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## **Asia Pacific Economic Leadership: Shifting from the US to China?**

*By Yang Razali Kassim*

### **Synopsis**

*A hectic week of high-level diplomacy in Beijing saw China asserting its weight and snatching the region's economic leadership from traditional leader, the United States. The implications were not missed as ASEAN leaders met in summit soon after in Myanmar on 12-13 November 2014. (This is an updated version of an earlier commentary dated 13 November 2014).*

### **Commentary**

THE APEC Summit that just concluded in Beijing was no doubt China's show. Beijing came out looking very much what it is touted to be – the world's second largest economy – now leading the charge towards a freely-trading region known as the Free Trade Area of the Asia Pacific (FTAAP). For a once-closed economy that was not even part of the global trading system, this was one giant leap. In so doing, China overshadowed and reduced a rival initiative from the United States – the Trans Pacific Partnership (TPP) which excludes Beijing – to what is a subsidiary platform.

President Xi Jinping had just shown that the agenda of liberalising trade in the Asia-Pacific cannot but take China into account; indeed, this agenda would henceforth be dictated by China. To show how serious it was, the Beijing APEC Declaration came complete with a roadmap towards the realisation of the FTAAP, though its target date was left unclear. With the US outmanoeuvred, the economic power game entered a second stage in Myanmar on 12-13 November 2014 where ASEAN hosted the East Asia Summit in which both China and the US are members (with Beijing represented by Prime Minister Li Keqiang).

### **After APEC's revival, now for the East Asia Summit**

Interestingly Beijing saw the revival of APEC as a major platform for regional economic integration – led by China. APEC was actually the vehicle for trade liberalisation in the Asia Pacific since it was formed in 1989. Indeed, FTAAP is not a Chinese idea, as Singapore Prime Minister Lee Hsien Loong made clear, but an APEC vision conceived in 2004 as its end-goal of a huge free trade area of the Asia Pacific.

But APEC lost its shine over time when no clear big-power champion emerged with the visionary

leadership and commitment of then President Bill Clinton who hosted the first summit in Seattle in 1993.

During APEC's down-time years, ASEAN fell back on its own trade liberalisation process, the ASEAN Free Trade Area (AFTA), and preached the message of trade liberalisation to the wider region. Two major platforms then emerged: One is the TPP, for which the US took leadership with the exclusion of China. The other is the Regional Comprehensive Economic Partnership (RCEP), an outgrowth of the ASEAN Plus Three Summit comprising ASEAN's three Northeast Asian trading partners China, Japan and South Korea as well as Australia, India and New Zealand.

China easily dominates the RCEP and insists that it be an East Asian forum - meaning it has no room for the US. This is partly the reason why the US is eager to have the TPP as the key pathway to reach the FTAAP.

While the RCEP and TPP evolved as competing platforms, both China and US have of late downplayed this rivalry. This is just as well for ASEAN whose members were divided between support for RCEP and for TPP. Only four out of the ten ASEAN members – Brunei, Malaysia, Singapore and Vietnam – are currently involved in the TPP negotiations which demand a higher standard of trade liberalisation. The RCEP, on the other hand sits better with many ASEAN members, virtually all of whom benefit from huge trade with China.

### **Impact on ASEAN Community 2015**

But while ASEAN as a whole values China as a close economic partner, the group is also wary about China as a security threat. This has resulted in a two-dimensional relationship – a duality as some call it - that ASEAN has with China: a growing economic relationship paradoxically matched by increasing political tension caused by China's aggressive claims over the South China Sea.

How to manage this two-dimensional relationship between ASEAN and China provided the backdrop of the ASEAN Summit and the back-to-back East Asia Summit in Naypyidaw.

By stepping on the accelerator towards FTAAP, China had virtually also quickened the pace of ASEAN's own economic and political integration. The goal of an ASEAN Community – including a fully integrated ASEAN Economic Community by 31 Dec 2015 – cannot be further delayed. At the moment 80 percent of its integration targets have been realised, with the remaining "hard part" set to be tackled in the post-2015 era.

But surely the next lap cannot just be about tackling the unfinished business. If ASEAN Community 2015 is yet another pathway to the FTAAP, what is the vision of ASEAN post-2015? This is where ASEAN's leaders must put on their thinking cap and collectively forge a roadmap to a new ASEAN that is a global player firmly situated in the 21st century.

This new vision must take into account the rapidly evolving economic and security architecture in the Asia Pacific. As displayed in Beijing during the APEC Summit, it would be a future in which China will not be shy to assert its economic leadership – in the same way it has staked its political dominance in the region.

### **ASEAN's dilemma**

As the ASEAN leaders were convening for their summit in Naypyidaw, Obama and Xi in Beijing attempted to reforge the strategic relationship between the US and China, probing each other for a new calculus. Their major bilateral agreement on climate change was achieved in this context. But Obama is a lame-duck president on his way out, while Xi who is just two years in office, will be around for a full decade to lead a rising superpower.

ASEAN's dilemma is this: It appreciates the increasingly prosperous relationship that is blossoming with China under Xi. Yet ASEAN knows it is also entering a potentially tense future with China under a leader who is prepared to flex China's muscles – as seen in the resulting volatility of the South China Sea. Curiously, the regional tension over the territorial disputes cooled down somewhat during the busy summit period in November.

Will ASEAN remain a mere bystander, watching from the wings as the power game continues to unfold between the two giants? Or will ASEAN do something to secure its pivotal position so that it could shape the future regional balance in its favour? This key question must have preoccupied the ASEAN leaders in Naypyidaw.

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