



## America's growing insecurity by Eric Teo Chu Cheow

During a recent visit to Washington D.C. and New York, I gave a series of lectures at think tanks and held discussions at the State Department. I wanted to understand how the United States would view and react to an "emerging Asia" and a rising China. I was particularly interested in getting an update on the American appraisal of the "China threat." What follows are my personal observations and conclusions

What I found feeding on the U.S. psyche is a growing sense of insecurity which the "China threat" and America's declining presence and role in Asia inevitably feeds into. It is not only a post-9-11 security threat, but a "threat" emanating from Asia (which is not the "China threat" alone): America's inherent fears of being bypassed, excluded, or surpassed in Asia are building up. An "emerging Asia" increases America's post-Sept. 11 psychosis, exemplifying and exaggerating America's own insecurity.

In brief, America is growing insecure about its future and role, especially in an emerging Asia, a tendency that could result in a new phase of inner absorption, if not increasing isolationism.

A lot of this is rooted in internal political dynamics. President George W Bush's administration is plagued by scandals and low popularity ratings. Support for Bush's Iraqi policy had plunged to an all-time low; more than 2,500 U.S. military servicemen have so far died in Iraq. The emotional debate over immigration seems to be dividing U.S. society as well. This autumn, the Republicans may lose control over the House of Representatives (though the Senate appears secure), making Bush a lame-duck president. This political insecurity has set the stage for a crisis of confidence in U.S. politics.

But more important, especially within the context of domestic political insecurity, is the realization of U.S. weakness and vulnerability in economic competitiveness and financial clout when compared to an emerging Asia, and especially, a rising China and India.

In fact, the "China threat" (which has been plaguing the U.S. psyche over the last few years) has probably shifted from a pure military or security threat to an economic-cum-financial one. Even if the threat syndrome has not really declined, it has metamorphosed as the U.S. public is increasingly concerned about the economic and financial impact of a rising China; the U.S. trade deficit with China has mushroomed to \$200 billion, and Washington registers its largest trade deficit with Beijing.

Job losses and rising unemployment are hitting the U.S. hard, especially in the lead-up to mid-term elections. With Congress hard pressed to protect U.S. jobs, one could expect the "China threat" to be played up in the months ahead, especially when President Bush's political clout is low. The

emotional debate over amnesty for illegal workers in the U.S. and their role within the economy and society has created a real political dilemma for the Bush administration.

The *renminbi* debate will intensify as trade disputes escalate and creeping forms of protectionism appear, as illustrated by the Unocal-CNOOC and Dubai Port sagas. The financial dimension is also epitomized by the growing concern over imbalances as Americans discuss China amassing some \$900 billion in foreign reserves, bypassing those of Japan; moreover, at least a quarter is believed to be "locked" into U.S. Treasury bonds, a formidable weapon in confrontational times, especially when Americans need some \$2 billion a day to sustain their economy and spending. As one academic reminded me, "America's financial security is at risk."

A senior researcher at Brookings asserted that the U.S. would lose out if and when China becomes the center of Asian trade, as this would result in huge losses for the U.S. financial center: every financial transaction of \$100 in international currency trading in the U.S. results today in at least a \$3 commission for U.S. banks. According to him, if China should become the center of trade in Asia, financial services could shift from the United States, resulting in net job losses for its financial services sector and make a decisive dent in U.S. GDP, of which financial services constitute some 22 percent.

The U.S. business and financial community's concern is based on this premise, especially when the twin deficits in the U.S. have hit an all-time high and are likely to continue to rise. Meanwhile, concerns are growing over how the U.S. is becoming more dependent on China's "financial largesse" in terms of the latter's expanding international financial clout and the U.S. Treasuries that Beijing buys. U.S. concerns are magnified by the bursting of the housing bubble and rumors of further interest rate hikes, thanks to the current weak dollar.

Washington's economic and financial worries are now crystallized around the "China syndrome," but jobs and employment issues constitute the real basis for this threat perception. This is symptomatic of the U.S. loss of economic competitiveness vis-a-vis China and Asia. But despite growing concerns about isolationism, America needs Asian trade and economic cooperation and vice versa. The U.S. must therefore overcome its own insecurities in the longer term, even though drastic structural adjustments will not be easy for Washington to implement.

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[The editors welcome readers' reactions to this commentary]