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ASIAN ECONOMIES IN TRANSITION: WILL THE UNITED STATES BE LEFT BEHIND?

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A few months ago, I went to Thailand to mark an anniversary. This one didn't celebrate a wedding; it recalled a long sea voyage. One hundred and seventy-five years ago, in 1833, an American envoy named Edmund Roberts traveled to Siam to sign the Treaty of Amity and Commerce with His Majesty King Rama III. Roberts had departed Boston in March of 1832, charged by President Andrew Jackson to negotiate commercial treaties with Asian nations. According to a later newspaper account, Roberts concluded the very first U.S. treaty with an Asian nation "after many weeks of tedious negotiations with a royal Minister weighing 300 pounds and dressed chiefly in a waistcloth… and without submitting himself to any degrading prostrations."

Roberts was a native of New Hampshire who called himself a Yankee diplomat. In fact, with all due respect to my friend Ambassador Bhatia, Roberts was our first Deputy U.S. Trade Representative for Asia – and a fine one at that. His treaty specified that "the Trade shall be free on both sides to sell, or buy, or exchange, on the terms and for the prices the owners may think fit." And his agreement was forward-looking, specifying that, "if hereafter the Duties payable by foreign vessels be diminished in favour of any other nation, the same diminution shall be made in favour of the vessels of the United States." Today's trade experts will recognize that as a Most Favored Nation clause, which became a bedrock principle of the post-World War II global trading system.

Asian Economic Integration on the Rise

In the 19th Century, America's trade priority in Asia was to promote the values of economic openness to Asian nations that were, at the time, islands of economic isolation. It is ironic that in the 21st Century, America is turning inward, uncertain whether economic engagement with Asia is in the national interest – even as Asian nations rush to conclude trade and investment agreements with one another.

Perhaps this seems alarmist. But look at the facts. America is more dependent than ever on trade with Asia; the region accounts for about one-third of U.S. merchandise trade, more than any other single region of the world. U.S. goods trade with Asia reached nearly $1 trillion last year, yet many in Congress are deeply suspicious of expanded trade with allies like Korea and downright hostile toward trade with China.

This ambivalence comes at a time when Asia's economic importance is on the rise. While the region was responsible for about one-quarter of global GDP in 1990, today Asia accounts for nearly 40 percent of global output on a purchasing-power-parity basis. Asian economies are growing faster than economies in other regions of the world, in a trend that seems likely to continue.

But what is perhaps most interesting is that Asia is increasingly trading *with itself*. According to the World Trade Organization (WTO), nearly 60 percent of all Asian trade is today intra-regional, up from less than 50 percent twenty years ago. Meanwhile, the United States is losing market share in Asia. We are the source of only about ten percent of Asia's imports, down from 20 percent two decades ago. Only about 14 percent of foreign direct investment (FDI) in Asia comes from the United States; 48 percent of FDI in Asia comes from other Asian countries.

There are more than 100 free trade agreements (FTAs) in existence or under negotiation within Asia today, and the number is growing fast. As of February 2008, Japan has bilateral economic partnership agreements with Singapore, Malaysia, Thailand, the Philippines, Brunei, and Indonesia, and is negotiating with Korea, Vietnam, India, and Australia. China has a goods-based FTA with ASEAN and is working to expand this to cover services and investment; it recently signed an FTA with New Zealand. Korea has an FTA with ASEAN and is negotiating with others.

ASEAN has reached agreement in principle with Japan, and is busy working on FTAs with Australia and India. China has proposed a Northeast Asian FTA that would include Japan, China, and Korea. Japan would go even further, with a regional economic partnership arrangement involving all of Northeast Asia, ASEAN, Australia, New Zealand, and India.

Perhaps by now you've noticed that these regional trade arrangements do not include the United States.

America's Response?

Meanwhile, back here in Washington, we're reliving the trade debates of the 1980s. It's like some bizarre combination of "Back to the Future" and "Scary Movie 2": Congressional leaders demand managed trade in automobiles with Asia; labor unions want to cancel NAFTA; and China has replaced Japan as the bogeyman responsible for everything from lost jobs to the price of gasoline.

In a few weeks, most of us will be glued to our television screens, watching the Olympics in Beijing. Imagine for a moment what our reaction would be if we saw an American sprinter standing at the starting blocks of the 100-meter dash screaming, "Time Out!" – while all the other sprinters rush forward to cross the finish line. I worry that this is what America's trade strategy in Asia could become, because Congress is behaving like this angst-ridden athlete, assuming the world will wait for us while we decide what to do. But in trade as in athletics, competitors wait for no one.

Asia Will Proceed… With US, or Without US

There are a number of reasons why Asia is moving quickly toward regional economic integration. Certainly rapid economic growth, especially in China, is driving more trade. Much of Asia's intra-regional trade and investment is due to the integrated, just-in-time global supply chains of modern corporations. Indeed, the typical product made in China contains significant materials, components, and sub-assemblies from elsewhere in Asia.

Some of the increased cooperation among Asian nations can also be explained by the 1997 Asian financial crisis, which highlighted the inter-dependent nature of Asian economies as well as the lack of regional mechanisms to deal with such a crisis. Asia's moves toward regional trade can also be seen as a natural reaction to economic integration in Europe and North America. A final factor behind increasing regionalism in Asia is rarely spoken of, yet never far from the surface: regional ties are partly a defensive reaction to the growing economic influence of China.

Despite the explosion in the number of Asian FTAs, the region is still in a formative period of pan-Asian associations, which are only gradually evolving into more effective and functional regional cooperation groups. There are more and more of these groups such as APEC, ASEAN + 3, the Chiang Mai Initiative, Asian Bond Fund, Asian Cooperation Dialogue, and the East Asia Summit. The proliferation of these groups has been somewhat indiscriminate, and many of the intra-regional Asian FTAs are less than comprehensive. Japan's agreements lack complete coverage of agriculture, for example. China's approach to investment agreements generally has been limited to selective coverage of certain sectors. And relatively little intra-ASEAN trade is actually covered by that region's preferential trade arrangement.

An Opportunity for American Leadership… But Not For Long

Clearly, this is an opportunity for U.S. leadership. Some wonder how America should *react* to the trends of Asian economic integration. Instead, America should be the *driver* in pushing forward an inclusive pan-Pacific economic architecture. Through its position as Asia's leading trading partner, America can bring its traditional advocacy of open markets to a region that is still taking only partial steps toward free trade and investment. The United States does not view the various Asian economic groups as threatening. In fact, if there is a danger associated with Asian economic integration it is that an isolationist America will exclude itself from regional mechanisms, failing to lead the way toward expanded trade both with – and within – Asia.

America is and must remain a Pacific economic power. The Bush Administration has been actively working to create the building blocks of an Asian economic architecture that includes the United States. We have signed Free Trade Agreements with Singapore, Australia, and Korea, and launched negotiations with Thailand and Malaysia. The Enterprise for ASEAN Initiative and the ASEAN-U.S. Trade and Investment Framework envision building further on this foundation. We recently announced that we would begin work with the P4 – Singapore, New Zealand, Brunei, and Chile – on services and investment, perhaps leading to a broader trade agreement. We are also pursuing a variety of Trade and Investment Framework Agreements (TIFAs) and Bilateral Investment Treaties (BITs), and just last month launched BIT negotiations with China and Vietnam.

America is a proud founding member of the Asia Pacific Economic Cooperation (APEC) forum, and APEC remains an important vehicle for multilateral economic engagement in Asia. In 2011, the United States will host APEC for the first time in 18 years, providing a unique opportunity to set an agenda for economic openness in Asia.

The next Administration should be creative and ambitious in launching new bilateral and regional trade agreements and working toward a Free Trade Area of the Asia Pacific (FTAAP). It is not something that will happen overnight, but our strategy must be to work toward an FTAAP to achieve APEC's core agenda of trans-Pacific economic integration. It would have the benefit of bringing under one umbrella the plethora of sub-regional and bilateral free trade agreements which now exist in Asia, with harmonized rules and disciplines. It could serve as a useful catalyst for multilateral trade negotiations in the WTO, or could liberalize trade even further through WTO-plus commitments. And, perhaps most importantly, FTAAP would include the United States.

The key question is whether America will remain committed to economic openness – to open trade, open investment, and the more open movement of people and ideas across borders. If the United States turns away from openness, drifting toward trade protectionism and restrictive investment and immigration policies, then Asia is likely to proceed on its own with regional integration that leaves the United States behind.

This would leave leadership on the Asian economic playing field largely to China, which is the fastest-growing and most dynamic Asian economy. A hesitant, timid, and inwardly-focused America could give rise to an economic “Pax Sinica,” in which China has the opportunity to shape Asia’s economic architecture as it would prefer, rather than as we might like. Others in Asia might have little choice but to accommodate themselves to this economic reality.

KORUS FTA – Important Beyond Korea

That is why many Asian allies are quietly thirsting for American leadership of an inclusive and ambitious pan-Pacific economic architecture. And it is why the current debate in Washington on the Korea-U.S. Free Trade Agreement (KORUS FTA) is so maddening. With a remarkable instinct for the capillary, Congress is focused only on near-term issues like beef and autos. While important to certain constituencies, these issues are ultimately secondary.

The much larger importance of the KORUS FTA is that it could spark a trend toward more comprehensive Asian trade agreements, leading toward a Free Trade Area of the Asia Pacific that includes the United States. Japan is closely watching the debate on

KORUS, and is anxious not to be left behind if America implements free trade with one of its neighbors. Passing KORUS through Congress would likely energize ongoing U.S. trade talks with Thailand, Malaysia, the P4, and possibly others.

It should not be a difficult decision. The KORUS FTA would be our largest free trade agreement in nearly two decades, adding more than $10 billion to the U.S. economy, and further anchoring the United States in the East Asia region. Most importantly, it would complete Korea's remarkable and decisive turn away from the traditional East Asian economic model of closed markets and limited foreign investment. This is the kind of economic transition in Asia that America should welcome and encourage. Already, the hesitancy of Congress to ratify the KORUS FTA has created uncertainty among our Asian partners about America's economic commitment to its closest regional allies. Meanwhile, China's economic footprint continues to grow, and its economic diplomacy grows more assertive. The window for U.S. economic leadership in the Pacific is closing. If the KORUS FTA fails to pass Congress, the cost to our economy will go far beyond lost trade opportunities in Korea. America would be ceding economic leadership in Asia, increasing the likelihood that a future Asian economic architecture will leave out the United States.

Conclusion

One wonders what Edmund Roberts would make of our modern trade debate. Mr. Roberts devoted himself to expanding American trade with Asia, and died on a mission to Canton in 1836. A naval officer who served as a midshipman on the vessel that took Roberts to Asia later recalled, "…an attempt was also made to secure a treaty with Korea. But when the government there sent a Mandarin of low grade for an interview, Commodore Kennedy put him ashore with small ceremony as soon as he discovered he was of inferior rank." Roberts agreed with the Commodore's decision to stand up for America's dignity. It bothered him that Asian economic powers of the nineteenth century thought they could snub so weak a country as the United States.

One hundred seventy-five years later, the situation is different. We are now the world's largest economy, and Korea stands ready to move forward on a trade agreement with the United States. Yet Congress seems paralyzed, prepared to snub Korea because it is deeply uncertain whether to seize the opportunity for expanded trade with Asia. If we went to the Protestant Cemetery in Macau to visit the grave of Edmund Roberts, I feel certain that his ghost would wonder what on Earth we're waiting for.

Thank you.