



The Clash of Giants:

A Divided APEC of 2018 and Incoming Regional Economic (Dis)order

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Established in 1989, the Asia-Pacific Economic Cooperation (APEC) used to be considered one of the most important forums for leaders in the Pacific Rim to facilitate trade and investment liberalization. Consisting of 21 economies that account for 47% of global trade and 60% of world GDP,¹ the APEC is noted for its non-binding, consensus-based, inclusive and voluntary approach to decision-making. It successfully nurtured political commitment to economic cooperation among such a huge and diverse group of members only until 2018, the year before the APEC's 30th anniversary. For the first time since its inception, the 21 APEC members were unable to issue a joint communiqué this year. As the host country's leader and chair of the 2018 APEC summit, Papua New Guinea Prime Minister Peter O'Neill offered his explanation for the breakdown of meetings in Port Moresby:

“You all know who the two big giants in the room were, so what can I say.”²

¹ *APEC in Charts 2018*. APEC Secretariat, APEC Policy Support Unit, 2018, <https://www.apec.org/Publications/2018/11/APEC-in-Charts-2018>

² Rob Taylor, Peter Nicholas and Rachel Pannett, “U.S.-China Divisions Exposed after One Phrase ‘Torpedoed’ Pacific Accord,” *Wall Street Journal*, November 18, 2018, <https://www.wsj.com/articles/u-s-china-divisions-exposed-after-one-phrase-torpedoed-pacific-accord-1542543774>.

Prime Minister Peter O'Neill's words succinctly depict how the US-China trade war is shaking the regional economic order in the Asia-Pacific as well as the world order.

Some Achievements under the US-China Trade War: Initiatives for Digital Economy, Inclusive Growth and Connectivity

To be fair, the APEC still made several important achievements in 2018 thanks to remarkable efforts by the host country Papua New Guinea and other members. It was the first time that the APEC meetings were hosted by Papua New Guinea, a country with an extraordinary diversity of geographic, natural resources and ethnic groups. Its population is predominantly rural, with 87 percent living outside of urban areas. In addition, 80 percent of the population is directly or indirectly involved in agriculture including slash-and-burn agriculture. Still some rely on hunting and gathering.³ Although its geographic and socioeconomic structures posed some infrastructure challenges, Papua New Guinea worked very hard with others to accomplish several tasks and to promote several hundred APEC initiatives.

First and foremost, Papua New Guinea impressed other member economies by prioritizing the development of digital economy as one of the major goals, as shown in this year's theme: Harnessing Inclusive Opportunities, Embracing the Digital Future. With Papua New Guinea's emphasis and effort, the APEC started to make progress in implementing the APEC Internet and Digital Economy Roadmap ("the Roadmap"), which is passed in 2017 APEC meeting in Da Nang Viet Nam.⁴ More important, the member economies successfully established a new governance mechanism, the Digital Economy Steering Group.⁵

³ *The Independent State of Papua New Guinea - Systematic Country Diagnostic (English)*, World Bank, Washington, D.C., 2018: 1-2,

<http://documents.worldbank.org/curated/en/360291543468322518/The-Independent-State-of-Papua-New-Guinea-Systematic-Country-Diagnostic>.

⁴ Ad Hoc Steering Group on Internet Economy (AHSGIE), "APEC Internet and Digital Economy Roadmap," APEC, 2017, https://www.apec.org/-/media/Files/Groups/ECSSG/17_csom_006.pdf.

⁵ "APEC Action Agenda for the Digital Economy," APEC, 2018, https://www.apec.org/Meeting-Papers/Leaders-Declarations/2018/2018_aelm/Annex-A-APEC-ACTION-AGENDA-FOR-THE-DIGITAL-ECONOMY.

Second, members continued promoting connectivity among the region through three pillars: physical, institutional and people-to-people connectivity. Guided by the APEC Connectivity Blueprint 2015-2025, they not only continued on-going projects but also developed several new initiatives aiming at three objectives: (1) increasing physical connectivity for better supply chain performance by integrating logistics, transport, energy, and telecommunications infrastructure in the APEC region. (2) Enhancing institutional connectivity and streamlining member economies' policies as well as institutions to support greater regional cooperation in trade and investment. (3) Expanding and strengthening people-to-people connectivity by facilitating the cross-border movement of people and exchanges of ideas.⁶

Third, members continued cooperation in non-traditional fields. For example, in health, members announced their support for the Port Moresby Statement to End Tuberculosis (TB) as part of the Sustainable Development Goal agenda through Multi-sectoral Response (2018) presented to the United Nations (UN) High-Level Meeting on TB.⁷ Besides, members were also conducting projects to further advance women's participation in the economy, and to empower micro, small and medium enterprises to join the global value chain.⁸

Finally, members also put a lot of effort in discussing trade and investment liberalization, one of the most important objectives of the APEC. The main issues include the Bogor Goals, the Post-2020 Vision, the Free Trade Agreement of Asia-Pacific (FTAAP), and the reforms of the WTO. Members discussed the progress of the Bogor Goals and reiterated their commitment to attaining the Bogor Goals of free and open trade and investment by 2020 through their

⁶ "2018 Yearly Review Framework for the APEC Connectivity Blueprint," APEC, 2018, http://mddb.apec.org/Documents/2018/SOM/CSOM/18_csom_006.pdf

⁷ "APEC Ministerial Chair's Statement," APEC, 2018, https://www.apec.org/Meeting-Papers/Annual-Ministerial-Meetings/2018/2018_amm; "Ending TB through Multi-sectoral Response is Boosting Economic Growth' Statement of the APEC health working group for the United Nations high-level meeting on tuberculosis," APEC, 2018, <https://www.apec.org/-/.../PNGFinal--UNHLM-End-TB-Statement--20180925.docx>.

⁸ Alan Bollard, "Executive Director's Take-Aways on the APEC Economic Leaders' Meeting in Port Moresby," APEC, 2018, https://www.apec.org/Press/News-Releases/2018/1127_Statement.

individual action.⁹ As for the Post-2020 Vision, members had a discussion regarding the time frame of the vision, with most members pointing at 2030 or 2035. Moreover, members emphasized that the Post-2020 Vision should be people-centered, prioritizing the prosperity and wellbeing of citizens. Members also agreed to continue working on developing the Post-2020 Vision during the 2019 AVG Meeting.¹⁰ As for the development of FTAAP, members also supported the implementation of 2016 Lima Declaration on FTAAP, and welcomed the “pathway-approach” to facilitate APEC regional economic integration through high quality regional trade agreements/free trade agreements (ex. CPTPP or RCEP).

However, when it came to the issues of the WTO reforms or fair trade, disagreements surfaced. The trade tensions between two giants – the U.S. and China – had been brewing for years. The tensions eventually led to an open clash of two countries and caused the failure of issuing the leaders’ declaration or the joint ministerial statement during this year’s meeting.

Main Issue: Fight for the “Adjectives” and WTO Reforms

After the conclusion of the 2018 APEC summit, Prime Minister Peter O’Neill issued the Chair’s Era Kone Statement on behalf of the leaders reflecting the results of the year’s work. Foreign Minister Rimbink Pato also issued the APEC Ministerial Chair’s Statement. These two statements indicate that main disagreements arose in the following issues: (1) the principles of trade (2) the reforms of WTO.¹¹

First of all, the U.S. and China fought fiercely for the power to set “proper

⁹ “The Chair’s Era Kone Statement,” APEC, 2018, https://www.apec.org/Meeting-Papers/Leaders-Declarations/2018/2018_aelm; “2018 APEC Ministerial Chair’s Statement,” APEC, 2018.

https://www.apec.org/Meeting-Papers/Annual-Ministerial-Meetings/2018/2018_amm

¹⁰ APEC Vision Group, “Second Meeting of the APEC Vision Group-AVG Chair’s Report,” APEC, 2018, http://mddb.apec.org/Documents/2018/SOM/SOM3/18_som3_021.pdf.

¹¹ Please check the paragraphs 9, 16, 17 of the 2018 The Chair’s Era Kone Statement. As mentioned in the statement, these are issues with disagreements between members. See “The Chair’s Era Kone Statement,” APEC, 2018, https://www.apec.org/Meeting-Papers/Leaders-Declarations/2018/2018_aelm; please check the paragraphs 7, 8, 9, 10, 16 of the 2018 APEC Ministerial Chair’s Statement. As stated in the statement, these are issues with disagreements between members. See “2018 APEC Ministerial Chair’s Statement,” APEC, 2018, https://www.apec.org/Meeting-Papers/Annual-Ministerial-Meetings/2018/2018_amm.

adjectives” to describe the principles of trade as well as what goal the APEC should endorse when drafting the joint communiqué.¹² Traditionally, the APEC’s core objective in trade is to promote “free and open” trade and investment. The U.S. considers it insufficient for sustainable trade relationships because it overlooks market-distorting trade practices. In addition, the chronic trade imbalances also creates domestic backlashes in the U.S. Therefore, the U.S. attempted to include “the concept of fair trade” into the principles of the APEC and other international organizations (ex. the WTO). This inflamed China. As the media show, the U.S. intended to include one sentence into the joint communiqué: “we agreed to fight protectionism, including all unfair trade practices that lead to protectionism.” China ferociously opposed, believing that it was meant to target Chinese trade practices.¹³

In addition, the U.S. also tried to link the pursuit of fair trade to the WTO reforms. The U.S. advocated that the APEC member economies should jointly call for fundamental reforms of WTO to end unfair trade practices, to enhance members’ transparency, and to support the implementation of transparency-related obligations. The U.S. proposal incited China’s intense opposition because China saw it as a disguised containment strategy against China’s economic development.

Furthermore, the APEC Ministerial Chair’s Statement also points out there was a disagreement on the transparency and quality issue of infrastructure investment.¹⁴ This is believed to reflect the U.S. concern about China’s “Belt and Road Initiative” (BRI). The U.S. worries that China is gaining excessive and abusive influence through its opaque financial aid. Vice President Pence openly criticized China’s BRI as “a constricting belt or a one-way road” that drown

¹² Alan Bollard, “A Divided APEC: Challenges Ahead and Outlook for 2019,” Seminar, ISEAS, Singapore, November 18, 2018.

¹³ Ibid. note 2.

¹⁴ The disputed text is: “We also reaffirm the importance of quality infrastructure and development for sustainable economic growth and pledge to promote infrastructure both in terms of quantity and quality, in accordance with sustainable financing practices, as well as through adequate investment and strengthened public-private partnerships. We encourage approaches that facilitate project transparency and ensure timely access to qualitative and quantitative project information. We welcome the revision of the APEC Guidebook on Quality of Infrastructure Development and investment (the Guidebook) and the completion of the APEC Guideline for Quality of Water Infrastructure. We encourage member economies to utilize the Guidebook and to implement the Peer Review and Capacity Building on APEC Infrastructure.” Please check the paragraph 16 of the 2018 APEC Ministerial Chair’s Statement. See Ibid. note 7, and note11.

others in a sea of debt.¹⁵ As a result, the current text of statement calls for “approaches that facilitate project transparency and ensure timely access to qualitative and quantitative project information.”

Because most of the U.S. proposals targeted China, it was infuriated and vehemently countered back. China rejected any attempt to include “unfair trade practices” into the joint communiqué, accusing the U.S. of “insisting on imposing their own texts on other parties, excusing protectionism and unilateralism, and not accepting reasonable revisions from the Chinese and other parties.”¹⁶ China also considered U.S. Vice President Pence’s speech irritating, thinking him and the U.S. came attended the summit in a “blaze of anger” and created conflicts during the APEC meetings.¹⁷ It was also reported that the Chinese delegates even tried to “barge” into the Papua New Guinea Foreign Minister's office to influence the wording of draft communiqué. And police were called to the office to deny Chinese delegates’ attempt.¹⁸ Later, Papua New Guinea Foreign Minister Rimbink Pato downplayed the event, saying that China just tried to meet to discuss the draft, and Mr. Pato told Chinese officials: “it was not possible to meet at that time because as chair of the APEC Ministerial meeting he had to remain impartial.”¹⁹

In the end, the US-China clash was so serious that no joint communiqué could be agreed to and the APEC meetings ended in disarray.

¹⁵ Mike Pence, “Remarks by Vice President Pence at the 2018 APEC CEO Summit,” (Speech, Port Moresby, Papua New Guinea, November 16, 2018) the White House, <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-2018-apec-ceo-summit-port-moresby-papua-new-guinea/>.

¹⁶ Ben Blanchard, “China blames 'excuses' for APEC discord, as U.S. ties sour again,” *Reuters*, November 20, 2018, <https://www.reuters.com/article/us-apec-summit-china/china-blames-excuses-for-apec-discord-as-us-ties-sour-again-idUSKCN1NP02T>.

¹⁷ Geng Shuang, “News Briefing,” Ministry of Foreign Affairs of the People’s Republic of China, November 19, 2018, https://www.fmprc.gov.cn/web/fyrbt_673021/t1614417.shtml.

¹⁸ “Chinese officials try to 'barge' into minister's office as APEC summit tensions boil over,” *Channel News Asia*, November 18, 2018,

<https://www.channelnewsasia.com/news/asia/apec-summit-police-called-on-diplomats-china-10943380>

¹⁹ “PNG foreign minister denies report on Chinese forced entry,” *Radio New Zealand*, November 19, 2018,

<https://www.radionz.co.nz/international/pacific-news/376255/png-foreign-minister-denies-report-on-chinese-forced-entry>.

The Changing Strategic Situation and the US-China Trade War

The 2018 APEC summit seems to suggest the US-China tensions would continue and new rounds of trade wars would inevitable. The situation is perplexing because during the 2017 APEC summit in Da Nang, Viet Nam, members, including both the U.S. and China, jointly declared a fight against protectionism and unfair trade practices. Both countries also agreed to “improve” the WTO, to remove market-distorting subsidies, and to enhance transparency. So what led to the change? Why was the APEC, which operates on the basis of non-binding commitments, no longer able to mediate great powers’ disagreements?

The quick answer is growing and deepening mistrust between the two. For many years the U.S. has been complaining about Chinese unfair trade practices including intellectual property theft, forced technology transfer, opaque subsidies to state-owned enterprises (SOEs), and non-tariff barriers. The U.S. is especially unsatisfied with Chinese negotiation strategy and “*managed liberalization*.” That is, China never hesitates to make promises to open domestic markets in negotiation, but China insists on gradualism and a state-led approach to proceed with any reforms. Furthermore, when China announces some relaxations of restrictions on market access, it usually introduces additional administrative measures that create new barriers. For example, after China’s leadership made a pledge to allow foreign companies to hold 51% of domestic-securities firms last November (the previous ownership cap was 49%), China Securities Regulatory Commission then introduce many operational requirements including a high asset requirement that majority owners need to have at least 100 billion yuan (about \$15.6 billion) in net assets.²⁰ The high threshold, together with other measures, effectively excludes many foreign firms. In addition, the approval process is extremely lengthy. To date, only one foreign securities company, Switzerland’s UBS Group AG, has received the approval.²¹ The process took

²⁰ Chao Deng and Lingling Wei, “Wall Street Firms Face a New \$15 Billion Hurdle in China,” *The Wall Street Journal*, June 12, 2018,

<https://www.wsj.com/articles/wall-street-investment-banks-face-new-hurdle-in-china-1528811470>.

²¹ Chao Deng, “China to Allow UBS to Control Local Securities Business” *The Wall Street Journal*, November 30, 2018,

<https://www.wsj.com/articles/china-to-allow-ubs-to-control-local-securities-business-1543605506>.

212 days. And it is worth noting that the approval was just announced on November 30th 2018, a date coincided with the G20 meeting. Such practices make the U.S. suspicious of China's commitment.ⁱ

China has become equally distrustful of the U.S. intention since the Trump administration imposed a series of tariffs. China used to believe that a strong personal relationship between Trump and Xi could help ease the trade tension. China also hoped that business groups, the Democratic Party, and Treasury Secretary Steven Mnuchin, who favors a mild negotiation approach, could prevent the Trump administration from escalating a trade war. None of those expectations come true. China was especially shocked when the U.S. announced tariffs on \$200 billion in Chinese imports on September 17th, just one week before a scheduled trade negotiation. China immediately canceled the meeting and accused the U.S. of lacking sincerity.

Although mistrust is a big factor, US-China trade tensions also reflect two other main disputes: the WTO reforms, and the reaction to China's infrastructure aid (BRI).

The Struggle for the WTO reforms

At the center of US-China trade tensions is about how to reform the WTO and the multilateral trading system. After several years of trade liberalization and economic globalization, the U.S. is confronting domestic backlashes right now because of its chronic trade imbalances and other countries' unfair trade policies. The U.S. used to hope that the WTO could serve as an effective governing mechanism to facilitate free trade by eliminating tariffs, non-tariff barriers and other market-distorting practices. However, current institutional arrangements of WTO are insufficient in achieving those goals. For example, China, the largest source of US trade deficit, has maintain barriers to market entry for foreign companies even though China has already joined the WTO for almost two decades. China also continues launching new industrial policies that support state-owned enterprises or "national champion companies" in strategic industries including energy and information industry. Those policies become the major pillars of Chinese President Xi Jinping's ambitious program – "Made in China 2025" – aiming to turn China into a high-tech superpower. Chinese industrial policies tend to create unfair competition against foreign companies. What

makes things even worse is that China's institutional and regime characteristics make it easy for Chinese companies to engage in intellectual property theft and forced technology transfer. Foreign companies from the U.S. and other countries have suffered huge loss. As a result, the US wants to level the playing field.

In essence, the U.S. has two main goals with regard to the WTO reforms. First, the U.S. wants to strengthen transparency of members' trade practices and to establish effective notification requirements. As articulated in the US-led transparency proposal, the U.S. proposes: the transparency record of any country would be closely monitored. If any country misses a deadline to report its trade practices (ex. subsidies to domestic industries), it will face punishments. For example, if a country misses by two years, it would lose the right to chair WTO committees and to question other WTO members during regular policy reviews. It would also have to pay extra WTO membership fees. After three years it would be designated as "inactive".²²

Second, the U.S. also wants to reform the WTO provisions of overly broad classifications of development as well as the self-designation of development status. The WTO Agreements contain provisions which give developing countries special rights. These are called "special and differential treatment" provisions. Those special rights include: (1) longer time periods for implementing WTO Agreements and commitments; (2) measures to increase trading opportunities for developing countries; (3) provisions requiring all WTO members to safeguard the trade interests of developing countries, and others.²³ The U.S. thinks many "advanced countries" still claim themselves as developing countries in order to delay their commitments, evade their responsibilities, and take advantage of others. Hence, the U.S. urges such countries to undertake full commitments in ongoing and future WTO negotiations.²⁴

Besides these two major points, the U.S. is also dissatisfied with the current dispute settlement mechanism of the WTO. Thus the US is blocking

²² Tom Miles, "U.S. gathers support for WTO discipline drive," *Reuters*, November 2, 2018, <https://www.reuters.com/article/us-usa-trade-wto/us-gathers-support-for-wto-discipline-drive-idUSKC1N1N71G2>.

²³ "Special and differential treatment provisions," WTO, https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm

²⁴ "Joint Statement on Trilateral Meeting of the Trade Ministers of the United States, Japan, and the European Union," The U.S. Trade Representative (USTR) office, 2018, http://trade.ec.europa.eu/doclib/docs/2018/september/tradoc_157412.pdf.

appointments to the organization's Appellate Body, which has final say on trade dispute.²⁵

Because the reform of WTO is crucially important for the U.S. national interest, the U.S. attempted to utilize the APEC meetings this year to form the strategic alliance. In fact, this was not the first time the U.S. used the APEC to create the momentum for global trade agreements. In 1993, U.S. State Secretary Warren Christopher already pointed out the "triple-play" strategy of NAFTA, APEC and the Uruguay round of the General Agreements on Tariffs and Trade (GATT) negotiation.²⁶ Essentially, the Clinton administration passed the NAFTA, and held the first APEC leader summit at the end of 1993. With these two free trade coalitions, the U.S. gathered strong support for concluding the Uruguay round of GATT negotiation that led to the establishment of WTO. After almost three decades, the U.S. hoped to replay the same strategy. However, this time the old coalition partner – China – becomes the major challenger to the U.S.

It is not surprising that China opposes almost every point the U.S. raises about the WTO reforms. Because of its regime characteristics, China is hesitant to disclose information about governments. Consequently, China does not support the U.S. transparency proposal. China also steadfastly denies the idea of revising its developing country status because this status serves China's core national interest. First of all, China has received special and differential treatment in the multilateral trading system thanks to this status. China also has evaded external pressures to reform and gained additional time for self-controlled development. Second, comparing to the U.S. and other advanced Western countries, China is still a late-comer in terms of industrial competitiveness. Therefore, maintaining such a status helps shield domestic companies from foreign competition. In other words, it facilitates China's plan of "Made in China 2025" to upgrade its economic power and to catch-up the U.S. economic power. Finally, the status also helps China develop leadership in the developing world, and form allies, such as the BRICS countries.

²⁵ Emre Peker, "EU-Led Group Answers U.S. Complaints on WTO," *The Wall Street Journal*, December 12, 2018,

<https://www.wsj.com/articles/eu-led-group-poised-to-answer-u-s-complaints-on-wto-11544560563>.

²⁶ Warren Christopher, "News Briefing of the 1993 APEC," *C-SPAN*,

<https://www.c-span.org/video/?52416-1/asian-pacific-economic-cooperation&start=954>.

Therefore, on November 24, 2018, China's Ministry of Commerce revealed China's stance on the issue of the WTO reforms.²⁷ China insists that the reforms should guarantee the development interests of developing members. China specifically emphasizes that "the special and differential treatment of developing members should be guaranteed. China is the largest developing country in the world. ... China does not allow other members to deprive China of the special and differential treatment China deserves." In addition, China stresses that the process of WTO reforms should ensure the common participation of the majority of members, especially the developing members. Then, China also fired back its counter criticisms against the U.S.

First, China rejects the use of new concepts to expand the principles of the multilateral trading system. Essentially, China refutes the idea of including "fair trade" into the principles of the WTO. Second, China advocates that the WTO reforms should focus on the effort to prevent protectionism and unilateralism. Apparently this targeted the current US trade practices. China also criticizes the U.S. block on the WTO Appellate Body and excessive agricultural subsidies of the U.S. and other developed members. Third, China opposes the U.S. and other advanced countries' use of investment security review and export control measures to obstruct technical cooperation and to discriminate against Chinese state-owned enterprises.

In short, the principal goal of China is to protect its national model. China underscores that the WTO reform should respect the respective development models of its members. In addition, China insists on developing countries' "special and differential treatment" as the cornerstone of the current multilateral trading system. These two principles have been emphasized over and over in top leaders' speeches, for example, China's President Xi Jinping's speeches during the APEC meetings and G20 summit,²⁸ Vice President Wang Qishan's speech in the

²⁷ Gao Feng, "MOFCOM Holds Press Briefing on the Relevant Issues about the Reform of the WTO," Ministry of Commerce, the People's Republic of China, 2018,

<http://english.mofcom.gov.cn/article/newsrelease/press/201811/20181102810628.shtml>.

²⁸ Xi Jinping, "Speech for the 2018 APEC Business Leaders' Summit," (Speech, 2018,) Ministry of Foreign Affairs of the People's Republic of China, <https://www.fmprc.gov.cn/chn/gxh/tyb/zyxw/t1614036.htm>; Xi Jinping, "Speech for the 13th G20 Leaders Summit," (Speech, Buenos Aires, 2018,) The State Council of the People's Republic of China, http://big5.www.gov.cn/gate/big5/www.gov.cn/xinwen/2018-12/01/content_5344968.htm.

Bloomberg New Economy Forum in Singapore in November,²⁹ and Premier Li Keqiang's speech in the 13th East Asia Summit.³⁰

Clearly, the U.S. and China are poles apart in their views of trade, economic governance and national models. Hence, the US-Trade tensions are unlikely to go away soon.

The reaction to China's infrastructure aid – BRI

Finally, there is another thorny dispute: China's BRI. Since its announcement during the end of 2013, China has prioritized BRI as the main grand strategy and has been eagerly promoting it. China's ambition and tactics raise the U.S. concerns.

Most scholars point out that the U.S. vigilance has something to do with the worry about the "Thucydides Trap," a term developed by Harvard scholar Graham Allison to describe the dire future between the status quo hegemony and rising challenger. Throughout the history, Allison points out, in 12 of 16 past cases in which a rising power has confronted a ruling power, the result has been bloodshed war.³¹ The structural tensions between the two have been brewing for years and led the Obama administration to develop a strategy of "Pivot/Rebalance to Asia."³² Since the inauguration of Trump administration, the U.S. has changed to a more confrontational approach to contain China. For example, before his trip to Asia and the APEC Summit this year, U.S. Vice President Pence delivered a hard-hitting speech to the Hudson Institute, criticizing China for taking advantage of others through the "debt diplomacy" and unfair trade practices.³³

²⁹ Wang Qishan, "Speech for the Bloomberg New Economy Forum," (Speech, Singapore, November 16, 2018), Embassy Of The People's Republic Of China In The Kingdom Of Sweden, <https://www.fmprc.gov.cn/ce/cese/chn/wjdt/t1610749.htm>.

³⁰ Li Keqiang, "Speech for the 13th East Asia Summit," (Speech, Singapore, November 15, 2018), Generalkonsulat der Volksrepublik China in München, <https://www.fmprc.gov.cn/ce/cgmu/chn/gnxw/t1613615.htm>.

³¹ Graham T. Allison, *Destined for War: Can America and China Escape Thucydides's Trap?*, (Boston: Houghton Mifflin Harcourt Press, 2017).

³² Ian Storey and Malcolm Cook, "The Trump Administration and Southeast Asia: America's Asia Policy Crystallizes." *ISEAS Perspective*, Issue No. 77, 2018, https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2018_77@50.pdf.

³³ Mike Pence, "Remarks on the Administration's Policy towards China," (Speech, Washington, D.C., October 4, 2018), Hudson Institute, <https://www.hudson.org/events/1610-vice-president-mike-pence-s-remarks-on-the-administration-s-policy-towards-china102018>.

Power politics indeed plays a role behind the US-China dispute on the BRI. But there is more to it. One of the major criticisms the U.S. made against the BRI is about its opacity. The Chinese infrastructure aid is usually opaque, and external observers as well as citizens in aid-recipient countries cannot know exactly how aid is delivered, and with what conditions, until projects are under construction. Lack of aid and project transparency also leads to two additional problems: (1) quality issue: how to make sure /monitor project quality without enough information; and (2) aid-conditionalities: how to evaluate whether conditions attached to aid are proper?

The opacity of BRI also causes another, much more serious concern: the close connection between the BRI and China's ambitious industrial program – “Made in China 2025.” In the program, China sets its goal to become a major manufacturing great power in most advanced industries, including new generation information and communication technology, railway transportation, maritime equipment and ships, aviation and aerospace equipment, energy, robotics, biotechnology, artificial intelligence, and so on. China aspires to advance its industrial and manufacturing bases, and then become the leader in global technology and industrial system. In the China's official blueprint, it clearly states how “Made in China 2025” and the BRI can support with each other. For example, in the introductory chapter, it indicates that companies should take advantage of the BRI and other regional connectivity projects to facilitate and speed-up the “going-abroad” competing strategy (3.9: enhancing manufacturing sector's international competitiveness and development).³⁴ In addition, China also released specific guides for developing its industries – “Made in China 2025: 1+X (the Guidebook).” The Guidebook clearly states that 9 out of 11 industries can coordinate with the BRI to achieve the development.³⁵

Because of the close connection between these two strategies, the U.S. has challenged that China could utilize the BRI to create more opportunities for its own companies at the expense of others. Therefore, the U.S. reveals its own grand strategy to contain China: the free and open Indo-Pacific strategy. The U.S.

³⁴ *Made in China 2025*, The State Council of the People's Republic of China, 2015, <http://www.miit.gov.cn/n973401/n1234620/n1234622/c4409653/content.html>.

³⁵ *Made in China 2025: 1+X (the Guidebook)*, Ministry of Industry and Information Technology of the People's Republic of China, 2017, <http://www.miit.gov.cn/n973401/n1234620/n1234623/c5542102/content.html>.

also passed its own version of infrastructure aid strategy – Better Utilization of Investment Leading to Development (BUILD Act). As mentioned by U.S. Vice President Pence, the U.S. wants to provide a more transparent international development and finance programs.

Because the U.S. and China hold opposing views and strategies toward infrastructure aid in the region, their disagreements are likely to trigger new rounds of clashes with regard to connectivity project in the Asia-Pacific.

Concluding Remark

Since its establishment, the APEC served as an important forum for leaders in the Asia-Pacific to develop strong commitment to international economic cooperation. The non-binding, consensus-based, voluntary and inclusive approach of APEC used to be effective in minimizing disagreements and nurturing common interests. However, the US-China trade tensions have become so thorny that even the APEC is unable to mediate the conflict. Now, the U.S. and China finally reached a 90-days truce and kicked off a new round of negotiations. However, the disputes between the U.S. and China are so formidable that the trade-tensions will likely continue, and a new trade war could be easily triggered.

Currently, there are two main disputes that could possibly lead to the restart of US-China trade conflict. The first is about the reform of WTO. The U.S. is eagerly to enhance the WTO transparency requirements, and to revise the WTO provisions of overly broad classifications of development as well as the self-designation of development status. The U.S. aims at ending China's special and differential treatment granted from China's self-proclaimed development status. China, of course, steadfastly rejects the U.S. idea and argues that protecting and helping developing countries, including China, is one of the cornerstones of the WTO.

The second dispute is about the opposing views and strategies toward regional infrastructure aid. China will continue promoting its BRI while the U.S. will keep criticizing its opacity and challenging the troublesome connection between the BRI and “Made in China 2025.”

As the US-China tensions continue, those two disputes are likely to return

in every important regional meeting in the future. The APEC will likely face recurring pressures to discuss its policy stance with regard to the WTO reforms, or to debate about what standards should be used to guide regional infrastructure aid. And the APEC may need to prepare for more challenges to come.

Finally, as the clash of two biggest giants persists, other countries inevitably face the growing pressure to take a side. The circumstance may give an impulse to some alternatives, for example, the expansion of the CP-TPP or the conclusion of RCEP. However, it may also cause a more dire dilemma, as pointed out by Singapore Prime Minister Lee Hsien Loong: “It is very desirable for us not to have to take sides, but the circumstances may come where ASEAN may have to choose one or the other. I hope it does not happen soon.”³⁶

³⁶ Seow Bei Yi, “Asean has to work with the world as it is: PM Lee Hsien Loong,” *The Straits Times*, last modified on November 16, 2018, <https://www.straitstimes.com/singapore/asean-has-to-work-with-the-world-as-it-is-and-hope-that-it-does-not-have-to-take-sides-pm>.

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