

HOW BUSH CAN PREVENT CREATION OF AN ASIAN ANTI-U.S. TRADE BLOC

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Among the most serious challenges now confronting the United States in Asia is a growing debate among Asian states over whether to form their own trade bloc to rival the European Community (EC) and the emerging North American Free Trade Area (NAFTA). Such an Asian trade zone is likely to reduce America's growing trade with Asia and fuel greater protectionist sentiment in the U.S. Because of this, George Bush should enunciate an American free trade vision for Asia. He can do so at the next meeting of Foreign Ministers of the Asia Pacific Economic Cooperation (APEC) group, which convenes in Seoul from November 12 to 14.

APEC was formed in 1989, at Australia's initiation, to lower trade barriers in Asia. Seen as a complement to the broad-membership General Agreement on Tariffs and Trade (known as GATT), APEC includes the U.S., Australia, Brunei, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, and Thailand. Hong Kong, the People's Republic of China, and the Republic of China on Taiwan will be admitted at the Seoul meeting; Mexico and the Russian Republic are eager to join.

To date APEC has been long on ideals but short on substance. It will not even have a permanent secretariat until after the Seoul gathering. APEC thus has done little to foster free trade. APEC's efforts mainly have been absorbed by its ten committees studying cooperation in such fields as energy, investment, technology transfer, and telecommunications. APEC's members, including the U.S., prefer to allow the GATT to be the principal forum for reduction of trade barriers. The problem with this approach was exposed by the breakdown of the GATT's Uruguay Round over agricultural issues last November. Since then some Asian states have been proposing trade arrangements limited exclusively to Asian states. The most controversial is Malaysia's proposal for an East Asian Economic Group (EAEG) that would be led by Japan and keep out America. Malaysian Prime Minister Mahathir bin Mohamad, the promoter of this idea, apparently wants to reduce U.S. influence in Asia. Last September 30, during Japanese Emperor Akihito's visit to Malaysia, Malaysian King Sultan Azlan Shah suggested to Akihito that Japan lead the EAEG.

Public Coolness, Private Interest. So far EAEG has not received much support; South Korea and the U.S., in fact, oppose it. Japanese Prime Minister-designate Kiichi Miyazawa recently said he prefers building closer economic ties with the U.S. to creating an EAEG. Tokyo has been careful publicly to oppose the EAEG proposal in part to avoid the impression it is seeking to revive its World War II goal of imposing a Greater East Asian Co-Prosperity Sphere. Some Asian countries that were once dominated by Japan, like Korea, see troubling parallels between EAEG and the former Japanese empire. Despite Tokyo's professed coolness to the EAEG, however, Japanese officials privately have told The Heritage Foundation that there is unofficial Japanese bureaucratic and business sector interest in the EAEG. These same officials warn that interest in an EAEG-like group might increase if the U.S.-Mexico-Canada NAFTA becomes a barrier to Japanese exports.

Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, which are members of the Association of Southeast Asian Nations—or ASEAN—do not agree fully with Malaysia's EAEG trade bloc proposal. The ASEAN states trade extensively with countries outside what would be an EAEG bloc. Last year, for instance, ASEAN members exported over \$27 billion in goods to the U.S. During a meeting of its trade ministers this October 7, ASEAN endorsed only the formation of an EAEG "caucus." More important, they endorsed a Thai proposal to form an ASEAN free trade area (FTA) to be phased in over the next 15 years. This wisely aims to increase trade among ASEAN members and may lead to free trade arrangements with other countries.

Anti-U.S. Barriers. Washington should try to prevent the formation of an EAEG-like trade zone that would exclude America and other non-Asian states. Such a zone could erect barriers to U.S. exports and divert imports away from the U.S. This could hurt the U.S. economy; with \$339 billion in two-way trade last year, Asia was America's largest trading partner, outstripping the \$220 billion two-way trade volume with Europe. Formation of an EAEG-like zone, moreover, would give ammunition to opponents of free trade in the U.S. Congress and would fan the American public's understandable fears that Japan has begun seeking political muscle to match its economic strength.

To head off an EAEG, the Bush Administration should formulate a strategy to promote an Asian-American free trade regime. Such a strategy should seek to spread the benefits of the NAFTA to Asia. This would be a positive alternative to Malaysia's anti-American initiative. Secretary of State James Baker will represent the U.S. at the November APEC meeting. His strategy should include:

- ◆ **A clear statement directed at Asians that NAFTA will not mimic the European Community in erecting trade barriers. Instead, under NAFTA, Asians who invest in Mexico can take advantage of that country's lower labor costs and gain access to the U.S. market. The U.S. should offer to consider allowing Asian states to join NAFTA, as it now encourages Central and South American states to join. Asian membership in NAFTA would create the world's largest free trade zone, building greater momentum toward accomplishing the hobbled GATT's original purpose: complete freedom in international trade.**
- ◆ **An unequivocal preference for APEC, over an EAEG-like forum, as the principal arena for encouraging trade in Asia. Washington, however, should make its support for a permanent APEC secretariat contingent upon APEC's stated willingness to work toward greater free trade. The U.S. should direct its funding for the secretariat only to programs that promote free trade, and should be ready to criticize APEC if it becomes another ponderous GATT-like bureaucracy.**
- ◆ **Praise for the 1983 Closer Economic Relations agreement, a free trade area between Australia and New Zealand. This agreement has promoted such economic reforms as government deregulation and lower trade barriers, which, in turn, have increased trade and foreign investment opportunities in both countries. The U.S. also should praise ASEAN's recent agreement to form a free trade area. As a precursor to an APEC-NAFTA free trade area, Washington should consider an ASEAN-NAFTA free trade area.**

Positive Suggestion. The U.S. should respond positively to New Zealand Prime Minister Jim Bolger's suggestion this October 4 that New Zealand consider joining with the U.S., Canada, and Mexico in NAFTA. As a first step, the U.S. should propose to start negotiating with New Zealand for a Trade and Investment Framework Agreement, similar to that the U.S. this October 11 signed with Singapore. This agreement sets common principles to govern trade and investment and settle trade disputes. It may well lead to a U.S.-Singapore FTA, and be a model for the process of arranging free accords with Manila, Seoul, and Taipei. And, the U.S. should back Mexico's request to join APEC, to bring another free trade ally into that body.

The Bush Administration now must formulate a free trade strategy for Asia. Such a strategy is needed to preempt moves by some Asian states to form a trade bloc that would exclude the U.S. By promoting a free trade alternative that seeks to spread the benefits of the U.S.-Mexico-Canada NAFTA, Bush can help ensure that Asia continues to play a greater role in America's economic growth.

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