

By Invitation

Resisting the polarising pull of US-China rivalry

As tensions mount, a number of like-minded countries are pushing back on pressures to choose between the US and China while working to maintain an open and stable environment for economic growth



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For *The Straits Times*

I always look forward to visiting the United States, especially in May. The tone of the conversations is hard to match and the language of politics is sharp, precise and full of humour. This time, I did not find much humour. The mood among thought leaders in the business and policy world was sombre.

Two topics of conversation dominated: US-China relations and President Donald Trump's position and policies.

"We are at war by economic means," said a Wall Street figure when we talked of US-China relations. "President Trump is using all the economic and security tools the President has constitutionally to deal with China. The powers were always there, but no president has used it in this way before," he intoned.

"To demonstrate the extent of US economic power?" I asked. He nodded. "To turn off the lights."

It is clear there is a consensus today in America among Republicans and Democrats, officials, business, media, academics and on main street, on the need to be much tougher with China, particularly in economic matters, but there are differences of views on tactics.

There is discomfort in some quarters with the handling of the trade negotiations and the technology war not because these Americans wish to defend China,

but because they believe the approach taken does not achieve the objectives the administration intends nor does it serve America's interests in the long run. There are those who want to work towards bringing the two powers together, to find a new basis for cooperation if not a strategic relationship, though this is not expected anytime soon.

Those of us in the world order business have been blindsided. For a couple of decades, we have been discussing the coming change in the world order with the rise of China, wondering how the rising power would behave and how the established power would react.

Americans have thought about how they would accommodate the new rising power. But that was theoretical.

The reality has arrived. China has accumulated sufficient mass in military, economic and technological power to pose a challenge to the dominance of the US. As Mr Hank Paulson, the 43rd Treasury Secretary and a frequent visitor to and friend of China, said, the US views China now "not just as a strategic challenge but that the rise of the country has come at the expense of the United States".

Mr Paulson pointed to the access Chinese companies enjoy in the US and the lack of access American companies face in China as well as intellectual property concerns among the list of complaints.

No one anticipated that it would be the established power, the US, that would initiate the disruption of the institutions and global frameworks it took a lead in creating and promoting.

NEW GEOECONOMICS

When President Trump entered the White House vowing to put "America First" in his international dealings, allies and friends geared

up for substantial change following his campaign rhetoric. Over the past 2½ years, he has been actively restructuring the international economic order, producing new geoeconomics which will have an impact on geopolitics.

Renouncing multilateralism and the World Trade Organisation, President Trump has opted for what the *Financial Times* sees as "aggressive bilateralism".

He very early took the US out of the Trans-Pacific Partnership. He pressured Mexico and Canada to renegotiate the North American Free Trade Agreement, resulting in the US-Mexico-Canada Agreement (USMCA), that carried few changes but met US demands. He also managed to get South Korea to renegotiate the US-Korea Free Trade Agreement, Japan to enter into bilateral talks, and the European Union as well. He has levied tariffs on steel and aluminium imports.

When Mr Trump threatened tariffs against Mexico to put pressure on his neighbouring country to do something about immigration even though the USMCA was signed, many trade partners watched warily. Is trade negotiation with the US now a

continuous exercise? Is there such a thing as a done deal?

The US-China relationship took a real turn for the worse last year. It was Vice-President Mike Pence's speech at the Hudson Institute at the end of 2017, which many analysts read as the administration declaring a new China policy, comparing it to Churchill's Iron Curtain speech.

This, read with the National Security Strategy and the National Defence Strategy, left no doubt where the administration was heading as both documents declared China a "strategic competitor".

Last year, Mr Trump pushed the trade dispute with China into a trade war, expanding it into a technology war. So far, the US has slapped tariffs beginning with 10 per cent and moving to 25 per cent on US\$250 billion (S\$343 billion) worth of Chinese products. He has threatened to place another 25 per cent tariff on the remaining US\$325 billion.

China, on its part, has retaliated with tariffs on US\$110 billion worth of US goods. Chinese students are finding delays or denials of visas in certain fields of study. Academic exchange with China has slowed

down or stopped.

Last month, the US barred American companies from using technology from companies that posed a national security risk, and put certain companies on an "entity list" requiring them to obtain special permission to buy American components and technology, including software. This effectively excluded Huawei's 5G technology from the US market and Huawei and other Chinese companies from getting their technology supply from US companies.

China, on its part, is drawing up an "entities list" which will impact US companies, though details are not spelt out yet. China has also initiated an investigation into FedEx for allegedly redirecting to the US packages sent by Huawei to its offices in China.

The technology war is already breaking up the established supply chains, with US and Taiwanese companies moving out of China to Vietnam, Cambodia and Malaysia, to offset their risks though some of this was already happening because of rising costs in China.

Companies are beginning to grapple with the enormity of the implications as it is hard to replicate the speed, scale, talent

and complexity that Chinese suppliers can deliver in technology products. Some US retailers are still maintaining relationships with Chinese firms.

DANGERS OF DECOUPLING

Mr Paulson's prescient warning of an economic Iron Curtain at the Bloomberg Forum in Singapore last November looks dangerously to be realised. No one wins in a trade war. And as Mr Paulson said: "I cannot see how the international system would endure, when the two countries that comprise some 40 per cent of the world's GDP and 50 per cent of the global growth are working at cross purposes, attempting to disintegrate their economies and contesting the foundations of the rules-based order at every turn."

It was with this overriding concern in mind that Prime Minister Lee Hsien Loong spoke at the Shangri-La Dialogue urging both sides to resolve their differences. Even short of an outright conflict, the damage for other countries would be enormous and prolonged as we head for "a more divided and troubled world". PM Lee asked both sides not to force countries in the region to choose.

Other Asean countries also chose to walk the middle path, taking no sides in the great power rivalry in their interventions. Singapore suggested that the smaller countries and other countries should work together, expanding and deepening cooperation multilaterally and plurilaterally to keep the international economic system open.

It was significant that Australian Prime Minister Scott Morrison, a US treaty ally, endorsed PM Lee's speech. On his visit to the Solomon Islands earlier this month, soon after his re-election, he chose not to play a role to urge the Solomon Islands to stay with Taiwan, stating that it was their sovereign decision.

As tensions mount, countries in the region are carefully defining their own positions, pushing back against pressure to choose sides between the US and China.

Australia subscribes to the US-led Free and Independent Indo-Pacific Strategy. In Singapore, PM Morrison promised to push for the conclusion of the Regional Comprehensive Economic Partnership as it represented an open architecture of trade relations in the region. He suggested that while other powers faced challenges, the sovereign, independent countries of the region were still going about doing their business.

We are seeing the emergence, the coalescence of a number of like-minded countries which are coming together on shared concerns that they do not want to be forced to choose too starkly and which want to keep an enabling open trading environment going.

They are not organised or institutionalised and could include US allies, friends and partners of the US and of China. They will do what they can to promote economic growth and a more stable engaged regional environment.

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