

# US presses China on trade issues at APEC summit

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US President Obama set the stage last weekend at the Asia-Pacific Economic Cooperation (APEC) summit in Honolulu for a series of moves over the next week directed at undercutting Chinese influence in the region. He will fly to Australia where he will unveil plans for closer military ties between the two countries, then to Bali where he will take part in the East Asia Summit.

The meeting was overshadowed by the European economic and political crisis, prompting blunt remarks by APEC leaders for Europe to press ahead with austerity measures in Greece and Italy in particular. The recessionary tendencies and financial turmoil in Europe are impacting Asian economies, including China where growth is slowing. The prospect of Asia being drawn into the maelstrom further fuelled rivalries at the APEC meeting between the major powers.

Obama used the APEC gathering to demand that China take action on a range of economic and trade issues or face possible retaliation. Speaking to American corporate leaders on Saturday, the US president declared that Washington's message to China was "we want you to play by the rules." He warned that "where we see rules being broken, we'll speak out and, in some cases, we will take action."

Obama again insisted that China take action to allow the yuan to revalue more rapidly. Claiming that the Chinese currency was undervalued, he said: "That disadvantages American business; it disadvantages American workers. And we have said to them that this is something that has to change."

Obama also identified protection of intellectual property rights and access to government contracts as major issues on which China had to take action. Referring to patents and copyrights, he declared: "For us not to get the type of protection that we need in a marketplace like China is not acceptable."

Elsewhere at the summit, Chinese President Hu Jintao responded to Obama's remarks by defending his country's protection of intellectual property rights and insisting that the high US trade deficit was not caused by the yuan, but by structural problems in the US economy. He said that a new mechanism for global economic governance was needed that increased "the voice of emerging markets and developing economies."

In the lead-up to next year's presidential election, Obama's rhetoric at the APEC summit was aimed in part at blunting criticism of his administration by the trade unions and Republican rivals for failing to take tougher action against China. Highlighting his protectionist credentials, he declared: "We've brought more enforcement actions against China over the last couple of years than had taken place in many of the preceding years."

More fundamentally, however, the Obama administration has been engaged in a far-reaching shift in foreign policy over the past two years aimed at challenging China's growing economic and political clout in the Asia Pacific region.

Outlining the reorientation in a speech last Thursday, US Secretary of State Hillary Clinton declared that in the twenty first century, "the world's strategic and economic centre of gravity will be the Asia Pacific." She said that with the winding back of forces in Iraq and Afghanistan, the US had reached a "pivot point" that should allow it to "lock in a substantially increased investment—diplomatic, economic, strategic and otherwise—in this region."

The Obama underscored the shift, telling business leaders: "The United States is a Pacific power and we are here to stay... there is no region in the world that we consider more vital than the Asia Pacific region... across the board, whether it's on security architecture, whether it's on trade, whether

it is on commerce, we are going to prioritise this region.”

Obama administration’s focus at the APEC meeting was to establish the Trans-Pacific Partnership (TPP) as the key regional trade framework. The nine TPP dialogue members—the US, Singapore, Chile, Australia, Peru, New Zealand, Malaysia, Brunei and Vietnam—met on Saturday and signed a broad declaration of support for the proposal.

The TPP was originally a limited agreement to lower trade barriers between four small regional economies—Brunei, Chile, New Zealand and Singapore. It came into effect in 2006. After the Bush administration indicated initial US interest in 2008, the Obama administration has sought to fashion TPP as a means of dictating the framework for trade within the region.

The goal of the TPP framework is to gradually abolish tariffs on imports into all member countries and at the same time take action on a range of non-tariff issues. These include tougher measures to protect intellectual property rights, greater access to government procurement contracts and rules for the conduct of state-owned enterprises—all of which are measures on which Washington is pressing Beijing.

China, which already has a number of major free trade agreements, including with the Association of South East Asian Nations (ASEAN), has questioned the relevance of the TPP plan to developing countries. Tensions over the issue were evident.

When Chinese officials complained that it had not been invited to join, US deputy national security adviser Mike Froman shot back: “TPP is not something one gets invited to. It’s something that one aspires to. It is up to them to determine whether they are ready to consider the high standards that are required of a TPP member.”

The terms of the TPP proposal are, however, designed to be unfavourable to China and are viewed as the means for Washington to seize the initiative from Beijing on regional trade. Obama described TPP as “a seed” for a broader set of agreements. In other words, while the countries currently involved carry little economic weight, accounting for just 6 percent of total US trade, Washington is hoping to compel more major Asian economies to sign up on its terms.

Writing in the *Australian Financial Review* today, commentator Ben Potter explained: “Chinese leaders don’t have to be paranoid to get a sensation that Washington is

trying to circle them with its wagons and allies... The proposed Trans-Pacific Partnership with its emphasis on labour, the environment, reciprocal access to government procurement and intellectual property protections sought by the US, as well as rules against currency manipulation and favouritism of state-owned enterprises, couldn’t have been better crafted to exclude China.”

The TPP plan received a significant boost when Japanese Prime Minister Yoshihiko Noda announced, just prior to his arrival in Honolulu, that Tokyo would enter talks on the arrangement. Noda, however, confronts significant domestic opposition, including within his own Democratic Party of Japan, to a deal that will impact on the country’s heavily protected agricultural sector. Last Tuesday, some 6,000 demonstrators, including farmers, protested in Tokyo against the TPP pact.

The divisions in Japan point to Washington’s broader difficulties in sealing an agreement with those countries already engaged in the dialogue, let alone including others. As well as pressing for their trade requirements, all of the countries are heavily dependent on trade with China and will be reluctant to agree to terms that antagonise Beijing. A legal framework for TPP is to be drawn up over the next year.

Following the close of the APEC summit, Obama is due to arrive in Canberra where he will address the Australian parliament before flying to Bali via Darwin in northern Australia. Central to the visit is the cementing of closer US-Australian military ties including basing arrangements for US Marines near Darwin, port access and the stepping up of joint exercises. All of these measures are aimed at strengthening the US military presence in Asia as part of its broader strategic aim of containing China.

Obama is due to take part in the East Asia Summit next weekend. He will be the first American president to attend after the US formally joined the regional body last year. Undoubtedly he will use the opportunity to try to carve out a dominant position for the US and reinforce the message delivered by US Secretary of State Clinton in 2009 to ASEAN leaders that the US was “back in South East Asia.”



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