



# Backgroundnder

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## Executive Summary

No. 1604

October 17, 2002

## BACK TO BASICS: AN ECONOMIC AGENDA FOR APEC

*DANA R. DILLON, BALBINA HWANG, JOHN TKACIK, AND BRETT D. SCHAEFER*

This year's October 26–27 Asia Pacific Economic Cooperation (APEC) conference in Los Cabos, Mexico, will focus primarily on APEC's core mission of lowering barriers to trade and investment in an effort to spur growth. The conference presents an excellent opportunity for President George W. Bush to help set the global trading system on a firm footing for sustained economic growth, thereby strengthening the international community in its campaign against global terrorism. President Bush must use APEC to promote America's economic and strategic goals.

One way the President can further economic cooperation in the Pacific Rim is to renew America's commitment to free trade and investment. Washington should move toward initiating new free trade agreements with Australia, Taiwan, and New Zealand.

Although economic policy will be the priority in Los Cabos, the war on terrorism cannot be neglected. The President can pursue this critical issue at the APEC forum through bilateral meetings. President Bush should devote most of his limited time at the conference to bilateral meetings with America's allies to demonstrate the United States' appreciation for their efforts and bolster their commitment to the fight against terrorism.

**International Trade.** The global economy is in a slump largely because of sub-par growth in Europe and the United States over the past year and a decade of ongoing economic malaise in Japan. Low growth and the uncertainty resulting from terrorism have retarded foreign direct investment (FDI) flows to economies in the Asia–Pacific region. Only China experienced an increase in FDI flows in 2001, most of which went to China's export-processing sector.

The economic slowdown and pessimism about near-term recovery have increased pressure on governments to enact counterproductive economic policies to protect influential domestic constituencies. The steel tariffs initiated by President Bush, for example, have hurt America's economy by encouraging inefficiency and increasing costs for consumers and intermediate manufacturers. At the

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same time, they have angered America's trading partners, who have threatened retaliatory tariffs on U.S. goods. The 2002 farm bill, which granted subsidies primarily to large, competitive agribusinesses, produced similarly disastrous results.

The APEC conference presents a unique opportunity to promote the revitalization of the global economy through proposals for further liberalization of trade and investment, increasing incentives for economic growth. For the benefit of the American economy as well as the global economy, the Bush Administration should advance free trade and investment policies bilaterally, regionally, and globally.

**Terrorism.** The APEC summit also presents an opportunity for President Bush to speak directly to many world leaders about terrorism and to gain and maintain their support. Typically, the most important meetings that take place at such international summits are the bilateral meetings between the U.S. President and other world leaders. The Administration should prioritize President Bush's time in Mexico for meetings with countries that support the war on terrorism—notably Australia, the Philippines, Korea, and Japan. Because Bush will already have met with Chinese President Jiang Zemin before the October 25 summit, a U.S.–China bilateral at APEC need not be a priority.

**Key Countries.** Japan may be considered APEC's principal Asian anchor. Its economic stability and prosperity are therefore essential to the future health of the global economy. One imperative topic for discussion at the APEC summit will be actions that can be taken to restart the engine of growth in Japan. President Bush must focus on giving Prime Minister Koizumi the political support he needs to continue the reform and restructuring of his nation's economy.

South Korea remains one of the United States' most important allies in Asia. The two countries have many more values and goals in common than points of disagreement. President Bush should move the focus away from preoccupation with dif-

ferences toward the countries' shared commitment to peace, stability, and economic prosperity in the region. Although North Korea remains an ongoing security issue, it will be important to prioritize discussion of economic policies, given that South Korea now faces near-term economic problems.

On the political front, China's representative at APEC will be preoccupied with Taiwan. Economically, China is the rising power in the Asia–Pacific, and China's accession to the World Trade Organization at the beginning of 2002 should set the tone for its contributions in the APEC forum. At the forum, President Bush should discourage China's efforts to form an exclusionary free trade zone with the Association of South East Asian Nations bloc. The Chinese proposal for the “free” trade zone would exclude Japan, Korea, and Taiwan, leading most observers in the region to regard Beijing's motivation as mainly political.

Despite the fact that Taiwan is one of Asia's economic powerhouses, that island nation is regularly treated like a second-class citizen, even by APEC countries with tiny economies. APEC must face up to its commitment to “treat every member equally” and welcome and respect Taiwan's participation.

**What the President Should Do.** To take advantage of the opportunities presented at this year's APEC conference to promote America's economic and strategic goals, President Bush should (1) encourage economic reform in Japan and in Korea; (2) support democratic Taiwan; (3) demonstrate appreciation for the contribution of America's Allies in APEC; (4) forge free trade agreements; and (5) set the stage for WTO negotiations.

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# Background

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## BACK TO BASICS: AN ECONOMIC AGENDA FOR APEC

*DANA R. DILLON, BALBINA HWANG, JOHN TKACIK, AND BRETT D. SCHAEFER*

The 2001 Asia Pacific Economic Cooperation (APEC) conference, which occurred only a few weeks after the September 11 terrorist attacks in New York and Washington, rightly focused on terrorism and ways that APEC and member states could cooperate in the war on terrorism. Now that a year has passed and the global economy is in obvious doldrums, this year's conference should focus more on APEC's core mission of lowering barriers to trade and investment in an effort to spur growth. This year's annual APEC summit meeting of national leaders in Los Cabos, Mexico, on October 26 and 27 presents an excellent opportunity for President George W. Bush to help set the global trading system on a firm footing for sustained economic growth, thereby strengthening the international community in its campaign against global terrorism.

A commitment to eliminate barriers to trade and investment in developed APEC countries by 2010 and developing APEC countries by 2020 has been supported by all member countries and is illus-

trated in the organizing principles for the organization's 2002 goal of "expanding the benefits of cooperation for economic growth and development."<sup>1</sup>

While much of the rhetoric that traditionally accompanies the APEC summit meetings is anodyne and non-binding,<sup>2</sup> President Bush's participation provides an important opportunity to use APEC's "bully pulpit" to promote America's economic and strategic goals.

The American economy has slowed since the second half of 2000. In addition to normal variation in the business cycle, contributing factors include corporate scandals, a stock market "bub-

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1. See SOM Chair Gerardo Traslosheros, opening remarks at APEC Third Senior Officials Meeting, Acapulco, Guerrero, August 20, 2002, at <http://www.apec2002.org.mx/index.cfm?action=news&IdNews=24>.
2. The "public relations" dimension of APEC summits has been the butt of bureaucratic humor ever since APEC's inception. Initially, the Asia Pacific Economic Cooperation meetings were termed "four adjectives in search of a noun," while other wags called them "A Perfect Excuse to Chat." See William R. Thomson, "A Perfect Excuse for a Chat (Maybe): APEC in Shanghai," *Confidential Inside Asia Reports*, at <http://www.cia-reports.com/websitetype/ng/ngAPEC/>.

ble,” an estimated \$100 billion in economic losses directly sustained in the collapse of the World Trade Center Towers alone on September 11,<sup>3</sup> and dramatically increased government spending for the war against terrorism. In addition, the United States’ economy is laboring under self-inflicted wounds such as heightened tariffs on steel and ballooning farm subsidies, all of which affect international trade.

One way the President can further the benefits of economic cooperation in the Pacific Rim is to renew America’s commitment to free trade and investment—and squarely address the forces of inertia that have stalled bilateral U.S. free trade agreements (FTAs) with Chile and Singapore. Washington should also move decisively to forge new FTAs with Australia, Taiwan, and New Zealand. All of these countries are economically and institutionally ready for a free trade regime with the United States.

Many APEC countries have already entered into FTAs, including an agreement between Singapore and Japan. Those that are potentially exclusionary, such as the one proposed by Beijing with the Association of South East Asian Nations (ASEAN) last year, should be opened to all qualified APEC countries, including Taiwan, which is APEC’s fourth largest Asian trading nation.

Although economic policy must be reinstated as the prime issue at the economic summit, the war on terrorism cannot be neglected. This critical matter can be pursued at the APEC forum through the President’s bilateral meetings. Since September 11, 2001, among APEC members, America’s Asian allies and friends have contributed the lion’s share of

political, intelligence, military, and law-enforcement assistance to the U.S. campaign against terrorism. President Bush has repeatedly emphasized the need to “show support for our Asian friends and allies.”<sup>4</sup> The President should devote most of his extremely limited time in Mexico to bilateral meetings with America’s allies to demonstrate the United States’ appreciation for their efforts and to sustain their commitment to the fight against terrorism.

## INTERNATIONAL TRADE

The global economy is in a slump largely because of sub-par growth in Europe and the United States over the past year and a decade of ongoing economic malaise in Japan: As these three giants of the world economy go, so goes the global economy. Throughout the past year, the world economy has been flirting with recession. International Monetary Fund (IMF) calculations indicate a global GDP (gross domestic product) growth of just 2.2 percent in 2001 and 2.8 percent in 2002—the lowest growth since the early 1990s and less than half of the 4.7 percent growth registered in 2000.<sup>5</sup>

Low growth and the uncertainty resulting from terrorism retarded foreign direct investment (FDI) in 2001, with global inflows of FDI falling to \$735 billion in 2001—less than half the amount in 2000.<sup>6</sup> FDI flows to economies in the Asia–Pacific region declined 24 percent from 2000 to 2001, according to the U.N. Conference on Trade and Development (UNCTAD).<sup>7</sup> Trade has suffered similarly, with growth in merchandise trade falling from 12 percent in 2000 to an estimated 2 percent in 2001.<sup>8</sup> Only China experienced an increase in FDI inflows in 2001, most of which went to China’s

3. New York City Comptroller William Thompson has said that economic costs to New York City as a result of the September 11 attacks are between \$83 billion and \$95 billion. Timothy Williams, “Comptroller: Cost of Attacks Can Be as Much as \$95 Billion,” Associated Press, September 4, 2002.
4. George W. Bush, “A Distinctly American Internationalism,” remarks at the Reagan Library, Simi Valley, California, November 19, 1999.
5. A recession is defined in industrialized countries as two successive quarters in which gross domestic product declines. There is no precise definition of global recession, but most accept sustained world economic growth of less than 2 percent or 2.5 percent as a recession. Data from “Chapter I: Economic Prospects and Policy Issues,” *World Economic Outlook: Trade and Finance*, International Monetary Fund, September 2002, pp. 1–2, at <http://www.imf.org/external/pubs/ft/weo/2002/02/index.htm>.
6. “World Investment Report 2002: Transnational Corporation and Export Competitiveness,” Press Conference Opening Statement, United Nations Conference on Trade and Development, September 17, 2002, at [http://www.unctad.org/WIR/pdfs/wir02\\_os.en.pdf](http://www.unctad.org/WIR/pdfs/wir02_os.en.pdf).
7. “Asia–Pacific FDI Inflows Down 24% Last Year, But Neared 1990s Peak,” United Nations Conference on Trade and Development, Press Release TAD/INF/PR51, September 17, 2002, at <http://www.unctad.org/en/Press/pr0251en.htm>.

export-processing sector, apparently at the expense of FDI to Southeast Asian countries.<sup>9</sup>

The IMF's latest *World Economic Outlook*, released on September 25, summarizes the global economic situation:

After a strong first quarter [in 2002], concerns about the pace and sustainability of the recovery have risen significantly. Financial markets have weakened markedly... The recovery is still expected to continue, but global growth in the second half of 2002 and in 2003 will be weaker than earlier expected.<sup>10</sup>

The economic slowdown and pessimism about a near-term recovery have increased pressure on governments to enact counterproductive economic policies to protect influential domestic constituencies, and the United States may be the worst example of this trend. In March 2002, for example, in direct contrast to its long-standing leadership in promoting free trade and investment, the United States imposed tariffs of up to 30 percent on some steel imports and signed into law an agriculture bill that increases subsidies to American farmers (predominantly large farms and agribusinesses) by \$80 billion over the next 10 years, for a total of \$180 billion.<sup>11</sup>

These beggar-thy-neighbor policies do not benefit America or the global economy. The steel tariffs are supposed to phase out by March 2005 after giv-

ing "U.S. steel makers time to become more efficient and competitive."<sup>12</sup> However, they have done nothing to lead other nations to cut subsidies or output, nor have they led to significant gains in U.S. industrial efficiency.<sup>13</sup> In the end, these tariffs have only hurt America's economy by encouraging inefficiency and increasing costs for consumers and intermediate manufacturers, in addition to angering America's trading partners, who have threatened retaliatory tariffs on U.S. goods.<sup>14</sup>

The farm bill has produced similarly disastrous results, trading short-term political expediency for long-term trade opportunities and economic prosperity.<sup>15</sup> As noted in *The Wall Street Journal*,

While subsidies protect growers in America and several other countries from falling world prices, they generally further depress prices by encouraging continued production and, thus, cripple growers in less subsidized countries... The new farm bill officially returns the country to the long-term policy of aggressively subsidizing agriculture, and with far fewer planting restrictions on growers than in the past.<sup>16</sup>

The net result of government intervention is a drastic hidden tax on Americans, who may face up to \$257 per household in increased food prices annually in addition to the taxes needed to pay for the farm bill's subsidies. These subsidies also con-

8. World Trade Organization, *International Trade Statistics 2001*, at <http://www.unctad.org/en/Press/pr0251en.htm>.

9. "China Versus Southeast Asia in the Race for Investment," *Asia Pacific Bulletin* No. 31, Asia Pacific Foundation of Canada, November 2, 2001.

10. "Chapter I: Economic Prospects and Policy Issues," *World Economic Outlook: Trade and Finance*.

11. Congressional Budget Office pay-as-you-go estimate for the Farm Security and Rural Investment Act of 2002 (H.R. 2646), May 22, 2002.

12. Neil King, Jr., and Robert Guy Matthews, "Errant Shot? So Far, Steel Tariffs Do Little of What President Envisioned," *The Wall Street Journal*, September 13, 2002, p. A1.

13. *Ibid.*

14. For further analysis, see Aaron Schavey, "The Ailing Steel Industry Needs Less Government, Not More," Heritage Foundation *Backgrounder* No. 1519, February 22, 2002, at <http://www.heritage.org/research/tradeandforeignaid/bg1519.cfm>.

15. For a discussion, see Brian M. Riedl, "Top 10 Reasons to Veto the Farm Bill," Heritage Foundation *Backgrounder* No. 1538, April 17, 2002, at <http://www.heritage.org/Research/Budget/BG1538.cfm>.

16. Roger Thurow and Scott Kilman, "Hanging by a Thread: In U.S., Cotton Farmers Thrive; In Africa, They Fight to Survive; America's Subsidies Depress World Prices, Undermining Its Foreign-Policy Goals," *The Wall Street Journal*, June 26, 2002, p. A1.

tribute to the reluctance of other nations to reduce agriculture tariffs that average 62 percent globally.<sup>17</sup>

The APEC meeting is a good opportunity to kick off action to revive the global economy by proposing steps to increase incentives for the liberalization of trade and investment to further economic growth. The 1994 APEC meeting in Bogor, Indonesia, established the goal of regional “free and open trade and investment by 2010 for developed member economies and 2020 for developing ones.”<sup>18</sup> This established goal provides an invitation for the Bush Administration to advance free trade and investment policies bilaterally, regionally, and globally for the benefit of the American economy and the larger global economy.

Some may question the consistency of pursuing free trade agreements bilaterally, regionally, and globally, but the nature of free trade makes such approaches complementary and more expeditious. If one avenue is not proceeding smoothly, another option may be explored, with the overall outcome being an expansion of free trade and investment policies.

## TERRORISM

The APEC forum is not a war-fighting institution and issues only nonbonding economic agreements, so the Pentagon should not expect too much from the summit in Mexico. Nevertheless, this summit provides at least a short amount of time in which President Bush can speak directly and personally to many world leaders about terrorism and to gain and maintain their support. Photo-ops and brief bilateral meetings are frequently viewed as “fluff,” but with careful management, they can be used to build personal relationships, clarify intentions, and increase confidence among friends and allies.

The recent spate of terrorist attacks in Indonesia, Kuwait, the Philippines, and Yemen should be seen as evidence that al-Qaeda remains active. Moreover, the car bomb attack in Bali, Indonesia, should be

viewed as an attack directed against Australia, America’s closest and most reliable ally in the Asia–Pacific region. Bali is geographically close to Australia and a popular tourist destination. Some 200,000 Australians visit Bali every year, and some 20,000 are on the island at any given time.<sup>19</sup> It is estimated that 75 percent of the casualties are Australians.<sup>20</sup> Any terrorist group, whether al-Qaeda working with local extremists or a purely homegrown Indonesian organization, would be fully aware of the vulnerability of Australian civilians in Bali.

The Bush Administration should draw two policy conclusions from this attack: first, that Washington should be no less unstinting in its support of Canberra than Australia was in its support for America following September 11, and second, that since September 11, 2001, the Indonesian government has been grossly negligent in its efforts to fight terrorism, and the hundreds of dead and missing in Bali is the result. The United States is providing investigative and humanitarian assistance to Indonesia, but the President should demand substantive action from the Indonesian government.

## COUNTRY-SPECIFIC ISSUES

The most important meetings that take place at international summits attended by the United States have typically been the bilateral meetings between the U.S. President and other world leaders, although the President may have only a brief period of time in which to conduct such discussions. At this year’s APEC conference, the President may have only 110 to 120 minutes available for bilateral sessions.<sup>21</sup>

A meeting with Mexico’s President Vicente Fox, a strong opponent of America’s position on Iraq, is inevitable, given that he is the summit’s host, but the Administration must prioritize the use of the President’s remaining time for countries that support the war against terrorism, including Australia, the Philippines, Korea, and Japan. Because Presi-

17. See Riedl, “Top 10 Reasons to Veto the Farm Bill.”

18. Asia Pacific Economic Cooperation (APEC), “General Information,” at <http://www.apec2002.org.mx/index.cfm?action=content&IdCategory=1&IdSubCategory=7&IdTopic=3>.

19. Geoff Hiscock, “Business Impact Resonates Beyond Bali,” CNN Asia Business Editor, October 15, 2002.

20. “Bali Death Toll: Breakdown by Country,” CNN, October 15, 2002, at <http://asia.cnn.com/2002/WORLD/europe/10/15/bali.tourists/index.html>.

21. Interview with National Security Council official.

dent Bush will have met with Chinese President Jiang Zemin before the October 25 summit, he presumably will already have reviewed U.S.–China concerns regarding the war against terrorism and the disarmament of Iraq. If this is the case, a U.S.–China bilateral meeting at APEC need not be a priority. The President of Indonesia should not get a meeting with President Bush.

## Japan

Because of its sheer economic size, Japan may be considered APEC's principal Asian anchor. As the world's second largest economy, its economic stability and prosperity are essential to the future health of the global economy. Because of Japan's lackluster economic performance in the past decade, one of the most imperative topics at the APEC summit must be consideration of a means to restart the country's engine of growth.

Japan's banking system is saddled with approximately \$425 billion in non-performing loans; deflation continues to be a lingering threat; and the lack of confidence in the immediate future is reflected by the Nikkei index (Japan's national stock index), which is hovering at 20-year lows.<sup>22</sup> The crux of Japan's economic woes lies in the political deadlock in which its leader, Prime Minister Junichiro Koizumi, is mired. After two years of attempted reforms in the economic sector, his success has been lackluster.

President Bush should focus on giving Prime Minister Koizumi the political support he needs to continue the reform and restructuring of his nation's economy. Japan's forthright and valuable contribution to the U.S.-led war on terrorism throughout the past year confirms that this important ally stands behind the United States in its security objectives. It is now time to focus on the vitally important issue of economic recovery in Japan.

## Korea

In the past year, Washington's ties with Seoul have been strained by a misplaced emphasis on a divergence in policies toward North Korea. Attention to such areas of division has served only to exacerbate misguided perceptions in South Korea

regarding U.S. intentions, fueling a rise in anti-American sentiment as well as frustration in the United States.

In fact, South Korea remains one of the United States' most important allies in Asia, if not the world, and the values and goals the two countries have in common far outweigh their points of disagreement. President Bush, therefore, should turn the focus of the relationship with Korea away from a negative preoccupation with points of disagreement to emphasize their shared commitment to peace, stability, and economic prosperity in the region.

Although North Korea remains an ongoing security issue, it is important to prioritize economic policies at the APEC summit, given that South Korea is now facing near-term economic problems.

Although the South Korean economy has experienced a solid economic recovery since its crisis in 1997, registering an average growth of 5 percent to 6 percent this year, there are signs that it may be more unstable than it appears. For example, the spurt of economic growth in the previous three quarters has been, to a great extent, the result of a tremendous increase in domestic spending that has resulted in a sharp increase in consumer debt. This is a worrisome trend for the South Korean economy because of the under-regulated nature of this increase.

Attention should be paid to the possible existence of a severe "credit bubble" in the South Korean economy. The increase in domestic household debt has dramatically accelerated in the last year to 71 percent of GDP. The increase in this debt is equal to 229 percent of the estimated increase in nominal GDP for 2002.<sup>23</sup> Clearly, the debt is growing at a dangerous and unsustainable rate. Much of the explosion in consumption debt was spurred by too rapid liberalization of the banking and credit sector without the commensurate regulatory measures to guide this growth at a stable rate.

## China

On the political front, China's representative at APEC will be preoccupied with the issue of Taiwan. Last year, at the APEC Shanghai summit, China

22. James Brooke, "Japan Markets Resume Their Search for the Bottom," *The New York Times*, September 26, 2002.

23. Andy Xie, Global Economic Forum, Morgan Stanley, Hong Kong, "Korea: Rising Risk of Hard Landing," October 4, 2002.

engaged in a series of unseemly tactics intended to humiliate Taiwan that, for the most part, eventually backfired.

Specifically, China initially refused to cooperate with the Financial Action Task Force (FATF) and the Asia/Pacific Group (APG) on the issue of money laundering because Taiwan was already a member of both organizations. Taiwan was barred from an anti-terrorism ministerial meeting because Beijing refused to admit that Taiwan had anything to offer. Later, China's foreign minister shouted down Taiwan's economics minister, preventing him from speaking. Ultimately, Taiwan was obliged to abandon the Shanghai leaders' meetings altogether.

This disrespect for Taiwan is particularly disturbing, given the contrast between Taiwan's and China's contributions to the war against terrorism. China has made few substantive contributions to the war on terror<sup>24</sup> and has offered little valuable intelligence on money laundering. Taiwan, on the other hand, has been a quiet but active ally in the war against terrorism, especially in providing financial and money-laundering intelligence from Southeast Asia as well as energy security mechanisms.<sup>25</sup> Taiwan, unlike China, has also indicated a desire to participate in the U.S. Customs "Container Security Initiative."

Economically, China is the rising power in the Asia-Pacific, and its accession to the World Trade Organization (WTO) at the beginning of 2002 should set the tone for its contributions in the APEC forum. China's major trade and investment partners can be expected to focus on China's WTO commitments to lowering trade barriers, expanding

market access into China's hinterlands, respecting intellectual property, and adhering to a rule of law and a transparent regulatory structure.

Two recent reports issued by the U.S. General Accounting Office explore these and other related concerns in comprehensive detail.<sup>26</sup> These reports underscore the need for close monitoring of China's WTO-related reforms and swift feedback responses in order to keep China's economic liberalization on track.

At APEC, President Bush will assess whether or not China's efforts to form an exclusionary free trade zone with the ASEAN bloc enhances or retards free trade in general, although present indications are that a China-ASEAN free trade regime is not likely to become a workable reality. At its summit meeting in November, the Association of South East Asian Nations may well issue a framework agreement on forming a regional FTA with China over the next decade.

ASEAN leaders cautiously welcomed China's proposal for such an FTA two years ago, as well as the reiteration of the proposal last year in Brunei, but problems remain. The fact that China's proposal for the "free" trade zone (FTZ) would exclude Japan, Korea, and Taiwan leads most observers in the region to regard Beijing's motivations as largely political. Indeed, most believe that China sees the FTZ proposal as a way to minimize ASEAN's anxieties over China's rising power, eclipse Japan's regional economic leadership, and construct a new economic order in East Asia that is not dominated by the U.S.<sup>27</sup>

24. When asked about China's intelligence contribution to the war on terrorism, one senior American intelligence officer said, "Yes, they are helping us. But if they stopped tomorrow, no one would notice." Arthur Waldron, "Guess Hu's Coming to the White House," *The Wall Street Journal*, May 1, 2002, p. A18. See also Admiral Dennis Blair's complaints that intelligence-sharing with Beijing is minimal in Dirk Beveridge, "US: China Could Help War on Terror," Associated Press, April 18, 2002. General Tommy Franks pointedly declined to comment on China's refusal to grant overflight or landing rights at Chinese bases. See "U.S. Central Command Chief Says Afghan Situation Still Tough, Murky," April 11 briefing at Washington Foreign Press Center, at <http://www.usinfo.state.gov/topical/pol/terror/02041201.htm>. See also Greg Torode, "Beijing Left Out as U.S. Praises Neighbours for War Support," *South China Morning Post*, April 13, 2002, p. A1. CIA Director George Tenet called China's contributions "a mixed bag." See text of Hearing of the Senate Armed Services Committee on "Worldwide Threat to U.S. Interests," March 19, 2002, transcribed by Federal News Service.

25. Lin Chieh-yu, "Taiwan Backed Anti Terrorism Effort: NSC," *Taipei Times*, September 2, 2002, at <http://www.taipetimes.com/news/2002/09/03/story/0000166607>.

26. U.S. General Accounting Office, *World Trade Organization: Selected U.S. Company Views about China's Membership*, GAO-02-1056, September 2002, at <http://www.gao.gov/atext/d021056.txt>, and *World Trade Organization: Analysis of China's Commitments to Other Members*, GAO-03-4, October 2002, highlights of a report, at <http://www.gao.gov/new.items/d034.pdf>.



## Taiwan

Because of Chinese pressure, Taiwan's President Chen Shui-bian will not attend the APEC summit of CEOs at Los Cabos on October 26–27. Even though Taiwan is one of Asia's economic powerhouses, is the world's 16th largest economy, is America's eighth largest export market, and holds the world's third largest foreign exchange reserves, this island nation is regularly treated like a second-class citizen, even by APEC countries with tiny economies. Last year, China actively undermined talks on terrorism and money laundering in an attempt to isolate Taiwan. At some point, APEC must face up to its commitments to "treat every member equally"<sup>28</sup> and welcome Taiwan's participation, including at the "CEO" level.

### WHAT THE PRESIDENT SHOULD DO

At this year's APEC summit, the Bush Administration must get back to basics and emphasize the importance of economics. Armed with trade promotion authority, the President must push for free trade agreements at all levels and encourage Japan and Korea to start the painful, but necessary, process of economic reform.

Although economics must be the centerpiece of Bush's participation, he can use the "bully pulpit" of an international summit to demonstrate his appreciation for the efforts of America's friends and allies in the war against terrorism. To accomplish these goals, the President should:

- **Encourage economic reform of the Japanese economy.** The Koizumi government has made some progress in this area in recent months with the appointment of Japan's new "economy czar," Heizo Takenaka, who has taken a hard-line stance in attacking bad loans.<sup>29</sup> But Takenaka faces an uphill battle with entrenched political interest groups who will resist painful but necessary restructuring of the financial sector. The APEC members' support of the Koizumi government will be of critical importance to the continuation of these reforms. One important way to achieve solidarity with other APEC countries is Japan's participation in regional free trade agreements. Japan is already showing initiative in this regard through its dialogue with Singapore.
- **Encourage the economic restructuring and reform measures that Korea's President Kim began in 1998.** While these reforms have done much to stabilize the South Korean economy and allow it to recover rapidly from the economic crisis it suffered in 1997, more needs to be done. President Bush should stress the urgency and necessity of moving forward with policies such as privatization of key industries such as telecommunications and power.
- **Support democratic Taiwan.** To compensate for the snubs Taiwan has typically received from APEC members, President Bush should schedule a working meeting with Taiwan's APEC representative, Nobel Prize laureate Y. T. Lee, who will be attending the conference in President Chen's stead. Admittedly, there are substantive issues that President Bush and Dr. Lee should discuss—notably, the prospects for a free trade agreement between the United States and Taiwan. A number of problematic issues present obstacles to progress on an FTA, including intellectual property rights questions, Taiwan's rice and livestock import regimes, and pharmaceutical market restraints. President Bush, simply by mentioning these issues to his Taiwan interlocutor, would send a signal to Taipei that Washington is serious about an FTA. Finally, when speaking of China and Taiwan at the APEC meetings, President Bush should continue to use the term "democratic Taiwan."<sup>30</sup> Although the United States' "One China" policy prevents

27. See Barry Wain, "Asian Free Trade Zone Is a Double Edged Sword," *The Wall Street Journal*, October 7, 2002, at <http://online.wsj.com/article/0,,SB1033905340254386593.djm,00.html>.

28. In 1991, members committed themselves to conducting their activities and work programs on the basis of open dialogue with equal respect for the views of all participants. See APEC brochure published by the APEC Secretariat, at [http://tyr.apecsec.org.sg/loadall.htm?http://tyr.apecsec.org.sg/apec\\_organization/brochure2001.html](http://tyr.apecsec.org.sg/loadall.htm?http://tyr.apecsec.org.sg/apec_organization/brochure2001.html).

29. James Brooke, "Tokyo's Economic Team Talks Hard Line on Banks," *The New York Times*, October 4, 2002.

30. See *The National Security Strategy of the United States*, The White House, September 2002, p. 18, at <http://www.whitehouse.gov/nsc/nss.html>.

the President from using Taiwan's formal name (Republic of China) in official settings, "democratic Taiwan" is a useful compromise with connotations that should gratify Taiwan while not antagonizing Beijing.

- **Demonstrate appreciation for the contribution of America's allies in APEC to the war against terrorism.** The best way for the President to show his appreciation of the contribution that APEC friends and allies have made in the war against terrorism is to prioritize bilateral meetings with Japan, Korea, Australia, the Philippines, Singapore, and Taiwan.
- **Forge free trade agreements.** Armed with trade promotion authority, the Administration is better positioned to advance free trade at the APEC conference than it has been in previous years. Most of the likely candidates for free trade agreements in the near future are members of APEC (Australia, Chile, New Zealand, Singapore, and Taiwan). The Administration is nearing completion of negotiations with Chile and Singapore. Once completed, the texts of these agreements should serve as blueprints for agreements with other APEC member states or, ideally, as the base document for a free trade agreement with the entire group of APEC member states. The Bush Administration should seriously consider South Korean initiatives for an FTA.
- **Set the stage for WTO negotiations.** The WTO negotiations at Doha, Qatar, resulted in a document declaring the intention to substantially improve market access for agricultural goods; reduce "with a view to phasing out, all forms of export subsidies"; and reduce "trade-

distorting domestic support."<sup>31</sup> The benefits of free trade are well-established and should be supported by the member states of APEC in the WTO. APEC members accounted for 61.1 percent of global GDP, 41.8 percent of world population, and 39.2 percent of global FDI inflows in 2001.<sup>32</sup> Consensus among APEC members would result in a strong negotiating position in future WTO negotiations and could very well prove to be the cornerstone for future global policies on trade and investment.

## CONCLUSION

Preserving international trade and globalization promotes the economic security of the United States. A breakdown of global economic integration, such as the one that occurred in the 1930s, would undermine the prosperity that is the ultimate source of America's strength. President Bush can revitalize the global trading system at the APEC summit by pushing an aggressive trade agenda and providing political support to Japan and Korea in their efforts to reform their economies.

The President must also prepare the ground for future successful WTO negotiations. If APEC members can agree on a common position on agriculture, trade, and investment, they will represent a formidable bloc in the organization that could drive the WTO negotiations forward.

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31. "Doha WTO Ministerial 2001: Ministerial Declaration," Document WT/MIN(01)/DEC/1, November 20, 2001, adopted November 14, 2001, at [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm).

32. Asia Pacific Economic Cooperation (APEC) at <http://www.apecsec.org.sg/>.