism in World Politics: Regional Organization and International Order. Oxford. 1995. P. 39-40.

<sup>6</sup> Katzenstein PJ. East Asia Beyond Japan//Beyond Japan: The Dynamics of East Asian Regionalism. Ithaca. 2006. P. 1.

<sup>7</sup> Mansfield E., Solingen E. Regionalism//Annual Review of Political Science 2010. 13:145-63. P. 147.

<sup>8</sup> See: Keohane R. After Hegemony: Cooperation and Discord in the World Political Economy. Princeton., 1984; Keohane R., Martin L. The Promise of Institutional Theory//International Security. Vol. 20. No 1. P. 39-48.

regional institution building—which in fact constitutes regionalism as a political process—as an effective policy to provide international stability in the Asia-Pacific region<sup>9</sup>. The history of Asian and Asia-Pacific regionalism seems to favour these arguments.

Asia-Pacific regionalism has come a long way since the end of the World War II. Taking the first Asian Relations Conferences in 1947 and 1949 as the starting point, we may say that regionalization, previously in trade, and regionalism, triggered by postwar decolonization, played an important role in promoting regional stability as far as possible in the adverse circumstances of the Cold War.

At that time the structuring of regional politics was determined by the rivalry between the two superpowers. In some cases, it cleft the region and some countries; the problem of two Koreas and de-facto sovereignty of Taiwan are anachronisms of that time. However, while the US-USSR confrontation drew dividing lines in Asia, it also stimulated integration on a subregional level. The creation of ASEAN in 1967 aimed to strengthen security in Southeast Asia, and then became a platform for economic integration. ASEAN and the US system of alliances in the Asia-Pacific region are the most important bodies of political infrastructure in the post Cold War period.

After the Cold War, Asia-Pacific regionalism got a new wind. The political climate of the late 80s and after was much more favourable for economic cooperation, which encouraged further regionalization. The impressive growth of the Chinese economy after 1978 was another important factor in boosting international trade and investment in the whole of the Asia-Pacific region.

The global financial crisis of 2008 followed by the global recession stimulated intraregional trade even more, as China maintained impressive economic growth. In 2013 China was the main trading partner of the largest economies in Asia: Japan (18,1% of exports, 21,3% of imports), South Korea (24,5% of exports, 15,5% of imports), Australia (29,6% of exports, 18,4% of imports) and the second-lead trade partner of the US (7,2% of exports, 19% of imports) after Canada<sup>10</sup>. The total trade turnover of China with the two leading regional economies in 2013 was more than \$560 billion with the US<sup>11</sup> and \$312 billion with Japan about 40% of the country's interregional trade<sup>12</sup>.

Rising intraregional trade and investment was the economic basis for further development of Asia-Pacific regionalism, which, as the former President of the Asian Development Bank Haruhiko Kuroda claimed “offers a new platform for economic development which is good for

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<sup>9</sup> Suisheng Zhao. *The US-China relations transformed: Perspectives and Strategic Interactions*. NY., 2007.

<sup>10</sup> WTO Statistics Database - <http://stat.wto.org/Home/WSDBHome.aspx?Language=E>

<sup>11</sup> US trade in goods with China//US Census Bureau - <https://www.census.gov/foreign-trade/balance/c5700.html>

<sup>12</sup> Japanese Trade and Investment Statistics//Japan External Trade Organization <https://www.jetro.go.jp/en/reports/statistics/>

individual economies, good for Asia, and good for the world. It is a partnership for shared prosperity”<sup>13</sup>.

The key issue of regionalism, which determines the demand for institution building, is that “shared prosperity” also means “shared risk”. Chaotic interdependence may be interpreted as a threat rather than a desirable condition for the international system. While economic cooperation remains the most important driver of strengthening economic and political ties within the region, this process is poorly structured. Establishing clear norms and rules of cooperation in the region and the tools of coordination of international efforts to face challenges to regional security and prosperity is the formal side of the regionalism, which has not kept up with economic development and political change. As global institutions are not designed to deal with specific regional challenges, regionalism is the only option to guarantee stability and economic growth. It makes regionalism an objective process rather than a policy. The rapid development of regionalism reflects the rising importance of qualitative international institutions to ensure economic growth for both developing and developed countries.

Since the mid 2000s Asian and Pacific countries intensified the development of institutional infrastructure on regional and subregional levels. ASEAN took the leading position as the most effective and integrated intergovernmental organization in Asia. It is indicative that from January 2007 to November 2014 ASEAN held 13 summits, more than during the previous period (1976-2005) when there were only 12 formal meetings. At the same time, ASEAN became the core for East Asian Summits (EAS), which started in 2005. EAS may be called the first attempt to create a wider and more effective platform for regional integration or at least a working mechanism to settle international disputes on trade and security.

However, despite some success in institution building, the regional institutional framework remains relatively weak and undeveloped especially compared to the Euro-Atlantic one and it does not seem to fulfil the demand for regionalism. Current regional institutional design cannot provide clear norms and rules of the game. Asia-Pacific Economic Cooperation Organization (APEC) and the EAS are important platforms for the discussion of the regional economic agenda; however, their competences are limited to facilitation and monitoring. The de-facto stagnation of APEC is a perfect example that contemporary institutional design does not correspond to the economic and political demands of regional development. Despite recent improvements in institution building, there is no intergovernmental organization which can play the role of regional institutional framework, except for ASEAN, in Southeast Asia.

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<sup>13</sup> Emerging Asian Regionalism//Asian Development Bank Report - [http://aric.adb.org/emergingasianregionalism/pdfs/Final\\_ear\\_chapters/final%20report.pdf](http://aric.adb.org/emergingasianregionalism/pdfs/Final_ear_chapters/final%20report.pdf)

The high demand for Asia-Pacific economic regionalism remains one of the major factors determining regional politics. According to an ADB survey (2010) political, business and academic leaders of the Asia-Pacific region still support the liberalization of regional trade, and consider the creation of the FTAAP the highest priority for Asian regionalism.

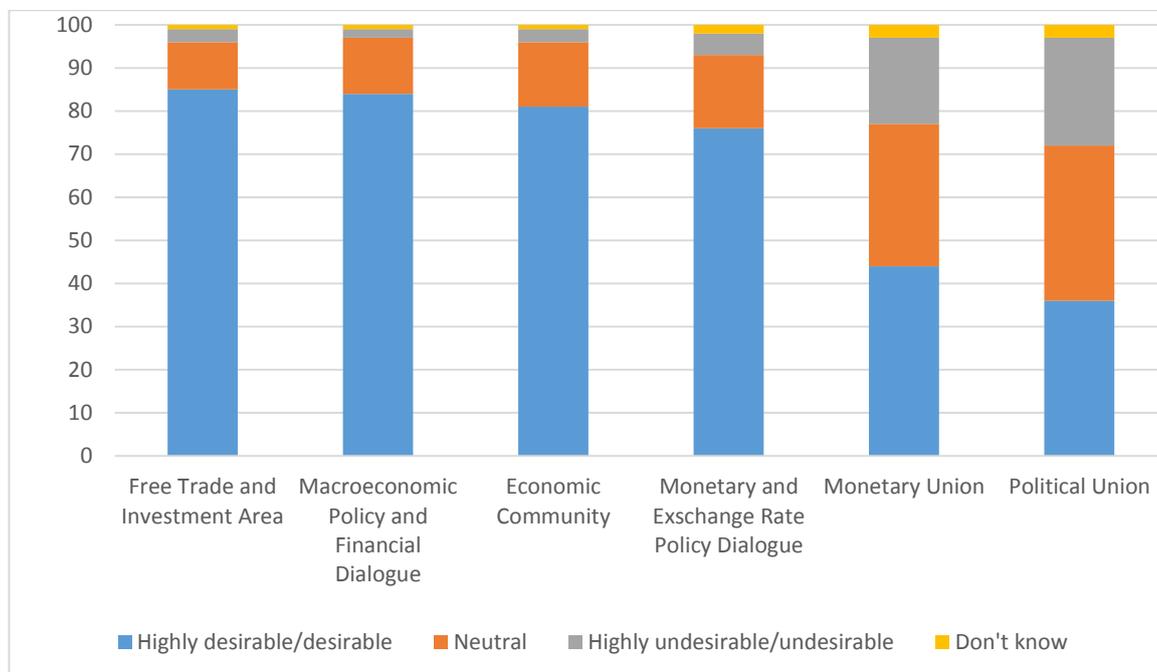


Fig. 1. Desirability of Regional and Integration Objectives (ADB survey)<sup>14</sup>

The survey shows that despite the global recession, demand for free-trade remains relatively high in the Asia-Pacific region. Other forms of regionalism, such as dialogues on the macroeconomic, monetary and exchange rate policies could not be the basis for the creation of a regional institutional framework, while the establishment of an economic community is simply impossible without a regional FTA. At the same time, the survey shows relatively weak support for closer forms of integration, such as monetary or political union.

In these circumstances the satisfaction of the regional demand for institutions becomes essential to regional politics. While closer political cooperation and security remains questionable areas for institution building, the institutionalization of economic cooperation perfectly matches the mood of the regional elites—partly to counter the transformation of the economic dimension into the main field of Sino-American and other regional competition. Since the late 2000s both the US and China have clearly aimed their regional policies at filling this institutional vacuum. However, addressing their policies to the problem of institution building,

<sup>14</sup> Capanelli G. Institutions for Economic and Financial Integration in Asia: Trends and Prospects//ADBI Working Paper Series. No. 308. 2011.

key players of the Asia-Pacific region exercised different approaches, both geographical and conceptual.

Washington is considered to be in a more advantageous position. Since the US played a leading role in world and regional politics after the Cold War, in the 90s Washington orchestrated regionalism in the Asia-Pacific. The Bogor Goals, adopted at the sixth APEC summit in 1994, declared that “APEC needs to reinforce economic cooperation in the Asia-Pacific region on the basis of equal partnership, shared responsibility, mutual respect, common interest, and common benefit, with the objective of APEC leading the way in:

- strengthening the open multilateral trading system;
- enhancing trade and investment liberalization in the Asia-Pacific region; and
- intensifying Asia-Pacific development cooperation”<sup>15</sup>.

The Bogor Goals clearly concentrated on trade and investment liberalization, which was a cornerstone of the US approach to constructing the global and regional economic order after the Cold War. According to these directions, the development of Asia-Pacific countries depended on their openness and integration in the regional and global economy with limited assistance of the World Bank and ADB.

The liberal approach assumed the creation of the Free Trade Area of the Asia-Pacific (FTAAP) as the central issue of Asia-Pacific regionalism. However, while the US agenda dominated all the regional formats, in the 90s Washington did not use the opportunity, concentrating on global issues such as WTO. The Asian crisis of 1997-1998 damaged US relations with East Asia and slowed the liberalization of trade in the Asia-Pacific region even more, making governments shift their focus from the Bogor Goals to self-protection<sup>16</sup>. After Thailand’s sovereign default, which then triggered the collapse of the whole regional financial system, the Thai minister of commerce Supachai Panitchpakdi, later the director-general of WTO, claimed that US and IMF did not understand how globalization had influenced Asian economies<sup>17</sup>. For the next several years the region was largely devoid of FTA agreements compared to other regions.

In the 2000s trade liberalization returned to the regional agenda, becoming the key issue of the economic regionalism, but without major US involvement. While the Bush administration focused on the post-9/11 global War on Terror, Asia-Pacific economic regionalism continued developing in many senses on its own. Unsystematic development without proper leadership resulted in a drastically chaotic network of bilateral and multilateral free-trade agreements. By

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<sup>15</sup> The Sixth APEC Summit Leader’s Declaration//APEC Official Website - [http://www.apec.org/Meeting-Papers/Leaders-Declarations/1994/1994\\_aelm.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/1994/1994_aelm.aspx)

<sup>16</sup> Higgott R. The Asian Economic Crisis: A Study of the politics of resentment//New Political Economy. 3:3. 1998. P. 333-356.

<sup>17</sup> Prestowitz C. Rogue Nation - American Unilateralism and The Failure of Good Intentions. 2004., P. 11.

2013 in the Asia-Pacific region there were 75 FTA agreements, signed or already in force. While all of them lay within the free-trade narrative, the philosophies, aims and conditions of these agreements are very different.

The US “pivot to Asia” made Washington take the role, which they had been reluctant to accept in the late 90s, of coordinator, leading the process of institution building and institute unification. The launch of TPP in 2008 was the first decisive step towards the FTAAP since the Bogor Goals of 1994. However, compared with the 90s the objective, driven by economic processes of Asia-Pacific regionalism, is developing in drastically different political circumstances. The rise of China, which in many senses has driven the US “pivot to Asia” and has stimulated institutionalization, at the same time calls into question US leadership in this process.

### **Sino-American relations in transformation: toward the regional economic rivalry**

‘The rise of China’ is one of the factors that has reshaped international politics and has had a serious influence on US foreign policy on different levels, global and regional. This rise along with the improving economic and political situation in Asia during the global financial crisis of 2008 and the deterioration of the economic and political situation in the US (in addition to other factors as a result of wars in the Middle East) was the reason for the official ‘Pivot to Asia’ strategy in the US foreign policy<sup>18</sup>.

From an historical point of view, up to now there has never been global competition between China and the US (their systems were different and adversarial in ideological terms, but not compatible). During the second half of the 20th century US-China relations underwent several large-scale transformations: from non-recognition to strategic cooperation, and then to rivalry, which has gone along with economic interdependence. At the previous stages of Sino-American relations the countries mostly concentrated on bilateral issues and tried not to go deep into regional and global problems, especially in their relations with other Asia-Pacific partners (for example, Taiwan has always been a very painful issue). Nevertheless their increasing interdependence has led to growing number of issues for discussion (human rights, freedom of navigation and other).

The routes of contemporary US-China relations came from the ‘rise of China’: from 1990 to 2013 when Chinese annual growth was 8-9% on average, whereas the same indicator in the USA was about 2-4% (even demonstrating negative growth in 1991, 2008 and 2009)<sup>19</sup>.

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<sup>18</sup> Campbell K., Andrews B. Explaining the US ‘Pivot to Asia’ // The Asia group, Americas 2013/1, Chatham house - [http://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Americas/0813pp\\_pivottoasia.pdf](http://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Americas/0813pp_pivottoasia.pdf)

<sup>19</sup> GDP growth, USA - <http://www.statista.com/statistics/188165/annual-gdp-growth-of-the-united-states-since-1990/>

However, at present China's economic growth is declining: it went up to 14% in 2007 and after that showed a downward trend (now it is approximately 7-7,5%)<sup>20</sup>. Value-added industrial output in China reached a 6-year low in August 2014 rising only 6,9% from a year earlier and below economists' estimation of 8,7% growth<sup>21</sup>. Despite these facts, China's growth is still much higher than in most developed countries including the USA. This explains China's high potential and creates the basis for the growth of economic and political influence.

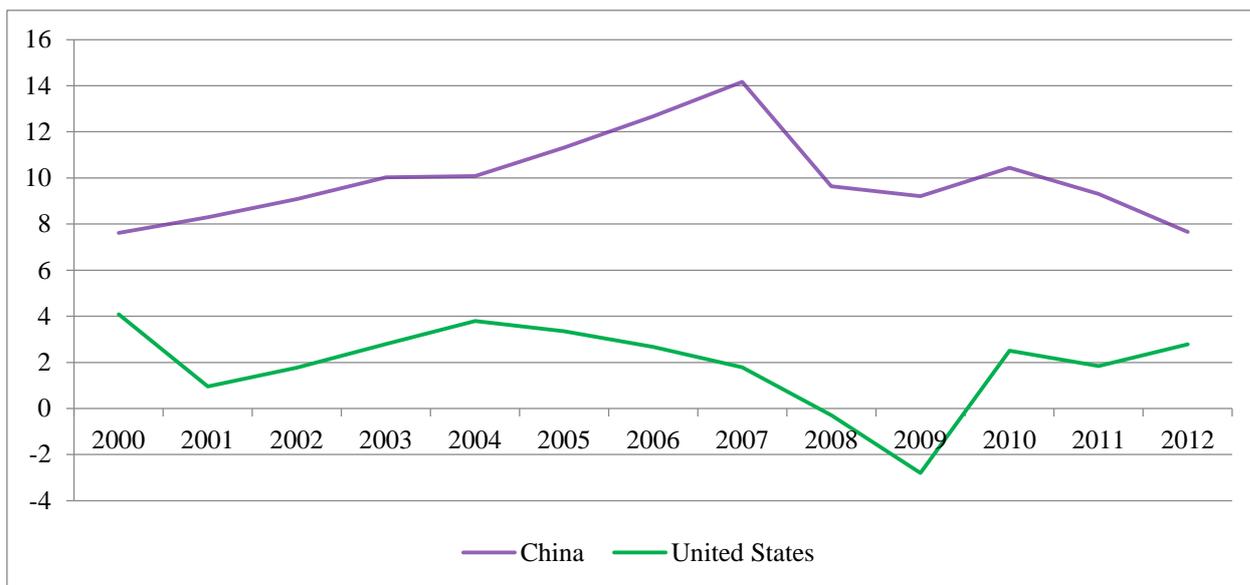


Fig.2 GDP growth annual (%)<sup>22</sup>

In October 2014, IMF announced that China had become the world's largest economy in purchasing-power-parity terms passing the US<sup>23</sup>. According to the World Investment Report 2014 (UNCTAD), the US is the first world host economy for FDI inflows and outflows, China is second and third respectively. However, comparing the dynamics, there is growth in FDI inflows in both countries during 2012-2013 but FDI outflows declined in the USA from \$367 billion in 2012 to \$338 billion in 2013 whereas in China they grew from \$88 billion to \$101 billion during the same period.<sup>24</sup>

This competition occurs on a regional level too. ASEAN statistics on FDI for 2011-2013 show that Chinese investment in ASEAN countries increased from \$7,858 billion to \$8,644 billion while FDI from the US has become almost three times lower (from \$9,13 billion to

<sup>20</sup> World Bank Statistics - [http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators#s\\_g](http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators#s_g)

<sup>21</sup> China industrial growth hits 6-year low - <http://www.marketwatch.com/story/china-august-industrial-growth-hits-6-year-low-2014-09-13>

<sup>22</sup> World Bank Statistics - <http://databank.worldbank.org/>

<sup>23</sup> China overtakes as world's largest economy - <http://www.businessinsider.com/china-overtakes-us-as-worlds-largest-economy-2014-10>

<sup>24</sup> UNCTAD official website - [http://unctad.org/en/PublicationsLibrary/wir2014\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf)

\$3,758 billion). In 2013 total ASEAN trade with China was \$350,4 billion (14% of total ASEAN trade) whereas ASEAN-USA trade was \$206,9 billion (8,3% of total ASEAN trade)<sup>25</sup>.

Although China officially adheres to ‘peace, cooperation and a win-win approach’<sup>26</sup> in its foreign policy, its actual decisions and documents often do not correlate with this claim. China is modernizing its military and increasing its military potential. According to a budget report, China spent 650,6 billion yuan on national defence in 2012 (an increase of 11,5% on the previous year)<sup>27</sup>. SIPRI estimates<sup>28</sup> that China’s military budget has become almost 9 times bigger during 2000-2013 (in 2000 it was \$22 billion while in 2013 it was more than \$188 billion) and continues to increase. The US military budget, remaining far larger than in the rest of the world, started to decline in 2011 from \$711 billion in 2011 to \$640 billion in 2013 (at current prices).

Fig. 3. Military expenditure in China and the USA (current US\$ millions)

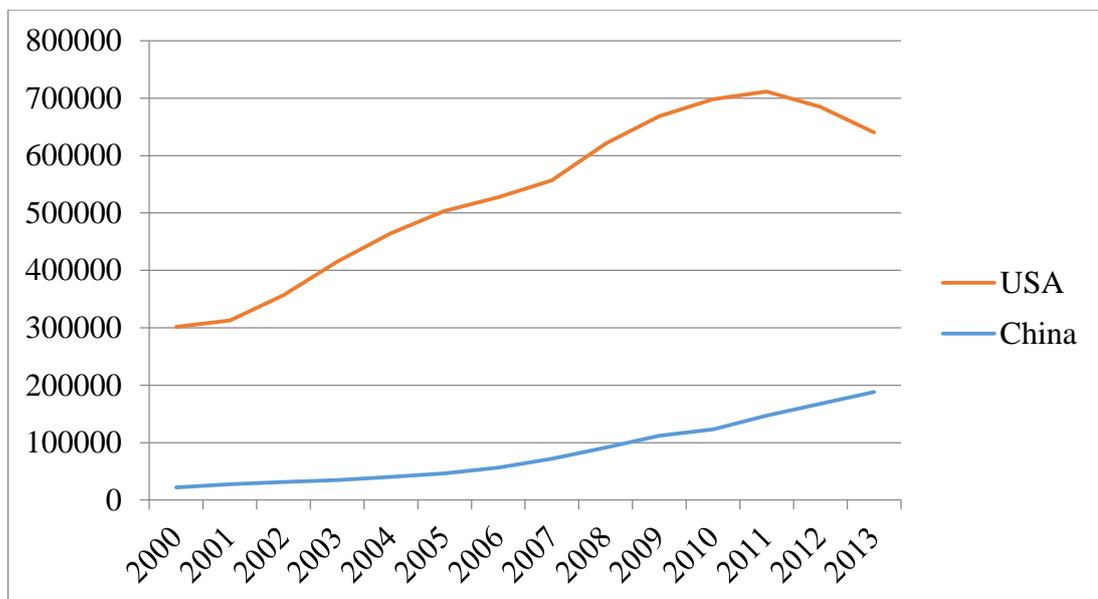


Fig. 3. Military expenditure in China and the USA (current US\$ millions)<sup>29</sup>

The on-going processes and shifts may lead to serious changes in the roles of the USA and the China in the world. As Christopher Layne highlighted: “Historically the emergence of new roles of power in the international system has been geopolitically destabilizing [...] There is no reason to believe that China’s rise will be an exception.”<sup>30</sup> He outlines two strategies scholars

<sup>25</sup> ASEAN statistics - <http://www.asean.org/resources/2012-02-10-08-47-55/asean-statistics>

<sup>26</sup> China Foreign Affairs Ministry official website - [http://www.fmprc.gov.cn/mfa\\_chn/wjb\\_602314/wjbz\\_602318/bzzc\\_602322/](http://www.fmprc.gov.cn/mfa_chn/wjb_602314/wjbz_602318/bzzc_602322/)

<sup>27</sup> Xinhua agency - [http://news.xinhuanet.com/english/china/2013-03/05/c\\_132207943.htm](http://news.xinhuanet.com/english/china/2013-03/05/c_132207943.htm)

<sup>28</sup> SIPRI Databases - <http://www.sipri.org/databases>

<sup>29</sup> Ibid.

<sup>30</sup> Layne Chr. China’s Challenge to the US hegemony. P. 13

propose to deal with a growing China: engagement and containment<sup>31</sup>. The main idea of the first is that it is necessary to integrate China into the existing regulative international institutions and adapt the country to the applicable rules. Another approach says that China has become too powerful and threatens the existing world system.

The US adhered to an engagement policy for a long time (starting from the first official contacts between Chinese and American administrations in the 1970s and the acceptance of China into the United Nations; even the events of Tiananmen had a limited effect on bilateral relations). They also helped China to join WTO on special conditions in 2001 and actually China's growth is to a large extent possible by the benefits it got from international institutions (including the World Bank and IMF). One of the crucial issues of Sino-American relations was the problem of responsibility. The most vivid example is that China did not join the G2 initiative and always claimed that it is not ready to take responsibility on global or regional level (Kyoto Protocol negotiations). China positions itself as a country that is trying to solve domestic issues and to bring prosperity to the whole region, not to interfere with others or to be considered 'a threat'. For example, this was clearly seen in most speeches of Hu Jintao and Weng Jiabao in 2003-2004 which promoted the concepts of peaceful rise and peaceful development<sup>32</sup>.

However, there have recently appeared signs of transformation. "The Chinese dream" is promoted by Xi Jinping as an idea with a strong nationalist component aimed at changing the role of China and its self-perception: 'We must make persistent efforts, press ahead with indomitable will, continue to push forward the great cause of socialism with Chinese characteristics, and strive to achieve the Chinese dream of the great rejuvenation of the Chinese nation'.<sup>33</sup> Moreover, 'the Chinese dream' is viewed as part of a larger concept: at APEC summit in November 2014 Xi Jinping introduced the idea of 'the Asia-Pacific dream' (for all Asia-Pacific countries)<sup>34</sup>. These facts can be considered evidence that China is acting as a more responsible partner and has the idea of strengthening its leadership not only through economic ties but also through ideology.

China also has become an active part of newly created alternative regulating institutions, such as BRICS, Asian Infrastructure Investment Bank and others. This makes the rivalry even worse: the appearance of alternative institutions means that the previous order is not efficient while the US tries to prove the opposite.

Due to Sino-American economic interdependence China's transition to a slower and more balanced domestic growth can be considered a challenge for the US. As the slowdown is mainly

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<sup>31</sup> Ibid. P. 14

<sup>32</sup> Zhao S. China's pragmatic nationalism: is it manageable? // Washington Quarterly 29.1, 2005 . PP. 131-144

<sup>33</sup> BBC news - <http://www.bbc.com/news/world-asia-china-22726375>

<sup>34</sup> Washington Post - [http://www.washingtonpost.com/world/chinas-promotes-asia-pacific-dream-to-counter-us-pivot/2014/11/11/1d9e05a4-1e8e-4026-ad5a-5919f8c0de8a\\_story.html](http://www.washingtonpost.com/world/chinas-promotes-asia-pacific-dream-to-counter-us-pivot/2014/11/11/1d9e05a4-1e8e-4026-ad5a-5919f8c0de8a_story.html)

explained by the change of this growth's nature (from quantity growth to quality growth) it means structural changes in US-China relations and the search for new partners "to fill in the gaps". In this sense, the increase of cooperation with growing Asian economies becomes more and more necessary.

The economic rise of China creates a platform for enhancing political influence. China has established close economic ties with Asian countries, and that gives China an instrument for political pressure. For example, the positive role of China in the 1997 Asian crisis gave it a chance to promote its agenda on talks on the Declaration on the Conduct of parties in the South China sea signed in 2002, where it managed to fix two important rules: 1) negotiations are held on an exclusively bilateral basis 2) only countries can participate in negotiations (thereby excluding Taiwan). In July 2012 after ASEAN's foreign ministers failed to issue a joint communiqué following their annual meeting in Phnom Penh, there were also talks about the Chinese involvement in the issue (there were reports that 'Cambodian officials shared drafts of the statement with Chinese interlocutors').<sup>35</sup> Now it is clear that China is leading a tougher policy in the South and East China seas (in 2013 China established an air-defence zone in the East China sea; in May 2014 there was an escalation in Sino-Vietnamese tensions because China intended to explore for oil in a disputed area of the South China sea).

The US, consequently, are in a difficult position: on the one hand, their ties with China are too strong to pose restrictions on the China, on the other hand the inability to limit China's ambitions is viewed as a weakness and causes distrust among US strategic partners in the Asia-Pacific region, so they need to react. At present China's potential is high but not enough to struggle with the US efficiently, moreover China does not have efficient economic, political, military or other kinds of power that could be compared to that of the US and has many domestic limitations connected with its structural socio-economic imbalances, demographic situation, instability, that put natural restrictions on China's activities. So, the US still has the tools to build beneficial cooperation in the Asia-Pacific region.

Thus, both countries need to develop foreign and domestic policies which will help them to promote their global and regional leadership. Current trends and events show that the transformation of world politics and economy is caused by objective structural factors, which stimulate the US and China to enhance their leadership by strengthening alliances with traditional partners and trying to counterbalance each other on an institutional level and this is where the TPP and RCEP initiatives serve as instruments to establish new rules in the Asia-Pacific region. , Mark Thomson argues that 'It's not simply that the two proposals involve

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<sup>35</sup> Bower E.Z. China reveals its hand on ASEAN in Phnom Penh // East Asia Forum Official website <http://www.eastasiaforum.org/2012/07/28/china-reveals-its-hand-on-asean-in-phnom-penh/>

different sets of countries; they also take very different approaches<sup>36</sup>. Generally speaking, TPP is viewed as a step towards FTAAP: making preferential trade agreements and fixing relatively high standards (mostly beneficial for US business). RCEP, the China-lead initiative, is more focused on enhancing connectivity, ‘the entrance’ costs and barriers are much lower. Both projects are controversial and cause many contradictions within the countries considered prospective participants of these initiatives, not to mention that these projects are politically divisive for their initiators too. That is why China ‘is sending mixed signals about its views of the Trans-Pacific Partnership’<sup>37</sup>: on official level China supports the idea of TPP (in the speeches of its leaders), simultaneously, the press highlights TPP’s anti-China nature. Experts see it as the reason why Xi Jinping talked about moving to FTAAP at the APEC summit in November 2014 without addressing to the TPP issue<sup>38</sup>.

Launching the TPP, Washington aimed at filling an institutional vacuum, fulfilling its role as the leader of global and regional trade liberalization. This strategy perfectly correlates with rising Asian regionalism and the huge demand for the regional institutions. However, to succeed as a basis for the FTAAP, or more broadly, as an institutional framework for the regional economic order, the TPP has to overcome the political contradictions, produced by rise of China and ASEAN powers and the decline of the US as the leading regional power.

### **Filling the vacuum: tracks of the Asia-Pacific regionalism**

In the 90s the idea of FTAAP was driven by economic calculations and a mutually shared understanding that the neoliberal US-led order had no alternatives. That allowed the US to more or less easily promote their views on global and regional institutional architecture and policies. Becoming a WTO member in 2001 China consciously joined the US-led global economic order in one of the most important aspects—free-trade.

From the US perspective as the leader of the trade liberalization process, the TPP is a call to further improvements in the international trade regime after decline of the Doha-round. Refocusing from the global level to the regional level, Washington aimed to kill three birds with one shot: “rebalance” China in the Asia-Pacific region, meet the demands for institution building and fulfil the US global role to promote free-trade policies and regimes. Developing the WTO on a regional scale, the TPP agreement covers such areas as electronic trade, intellectual property rights (IPR), financial markets and even some general rules for economic policy related to international trade, including a variety of non-tariff measures of protectionism.

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<sup>36</sup> Thomson M. Trade strategic competition: TPP vs RCEP // The Strategist – <http://www.aspistrategist.org.au/trade-partnership-competition-tpp-vs-rcep/>

<sup>37</sup> Keck Z. China’s TPP contradictions // The Diplomat - <http://thediplomat.com/2014/11/chinas-tpp-contradictions/>

<sup>38</sup> Martina M, Xi Jinping argues faster APEC talks on China-backed free-trade area - <http://www.reuters.com/article/2014/11/11/us-china-apec-idUSKCN0IV04520141111>

This agenda is typical for the US trade representative strategy toward FTA negotiations and is widely shared by developed countries, usually concerned about IPR and financial flows even more than about the conditions of physical trade. By 2010s TPP was recognized as the only possible path to FTAAP. The Congress Research Division report on the TPP agreement stated that a failure of negotiations “would signify a temporary, if not permanent setback to the notion of a Free Trade Area of the Asia-Pacific”<sup>39</sup>.

However, since the late 2000s the rise of China’s ambitions has started to change the fundamentals of the Chinese approach to US-led global and regional institutions, making Beijing much more reluctant to accept the US liberal agenda.

Certain shifts in the priorities of developing countries gave China a chance to come up with its own agenda for Asia-Pacific regionalism. During the 80s and 90s almost all of the developing countries successfully integrated into the global economy and financial system, liberalized their trade policies according to WTO standards and getting access to international investment flows. Since the mid 2000s poor infrastructure rather than trade barriers became the priority challenge for developing countries in the Asia-Pacific region. According to ADB, the total demand of East and South East Asia for infrastructure investments is \$5,5 trillion between 2010-2020<sup>40</sup>. Table 1 below shows East and Southeast Asia’s infrastructure needs by the main countries of the region:

Tab. 1. East and Southeast Asia’s Infrastructure Needs (2008 USD million)<sup>41</sup>

	Estimated Investment Needs	Total Investment Needs (%)	Investments as % of total	
			New Capacity (%)	Maintenance (%)
East and Southeast Asia	5,472,327	100	71	29
China	4,367,642	79,8	72	28
Malaysia	188,984	3,4	79	21
Lao Republic	11,375	0,2	56	44
Cambodia	13,364	0,2	51	49
Indonesia	450,304	8,2	70	30
Thailand	172,907	3,1	72	28

<sup>39</sup> The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress//Congressional Research Division Report. 2014. P. 53.

<sup>40</sup> Infrastructure Development and Investment in the APEC Region

<sup>41</sup> ADB (2012), Infrastructure for Asian Connectivity. P. 33-34

China has the largest demand for infrastructure investment; about 80% of the total amount for East and Southeast Asia and almost half of the total demand of the Asia-Pacific (more than \$8,2 trillion). Total infrastructure needs of ASEAN members amounts around \$1 trillion. Most for the construction of the capacities necessary for further development.

This important issue drove ASEAN and China to push regional infrastructure development to the centre of the economic regionalism in the Asia-Pacific region. It is reflected in the APEC Leaders' Declarations, whose spirit is gradually changing, while formally keeping to the Bogor Goals. The 25<sup>th</sup> APEC Summit in 2013 in Indonesia, whose demand for infrastructure development also considered to be huge, focused on this problem. Leaders adopted a "Multi-Year Plan on Infrastructure Development and Investment" as a general plan for regional development.

Both TPP and RCEP are based on trade liberalization as the platform for Asia-Pacific regionalism. While TPP provides a more complex and deeper approach, RCEP meets the demands of developing countries for infrastructure. However certain political circumstances make impossible for two projects to coexist and share the advantages of the other. These political circumstances also make TPP an instrument of the US policy in the Asia-Pacific rather than just an institutional framework.

Thus, both countries need to develop foreign and domestic policies which will help them to promote their global and regional leadership. The current trends and events show that the transformation of world politics and economics is caused by objective structural factors, which stimulate the US and China to enhance their leadership by strengthening alliances with traditional partners and trying to counterbalance each other on the institutional level and this is where the TPP and RCEP initiatives serve as an instrument to establish new rules in the Asia-Pacific region. Speaking about these two initiatives, Mark Thomson argues that "It's not simply that the two proposals involve different sets of countries; they also take very different approaches"<sup>42</sup>. Generally speaking, TPP is viewed as a step towards FTAAP promoting trade liberalization: making preferential trade agreements and fixing relatively high standards (mostly beneficial for the US business). As Capling and Ravenhill say, "the TPP can be seen as an innovative and uniquely Asia-Pacific approach to rationalising the noodle bowl of PTAs into a more coherent whole"<sup>43</sup>. Petri and Plummer claim that by 2025, the TPP track would yield global annual benefits of \$295 billion, and the Asian track \$500 billion. Gains from of region-wide free trade would reach \$1,922 billion, or 1.9 % of world GDP'; the US is 'estimated to gain \$78

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<sup>42</sup> Thomson M. Trade strategic competition: TPP vs RCEP // The Strategist – <http://www.aspistrategist.org.au/trade-partnership-competition-tpp-vs-rcep/>

<sup>43</sup> Capling A., Ravenhill J. Multilateralising regionalism: what role for the Trans-Pacific Partnership Agreement? // The Pacific Review, Vol. 24 No. 5 December 2011. P. 554

billion annually on the TPP track and \$267 billion with region-wide free trade'<sup>44</sup>. RCEP is more focused on enhancing connectivity, 'the entrance' costs and barriers are much lower. Sanchita Basu Das predicts, 'RCEP as a grouping has the potential to generate a GDP of US\$26.2 trillion (representing 32 per cent of global GDP)',<sup>45</sup>.

Tab. 2. RCEP and TPP fact sheet (from IMF, JETRO)<sup>46</sup>

	Population (million)	Global GDP Share (%)	GDP Growth in 11-15 Years (%)	Trade Share within Region (%)	Target Year	Market Regulation	Leader
<b>RCEP (16 countries)</b>	3400	28.4	7.1	44.2	2015	Exceptions allowed	ASEAN
<b>TPP+Japan (12 countries)</b>	800	38.2	4.2	41.6	2013	Abandoned principle in	US

However, both projects are controversial and cause many contradictions for the countries considered prospective participants of these initiatives. One of the strongest barriers for Japan is its agricultural policy: although this sector contributes only about 1.5% of Japan's GDP and the number of farmers is declining as their average age is about 60, it causes many political debates on the TPP issue.<sup>47</sup> In the US in June for the third time this year, 75% of the members of House Democratic Caucus have written to the president, rejecting the current framework of the Trans-Pacific Partnership.<sup>48</sup> The most significant problem is that there is no consensus about these initiatives even in the countries which lead these initiatives.

Simultaneously, for small Asian countries these two competing projects create the possibility of a bargaining strategy in bilateral (and multilateral) negotiations between the US and China and whether their realisation is inevitable or not, try to find the best conditions for economic relations between the parties.

<sup>44</sup> Petri P.A., Plummer M.G. The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications - <http://www.iie.com/publications/pb/pb12-16.pdf>

<sup>45</sup> Das S.B. Challenges in Negotiating the Regional Comprehensive Economic Partnership Agreement - [http://www.iseas.edu.sg/documents/publication/ISEAS%20Perspective%202013\\_47.pdf](http://www.iseas.edu.sg/documents/publication/ISEAS%20Perspective%202013_47.pdf)

<sup>46</sup> Jin J. RCEP vs TPP - <http://www.fujitsu.com/jp/group/fri/en/column/message/2013/2013-02-22.html>

<sup>47</sup> Auslin M. Getting it Right: Japan and Trans-Pacific Partnership // Asia-Pacific Review V Volume 19, Number1. P. 23

<sup>48</sup> No to 'Boehner' Trade, No to the Trans-Pacific Partnership - [http://www.huffingtonpost.com/larry-cohen/no-to-boehner-trade-no-to-tpp\\_b\\_5505146.html](http://www.huffingtonpost.com/larry-cohen/no-to-boehner-trade-no-to-tpp_b_5505146.html)

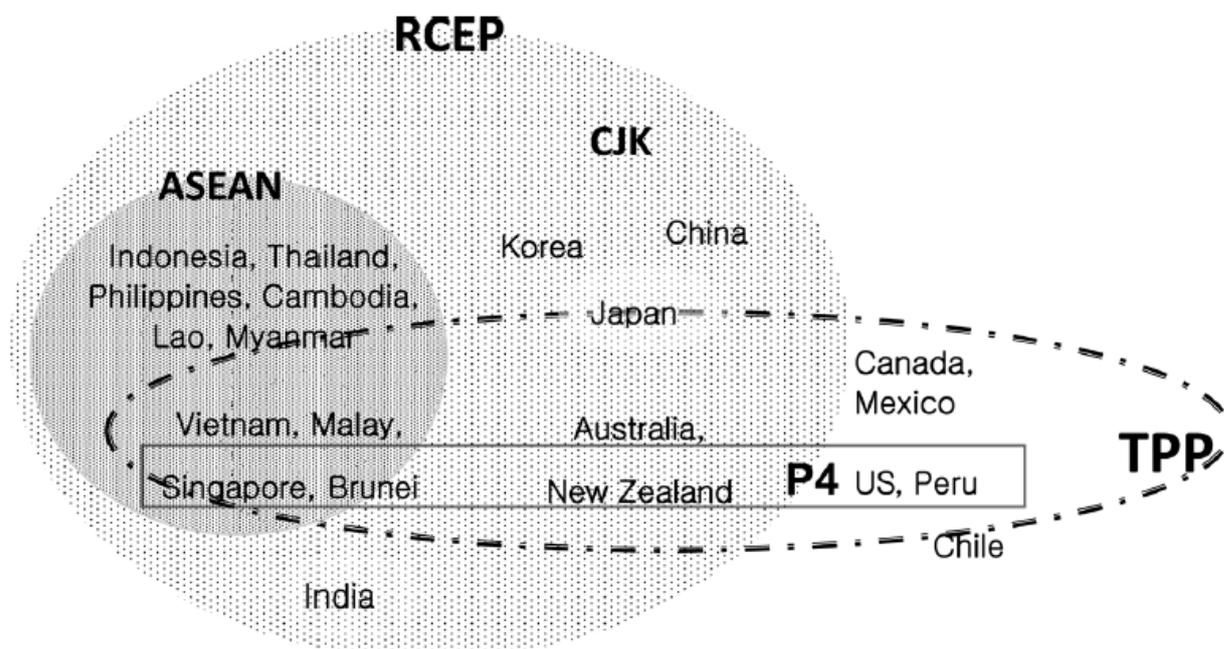


Fig. 4. Membership in TPP and RCEP<sup>49</sup>

In general, TPP and RCEP ‘mirror conflicts between developing and developed economies in the region’<sup>50</sup>. The competing character of TPP and RCEP is the reason why China ‘is sending mixed signals about its views of the Trans-Pacific Partnership’<sup>51</sup>: on official level China supports the idea of TPP in the speeches of its leaders, while simultaneously, the press highlights TPP’s anti-China nature. Experts see this as an explanation why Xi Jinping talked about moving to FTAAP on APEC summit in November 2014 without addressing to the TPP issue<sup>52</sup>.

Launching TPP, Washington, as the leader of the global trade liberalization, aimed to fill an institutional vacuum . This strategy perfectly correlates with rising Asian regionalism and a huge demand for regional institutions. However, to succeed as a basis for the Asia-Pacific FTA, or more broadly, as an institutional framework for the regional economic order, TPP has to overcome political contradictions produced by the rise of China and ASEAN powers and the decline of the US as the leading regional power. However, is it difficult to imagine a common economic order that excludes China, the most powerful country in Asia-Pacific after the US, so the perspectives of both initiatives seem weak.

<sup>49</sup> Cheong I. Tongzon J. Economic Impact of Trans-Pacific Partnership and Regional Comprehensive Economic Partnership // Asian Economic Papers 12:2 © 2013 The Earth Institute at Columbia University and the Massachusetts Institute of Technology. P. 145

<sup>50</sup> Guotiang T., Zhangyu W. Prospects of Asia-Pacific Economic Intergration - [http://www.ciis.org.cn/english/2014-03/19/content\\_6756273.htm](http://www.ciis.org.cn/english/2014-03/19/content_6756273.htm)

<sup>51</sup> Keck Z. China’s TPP contradictions // The Diplomat - <http://thediplomat.com/2014/11/chinas-tpp-contradictions/>

<sup>52</sup> Martina M., Xi Jinping argues faster APEC talks on China-backed free-trade area - <http://www.reuters.com/article/2014/11/11/us-china-apec-idUSKCN0IV04520141111>

## **Conclusion**

The rise of Asian regionalism and Sino-American rivalry are two determining trends of the Asia-Pacific region. Asian regionalism was a logical continuation of region's development during the second half of the 20th century, when Asian countries demonstrated unprecedented development. Even now most Asian economic indicators remain strong despite the severe global crises of 1997 and 2008, moreover they are becoming more and more comparable to those of developed countries. Current tendencies create the basis for Asian states' concentration on the domestic need for development rather than an export orientation, which leads to a new model of cooperation in the region and the appearance of new efficient institutions and integration initiatives that would reflect its economic and political needs.

China's growing assertiveness in international affairs and the US 'Pivot to Asia' has resulted in tensions that are having a negative effect on economic cooperation boosted by Asian regionalism and the influence its institutional framework. The rise of China and relative decline of US regional power and their desire to protect its current position can be seen in many aspects of their cooperation both in economic and political fields.

Sino-American rivalry has also provoked a power shift which is reshaping the relations between all the regional actors. This is vividly seen in the examples of the TPP and RCEP initiatives. Unlike most projects of European integration, these current Asian integration initiatives are presented as two competing and sometimes even 'mutually destroying' projects. They are based on different principles, they differ in participants and the rules they are looking to implement.

Thus, both processes have become structural challenges to TPP and RCEP, accelerating other regional contradictions: a gap between developed and developing countries and trade disputes among developed ones. In this context both initiatives may become a factor for the regional division rather than consolidation.

However, institution building, to improve the regional security and set up clear rules and norms of economic cooperation, also conceals threats to regional stability. The institutionalization of trade and investment regimes means the institutionalization of a certain economic order which may be advantageous for one party, while unacceptable for another. Here economic calculations may give way to political ambitions. The confident and vigorous leadership of one or another group of powers can suppress or resolve most of contradictions. However, in terms of the redistribution of power in the Asia-Pacific region the process, calling for the strengthening of ties between the countries of the region, may become a factor of instability, rather than stability.

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