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SOLVING THE ASIAN CRISIS THROUGH TRADE AND INVESTMENT LIBERALIZATION

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To speed economic recovery in Asia and promote the economic well-being of the United States, the Clinton Administration should advance further liberalization in free trade with and investment in Asian countries. Liberalization would undermine the policies of "crony capitalism" that caused the recent financial panic in Asia and, at the same time, encourage Asian governments to adopt the economic reforms necessary to return to prosperity. It would fuel a continuation of the seven-year economic expansion in the United States, in which almost 3 million are employed in jobs directly related to trade with Asian countries. Liberalization also would dampen an anticipated growth in U.S. bilateral trade deficits with affected Asian countries.

To liberalize trade with and investment in Asia, the Clinton Administration should work along three tracks: (1) *multilaterally*, through the World Trade Organization (WTO); (2) *regionally*, through the forum for Asia-Pacific Economic Cooperation (APEC); and (3) *bilaterally*, through free trade and investment agreements (FTAs) with such suitable partners as Australia, Hong Kong, New Zealand, Singapore, and Taiwan.

THE MULTILATERAL APPROACH

Of the three tracks, the multilateral approach to improving trade in Asia has yielded the most progress. In 1994, the Uruguay Round Agreements slashed tariffs on industrial imports by 40 percent. In addition, they reduced trade barriers on agricultural products, apparel, textiles, and services; protected intellectual property rights; and forced developing Asian countries to abide by the same anti-discrimination trading rules that previously had applied only to other developed countries. Because of these policies, the global economy is expected to expand by $500 billion through 2005.

The Uruguay Round also established the WTO. The United States and Asian countries have concluded WTO negotiations to liberalize trade in information technology products, telecommunications, and financial services. WTO members eliminated tariffs on 93 percent of the global trade in computer-related products in December 1996; they opened approximately 99 percent of domestic telecommunication markets to international competition in February 1997 (adding another $1 trillion to the global economy by 2010); and they liberalized financial services in December 1997. These agreements marked the first time in which Asian countries consented to binding rules allowing U.S. firms to compete in these markets.

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THE REGIONAL APPROACH

The APEC forum helped to make those WTO initiatives possible. Founded in 1989, APEC is a cooperative body of 21 member-economies. In 1994, APEC members vowed to create a "free trade and investment area in the Asia-Pacific" by 2010 in developed economies and by 2020 in developing economies. Rather than negotiating an FTA to achieve this goal, APEC encourages unilateral liberalization among its members.

APEC's cooperative approach has produced significant results. U.S. diplomats have worked through like-minded colleagues from Australia, Canada, New Zealand, and Singapore to build ever larger circles of consensus within APEC for U.S.-supported WTO initiatives. Once most APEC members agree to a proposal, recalcitrant members may feel some pressure to adopt a more liberal stance on the proposal to avoid becoming isolated. In turn, the APEC consensus can encourage other WTO members to reach more meaningful liberalization agreements.

THE BILATERAL APPROACH

FTAs between individual countries help to liberalize trans-Pacific trade and investment. In 1994, for example, the United States committed to expand the North American Free Trade Agreement (NAFTA) to Chile, a member of APEC. This initiative was derailed in 1997 when President Clinton failed to secure fast-track trade negotiating authority from Congress. Fast track allows the President to negotiate trade agreements under congressional guidelines and to submit such agreements for approval on a straight up-or-down vote. New Zealand and Singapore repeatedly have expressed an interest in FTAs with the United States, and Australia is willing to explore the idea. Following completion of its WTO negotiations with the United States, Taiwan also is an FTA candidate. None of these countries, however, will initiate FTA negotiations with the United States without fast-track authority for the President.

If Congress renews fast-track authority, the United States first should seek an FTA with New Zealand. One of the world's freest economies, New Zealand signed an FTA with Australia—the Closer Economic Relations (CER) agreement—that is better than NAFTA in several respects. New Zealand has proposed an FTA combining the best elements of NAFTA (such as its investment provisions) and the CER (such as the elimination of antidumping procedures), which could be expanded to include Australia and Singapore. Such an FTA would accelerate liberalization in trans-Pacific trade and investment by encouraging other countries in Asia and Latin America to accede to it. It also would prompt the WTO to improve its existing agreements and expand negotiations to include investment liberalization, competition policy, and government procurement.

SOLVING THE ASIAN CRISIS

Accelerating the liberalization of free trade and investment will help to sustain the current economic expansion of the United States and to foster a quick recovery for Asian countries. None of this will occur, however, unless Congress gives the President fast-track negotiating authority. The Administration exhausted its remaining trade negotiating authority at the conclusion of the WTO's financial services talks. No meaningful liberalization negotiations will commence without fast track. Last year, President Clinton failed to submit fast-track legislation until late September, and then refused to fight for it when environmental groups, labor unions, and House Minority Leader Richard Gephardt objected. The President must exercise strong leadership—especially within his own party—if fast track is to pass in the future.

The Clinton Administration simultaneously should pursue multilateral, regional, and bilateral liberalization initiatives as well. Liberalizing trade and investment requires all three approaches. For example, negotiating FTAs with Australia, New Zealand, and Singapore would build momentum for the WTO rounds on agriculture and services that begin in 1999 and 2000, respectively. Liberalizing trade and investment with Asia would assist troubled Asian countries to transit from troubled systems of crony capitalism to more market-oriented economies. Liberalization also would sustain the continued economic expansion of the United States.

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