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Hedging against the China challenge
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As a hot summer of heated debate on China comes to a close in Washington, U.S. policy toward China has settled into one of dissuasion and persuasion. U.S. officials in the Pentagon aim to dissuade China from seeking to become a regional military power, while other parts of the government, in Foggy Bottom for example, aim to persuade China to adopt civil society and democratic institutions.

Both faces of U.S. policy recognize that the central question is political: What if China becomes rich and powerful but not democratic? Unlike the Soviet Union, China does not seek to destroy the United States and the international system it created. By contrast, China is playing by U.S.-made rules, although it may be playing a different game, taking advantage of its lack of democratic constraints. The U.S. therefore must hedge against a number of possible futures for China – strong, weak, cooperative, or aggressive.

One area in which China has demonstrated creativity and long-term thinking is its economic diplomacy and the promotion of an East Asian Summit this December that excludes the United States. The summit may lay the groundwork for an eventual East Asian trade agreement, charter, and community. The operating principle in the U.S. government is that any institution without the U.S. in Asia will lack credibility, and will ultimately fizzle.

The U.S. approach toward the East Asia Summit has been to bet that many participants of the meeting, suspicious of its intentions, will stop China from controlling the agenda. Moreover, it is believed friends of the U.S., in particular Japan, India, and Australia, will protect U.S. interests at the summit. But the U.S. also may wish to offer its own vision.

An idea that is gaining support in Washington is to deepen economic integration with countries such as Japan, South Korea, and Australia, which share values with the United States. In this way, the U.S. would have a stake in East Asian economic integration and could point the way toward a model of high quality growth. Such an economic zone, which would include China when it is ready, would nudge China toward more transparency and accountability.

Five aspects of such a zone are particularly attractive. First, deeper economic integration will signal to regional challengers and domestic polities that U.S., Japanese, Korean, and Australian interests are contiguous. Initiating integration would allow the U.S. and its friends to have a larger influence on the terms of the final shape of an Asian trade bloc. The U.S. and other democratic countries also could collectively bring pressure to bear over intellectual property rights, among other issues, on countries like China at the World Trade Organization.

Second, labor-abundant economic competitors of China in Asia, such as Thailand and Indonesia, would find economic liberalization with the United States and Japan, two countries rich in capital and technology, to be equally beneficial to opening up to China. The increase in economic growth attained from economic liberalization would help spread the benefits of globalization and contribute to stability.

Third, U.S. companies would risk losing competitive advantage in large Asian markets without U.S. involvement in Asian integration. Little of the recent push in the U.S. in the area of free trade agreements (FTAs) has included East Asia, and China and Malaysia are proposing regional agreements that would exclude the U.S. A logical strategy would be for the U.S. to work with Japan, Australia, South Korea, and other democracies to create an FTA, forming the bedrock of future East Asian integration that will in time include China. It is encouraging that the U.S. is working toward concluding a trade agreement with Thailand and has already concluded one with Singapore.

Fourth, U.S. integration with East Asian nations is more feasible than ever. The combination of a historical low level of trade friction between the U.S. and Japan and the momentum created by the conclusion of other free trade agreements by the governments of the U.S. and Japan also make integration more feasible. Abandoning a policy of only considering multilateral agreements, Japan signed its first bilateral free trade agreement in 2002 with Singapore and a second in 2004 with Mexico. It has also issued a report and has been in talks with Korea on a bilateral FTA and is pursuing an agreement with ASEAN Plus Three.

The U.S. signed FTAs with Australia, Bahrain, and Morocco in 2004 alone. The forecast for the Doha Round is cloudy. The U.S. Chamber of Commerce has pushed the U.S. to sign more FTAs, and the National Association of Manufacturers included Japan in a list of potential FTA partners.

Finally, promoting democracy is consistent with President Bush's worldwide vision and the security and history of East Asia. Strong economic and security relationships among democratic nations can become a model for how countries in East Asia can develop. The spread of democratic governance and transparency promotes regional political stability, while the spread of democratic markets will promote regional economic stability. Japan, after more than a decade of economic reform, is now in a position to make the case for better corporate and political governance in the region. The practices of lifetime employment and cross-shareholding are ending, and corporate profits are at record highs.

An economic partnership agreement could take shape around four areas. The first would be border measures: rich countries should lower tariffs and aim to reform their subsidized, protected agricultural sectors in the long term. Although regional agriculture reform has been problematic elsewhere, pressure from regional partners can only add leverage, particularly as long as Asian countries seem to free ride behind EU problems with reform. The second would be the harmonization of regulatory systems, such as professional standards, to facilitate business transactions.

Third, the countries in the zone would collaborate on new energy technologies and enforcement of intellectual property rights to set positive precedents for the international system. Fourth, the zone of countries would reduce border and visa security regulations for businesses in exchange for tighter security cooperation in areas such as container security and business visas. Greater opening at the border would depend on governments sharing basic democratic values.

The zone could be negotiated in tandem with the five-party security organization advocated by Francis Fukuyama. The security organization would include the U.S., Japan, Russia, South Korea, and China, and would address security concerns beyond the North Korean nuclear program.

China's economic growth is not a problem. The U.S. cannot, nor should not want to, stop China from becoming prosperous. The U.S. and other democratic states in Asia should set a benchmark of high quality growth that embraces civil society, and at the same time engage China by establishing a permanent five party security organization that can work to avoid surprises.

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