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Asia in 2018

Trade War

The past year was one of growing trans-Pacific divergence. On the one hand, economically the Asian region defied global trends with a continuing GDP growth surge that was relatively inclusive if not uniform. Asia is expected to grow by around 5.6% this year, according to the IMF, accounting for nearly two-thirds of global growth, making it still the world's most dynamic region. This generalization masks moderate cross-national divergence, with Bangladesh, Cambodia, Laos, Myanmar and Bhutan reckoned to have the fastest economies with growth approaching 7%. Among major economies, India and the Philippines took the lead, while Thailand and Mongolia remained below average. The more mature economies Singapore, Hong Kong SAR, South Korea, and Taiwan all recorded relatively modest growth. These robust results challenge the prevailing political economic narrative that Sino-American trade, the largest bilateral exchange in the world, has been paralyzed by the Trump tariffs, ricocheting mayhem to the value chains crisscrossing the region. At least so far, this narrative seems hard to corroborate.

In China, growth has been slowing incrementally since 2010, partly due to the debt overhang of fiscal stimuli in 2009 and again in 2016. Moreover, since the 19th CPC Congress in October 2017, China has launched a campaign to slash liquidity, particularly in the shadow banking sector, making it hard to isolate the GDP impact of the trade war. China may just meet its targeted GDP growth quota of 6.5% this year (vs. 6.7% in 2017), if one credits official statistics. Despite targeted Chinese import tariffs, US GDP

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growth reached 3.1%, its best performance since the Global Financial Crisis (GFC). Financially one can see a greater impact than in the "real" economy, as the Chinese stock market dropped by some 30% and Wall Street suffered its worst year since before the GFC (ending, however, with a year-end bounce). China has seen a late-year drop in exports and both incoming and outgoing FDI, and the exit of some foreign manufacturers, while the US for quite different reasons saw an abrupt drop in Chinese investment. Have the tariffs at least alleviated the $376 billion bilateral trade deficit? Not yet: the deficit has actually gone up 17% since the imposition of tariffs, as Chinese importers cut American imports far below the 25% tariffed quota (e.g., in November, Chinese imports of US soybeans fell to around zero, despite strong domestic demand) while many American importers paid the tariffs and continued importing (hastening to beat the anticipated January 1, 2019 tariff hike). Yet the Trump trade team seems to have convinced the Chinese they are serious, enough to win an agreement at Singapore to postpone the next step of tariff escalation pending a three-month bout of negotiations. Whether this turns out better than the 100-day stint of "accelerated" trade negotiations after the April 2017 Mar-a-Lago summit of course remains to be seen.

At the end of 2018 both sides were talking up the prospects of a deal, though this may merely be bargaining psychology. Not that this is simply the outcome of different elite bargaining strategies; after all, the CCP Central Committee passed a raft of ambitious economic reforms at the 3rd Plenum of the 18th Congress in November 2013, yet not all of these reforms have since been fully implemented. Xi Jinping's ongoing dragnet on cadre corruption (1.73 million Party members were investigated in 2018, 621,000 of whom were punished) may be more effective at halting malfeasance than promoting proactive implementation. The American demands have been itemized but they are ambitious and wide-ranging, including not only a reduction of the trade imbalance but a halt to economic espionage, a more benign climate for incoming FDI, and the curtailment of export subsidies and other forms of industrial policy designed to tilt the future balance of technological power. Those optimistic about a deal can point to Trump's alleged short-term transactionalism, the potential future effect on the American market, the still greater likely impact on China's slowing economic juggernaut—in sum, on the judgment that continuing tariff escalation will damage both, while reconciliation could advantage both: "win-win."

The more pessimistic outlook is based on several factors. First, the negotiation table is tilted, in the sense that most of the demands for change come from the American side while China poses as defender of the global status quo. This is not necessarily to say that there is overwhelming international support for that status quo, but it is difficult to craft a face-saving outcome if one side wins more than the other. The American side has attempted to compensate by avoiding personal invective and praising the personal qualities of the opposition (in stark contrast to Trump's domestic rhetoric). Despite this there has been a tendency for the economic dispute to spread to other areas. While the Obama administration's 2015 National Security Strategy welcomed "the rise of a stable, peaceful, and prosperous China" and aimed "to develop a constructive relationship," for instance, the Trump administration's 2017 National Security Strategy states bluntly that "China . . . want[s] to shape a world antithetical to U.S. values and interests." This was made explicit in the vice president's October 4, 2018 speech bringing ideological *qua* human rights issues into play, or in the provision in the renegotiated NAFTA (now the "US Mexico Canada Agreement," or USMCA) that precludes agreements with "non-market economies." International trade thus becomes politicized, as it moves to bar Huawei or ZTE from the markets of the US or its allies, for fear of computerized security breaches.

These protectionist impulses can be traced to the populist, xenophobic base of the Trump phenomenon, which conceives "globalization" to have provided limited benefits at disproportionate national cost, including runaway migration and fiscally unsustainable security commitments. China thus becomes the scapegoat of populist anti-globalization forces. Pursued to the logical extreme, this populist wave would lead to economic "decoupling," or the severing of China from US value chains, impelling the flight of foreign-invested firms from China back to the US or to other, friendlier host countries. And without the economic pillar that has sustained the bilateral relationship once the end of the Cold War removed the shared anti-Soviet security pillar, mutual suspicions could easily metastasize into a second Cold War. History has shown that economic globalization is not inevitable: as Zheng Yongnian points out, economically interdependent countries can come to blows if their leaders prioritize national security interests over economic interests. Yet it should be stressed that at this point a new Cold War, even a full-fledged trade war, is hardly inexorable. The Trump administration hardly commands universal domestic support, and around 38% of the American people still have a positive view of the PRC (down from 44% in 2017). Even those aggrieved by China's trade policies have conflicting interests: the business community cares less about the trade balance than IP protection and a more favorable climate for FDI, for example, while the populists want to bring foreign investment home. For their part the ideologues want to dismantle China's state-led industrial policy and inspect China's Muslim reeducation camps on human rights grounds.

But we have yet to bring the Chinese perspective into the analysis. It is difficult to find reliable public opinion statistics on Chinese "deeply ambivalent" views of the US, but recent research indicates that Chinese opinion leaders generally attribute the shift of recent American foreign policy to irreversible national decline, as an approaching "power transition" in China's favor precipitates identity panic. At least this was true until the last half of 2018 when, as Robert Sutter notes, the Chinese leadership began to take the tariff threat more seriously. Chinese views of the US have evolved considerably since the heyday of reform when Deng Xiaoping rose to power on slogans of "emancipation of the mind" and "practice as the sole criterion of truth" [*shi shi qiu shi*]. The Tiananmen Incident in 1989 brought a close to experiments with political reform, while the Global Financial Crisis two decades later destroyed Chinese faith in free-market capitalism. Reform *qua* economic liberalization stalled in the 1990s as the regime fenced off a "strategic" sector of pillar industries and centralized the financial sector.

Meanwhile China's genuinely impressive economic rise (in 2007, before the crash, US GDP was $14.48 trillion, compared to China's $3.49 trillion; in 2014 US GDP was $16.77 trillion while China's was $9.24 trillion; i.e., China's GDP rose from a mere 24% of US GDP to 55% in only seven years), systematically reinforced by the post-Tianamen Patriotic Education Campaign, boosted Chinese confidence in the "Chinese model." The separation of Party from government [*dangzheng fenkai*] was halted under the new norm of "coordination" [*yiyuanhua*], and "anchoring Party leadership in the government" [*jiandang yuzheng*]. The combination of authoritarian capitalism and market opening was encouraging to business and public opinion in the leading capitalist states, fostering notions of structural convergence. But it also had the unanticipated effect of undermining the ideological legitimacy of the CCP. Official repudiation of the economically disastrous Cultural Revolution may have had an unintended collateral impact on communist idealism—if the CR was idealism run amok, reform in contrast was economically successful but represented an ideological retreat, back to the "primary stage of socialism." While the economy boomed in the Hu Jintao years, averaging 10% annual GDP growth with only a slight dip during the GFC, reform stagnated and corruption thrived.

Chinese economic reform continued under Xi Jinping, but the trajectory shifted from market liberalization in the 1980s and 1990s to rooting out corrruption and a reemphasis on ideological orthodoxy. Xi Jinping was greeted in 2012 as a potential reformer, but the leading role of the Party since 2012 has clearly eclipsed the "decisive" role of the market promised in 2013. The official slogan "*min jin guo tui*" [the private sector advances while the state sector withdraws] in popular parlance became reversed: "*guo jin min tui*". While the private sector continued to thrive, accounting for 60% of GDP, state-owned enterprise (SOE) numbers have increased. SOEs were the major beneficiaries of the 2009 stimulus package while also being permitted to list on global stock markets, where some (e.g., China Petrochemical, State Grid Corp. of China, CNPC) ranked by the early 2010s among the biggest corporations in the world.

Rather than take up the reform agenda after eliminating rivals and extending his tenure at the 19th Party Congress (November 2017) and the 13th National People's Congress (March 2018), Xi doubled down on the trend to centralize and strengthen Party leadership, with himself at the "core." The substantive content of "Xi Jinping Thought," as spelled out in a "14-point Basic Policy" issued in March at the end of the 13th National People's Congress, is that the CCP should directly command and control all other hierarchies (as reiterated in points 1, 11, and 14). "The leadership of the Communist Party of China is the most essential feature of socialism with Chinese characteristics. Party, government, military, civilian and academic; east, west, south, north, center, the Party leads everything," as Xi put it (quoting Mao) in March. Xi sought to reform but also to expand the state-owned sector in at least two ways: first, SOEs are the main beneficiaries of both the 10-year "China in 2025" plan to seize global technological leadership and second, SOEs and state banks are the prime beneficiaries of the visionary 2013 "Belt and Road Initiative" [BRI]. The state has also asserted its right to buy shares in private firms and to establish Party committees therein in what is called Mixed Ownership Reform (70% of private and foreign-owned firms now have embedded CPC committees), blurring the distinction between public and private ownership. When private conglomerates become too large, too indebted or too autonomous they may be shut down, or their CEOs "disappeared." The private sector was further damaged by the "derisking" campaign, and ironically by Trump's tariffs as well.

What we see emerging this past year is a growing divergence between two national identities. On the one hand an American superpower, sensitive about its own relative decline, led by a populist, nationalist leader determined to recover lost ground. On the other, an emerging great power, conscious of its resurgent growth and proud to claim credit for it on behalf of "socialism with Chinese characteristics," offering to share a "Chinese solution" [*zhongguo fangan*] to problems of economic development, global warming, and finance with other developing countries. Beyond trade disputes, Thucydides' trap, intellectual property rights, and geopolitical conflicts of interest such as the South and East China Seas, the two now embrace diverging master narratives. And so what—*vive la différence*, right? Recent psychological research suggests that what is decisive in facilitating trust, more important than cost-benefit analysis, are such cognitive factors as *identity*; i.e., we trust those we can identify with. Yet identity is not static, it embraces future aspirations as well as imagined legacies. Such mutual identification was thus possible in the first decades of reform when Chinese identified with Western modernization and Americans identified with a bootstrap developmental success story via market opening. China's new identity however attributes its incredible success to revolutionary socialism, Confucian communalism, and the stalwart defense of expanding national interests. These diverging trajectories create a trust deficit that may not be fully absolved by a trade deal.

This prospect naturally complicates affairs somewhat for the many smaller nations on China's periphery, most of which have been trying to balance between economic dependency on China and reliance on the US for security. Both Beijing and Washington have begun using political and economic statecraft to push these countries to choose sides, which most prefer to avoid, preferring to partake of the blandishments of both without getting too deeply committed to either. Taiwan finds itself in a particularly vulnerable position—its legal sovereignty has already been sold by all but 16 nations in the world plus the Holy See, including five since the election of DPP candidate, now President, Tsai Ing-wen just two years ago. Tsai sought to propitiate China without losing her independent electoral base, but not enough, and the DPP was thrashed in the 2018 midterms, losing 15 of 21 cities and counties to the KMT. Pakistan, Cambodia, Myanmar, Laos, Sri Lanka, Russia and the

Philippines have gravitated into the Chinese orbit, often enticed by BRI infrastructure loans, while India, Singapore, South Korea, Australia, Japan, Malaysia and Indonesia retain more room for maneuver. The impact of the trade dispute thus far has been limited to a miasma of uncertainty about the future, though there have also been marginal losers (commodity exporters, or those caught in the fraught China-centered supply chain) and winners (those quick to seize China's export markets or FDI).

ASIA BEYOND CHINA

If the Sino-American trade war was precipitated at least partly by a power transition challenge, North Korea's recent international diplomatic debut to some extent echoes that dynamic. Focusing like a laser for the last several decades on the narrow goal of nuclear weapons development, this small dictatorship was able by August 2017 to test a hydrogen bomb and an intercontinental missile capable of reaching the continental United States. Kim Jong Un could boast of the red button on his desk. To what end? Pyongyang's goals are elastic, ranging from survival in the face of existential threat at the lower end to catapulting to the status of "nuclear weapon state" at the top. As power transition, this was something of a bluff: how could a nation with the population of Taiwan and a nominal GDP one-ninth of that (US$16.5 billion vs. $149.7 billion, 2018) challenge the global hegemon? After a year of weapons testing and reciprocating rhetorical fireworks, Kim announced a shift of national trajectories at the beginning of this year from *byungjin* to a focus on economic development. He then proceeded with diplomatic skill beyond his years to construct détente with Moon Jae-In in South Korea, who in turn helped facilitate a summit in Singapore with Donald J. Trump. The promise of nuclear disarmament declared at that conference has not been empty, resulting in an end of testing and American military exercises, apparent destruction of the main nuclear test site at Punggye-ri and a key missile engine facility. The two leaders have maintained cordial personal relations. But nuclear disarmament has not been achieved or even decisively begun, in American eyes. Will Kim's tentative steps in that direction and charm campaign discombobulate the opposing anti-proliferation united front and lift the sanctions, allowing him to proceed with economic development while retaining the bomb? Meanwhile, a second summit with Trump is in the offing, possibly in Hanoi. Perpetual negotiations about the terms of nuclear disarmament is a close second best to formal acceptance of Kim's new balance of power.

Meanwhile life (and death) goes on in the rest of Asia, not oblivious but hardly paralyzed by great-power politics. A volcano's collapse caused a major tsunami in the Sunda Strait of Indonesia, killing hundreds, and monsoon rains flooded India (especially Kerala) and Bangladesh, also with a terrible death toll, reinforcing apprehensions of global warming. China was first to land a space ship on the far side of the moon, the *Chang'e 4* probe, named after a legendary moon goddess. Democracy continues to thrive in Asia, empowered and distorted by a wave of populism. There have been democratic elections in Malaysia, Japan, Taiwan, Bangladesh, and Pakistan, with Thailand still awaiting an oft-postponed poll next year. In Malaysia in 2018, the ruling Barisan Nasional coalition that had led the country since independence in 1957 suffered its first electoral defeat at the hands of the freshly minted Pakatan Harapan coalition, helmed by the unlikely duo of Mahathir Mohamad and his disgraced former Vice Premier Anwar Ibrahim, both BN apostates. The 93-year-old Mahathir lost no time announcing a GST tax cut, slashing unaffordable BRI projects (and adjuring Beijing not to practice "a new kind of imperialism"), and putting Najib Razak in the dock for the 1MDB financial scandal (while also suing Goldman Sachs for underwriting it). But Mahathir has informally limited his tenure to two (or three?) years before passing the torch to Anwar, so succession will be in play. In Japan, Abe Shinzo led the Liberal Democrats to another victory, probably ensuring his tenure until 2021, a post-war record; he hopes at long last to forge a peace treaty with Putin next year involving return of the "northern islands."

Myanmar, after rejoining the "ASEAN Way" in 2010 with its first (partially) democratic election since 1990, finds itself once again in international obloquy for brutally suppressing a Rohingya uprising in 2017, precipitating the migration of over 700,000 refugees into neighboring Bangladesh, where they remain haplessly encamped. In Pakistan the Nawaz Sharif regime was defeated by an upstart Pakistan Tehreek-e-Insaf (PTI) coalition helmed by erstwhile cricket star Imran Khan, whose promise of a "golden era" for his country may be difficult to fulfill in view of the huge debt burden (much of it to China) bequeathed by his predecessor. In Sri Lanka, Pakistan, Malaysia, Myanmar, Maldives and elsewhere, yesteryear's enthusiasm for China's BRI has moderated noticeably, as governments attempt to countenance the project mega-loans they contracted with "no strings attached." And despite the upsurge of nationalism stimulated by Trump, Asia's attempts to construct multilateral institutions continues. APEC convened a stormy conference in Papua New Guinea, adjourning for the first time without a communiqué because of Chinese objections. The Transpacific Partnership (TPP) survived last year's US exit as the "Comprehensive and Progressive Agreement for TPP" (or TPP-11), salvaged by Japan and Australia. Meanwhile the less ambitious 16-member Regional Comprehensive Economic Agreement, initiated by ASEAN but now promoted mainly by China, aims for completion in 2019. The Shanghai Cooperation Organization held its first meeting with India and Pakistan in attendance as full members at Qingdao, Shandong.

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The year 2018 has been tumultuous, but we are still here to welcome your scholarly submissions. We mourn the passing of Lawrence Sáez, former Associate Editor for South Asia at *Asian Survey* and most recently professor of the political economy of South Asia at SOAS, on September 11 after a protracted battle with cancer. However we welcome the recent return to that position at the journal of Matthew Baxter, concurrently assistant professor of political science at Ashoka University near New Delhi. I would also like to introduce our new editorial assistant, the young and highly efficient Berkeley undergraduate, Kaylie Chen.