Why Global Order Still Needs America in Asia

Asia has a gathering conventional wisdom about the impending end of a seventy-year-old US-led global order and China’s inevitable rise to regional leadership. The US will no longer provide the public goods necessary for a stable and open global order. It will disengage from Asia, on both security and economic fronts. Donald Trump’s election heralds a marked acceleration of US withdrawal from leadership, globally and in Asia. To pessimists, this threatens a collapse into a 1920s and 1930s scenario of global disorder—power conflicts, economic deglobalisation and depression. To Asian optimists, US decline is China’s opportunity to rise to Asian, if not global, leadership. A regional Pax Sinica will replace a global Pax Americana.

I fear US disengagement will result in a more unstable and less open world. But I do not think a regional Pax Sinica is either inevitable or desirable. Moreover, if Asia is to continue to enjoy stability and prosperity, it will still need US leadership: there is no alternative.

Declining US leadership and the Age of Trump

Pax Americana has ruled the world since 1945. US leadership has provided essential public goods for a stable and open global order. The US has kept its market open to foreign imports and foreign capital, while promoting freer trade and capital flows globally. The US dollar remains the world’s key currency, lubricating international payments for goods and services. The US has provided liquidity to the rest of the world in times of monetary distress. Perhaps most important, US hard power—its military and naval presence worldwide—has saved the world from global wars and kept it open for flourishing commerce. Then there is US soft power—the irresistible pull of America’s dynamic open society, its glorious mix of liberty, markets and democracy. The US has led unilaterally, through key bilateral relationships, and in networks of multilateral co-operation, especially in NATO, the UN, IMF, World Bank and WTO.

All the above has enabled unprecedented globalisation, growth and prosperity. Post-war West European reconstruction and recovery would not have happened without US leadership, nor would Soviet communism have been defeated peacefully and Eastern Europe’s freedom regained. The same can be said of Asia’s extraordinary post-war economic success, which started in East Asia and spread to South Asia. US treaty alliances, troops on the ground, and naval predominance have maintained the regional Pax and facilitated commerce, within Asia and between Asia and the world.

But US leadership has been declining since the beginning of this century, first with Middle East misadventures, then with the global financial crisis and ensuing economic feebleness, and latterly with President Obama’s foreign-policy pusillanimity—his reluctance to lead internationally. Concurrently, the world has become more multipolar, especially with China’s spectacular economic ascent. That has made China a regional and global power—the world’s number two. It projects its power most visibly in its East and South-East Asian backyard. Inevitably, this has caused tensions with the US, hitherto Asia’s only global power and its key “balancing” power.

What comes next with President Trump?

First, we should all be worried by Mr Trump’s character and judgment: his dubious business record and ethics, scant policy knowledge, outrageous campaign pronouncements, knee-jerk, yah-boo Twitter soundbites and, not least, disgusting manners. Ordinarily, this would disqualify him from the highest public office in the world. Equally alarming are his isolationist views on immigration, geopolitics and globalisation—his version of “America First”. Since he took office, domestic and foreign policy has become much more unpredictable and volatile. That is bad for global order.
But there is one silver lining: now is a good chance to inject a dose of economic liberalism into US domestic policy—on tax reform, deregulation, the environment, energy, education, health care and labour markets. Some of Mr Trump’s cabinet officers are economic liberals with successful records in business, politics and the professions. The Trump White House could work productively with a Republican Congress to achieve at least some of this agenda. That is a big “if”. It has fallen at the first hurdle—cleanly repealing and replacing Obamacare. Trump administration dysfunction and Republican Party fratricide could cripple other reforms. But if some major reforms were achieved, and rejuvenated the US economy, that would be good for the rest of the world.

The two most vexing global issues are security and trade.

On security, the signals are contradictory. During the presidential election campaign, Mr Trump dismissed NATO and implied that Europeans, Japanese and South Koreans should fend for themselves. His love letters to President Putin’s authoritarian, revanchist Russia are alarming. But he has also sounded hawkish on the US’s global military and naval reach, especially to counter Chinese maritime expansion in Asia. His secretaries of state and defence are avowed internationalists who favour stronger projection of US power abroad. They are also seasoned, celebrated professionals who reached the top of business and the military. Overall, it is still too early to tell whether US national security policy will head towards disengagement or re-engagement with the world.

As to trade, Mr Trump’s message is economic nationalism—loud and clear. He has broadcast this message for the last thirty years: Japan-bashing in the 1980s and 1990s, then China-bashing. He has announced the US’s withdrawal from the TPP, wants to renegotiate NAFTA, has threatened high tariffs against China and against US companies that relocate production abroad, and says he will ignore the WTO. The US’s other major trade initiative, a free trade agreement with the EU, is either stalled or dead. Mr Trump’s senior trade-policy appointees are fellow economic nationalists. All are obsessed with trade deficits, China-bashing, and industrial policy to revive US manufacturing.

This is a toxic cocktail of what Paul Krugman once called Pop Internationalism—a destructive, homespun do-it-yourself economics. Trade deficits or surpluses, in isolation, say nothing about national competitiveness; the US and other countries have long prospered with persistent trade and current-account deficits. China is not killing US manufacturing with an undervalued currency; if anything, it is now overvalued. Reviving labour-intensive manufacturing in the US is a fool’s errand: such jobs are gone forever. The US is competitive in manufacturing niches, but they are technology- and capital-intensive and employ fewer people. Trump seems to have no appreciation of fragmented cross-border production in global value chains, which have benefited US producers and consumers enormously.

Trumpian economic nationalism comes at a vulnerable time in international trade. Three vulnerabilities stand out. First, global trade growth has slowed markedly since 2012, barely keeping pace with world GDP growth—what is dubbed “peak trade”. It revived, along with global economic growth, in the first quarter this year. But it is too early to tell if this is a new trend or just a blip on the screen. Second, protectionism has crept up since the global financial crisis, though it has not escalated to 1930s heights, nor has it reversed existing globalisation. And third, the US’s withdrawal from the TPP is a monumental blunder for two reasons. The TPP is the most ambitious trade deal since the conclusion of the GATT Uruguay Round in 1994. Whatever its faults, it contains hard rules for freer trade and foreign investment among its twelve members, who make up a third of world GDP and a quarter of world trade. It would boost global value chains in the Asia-Pacific. Furthermore, it was a geopolitical signal of US re-engagement in Asia—the vaunted US “pivot”. Now these economic gains are forgone. And it is a dangerous signal of US disengagement from Asia.

If the US does turn protectionist, it will only accelerate these trends since the GFC. Creeping protectionism will affect bigger chunks of international trade and disrupt global value chains. World trade will slow down. That will drive world GDP growth even lower, in the West and the Rest. A more pessimistic scenario is of a full-blown trade war: unrestrained US protectionism, escalating tit-for-tat retaliation by the EU, China and others, perhaps NAFTA’s break-up, and severely disrupted global value chains. This would be a lurch back to 1930s-style protectionism, deglobalisation and
depression. I still think this doomsday scenario is unlikely to materialise.

**Alternatives to a US-led global order**

Some who predict continued, even accelerated, US decline and disengagement say the world will remain stable and open. Others will pick up where the US leaves off: they will substitute for US leadership to provide international public goods. Europe might do so. So might India, Brazil and Russia. And, in Asia, China more than others. International co-operation will be more equally shared.

But that I doubt very much. Take Europe, with the EU at its core. EU boosters have long broadcast its global leadership credentials. It is the world’s largest economy, even after Brexit. It is strongly committed to international institutions and multilateral co-operation on trade, climate change and many other issues. It is a major aid donor. To Robert Cooper, the EU is the world’s leading “postmodern power”, lacking American, or even Chinese, hard (military) power, but making up for it with plenty of soft power.

But this has always been fanciful—mere fluff. Hardly anyone outside Brussels takes it seriously. It is combined hard and soft power—by the British in the nineteenth century, and the US after 1945—that ensures stability (a global Pax) and openness (to flows of goods, services, capital, people and ideas). Moreover, the EU fantastically exaggerates its international soft power. It matters to its backyards of Eastern Europe, the Middle East and North Africa, but much less elsewhere. The EU is more committed to endless multilateral processes and international talking shops than it is to concrete results—a process-cretinism that flows naturally from its Byzantine internal procedures. Sometimes, when it does push for concrete action, as on climate change, its objectives and methods are dubious.

Now the EU is ever more divided and weak. Its decline began with the euro, a political project with fatal economic flaws—a high example of elite hubris, and the single biggest disaster in post-war European integration. Keeping the euro intact has alienated national publics from the EU and sown divisions among its member-states. So, to a lesser extent, have other examples of EU bureaucratic overreach. The GFC and its aftermath have exacerbated these divisions. The upshot: the EU will be too consumed with crisis fire-fighting and containing internal fractures to exercise global leadership.

India and Brazil will remain sub-regional and at best regional powers for some time. They are also beset by internal weaknesses. This applies even more to Vladimir Putin’s Russia. It is corrupt and crip-

pled at home, its economy dependent on oil, gas and other commodities but without a solid foundation. Abroad, it can only disrupt and destroy, not cooperate or lead to provide anything stable or productive. Its present swagger on the international stage is solely the result of Western timidity. Western powers could easily contain Mr Putin, but they choose not to do so.

And what about stronger international institutions and more equally shared multilateral co-operation? This is the mantra of “global governance” advocates. They contend that concert of co-operation, involving different countries on different issues, could compensate for declining US leadership. That is shaky in theory and unlikely in practice. In game theory, co-operation among many players faces the Prisoner’s Dilemma: it is tempting for one or more players to cheat and free-ride on the rest. In reality, the leadership of one power has been critical to enable multilateral co-operation, as the US has shown since 1945.

**China as regional leader?**

Is China a viable contender for global leadership? Or, if not global leadership, at least leadership in Asia? Talk of a Pax Sinica has become louder since Mr Trump’s election and Xi Jinping’s pro-globalisation speech at Davos in January.

From 1978 to the early 2000s, Chinese leaders followed Deng Xiaoping’s admonition to become a responsible international rule-taker. China opened up to the market and the world. It forged multiple new bilateral relationships, joined international institutions enthusiastically and became a diligent member of them. It accepted rules made by others, most critically when it joined the World Trade Organisation in 2001. In short, it joined a US-led global order to transform itself from poverty to prosperity.

But attitudes of Chinese leaders began to change in the early 2000s. By then China had acquired critical mass in the world economy. It became one of the Big Three, alongside the US and the EU. Decisions made in China became systemically important; they reverberated around the world. And, understandably, China wanted to shape international rules; no longer was it content simply to accept rules made in the West. It became more assertive. Industrial policy became more interventionist to promote national champions, especially in sectors dominated by state-owned enterprises. China’s trade liberalisation stalled, though it signed many free-trade agreements, especially in Asia. With heavy state backing, Chinese capital flowed abroad in search of natural resources, infrastructure projects
and foreign companies to buy. Chinese aid and loans gushed to other parts of Asia, Africa and Latin America. Military expenditure soared; the People’s Liberation Army acquired naval outreach in the East China Sea and the South China Sea. The GFC made China more confident about its new global and regional presence: the West was weak and declining, while China continued to rise.

China’s self-image as the cynosure of Asia, and a rising global power, has become stronger under President Xi. In Asia, China has become a rule-shaper, particularly with its grand initiatives (collectively labelled Belt-and-Road and the Maritime Silk Route) and massive spending on cross-border infrastructure. It set up the Asian Infrastructure Investment Bank and took the lead in the BRICS’s New Development Bank. Now, with US withdrawal from the TPP, the field is open for China to assume trade leadership in Asia. Its vehicle is the Regional Comprehensive Economic Partnership (RCEP), which brings together the ten ASEAN countries plus six others (China, South Korea, Japan, India, Australia and New Zealand). The RCEP accounts for a quarter of world GDP and 30 per cent of world trade. Chinese leadership on trade and infrastructure could shape Asia in decisively new ways.

Military assertiveness has accompanied economic assertiveness. China has become more aggressive with its claims in the East China Sea and the South China Sea; it has applied more pressure on Japan, South Korea, the Philippines and Vietnam. It has cemented bilateral relationships in South-East Asia, South Asia and the Pacific islands—at the US’s expense. Chinese money—state-backed loans, grants and whatever else—has co-opted and corrupted elites in many countries already. Think of Myanmar under the Tatmadaw, and of Cambodia and Laos today. China has suddenly turned President Duterte’s Philippines, a US treaty ally, in its favour—a remarkable coup whose circumstances require explanation. Malaysia’s Prime Minister Najib, cornered by multiple international corruption investigations, is warming to China’s embrace, and Chinese capital flows ever faster to Malaysia. China is ratcheting up pressure on Singapore. And its money and influence run deep in several South Asian countries—the “string of pearls” around India’s neck.

But talk of Pax Sinica is still overblown. China is in no position to exercise global leadership for some time. It is still far behind the US in its power resources—military firepower and naval presence; the size, openness and sophistication of its economy; the international role of its currency; and, not least, China’s cultural attraction to foreigners compared with the US. China has no history of global leadership. It still acts more like a follower than a leader in the IMF, World Bank and WTO.

However, China is flexing its muscles and laying claim to leadership in Asia, particularly in East and South-East Asia. And its regional prominence is bound to increase amid signs of US disengagement. We can expect more opportunistic behaviour—a bigger naval presence in the East China Sea and South China Sea, more pressure on East and South-East Asian countries, tightening the screws on Hong Kong and Taiwan, more buying up of elites around the region. China is trying to rebuild the tributary system it had in previous centuries—a loose network of dependent territories around a dominant Middle Kingdom—only this time more durably through trade, infrastructure and lots of money.

Is this ambition bound to succeed? And will it be good for Asia?

I have strong doubts. At home, China is much weaker than most outsiders think. Its economy, highly successful with catch-up growth, is having a troubled transition to more mature, innovation-based growth. Input-led growth—shovelling capital and labour into sky-high levels of fixed-asset investment—has reached its limits. An ageing population means fewer people in the workforce, lower savings and a higher dependency ratio (of the elderly and children to workers). Much capital is wasted and destroyed as it flows from state-owned banks to state-owned enterprises. The government’s capital splurge after the GFC, channelled through state banks and provincial governments, has resulted in a credit explosion and a dodgy shadow-banking system, which threaten a full-blown banking crisis. Economic growth has halved since the GFC, but to prevent it from falling further the government continues to pump the economy with credit, keeping zombie banks and enterprises afloat.

Chinese leaders officially recognise that structural reforms are needed to ensure sustainable, better-quality growth, less reliant on capital and labour inputs and more reliant on productivity gains from
more efficient use of inputs and technological innovation. They announced a grand reform strategy at the Chinese Communist Party’s Third Plenum in 2012. This promised a “decisive” shift to the market with a bigger role for the private sector and a more limited, less interfering state. Reforms to land, labour and financial markets were signalled. But, almost five years on, few reforms have materialised. The government’s default mode is heavy-handed administrative control, especially in financial markets.

This is hardly surprising. China’s backward economic and political institutions stymie structural reforms. It is one thing to liberalise product markets for catch-up growth while retaining authoritarian and corrupt institutions—what China did so successfully for three decades from 1978. It is much more difficult to reform factor markets (for land, labour and capital)—the economy’s essential superstructure—without reforming their institutional foundations. Factor markets are much more tightly entwined with powerful interest groups and the political system itself. They are more politicised and politically sensitive. There are just too many outside vested interests in the party-state—state banks, state-owned enterprises, central, provincial and local government officials, and the CCP itself, all the way up to the Standing Committee of the Politburo and its extended family networks. Their existential interest is to obstruct deep market reforms and preserve the institutional status quo. Market and institutional reforms mean decentralising power to private-sector entrepreneurs and consumers. That is especially difficult in a political system in which one party has a power monopoly. Why would incumbents endanger their power and wealth in the name of a better-performing economy?

Meanwhile, China’s Leninist political system is regressing to greater authoritarianism under President Xi. He has centralised power, and is using it to crack down on dissent in Chinese society. Stupendously naïve optimists believe this combination of “Mao and markets”—authoritarian control and market reforms—is viable. I think it is the Chinese political system’s fatal contradiction. More “Mao” means more arbitrary institutions protecting entrenched insiders in a less open society. How can it deliver more “markets”, which decentralise power to outsiders like private-sector entrepreneurs and consumers? How can such a static or regressive political system reform financial and legal institutions to make them more transparent and insulated from political interference? High-quality, impartial financial regulation and an independent judiciary to enforce the rule of law are necessary conditions for a more complex economy with higher productivity.

But are they ever likely to materialise as long as the CCP holds the monopoly of power?

This is China’s biggest conundrum. Ultimately, China’s conspicuous lack of an open society is its achilles heel. A more advanced, prosperous economy presupposes more limited government and freer people in a more open society—a society of individuals who are freer to think, speak and act as they please. An unreformed political system, or one that does not reform fast or deep enough, will increasingly hobble the economy, whose aches and pains will only get worse. There will be greater friction between China’s political system and its market economy and society. Acute stress, even fracture and collapse, cannot be discounted—not an imminent prospect, but, I suggest, a plausible scenario for the 2020s and beyond. It is a commonplace, but still true, that effective leadership abroad depends on a strong economy at home. A weaker economy, resting on brittle political and social foundations, would consume Chinese leaders’ attention and prevent them exercising leadership responsibilities abroad—but concurrently increase their resort to aggressive nationalism, even militarism, to distract the Chinese people from domestic woes.

Externally, China’s Asian leadership credentials are already misoverestimated (to use a George W. Bush neologism). Its leadership hallmarks are infrastructure building (doing abroad what it has done at home—creating debt to build roads, railways, bridges, ports and so on thick and fast), creeping maritime aggression, and opportunistic buying up of political and business elites in countries plagued by corruption and weak institutions. On trade, China favours “trade-lite” agreements. These might reduce or remove most import tariffs, though with significant exemptions and long transition periods. But they do little to tackle the non-tariff and regulatory barriers that are by far the biggest obstacles to trade and foreign investment in Asia. That is the main difference between the TPP and the RCEP. Hence it is unlikely that the RCEP will make a big difference to global value chains in Asia.

These, then, are external manifestations of deep flaws within China’s polity and economy. They are not a recipe for leadership to provide a stable and open regional, let alone global, order.

Back to America

Asia has seen unbelievable progress in the last half-century. In most East and South-East Asian countries, living standards have increased between six-fold and fifteen-fold. Almost a billion people, two-thirds of them in China, have been lifted out of absolute poverty since 1990. In India,
living standards have increased nearly four-fold since market reforms began just over twenty-five years ago. In South Asia overall, about 250 million people have been lifted out of absolute poverty since 1990. Across East and South Asia, ordinary people, including women and girls, are much better fed, clothed, housed and educated, and they live longer. The middle class, only a generation ago almost exclusively Western, has gone global mostly because of Asia. These are the results of unprecedented catch-up growth.

None of this could have happened without a more open global economy and stable global security. The US has led this global order, and it has maintained the regional Pax by being Asia’s balancing power—keeping sea-lanes open to commerce and preventing Asia’s native powers, China, Japan and India, from rubbing up against each other too dangerously.

Now Asia faces daunting challenges. Rich Asia (Japan, South Korea, Taiwan, Hong Kong and Singapore) has exhausted catch-up growth; it is coming closer to its limits in upper-middle-income Asia (China, Malaysia and Thailand), though it still has a long way to go in poor Asia (South Asia and the poorer parts of South-East Asia and China). Populations are ageing across East Asia. Feeble institutions and inflexible political systems obstruct the transition to productivity-led growth and more prosperous, innovative economies. Finally, Asia is geopolitically more vulnerable with weaker US leadership and expanding Chinese influence, akin to the unstable European balance of power in the late nineteenth century and early twentieth century. I think matters will get worse if the US continues its retreat from global leadership. I do not think the EU, Russia, India, Brazil and China, individually or in various coalitions, will substitute for the US to provide essential public goods for a stable and open world order. Without the US, international institutions and multilateral co-operation will be less, not more, effective.

In Asia, a US retreat from its balancing-power role will increase the risk of confrontations, even war, between an expanding China and Asia’s other powers. Heightened tensions at sea and land borders will affect international commerce, starting with energy supplies and the global value chains that drive employment, productivity and growth. Without the US to check China’s advances, Asia will see more aggressive power politics, with the strong bullying the weak. It will be more exposed to arbitrary, state-interventionist Chinese mercantilism and crony capitalism in a twenty-first-century version of old Middle Kingdom tributary networks. The rest of Asia will also be more vulnerable to China’s internal fissures, which might worsen over the next decade and beyond. Asian societies will be less, not more open; individuals will be more restricted, not freer. That, in turn, will narrow opportunities for growth and prosperity beyond Asia’s entrenched elites.

That leaves no alternative, for the near future, to US leadership for a stable and open global order, and a stable and open Asia. The US’s combination of hard and soft power remains essential to keep sea-lanes open and defuse tensions and conflicts around the world. Only US leadership can defend liberal rules for international commerce, such as trade rules in the WTO and in the more serious free-trade agreements. Mostly, these rules limit government intervention and guarantee the rights of private agents (individuals and enterprises) to transact across borders, subject to impartial judicial enforcement. Ultimately, liberal values buttress these rules—to protect individual freedom from arbitrary power. They are but one aspect of open societies around the world. These are universal values, not just Western values. Take the US out of the picture and these values and rules will be much more difficult to defend. In Asia, that is why continued and strong US engagement is vital—for freer people in more open societies.

Of course the US cannot act solely, or even mostly, through the unilateral exercise of power. Its leadership must draw other powers, starting with China, into co-operative networks, bilaterally, regionally and multilaterally, while containing the same powers where and when they threaten global or regional order. US-led international co-operation is an ever more complex challenge. The world is more multipolar: there are more players and one or two bigger powers to accommodate. The US post-war domestic consensus on foreign policy, which underpinned its international engagement, has frayed dangerously, perhaps close to breaking point.

But I still do not think US leadership is doomed, nor do I think the end of the post-war liberal global order is preordained. The risk of accelerated US withdrawal from global leadership is real, but its prospect is not inevitable. For there are powerful countervailing forces. The most potent is existing globalisation. Take global value chains. US
companies are woven thickly into them, and they will likely lobby against Trumpian protectionism. US producers and consumers would suffer from US protectionism and other countries’ retaliation. I hope the Congressional Republican leadership, some cabinet officers and senior White House staff, as well as Republican and Democrat governors in the states, will counter the economic-nationalist impulses of President Trump and his senior trade appointees. Similarly, I hope the internationalist national-security elite, which straddles the partisan divide, will counter isolationists in the Trump circle. Then there are the checks and balances of the US constitution and the dynamism of its open society, which, I trust, will restrain the Trump presidency’s excesses and endure beyond it.

There are also powerful countervailing forces outside the US. Those of us in Asia and elsewhere who believe in a liberal global order should work with kindred spirits in the US to keep it looking outward rather than turning inward, and to advance, not retreat from, its leadership responsibilities. The US remains central to global order—still the “indispensable nation.”

Razeen Sally is Associate Professor, Lee Kuan Yew School of Public Policy, National University of Singapore. He is Chairman of the Institute of Policy Studies, the main economic-policy think-tank in his native Sri Lanka.

Rahroon Westmeath

They woke, dressed, and climbed down the ladder from the loft. The man cut thick slices of bread from the loaf and they used them to scoop up the eggs and rashers and ate straight from the frypan. They stepped out of the kitchen door into the dark-before-dawn light. The man carrying the lantern, and his turf cutter, led the way across the red bog. He could have crossed it with his eyes shut. The boy followed trusting in his path, wheeling the barrow over the spongy ground.

The man climbed down into the trench, using the iron ladder, and began to nick and cut and slice the turf. He tossed each slab up to the boy, spade ready to lift each one into the barrow. When it was full, the boy wheeled it back to the house. While they worked, the man entertained the boy with his mimicry. He took off a neighbour, well gone with the drink, after a session in Brady’s Bar and Fr O’Hara giving out in the pulpit about them all being rotten sinners deserving what was coming to them if they didn’t pull their socks up and start living good catholic lives.

The sun rose higher and the boy lost track of the barrow-loads he’d ferried. He got to thinking that his task was the harder one and asked the man to swap places. Without another word, the man climbed up the iron ladder and took the boy’s place at the barrow. The boy climbed down and picked up the turf cutter. He nicked and cut and sliced the way he’d seen the man do and used all his strength but could only manage to toss three slabs up out of the deep trench.

The man said nothing to the boy but climbed down into the trench and took up where he’d left off with the cutting and the stories and the mimicry. The boy resumed his barrowing until the late afternoon meal of strong sugary tea and slices of white bread thickly spread with blackberry jam.

the old man recalls
that day the sweetness
in everything

Moya Pacey