Asian Studies Center

Backgrounder

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A JOBS STRATEGY FOR AMERICA: EXPANDING FREE TRADE WITH ASIA

INTRODUCTION

Bill Clinton has an opportunity to increase prosperity on both sides of the Pacific by promoting free trade in Asia. Last September, his predecessor, George Bush, outlined a proposal for free trade agreements to span the Atlantic and the Pacific. Particularly in Asia, Clinton should seek to fulfill this trade-expanding vision, which promises to generate more jobs and prosperity for Americans. In 1992, two-way merchandise trade between the United States and Asia grew by 9.1 percent, reaching $345 billion, compared to about $227 billion with Europe. Also in 1992, about $128 billion in American exports to Asia supported roughly 2.57 million American jobs. The lesson is clear: Continued growth of U.S.-Asian trade means more jobs for Americans.

The necessity for America to expand trans-Pacific trade is reinforced by Asia's position as one of the fastest growing commercial regions of the world. According to *The Wall Street Journal*, Asia's economies are expanding at an average rate of 5 percent to 6 percent. By the year 2000, the East Asian economies, measured collectively in gross domestic product (GDP), could be as large as the U.S. economy.

Reducing barriers to trade is a sure way to increase trade and economic growth. For example, completion of the 108-nation Uruguay Round negotiations under the General Agreement on Tariffs and Trade (GATT) could raise U.S. income $35 billion annually. However, GATT and bilateral negotiations have not been as successful in cutting trade restrictions as the North American Free Trade Agreement (NAFTA) between the U.S., Canada, and Mexico promises to be. According to the U.S. government's International Trade Commission, the NAFTA will spur trade and investment between its members, perhaps resulting in a half percent increase in U.S. annual economic growth, and may create about 350,000 U.S. jobs.

The jobs and prosperity NAFTA offers to Americans supply a powerful argument for the Clinton Administration to craft a free trade strategy to link the U.S. with Asia. When barriers are lowered, trade inevitably increases. Every one percent increase in American exports to Asia helps to create 25,700 new jobs in America. However, the path to complete free trade throughout the Pacific will require Washington's patience and persistence. The U.S. should

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stress that Asians will benefit from greater access to North America, the world's richest consumer market. For developed countries like Japan, South Korea, and the U.S., plus underdeveloped countries like the Philippines, a free trade arrangement will offer the benefits of wider access to each other's markets and establishment of mechanisms for rapid resolution of trade disputes over such issues as agricultural subsidies and intellectual property rights. No mechanism currently exists in Asia to resolve these contentious problems.

To solve these and other trade problems, the Clinton Administration should:

- **Prove continued U.S. commitment to free trade by obtaining congressional approval for the NAFTA and a new GATT agreement in 1993.** Failure to achieve these agreements will make it more difficult to persuade both the U.S. Congress and Asians of America's commitment to free trade in Asia.

- **Make a trans-Pacific free trade strategy the top U.S. trade policy priority toward Asia in 1993.** Acting with dispatch will bring the benefits of greater prosperity throughout the Pacific sooner. The failure to act swiftly will complicate America's relations in Asia and make it harder ultimately to conclude a U.S.-Asian free trade agreement. Malaysian Prime Minister Mahatir Mohamad, for example, as well as other Asian leaders, fears that, as with the European Community, the NAFTA will lead to another closed trading bloc. Washington should reassure Asian friends and allies that the NAFTA is not an exclusive club like the EC; the U.S. seeks free trade agreements with Asia that will expand the benefits of the NAFTA.

- **Establish common criteria for FTAs in Asia and make clear that Washington intends eventually to link the Asian and Western Hemisphere markets under one free trade agreement.** The U.S. should tell Asians that future free trade agreements will be based on a set of common principles. They are:

  - ✘ reduction of tariff and non-tariff barriers to trade and investment;
  - ✘ refusal to erect new trade barriers among members;
  - ✘ protection of intellectual property rights;
  - ✘ rapid resolution of trade disputes;
  - ✘ a preference for multilateral (as opposed to bilateral) free trade alliances.

- **Use the Asia Pacific Economic Cooperation (APEC) forum, which meets in Seattle this November, to seek concrete reductions in barriers to trade and investment in Asia.** Though founded in 1989, APEC so far has done little to expand trade between Asia and America. The U.S. is chairman of APEC this year, and should urge this organization to achieve real reductions in barriers to trade and investment in Asia. Washington's main goal in APEC should be an eventual free trade agreement.

- **Start now to tackle the complexities of negotiating a free trade agreement with Japan by adding discussion of a U.S.-Japan free trade agreement to ongoing high-level trade talks with Japan.** The goal of these discussions should be rapid reductions in Japanese trade barriers, in return for which the U.S. should assure Japan access to U.S. markets. Talks aimed at creating a U.S.-Japan free trade agreement are preferable to such protectionist measures as trade sanctions or managed trade agreements.

- **Emphasize to Asians that an Asian-American free trade system can also promote peace in Asia.** With the end of the Cold War, Asians are concerned that America will retreat from the leadership that allowed it to prosper in relative peace since 1945. America, however, can reaffirm its leadership by establishing a free trade system that promotes prosperity and reduces trade tension.

THE IMPORTANCE OF INCREASED ASIAN-AMERICAN TRADE

Asia is the world's fastest growing commercial region. During the decade of the 1980s, inter-Asian trade doubled while inter-Asian investment increased fourfold. This trade has been led by rapidly growing economies. Largely due to its rulers' commitment to free-market reforms, especially in its southern provinces, the People's Republic of China's economy grew 14 percent in 1992, double the rate of its increase in the preceding year. Capitalist and export-oriented Taiwan grew 6.7 percent in 1992. China, Hong Kong, and Taiwan are well on their way to creating a powerful growth triangle. In 1992, the economies of the six states comprising the Association of Southeast Asian Nations (ASEAN) grew at an average rate of 4.7 percent, compared to 2 percent in Japan and 0.5 percent in the U.S.[1]

Five years ago, Japan displaced the Soviet Union as the world's second largest economy. As Japan is the largest export market for, and single source of investment in, most Asian countries, the possibility of a Japan-centered trade bloc in the future is a real one.[2] But not just yet. Japanese investment in Asia fell 14 percent in 1990 and 16 percent in 1991. Moreover, intra-Asian investment flows are diversifying. For example, in 1991, when measured collectively, investments by Hong Kong, Singapore, South Korea, and Taiwan in Malaysia and Indonesia surpassed those of Japan and the U.S.[3] This trend toward intra-Asian commerce diminishes Japan's preeminence and increases opportunities for American exporters and investors.

American businessmen clearly understand this economic fact. In 1992, total trade between the U.S. and Asia was about $345 billion. This is considerably larger than America's 1992 total trade with Europe, which was $227 billion. American total trade with Asia has exceeded two-way trade with Europe since 1983. Of the top ten American trading partners, four are in Asia: Japan (no. 2), Republic of China (no. 6), Republic of Korea (no. 7), and the People's Republic of China (no. 9). Singapore, with a population of 2.7 million—similar to Chicago in size and population—is now the eleventh largest U.S. trading partner.

While America has imported more from Asia than from any other region, $216 billion in 1992, U.S. exports to Asia that same year reached $128 billion. In 1992, U.S. exports to Asia grew 5.2 percent; American exports to Asia have doubled since 1985. The U.S. exports more to Indonesia than to Eastern Europe, more to Singapore than to Spain or Italy. In 1992, Asian

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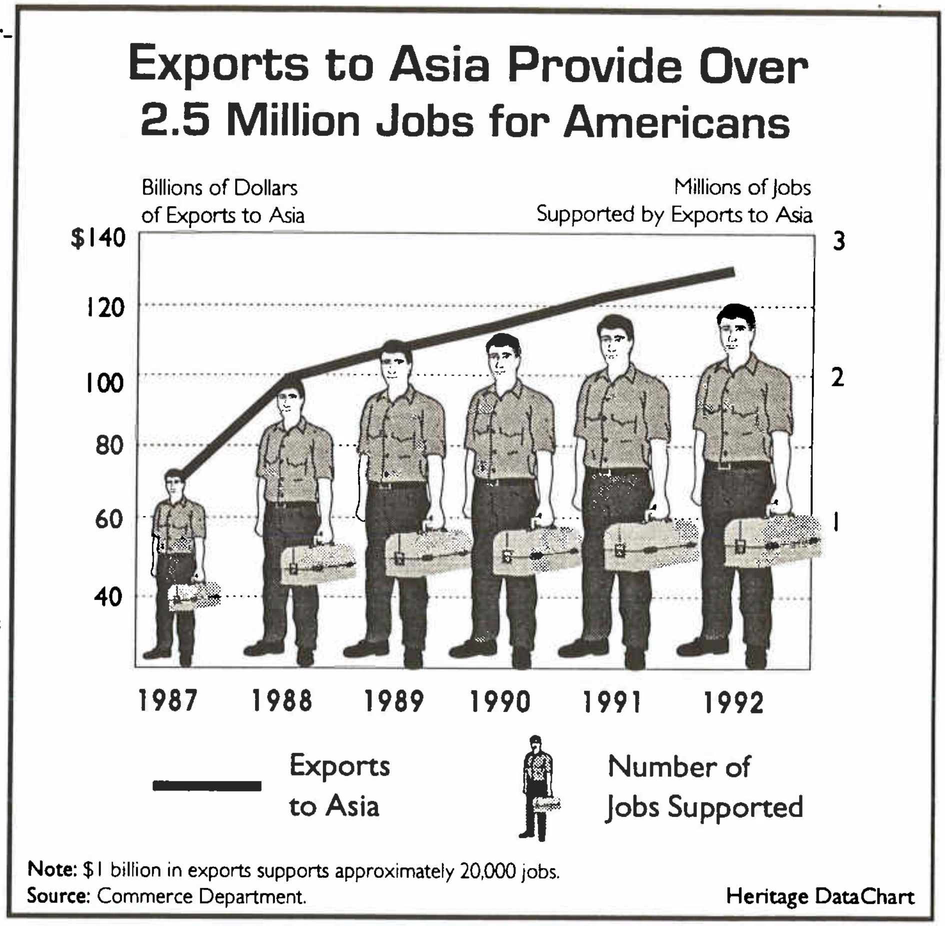
1 The members of ASEAN are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

2 This possibility is described vividly in Daniel Burstein, *Yen!* (New York: Simon and Schuster, 1988), pp. 246-250.

3 Remarks of Olin L. Wethington, Assistant Secretary for International Affairs, U.S. Department of Treasury, on "Capital Flows, Investment, and Growth," Ninth General Meeting of the Pacific Economic Cooperation Council, San Francisco, September 24, 1992.

demand was high for U.S.-manufactured aircraft, machinery, chemicals, and transport equipment. Asians also bought over 30 percent of U.S. farm exports. For many years, the U.S. has also excelled in selling services to Asia. In 1992, for example, while the U.S. had a $50 billion merchandise trade deficit with Japan, the U.S. had a $14 billion surplus with Japan in sale of services.[4]



Creating Jobs. According to the U.S. Commerce Department, every $1 billion of exports supports about 20,000 jobs. Thus, in 1992, about 2.57 million jobs, twice as many as in 1985, depended on U.S. exports to Asia. Indeed, America's 1992 exports to Asia of $128 billion helped create 140,000 new jobs in the U.S. The implications are clear: more U.S. exports to Asia leads to more jobs for Americans. To illustrate, every one percent increase in U.S. exports to Asia will create about 25,700 new jobs.

Also important are investment flows to and from Asia. American investment abroad generates more American sales abroad, while Asian investment in the U.S. employs Americans. In 1991, Asian direct investment in the U.S. amounted to $96.6 billion, a fourfold increase since 1987. This, too, means more jobs for Americans. For example, in 1990, Asian-owned investments in auto manufacturing, electronics, and chemical industries employed over 944,000 Americans, a 20 percent increase from the previous year.[5] In 1991, U.S. direct investments in Asia amounted to $66.5 billion, a threefold increase since 1985 fueled by growth in petroleum as well as other manufacturing sectors. Washington can play an important role in helping American businessmen build upon their successes to date by tearing down all barriers which stand in the way of increasing commerce between the U.S. and Asia.

4 Ralph T. King, Jr. "U.S. Service Exports Are Growing Rapidly, But Almost Unnoticed," *The Wall Street Journal*, April 21, 1993, p. 1.

5 U.S. Department of Labor, "Employment And Wages In Foreign Owned Businesses In The United States, Fourth Quarter, 1990," *News, Bureau of Labor Statistics*, October 20, 1992, table 10.

BARRIERS TO TRADE IN ASIA

AUSTRALIA	U.S. Exports $8.9 U.S. Imports $3.6	Australia's trade barriers: Restrictive agricultural import regulations; lack of intellectual property rights (IPR) protection for textbooks; high local content for radio and television commercials. U.S. trade barriers: Export Enhancement Program subsidies of U.S. farm exports which often displace Australian farm exports; quotas for agricultural exports to the U.S.
CHINA	U.S. Exports $7.4 U.S. Imports $25.7	China's trade barriers: Tariffs that range from 3 percent to 200 percent on such items as chemicals, pharmaceuticals, cosmetics, and vacuum cleaners; complex import licensing rules designed to restrict imports; lengthy testing and certification of imports; lack of IPR protection for patents, copyrights, and trademarks; lack of a convertible currency that makes difficult repatriation of profits made in China. U.S. trade barriers: Restrictive quotas on textiles; threats to remove Most Favored Nation trading status, which would increase tariffs on exports to the U.S.
INDONESIA	U.S. Exports $2.7 U.S. Imports $4.5	Indonesia's trade barriers: Tariffs which range from 10 percent to 40 percent; insufficient IPR protection for patents, copyrights, and trademarks; barriers to Americans who provide legal services; and restrictions on distribution of American movies. U.S. trade barriers: Restrictive quotas on textiles.
JAPAN	U.S. Exports $47.7 U.S. Imports $97.1	Japan's trade barriers: Average 12 percent tariffs and quantitative restrictions on many agricultural products; non-U.S. tariff restrictions on wood products; slow approval of patents and trademarks; barriers to U.S. services in legal, accounting, and insurance sectors; collusive trade practices which prevent foreign competition. U.S trade barriers: Government-mandated Buy-American policies; Super 301 section of the U.S. Trade Act which mandates unilateral penalties on unfair traders; attempts to apply U.S. anti-trust laws abroad.
PHILIPPINES	U.S. Exports $2.7 U.S. Imports $4.3	Philippines' trade barriers: Tariff and quantitative restrictions on U.S. rice, fruits, meat; insufficient protection for U.S. patents, copyrights, and trademarks; equity limits on foreign ownership. U.S. trade barriers: Restrictive quotas for agricultural and textile products.
SINGAPORE	U.S. Exports $ 9.6 U.S. Imports $11.3	Singapore's trade barriers: Uneven enforcement of copyright protection laws; restrictions on foreign employment in foreign, legal, and insurance services. U.S. trade barriers: Anti-dumping laws.
SOUTH KOREA	U.S. Exports $14.6 U.S. Imports $16.6	South Korea's barriers: Tariffs, quantitative, and health-related restrictions on many agricultural products; government control of financial sector; insufficient protection of copyrights; occasional anti-import campaigns. U.S. trade barriers: Super 301 sanctions; restrictive quotas on textile products; anti-dumping laws that penalize computer chip exports.
TAIWAN	U.S. Exports $15.2 U.S. Imports $24.6	Taiwan's trade barriers: High tariffs on fish, fruit, and many processed agricultural products; insufficient protection of foreign trademarks, copyrights; restrictions on motion picture imports. U.S. trade barriers: Anti-dumping laws; imposed "voluntary" restraints on machine tool imports; restrictive quotas on sugar and tuna exports.
THAILAND	U.S. Exports $3.9 U.S. Imports $7.5	Thailand's trade barriers: Consumer product tariffs that average 40 percent; lengthy import licensing procedures; lack of protection for movie copyrights and pharmaceutical patents; prohibitions against foreign workers in legal, engineering, and brokerage services. U.S. trade barriers: Restrictive quotas on agricultural and textile products; Super 301 sanctions.

Note: Trade figures are for 1992, in billions of dollars.
Source: U.S. Department of Commerce; Office of the U.S. Trade Representative; respective embassies.

American Tools for Reducing Foreign Trade Barriers

The U.S. employs four tools to advance the cause of international free trade:

Tool #1: The GATT

The U.S. helped create the 1947 General Agreement on Tariffs and Trade (GATT), which seeks to establish rules and hold negotiations to advance free trade. Since 1986, the 108 member nations of the Uruguay Round of GATT, so-called because the talks opened in Punta del Este, Uruguay, have labored for a comprehensive agreement to lower such global trade barriers as subsidies for agricultural products. At Washington's insistence, the next GATT agreement will include measures to end protectionist use of technical standards and subsidies by the EC and Japan. U.S. officials also have succeeded in negotiating greater protection of intellectual property rights and more effective rules to settle trade disputes. By one estimate, a new GATT agreement could increase U.S. income by $35 billion annually and global prosperity by $120 billion a year.[6] While these potential gains have sustained America's commitment to the GATT process, Washington's patience with the seemingly endless diplomatic wrangling to achieve an agreement has worn significantly thinner in recent years. The reason: continued unwillingness of such countries as France and Japan whose powerful agricultural lobbies' insistence on farm subsidies helps prevent free competition among the world's agricultural producers.

Tool #2: Protection

Beyond GATT, Washington also has used the threat of trade sanctions and trade protection to persuade foreign governments to lower trade barriers. Since 1988 the U.S. President has been compelled by the Congress to retaliate against unfair trading practices, as stipulated under the "Super 301" section of that year's Omnibus Trade Law. In late 1992 the threat of retaliation under Section 301 forced China to promise to reduce tariffs, lift licensing requirements, and publish laws and regulations on trade. China had a $18 billion trade surplus in 1992 when it restricted such U.S. exports as cigarettes, fruit, and vegetable oils. In order to be believed, argued U.S. officials, threats to retaliate must not be idle. However, there is a price to be paid for these protectionist measures. When the U.S. has raised trade barriers, they often have resulted in higher taxes or higher prices for U.S. consumers. For example, a 1989 increase in duties on Japanese computer chips forced increases in the costs Americans paid for domestically produced consumer electronics goods.

Tool #3: Trade Management

Washington also has sought to manage trade through Voluntary Restraint Agreements (VRAs) in which trading partners agree to limit their exports of specific items to the U.S. However, VRAs with Japan to limit car exports to the U.S. have not helped the American car industry. During the 1980s, VRAs were supposed to allow U.S. auto makers to gain a price advantage over the Japanese. But the American firms took advantage of the respite from competition to maintain high prices, and then compounded their problem by investing too slowly in

6 "GATT Will Build America," *The Economist*, June 27, 1992, p. 13.

autos that could compete with Japan. The Japanese auto makers, who had to raise prices elsewhere to compensate for the VRAs they signed with the U.S., reinvested their profits in better quality products, which led to even higher sales.

The U.S. also subsidizes many export commodities, mainly in agriculture, to compete with other countries—mostly in Europe—that do the same. U.S. agricultural subsidies, however, amount to an annual $185 billion burden on U.S. taxpayers. These subsidies pay for about 30 percent of U.S. farm production. During the GATT negotiations, the Bush Administration committed the U.S. to 75 percent reductions in these subsidies.

Tool #4: Free Trade Agreements

During the Reagan and Bush Administrations, the U.S. began to negotiate free trade agreements (FTAs) both to afford a fallback if the GATT negotiations failed, and to seek even greater reductions in trade barriers if those talks succeeded. The FTAs offer the benefits of increased trade though radical reduction of trade barriers between members; they have not created explicit new barriers to trade, as has the EC to non-members. The U.S. completed FTAs with Israel in 1987 and Canada in 1989. In June 1991, the U.S. entered into negotiations with Canada and Mexico for the North American Free Trade Agreement (NAFTA). President Bush signed it in August 1992, and the approval of both Houses of Congress is required for enactment. Under the NAFTA, tariffs will be eliminated over fifteen years on North American products traded between the members; high barriers to investment in Mexico will be lowered; common rules will increase trade in services; intellectual property will be better protected; and a trade commission composed of representatives from Canada, Mexico, and the U.S. will be responsible for rapidly settling trade disputes.

The NAFTA will create a market of 360 million consumers with a $6 trillion annual GDP. Studies commissioned by the U.S. International Trade Commission estimate that the NAFTA may increase U.S. GDP by as much as 2.1 percent, while Mexican GDP may increase as much as 11.4 percent.[7] In 1991, U.S. exports of $118 billion to Canada and Mexico supported 2.1 million American jobs—a doubling over the last five years.[8] The NAFTA could eventually add 350,000 more jobs to the U.S.[9]

In June 1991, the Bush Administration announced it would follow the NAFTA with an Enterprise for the Americas Initiative.[10] This aims to unite the entire Western Hemisphere, from Canada to Argentina, under a NAFTA-like free trade agreement. This would create a market of over 700 million consumers with a combined annual GDP of about $7 trillion. The U.S. has signed trade and investment "framework agreements" with every Latin American country except Cuba and Haiti. These framework agreements are the first step toward a hemispheric FTA.

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7 U.S. International Trade Commission Publication 2516, "Economy-Wide Modeling Of The Economic Implications Of A FTA With Mexico And A NAFTA with Canada and Mexico," May 1992, p. vi, vii.

8 Ingrid A. Mohn, "NAFTA and Jobs," *Business America*, October 19, 1992, p. 17.

9 Wesley Smith, "Generating jobs with the trade deal," *The Washington Times*, October 25, 1992, p. B4.

10 See David C. Mulford, "The Enterprise for the Americas Initiative: A Blueprint for Economic Expansion from Alaska to Antarctica," *Heritage Lecture* No. 375, delivered March 4, 1992.

NAFTA AND ASIAN TRADE LIBERALIZATION

Because of the ill-founded suspicion that the NAFTA is intended to limit Asians' access to the Americas' market, reaction to the NAFTA in the Far East has been mixed. Malaysian Prime Minister Mohamad Mahatir, for example, proposed in December 1990 the formation of an East Asian Economic Group which would have been led by Japan and have excluded the U.S. The Bush Administration rightfully opposed this idea which has failed to gather important support. On a more constructive note, Singapore in 1991 signed a trade and investment framework agreement with Washington in which both agreed to common principles to expand trade and investments. The U.S. has signed similar trade and investment framework agreements with Australia, New Zealand, and the Philippines. In the mid-1980s, Taiwanese officials privately suggested they would like a free trade agreement with the U.S.

Most important, Asia's bubbling economies have, together with Washington's participation, so far yielded three initiatives that hold the potential to reduce regional trade barriers and increase trade between Asia and America. They are:

1) Asia Pacific Economic Cooperation Forum

An organization with great potential for advancing free trade in Asia is the forum for Asia Pacific Economic Cooperation (APEC). Formed in 1989 at the initiative of Australia, APEC has fifteen member governments.[11] APEC exists to improve economic relations, and has created ten working groups in such areas as telecommunications, tourism, investment, and trade promotion. Largely due to its members' lack of political will, APEC has not been successful in promoting significant expansion of trade and investment. APEC, however, could serve as a forum to promote greater free trade between America and Asia.[12] Conscious of this potential, then-Secretary of State Lawrence Eagleburger urged APEC, at its annual meeting last September, to consider agreements in such areas as investment, intellectual property protection, and customs cooperation. Eagleburger also urged the creation of a body to settle trade disputes. This February, APEC opened a permanent secretariat in Singapore, with an initial annual budget of $2 million.[13] In 1992, U.S. exports to APEC members totaled $219 billion, or 49 percent of total U.S. exports that year.[14]

2) ASEAN Free Trade Area

Partly as a reaction to NAFTA and the EC, in January 1991, ASEAN's leaders decided to create an ASEAN Free Trade Area (AFTA). It is ASEAN's boldest move to liberalize trade in its 25-year history. The goal is to create by the year 2008 a single market in ASEAN, which today comprises 330 million people and a $300 billion combined GNP. On items such as pharmaceuticals, cement, fertilizer, and chemicals, ASEAN countries have agreed to reduce tariffs

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11 APEC's members include Australia, Brunei, Canada, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Philippines, Singapore, Taiwan, Thailand, and the U.S.

12 Jimmy Wheeler and Rosemary Pugh Piper, "APEC: Looking for a Leading Role in Asia's Future," *Hudson Briefing Paper No. 144*, September 1992, p. 11.

13 "'More members' as Apec opens secretariat," *The Nation* (Bangkok), February 13, 1993, p. B2.

14 Raphael Cung, "The United States and The Asia-Pacific Economic Cooperation Forum (APEC)," *Business America*, April 5, 1993, p. 2.

to 5 percent over fifteen years. AFTA's members have yet to confront the issue of non-tariff barriers to trade and investment, which is important since these restrictions will limit the agreement's ability to expand trade. AFTA can also promote greater trade by creating free trade agreements with other regions. For example, last July, former Singapore Prime Minister Lee Kwan-yew proposed formal links between AFTA and NAFTA members. In 1992 the U.S. exported $23.9 billion worth of goods to the members of AFTA.

3) Closer Economic Relations Agreement

Although the 1983 Closer Economic Relations Agreement (CER) has led only to the creation of a free trade area between Australia and New Zealand, this agreement demonstrates the potential for FTAs in Asia. For example, CER is credited by Australia with helping to double total Australia-New Zealand trade between 1983 and 1987. Under CER, all tariffs, quotas, and anti-dumping measures are to be eliminated between Australia and New Zealand. This agreement has allowed both countries to benefit from greater opportunities for trade and investment, and more efficient labor flows. CER also has helped promote free market economic reforms in Australia and New Zealand, such as the lowering of trade barriers to other countries. In 1992 combined U.S. exports to Australia and New Zealand was $10.2 billion.

AN AMERICAN FREE TRADE STRATEGY FOR ASIA

There are four good reasons why the U.S. must now develop a free trade strategy that builds on these efforts, and which will benefit the entire Pacific region.

Reason #1: Americans will benefit greatly from seeking radically lower trade barriers that will increase trade with Asia. Greater trade will generate more new jobs for Americans, while opportunities for investment in Asia can help strengthen American companies. Furthermore, while barriers to trade are created by the EC, trade-led Asian economic growth presents increasing opportunities for American trade and investment.

Reason #2: While Asians have formed organizations like APEC and AFTA to promote trade, they have not succeeded in radically reducing trade barriers between Asia and America. The U.S. should use its influence to mold the region's desire for free trade into a solid structure that would be an example to the rest of the world of free trade's benefits. Washington, in short, has an opportunity to assert its economic leadership in the Pacific along a path that parallels the one American military forces have taken since World War II in providing security for the Western Pacific.

Reason #3: A free trade strategy for Asia is the best way to dispel Asian fears about NAFTA becoming a new trade bloc. Asian fears that NAFTA will create a Western Hemisphere trade bloc must be challenged and disproved — not by words alone, but with deeds. If the U.S. fails to act decisively, more Asians may follow Malaysia's effort to form an exclusionary Asian trading bloc. The new American President's "get tough" rhetoric against foreign competitors threatens to drive other nations into exclusionary arrangements such as have been proposed by Malaysia. Indeed, fears that the Clinton Administration would launch an aggressive campaign to use trade pressure to open Asian markets prompted harsh criticism by Australian Prime Minister Paul Keating. Keating warned that Clinton "risks accumulating resentment and resistance" in Asia. Keating instead proposed seeking "an integrated market...of 2 billion people producing half the world's output, bound together with harmonized trade rules, harmonized standards and certification, and an agreed way of settling disputes between members."[15]

Washington would be wise to build on Keating's suggestion. America's best response is to offer Asian friends and allies the benefits of NAFTA-style trade liberalization though a system of Asian-American free trade linkages.[16] Former President Bush indicated American willingness to consider such linkages. In a speech last September 10 he called for free trade agreements "across the Atlantic and the Pacific."

Reason # 4: A free trade strategy will sustain American leadership in Asia and promote peace in the region. When the Cold War ended, the U.S. began to reduce its military forces in Asia. At the end of 1992 the number of U.S. military personnel in Asia fell from 135,000 to 119,750. As Asia considers the possibility of a power vacuum left by Washington's diminishing forces, future planned reductions[17] in U.S. military presence are seen as a source of anxiety in Tokyo and Seoul, possible opportunity in Beijing, and growing uncertainty throughout the smaller countries of the region.

But a potential power vacuum is not the only problem. Asians increasingly worry that the U.S. will add to tensions in Asia as Americans focus on persistent trade deficits with countries like Japan and China.[18] A system of free trade with mechanisms for rapid settlement of trade disputes can help prevent such economic tension from turning political. A free trade system that establishes mechanisms to resolve economic disputes also can build confidence that leads to greater political cooperation in Asia.

Free trade between America and Asia, however, requires concessions on both sides of the Pacific. While the U.S. should seek to lower Asian barriers to trade and investment, it also should be prepared to lower its own. For example, in exchange for reducing such Asian trade barriers as those which effectively keep Americans from participating in lucrative government construction projects or offering financial services to foreign customers, the U.S. should be prepared to phase out voluntary restraint agreements with Asian trading partners and eliminate subsidies for farm products. As with any agreement, a trans-Pacific free trade compact will have a better chance of succeeding if it convinces both American and Asians that access to one another's markets will be enhanced.

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15 "Australia, Trade and Asia: The Quiet Revolution In The Australian Economy," An address by the Prime Minister Mr. Paul Keating at a "Fair Day's Trade" conference at the Sydney Institute, 8 February, 1993.

16 Franklin Lavin, "After NAFTA: Free Trade and Asia," *Heritage Lecture* No. 418, delivered October 6, 1992.

17 Department of Defense, Office of International Security Affairs, *A Strategic Framework For The Pacific Rim: Report to Congress*, 1992, p.26.

18 These concerns were expressed to the author in meetings last July in Australia, Singapore, Malaysia, the Philippines, and South Korea.

A free trade strategy clearly serves America's interests. It will create U.S. jobs and contribute to security and stability in Asia. Thus, to further free trade relations with Asia, the U.S. should:

✓ **Complete the GATT and gain the approval of GATT and NAFTA in 1993, to demonstrate U.S. commitment to free trade.**

The Clinton Administration has been slow to affirm America's traditional leadership in expanding international free trade. Conflicting signals have included decisions to retaliate against the EC for limiting its government purchases to European sources, harsh criticism of European subsidies to its Airbus commercial airline consortium, and the new Administration's promise to renew the "Section 301" authority to retaliate against all U.S. trading partners. Some officials—like Deputy Undersecretary of Commerce Derek Shearer—want Japan to increase imports by allocating shares of its markets for U.S. goods. This would fully commit the U.S. to a managed trade policy with Japan. It would also mark a massive shift of economic power to the U.S. government as it decides which American companies get shares of specific markets.

By contrast, in a speech on February 26, Clinton committed himself to a "prompt and successful completion" of the GATT talks and praised the NAFTA agreement. But there are still worries that special interest groups will undermine Clinton's stated intentions. The President should put these worries to rest by seeking rapid completion of the GATT agreement. In addition, Clinton should avoid undermining the NAFTA agreement with side agreements on labor and environmental issues that reduce the NAFTA's potential to increase trade. Once this is done, Clinton should seek rapid congressional approval for both the NAFTA and GATT agreements.

✓ **Make a trans-Pacific free trade strategy the top U.S. trade policy priority for Asia in 1993.**

President Clinton should direct the Office of the United States Trade Representative and the Department of Commerce to propose a free trade strategy for Asia. The intention to create such a strategy should be articulated in the President's next State of the Union Address. The slow U.S. economic recovery dictates that Washington aggressively seize opportunities to expand trade. The completion of the NAFTA with Canada and Mexico promises greatly to increase trade and create new American jobs. A free trade strategy with Asia should be designed with trade expansion and job creation as its top priorities.

✓ **Establish a set of common principles for free trade agreements in Asia, and make clear that the U.S. prefers an eventual free trade agreement to link Asian and American markets.**

The U.S. should develop a set of principles that can be applied to all future FTA discussions. These should include:

- ✗ Reduction of barriers to trade and investment for all goods and services;
- ✗ Protection of intellectual property rights;
- ✗ Creation of mechanisms rapidly to settle trade disputes.

The U.S. should offer to negotiate trade and investment framework agreements with all the Asian states with which it has diplomatic relations. These agreements should incorporate the set of common principles. Such agreements do not tear down particular impediments to trade, but rather declare the signers' agreement to do so eventually. As such, these agreements are important cornerstones in the construction of a foundation for future free trade agreements.

The U.S. should build a system of free trade that includes bilateral and multilateral agreements, thus expanding the international zone of free trade. The U.S. should make clear to both its NAFTA and potential Latin American free trade partners that its Asian free trade strategy will unite both hemispheres under one free trade zone. Potential Asian free trade partners will not only have free trade access to the U.S., but to its NAFTA partners as well.

To reach this goal, however, Washington should maintain the flexibility to seek FTAs with individual countries or with two or more states as the opportunities present themselves. For example, the economies of such countries as Australia, Hong Kong, New Zealand, Singapore, and Taiwan are sufficiently open to benefit from FTAs with the U.S. On the other hand, the U.S. may have to wait longer for FTAs with less open economies like Indonesia, Japan, and the Philippines.

Free trade agreements with less open countries can be aided by including them as part of an agreement between two groups of nations. Thus the NAFTA could be connected to an agreement with the ASEAN Free Trade Area (AFTA). Encouraging AFTA to implement ASEAN-wide trade liberalization and harmonization of trade and investment rules would simplify Washington's task of negotiating a comprehensive free trade arrangement with Asia. The U.S. should praise AFTA's efforts to increase trade in ASEAN.

✓ **Use the Asia Pacific Economic Cooperation (APEC) forum to seek concrete reductions in barriers to trade and investments in Asia.**

This November, the U.S will host the annual meeting of APEC. Washington should use all its powers as APEC host to make the expansion of trade and investment between Asia and America APEC's top priority. At the November meeting, the U.S. should introduce a plan to seek:

✗ a schedule for reducing Asian trade tariffs;

✗ a schedule for eliminating investment barriers;

✗ measures to improve protection of intellectual property rights; and

✗ creation of a mechanism to settle multinational trade disputes. The U.S. should earmark funds that it contributes to APEC's secretariat to advance this goal.

However, Washington must remember that if it delays completion of GATT or produces a NAFTA agreement that erects barriers to trade, Asians will be less willing to follow Washington's lead in seeking trade expansion under the aegis of APEC.

✓ **Start to address the complexities of negotiating a free trade agreement with Japan.**

Washington should be aware that free trade agreements with South Korea and Japan pose special challenges. Both countries, but especially Japan, seek to protect industries with complex non-tariff barriers. These include the vertical integration of complementary companies and banks, called *keiretsu*, and collusion between competing companies to fix markets or freeze out competitors, called *dango*. Japan also highly regulates its distribution and retail system to bloc competing foreign companies.

Instead of using self-defeating sanctions to force Japan to end its informal trade barriers, Republican Representative David Dreier of California has proposed that the U.S. seek a free trade agreement with Japan.[19] Clearly, if Japan's complex system of informal trade barriers can be negotiated away in exchange for complete Japanese access to the American market, this will benefit both Japanese and Americans. Clinton can begin this process by making a future free trade agreement an issue for discussion in the high-level talks to eliminate Japan's informal trade barriers, proposed during the April visit of Japanese Prime Minister Kiichi Miyazawa.

✓ **Emphasize to Asians that an Asian-American free trade system can promote peace in Asia.**

Using public and private diplomacy, Washington should tell its Asian friends and allies how Asian-American free trade can promote peace in Asia, and why a borderless commercial arrangement offers more long-term hope for regional prosperity and security than a U.S. military presence alone. A system of free trade can help avoid economic tension within Asia, and between Asia and the U.S. It would also build political confidence between Asian nations, that can in turn lead to wider Asian political cooperation.

Nevertheless, the U.S. should emphasize that it will continue to honor its military obligations to Asian friends and allies. While the Cold War competition between the U.S. and the Soviet Union is over, other countries like China and India may harbor greater ambitions for Asia. A U.S.-led trans-Pacific free trade system will help ensure that America retains diplomatic and economic leadership in Asia far into the next century. But the bridge to this desirable condition cannot be crossed unless the genuine and immediate security needs of Asia's disparate peoples are met by an American presence in Asia.

CONCLUSION

The U.S. needs a free trade strategy for Asia. Recession-weary American and Asians can benefit from a rapid reduction of trade barriers that will increase the flow of trade throughout the Far East and across the Pacific. The support which the North American Free Trade Agreement has received from both the Bush and Clinton Administrations points to the increase in jobs and prosperity which so broad a free trade area promises. Linking the Western Hemisphere with Asia in an all-encompassing zone of commercial freedom will extend and multiply NAFTA's advantages to one half of mankind. Such a system will also reduce trade tensions between American and Asia whose unchecked increase is a source of the deepest concern on both sides of the Pacific.

A trans-Pacific free trade strategy will also allow the U.S. to consolidate its victory over communism in Asia. As Asian attention turns from superpower rivalry toward economic competition, active American support for a free trade area will emphasize Washington's continued leadership in Asia.

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19 See his "Open Shashimi," *Policy Review*, Spring 1993, p. 78.