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America: The new sick man of Asia?

By Peter Lee
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The tag line for United States President Barack Obama's appearance at the Asia-Pacific Economic Cooperation (APEC) summit in Honolulu was "The United States is a Pacific power, and we are here to stay".

The question is, is the United States a leader bringing economic and security solutions to the Pacific, or is it the new "Sick Man of Asia", infecting the region with its imperial malaise.

Obama was in full scold mode at the meeting, telling the Chinese their economy was "grown up" and it was time for Beijing to "stop gaming the system".

Chinese President Hu Jintao, smarting under the lash of American condescension, was perhaps muttering to himself that the main problem is that United States economy can't "grow up" anymore, and needs China's help - but can't bring itself to ask for it.

The APEC summit also saw a boost to Trans-Pacific Partnership (TPP), conceived as a North American Free Trade Area (NAFTA) for Asians clustered around the United States (and an alternative to China's "divide and conquer" strategy of bilateral negotiation of free-trade pacts), as Japan's Prime Minister Yoshihiko Noda announced his country would participate in negotiations.

China was not included, since the club is only for "rule-playing nations".

The Associated Press reported that Mike Froman - the Obama administration's deputy assistant

to the president and deputy national security adviser for international economic affairs - played the role of sneering courtier:

[Froman] told reporters that China had not expressed interest in joining and said the trade group "is not something that one gets invited to. It's something that one aspires to". [1]

Froman is a friend of the president's from their days editing the *Harvard Law Review*, an enthusiastic contribution bundler, a protege of Richard Rubin and, previous to his White House stint, a managing director at Citigroup.

So, again one can image the Chinese rolling their eyes at the spectacle of an ex-employee of Citibank - which played "by the rules" of venal mismanagement and financial recklessness that brought the world economy to the brink of collapse and whose "aspirations" (aka insolvency) were subsequently rewarded by admission to TARP, the government's bailout fund - playing doorman to exclude China (whose domestic stimulus program is credited with a major role in cleaning up Wall Street's mess and keeping the world from sliding into recession) from America's super special trade club.

This was all well and good for the Western foreign policy commentariat, which generally rewards American China-bashing with uncritical praise, cites the grim US political and economic climate to excuse any rhetorical excesses the president commits, and condemns Beijing for its paranoid carping about "containment".

However, it looks like Obama may have gone a little too far during a subsequent stop in Australia.

There he laid a wreath at a memorial in Darwin to US victims of the Japanese attack of 1942, and announced the two countries had agreed on a program to rotate 2500 US Marines Corps through Australian military bases in the Northern Territory, thereby establishing a permanent US military presence.

Nothing says "containment" like invoking the historical crimes of the Yellow Peril and plunking down 2,500 marines at the part of Australia closest to China.

These looked a little over-the-top even to some Western commentators.

Even Jackie Calmes of the New York Times - a reliably hospitable venue for the Obama administration - hinted that the Chinese had a point:

For China, the week's developments could suggest an economic and a military encirclement. Top leaders did not immediately comment on Mr. Obama's speech, but Mr. Liu, the Foreign Ministry spokesman, emphasized that it was the United States, not China, seeking to use military power to influence events in Asia.

Analysts say that Chinese leaders have been caught off guard by what they view as an American campaign to stir up discontent in the region. China may have miscalculated in recent years by restating longstanding territorial claims that would give it broad sway over development rights in the South China Sea, they say. But they argue that Beijing has not sought to project military

power far beyond its shores, and has repeatedly proposed to resolve territorial disputes through negotiations. [2]

A commentary on Xinhua offered a Chinese response:

Asia Pacific Region Needs a Partner, Not a Leader It's hard to envision what kind of "leadership" the United States aspires to have in the region. What the region really needs -- right now -- is a strong and reliable partner that can help the region stave off the current financial crisis and seek balanced and sustained growth. [3]

The subtext of the commentary is that US "leadership" in the Pacific is today's codeword for "containment" and that the US and the world would be better off if the United States prioritized global economic issues in partnership with China instead of trying to cobble together an expensive and economically counter-productive anti-China bloc.

It's quite likely that, deep in his heart of heart, Obama agrees. The game in the Pacific is not regional security.

If the United States was really concerned about a panda-on-koala bear beat down on Australia's north shore, it wouldn't be putting a few marines in Darwin; it would be inching up closer to red line on Tibetan and Taiwanese independence to foment a political and security crisis inside China that would distract Beijing from overseas adventurism, even if it risked sending the world economy into a crater.

The Obama administration has assiduously avoided genuine provocations on these two "core interests" of China.

The real game is economic

The United States has been sending continual, high-level signals to Beijing that America views Asia as a vital interest because it wants a share of the region's economic growth.

As US Secretary of State Hillary Clinton put it in her essay on America's Pacific Century: Harnessing Asia's growth and dynamism is central to American economic and strategic interests ... broader commitment to elevate economic statecraft as a pillar of American foreign policy. Increasingly, economic progress depends on strong diplomatic ties, and diplomatic progress depends on strong economic ties. And naturally, a focus on promoting American prosperity means a greater focus on trade and economic openness in the Asia-Pacific. [4]

The embarrassing conundrum appears to be that the United States is indeed anxious for a partnership with China, but feels the only way to obtain it is to extort it - by establishing a web of economic and security alliances that will exclude China until it delivers the revalued currency and more open markets that the United States considers key to its own economic rejuvenation.

The Obama administration's disappointment with China as a negotiating partner dates back to the intense rancor surrounding the collapse of the Copenhagen climate summit.

Unsurprisingly, the Obama team feels that China plays the game zero-sum in pursuit of its national interest, and won't make meaningful and useful concessions unless it gets its arm twisted.

Therefore, Clinton and her team go out to generate a regional security crisis out of the decades-old territorial disputes in the South China Sea; wean Myanmar and North Korea away from China; embolden Vietnam with visions of alliance with the US and India; and encourage overt hawkishness in regional allies like Japan, South Korea, and Australia.

The US message is that the pressure stays on until China "plays by the rules".

The Asian countries go along, one can speculate, since they are assured that there is a well-thought out economic endgame behind the military posturing.

There's one problem.

America's standing as the world's policeman is unquestioned; but its qualifications as leader of the world's free-market economies look more and more dubious.

The days when America exercised genuine world economic leadership by serving as the world's demand engine and steward of the world's reserve currency appear to be fading into memory.

The true significance of the APEC meeting in Honolulu was not America's "return to Asia".

It was the United States' descent into the class of "just another exporter" in the zero-sum world of trade competition.

We want to be the lean-and-mean exporter, not the fat-and-happy importer.

Now we expect China to shoulder the responsibility of sustaining world demand. And we expect to compete with our allies to meet that demand.

Obama has announced his intention to double exports in 5 years in order to create jobs jobs jobs. That means increasing exports of US\$1.57 trillion per annum by 2015, according to his National Export Initiative. US export ambitions are enshrined on the NEI's website. [5] China is at the top of the list.

Gary Locke, the secretary of commerce responsible for developing the initiative, is now the US ambassador to China.

The United States perhaps considers it a matter of economic justice that China express its gratitude for thirty years of open US markets by appreciating the yuan and disgorging a few of the hundreds of billions of dollars it previously extracted from the United States.

From China's perspective, the advantage of serving as the world's sought-for demand engine does not bring with it the responsibility to revalue the yuan to console the United States for its lost decade of financial mismanagement. By Beijing's calculus, China has an obligation to leverage access to its markets for the market and security concessions it needs.

China would be happy to make a one-on-one deal with its most important *frenemy*, the United States, especially if it looked like an American betrayal of its Asian allies and weakened US alliances in the region.

This is the perspective from which the "Trans Pacific Partnership" should be understood.

It reflects America's promise that it will not make a Group of Two deal behind closed doors with China that shortchanges the economic interests of our Asian allies, no matter how desperate the Obama administration is for exports, jobs, and re-election.

The TPP harks back to the "Open Door Policy" of the early 20th century, under which the United States insisted that concessions granted by the tottering Chinese state to one imperial power were automatically extended to all other powers.

You don't want to be out of TPP when the deal gets cut.

However, if the terms of the US-China rivalry are genuinely economic (under a veneer of security anxieties), the TPP alliance is rotten at its core.

It's a matter of arithmetic that will become increasingly clear to America's Pacific allies as the trade struggle unfolds.

Currently, the US has about a 10% share of the global export trade in merchandise and services. If the world economy didn't grow, the US share would double. The economy will grow, but how much?

In March 2010, the World Trade Organization (WTO) predicted that it would take until 2012 for world trade to rebound to pre-recession levels. That scenario assumed global trade growth of 6.5%. In October 2011, as Europe embarked on an austerity binge to shrink its way out of fiscal insolvency, the WTO lowered its trade growth estimate to 5.8%. [6]

Translation: the world trade pie is not going to double in five years.

That means that the US is going to have to eat somebody else's lunch in order to boost its exports and revitalize its economy.

But it's not panda that's on the menu; it's the economic futures and regional aspirations of Japan, South Korea, Vietnam and the other nations surrounding China and eager to tap its markets.

The questions for Asian capitals: Is the best route to prosperity to join with the United States and struggle to impose a free market reformation on China?

Should the United States alliance be regarded not as a security and economic necessity but as a selfish attempt by the US to exploit the loyalty of its allies to gain benefits that might otherwise accrue to them?

Or is the TPP simply a dubious venture whose likely failure should be hedged against with some discrete outreach to China?

Japan, for instance, found itself compelled to announce its intention to negotiate participation in the TPP, despite the fact that membership would put its legendary trade barriers on agricultural products at risk, and the last thing Japan would appear to need as it struggles to recover from the earthquake and tsunami catastrophes is a free trade initiative that threatens the bottom line of its domestic producers and unbridled competition in Asian markets.

There are plenty of conservative and big business advocates for the US-Japan alliance and the free-trade merits of the TPP, especially to counter South Korea's trade initiatives.

As Japan Times' Philip Brator reported, there are also some high profile voices taking the Nay side of the argument: Takeshi Nakano, an associate professor at Kyoto University and former finance ministry official who has been interviewed by a number of news programs and publications. Nakano says Japan can't hope to gain much in exports to Asia through the TPP since all members except America are net exporters. And as for the long-term hope that the TPP will eventually persuade China to open its markets, he says China has shown its contempt for free trade by manipulating the value of the yuan. Moreover, cheaper products from the US would aggravate deflation, thus putting even more downward pressure on wages. [7]

Yomiuri Shinbun boldly called for Japan ... to hedge its bets.

There are growing hopes that the Asia-Pacific region, seen as a growth center, will strengthen economic cooperation and serve as a locomotive for the world economy.

However, China is increasingly on the alert toward moves surrounding the TPP. China has kept its distance from the TPP, aiming instead for a regional economic integration with the Association of Southeast Asian Nations, Japan and South Korea.

Rivalry between the United States and China, who both desire to take the leadership role in the Asia-Pacific region, is fierce. It is uncertain which nation will ultimately emerge dominant. In light of this, it is indispensable for Japan, which stands with the United States, to also advance strategic trade policy with China. [8]

China apparently hopes that this unwieldy exercise in multilateralism will slowly stagger into oblivion, giving China a chance to set the terms of regional trade on the basis of a series of bilateral agreements without US interference.

The virtues of free-trade zones are usually oversold. The only thing scholars can agree about on NAFTA is that its genuine impact on jobs and economic growth cannot be quantified. A series of beggar-thy-neighbor bilateral agreements with China will probably yield equivalent regional growth to a TPP grand bargain.

The key question is whether the United States can maintain the illusion of disinterested security and economic leadership and sustain the TPP long enough to get China to budge.

It will not be easy, especially in the context of a teetering eurozone, a slow-growing world

economy, and a perception that East Asia's true center of economic gravity is probably cash-rich and determined China, not the distant, distracted, dysfunctional, and fiscally hamstrung United States.

If the United States is perceived to be playing the regional security card primarily as a selfish economic actor, it can probably expect surface statements of support, deep-seated ambivalence, and furtive side-dealing with China from its allies, as the Yomiuri editorial hinted.

Then the United States will suffer the indignity of being downgraded from "leader" to a mere economic "partner", albeit first among equals, of China and the other Asian economies.

So, America's China policy is not built on the solid hyperpower foundation of troops, missiles, aircraft carriers, and staunch allies. It is constructed on the suspect ground of suppressed economic rivalry and a dubious plan to wrench the focus of Asian economic power away from China toward the American side of the pond.

Seizing on local disputes to hype a US-led security regime and extort economic concessions from China may look clever, but only if it works.

As a wise man once said, there is a fine line between clever ... and stupid. And the United States may have crossed that line with its Pacific policy.

Notes

1. Obama seeks Russia, China help on Iran, AP on Gazette Mail, Nov 12, 2011.
2. Obama Addresses Troops at Final Stop in Australia, New York Times, Nov 18, 2011.
3. Commentary: Asia-Pacific region needs a partner, not a leader, Xinhua, Nov 17, 2011.
4. US plants a stake at China's door, Asia Times Online, Oct 22, 2011.
5. Click here for the NEI's website.
6. WTO G-20 report: Weak growth and imbalances "testing" government resolve against protectionism, WTO, Oct 26, 2011.
7. Media takes both sides of TPP debate, Japan Times, Nov 13, 2011.
8. Japan's TPP participation key to Asia-Pacific economic integration, Yomiuri, Nov 15, 2011.