

# US-China tensions overshadow Obama's trip to Asia

Peter Symonds

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US President Barack Obama arrives today in Tokyo at the start of his first trip to Asia. While he will also stop off in South Korea and attend the Asia-Pacific Economic Cooperation (APEC) summit in Singapore, the central focus of the tour is China and the underlying economic and strategic rivalry between Beijing and Washington.

Speaking from the White House on Monday, Obama described the US-China economic relationship as “deeply unbalanced”, pointing in particular to the huge US trade deficit with China and China’s large holdings of US government debt. “The flipside of that is that if we don’t solve some of these problems, then I think both economically and politically it will put enormous strains on the relationship,” he warned.

Trade frictions between the two countries have already flared this year. In September, Obama imposed a 35 percent tariff on Chinese-made tyre imports, prompting Beijing to initiate anti-dumping investigations into US auto and chicken exports to China. Earlier this month, the US instituted tariffs of up to 99 percent on the import of Chinese steel pipes, leading China to expand its previous auto and chicken import investigations.

The punitive US trade measures have prompted fears of a wider trade war. In the first nine months of the year, the US initiated 14 investigations into Chinese exports worth a total of \$5.84 billion. Last year, Chinese steel pipe exports to the US were worth \$3.2 billion. Chinese Commerce Ministry spokesman Yao Jian complained that more than 90 steel firms would be impacted by the decision.

Obama is under pressure from weaker sections of US business and the trade unions to take a far tougher stance on trade with China. United Steel Workers union head Leo Gerard told the *Financial Times*: “The most valuable thing on the planet is access to the US market—and we’ve been giving it away for free... We cannot keep giving away our jobs to Asia.”

Protectionism and the stirring up of anti-Asian sentiment has nothing to do with defending American workers. Rather trade union bureaucrats like Gerard resort to the rhetoric of trade war amid the greatest crisis of capitalism since the 1930s to divert attention from their own collaboration with management and

government in the destruction of jobs and conditions in the name of “international competitiveness”.

Obama has indicated that in Beijing he will press for the revaluation of the Chinese currency—making Chinese imports dearer in US markets and American goods cheaper in China. China is not only under pressure from the US to revalue the yuan, but also from Japan and Europe as well as countries like Russia and Brazil. As the value of the US dollar has fallen in recent months, the yuan, which is pegged to the dollar, has also dropped against other currencies, provoking protests over unfair competition from cheap Chinese goods.

Beijing hinted earlier this week that the revaluation of the yuan might be under consideration. However, China has its own concerns about the sliding value of the US dollar and has raised the issue of its replacement as the international reserve currency. With more than \$800 billion in US bonds, China is currently the largest holder of US government debt outside the United States. Any fall in the dollar impacts directly on Chinese reserves. But to end or even lessen the dollar’s role as the global reserve currency would have a devastating impact on the US financial system and could lead to the emergence of antagonistic currency blocs as in the 1930s.

Underlying these trade and currency tensions is the dramatic shift in the relative economic strength between the two powers over the past two decades. While the US remains the world’s largest economy, China is set to overtake Japan in the next year or so as the world’s second largest economy.

In his comments on Monday, Obama declared: “I see China as a vital partner, as well as a competitor.” While blandly expressing his hope that the competition would remain friendly, Obama comments point to the underlying preoccupation in US ruling circles with China’s emergence as a major strategic and economic rival.

Sections of the American political establishment were bitterly critical of the previous Bush administration not only for failing to focus on the war in Afghanistan but also for its neglect of Asia. Central to both issues is US competition with China—in the first case, for influence in energy-rich Central Asia, and in the second,

for economic and strategic hegemony in East and South East Asia. Obama was backed for the presidency as a means of affecting a tactical shift in foreign policy.

In relation to East Asia, the Obama administration signalled a shift in emphasis when the newly appointed Secretary of State Hillary Clinton made the region the destination of her first foreign visit in February. The overriding purpose of Obama's present tour is to reinforce existing American alliances in the region and to demonstrate that the US has no intention of giving ground to China. National Security Council official Jeffrey Bader declared last Friday: "Through President Obama's trip, I think it will be vividly clear to the peoples of Asia that the US is here to stay in Asia."

On the sidelines of the APEC meeting in Singapore, Obama will hold a meeting with leaders of the Association of South East Asian Nations (ASEAN)—a first for a US president. Since the 1997-98 Asian financial crisis, China has played an increasingly important role as a trading partner and source of aid and investment for many ASEAN countries. As a result, Washington has become increasingly concerned that ASEAN, which was originally formed as a Cold War bloc of US allies, is increasingly coming within Beijing's orbit.

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At the ASEAN summit in Thailand last month, discussion centred on the formation of a closer Asian economic community. Already ASEAN has planned to establish a regional common market by 2015. Japan proposed an East Asian Community based on ASEAN that would eventually have a common currency. Already the region is becoming more closely integrated through more than 70 bilateral free trade deals. Only a handful are with the US and talks over deals with South Korea, Thailand and Malaysia have stalled.

The ability of the US to counter China's growing regional weight is, however, compromised by the continuing financial crisis. Far from being a source of credit and aid, the US is the world's largest debtor, heavily reliant on a continuing inflow of investment, particularly from China and Japan. The weakness was graphically on display during Clinton's trip to China in February, when she openly touted for continued Chinese purchases of US bonds and pledged US budgetary restraint in return.

Several commentators have noted that Obama's "back in Asia" message is compromised by waning US economic strength. Michael Green, senior adviser at the Center for Strategic and International Studies, told the *Wall Street Journal*: "There's a feeling among the business community and foreign policy experts that we really can build a lot of momentum for a trans-Pacific series of agreements that would keep the US locked in. The problem is, the US brings absolutely nothing to the table."

China's growing economic strength also overshadows Obama's

trip to Japan. A focus of concern in the Japanese media is the fact that the US president is only spending one night in Japan, as compared to three in China. While apparently trivial, the discussion does highlight deep fears in the Japanese ruling elite that Japan, which has long been the most important economic partner and strategic ally of the US in Asia, is being eclipsed by Beijing.

Obama's visit will focus on shoring up the US-Japan alliance amid the political shift in Japanese politics ushered in by the recent victory of the Democratic Party of Japan over the Liberal Democratic Party that has held power for most of the past half century. Newly elected Prime Minister Yukio Hatoyama has already indicated that his government will seek closer ties with Asia, including China, reflecting China's emergence as Japan's top trading partner. At the same time, Hatoyama has reaffirmed his support for the US alliance, which Japan regards as a vital counter to China's growing military strength.

Japan's support for US wars of aggression in Afghanistan and Iraq has, however, provoked widespread popular opposition, forcing the Democrats to adopt a more critical attitude. In the course of the election campaign, Hatoyama pledged to end a Japanese naval refuelling mission in support of the US occupation of Afghanistan and to revise an agreement on the repositioning of US military bases on Okinawa. Last Sunday more than 20,000 protesters gathered in Nago City in Okinawa to demand all US forces leave. Obama and Hatoyama appear likely to sidestep both issues during talks.

While economic competition and trade rivalry will be the main topic being publicly discussed during Obama's trip, the danger of future military conflict hovers in the background. As its relative economic strength has declined, the US has aggressively used its military muscle to assert its economic and strategic dominance. The occupation of Afghanistan is part of a far broader US strategy aimed at containing China by establishing a string of military agreements and bases stretching from Japan and South Korea through South East Asia to the Indian subcontinent and Central Asia. As a result, the US has raised tensions and been a profoundly destabilising factor in virtually every corner of Asia.



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