In the following excerpt from *Asia Alone: The Dangerous Post-Crisis Divide From America*, the author considers how the crisis is changing Asia and America.

The existing interdependence between Asia and America can perhaps be best seen in a town in China. Langfang is a satellite town outside Beijing, a secondary city with some four million people and a burgeoning technology sector. Relatively green with parklands, the city has a five-kilometer pedestrian mall, the longest in China. Some have dubbed Langfang “China’s Silicon Valley.” It boasts large industrial parks that focus on technology and computers as well as the ambitious Oriental University City with some 14 universities and a combined enrolment of more than 35,000 students.

I visited in November 2008, arriving in a black made-in-China Audi just weeks after the failure of Lehman Brothers Bank in New York and the collapse of American markets. The massive factory complex includes production facilities and housing for the workers — three shifts, around the clock — and takes up an entire block in the industrial sector.

Foxconn International Holdings, a Taiwanese company based out of Shenzhen, invested some US$1.2 billion in Langfang to build this plant. The company is the world’s largest handphone manufacturer, turning out products for Motorola and Nokia and other companies that largely address the US market, which was growing at the time even as competition squeezed profit margins. Foxconn opened the facility in Langfang after its other plants in Beijing and Shanghai could not keep up with demand and costs in Shenzhen started to escalate. A second-stage project was in the works, and another identically large plot on the edge of the industrial estate had been cleared and prepared for construction to start on Phase 2 of the expansion.

But plans can change. American consumer spending crashed in the wake of events after the Lehman Brothers collapse, and the hunger for mobile phones went with it. In the last quarter of 2008, global mobile-phone shipments rapidly fell 10 percent. The effects rippled right across the Pacific to Langfang. At the end of 2008, Foxconn posted a net loss of US$21.1 million, compared with a US$397.4 million profit a year earlier. Foxconn’s plant at Langfang continues in operation, unlike others across China that have shut down in this and other industries. But plans for expansion are on hold, indefinitely. The effect is not just on paper. Visibly, viscerally, the effects are there for all to see. At the edge of the industrial park, the ground that was cleared for Phase 2 of the project now just sits vacant; bare brown earth amid the green of the surrounding area.

The prospects for these young Chinese, of this business, and of Langfang, have been inextricably tied across the Pacific to the United States. The American market has been the main engine that pulled Asia’s rise. The growth in American demand drove up production in Asia, and the bulk of Asian exports went to the United States. In the first 10 months of 2008, just before the crisis, as much as 17.7 percent of Chinese exports, worth US$212.7 billion, ended up in the United States, the largest share of any country. This is but one measure of the interdependence between the United States and Asia, especially China.

Most have recognized this interdependence as a positive development, a result of globalization and the world becoming “flat,” in the terms of *New York Times* commentator Thomas Friedman and his well-known book. In this flattened world, economic interdependence linked Asia to America and vice versa. A minority of voices have questioned globalization and this interdependence between the United States and Asia. But largely their complaints were that jobs were lost to the cheap
labor in Asia — by some workers in some factories in some sectors of the American economy. There was no wider recognition that this US-Asian interdependence might pose a potential vulnerability for the overall economy.

That recognition only came in the wake of the events of 2008, and with painful costs. Once the American engine wheezed and collapsed, so did China and the rest of Asia. Interdependence across the Pacific has costs. The empty stretches of land waiting in Langfang and the young Chinese idly roaming the streets there were its symptoms. In November 2008, chilly winds blew across China and the other nations of Asia, most of which faced steep falls in their economies. It was not clear when the American economy might recover. For this factory in Langfang, it was not clear when, if ever, that empty plot of land would be developed. For China and Asia, as the crisis began, there were fears of a sharp contraction of growth, the slamming of gates at export factories gone bust, and millions of workers left unemployed.

Interdependence has often meant that those questions for Asia must await answers from America. But since the early days of the crisis, some have started to believe, and want to believe, that China and the wider Asian production base can return to growth without the United States. The numbers in China and other larger Asian markets, especially from the second half of 2009 and into 2010, back up that belief. More and more, Asians are beginning to consider whether their region can grow on its own, and go its own way.

THE BLAME GAME

A blame game seems to be emerging over the global crisis. Asians believe that the problems lie in the United States, and the Americans point their fingers at Asia. Why?

For many in Asia, it seems clear that the problem has been speculative and ill-regulated financial derivatives that were used by the best-known names in Wall Street and spread through the financial systems of the United States and Europe. There is no clear political will in the United States and the West to undertake strict and sharp reforms. In comparison, during the earlier crisis of 1997, such reforms were urged and required across Asia despite dislocation and pain. From this perspective, the United States is setting two standards for dealing with crises — one for Asians and one for itself. Such double standards are hard to accept. Asians recall how, in the wake of the 1997 crisis, American standards of governance, accounting, and deregulation were extolled as being the best models. This same system now seems to be at the epicenter of the crisis.

By mid-2009, the US government had committed US$787 billion in stimulus spending; spending that, given their level of debt — approximately US$12.2 trillion by some estimates — Americans do not have reserves to pay for. Given that Asians (especially Chinese and Japanese) hold their reserves in US dollars, they are the ultimate guarantors of America’s bailout package. Asians cannot control American stimulus spending — but they bankroll it. This has led more and more Asians to consider the benefits that accrue to the United States for the unique position of the American dollar. A former US treasury secretary once summed this up neatly: “The dollar is our currency but it is your problem.”

Asians who hold much of their reserves in the US dollar will stand to suffer if and when the currency falls in value. In contrast, the United States does not face great losses when its currency depreciates, as the country borrows in its own currency. As William Grimes analyzes things in his book Currency and Contest in East Asia, with the dominance of the American dollar in the global system, the United States has yet to encounter any strict restraints on its fiscal and current account deficits. Asians from this perspective may blame the United States for more than simply creating this crisis.
They also see the United States as being inconsistent and inefficient in seeking the remedies and as potentially passing much of the cost and harm of those remedies to them. Calls for alternatives to the US dollar and even for an Asian common currency have emerged from the crisis.

Yet other voices in the United States do not emphasize faults in America. They instead emphasize the influx of funds from Asia as a driver of the crisis. In this view, the influx of investments from Asia artificially swelled the US economy and fed an unnatural appetite among American consumers. Combined with the extremely low cost of funds, a bubble emerged in the US market, in which the financial derivatives only served as the trigger that set off wider and deeper financial and economic woes. In this sense, some voices in America blame Asia for this “imbalance” and subsequent woes.

This blame game is more than an exchange of words. It feeds into a growing sense of nationalism on both sides of the Pacific. In history, sharp downturns in the economy have often been accompanied by strident and negative forms of nationalism. The urge is to blame someone else. The instinct is to unify and protect one’s own nation to the exclusion or even to the detriment of others. The present crisis is not free from similar sentiments. A brand of nationalism is emerging in the US. Concerns emerged from the US presidential election trail. During his campaign, candidate Obama launched a radio ad encouraging people to “Buy American,” claiming that the policies of his rival John McCain, a free trade advocate, would threaten jobs at American businesses such as the iconic Harley-Davidson. Across Asia there was anxiety that the Democrats would be less in favor of trade than the republicans had been.

Such fears may seem overstated. President Obama has not become a protectionist. Indeed, he and his team seem very aware that protectionism triggered the Great Depression of the 1930s. Nevertheless, political nods toward protectionism have been seen. In the US stimulus package, a “buy American” proviso was inserted. President Obama also enacted trade measures against Chinese tire imports to temporarily shield American companies against competition and to try to protect jobs. The steps taken may be consistent with World Trade Organization (WTO) standards, but the move is in the wrong direction. Moreover, the United States is not alone. Many in Europe and some in Asia have taken similar measures. With the stalled Doha Round at the WTO, there is little constituency for freer trade.

Note too that the largest number of anti-dumping cases in the WTO in 2009 are brought against imports from China, and the many complaints against goods from China because of doubts over safety and public health. In 2007, contaminated Chinese pet food was suspected of killing hundreds of US pets, while toymaker Mattel recalled millions of mainland-made products over lead paint concerns. These concerns, substantiated in some cases, point to a larger fear of China and Asia outcompeting America by unfair means. Protectionism has not come down like an iron wall across the world. But globalization and free trade have been knocked back more than once and from more than one source. Rather than a big bang, the ideal of freer trade and the belief that all benefits from interdependence are being killed by a thousand smaller wounds. In this crisis, the negative impression of globalization is gaining ground in the United States. To these Americans, the face of this unkind and unfair globalization looks Asian.

FROM AMERICAN SOFT POWER TO CHINESE CHARM

Nor are Asians all in love with the American face that they have seen in this period. The rapid fall in America’s economy has been mirrored and even preceded by a decline in its political influence across Asia. Once in the early 1990s, after the end of the Cold War, Asia and much of the world seemed ready to embrace American values in democracy and human rights. This was not as much by force but rather by soft power, to use the term coined by Joseph Nye, a Harvard professor and formerly a senior officer in the US State Department.

Soft power, as defined by Nye, is the ability to obtain goals through the co-option and attraction of other states, rather than the hard power of coercion by force or economic enticement. When Nye examined the term, the United States was by far the world’s sole superpower in security and politics, as well as being the world’s largest economy. Nye added that the United States was also ahead in “soft power,” as many in the world admired and even sought to emulate the United States.

By the end of the Bush years, American soft power was more than soft. It had all but evaporated. Surveys showed American standing and popularity fell sharply across many countries, not just among officials but even more among ordi-
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nary citizens. The Bush policies and torture and cruel practices in Guantanamo and Abu Ghraib undermined this further by showing the world how much even the most basic and important of civil rights could be devalued in the atmosphere of fear and anger that accompanied the global war against terror. America was seen by many to be morally exhausted, bankrupt. The two other supports of American power — military and economic — too were exposed as less than they seemed.

In other Asian states, moreover, there has increasingly been a sense of an alternative to American ways and values. In place of the Washington consensus, more and more have talked of a “Beijing consensus.” In place of democracy, there is “good governance” by a single party or closed elite. In place of free markets with less regulation, there is a government hand and participation in the private sector. In place of American arrogance and demands, there is — to some observers, perhaps in increasing numbers — Chinese charm and largesse. At the moment of ebb in American influence, China has embarked on a sustained and multidimensional effort to enhance friendships and gain influence abroad, especially in its surrounding region. This effort has largely succeeded in ending enmity and suspicion. This is not to say that the Beijing consensus or Chinese charm has won everyone over; a number of concerns and questions remain over Chinese attitudes and behavior for the longer term, as its power grows.

But what is clear is that the United States has relatively and quite rapidly been diminished in these past years. Its diminution is not only or so much in the hard calculations of military strength or economic statistics. America has shrunk most in the more immeasurable element of its stature and soft power as a country to admire, emulate, and follow. We are in danger that a post-American Asia is emerging, not by choice, but as a consequence of bad decisions.

WHAT CAN BE DONE
Even if Asians and Americans both see the need to re-engage, it will not be easy. America’s domination of Asia, and Asia’s acceptance of that domination — the status quo of many decades — is ending. Both sides need to reexamine conventional wisdom and the assumptions that have prevailed for many decades. Both sides have to put aside attitudes and policies that may have once been of use but have now become outmoded. A new context for American-Asian relations is emerging from the crisis: the spectrum now runs from potential isolationism and the idea of American decline to the acceptance of a more multipolar world and a continued engagement on different terms.

While the danger of division exists in this crisis, there are also positive signs that this danger is being recognized and reduced by new actions and policies. The change of American administration has been the key to the change. The Obama administration has emphasized a multilateral approach to the international community. In early 2009, Secretary of State Hillary Clinton made it a point to visit Asia as her first trip abroad. She broke with almost half a century of tradition in choosing Asia rather than Europe or the Middle East for her initial voyage.

In November 2009, slightly more than a year after the Lehman Brothers collapse, President Obama himself came to Asia. The time and attention were remarkable, given the crisis, his pursuit of an ambitious domestic agenda, and mounting
difficulties of the increasingly unpopular war in Afghanistan. Just before he was to depart, the competition between Asian interests and domestic concerns was deepened by the shootings at Fort Hood, where an American Muslim officer killed or wounded more than thirty American soldiers in training to be deployed to Afghanistan. The incident made President Obama pause, and he delayed his departure to Asia in order to be present at a ceremony to mourn the victims. But he did not cancel on Asia. Instead, at his first stop, in Tokyo, Obama even called himself America’s “first Pacific President.” The Obama trip that November was a strong symbol of America’s continuing interests and will to pursue ties with Asia, even amid so much else happening at home.

Yet summity and symbolism will not be enough for the future relationship. Political will and ideas on how the United States and Asia must engage in new ways are critical. Yes, the election of a new administration and the star power of President Obama and Secretary Clinton provide the United States an opportunity for new thinking and engagements with Asia. But these are precisely that: an opportunity, which can be seized or squandered. Fundamentally, whether Asia and the United States continue to be interdependent depends on whether the two can articulate a shared vision to go forward together.

Linked by patterns of production and consumption across the Pacific, the United States and Asia have entered this crisis together. But will they emerge from the crisis as partners? Their demonstrated interdependence is being interpreted by some as a weakness, and by others as unnatural and unhelpful, even as nationalist and protectionist sentiments rise.

If a stronger sense of Asian regionalism is desired, how can this be squared with a continued engagement with the United States? If Asia in the long run should grow more independent, how can an acrimonious and hurried division across the Pacific be avoided?

At this juncture, acrimony and division between Asia and America are not inevitable. Despite mistakes of the past, and despite emerging trends, the two can work together in the crisis and into the future. There are many opportunities in a shared future with benefits for both sides. For America, there is the opportunity to be an integral part of Asia’s rise and to both contribute to and gain from this epic phenomenon. For Asians, there is the prospect of a rise that can be anchored and stabilized so that rapid growth and questions of regional competition will not lead to contention, conflict, and collision, which would upend their aspirations for peace and progress.

This path forward will not be as it was before this crisis. Certainly it cannot be as it was in the years immediately after the end of WWII or even during the Cold War. But neither are Asians and Americans doomed to be decoupled and to blame each other across a divided Pacific.

A new vision of an US-Asia partnership is needed, and the task of those who wish well for the United States and Asia must help supply that vision. Part of that vision will be for Asia to become more a complete region; rebalancing its economy. But another important part will be to imagine how the United States can be engaged with Asia, and vice versa, for their mutual benefit; rebalancing the political and security arrangements in the region.

Otherwise, after this past decade and more of Asian regionalism without the United States, in the wake of the present and unfolding crisis and in the face of emerging trends of protectionism and tension, no one should blame either or both sides if they prefer to see Asia alone and divided from America in the post-crisis world.

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