APEC summit ends with drift toward trade war

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Two days of talks in Yokohama, Japan by the leaders of the 21-member Asia-Pacific Economic Cooperation (APEC) ended yesterday with a clear divergence between the United States and China over the future of regional trade. Following the failure of last week's G20 summit to resolve festering currency disputes, the APEC meeting further underscored the drift toward a breakdown of relations between the major powers in the Asia Pacific region.

The Obama administration, backed by the Japanese government of Prime Minister Naoto Kan, pushed over the weekend for APEC to commit to the establishment of a Free Trade Area of the Asia-Pacific (FTAAP). The perspective of a FTAAP, which would include the US and attempt to supplant various bilateral pacts operating in the region, is intimately bound up with Obama's perspective of doubling US exports in five years. Such a transformation could be achieved only by American-based corporations seizing the markets of rivals the world over, and particularly from Chinese companies.

As he had at the G20 summit, Obama used the APEC meeting to attack China and other major exporting countries over their trade surpluses with the US. Addressing a business forum on Saturday, Obama declared: "One of the important lessons the economic crisis taught us is the limits of depending primarily on American consumers and Asian exports to drive economic growth. Going forward, no nation should assume that their path to prosperity is simply paved with exports to America."

Obama's repeated demands that countries reduce their trade imbalances with the US contain the implicit threat of trade sanctions if they fail to take measures to raise the value of their currencies and open their markets to American companies. US National Security Advisor Thomas Donilon announced to reporters that Obama had told Chinese President Hu Jintao that the US expected China to lift the value of its currency, the yuan, before a scheduled meeting between the two leaders next January.

To pursue an agenda of expanding US trade in the Asia-Pacific, Obama announced at APEC that the US had joined the little-known Trans Pacific Partnership (TPP), which until the weekend had formally consisted only of Brunei, Singapore, New Zealand and Chile. The TPP had the vague aim of removing all tariffs between its members by 2020. Australia, Malaysia, Vietnam and Peru announced that they too had been admitted to the group. Japan's Kan declared "interest" in joining.

US Trade Representative Ron Kirk told *Bloomberg*: "TPP members aim to create the most forward-leaning, high standard trade agreement ever engaged in." The Obama administration, he said, would keep its "foot to the pedal" throughout 2011 to finalise the terms of a pact by the time the US hosted the next APEC meeting in Hawaii next year. Kirk declared that the TPP would be the basis for the largest trade agreement entered into by the US since the 1994 NAFTA pact with Canada and Mexico.

The subtext of the APEC talks and final communiqué was the beginning of a free trade agreement on January 1 this year between China and the member-states of the Association of South East Asian Nations (ASEAN). China and six ASEAN countries—Brunei, Singapore, Thailand, Malaysia, Indonesia and the Philippines—have slashed tariffs on roughly 90 percent of trade items to zero. Over the coming years, the remaining ASEAN states—Vietnam, Cambodia, Laos and Burma—will follow suit.

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Partly as a result of this free trade pact, two-way trade between China and ASEAN members has grown by more than 50 percent this year. China has also initiated a trade agreement with Taiwan and is moving to finalise one with South Korea. Across the Asia-Pacific, there are some 120 bilateral and regional free trade pacts now operating, few of which include the United States. A web of relations is emerging that places China at the centre of what is expected to emerge as the largest economic region in the world, with China surpassing the US as the world's largest economy by 2020.

The US agenda spelt out at APEC follows intense diplomatic activity by both Obama and Secretary of State Hillary Clinton to reassert US interests in the Asia-Pacific. Obama's visits to India, Indonesia, South Korea and Japan, and Clinton's trips to Vietnam, Cambodia, Malaysia, Papua New Guinea, New Zealand and Australia were aimed at shoring up or forging economic and military alliances against China's growing influence. (See: "US diplomatic offensive tightens strategic encirclement of China")

While Hu Jintao signed the final APEC communiqué—which declared mutual support for the concept of a region-wide free trade agreement—he pointedly did not signal any intention to take part in the TPP talks. Few commentators expect anything concrete to come from them. Over recent years, the US has failed to make any progress toward bilateral trade pacts with South Korea, Thailand and Malaysia. In a significant blow to Obama, his attempts to renew talks with South Korea collapsed during the G20 summit.

Moreover, the Obama administration is increasingly advocating protectionist measures against its more competitive rivals. In the process, the US is provoking widespread opposition. At the G20 summit, numbers of countries condemned the US policy of pushing down the value of the dollar though "quantitative easing"—or massive bond purchases by the US Treasury.

The depth of international tensions was revealed at the G20 summit when the US received only scant support for its demand that China revalue its currency. Germany and Japan instead joined with China to oppose a proposal by US Treasury Secretary Timothy Geithner that countries limit their current account surpluses or deficits to 4 percent of gross domestic product.

The Chinese regime, on behalf of the emergent Chinese capitalist elite, is not responding passively to the US attempt to force it to pay for the crisis and decline of American capitalism. It is seeking to strengthen its existing trade and strategic partnerships that exclude the US. Even as APEC was meeting, the Chinese transport minister was finalising an agreement with ASEAN member-states in Brunei on opening up greater access to each other's airports, ports and sea-lanes.

Talks also began yesterday in the Chinese city of Wuhan between the foreign ministers of China, Russia and India. A Russian foreign ministry spokesman told journalists that the talks would focus on "issues of forming a new, better security and cooperation architecture for the Asia-Pacific Region" and the role of the three countries "within the network of multilateral regional associations". China is matching US overtures to India by urging New Delhi to play a greater role in the Shanghai Cooperation Organisation and stressing its interest in an eventual free trade agreement.

During the APEC meeting, China even made efforts to calm relations with Japan, with which Beijing is engaged in a bitter territorial dispute over islands in the East China Sea. Hu and Kan held brief talks, as did the two countries' trade ministers. According to Japanese trade minister Akihiro Ohata, China gave an undertaking to step up its exports to Japan of rare earths—critical raw materials for high tech industries. Japan had accused China of slashing rare earth exports in retaliation for the island clashes.

A strategic battle has emerged in the Asia-Pacific for market share, profit and geo-political dominance, centring on the struggle between the US and China. The repeated failure of international talks, such as the G20 and APEC, to establish any new framework to regulate relations stems from the conflicting interests of rival capitalist cliques and the governments that serve them. What is developing is the prospect of antagonistic trade blocs and outright protectionism.

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