

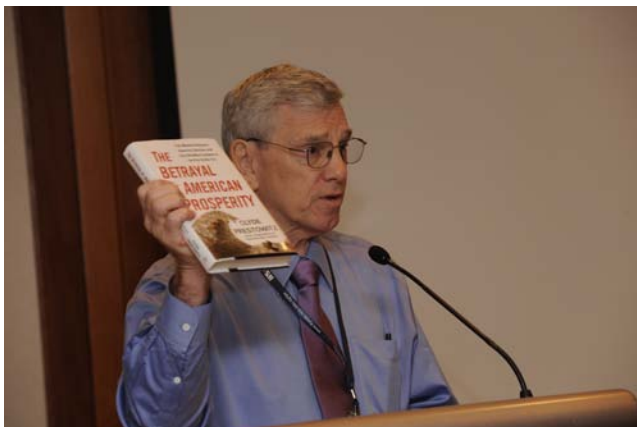
**IPS Corporate Associates Breakfast
“What Future for America in Asia?”**

By Mr Clyde Prestowitz, Founder and President, Economic Strategy Institute

**30 July 2010
Orchard Hotel**

By Jabir Yusoff, IPS Research Intern

Explaining the reason for writing new book *The Betrayal of American Prosperity*, Mr Prestowitz drew a comparison between US attitudes to the trade deficit in the 1980s, when he was involved in trade negotiations as counsellor to the Secretary of Commerce, to attitudes to the deficit today. He made the observation that while many thought that the USD 27 billion annual deficit was unsustainable thirty years ago, many Americans today seem to think the USD 50 billion monthly deficit is going to be indefinitely sustainable.



As evidence, he cited the American response to the 2007-08 financial crisis of providing “easy money” through low federal interest rates and stimulus packages, while much of Europe and Asia were focusing on exports and paying down their debt. The result, Mr Prestowitz claimed, is that the US is now the only net buyer in the international

trade market. In fact, he argued, this is not unexpected because it is part of a longer trend of American overconsumption that was “vendor financed” by Asians and Europeans through their exports to America. The feeling of high wealth creation during the dotcom and housing booms was merely an illusion. Japan, though often presented to have had a “lost decade” in the 1990s, actually had a higher per capita GDP growth rate, as compared to America during that time period, he said.

As the wounds left by the economic crisis are only now beginning to heal, and stimulus provisions are no longer possible given the state of near bankruptcy that the US has found itself in, Mr Prestowitz made some recommendations he thought important to better the situation. If placed in President Obama’s shoes, he said, he would immediately withdraw the US from its foreign military commitments in places like Iraq and Afghanistan, tax the highly



desirable US Treasury bonds, and work to keep American exports competitive, like what the Germans and Chinese are doing. These measures would be aimed at helping reduce the US trade deficit.

On the general American sentiment towards the Obama administration, Mr Prestowitz said the situation was complicated but felt that there was currently much disappointment and unhappiness. He suggested, however, that this was in part because the officials were the same ones as those during the Clinton administration. Thus, Obama would do well to replace what he termed “weak generals.”

Finally, in response to a question about his opinion on the implications of tax cuts on the elections, Mr Prestowitz said that the key issue was not about income taxes but rather about whether the US adopts a value-added tax. He stressed that this is needed in order to match expenditures to incomes more closely and ultimately, in order to make the US more globally competitive.



Jabir Yusoff interned with the Arts, Culture and Media research cluster from July to August 2010.



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