

1

A Pacific Nation

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THE “EAST ASIAN MIRACLE,” as it was heralded by the World Bank in 1993,¹ was but the prologue for a larger drama that is now unfolding. The “miracle” part of this development is well known: East Asia’s export-driven economies followed intertwining paths of strong economic growth and political change to create a dynamic, increasingly integrated region. It may seem premature to declare that a whole new era is now dawning, but Asia’s once smaller players are moving from the periphery toward the center of the world stage. Meanwhile, China has risen over a stunningly brief period to assume a uniquely powerful position in the region and the world. Together, these countries have survived and thrived in a time of hyperglobalization, intense international competition, and financial volatility. The result is an East Asia that has become a vital contributor to the health and stability of the global economic system.

This change has been generally, if sometimes grudgingly, acknowledged in the West, as reflected in their efforts to make corresponding alterations in East Asia’s representation in the leadership of global institutions, ranging from the World Bank and International Monetary Fund (IMF) to the United Nations, exclusive clubs where control still largely rests with the Allied victors of World War II. Conversely, there is a new expectation within the region that key outside powers should somehow be involved in a new architecture for cooperation.

Little wonder, then, that so much attention is being given to that architecture, the identity of its architects, and the role of the United States

therein. Recent history weighs heavily, for although the United States was known to have once been a prime mover in such matters, its interest waned from 1975 through most of the 1980s. During that period, when the humiliating withdrawal from Vietnam was a burning memory, the idea of the United States as a “Pacific nation” gained few adherents in America’s public discourse. As a result, doubts in the region about the consistency of America’s commitment to Asia took permanent root. Flash forward to the past decade and it can be argued that the attacks on 9/11 had a similar weakening effect on US-Asia relations insofar as they distracted and constrained the United States from implementing a more far-sighted foreign policy in the region.

There is now broad support in the United States for a new focus on Asia that responds to the region’s changing political and economic dynamics, particularly as they are being shaped by an economically ascendant China. As a result, American foreign policy priorities have shifted and broadened, opening up a wider vista of opportunity and enabling a new team of Asia Pacific strategists to plan with greater awareness and capacity to respond to regional developments.

This new level of engagement with the region, launched by President Barack Obama at the start of his administration in 2009, was received like a fresh ocean breeze on a sultry day. As the papers in this volume attest, the early steps that were taken—such as the US accession to ASEAN’s Treaty of Amity and Cooperation; the initiatives with Burma, India, and Indonesia; and Obama’s extended trips in the region, which were well coordinated with those of Secretary of State Hillary Clinton—infused debates about East Asia community building with the underlying expectation that the United States would be substantially involved in the new architecture. By accepting the invitation to join the East Asia Summit at its meeting in Indonesia in 2011, Obama confirmed this expectation.

His Asia initiative coincided with new opportunities to demonstrate the American commitment to regional peace and stability. The first task was to reaffirm the US security alliance with Japan. For a time, the question of the status of the alliance had foundered under the tenure of Japanese Prime Minister Yukio Hatoyama, but it regained solid footing under Prime Minister Naoto Kan in 2010, just as Japan’s disputes with China over fishing and territorial rights flared up near the Senkaku/Diaoyu Islands.

At around the same time, the United States gave its steadfast backing when the South Korean government of President Lee Myung-bak sought

support in the UN for a condemnation of the unprovoked sinking of the ROK warship *Cheonan* by North Korea. By contrast, China took the role of the outsider, impeding the UN initiative and choosing to give open support to North Korea while opposing the US–South Korea joint military exercises in the Yellow Sea.

Just prior to Japan's fishing dispute with China, the United States laid down fresh markers concerning its interests and commitments in the region during the July meeting of the ASEAN Regional Forum (ARF). There, Secretary Clinton intervened strongly to lead a collective effort in the name of free navigation and stability in the disputed South China Sea, refuting the openly belligerent demands of the Chinese military and government. Equally extraordinary in its context, the August commemoration of the normalization of diplomatic relations between the United States and Vietnam featured joint military exercises, including a US aircraft carrier deployed near disputed regions of the South China Sea and a visit to the carrier by senior Vietnamese military officers.

In September 2010, President Obama kept up the momentum by hosting a summit with the ASEAN leaders in New York, where he pledged to attend the East Asia Summit meeting in Jakarta in 2011. This had the effect of elevating the weight of that body in regional affairs while trumping China's preference for an Asia-only regional grouping. Nor have the Pacific Islands states been neglected, as demonstrated by Secretary Clinton's meetings with their leaders. Meanwhile, the United States and New Zealand have advanced their relations further than could have been imagined since the rupture of the alliance more than two decades ago. Last but not least, US-Australian relations remain unruffled by transitions of power in either country, even if Obama disappointed Canberra by cancelling a visit in 2010.

Taken all together, these initiatives by the Obama administration in Asia Pacific have had the effect of altering regional dynamics. The US position has been bolstered by a legacy from the Bush administration of generally solid management of US-Asia relations (a fact that is readily admitted offstage by several Obama officials). Despite the tendency of the previous president and secretary of state to give short shrift to high-profile meetings in the region and their early, overriding insistence on counterterrorism as the governing theme of their foreign policy strategy, during their tenure the United States sustained a rare alignment of good relations simultaneously with Tokyo, Beijing, Seoul, and New Delhi.

The contrast in style and diplomatic tone with the Bush era has served Obama well in the region, even if some of his partisan critics at home believe he was initially too conciliatory toward China. Equally if not more important, the US “return” to Asia coincided with China’s clumsy handling of security, territorial, and maritime navigation issues with its Asia Pacific neighbors as noted above. In short, Obama’s initiatives have enjoyed the benefit of good timing. Unlike the Bush administration, which faced the headwinds of a whole series of Chinese successes in regional diplomacy, the Obama administration’s diplomacy has the wind at its back as the region’s memory of China’s undiplomatic behavior lingers.

It is not an ominous China, however, but North Korea that has done the most to reconfirm America’s standing as regional stabilizer and security underwriter. Over a period of eight months in 2010, North Korea, by all credible evidence, sank the *Cheonan*, killing 46 sailors; unveiled a program to enrich uranium in violation of the commitment it made during talks on its nuclear weapons program in 2005; and shelled the South’s Yeonpyeong Island, the first attack on South Korean civilians since the armistice was signed. Alarming as these events are, they also have served to tighten the United States’ relationship with South Korea and Japan, encouraging the three to act like a bloc in Northeast Asia with respect to China and North Korea—to a greater extent than any of them had anticipated or would normally prefer.

As important politically as it is economically, the successful renegotiation of the Korea-US Free-Trade Agreement (KORUS) in December 2010 has given fresh impetus to US engagement with the region. Although, it has not been congressionally ratified as of this writing, it is plausible that KORUS will be the linchpin in America’s trade policy toward the region since it would amplify the liberalization efforts in multilateral negotiations, especially the Trans-Pacific Partnership (TPP). In any case, as emphasized in several chapters in this volume, such an initiative is vital since the United States cannot credibly claim to reengage Asia on a new level without doing so economically.

Notwithstanding the new hope on trade policy, the economic environment remains precarious, sluggish, and weighed down by pessimism. The global financial crisis undermined confidence in America’s economic leadership in the region while, as Han Intaek points out in his chapter, it served to further elevate China’s strong regional economic standing. Certainly, the global role of the dollar and its control by the

Federal Reserve will not be challenged anytime soon, there being no credible alternative as yet, but the prospect of a declining dollar resonates in Asia, particularly as efforts to jump start the American economy included the Federal Reserve's second "quantitative easing," an action that was perceived to be an effort to drive down the dollar.

Currencies are likely to be a constant preoccupation of leaders in regional summits in the coming decade. The respective values of global currencies, not only those of the APEC members but also of the euro, are key drivers of structural adjustment, a euphemism for the political (not economic) decisions that each country must make in the process of adjusting its currency and debt. As Keynes noted nearly a century ago, this process is by necessity one of assigning the costs of adjustment to different economic groups. It is a task that American political leaders have skirted but, as President Obama's National Commission on Fiscal Responsibility and Reform declared in its report, time is running out. Even if the US structural adjustment is gradual, if painful, rather than rapid and devastating, it and every other country must answer the question, "Who pays?" It is always tempting for political leaders to respond by imposing the sacrifice on foreign interests. Currency depreciation and protectionist measures are attempts to shift maximum losses and adjustment pain to the rest of the world. No country in Asia Pacific is immune to this temptation. The political effects caused by the global adjustment are only beginning to be felt.

America's role as a partner in the cooperation architecture of East Asia will be made more difficult as this "Great Unwinding" of the immense, pre-crisis debt continues throughout the developed world. At some point, the US current account will have to decline even more substantially and will be sustained at a lower level as America recovers from years of debt-driven consumption. Observers like Michael Pettis believe this will automatically dictate a financial adjustment by China as well. He notes, "Of course if the US current account deficit declines, net new foreign purchases [of dollars] must by definition decline too. If the US wants its current account deficit to decline . . . this cannot possibly happen without a concomitant decline in net foreign, including Chinese, purchases of dollar assets."² Research from the Asian Development Bank Institute (ADBI) reinforces the view that the currency adjustment, if it takes place, will have to occur throughout East Asia. As one ADBI researcher explains, "Depreciations in East Asian supply chain countries offset much of the effect of the appreciation of

the renminbi. If policymakers are concerned about China's surplus, they need to consider exchange rates throughout East Asia rather than the Chinese exchange rate alone."³

Taken together, these two statements illustrate the challenge for the United States in dealing with a region that has become a de facto financial and trade community with China at its center. The currency of trade is not the renminbi or the yen but the US dollar, the relative value of which is being determined by ongoing Chinese purchases of US Treasury bonds. To remain competitive, most of China's smaller neighbors have chosen currency strategies that take advantage of the renminbi's value. As a result, they take shelter behind China's currency as it bears the brunt of American criticism and the United States glowers on the horizon with threats of further "quantitative easing." If in the financial arena the United States continues to be a threat while China assumes the role of the protector of East Asia, their respective roles would be a reversal of the security context described above, an irony that surely would not be lost on anyone in Beijing or Washington.

Asia's fledgling institutions are not likely to provide an adequate forum for resolving these tensions inasmuch as they affect the entire world. Rather, Asia Pacific may address such concerns through its membership in the G20 (or any group that supersedes the G20). For its part, the United States engages the G20 from a uniquely global role and perspective. In 2010, the G20 meeting in Seoul demonstrated this dynamic. The United States went there intending to finger China as the culprit for blocking the global adjustment through an undervalued currency. Instead, the United States found itself to be the object of criticism over fears of a devalued dollar. Clearly, the G20 provides the opportunity to place America's economic engagement with Asia in a global context, but it also serves to underscore how the United States' global responsibilities complicate its economic relations with the region.

Global financial issues and institutions aside, there is abundant evidence that America's presence in and steady focus on the Asia Pacific region are welcomed and considered constructive by most countries. As the chapters in this volume demonstrate, this is not merely the result of a perceived need for a counterweight to China. Rather, the perspectives provided here from Southeast Asia, Northeast Asia—including China—and the United States serve to illustrate the multifaceted and multidimensional nature of what East Asian countries expect of the United States and vice versa.

To begin, James Gannon's chapter provides a description and analysis of how regional issues are perceived in different circles that have an impact on America's Asia policy: the general public, policy elites, the US Congress, and the Obama administration. He notes that there continues to be some continuity in the approaches of various US administrations up to the present one, "both for better and for worse," but that time is running out for the United States to shift to a more forward-leaning role in shaping the emerging regional architecture.

Amy Searight also reflects on the history of US responses to Asian regionalism, but with a specific focus on the implications of current US trade and economic policies for how regionalism will evolve. She poses the question of whether any American response that seeks active US participation in a regional economic community can proceed very far given the constraints posed by the "new politics of trade" in the United States.

In his contribution, S.R. Joey Long explains why Southeast Asian governments recognize, to varying degrees, that the United States has critical strategic and economic roles to play in the region. He notes, however, that the premise for this acceptance obligates the United States to undertake greater consultation and cooperative engagement with Southeast Asia on several levels and he elucidates the areas in which that could occur.

Noel Morada believes that building an ASEAN Community and strengthening the ARF should serve as the main framework for US engagement with countries in Southeast Asia. However, it is in the context of building a people-oriented ASEAN Community, he says, that the United States has an important advantage in light of its record of promoting good governance, democracy, and human rights. He further describes the specific roles the United States can play in building the sociocultural pillar of the ASEAN Community and he examines the prospects for institutionalizing the dialogue between ASEAN and the United States—without shirking the thorny problem of Burma.

The chapter by Takashi Terada presents the view that "the United States, an outsider, has engaged in East Asian regionalism directly and indirectly to manipulate regional trends in its favor." Terada's thesis is that the United States has regularly maneuvered Japan, as its key ally in the region, into the role of managing regionalism in the interests of the United States. An opportunity to end this aspect of the alliance

arises, he believes, if Japan were to join the United States in the ongoing TPP negotiations.

Yu Wanli is not concerned that China's regional influence will decrease as a result of the new American strategy, even if specific US gains may be at China's expense. On "the greater chessboard of bilateral relations," he believes, "China still has many chips to play on many important affairs like North Korea's nuclear development, Burma, Afghanistan-Pakistan, and the Iranian nuclear issue." Likewise, he argues that China's mutual economic interests with Southeast Asia will enable it to overcome the region's security concerns. In this respect, he shares Terada's view that the United States has essentially manipulated things from behind the scenes. From China's perspective, he believes all will benefit from a more open, transparent US engagement with Asia because it will help avoid miscalculations on all sides.

In the final chapter, Han Intaek brings us back to a consideration of the economic forces that are shaping regional cooperation. He points out that the impact of the global financial crisis on East Asia and regionalism was nowhere near that of the earlier East Asian financial crisis (1997–2000). The global crisis, he notes, was a solvency crisis beyond the region, while the earlier one was a liquidity crisis within the region. One distinguishing outcome of the global crisis, however, was the enhanced standing of China as a key stabilizer and anchor of the Asian regional financial order.⁴

Taken altogether, the political, economic, and security environments described by the authors here confirm that East Asia is undergoing yet another transformation. They provide a timely reminder that any American strategy for a new engagement with Asia will need to recognize and adapt to this reality. The transformation in East Asia has given rise to a whole new set of competitive challenges for the United States, compelling it to undertake an economic transformation of its own. Success in the end will depend on the country's awareness of and sensitivity to the stakes involved in maintaining a prosperous, peaceful, and stable East Asian region. As these stakes continue to grow, so must US engagement in the region, progressively deepening America's identity as a Pacific nation.

NOTES

1. World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).
2. Michael Pettis, "What the PBoC Cannot Do with Its Reserves," *China Financial Markets*, February 22, 2010, <http://mpettis.com/2010/02/what-the-pboc-cannot-do-with-its-reserves/>.
3. Willem Thorbecke, "East Asian Exchange Rates and China's Trade Surplus," *Econbrowser*, November 8, 2010.
4. The IMF economist Nigel Chalk concurs: "There's fairly compelling evidence that the more linkages you had with China during this crisis, the better you ended up coming out of this crisis." As quoted in Hyun-Sung Khang, "Post-Crisis, China Faces Challenges of Success," IMF Survey, July 29, 2010, <http://www.imf.org/external/pubs/ft/survey/so/2010/NEW072910A.htm>.