How *China* Threatens America

BY GREG MASTEL

And what can be done.

The political debate in Washington can often be accused of missing the most important issues, but rarely are there two more dramatic illustrations of this tendency than the current international trade debates on the Central American Free Trade Agreement (CAFTA) and China.

The congressional debate on CAFTA has all the hallmarks of a NAFTA Round II debate with the traditional face-off between protectionists and free traders. On one side stand organized labor and industries seeking continued protection, on the other, free traders, global businesses, and internationalists. The battle will be fought over trade with five Central American countries and the Dominican Republic—none of which are particularly large U.S. trading partners and collectively seem to represent both little threat and limited opportunities for the U.S. economy. While this tired debate plays out, the United States and its allies face the growing threat of seeing critical Asian markets close to them because of new free trade agreements to which the United States is not a party.

All eyes are increasingly on China's position as a potential military threat to the United States, a complex element in efforts to control North Korea, and a source of the U.S. trade deficit. Twenty years hence, however, it is quite possible that the real threat to U.S. interests will be an Asian trading bloc built around China, which limits U.S. access to critical Asian markets.

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THE FTA CRAZE

The United States has been on an aggressive campaign to build new FTA partners in recent years. FTAs with Jordan, Singapore, and Chile were launched by President Clinton and wrapped up by the Bush Administration. The Bush Administration has picked up the pace; in addition to CAFTA, FTAs have been struck with Australia, Morocco, and Bahrain. Talks are underway or contemplated with South Africa, Panama, the Andean countries, Thailand, and several small

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Middle Eastern countries. As should be apparent from the list, many of the recent FTA partners—with the exception of Australia—seem to be chosen more for geopolitical importance than because of economic significance.

The United States is not alone in pursuing FTAs. Europe has been pursuing a similar course for years—though many of their FTAs conveniently exclude most agriculture products. But many other countries, including Chile, Mexico, and Singapore, have been on FTA campaigns of their own resulting in a plethora of FTAs. All told, the World Trade Organization estimates that there may be as many as three hundred FTAs and similar special trade relationships in place worldwide by the end of 2005, ensuring increasingly complex global trade architecture.

CHINA JUMPS IN

Surprisingly, the latest country to enter the global FTA bazaar is China. As a country that is still ostensibly communist and which has often resisted trade liberalization, China seems an odd FTA enthusiast. Nonetheless, China has made impressive strides in striking FTAs in Asia and the surrounding areas. In November of 2004, China concluded an FTA on trade in goods with ASEAN and plans are already in place to expand the pact to include services and investment. ASEAN—which includes Indonesia, Brunei, the Philippines, Singapore, Malaysia, Thailand, Cambodia, Laos, Vietnam, and Burma—is a large Asian trading bloc and coupled with China through an FTA it will create a market of 1.7 billion consumers with total trade of $1.23 trillion.

And China's plan does not end with ASEAN. China aspires to be the center of what it calls the East Asia Free Trade Area, which includes ASEAN, India, Japan, South Korea, Australia, and New Zealand. Obviously, there are various diplomatic constraints and internal political forces that may slow the development of such an East Asian bloc, but with the ASEAN FTA already a reality most of the countries on the list are already exploring FTAs with China. In a decade, it is possible that most of China's planned East Asian bloc will be a reality.

STAKES FOR THE UNITED STATES

The most direct reason for this to concern the United States is that it has a great deal to lose in economic terms. The United States has FTAs in place with Australia and Singapore, but nothing beyond some initial talks underway with South Korea and Thailand and—as the CAFTA debate demonstrates—even these may be politically ambitious. Beyond that, the United States is not even seriously contemplating FTAs with New Zealand, ASEAN, China, Japan, and India.

This limited Asian agenda would ensure that the United States has only second-best access to the largest emerging markets in the world. FTA partners grant each other lower tariffs and other trade benefits. As a result, those on the outside would likely see their share of these markets erode. For example, by one estimate, an FTA among ASEAN, China, Japan, and South Korea could result in a $25 billion loss of exports for the United States. Over time as business relationships are cemented that exclude the United States, this effect is likely to grow.

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The rise of this East Asian trading bloc could have serious negative consequences for the United States. By virtue of its considerable economic power, China's influence already rivals that of the United States in Asia. Since World War II, U.S. influence in the region has been assumed. A China-centric Asia could leave the United States looking in with limited influence and ability to avoid or respond to crises on the Korean peninsula, in south Asia, and throughout China's sphere of influence.

The impact would be even more dramatic and severe on one of the United States' most reliable allies in Asia—Taiwan. Though it has operated an independent economy and government—now a democratic government—for five decades, Beijing continues to claim control of Taiwan and repudiate its elected government. As recently as this year, China formalized its threat to take military action against Taiwan if it continued to move toward independence.

China has consistently used its leverage to block membership for Taiwan in international organizations wherever possible. As part of that campaign, it has used its economic leverage to ensure that Taiwan is not able to strike agreements of its own with China's new FTA partners, cutting off opportunities with the island's natural trading partners.

If Beijing's campaign is not checked, Taiwan could literally be forced to capitulate to Beijing for economic reasons. A prominent Taiwanese think tank—the Chung Hua Institution for Economic Research—projects that an East

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Asian bloc would result in a sharp decline in Taiwan's international trade, GDP, and living standards. In short, by excluding Taiwan from trade arrangements in the region, Beijing may be able to achieve by economic means what it has failed to achieve by military means over the last five decades—domination and control of Taiwan.

A U.S. RESPONSE

Fortunately, the United States is a powerful trading force and has the ability to respond. Several steps are warranted:

Pursue Multilateral Options. The United States is a member of two international organizations—the WTO and APEC—the Asian Pacific Economic Council—that could be used to build alternative trading arrangements that include both the United States and Taiwan. Future WTO or APEC agreements could ensure access to critical Asian markets. Unfortunately, both organizations face internal political and diplomatic problems that may limit their viability in the short-term.

Focus on Major FTA Partners. As the CAFTA debate demonstrates, FTAs of limited economic importance are clearly vulnerable to political attack. The U.S. Congress and Administration should immediately refocus U.S. FTA diplomacy only on major trading partners, allowing relations with smaller trading partners to be dealt with later or perhaps through a new WTO agreement. Such a refocus would build a political consensus behind new trade initiatives and allow the United States to remain a critical player in global trade diplomacy and be able to counter long-term threats to U.S. economic interests.

Pursue U.S. FTAs in Asia. Many of the most attractive potential FTA partners with real economic potential for the United States are in Asia and the Pacific—South Korea, Malaysia, and perhaps ASEAN—to name a few. The United States has much to offer these trading partners and these footholds into the Asian market would ensure that the United States retains markets and influence in the region.

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The most attractive of these Asian opportunities is Taiwan. Taiwan has curiously been left off of the U.S. FTA list to this point, apparently to avoid offending China. But Taiwan is the United States' eighth largest trading partner and a strong market for many U.S. goods and services, including agricultural products. A study by the U.S. International Trade Commission suggested a U.S.-Taiwan FTA would be of considerable benefit to both sides.

If the United States began FTA talks with Taiwan, many of Taiwan's other trading partners, including Japan, ASEAN, and Australia, would likely shrug off Beijing's complaints and follow suit—if only for fear of losing out economically to the United States. Thus, a U.S.-Taiwan FTA would simultaneously provide the United States with a strong access point to Asian markets and prevent China from economically stifling Taiwan.

Fortunately, the United States has a number of sound options available to counter a possible China-centered trading bloc in Asia. Unfortunately, the U.S. government seems currently too focused on various red herrings to mount a consistent campaign to promote its interest.

For many years, there has been a consensus that much of the world's economic future lies in Asia, not in the Middle East or Central America. About one-third of total U.S. trade is already with Asia as opposed to 21 percent with Western Europe. The Administration and the Congress would be well advised to get beyond the political issues of the moment and focus on the real threats and opportunities in Asia. Economic and trade goals that might be easily accomplished now may prove impossible if the economic center of gravity in Asia is allowed to shift to Beijing. ◆