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Can Asean cope with the 'trade war'?

The regional grouping must brace itself for both the economic and strategic fallouts from the US-China 'trade war'

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In the strategic competition between the United States and China, Asean economies will be closely monitored to ensure that they do not act as a back door for Chinese products to enter the US market. PHOTO: REUTERS

Asean is facing a prolonged period of heightened United States-China competition and, hence, of greater uncertainty. The most obvious manifestation of this new phase in relations between the two nations is the so-called "trade war".

The term is something of a misnomer: Trade is only the instrument; the objective is strategic competition. From 1972, when the US and China re-established relations, to the global financial crisis of 2009, the overall emphasis of the relations was on engagement. The two countries will continue to work together selectively. But, as Vice-President Mike Pence's speech of last Oct 4, the National Security Strategy of December 2017 and the National Defence Strategy of January last year clearly signalled, the overall emphasis of the relationship is now on strategic competition.

China was clearly caught on the back foot by the new approach. Towards the end of the Hu Jintao administration and far more shrilly under Mr Xi Jinping's leadership, Chinese foreign policy took on a triumphalist tone. Beijing seems to have overestimated its own capabilities and began to believe its own propaganda about the US being in inevitable decline. Asean should not make the same mistake.

The new US approach of robust competition will not end with the Trump administration. Neither will the agreement that President Donald Trump and President Xi reached in Argentina substantially change the situation. The new trend had been developing over many years. It was President George W. Bush who first dubbed China a "strategic competitor" almost 20 years ago. The mood of American businesses towards China on intellectual property (IP) and technology theft began to turn sour during the Bush '43 administration. 9/11 was a distraction. The subsequent wars in the Middle East gave China a virtually free hand in East Asia. President Barack Obama's "pivot" or "rebalance" was intended to refocus on China. But Mr Obama had little stomach for competition and his rhetoric was hardly matched by action.

Mr Trump has successfully positioned his administration's approach to China as an overdue correction to the perceived failures of his predecessors. Even if they do not always agree with his methods, this has resonated positively across the security and defence community, American businesses, as well as human rights and religious freedom advocates.

Bipartisan consensus

This broad bipartisan consensus is a new paradigm that no American politician can ignore. Any subsequent presidential candidate will find it difficult to soften China policy without being accused of weakness. In any case, the new legislation that has been put in place with strong bipartisan support to make it difficult for China to acquire US technology, defines a new framework for the relationship that any successor administration will find difficult to change, even if it is so inclined.

The Argentina deal is only a 90-day tactical pause in the implementation of new tariffs. It makes the US look reasonable. The 90-day deadline – not reported within China – dials up the pressure on Beijing to demonstrate that it is serious about addressing US complaints about IP violations and other unfair economic policies.

China has made some gestures. It has introduced a new foreign investment law with better protection for intellectual property that prohibits forced technology transfer. It has released a "negative list" of sectors that are off limits to foreign businesses to provide greater transparency. China may offer further concessions.

But these gestures have generally been received with scepticism. If a deal is reached at the end of the 90-day pause, it will probably only address tariffs – not technology. Fundamental changes to the Chinese way of doing business and to China's economy are not likely.

The core of the problem is a fact so obvious as to be often overlooked: China is a communist country – not in its ideology, but in the structure of its political system that is built around a Leninist party that claims absolute dominance over every facet of the economy and society.

Party dominance gives any Chinese business connected to the Chinese Communist Party (CCP) a privileged position – in effect, this means every Chinese business because no Chinese business can succeed against the will of the party. It is precisely this privilege that the US and other countries deem unfair. No Chinese leadership will ever compromise on the dominance of the CCP, and Mr Xi has placed greater emphasis on CCP control.

The probability, therefore, is that whatever China is willing or able to do to assuage US concerns will fall short of US expectations and that, after this pause, US pressures on China will resume. Action has already been taken against Huawei and other Chinese tech companies. More action can be expected.

Mr Xi is already facing some internal criticism for having mismanaged the relationship with the US. This does not immediately threaten his position, but is also not a factor that he can ignore. For now, Mr Xi has adopted a conciliatory approach towards the US and its allies. This is unlikely to last.

Since the current conciliatory attitude is probably not going to end US pressures, sooner or later, Mr Xi must act tough. He cannot afford to appear weak by continuing to be conciliatory with no substantive result.

The crucial question is what China will do. Not responding is not an option, and the response is not necessarily only on trade.

At least for now, China is hurting, particularly on the technology front. Growth has slowed as Chinese economic policy is pulled in contradictory directions. The Chinese private sector, which provides more than half of GDP growth, is facing great uncertainty. The Trump administration's bilateral approach towards trade seems to be working – the FTA with South Korea has been tweaked, the renegotiated North American Free Trade Agreement gives the US a veto over its partners' trade relationships with China, and Japan has apparently been persuaded to discuss a bilateral trade agreement.

Europe shares many US concerns and is incapable of dealing with a resurgent Russia on its own. Europe must, therefore, ultimately accommodate US concerns no matter how distasteful it finds the Trump administration. There is thus no incentive for the US to change tack, and every reason for the US to pressure its partners to follow its approach towards China. Why should Asean be exempted?

Asean's situation

Some analysts have speculated that Asean could benefit from the diversion of investments from China. This is possible, but is a short-sighted view that only provides cold comfort. The extent of diversion remains to be seen and may well be less than anticipated. New investments may be postponed. But no serious business can afford to forswear the China market, as Japan's unsuccessful decades-long search for a viable "China plus one" investment strategy demonstrates. In so far as investment diversion occurs, Asean must expect greater scrutiny.

Asean economies will be closely monitored to ensure that they do not act as a back door for China into the US market. The US will demand that sophisticated economies like Singapore put in place credible and robust safeguards to ensure that sensitive technology does not leak into China. The harsh fact is that the definition of what is "credible", "robust" and "sensitive" will be primarily American.

Technology is already eroding the cost advantage of widely distributed supply chains. Heightened US-China competition could accelerate such shifts in supply chains and derail Asean's project of making South-east Asia a common market and common production platform unless it moves more decisively.

Concerns over the security of supply chains also implies that the scrutiny of Asean's relationship with China will go beyond the purely economic and will involve judgments on the overall autonomy of member states' foreign and domestic policies.

Since trade is only the instrument of strategic competition, it will become increasingly difficult for Asean member states to neatly separate the economic dimensions of their relationships with China from political and security dimensions.

Their ability to attract high-quality Western investments and keep access to advanced Western technologies will, at least in some measure, be influenced by perceptions of their positions on non-economic issues such as the South China Sea and their ability to resist Chinese influence.

This is particularly so with regard to defence technologies, which are crucial to Singapore. There is no viable alternative to American (and, more generally, Western) defence technology.

All this is a counsel of realism, not of despair. During the Cold War, Asean successfully navigated even more intense and dangerous periods of major power competition when the possibility of war was ever present. The possibility of conflict can never be entirely discounted, but war is currently highly unlikely.

Asean thus ought to be able to cope with the new complexities. It succeeded during the Cold War because the regional grouping did not then lack ambition and courage. The last decade or so has, however, seen a narrowing of Asean's strategic imagination and a lack of bold leadership. We must understand that the greatest risk under present circumstances is unwillingness to take risks.

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