

**The US facing Asian integration: A policy dilemma.**

by: Jørgen Ørstrøm Møller\*.

*\* Visiting Senior Research Fellow, Institute of Southeast Asian Studies, Singapore, Adjunct Professor, Copenhagen Business School*

*The aim of this article is to highlight the crucial importance of integration in East Asia. At stake is not only the future of economic growth in Asia but the future of globalization – whether it will continue in its present edition, be adjusted to accommodate the rising Asian powers or give way to alternative economic models and political systems. Since the end of the Cold War the global operating system has continued as if nothing has happened. Obviously this cannot go on. The discussions in the United Nations Security Council in February/March 2003 removed any illusions left. The US are beyond all doubt the driver of globalization assuming the role commonly described as the American Empire. The jury, however, is still withholding its verdict whether US power is sustainable or sufficiently grinded down to open the door for a new power play to take place in Asia inside the triangle China, India and Japan with the US at the sideline pondering whether to interfere or not.*

**US power ?**

At the pinnacle of its powers an empire confronts a choice: either to renounce some of its almighty power to shape a future global system reflecting its basic values thus securing influence in the longer term albeit not commensurate with its present power; or to exercise power without constraints making its reign absolute as long as it lasts but with the eventual fall so much more abrupt and so much more painful (1). This is the dilemma for the Bush administration.

The first and indispensable parameter of imperial power and power projection is financial and military capability to enforce imperial order. The US economy has shown tremendous growth for the last 15 years. Few persons would argue that the US economy has stimulated a global boom almost unprecedented in strength and length since the beginning of the 1990's. The US have used the global institutions such as the International Monetary Fund, the World Bank and the World Trade Organization to cement a strong economic globalization.

US growth rates through the last 12 years (about 3.5-4% per annum) contributed more than anything else to global growth. The US have been criticized and heavily so (2) but without the US, global growth would have been negligible. Facing the question whether one would have favored another US economic policy leading to a less unbalanced US economy but lower

growth the answer is almost unequivocally no, as lower US growth would have hampered the economic rise of powers such as China and India. For a long period the Chinese surge in economic activity was export-led and the export went to the US. And today, China's role in the Asian supply chain is to a large extent a consequence of her export to the US.

The US were for more than a decade *the* global growth engine. When the Asian financial crisis struck in 1997, a robust US economy stood as a bulwark against a global recession. Export growth to the US in the wake of currency depreciations was for a period the only buoyant part on the demand side for a number of Asian countries.

The unanswered and outstanding question is whether the imbalance in the US economy has infected the global capital markets thereby opening the door for a US recession to spread to the rest of the world. And if that happens, to my mind it is likely, what will be the political repercussions on the global economy shaped and framed by the US?

For years the external deficit measured as per cent of gross domestic product has amounted to 4% and is now approaching 6%. At this point of the business cycle, the deficit should fall yet it is still on an upward curve. And there are no policies or economic developments in sight to remedy the imbalance – not to speak of the external debt imbalance itself.

The US households have built up a colossal debt burden. Rising property prices (still holding) and the once booming stock market have supported a consumption boom without any precedent. The bright spot for a small number of years was the surplus on the public budget but this bulb is definitely switched off. The United States of America are heavily indebted – externally and domestically.

Despite its fragility the US economy has so far remained erect for two reasons. First, investors still believe that it remains more profitable to invest in US enterprises than in Europe and Asia's ones. When that prognosis proves to be false, as reported profits are not likely to live up to expectations, investment decisions will be reassessed. Second, all the major holders of currency reserves (China, Japan, Taiwan and Singapore) are in Asia. Their holdings are primarily in US dollar currency. China's political preferences have put production and jobs above everything else to ensure social stability. When domestic demand is matured enough to replace exports as a pull factor for the economy a shift in the allocations of the holdings is unavoidable.

Already a change in attitudes in the United States starts to exacerbate the dislocation of the US economy. For two centuries influx from abroad has been a strength not a threat, a blessing not a curse, a contribution to economic growth not a factor taking away jobs in the domestic economy. That is no longer valid.

September 11, 2001 may have produced an epic shift in the American attitude to the outside world. From openness to seclusion. From benevolence to distrust. From partnership to nationalism. There is a clue to possible impact on the US economy. Economists use as a rule of thumb that more than 50% of the US economic growth since 1945 could be ascribed to new technology. The technological lead could be ascribed among other things to attracting talents from abroad. American universities and enterprises were a magnet for the best brains. Formerly Europe was the main source. Recently, Asia seemed to catch up and might well in the future outnumber Europe in that field.

Yet, a hardening of the US attitude towards foreign immigrants has increased the probability that a good number of Asians going back to Asia in the wake of the IT and electronics downturn are going to stay there. Foreign talents having oiled the technological surge in the US would partly be cut off. Instead they are likely to boost the economy and technology of US competitors. Suffice to mention in this context that in 2002 the number of foreign students in the US fell 8%, in 2003 10%, in 2004 3% while preliminary figures for 2005 indicate a rise of 1% over 2004. All in all, the total number has fallen in the course of four years from just under 300,000 to a little bit above 200,000.

### **US Empire?**

For decades the US have been the global leader politically, militarily and economically. It has been an empire in the sense that the rest of the world followed where the US chose to lead it.

Genuine leadership reflects that others qualify the judgment of the leader as sound, opening the door for persuasive power. In such a case, the rest of the world follows suit because it feels the course is well argued and in conformity with common principles. Persuasive power presents the empire/super power with the option of solidifying its position (saving resources) instead of fighting wars (exercising power, a destructive and costly policy, using resources).

The ultimate secret of imperial power is to project power without winding down resources by putting moral and cultural power on top followed by economic power while military power is avoided as it bleeds the empire white, gobbling up manpower and economic strength. This is how the Roman Empire, the Chinese Empire and the British Empire survived. When they were called upon to defend their position in major wars, their empires crumbled.

The US have hitherto been able to play this game since WWII. The rest of the world looked upon the US as the uncontested leader. It trusted the US, followed their policies, sometimes not without grudging, but follow it did. The allies and friends all lined up. Not because they were afraid or scared, not because they felt compelled or coerced to do so, not because they feared for what would happen if they remained outside. But because they wanted to be alongside the United States of America sharing basic principles about world politics, human rights and political systems.

This consensus does not seem so rock solid anymore. In fact it looks increasingly fragile. The US have slipped into some kind of unilateral multilateralism conveying the message that the US are a partner in international politics if it suits US interests. If not, they are not. Power projection and nationalism have replaced ethics and principles.

However, politics cannot be dichotomized. If the US look upon their commitment to the outside world solely in a power perspective, the rest of the world is bound to start to adopt a similar stance for its own stake. That will introduce a whole new ball game for internalization, globalization or internationalism – choose which label is preferable – where the common interests wither away to be replaced by hard nosed infighting won by the strongest, maybe even the most ruthless.

When an empire resorts to military might to force recalcitrant nations or even challengers to toe the line, power starts to trickle away. The US policy towards Afghanistan and Iraq has two sides. One reflects the strong and determined US policy to counterattack the terrorists and smoke them out. An overwhelming majority around the world sympathizes with that policy even if many question the method chosen. The other, as stated clearly in the Bush administrations foreign policy, is the determined effort to spread US style democracy around the world and to support US-style human rights. Though this vision is rallying widespread sympathy, many countries and people around the globe do not agree that the US have a monopoly to define human rights and democracy and even less the right to impose the US interpretation of both on

other countries. On top of that comes suspicion that the US apply some kind of double standard, with their policy vis-à-vis Central Asia most frequently put forward as a proof of such practice.

It says something about the standing of US in the international community that two such praiseworthy and admirable objectives have not gathered more support. Instead the columnist Fareed Zakariah could write (3) "*George W. Bush's legacy is now clear: the creation of a poisonous atmosphere of anti-Americanism around the globe*".

### **Globalization?**

Globalization has not really penetrated our mindset and changed the way we think. The elite may have managed to transform itself into global citizens exactly as it was the case for the global elite 100 years ago when globalization was as widespread or maybe even more widespread than today among the privileged ones.

What might be termed internationalism as a kind of new philosophy has unfortunately not yet emerged. A large majority of the global population does not participate in globalization as they do not live in developing nations but belong to the overwhelming number of people still confined to the countryside with little if any links to the outside world. It is the case of the majority of the population of countries like China, India and Indonesia and all the African countries to name a few.

Globalization is without question the best model the world has ever seen if you look at it solely in the sole perspective of economic growth. But problems have raised their heads without finding appropriate answers, one of them being an increasingly inequitable distribution of wealth to the benefice of a minority of already well offs leaving the majority as onlookers. This development is all the more looking worse that the majority of the people bought into globalization only to get their share of higher growth and to increase their wealth at the price, for some, of their national identity. The expected trade-off did not occur.

This unwelcome situation does not augur well for globalization. What will happen if, or, when economic growth declines, the people discover that their sacrifice of national, regional, cultural (religion, ethnicity) identity was in vain? There is no mental bulwark against a reversal of globalization. Solidarity on a global level congruous with national solidarity has not been built up. A

large majority of people around the globe see globalization as an economic, technological, transport and logistics phenomenon but do not see themselves as part of a global system sharing more or less congruous values (4).

The global institutions have failed to transform themselves from steering committees working under the Cold War rules to the new global world. Global values have not emerged to serve as some kind of banister when mounting or descending the steps. Only the US Empire emerged and whether it is popular or not to say so, globalization currently stands exclusively for American capitalism and nothing more. Furthermore, in that context, American political values have proved themselves to be of dubious value when put forward, as can be seen with the fiasco of the WDM of Iraq and this in an uncompromising way. What would now happen to a world without rudder if the sea becomes rough?

As a result, globalization looks dependent not only on the US policies not failing, but the US economy not faltering either. For better or for worse, the US economy stretched itself to become a decisive parameter beyond its own local perimeter, taking on a fundamental role for the future prospects of globalization. As we have said, for better or for worse.

The verdict of history will be unanimous and unequivocal: since 1990 onwards a chance was at hand to shape a truly international world, mirroring the perceived American ideals, principles and values. But those values are now under scrutiny and unfortunately seem to falter under the weight of the challenge.

Therefore, and it is unfortunate, the window of opportunity to jump from a strictly economic model to an international one based upon broader concepts is likely to close without the needed switch happening. This is because the US chose to pursue globalization as a “strict economic model” pushing its dependence on growth, and in particular on US domestic growth, and nothing else.

All the rising powers be it China, India or Brazil could not and did not wait to join the present political and economic architecture. They have accepted more or less the market economy. They may still hesitate or at least some of them may still hesitate about democracy, but few will in earnest contest that their human rights record are far better than, let us say 20 years ago. They may ask for and in some years time will demand adjustments in the decision making process within the global system. But they will do it as insiders, standing firm

on the foundations of the structure. The US may have misgivings about China as a fellow player against terrorism, reining in rogue states, preventing the spread around of weapon of mass destruction (WMD). But just imagine the vast options if the Chinese political leadership really wanted to counteract US policy.

The well-kept secret is that countries like China and India are weak countries. They are rising powers but not yet there. Their economic growth remains fragile and dependent on outside forces such as foreign investment and access to foreign markets. Their social structure is threatening domestic stability. The recent election in India was swung to the advantage of the Congress Party because rural votes from mainly poor people made the difference. Reports about social unrest in China's rural districts or her Western underdeveloped regions or in the rust belt in her Northeastern part are common in the mass media.

Regardless of all the noise about the opposite, China and India are militarily weak and barely capable of defending themselves in case of a military conflict with the US. This is well understood by the political leaders steering a cautious course to avoid confrontations and skirting anything near adventurous foreign policy. The last thing they want is to be disturbed while they are trying to build up a permanent and solid economic base, which is some years away. They may look threatening from the outside especially viewed by right wing republicans in the US but they themselves are mostly scared by the risk of domestic social unrest.

The demand for economic growth in China and India removed any risk or possibility that one or both would try to shape another system based upon alternative or even opposite values and preferences. They chose the post-1945 system as their system and they are adjusting to it. The need for growth in these two large newcomers has sharpened globalization's dependence on growth.

The world has been incredibly lucky that the stand off between capitalism and socialism has not been replaced by another stand off with the rich countries as protagonists of globalization and the populous countries with a low income per capita as protagonists of nationalism or seclusion.

To fight rogue states and international terrorism, the US, with a strong emphasis on military power, believed they could do it alone. For a coalition of allies inclusive of the rising powers would raise a dilemma: the price would increase their political influence.

The US are extremely reluctant to pay that price. The alternative then is to go alone or form a so-called "ad-hoc coalition of the willing" with actually very few countries genuinely willing. Such an option drains US resources as the burden rests finally exclusively on the US shoulders. For them, the result whether they chose one or the other is in truth the same: reduced power. But for the rest of the world, it makes a substantial difference.

The first option augurs a peaceful, orderly and gradual adjustment of power and influences under the auspices of a benevolent US. The second option is likely to lead to conflicts and confrontation engendered by the US resistance to such an adjustment.

Judged by history no rising power is willing to wait indefinitely and no existing power has been eager to relinquish power and influence (5) easily and speedily.

Nowhere is this dilemma more visible than in the US policy vis-à-vis China. The Bush administration started with a rather belligerent attitude toward China but changed tack after September 11. In their fight against global terrorism, the US came to the conclusion that Taiwan was becoming a strategic liability, while a partnership with China would enhance the US projection of power (6). China might see such a shift with irony.

The key to the future is to perceive US-China relations in the prism of Asian integration. Economic realities point to intra-Asian integration having more clout than Asia-Pacific economic links. From the mid-90's to 2003 China's share of US market tripled from about 8% to almost 25%. The rest of East Asia and most of the South East Asian countries saw a corresponding decline i.e. Japan from almost 30% to just above 10%.

For the last couple of years Japan, Taiwan and Hong Kong have seen China accounting for more than 50% of export growth. China has become the largest recipient of Foreign Direct Investment (FDI) with about 60 billion US dollars in both 2004 and 2005 surpassing the US. The politically sensitive issue of Taiwan has found an economic answer with Taiwan as a de facto part of China investing heavily and gradually becoming dependent on the Chinese market for her products and outsourced production to ensure her international competitiveness.



### **Asia is going to institutionalize**

Asia is starting to institutionalize itself not on the same lines as the model chosen by the Europeans since 1950 but it is clearly influenced by this only piece of inventive political engineering for a long time. The ten Southeast Asian countries in ASEAN have started talks about an ASEAN Charter. The same group of countries together with China, Japan, Korea, India, Australia and New Zealand met for the first time in an East Asian caucus in December 2005 (7). The group as constituted now includes 16 nations with Russia as an observer. It is no coincidence that the US were not invited, nor was the EU.

The strategic view is clearly to build integration among Asian countries. It would benefit them and provide them a platform for a higher profile in global political and economic negotiations. But how to proceed? Option one is to integrate along the pattern chosen by the Europeans that is an integration moving gradually from economics to foreign policy and rule based institutions while closing the door for non-Asian members. Option two is a looser construction, primarily or exclusively aiming at an improved Free Trade Area enlarged to economics spheres such as currency rate co-operation, while staying away from supranationality and rigorously respecting the character of intergovernmental co-operation. That would allow the door to be open along the road to the US. The US are not an Asian power but they do carry projection power in the region where they protect what they consider vital interest. Therefore they may consider that such a decision is not for Asia alone. Others may not agree.

Looked at through the spectrum of economic interest one would assume that China and Japan would steer the integration. There is no need to repeat the figures for bilateral trade and the Japanese investments in China. The problem is that neither the Chinese nor the Japanese see it that way. They are heavily integrated economically and it would be difficult for them to part ways but politically no bonds bind them together – on the contrary.

China wants the US to stay as a military power in Asia but not to be an Asian power. As long as the US provide a nuclear umbrella Japan may be tempted but not more than that to go nuclear. If the US quit, Japan would not hesitate to take care of her own security including the nuclear vector. So the Chinese perspective is to keep the US involved in Asia to prevent a militarily rising Japan.

China worries about Japan – not the US – and define her policy towards the US in that context. The Japanese position is to keep the US in Asia as a bulwark against a too strong Chinese power, which the Japanese cannot stop alone, a situation the policy makers in Tokyo are painfully aware of. Both China and Japan see the US presence in Asia as a pawn in the chess game to keep the neighbor down.

This difference in strategic perception makes it almost impossible for China and Japan to assume the role of drivers to the integration of Asia.

Commonality with regard to strategic outlook is much more likely to be found between China and India. Both of them see the US presence in Asia as a stabilizing security. Yet, neither one sees itself as ally or on collision course with the US. Their security does not depend on the US. Even if long standing disagreements, quarrels and jealousy between them often find way to the headlines the basic fact remains that – contrary to China versus Japan - neither of them sees the other as a potential threat against their survival and development coming (8).

The picture becomes even more transparent when looking at economics and trade where the two countries move fast towards identical interest in beefing up their co-operation. This explains why the flywheel for integration in Asia will be a closer, much closer relationship between China and India.

China and India will shape something like an integrated economy. Political stability is of paramount importance governing respectively 1,3 billion, and 1 billion people, and in both cases, with a relatively new (historically speaking) political system. Social stability is the uncompromising condition for political stability. And that can only be achieved by a large number of new jobs keeping pace with the increasing labor force. As the US economy starts to splutter a shift in economic pull factors, substituting US economy with domestic demand becomes indispensable even imperative.

Their domestic economies are strong but not strong enough separately. In short: Either they get their economic act together to stimulate demand, or their primordial political objective – social stability – gets out of reach (9).

Economic integration is already happening. In 2004 total trade between the two was about 14 billion US dollars compared with between 100 and 200 million US dollar about ten years ago. China is already India's largest

trading partner. The number of businessmen visiting the other country is growing exponentially. The same goes for students albeit in smaller numbers. The flagship enterprises are investing in each other's markets. When the Chinese Premier Wen Jiabao visited India (10), the two countries agreed to negotiate a bilateral free trade agreement (FTA). This clarifies the vision. The ASEAN countries have already established a FTA and are negotiating with China and India. Launching Chinese-Indian FTA negotiations means that a triangular FTA encompassing more than 3 billion people has moved from the talking stage to the negotiating table.

Both countries strive hard to get access to oil and natural gas. So far the skeptics have been wrong in their prediction that this would put them on collision course. What has happened is precisely the opposite. They have mapped out the framework for common activities in the energy area (11) and China repeated in January 2006 its support for India as permanent member of the United Nations Security Council (12) while holding back any such endorsement of Japan's candidature.

The US predicament boils down to the following question: will the US support, promote and facilitate some kind of Asian integration taking place under Chinese-Indian leadership with inevitable political repercussions for the role of the US themselves, not forgetting the chosen US partner and ally in Asia: Japan? Or will the US try to obstruct this course of events with unpredictable consequences not only for Asia, but also for the concept of globalization and internationalism? The third option is to ignore what is going on. It may be open for a while but their allies may prod it to clarify the policy line as they themselves will be engulfed in this economic and political restructuring of Asia (13).

A US support would open the door for a continued US presence in Asia as a friend and a partner. Asia would become a solution to remedying the long term US economic imbalances. A reversal of roles would take place. Hitherto the US economy supported the phenomenal growth in Asia. In a few years time, the Asian economies may prop a weakened US economy. The US would find it hard to sustain their growth without being an insider in the Asian integration. Two birds would be killed with one stone. The unpleasant prospect of an US recession would fade out of sight and global growth would serve as a barrier to prevent a backlash against globalization.

Even more important: it would signify political agreement among the major economic powers to solidify globalization and internationalism. The

global model would be endorsed. Basically the world would be likely to continue in the tracks laid down since 1945-1950 that is more economic internationalization, more common decision-making, and congruous economic models.

The ride might be rough but the course would be set towards political systems more and more reflecting and inspired by principles embedded in the Western democratic model.

For this to happen, the US must acquiesce with a China-India leadership controlling the Asian integration instead of the US or a US supported Japanese leadership, which would not work.

But it is fairly easy to deduct that Japan will not be comfortable with such an outcome. Yet, very little room of maneuver is available to wriggle out of this straitjacket. To ensure a stable Asia and to avoid a sullen Japan diplomatic creativity is going to be in high demand. Without some prodding from the US it is most likely that Japan will try to resist not necessarily an emerging Asian economic integration but its further development into a political vehicle for institutionalization more or less in the same vein as the European one.

A US obstruction would take the world into uncharted waters. US unwillingness, even resistance to trade-in short-term power for long-term influence might become blatantly obvious. In such a scenario, the risk of a US economic downturn would increase with negative repercussions for globalization. It might and probably would propel countries like China and India to consider other options.

A US obstruction would probably mean some kind of encouragement for Japan to pursue a more nationalistic course, even promoting Japan as part of a military shield for Taiwan. That would in turn lead to a predictable and in this scenario, aspired after Chinese reaction. China would then be depicted as an aggressive power, not eligible for Asian's trust.

The US decision to roll out the carpet for European integration was statesmanlike and instrumental in shaping a robust Western "global model". NAFTA seems to slide towards a stronger and larger framework. It may even grow into some kind of co-operation for most of the western hemisphere. The missing link is so far the Asian counterpart, and in particular, the interaction between these three large entities. Only the US can help to bring it about. If

they want to. And only if such an interaction is provided can the world look with confidence toward consolidation of globalization and internationalism.

The interaction of a weakened US power, the emergence of China and India as rising powers operating inside the existing model and a Japan not really knowing where she wants to go make the game in Asia the great game for the next 10 years.

It is difficult to see a successful Asian integration worth that name with the US fostering the deepening rift between China and Japan and also alienating Australia from Asia by drawing it ever closer to the US. That would be a high-risk game undermining security and stability in the world's coming economic powerhouse.

The stakes are even higher when one realizes that China and India's acceptance of the present global economic and political system may not be unqualified and unconditional but rests upon them becoming stakeholders in the global system.

### **Conclusion**

To shape a global system reflecting basically the free market model and a gradual maybe cautious development towards democracy albeit not necessarily defined as the European or American model is within reach. The battle is being played on the Asian pitch. The US have a decisive role as a catalyst for shaping such a global model mirroring American values. The alternative is to put a spoke in the wheel jeopardizing not only Asian integration but also the very future of globalization stimulating nationalism, incompatible with globalization.

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**Jørgen Ørstrom Moller's notes**

- 1 This debate was actually started by Paul Kennedy in 1988 with his book "The Rise and Fall of the Great Powers" (New York 1988) and followed by a number of books, for example Ferguson, Niall "Empire, the Rise and Demise of the British World Order and the lessons for Global Power" (New York 2003).
- 2 For example Stiglitz, Joseph: The Roaring Nineties, London 2003.
- 3 Newsweek, edition of May 14, 2004.
- 4 There is a long list of books on Globalization. Friedman, Thomas: "The World is Flat", (New York, 2005) is generally regarded as the latest work praising the virtues of globalization. See also Møller, J. Ørstrøm "The End of Internationalism or World Governance" (West Port, 2000) who offers a critical analysis of globalization and its shortcomings. A thoughtful analysis can be found in Bobbitt, Philip "The Shield of Achilles" (New York, 2002).
- 5 When speaking about rising and declining powers what matters is the trend and not absolute figures. In absolute figures, the US will for many decades be the dominant economic power and at least until approx 2050 be militarily dominant as it takes decades to build a military arsenal, but in relative terms the rising powers are closing the gap.
- 6 Mar, Pamela C. M. & Richter, Franz-Jurgen: "China: Enabling a new era of changes" (John Wiley & Sons (Asia), (Singapore 2003) gives a perspective on China's role and the challenges facing China.
- 7 For a good and brief comment see [http://www.atimes.com/atimes/Southeast\\_Asia/GL17Ae01.html](http://www.atimes.com/atimes/Southeast_Asia/GL17Ae01.html).
- 8 For the conclusions see <http://www.aseansec.org/18104.htm>
- 9 An excellent book on China and India is Garver, John W "Protracted Contest, Sino-Indian rivalry in the Twentieth Century" (Seattle and London, 2002.)
- 10 The Report from Asian Development Bank "Asian Economic Cooperation and Integration. Progress, Prospect and Challenges" Editor Ippei Yamazawa, (London 2000) is an interesting perspective on this and other issues linked to Asian integration.
- 11 April 2005.
- 12 See for example <http://www.cnn.com/2006/WORLD/asiapcf/01/12/china.india.oil.ap/>
- 13 <http://sify.com/news/fullstory.php?id=14118146>
- 14 Kyung-won , Kim & Koh, Tommy & Sobhan, Farooq: "America's role in Asia" (Asia Foundation report 2004) offers a splendid overview.

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