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## The US and China: Strategic Disconnect

By Claude Barfield

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President Bush and Chinese president Hu Jintao will have a full plate of immediate issues when they meet on Thursday, April 20. The United States will undoubtedly push for:

- Greater flexibility for Chinese currency rates,
- Stepped up enforcement of intellectual property rights,
- Faster and deeper opening of Chinese service sectors,
- Increased transparency in the Chinese military budget and the build-up of weapons across the Straits from Taiwan,
- And a number of complaints relating to human and political rights in China.

In turn, Chinese leaders will upbraid the United States for closing its markets to Chinese textiles, apparel and shoes, for what they consider the unfair use of antidumping and safeguards clauses against Chinese exporters, for continued military support for Taiwan, and for the failure to curb Japan's alleged drift toward a more nationalistic, militaristic foreign policy.

Over and against these differences, the two countries at the same time will likely reaffirm their common commitment to combating terrorism and pushing North Korea into giving up the development and production of nuclear weapons. Most observers believe that, on balance -- despite key disagreements -- the talks will be labeled "friendly but forthright" in the jargon of diplomacy.

However, looming behind these (important) individual issues are a larger set of strategic economic and security questions that will challenge both U.S. and Chinese leaders over the next decade. These relate directly to the growth of Asian regionalism, with attendant political institutions, decisions regarding new regional trade and investment agreements, as well as a potential new security architecture for at least East and South Asia.

### **Trade**

On trade, the following realities are emerging:

First, the WTO Doha Round of multilateral trade negotiations has stalled. The negotiators have missed every deadline they set for themselves; and it is increasingly clear that the negotiations will not be concluded before the U.S. President loses so-called Trade Promotion Authority (which guarantees Congress will vote any Doha agreement up or down expeditiously, without amendment) in the summer of 2007. This means actually that a final agreement will go over to 2009, after the 2008 U.S. presidential election.

Meanwhile, bilateral trade agreements are burgeoning around the world; and since 1999, Asian countries have rushed to join this bilateral FTA bandwagon. According to a new report by the Asian Development Bank, over 20 East and South Asian FTAs have been notified to the WTO,

and at least 40 more have been ratified or are in process of negotiation. After achieving membership in the WTO, the PRC joined Singapore in leading the way for such agreements; and indeed, China's sudden offer in 2001 to ASEAN to negotiate an FTA (with China pledging to liberalize key sectors ahead of schedule) was an important factor in fostering a cascade of new FTA proposals, as other Asian nations -- particularly the Japanese -- moved to counter the potential discriminatory effects from bilaterals of which they were not members.

At the East Asian regional level, matters are also very much in flux. During the 1990s, the Asia Pacific Economic Community (APEC) emerged as the central vehicle for region-wide trade and investment liberalization. In 1994, the APEC nations pledged to achieve free trade in East Asia and the Pacific by 2010 for developed countries, and 2020 for developing countries. The devastating effects of the 1997 Asian financial crisis, however, combined with the widespread and deep resentment of IMF demands as conditions for bailouts, as well as the clumsy, ham-handed attempt by the United States to push for big advances in sectoral liberalization at the height of the financial crisis, produced a negative reaction against further liberalization within APEC. Then, in the immediate aftermath of 9/11, the United States moved to place security and the battle against terrorism at the top of the APEC agenda, further undermining APEC's economic agenda. The bottom line is that today APEC is moribund as a vehicle for regional trade and investment liberalization.

Meanwhile, beginning with informal ministerial meetings in 1998 but moving quickly to more formalized institutional arrangements, the ASEAN Plus Three (APT) forum, which includes the ASEAN nations plus Japan, the PRC and Korea (but not the United States or Taiwan), is steadily duplicating and even replacing many of the functional activities pioneered by the APEC process. While there have been academic and NGO calls to move toward a full-fledged Asian FTA under the auspices of the APT, most governments have argued that such negotiations are premature. Beyond that, deep-seated differences in levels of development and political systems pose large obstacles -- not least of which are the increasingly acrimonious relations between the two key nations, China and Japan. Still, the PRC has quietly supported intra-Asian fora and institutions that exclude the United States, as the recent drive for an East Asian Summit demonstrated.

Into this mix, a new factor and set of negotiations may well become the precipitating force for a breakup and consolidation of East and South Asian economic arrangements: that is, the decision of the United States and Korea to attempt to negotiate a bilateral FTA by the end of 2006. While a much smaller economy than the United States, Korea can be counted as a developed country and, indeed, is a member of the OECD, the club of developed countries. The potential trade and investment effects of such a union would have far-reaching consequences.

- First, Japan would almost certainly move to accelerate slow-moving negotiations for a bilateral FTA with Korea; and the Japanese government would be pressed to redouble efforts to beat back agricultural and some manufacturing sectors that present the main obstacles to an FTA with the United States.
- In turn, the ASEAN countries would likely be drawn in (the U.S. already has completed an FTA with Singapore and is negotiating additional bilaterals with Thailand and

Malaysia). What some economists have long predicted -- i.e., a "domino effect" -- could ensue.

The wild card in these future scenarios, of course, is China. On paper, given the sweeping obligations it accepted as a condition for WTO membership, China is described by trade experts as an "extremely open economy" and thus would face many fewer adjustment problems should it join an East Asian regional FTA. There are, however, formidable political problems, particularly the open question as to whether the U.S. Congress would accept an FTA that included China.

Given apparent longer term trends, it would seem that the United States in the near- to midterm will have to choose among the following options:

1. To continue on the path it has followed in recent years of merely negotiating individual bilateral FTAs with Asian nations: as noted above, these include Singapore, Korea, Thailand, and Malaysia (Indonesia and the Philippines have both recently expressed interested in joining the lineup).
2. Revive APEC as a vehicle for Asian and trans-Pacific trade and investment liberalization, thus reestablishing a region-wide entity for pursuing U.S. economic interests.
3. Alternatively, the United States could request membership in the APT, arguing that it is already in process of negotiating bilateral agreements with most of its members (China being the conspicuous exception). For both the APEC and APT routes the United States -- and its Asian partners -- would commit to pursuing traditional reciprocity-based negotiations.

## **Regional Security**

Now, a brief final word on the options for a future Asian security architecture. Strong arguments have been made that the bifurcation of U.S. economic and security policy toward China increasingly represents a significant liability. Reflecting this view, Kurt Campbell, a former Clinton administration official, recently complained that "one of the biggest problems" for the United States vis-à-vis China is that "we have two strategies toward China that are largely unconnected to one another." On the one hand, there "is an effective strategy to engage China" and welcome it into international organizations such as the WTO. On the other hand, "we also have a very effective policy called hedging, which has to do with maintaining our alliances and our military presence in the Asia Pacific region..." He asserted, finally, that "we are coming to the end of the [the] phase where that [disconnect] is allowable." Clearly, though not spelled out in these comments, Campbell would actively seek to meld the two policies by expanding engagement into the security area.

Campbell's diagnosis, if not his remedy, is echoed by my colleague Daniel Blumenthal of the American Enterprise Institute, who similarly laments that: "The bad news is that many of (the) efforts to delve into the intersection of economics and strategy have been hobbled by the tendency of economists and strategists to talk straight past each other, especially when it comes to China." But unlike Campbell, Blumenthal is deeply skeptical of what he calls the theory of "democratic inevitability": that is, that economic liberalization will pave the way for political liberalization and less necessity to fear China's growing military power. This view, he argues,

represents "a triumph of hope over experience." And he concludes: "A hedging strategy -- embracing and balancing two contradictory views of China's rise -- is also hard to sustain over time. If China's not an enemy, why arm ourselves and bolster alliances against it. If it is an enemy, why are we trading so promiscuously with it?"

## Options

Though the background factors and values are very different in plotting a future security strategy with regards to China, in the end, as with trade and investment, the United States can continue to pursue a bilateral countering effort or it can through various vehicles attempt to include the PRC in some new regional security arrangement.

Specifically:

1. The United States can continue to attempt to strengthen and reshape its bilateral defense relationship with key Asian partners, creating a defensive fence around the PRC. It has already embarked on an extensive program to accomplish this -- viz., the new treaty arrangements and defense cooperation with Japan; the unprecedented bonding with India; the reestablishment of greater military cooperation with Indonesia and the Philippines; and the new arrangement for a naval base in Singapore.
2. The United States can take active steps to draw the PRC into some kind of Asian regional security arrangement. Among the venues suggested by those advocating this course are the Asian Regional Forum, long a means of confidence-building in the security area; expanding the Six-Party Talks with North Korea into a more broad-based Asian security institution; utilizing either APEC or the APT (assuming that the United States seeks membership) to broaden trade and economic negotiations to include foreign policy and security options.

There is plenty of room for skepticism over each of the potential options -- advocates of a bilateral ring of containment arrangements probably are overly confident that India or Indonesia -- or even Japan -- will in docile fashion follow the U.S. lead in dealing with China; on the other hand, advocates of various regional approaches to draw China into a web of security obligations also face real questions: the ARF has never amounted to more than a talking shop, and it is unclear that such an institutional transmogrification is realistic; given the dismal track record to date of the Six-Party Talks, there is little evidence that it represents something new under the sun in the pursuit of Asian regional security; and finally, China may well view new regional security proposals as a ruse for limiting its freedom of action and a means for the United States to exert continuing hegemonic power.

Thus, while pleas for ending the "disconnect" between trade and security, and between economists and strategists are well taken -- it remains true that, given the different bases of analysis and contending views on the implications of China's rise (peaceful or otherwise), the problems of "talking straight past one another" may persist for a long time.

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