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Promote
Greater Free
Trade in Asia

By Robert B. Zoellick



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By Robert B. Zoellick

I would like to thank Heritage for arranging this panel on the Asia-Pacific Economic Cooperation (APEC) forum. I remember discussing with Treasury Secretary Baker in 1988 the prospect of forming a similar group for Finance Ministers. We moved on to other duties that summer and never had a chance to launch it. When the Australians and others launched the APEC idea in 1989, it very much fit our strategic view.

I want to focus on three topics. The first is the strategic perspective. The second is the general purposes of APEC. And the third is some suggestions on what APEC's future agenda might be.

First, on the strategic perspective. We are at the end of one era and at the beginning of another. So it is important to try to convey to the public a sense of how institutions like NAFTA and APEC fit together. While it is perhaps a simplification, I would suggest that after World War II, the primary strategic objective of U.S. foreign policy was to try to transform Western Europe and Japan into both allies and partners so we could cooperate on a common agenda. The three core elements of that strategy were containment of communism, reconstruction of Western Europe and Japan, and the creation of a liberal economic order, particularly with respect to capital and trade flows.

Today the United States has two similar strategic objectives. The first is to ensure that it maintains strong ties with Western Europe and Japan. We cannot take those relationships for granted in the absence of the Cold War glue. There are many issues on the horizon that could lead to strains on those relationships. We also have the second objective: to reach out to the next group of potential partners that can help us in assuming mutual responsibilities and promoting mutual economic, political, and security interests. Not surprisingly, these potential partners are the nations that are building market economies, civil societies, and pluralistic and democratic systems. The obvious candidates are in Latin America, Central/Eastern Europe, and, of course, East Asia.

When you look at the world with this framework, you can see the interconnections between the things that the United States has been trying to do through NAFTA, the Enterprise for the Americas Initiative, APEC, the promotion of a special U.S.-EC relationship, and our suggestions for offering special free trade arrangements to Central and Eastern Europe. This is the political economy structure for U.S. foreign policy after the Cold War. It could be a vehicle for explaining to the American public how these issues relate to one another.

My second topic is the general purposes of APEC. I believe regional integration can support ongoing global liberalization. Regional integration is natural. It reflects economic interdependence and a number of challenges that cross national lines. However, it is very important that we make sure that regional initiatives accommodate other regional efforts and support ongoing, global liberalization. The countries of APEC, by and large, have prospered from an open global economic system. That

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system has been the source of much of their astounding economic growth. So by their very nature, most APEC nations remain very oriented toward an open global system.

So even though the increased trade and investment flows within the Pacific basin provide a basis for new regional arrangements, I think all the countries of Asia recognize that they benefit from a healthy, global system. APEC must fit within and support that global system. Similarly, it is important to demonstrate how arrangements like NAFTA, the Asian Free Trade Agreement, or other groups relate to, and are mutually supportive of, both APEC and the global system. It is also important to relate other Asian developments—for example, the growth triangle of Singapore, Malaysia, and Indonesia, or the economic region of Southern China including Hong Kong—within this integrative model.

NAFTA and APEC can also be employed to develop innovative liberalizing arrangements that later can be expanded. Let me cite from the NAFTA example. The provisions in NAFTA on intellectual property, investment, services, and agriculture go far beyond what we expect to be able to get in the Uruguay Round. So there is the possibility that by creating a model with one group of trading partners, we can move the liberalization agenda ahead in ways that may be adopted later by others. APEC offers the same potential.

These efforts also help fight protectionism at home. The OECD reported recently that over the last ten or twelve years, twenty of the 24 OECD countries had moved in the direction of trade protection. The so-called bicycle theory suggests that if we are unable to move the trade liberalization agenda forward, then the forces of protectionism will pull us down. Regional efforts can keep up the momentum for liberalization.

Another general purpose of APEC is to ensure that the economic infrastructure of an integrated Pacific community includes the United States. There has been a great increase in intra-Asian and trans-Pacific trade flows. One statistic really brought this home to me recently. The merchandise trade between Singapore and Taiwan and the United States is now 20 percent greater than the United States' merchandise trade with Germany. When you consider how most Americans perceived Singapore and Taiwan twenty or thirty or even ten years ago, I think that is a startling fact; I am sure it is one that most Europeans do not recognize.

The decisions we make today about economic infrastructure will affect patterns of interaction far into the future. In some ways, the APEC agenda is a twentieth century analogy to what happened in the U.S. West in the nineteenth century. In that century, the location of the telegraph lines and railroads influenced the patterns of communication, the economic flows, and how integration took place. Today, in the Pacific, we are determining where the airline routes go, what telecommunication systems we will use, what languages people will speak, where students will study, and many other questions that will set patterns of future interaction. It is in the interests of America and of Asia that the U.S. turn out to be a key part of this "infrastructure."

The third purpose of APEC is that good economic ties create a stronger foundation for America's ongoing security engagement in the Pacific. I'll illustrate the point briefly by referencing a comment made to me by a former Australian Defense Minister. He said that today the policy planning staffs throughout East Asia are examining two questions very seriously. One is whether they should develop weapons of mass destruction. The other is whether they should shift their conventional forces from internal security to force projection. At least in his view, the primary variable in those analyses is whether the United States maintains a forward deployed presence in Asia. I believe, not surprisingly, that it is very important for the United States to maintain that presence. I also believe, however, that it will be very difficult for any administration to maintain that presence well into the future unless it can demonstrate to the American people that we have strong economic and political

ties to the region. So an organization like APEC, or an event like the Seattle meeting, are ways of getting the message to the American people about our economic and security interests in the Pacific.

One other security point: economic arrangements within the Pacific can also support the cooperative security systems that the Asians are starting to build. For example, the ASEAN Post-Ministerial Conference structure has started a security dialogue. Of course, we should not overstate the capabilities of these arrangements. The U.S. force presence is going to remain critical for Pacific security. Nevertheless, there are areas, such as transparency of defense budgets, dealing with narcotics problems, piracy, and I hope proliferation, where Asian cooperation could enable others to share the load with the U.S. Cooperation on economic topics can prepare the way for political and security arrangements.

The fourth purpose that I see for APEC is that it can be an institutional vehicle for supporting U.S. business. I will cite one example. The United States promoted a telecommunications group, both because it is important for the region's economic infrastructure, as I noted earlier, but also because we had very strong business support. We tried to involve these U.S. businesses in the work that we promoted at APEC.

The fifth purpose for APEC has run throughout my comments: APEC can affect U.S. public opinion. We have extraordinary opportunities and interests in Asia. Yet I think that view is not well understood, particularly on this coast. An institution like APEC can help get the message out. Meetings like the Seattle conference help focus attention in the United States.

The sixth purpose of APEC is to help position the United States globally. While many people are anxious about the U.S. role in the world, the United States remains the one global power—whether in terms of security, economics, or politics. Our share of world GNP remains in the low 20s, as it has for about ten or twenty years. The United States' interests obviously cannot be restricted to the Americas, Europe, or, for that matter, Asia. Our objective should be to integrate ourselves effectively into all those regions, so as to enhance our global influence.

Finally, I wanted to talk briefly about what should be on APEC's agenda. It is important to recognize that APEC's gradual pace of development has been dictated by practical considerations of the need to bring our Asian, and particularly ASEAN, partners along. Singapore has been a great booster of APEC from the very start, but other ASEAN countries have worried that APEC might in some way dwarf ASEAN's role. They were also concerned about whether the institutionalization of APEC might create a bureaucracy that could undermine their interests. So it took four years to get APEC off the ground.

At this point, APEC needs two things. First, it needs a vision, a sense of where it is going. But APEC also needs practical steps that will demonstrate how it can achieve goals that will move toward that vision. The "Eminent Persons" report is an effort to devise vision. Fred Bergsten has been the United States representative. From the work that I have seen, I think this group has done a very good job. I hope their report will be published, because it can help launch the debate on APEC's long-term view.

My vision is for free trade throughout the Pacific community. I realize that this goal will not be easy to achieve. But I think we will be better able to organize political and business support in the United States if we have a sense of where we are going.

The near-term agenda for APEC depends a great deal on NAFTA and the Uruguay Round, not surprisingly given the fact that, at least in my concept, all of these efforts are related. In the very near-term, I continue to think that there is an opportunity for APEC to give a very needed push to completing the Uruguay Round. I suggested after the Tokyo Economic Summit that the U.S. should send an emissary to ASEAN and other countries in Asia with a message: "Now that we have moved

forward the negotiations on market access by coming forward with a package in Tokyo, it is time for those in Asia who also support free trade and who want the Uruguay Round to succeed to come up with a package that we could use at APEC.”

An APEC initiative on the Uruguay Round would be a wonderful opportunity to demonstrate that APEC stands for something. It would also demonstrate something that I think Asians are slow in recognizing—that is, the decisions on multi-lateral trade issues are not only in the hands of the United States, the European Community, and Japan. The countries of East Asia are now big enough economically, and certainly their prospects are sizable enough, that it is very important that they also make market access offers, particularly in the services area. Seattle offers an opportunity for the countries of APEC to send a signal about their outward orientation by giving the Uruguay Round a push.

Beyond the Uruguay Round, and I hope beyond the NAFTA, I have a list of ten items for APEC’s future agenda. I will touch on each, to give you a sense for future discussions. Some items are small, to create movement in the near term. Some are more ambitious.

The first is a trade and investment consultation agreement. It is still striking that there are many obstacles to trade and investment that probably nobody really thinks are a good idea, but have remained in place because countries have not devoted attention to the detailed work of eliminating them.

Second, I would focus on infrastructure developments. We could start by following through on the working groups that have been established in APEC. These groups deal with topics like transportation, telecommunications, higher education and training, and customs processes. My former colleague, Sandy Kristoff, who is now on the NSC staff, did a super job of trying to overcome Korean customs impediments. A great deal more needs to be done in this area. In transportation, for example, we have been trying to overcome barriers through airline negotiations, which continue to operate through bilateral agreements. If the United States and Asian countries are interested in having more contact, whether by students or businesspeople, we should welcome competition that will help us lower air fares.

A third item would be mutual recognition of product standards and testing. We have launched some efforts in these areas with the EC. Some of this work is handled through standards organizations. But we could simply start reviewing these items, one by one, particularly in the area of high technology, to see whether standards or approval processes are getting in the way of business.

Fourth, APEC could address items that might fall by the wayside in the Uruguay Round process. This agenda might include topics like government procurement, intellectual property, financial services, and perhaps competition policies. We could seek to bring together like-minded countries to push the liberalization agenda forward, demonstrate successful records, and then, I hope, bring others along over time.

The fifth topic could be an investment code. It is striking the degree to which trade now follows investment, as opposed to vice-versa. As I recall, over a majority of our trade with Europe represents intra-company trade flows. Western Europe and North America have a very rich exchange of direct investment, but neither the European Community nor the United States has a similar pattern with Japan. This asymmetry of direct investment could be affecting our trade patterns.

One might begin with a voluntary investment code. It could cover topics like national treatment, transparency, non-discrimination, and the right of establishment. All countries, including the U.S., have some restrictions on foreign investment. Countries might list those limits and then use the GATT framework or such an agreement to roll back those limits over time.

Investment is also very important to competition in services. When you examine how trade agreements deal with services, you observe that the key to liberalization is to open investment opportunities for people who want to start service operations in other economies.

The sixth idea is to involve the finance ministers in macro-economic discussions.

Seven, APEC should explore ties with other institutions, for example, the Asian Development Bank, the World Bank, and IFC. To help avoid making APEC into a bureaucracy, it would be natural to involve the ADB and others with the infrastructure program.

The eighth point would be to continue to involve private business, for the reasons that I noted.

The ninth idea is of a slightly different type, which is to explore the basis for sub-regional ties. I know there is some concern about this in some quarters in Asia, but it would be useful to examine how the NAFTA and the Asian Free Trade Agreement might be able to interact to liberalize trade, perhaps ultimately by creating free trade arrangements between one another. This would have to be done carefully so as not to discriminate against others.

My tenth and final point is to give the APEC ministerials a particular focus. For example, if the Ministers launched an agenda like the one I have outlined, they could review the progress of specific topics each year.

I think that what happens over the next week on NAFTA is going to go a long way toward determining whether APEC has much life or future. I find it striking, as I am sure many of you do, that the President is working very hard on NAFTA. But he is struggling to get 100 votes from his party, when he has 258 in the House of Representatives. When the Bush Administration secured fast track negotiating authority, over the opponents of both NAFTA and the Uruguay Round, we got 93 Democratic votes. Now I have just got to believe that one way or another there is the capability to beg, borrow, or steal 100 Democratic votes. And if they do, I am pretty confident the Republicans will put up 120.

It would be a tremendously negative signal for everybody around the world if the President could not get NAFTA through. It would be a signal to American politicians, most of whom do not focus on trade issues, that protectionism was the favored course. It would be a signal to countries like France in the Uruguay Round that they would be nuts to accept a difficult agriculture deal because they couldn't be sure the Americans could get it through in our own Congress. Countries in Asia would say, "Why should we be making arrangements with a country that can't do the sensible thing with 90 million people on its border." The ramifications of this, not only for economics, but for foreign policy and security policy, are absolutely enormous.

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