US-CHINA RELATIONS IN ASIA-PACIFIC ECONOMIC INTEGRATION

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Executive Summary

1. The United States' involvement in the market-driven regional economic integration began with the promotion of trade interdependence between East Asian economies after World War II as a way to counterbalance Communist expansion. It only began to realise the significance of institutionalising economic relations with Asia-Pacific after China's greater engagement with regional economies in recent years.

2. The United States' market opening up to East Asian countries since the 1960s has made the "export-led economic growth" a successful model. The huge trade surplus accumulated by Asian countries was mostly used to finance America's fiscal and current account deficit.

3. The United States' gradual removal of trade barriers against China after China-US reconciliation at the end of the 1970s has contributed to China's smooth integration to the regional production network. It had also resulted in the United States' growing trade deficit with China from merely US$23 billion in 1993 to US$319 billion in 2013.

4. China's economic rise and growing influence in regional affairs signify that the United States' incorporation of China into the regional economy has indirectly created a potential competitor for itself. The United States' active promotion of Trans-Pacific Partnership (TPP) Agreement in recent years shows America's anxiety about its declining influence in the region.

5. Whether the implementation of TPP could further improve America's economic prosperity is uncertain. In 2013, the United States' free trade agreements with six TPP members (Canada, Mexico, Singapore, Australia, Chile and Peru) already covered 90% of the United States' merchandise trade and 69% of its service trade with all TPP countries.

6. Despite the lack of political trust, the United States welcomes China’s TPP participation to ensure China’s adherence to international economic rules set by the United States. It may also facilitate US business access to the Chinese market. China would then be America’s third largest export market for merchandise goods (behind Canada and Mexico) and services (after Canada and Japan).

7. The collective TPP as a single market would make it much more important than China for the United States. TPP’s exclusion of China will also put Chinese exporters in a disadvantageous position vis-à-vis other TPP countries in the American market. Consequently, China’s overall economic importance to the United States may become less vital.

8. With or without China, TPP is not likely to change the US-Asia economic network that has existed since the cold war era. Asian countries may still be willing to finance the US deficit but the sustainability of regional-wide economic development based on the United States’ accumulation of debt is uncertain.