

U.S Trade Policy and Asian Regionalism

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Recent Trends in East Asian Regionalism

Since the late 1990s, East Asian regionalism has witnessed the emergence of three different phenomena in tandem: the decline of the importance and influence of APEC and trans-Pacific regionalism; the rise of alternative intra-East Asian regional organizations and processes—ASEAN Plus Three (APT) and East Asian Summit—that are duplicating, and may well replace, the activities associated with APEC; and an explosion of bilateral FTAs (both among East Asian nations and with nations outside the region). Distracted by the war on terror after 9/11 and the subsequent invasion of Iraq, the Bush administration failed—at least until 2007—to react to these changes and to develop and sustain new strategic U.S. economic and diplomatic policies to meet those challenges.

APEC Adrift: With little exaggeration, it can be said that since 1998, APEC has drifted, increasingly bereft of momentum and, as time passed, influence.¹ After the failure of the EVSL effort in 1998, the Clinton administration lost interest in APEC as a vehicle for trade liberalization.

After 9/11, pushed strongly by the United States, global security issues and the war on terrorism took center stage at APEC leaders' meetings. In 2003, the official APEC leaders' declaration raised security issues to equal priority with trade and other economic issues, a change that administration officials candidly admitted caused some friction among other APEC members.

Meanwhile, from 2001 to 2005, the U.S. position toward further APEC regional liberalization was either negative or non-committal. In 2003, USTR Robert Zoellick rebuffed a proposal by Thailand to move up the Bogor Goals from 2020 to 2015, arguing that the "best way to move forward" was to use bilateral FTAs "to create models" for future liberalization.²

Still, there were those who wanted to revive the trans-Pacific vision of regional integration. In 2004, the influential international trade economist and policy entrepreneur C. Fred Bergsten persuaded the APEC Business Advisory Council (ABAC) to put forward a proposal for a Free Trade Area of the Asia-Pacific (FTAAP). At the Santiago leaders' meeting, although Australia, Singapore and New Zealand supported the idea, the U.S. was noncommittal. Zoellick labeled the proposal a "valuable discussion topic," but he also stated that most ministers were

¹ This note does not attempt to analyze the substantive deficiencies in the APEC agenda. For a recent comment on the challenges to APEC's relevance, see: Hu (2009).

² International Trade Reporter (ITR), 23 October 2003

mainly interested in more “practical steps”.³ It was not until 2006, two years later, that President Bush endorsed a study group to assess the possibilities of FTAAP, and even at that point, he only stated that the idea deserved “serious consideration”.⁴ And it was not until the 2007 APEC leaders summit in Sydney, Australia, that Bush administration officials really attempted to exert leadership in advancing the FTAAP proposal—to muted and even lukewarm response from other APEC leaders.⁵

ASEAN Plus Three: Meanwhile, the APT increasingly moved to center stage as the chief vehicle for East Asian integration. In 2002, leaders of the APT established an East Asian Study Group, composed entirely of government officials, which subsequently recommended a “step-by-step” approach to trade and financial liberalization in East Asia and suggested that formal negotiations for an intra-East Asian FTA be put off well into the future.⁶

Despite this cautious approach, the APT has steadily moved to duplicate and overtake many of the functions of APEC. There are now annual meetings of trade ministers, and in recent years, the APT has taken on additional activities, with accompanying ministerial meetings, such as the environment, energy, tourism, health and safety, financial services—and recently, regional security.

Originally behind the scenes, but in recent years more openly, the PRC has pushed to increase the stature and activities of the APT. For China, there are three virtues associated with the organization and the process: neither the United States nor Taiwan is a member, and the

³ ITR, 25 November 2004; see also Bergsten, 2005

⁴ ITR, 23 November 2006.

⁵ U.S. Department of State (2007); see also *Inside US Trade*, September 14, 2007.

⁶ Kwon 2002; Capie, 2004

overriding vision foresees intra-Asian regionalism as the wave of the future. Chinese scholars, if not Chinese officials, have become quite candid in their view of the future of Asian regionalism and the role of the United States. Chu Shulong, a scholar close to the Beijing government (and a 2006-2007 visiting scholar at the Brookings Institution) wrote bluntly in 2006: “Americans ... have to realize, soon(er) or later, that a regional economic and security arrangement in Asia without direct U.S. involvement is inevitable in the long run ... simply because ... Asia needs its own economic and security mechanism to (take) care (of) itself.”⁷

Bilateral FTAs: The greatest activity in East Asia on the trade front over the last eight years has been the burst of bilateral FTAs that have been negotiated among East Asian countries and between East Asian countries and nations outside of the region. In 1999, except for the loose ASEAN grouping, no nation in East Asia was negotiating or had concluded a bilateral FTA. At the end of 2008, by some counts (it is hard to keep up as more FTAs are being announced every month), East Asian nations are planning, negotiating or have concluded over 100 FTAs.⁸ Singapore is the champion in this area, with the PRC, Australia, Korea and Thailand (until the coup) following in its footsteps, and Japan and South Korea catching up (According to the latest figures from the Asian Development Bank, Singapore has 32 FTAs proposed, under negotiation or concluded; the PRC, 23; Korea, 23; Japan, 19, and Australia, 18.)

At this point the United States has concluded FTAs with Australia, Singapore and South Korea; and it has fitfully pursued negotiations with Thailand and Malaysia. In addition, it has

⁷ Chu, 2006. Uncharacteristically for Chinese commentators, Chu also took a direct shot at US policies toward Asia, arguing that: “(The) 1997 Asian financial crisis indicates clearly that Americans do not care (about) Asians too much, for it did not act to the crisis as it had done (in the) Mexican financial crisis ... when the US offered about \$30 billion to help ... Mexico. Therefore, since Americans do not care much about Asia, why (should) Asians always care about American concerns about East Asia grouping.” (Ibid., p. 10.)

⁸ Asian Development Bank, 2009.

Trade and Investment Framework Agreements (TIFAs) with ASEAN, plus Brunei, Indonesia, Malaysia, the Philippines, Cambodia, New Zealand, Vietnam, Thailand and Taiwan. New Zealand and Taiwan have both requested negotiations of an FTA, thus far without success.

U.S. Trade Policy Options in East Asia

What follows is a series of trade policy options that the United States might conceivably pursue in East Asia over the next few years and, in some instances, over the next decade. The order builds from the current bilateral course up to several possible regional frameworks.

1. Bilateral FTAs: Continue Along the Current Path. The United States could over the next several years continue on the bilateral path it started down after the disappointment with APEC as a vehicle for East Asian trade liberalization. In 2007, the United States and South Korea successfully concluded negotiations for a comprehensive, WTO-plus FTA. If and when the U.S. Congress ratifies the KORUS, international trade economist Richard Baldwin has predicted that his long-discussed “domino effect” will finally take hold.⁹ In that instance, the prediction would be that Japan would have to take action to counter the trade diversion effects of a U.S.-Korea FTA. Japan potentially would have three options: it could approach either the United States or Korea separately (it could also approach both nations separately, but this is less likely); it could also suggest a three-nation FTA (a la NAFTA). In turn, should a U.S.-Korea-Japan FTA be concluded (or even if negotiations began), other East Asian nations would likely line up quickly to join. A major question then would concern whether the ASEAN nations would negotiate as a group, or whether individual nations would ask to join the new agreement (see

⁹ Baldwin, 1993.

below). The wild cards in this expanding FTA scenario would be China and Taiwan. It is not clear whether the United States, for either political or economic reasons, could agree to negotiating an FTA with the PRC. On the other hand, the U.S. would undoubtedly insist that Taiwan be included, setting up the possibility of a compromise that could be sold on the U.S. political scene: that is, as with APEC and the WTO, the PRC and Taiwan would negotiate FTAs simultaneously. It is, finally, unclear what role India would play in this scenario; but that is true with all Asian scenarios at this point.

2. APEC: Coalition of the Willing. Utilizing APEC as the negotiating forum, the United States could attempt to negotiate with those nations in APEC that were ready to move beyond bilateral FTAs and negotiate a subregional agreement. In order to avoid anger and resentment over future discrimination, the APEC-minus FTA would need to provide a clear docking arrangement so that when ready other APEC nations could more easily join the agreement. This option also would finesse the problem of Taiwan, as it is already a member of APEC. There are also interim steps that the U.S. might take to build toward consolidation. First, it could convene all off the APEC members with which it has bilateral FTAs and start a process of integrating the disparate FTA provisions, moving toward a unified text at some point in the future. As all U.S. FTAs derive from the same basic template, this should not present insuperable obstacles. Further (even though this would likely perpetuate protectionist rules), U.S. negotiators could also begin to discuss melding rules-of-origin provisions. The U.S. could to some degree emulate the EU and attempt to develop a pan-U.S. system of rules of origin that permits diagonal cumulation.¹⁰

¹⁰ See Lawrence (2006) for analysis of EU plans along these lines in the Middle East.

2A. P-4 (Trans-Pacific Strategic Economic Partnership): The Emerging Preferred Alternative. In February 2008, USTR Susan Schwab signaled a new initiative for U.S. policy toward trans-Pacific regionalism with the announcement that the United States would begin a “detailed exploratory process” for negotiations with the so-called P-4 in the areas of investment and financial services rules. The P-4 group, comprising Singapore, Chile, Brunei, and New Zealand, had consummated a comprehensive free trade agreement in 2005, labeled the Trans-Pacific Strategic Economic Partnership.¹¹

Though careful to limit U.S. public aspirations initially, it quickly became clear that Schwab and the Bush administration saw this decision as a key building block to more comprehensive East Asian regional economic integration. Thus, in September 2008, Schwab formally announced at a press conference with New Zealand Trade Minister Phil Goff that the United States would launch a negotiation with the P-4 for a full-fledged FTA that would include all industrial and service sectors. Then, at the November 2008 APEC Ministerial meeting in Lima, Peru, Australia and Peru indicated that they would like to join the negotiations; and Schwab stated that a “P-7” was likely to emerge and that negotiations would probably take around two years. After that, other APEC nations would be asked to join in a “docking arrangement.” She further argued that the P-7 process might well become the vehicle for a future trans-pacific FTA: “There are kind of three ways to get to an FTAAP, a starting over with (a) blank sheet of paper, trying to merge existing FTAs, or starting with something like the Trans-Pacific Partnership and creating concentric circles around it.”¹²

¹¹ ITR, February 7, 2008.

¹² ITR, September 28, November 27, 2008.

The Obama Administration and the P-4 Negotiations. At the APEC ministerial, it was also announced that formal negotiations among the original P-4 would begin in March 2009 (Australia and Peru, both of which have bilateral FTAs with the United States, have expressed interest in joining these talks; and Vietnam wants to come as an observer).

Briefly, there are a number of issues and challenges that must be overcome or sorted out before the Obama administration can take a leadership role in a trans-Pacific initiative:

- There are important elements within the Democratic coalition—labor unions particularly, but also Democratic members of the U.S. House (and a few in the U.S. Senate)—who have already expressed strong opposition to concluding more bilateral or regional free trade agreements.¹³ The Obama administration has yet to take a formal position on this issue; and with the prospect that no USTR will be in place before early March, it will be difficult to meet internal decision-making deadlines for a P-4 meeting, even if there is the political will to move forward.
- So-called Trade Promotion Authority lapsed in June 2007, and Congress shows no inclination to renew such a mandate any time soon. This circumstance does not preclude presidential negotiating initiatives, but the Obama administration would face two large obstacles in moving ahead without TPA authority: (1) the prospect of running the gauntlet of a full congressional legislative process if an agreement were signed including the likelihood of substantial amendments to the FTA; and (2) for that reason a great reluctance of the P-4 trading partners to put forward their bottom line on key elements of

¹³ It should also be noted that two interest groups (National Milk Producers Associations and the National Cattlemen's Beef Association) have expressed either outright opposition or some misgivings about the agreement, largely based on competition with New Zealand dairy and beef products. *Inside US Trade*, September 25, 2008.

an FTA package—only to see the U.S. Congress potentially renege on the president’s concessions and balanced package.

- Even absent congressional action on a TPA, candidate Obama lined up with congressional opponents of Bush FTAs in arguing that stringent new labor and environmental provisions would have to be integral to any FTAs negotiated by the United States in the future. Depending on the details of the new demands, other nations could balk at the introduction of such behind-the-border restrictions as impinging on their domestic sovereignty and authority.

Despite these decidedly mixed signals, there will be some pressure on the Obama administration to demonstrate its “multilateral credentials” in Asia. And should it go forward with the March talks, despite deep divisions within the Democratic party, there are countervailing forces that would support the move. Both the majority and ranking minority senators on the Senate Finance Committee—Sen. Max Baucus (D-Mont.) and Sen. Charles Grassley (R.-Ia.)—favor the P-4. Further, on February 12, New Democratic Coalition Chair Ellen Tauscher (D.-CA), along with the ranking Republican on the House Ways and Means Committee, Rep. Kevin Brady (R.-TX), began circulating a letter urging President Obama to engage in negotiations for the P-4 trans-Pacific agreement (The New Democratic Coalition represents trade-friendly members of the House Democratic caucus). Finally, the P-4 initiative continues to enjoy very strong support from key business groups such as the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Coalition of Service Industries.¹⁴

¹⁴ For more details, see: ITR, Feb. 28, September 25, 2008; *Inside US Trade*, September 28, 2008; February 12, 2009.

Addendum (March 2, 2008): In the last week of February, USTR announced a delay in the P-4 talks, stating that top USTR political appointments were not in place and that the P-4 process would be reviewed along with other major trade initiatives inherited from the Bush administration. An initial interagency hearing was scheduled for March 4, at which outside interest groups both in favor and opposed to the proposed agreements would testify.¹⁵

3. FTAAP. A bolder approach would entail the U.S. getting behind the Bergsten/FTAAP effort and pushing for an APEC-wide FTA within some time certain—possibly ten years as a goal. This would build upon an already established process in APEC—the formation of a study group. As with proposal #2, there are a variety of ways the execution of the plan could be structured. One possibility, already a tradition in APEC, would be to set different timetables for the more developed versus the developing country members of APEC.

Given the still raw memories of the EVSL disaster in 1997-98, where the U.S. overplayed its hand and caused a backlash against reciprocal sectoral liberalization in APEC, at this point U.S. trade negotiators will have to tread carefully if they hope to revive APEC as a regional vehicle for trade liberalization.

There are, however, certain signs that, if the U.S. does act with greater finesse, the prospects for APEC revival may be brightening. Regarding reciprocity-based trade liberalization, two important new factors have been introduced since 1998: first, the wave of bilateral reciprocity-based FTAs among East Asian nations and between East Asian nations and nations outside the region; and second, a gradual change in ASEAN's strict "non-interference" and

¹⁵ *Inside US Trade*, February 27, 2009.

“concerted unilateralism” stances. In both case a learning process has occurred that may already be exerting an impact on views regarding regional priorities and realities.

With regard to bilaterals, there are, according to informed estimates, well over 100 in place or under negotiation. All of these FTAs as based upon reciprocal concessions that include some provisions for enforcement. Thus, each nation (all members of APEC) has on one level moved beyond the mantras of the “Asean way” that dominated the debate in the 1990s.

Asean’s evolving role. An important sign of the impact of this change came in January 2007 at the ASEAN summit in Cebu, the Philippines. For the first time since its founding, ASEAN leaders agreed to consider stricter rules to implement policies and monitor compliance—including penalties for breaching agreements such as temporary suspension or even expulsion in extreme cases. These deliberations were based upon recommendations from an Eminent Persons Group, headed by former Philippines president, Fidel Ramos. The rationale behind the proposals was explained by S. Jayakumar, then-deputy Singapore prime minister and a member of the EPG: “The only option for ASEAN is to take some hard-nosed decisions on reinventing itself so as to stay an effective organization.”¹⁶

More recently, however, ASEAN members have failed to live up to the promise of the 2007 commitments. The charter that was ratified in November 2007 did give ASEAN a legal identity; however, though it created a human rights commission, it provided for no enforcement powers. Of greater import for this analysis, the charter in effect perpetuated the “consensus” decision-making procedures that had stymied ASEAN integration in the past. As Ralph Cossa, president of the Pacific Forum, stated: “By merely codifying existing norms, it is the same old

¹⁶ John Burton, *Financial Times*, January 10, 2007 (“Asean discusses toughening its rules to enforce group discussion”)

wine in the same old bottle, unless and until ASEAN members, individually and collectively, demonstrate a willingness to stand behind the lofty principles they proclaim.”¹⁷

ASEAN nations, however, may be spurred to greater action by recent events: most specifically, a landmark tripartite summit that took place on December 13, 2008. On that date, the heads of government of Japan, South Korea, and China met in Japan, at Dazaifu, in the Fukuoka Prefecture. The summit’s joint statement proclaimed that a new era of cooperation had been launched among the three nations, and it formalized the arrangement with a commitment to subsequent annual summits. In the end, this event could prove deeply disturbing to ASEAN nations, as it undermines the assumption that ASEAN would always play a pivotal role in East Asian agenda-setting and institutional organization through the APT or East Asian Summit processes.

That assumption may well be in jeopardy, as Donald Weatherbee, a keen observer of the region, has stated: “It now seems clear that the deepening economic ties among, and the common global challenges to, the East Asian economic giants transcend the loose regional of the APT, diminishing ASEAN’s claim to be an agenda-setter or necessary actor in the management of Japan-China-South Korea relations...ASEAN is attempting to muddle through. It had hoped through a new charter to enhance its relevancy. It has ended up embarrassed. As for the Dazaifu summit, ASEAN appears to be on the outside looking in at the beginning of a trilateral process that, if successful, would be much more regionally and globally significant than the APT”¹⁸

¹⁷ Cossa (2007). For additional analysis of the events surrounding the new ASEAN charter, see: Arnold (2007); Weatherbee (2009); and Koh (2008).

¹⁸ Weatherbee (2009).

4. Stand Back and Come in Later. Finally, the United States could stand back, allowing the current bilaterals to proceed, but not pressing at this point for any consolidation of subregional arrangements or for a regionwide FTA. The United States would thus signal that it did not oppose the new forms of intra-East Asian regionalism as embodied in the APT or the East Asian Summit. At the same time, it could quietly inform its closest allies in the region—Japan, Singapore, and Korea—that at any point that the nations of the APT or East Asian Summit decide to commit to formal FTA negotiations, the United States wants to be at the table.

In the end, this may become the Obama administration's default option if the president and his advisers decide over the next few weeks and months that because of intra-party divisions and a huge domestic agenda they need to proceed with caution throughout 2009. Such a course would postpone, if not scuttle, the P-4 effort and put off at least until the APEC leaders' meeting in the fall key decisions regarding future FTAs, U.S. policy toward APEC and other East Asian regional initiatives, and, ultimately, strategic choices for U.S. leadership in the region. Some will argue that the default option represents a dangerous gamble at a crucial juncture for Asian regionalism—but, as is often the case, domestic politics and exigencies may triumph over international responsibilities and obligations, at least in the short run.

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