



The purpose of American power in Asia

By Clyde Prestowitz

In the wake of World War II, the purpose of American power in the Asia-Pacific region was very clear.

It was first to reestablish Japan as a viable, democratic country while also getting the rest of the Asia-Pacific countries and territories back on their economic feet and moving out from under various colonial yokes toward independence and democracy.

TO THIS END, US authorities essentially wrote the Japanese constitution that endures to this day, carried out the Dodge and other plans to rebuild the Japanese economy, granted independence to its former colony, the Philippines, and pressured the British, French and Dutch to relinquish their own colonies in South and Southeast Asia.

In looking back at this beginning, the most important and striking aspect of the American purpose at the time was its liberal and multi-lateral nature. As former European Union Commissioner Etienne Davignon has said:

“The United States in 1945-50 was all-powerful. It had a nuclear monopoly, 15 million men under arms and accounted for over half of the world’s GDP. It could have done whatever it wanted and no one could have stopped it. The incredible thing is that the Americans defined their own interest broadly in terms of the interests of the rest of the world. They sheathed their power in the multi-lateral institutions they created such as the UN, the IMF, the World Bank, and the GATT. They committed to alliances like NATO and the Security Treaty with Japan and to consultation and consensus. Of course, they usually got their way. But not always and not without consultation and often changes to their original program. They opened their markets and moved to establish a liberal international economic regime. This was all very attractive to the rest of us and it created a tremendous reservoir of good will and cemented support for the United States around the world. Indeed,

by thus sheathing its power, America actually enhanced it.”

With the outbreak of the Cold War, the takeover of mainland China by the Chinese Communist Party, and the North Korean invasion of South Korea, the American purpose became even clearer, more focused, and more urgent. It was to use American power in the Pacific to contain the spread of communism by the Soviets, Chinese, and North Koreans and to buy time for the rest of Asia to develop economically and politically. It was further to open the American market and to promote free trade policies that would accelerate the economic recovery and rapid growth of the Asia-Pacific economies.

The United States at this time also established extensive foreign aid programs and championed World Bank lending. In particular, during and after the Korean War, the US established a number of bi-lateral security agreements in the region and maintained large military deployments that provided for the continued security of South Korea, Japan, Taiwan and the rest of the countries in the region. The American strategy was based on two pillars. The first was that of maintaining superior US military power so that no country in the region could challenge America or its allies by use of force. The second was promotion of economic development that it was believed would lead to the growth of middle classes and the emergence of democratic governments that would remain allied with the United States.

Although the Vietnam War strained relations between America and a number of Asia-Pacific

countries for a while, this strategy remained largely intact until the collapse of the Soviet Union in 1992. Moreover, it proved enormously successful. The Asia-Pacific economies boomed, beginning with Japan and then continuing with the Asian Tigers and finally with the current rise of China. Many of these countries did evolve into democracies and those that were not fully democratic nevertheless adopted liberal domestic and foreign policies. So, one could say that by 1992, American power in the Asia-Pacific region had largely achieved its original purpose. The Soviet Union was gone. In China, the communist party was still in charge, but it had decided to drive on the capitalist road and had dramatically increased the day-to-day freedoms of its citizens. And the rest of East and Southeast Asia and the Pacific was economically well advanced and politically quite democratic and liberal.

Before moving to the situation at present it is important to look at some of the aspects of the economic developments over this period. The American adoption of free trade policies was conditioned by its disastrous experience with protectionist policies after World War I and during the Great Depression of the 1930s. US leaders were convinced that these policies had contributed greatly to the start of World War II and were determined not to repeat them. Further, they were devoted apostles of Adam Smith and David Ricardo, the fathers of modern international economics, and firmly believed that trade is always a win-win proposition. Indeed, they, along with most western economists, be-

lieved that unilateral free trade was an advisable policy. In other words, they thought that the United States should reduce its tariffs and trade barriers even if other countries kept theirs in place.

As a result, in the trade negotiating rounds of the 1950s and 1960s, the US made more and deeper cuts in its trade barriers than most other trading nations. It also allowed the dollar to be overvalued for long periods of time, partly as a kind of foreign aid to countries trying to export to the US market and partly because it was advantageous to US consumers and financiers. Although it was disadvantageous to US manufacturers, they were initially considered so competitive that currency values wouldn't matter. On the domestic side, the US, fearing a return of the unemployment and depression of the 1930s when World War II ended, adopted numerous measures to stimulate domestic demand and encourage consumer spending as the main engine of economic growth.

In Asia the situation and policy attitudes were quite different. Having just suffered a disastrous defeat, Japan was determined that this would never happen again and launched itself on a "catch-up" program that aimed to equal and even surpass the US in industry and technology. This was based on the concept of export led growth. The key elements of Japanese policy were to adopt strong domestic incentives to save. The capital thus generated would be allocated through the government-controlled banking system to strategic industries with great export potential such as shipbuilding, steel, machinery, etc. The yen was kept undervalued and the domestic market was protected by a series of both formal and informal measures. Over the years, Japan opened its markets further to foreign penetration, but only very gradually. The Japanese strategy in the context of US free trade policies turned out to be very successful and was imitated first by Korea and Taiwan and then by nearly every country in East and Southeast Asia. Indeed, it prompted Singapore's Prime Minister Lee Kuan Yew to urge his people to "look East."

Eventually, even China took his advice and became the last tiger, so to speak.

Although this strategy proved extremely successful for every country that tried it, it was not without problems. It tended to generate chronic current account surpluses for Asian countries and large, chronic current account deficits for the US. In particular, export drives into the US market by various players often resulted in the displacement of US workers and loss of jobs which in turn resulted in political backlash, threats of protectionist reactions, and more or less continuous trade friction and unpleasant negotiations. The Americans typically accused the Asians of being unfair by keeping their currencies under-valued and their home markets more or less closed while frequently dumping products on the US market at prices below the cost of production. The Asians denied the US charges and argued that the Americans didn't try hard enough, didn't make products appropriate for Asian markets, didn't provide adequate service or quality, and saved too little while spending too much and running enormous budget deficits.

Of course, there was truth and untruth on both sides, but the net result over the years was a movement of tradable manufacturing industries to Asia and out of the US. At first this occurred only in labor intensive industries like textiles, shoes, and toys. But eventually it also occurred in industries like steel, autos, semiconductors, telecommunications, chemicals and others. Indeed, the phenomenon was pretty much across the board. Further, whereas the US had been the world's biggest creditor nation at the beginning of the 1980s, by 1992 it was already the world's biggest debtor nation and the outsourcing phenomenon was moving from manufacturing to some service industries that had hitherto been considered strictly domestic businesses. Thus, the accomplishment of the original American purpose in Asia did not leave America in an entirely strong or desirable position. It was militarily preeminent, even unchallenged, but economically it was steadily losing competitiveness and freedom of action.

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Since 1992, it is difficult to say that American power has had any particular purpose in the Asia-Pacific region. The collapse of the Soviet Union coupled with the adoption for all practical purposes of capitalism by China should have been an occasion for American reappraisal and reconsideration of its purposes and strategy. It should have been a good time to ask difficult questions such as: Why are we maintaining large military deployments in Asia and the western Pacific when there appears to be little or no threat to us and when our Asian allies like Japan and South Korea are rich and powerful and perfectly capable of bearing more of the security burden in the Pacific? Do we want to encourage Taiwan to declare independence or to cut a Hong Kong-like deal with mainland China? Should we try to turn the Asia Pacific Economic Cooperation (APEC) forum, whose creation we led, into a full-blown Asia-Pacific free trade area? How can we build on the Association of Southeast Asian Nations (ASEAN) to create better and more balanced US-Asian ties? Can we any longer accept currency market intervention and export-led growth strategies by key Asian governments whose economies are now fully developed? How can we mutually adjust our economies to achieve better long-term

balance? It would have been a good time to ask those questions. But no one did.

Instead, US policy in the region continued as if on autopilot. Even as the Soviet Union collapsed, a major Pentagon study concluded that the US should commit to keeping at least 100,000 troops and the Seventh Fleet in Asia and the Pacific more or less indefinitely. No one stopped to ask if the Koreans and Japanese and their political leaders would continue to welcome such deployments, nor did anyone ask if the Chinese would welcome continued reconnaissance along their coastline. Nor was any attention paid to the increasingly large flows of money coming into the region from the Middle East to finance Islamic schools and activist groups.

Economically too, the policy attitude was “steady as she goes.” Despite its loss of key industries, growing trade deficits, growing international debt, and stagnating middle class incomes, America maintained a high degree of confidence that globalization would be the magic bullet that would automatically solve all problems. Indeed, it was President Bill Clinton who emphasized, “globalization is America’s strategy.” The idea was that globalization would make all countries rich. As they became richer, they would automatically buy more from the US, thus reducing the

US current account deficit. More importantly, they would also become democratic because it was believed that modern economies can only operate properly under democratic governments. The final assumption was the best. Being democratic, it was thought, countries would no longer go to war because democracies don't fight each other, or so everyone said.

In the wake of 9/11, Washington completely forgot about Asia, and particularly East and Southeast Asia, as it turned its attention to the Middle East. The failure to send top ranking officials to ASEAN and APEC meetings is only the most visible manifestation of the policy of neglect and purposelessness. For the past six years

debt already absorbs most of the available savings of the rest of the world. Indeed, America's economic health is totally dependent on continued massive lending from Asia and the rich oil producers of the Persian Gulf. For a long time, US economists argued that loss of its manufacturing industries was nothing for the US to worry about because America's future would be in services and high tech, in advanced design, consulting and innovation.

Recently, however, it has become apparent that these activities can also be done as well or better and less expensively in Asia. So the US finds itself in a situation of rapidly declining competitiveness while remaining married to the view

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the only thing the US has really wanted from Asia is support in the war on terror and vigorous stamping out of local Islamist Jihad groups.

Today, America is blithely unaware that in the near future there may no longer be any point in thinking about the purpose of its power because there will no longer be any power for which there might be a purpose. Of course, the appearance of power is still there. The troop deployments remain in Japan and Korea. The Seventh Fleet continues to patrol the western Pacific. Oil is still priced in dollars, and students still want to attend elite US universities. But the reality of power is evaporating rapidly. China has already displaced the US as the world's biggest market in a number of key industries. The US current account deficit is now 7 percent of GDP. America's net international debt increases each year by nearly \$1 trillion, so that within less than a decade the total debt will be equal to the US annual GDP. Financing this growing

that somehow continuing with the same policies and practices will make it all come out right in the end. To complicate matters, the US needs a weaker dollar to help reduce its trade deficit, but it needs a strong dollar to facilitate financing its large and growing debt and in order to keep inflation under control. So it is at war with itself in a very real way. Yet it does not recognize these contradictions, telling itself that it is the richest, most powerful and most technologically adept country the world has ever seen.

American policy in matters of economics is to have no strategy other than "free trade." This puts it at a disadvantage in comparison to countries like Singapore, China, Japan, Ireland, Finland, and others who do have strategies. For example, a Singapore or a China might think it advisable to attract a semiconductor fabrication facility to their territory as a way of effecting priceless technology transfer and of building up an important technology base and future export

industry. They will offer tax incentives, capital grants, infrastructure, and worker training to induce high tech companies to make such an investment. While some American states might try to respond, their means to do so are very limited and federal officials resolutely decline to “interfere with the market or to pick winners and losers.”

Further, it is increasingly the case that non-democratic systems look like they are working better than democratic ones. China especially is not only booming but appears to be addressing its enormous problems with the environment, resource availability, education and movement of persons more frankly and resolutely than the big democracies. On top of that, China is skillfully paying attention to its neighbors and its international ties. It is proposing free trade with most Asian nations, and assiduously sending its top officials to the key Asian meetings where it is cultivating friends and potential allies. It has the money, and is using it to invest in strategic areas and to contract deals that tie its suppliers and customers closer to it. As its hard power has diminished relatively, America has emphasized its soft power. But today, it is China whose soft power is waxing while America’s wanes. Everywhere one goes, one finds that people admire China and want to know what is happening in China. They may fear the US, but they admire it less. It is the China model that now has appeal.

Ironically, it may well be wise for the key Asian countries to attempt to give some purpose to this currently purposeless American power. The reason is that on current trends, a major financial and economic crisis is very likely as the economic imbalances become completely unmanageable. This would be bad for America but it would also be bad for Asia. Since the Americans don’t realize the seriousness of their problem, they are unlikely to do anything about it until it is far too late to save the situation. Asian leaders would do well to take the initiative to bring America to its senses. Perhaps Korea and/or Japan, along with Singapore, could call for consultations with key US leaders and explain

the facts of international life to them. These leaders could propose to change some of their own economic policies on the condition that Washington will make major efforts to become competitive and to get its fiscal and monetary house in order. These leaders could also suggest that it might be well for the world to start thinking in terms of a 50 to 70 percent dollar devaluation and perhaps even moving away from the dollar as the international currency in favor of a basket of currencies or a completely new global currency. In short, perhaps it is time for Asia to explain to America the purpose of American power.

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