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2015: A Year of China-U.S. Competition and Cooperation

By Charles E. Morrison

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As in every year, 2015 in Asia was marked by natural and man-made tragedies, such as the devastating Nepal earthquake and the persecution of minorities like Myanmar's Rohingyas. There were also surprises, including democratic opposition victory in January's Sri Lankan presidential election and Aung San Suu Kyi's party's landslide win in Myanmar's November elections. But beyond such specifics, a broad and continuing theme was a growing sense throughout the region of intensified competition between China and the United States being played out in both the economic and security realms. Ironically, this was occurring as U.S.-China cooperation is also increasing.

Long a force of global growth, China's economy is visibly struggling. Based on exports and government-led investment, the old model is sputtering, and Chinese leaders are seeking a new model based on domestic consumer demand and higher value-added manufacturing and service industries. While the transition is touted as normal and planned, it is anything but easy as this summer's wild China stock market ride demonstrated. The government has uncertainly intervened in markets, devalued the currency, maintained easy monetary policies, and seems set on adding fiscal stimulus in only partially successful efforts to contain damage and prop up growth.

By the end of the year, it appeared that India had replaced China as the region's fastest growing big economy, although accurate economic statistics are problematic for both. Still, despite enormous inefficiencies in the state-owned sector and demographic headwinds as its labor force ages, China claims to be growing at about 7 percent annually, and hopes for 6.5 percent through 2020. This will propel it, with its huge population, ahead of the United States as the world's largest overall economy, even if still a much poorer one on a per-capita basis.

Meanwhile, the United States was the world's economic bright spot. The U.S. economy was steady if still fragile in some areas; unemployment at 5 percent had dropped to half the recession peak; and low oil prices helped keep inflation in check. A significant achievement was the conclusion, against long odds, of the Trans-Pacific Partnership (TPP), a U.S.-led, twelve-nation agreement that sets high trade and investment standards. Since many of the partners already have freer trade with each other, the TPP is less significant for immediate business benefit than it is for setting longer term, compatible global trade norms and standards.

Even though not ratified yet, the TPP placed the U.S. again in the center of the region's economy. Countries not in the TPP, including Korea, Indonesia, Thailand, the Philippines and China, are urgently seeking pathways to join the agreement or move toward TPP-like standards. China, for example, has given new emphasis to bilateral investment negotiations with the United States, and is pushing for broader trade arrangements among APEC economies.

Meanwhile, China's biggest international achievements came in economic diplomacy, as it successfully launched the Asian Infrastructure Investment Bank with 57 founding countries, despite American opposition. In addition, President Xi Jinping's complementary "One Belt, One Road" initiative seeks to build transportation, port, energy and other facilities across a broad swath of Eurasia and East Africa.

China's international infrastructure thrust could potentially complement the U.S. trade approach for an economic win-win for the region. But on the security side, China's assertive maritime claims and construction projects have raised troubling questions. Geography has blessed China with a central land position in East Asia but confined it to limited maritime space. By laying claim to every rock, sandbar and reef that it can, even if close to neighboring countries, China looks

narrowly self-interested and threatening, undercutting its diplomacy.

China's artificial island-building program in the South China Sea alarmed neighbors and compelled the U.S. to conduct a freedom of navigation operation to show that such structures are not acceptable as a basis for territorial claims. Yet despite this and some exaggerated rhetoric, Chinese and American military-to-military engagement continues to expand.

In fact, overall it was a successful – almost dramatic – year in China-U.S. cooperation. The annual China-U.S. Strategic and Economic Dialogue in June and President Xi's September state visit resulted in dozens of new agreements and initiatives. Visas have been liberalized and student and business interaction is growing remarkably. Chinese investment is pouring into U.S. localities. The Paris climate change conference outcome was enabled by commitments China and the U.S. made to each other beginning in late 2014. The two countries chaired an Afghanistan aid conference at the UN, and even such thorny issues as cybersecurity are being discussed. Despite many differences in areas such as human rights and freedom of expression, the two countries have many motivations for cooperating, especially on global issues.

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