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U.S.-Asia Pacific Relations: Transitions In a New Era

May 6, 2010

Keynote Address: Amb. Ron Kirk, U.S. Trade Representative

“A Trade Agenda For APEC: The Way Forward”

AMBASSADOR RON KIRK, U.S. Trade Representative: Thank you, Dr. [Charles E.] Morrison. And thank you to Amb. [J. Stapleton] Roy of the U.S. Asia Pacific Council for hosting this great conference today.

Perhaps instead of hello, I should have started this speech with a big “aloha.” We are all looking forward to the APEC 2011 Leaders meeting in Hawaii.

Frankly, I’m not sure whether the President is more excited about laying the cornerstone for a new foundation of economic engagement in the Pacific next year, or getting some of his favorite shave ice!

I’m just kidding—as you all know, the President is quite serious about renewing American leadership in the world and especially in the Asia-Pacific region.

I want to thank Dr. [Charles E.] Morrison for his outstanding leadership in helping us plan to host APEC for in 2011. We in the Obama Administration are certainly looking forward to working with your team over the next 18 months.

As we prepare for this work together, I would like to offer some perspectives on: (1) How economic engagement fits into the President’s overall strategy in the Asia-Pacific region; (2) how the work we at USTR are doing in the region—successfully hosting APEC and launching a Trans-Pacific Partnership—complements our overall eco-



Amb. Ron Kirk, U.S. Trade Representative

nomics policy and puts us on a path toward the President’s goal of doubling American exports and growing American jobs; and (3) finally, I will address specifically the vital role that all of you here can play in our efforts to reach these goals.

Let me begin by congratulating the East-West Center on its 50th anniversary.

At the time of your groundbreaking in 1960, wars in Japan and on the Korean Peninsula were still fresh in the minds of most Americans. War in Southeast Asia had yet to begin in earnest, and President Nixon was years away from going to China.

Today we find a very different picture in the Pacific with respect to U.S. interests. The Cold War is over, the guns of war have gone quiet – and the economic engines have revved up.

Over the past 50 years, the Asia-Pacific region has experienced unparalleled economic growth. China, Malaysia, Vietnam, and the Republic of Korea are among the most dynamic economies in the world. And, the region as a whole now accounts for more than half of global GDP.

So today, while the United States promotes peace and stability in the Asia-Pacific region, we are also seeking to refresh and refine our commitment to economic prosperity for the people of every Pacific nation.

Renewing America’s Regional Leadership

Last year President Obama on his first trip to Asia emphasized that the United States is a Pacific nation, and he has tasked this Administration with an agenda that renews American leadership in the region.

On trade issues, this responsibility falls primarily to

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me and our team at the Office of the U.S. Trade Representative (USTR).

A few months ago, the President signaled his personal commitment to expanding trade by signing an executive order creating the National Export Initiative (NEI).

The National Export Initiative is an unprecedented whole-of-government approach to meet the President's



Amb. Ron Kirk, U.S. Trade Representative (left) and Dr. Charles E. Morrison, President, East-West Center and International Co-Chair, PECC (right)

goal of doubling the amount of U.S. exports over the next five years, which will create two million American jobs.

USTR and our partner agencies across the government are working to implement the National Export Initiative. We are consulting with Congress and stakeholders all the way, and reaching out to the American people to explain what we're doing, and why.

This open and honest approach is consistent with President Obama's goal of providing greater transparency in government.

Exports and Growth

And we have a good story to tell about trade. A lot of people are skeptical about this—but the fact is that trade leads to more and better jobs for American workers. In the last half of 2009, U.S. exports alone accounted for nearly half of American economic growth.

And the data shows clearly that businesses that export grow faster, add jobs quicker, and pay higher wages. So, there is a strong case for boosting exports to create jobs—and we can't afford to leave any jobs on the table.

With respect to the Asia-Pacific region, in particular, more than 60 percent of American exports go to this region. Experts predict that most growth in consumer sales in the coming decade will be on the Asian side of the Pacific Rim. And we want to access that growth for American businesses and workers.

Let me turn now to some of the specifics of how we intend to accomplish the bigger picture goals I've just laid out.

First of all, we are working in the Asia-Pacific

Economic Cooperation forum or APEC to expand trade opportunities by addressing issues related to U.S. objectives to grow jobs, expand exports, and stimulate the trade-driven growth of small- and medium-sized businesses.

Setting the Stage for APEC 2011

To that end, in 2010, we are working closely with our Japanese colleagues to achieve concrete and significant deliverables for this year that will set the stage for ambitious results in 2011 when the United States hosts APEC.

Specifically, we are focused on:

- Advancing key and pressing trade and investment issues, including in the area of standards and technical barriers to trade, that we can use as building blocks for 21st century trade agreements;
- Taking steps to make it cheaper, easier, and faster to trade in the region, including by eliminating obstacles to the flow of goods through supply chains and improving the transparency and accessibility of APEC economies' customs information; and
- Addressing barriers to trade and investment in environmental goods and services, with a particular focus on non-tariff barriers.

In 2011, the United States will host the APEC forum, and we plan to leverage this unique opportunity to demonstrate America's commitment to playing a stronger and more constructive role in the Asia-Pacific region, including on crucial trade and investment topics.

We also see APEC 2011 as an opportunity to tell our

We are planning for APEC 2011 to be significant both in symbol and substance

story on trade, and educate people about the benefits of exports to our economic growth and our ability to grow jobs, and the importance of staying engaged with the Asia-Pacific.

We have selected Big Sky, Montana as the location for the 2011 APEC Trade Ministers' meeting. Bringing the trade ministers to the American West will give us the chance to showcase the diversity of American business, but it will also provide us the format to talk about how important the dynamic Asia-Pacific is to the health of our economy.

We are planning for APEC 2011 to be significant both in symbol and substance.

Our planning comes at a time when the President is eager to seize this unique opportunity to articulate a Trans-Pacific agenda for shared peace and prosperity.

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APEC 2011 has the potential to be watershed moment in U.S. economic engagement in the Asia-Pacific, so we are going to be both bold and ambitious when we host.

We are also pursuing a new formal trade agreement with the Trans-Pacific Partnership, or TPP, through which we hope to build what will become the largest, most dynamic trade collaboration of our time.

The President and I intend for the Trans-Pacific Partnership to be our first 21st century trade agreement—one that creates and retains U.S. jobs, integrates U.S. companies in Asia-Pacific production and supply chains, and promotes new technologies and emerging economic sectors.

A 21st century trade agreement should also create more opportunities for small- and medium-sized enterprises, while also giving priority to labor and environmental protections and fostering development.

We launched discussions for the TPP in March and will have the next round in June.

We are also working to deliver economic and strategic trade benefits and opportunities by resolving outstanding issues on the U.S.-Korea Free Trade Agreement, in an effort to move it forward at the appropriate time. When it goes into effect, this agreement will create billions of dollars in new market access for American

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exporters and strengthen our ties with an important partner in the region.

And whether it is the TPP, APEC 2011, or our efforts with all our Asia-Pacific partners throughout the year, all of you have a vital role to play in our efforts. The scholars in this audience do an unparalleled job of facilitating research, education, and communication among experts and key stakeholders. And you business leaders have an unmatched breadth and depth of knowledge and experience.

As we build the agenda for APEC 2011, you will all provide the intellectual capital, working relationships, and practical knowledge we need to succeed.

USTR sees APEC 2011 as a dual opportunity—not only to go after our goals in the Asia-Pacific, but also a chance to educate the American public about the benefits of trade, even as we educate our Pacific trade partners about the needs and concerns of American stakeholders.

In conclusion, I invite you to close your eyes and imagine with me what this meeting might be like fifty years from now. When the next generation of global leaders gathers here in 2060, what will our economic relationship look like?

Will it be balanced? Will it be sustainable? Will we be bringing home all the benefits of trade that we have promised to our citizens?

The outcomes of APEC 2010 and APEC 2011, and the decisions we make in the Trans-Pacific Partnership, will have a dramatic impact on the answers to those questions.

We are approaching a dynamic moment in this growing relationship, and there is much work to be done. I look forward to working with you to realize our vision of prosperity across APEC. ♦

Panel Discussion

Moderator:

Dr. Charles E. Morrison, President, East-West Center, International Chair, PECC

Speakers:

Mr. Edward Alden, Bernard L. Schwartz Senior Fellow, Council on Foreign Relations

Dr. C. Fred Bergsten, Director, Peterson Institute for International Economics

Hon. Jim Kolbe, Senior Transatlantic Fellow, German Marshall Fund of the United States

MORRISON: This actually is a continuation of the lunch session [which featured Amb. Kirk's keynote address]. The speakers will address the way forward for APEC and its trade agenda.

Our first speaker will be the Honorable Jim Kolbe, who currently is Senior Transatlantic Fellow at the German Marshall Fund of the United States. He is a former congressman from Arizona, was educated at Northwestern University and Stanford University, and is very respected for his knowledge about trade and globalization issues.

Following Congressman Kolbe will be Dr. C. Fred Bergsten, Director of the Peterson Institute for International Economics. He earned a Ph.D. from the Fletcher School of Law and Diplomacy and was a former Assistant Secretary of the Treasury for International Affairs. Dr. Bergsten has been Director of the Peterson Institute since its creation in 1981. He is the architect, if you will, of the current trade agenda for APEC, having played a major role in setting the so-called Bogor Agenda as the head of the Eminent Persons Group.

And finally, we have Edward Alden, Bernard Schwartz Senior Fellow at the Council on Foreign Relations. He is a long-time journalist, having written for the *Vancouver Sun* and then the *Financial Times*, mainly here in Washington. He is a specialist in immigration, trade policy, and economic competitiveness.

So, we shall start with Congressman Kolbe.

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KOLBE: Charles, thank you very much. I listened with interest to Amb. Kirk at lunch and thought as he spoke that there were just a few things I wanted to say. I'd like to make about six points concerning what I think a trade agenda should be for APEC, for the United States, and for the Asian countries.



Hon. Jim Kolbe, Senior Transatlantic Fellow, German Marshall Fund of the United States

First, we need to remember that our concentration and our focus still needs to be on a multilateral approach. Completing the Doha [Round of trade negotiations] needs to be the priority.

Doha probably will never be ruled "dead" — there will never be a coroner's certificate for it. But when it's essentially clear that we're not going to finish the Doha Round, I believe this will change the dynamics of where we go with trade in the future.

And I think we all should be a little alarmed and concerned about the proliferation of regional and bilateral agreements that will occur if we do not finish the Doha Round. So we all should be putting our shoulders behind the wheels to try to get Doha completed.

Finish Pending FTAs

Second, if the United States wants to show it's serious about negotiating new trade agreements, it should finish and ratify existing Free Trade Agreements (FTAs) with Panama, Colombia, and South Korea. The U.S.-Colombia FTA, in particular, was sent to the Congress and shelved in violation of both the letter and spirit of the fast-track process, which requires the legislature to consider trade accords by voting up or down.

This action sent a very, very bad message to a lot of countries, who no doubt are wondering, "Why should we negotiate with the United States if this can happen to our agreement?" I think this is going to be a drag on all the negotiations we undertake.

So if I were the president of the United States, I would say, "Let's get these things done." We've heard the rhetoric. We keep hearing it. And I'm convinced that Amb. Kirk is an absolutely committed free-trader. But he cannot expect the business community or other political leaders to get these FTAs done. This is going to require the President of the United States and, of course, his cabinet, including Amb. Kirk, to weigh in.

So enough of the rhetoric. Send those FTAs up to Congress for approval and ratification. That will be the

clearest signal to the rest of the world and to the Asia-Pacific region that we're serious about negotiating new trade agreements.

The TPP is a great idea, but it is hard to move that forward when you have these other FTAs pending and countries are saying, "Are you serious about this?"

Opening U.S. Market

Third, you can't really talk about doubling exports unless you talk about how to open your own market. I am a member of the Ex-Im Bank Board of Advisors. I think it was telling that President Obama came to the Ex-Im Bank to make his pitch for an agenda to double exports.

It's well and good. I think we should try to double exports. But trade is not a one-way street. You can't expect other countries to accept more U.S. exports if we're not going to do the same in terms of opening our markets.

When you talk only about doubling exports, you reinforce the notion that is pretty well embedded in the psyche of the American people that exports are good and imports are bad. And they spout that rhetoric as they go to Wal-Mart or Costco to buy the latest gadget that is made in China, Vietnam, South Korea, or wherever. So we can't accept the idea that exports are the only thing that's good. Trade must be a two-way street.

Fast-Track Renewal

Fourth, the president doesn't have the fast-track authority that he needs to sign the TPP. He can ask for a renewal of that authority when he's ready to send the TPP to Capitol Hill for approval, but that could become a contentious issue. The very fact that the president not only hasn't submitted the FTAs to Congress and pushed for their approval but also that he hasn't asked for fast-track authority to complete other negotiations—such as the TPP—I think is significant.

Presidential Leadership

Fifth, as I suggested earlier, there must be presidential leadership on trade. We cannot advance the TPP or the Doha Round or any other trade agreements without presidential leadership. Support for trade has fallen fairly substantially in the United States. And that is very worrisome to somebody like me who is a unreconstructed free-trader.

But we can't change these attitudes unless we have the leadership of the those who have the bully pulpit. And the biggest bully pulpit and the biggest bullhorn of all, of course, is the President of the United States.

The last point I'd make is that we shouldn't be dis-

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tracted by the currency issue with China. Yes, it is important and we need to have a rebalancing of those currencies. But currency valuation is not fundamental to the trade relationship we have with China or the rest of the Asia. We should not be distracted by that issue as we go through the process of negotiating a Trans-Pacific Partnership. With that, let me stop and, and turn it over Fred Bergsten.

BERGSTEN: I strongly agree with Jim on a couple of the things he said, particularly on the case for moving ahead with the outstanding free trade agreements. The arguments against all three are bogus. I can go into that in detail if you want. I will simply assert it. But they should proceed.



Dr. C. Fred Bergsten, Director, Peterson Institute for International Economics

The other thing Jim said that is really profoundly important and is not widely enough recognized is how badly his former colleagues in the House gutted U.S. trade policy when they rejected the fast-track procedure in the vote on the Colombia FTA two

years ago.

That dealt a body blow to U.S. trade policy, in my view, and I know his view, too. And it's going to take some stitching together to get that back on track.

Having said that, I don't share his view that the administration should seek stand-alone new authority for trade promotion purposes. I just don't think that will fly. President Clinton tried that in 1997.

Different View: Fast-Trade Renewal

The obvious question then was, "What do you want the authority for?" If you can't say something compelling about why you want a renewal of fast-track authority, you're not going to get it. So I would suggest that the president should seek renewal of this authority within the context of pursuing a specific trade agreement.

Amb. Kirk talked about the good news that he had in Seattle earlier this week when he got support for free trade there. I will bring you my West Coast experience of the week as well. I keynoted the 84th Annual World Trade Week in Los Angeles on Monday. The other key speaker was Gov. Arnold Schwarzenegger, who is a really rabid free-trader.

He gives wonderful stories about why. I thought his

punch line was the best free-trade line of the week. He said, "If anything smelling of protectionism comes anywhere near my desk in Sacramento, I have one response, *hasta la vista, baby.*" I thought that was great and could encourage us all.

Jim said we ought to go ahead with Doha. I'm with him in principle but the problem is there's no "there" there. We just did a study at the Institute, which shows that the deal currently on the table would provide the U.S. with a munificent expansion of \$7 billion in exports—so small you can't even see it. And that explains and justifies, I'm afraid to say, why there is no political support in the United States for the Doha round. There is no "there" there.

Augmenting the Doha Round

We then went on and show how it could be augment-

American-based companies are going to source their Asian and European sales out of their plants in Asia and Europe—not out of their U.S. plants

ed, if you brought a services agreement in, if you added some sectorals, if you did some trade facilitation. But the truth is, without that that augmentation, it is not going to get any kind of political support here.

The business community supports the U.S.-Panama FTA, alone, more than it supports the Doha Round. And that's because there is more to that accord in substance. That's the sad truth. After nine years, the Doha agreement still isn't substantial enough.

That being the case, the only real game in town is the Trans-Pacific Partnership. That is the one positive initiative that the administration has taken on trade. I think it's very important not just for the Asia-Pacific but also for trade policy more broadly. We should do everything we can to support a positive outcome of that initiative.

Importance of Pursuing the TPP

There are two obvious reasons why the administration overcame its reluctance to address trade through the TPP initiative. First, the obvious fact is that the Asian countries are doing deals among themselves. They're also doing deals with the European Union. All those deals discriminate against the United States. That's going to cost us at least \$25 billion of exports, right off the bat.

As it expands and dynamic effects kick in, American-based companies are going to source their Asian sales and even a lot of their European sales out of their plants in

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Asia and Europe, not out of their U.S. plants. It's therefore going to cost us lots of American jobs.

The AFL-CIO and the U.S. unions ought to be leading the battle to get a TPP signed, because otherwise there's going to be huge additional job losses in the United States as we are discriminated against. It is not rocket science to understand that. I think the TPP, in fact, will succeed politically if it gets negotiated successfully.

Geopolitics and TPP

The other reason is, of course geopolitical. Lee Kuan Yew came to town just before President Obama went to Asia in November and put it very bluntly in the Oval Office. "If you Americans continue to stand aside from trade and economic relations with Asia, the Chinese will have all the running room and you'll be shut out." Again, not rocket science.

So for both basic geopolitical reasons and for very gut economic reasons, we have to move ahead. TPP is the initial vehicle, as Amb. Kirk said, heading eventually toward a Free Trade Area of the Asia-Pacific [FTAAP]. That must be the main objective of U.S. trade policy.

Somebody asked about the Chinese currency and its relationship to the export-doubling objective. My answer to that question would have been, "Yes, we're not going to expand exports as long as the Chinese continue to undervalue their currency by 25 to 40 percent."

But also, unless markets are open to us at least on an equal basis with our competitors in the most rapidly growing, dynamic markets in the world, we're not going to expand exports very rapidly. So TPP must be at the heart of our trade policy.

TPP Standards

There are three issues that come up. What should be the nature of the TPP? What are the standards? Amb. Kirk expressed a desire to make it a "21st century agreement," but he didn't really explain what that means.

I think we have to be very careful not to shoot too high. Some countries that are already in the TPP talks, like Vietnam, are going to be very leery of anything that smacks of FTA-plus, WTO-plus, and so forth. Likewise, we cannot sink beneath the level of the existing FTAs, because a lot of partners of those existing FTAs also are in the TPP talks.

So the answer is simple: use the current FTA template, such as the Peru FTA, as a model. If you could augment it with general agreement from all participants, that's fine. But I don't think the lack of clarity concerning what constitutes a 21st century agreement should be a barrier to moving ahead with the TPP in view of the eco-

conomic and geopolitical issues I mentioned earlier.

TPP Country Coverage

The second big issue concerns country coverage¹. I asked Amb. Kirk about whether the existing TPP participants are inclined to allow Malaysia to join the talks. The Malaysians are pounding at the door, and so are the Canadians. Concerning the latter, I believe unambiguously the answer should be yes.

If the goals of the TPP are (1) to minimize the discrimination against the United States from deals that big countries are striking with each other and (2) to restore the U.S. role in Asia for geopolitical reasons, you want the broadest possible group. With no disrespect to the current eight TPP participants, they constitute a group of small players, most of which we already have trade deals and are not the targets of the two aforementioned objectives.

There is a poor fit between the two basic drives that motivated the United States to go enter the TPP talks and the makeup, at least to this point, of the TPP participants. It just doesn't fit.

There are at least one or two major Southeast Asian nations. As I said, Malaysia is pounding to get in -- so let them enter the talks. But there are at least two Northeast

Country coverage of the TPP needs to be expanded to achieve the objectives of this exercise

Asian nations that should be involved in the TPP negotiations.

Japan is chairing APEC this year. If Tokyo can see fit to join the TPP effort after its upper house elections in July, then I also would welcome them in. Obviously, we want to involve South Korea in the TPP talks, too. Seoul is hung up on this question because neither parliament has ratified the U.S.-Korea Free Trade Agreement (KORUS) yet. But as soon as both legislatures approve KORUS, we should strongly encourage Korea to join the TPP. My basic point is country coverage needs to be expanded to achieve the objectives of the exercise.

Deliverable for APEC Summit

The third issue is timing. We should set a clear goal of announcing at least an initial TPP agreement at the APEC summit in Honolulu 18 months from now. That is going to be the focal point for the president and the administration. It also provides a focal point to secure congressional

¹The eight nations currently participating in the Trans-Pacific Partnership (TPP) negotiations include: Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore, the United States, and Vietnam.

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support for a deal that would be negotiated.

Once negotiated and highlighted by the president of the United States in his hometown, when the U.S. is hosting the APEC summit for the first time in 18 years, I don't think the Congress could turn it down.

Possible Trade-Offs

To conclude, there can be some conflicts among my three goals—standards, country coverage, and timing. If there are trade-offs, I would opt for getting the broadest possible country coverage in the quickest possible time. This is because we need some positive outcome on trade to avoid the risk of succumbing to protectionist pressures.

I would sacrifice some substance in order to achieve the country coverage and timing objectives. I don't think we would sacrifice much because, as I said, I think there's bound to be a convergence in the negotiations toward the current U.S. FTA template anyway. And if we secure agreement for that from the broader body of countries that I believe should be involved, it would be a huge success for Barbara Weisel, [Assistant U.S. Trade Representative for Southeast Asia and the Pacific] and her colleagues at USTR.

Instead of spending a lot of time talking vaguely about higher "21st century standards" without ever defining them—and therefore, frankly, scaring some of the potential partner countries as well as some of the current eight—the administration should focus less on achieving that and more on trying to broaden the TPP group.

Decision-Forcing Event

The administration also should use the APEC 2011 summit as the decision-forcing event that could propel a negotiation to conclusion over the next 18 months. The last thing we want is another Doha. At the outset of my remarks, I pointed deliberately to the problems with the Doha Round. It has been eight and a half years and the outcome is a mouse, with no political support in the United States and other countries. We do not want the TPP to go down that road.

That is why we should use APEC 2011 as a decision-forcing event, but we must make sure there is enough on the table. At this point, I would define that as increasing country coverage and using the current FTA template. That would be the best way to square the circle and achieve the objectives of the TPP exercise.

MORRISON: Thank you, Fred. Edward?

ALDEN: Thanks, very much. The Council on Foreign Relations' new headquarters in Washington is located

right next to the Winder building, which houses the Office of the U.S. Trade Representative.

If you've walked by the Winder Building recently, you may have noticed that it is completely encased in this nylon mesh. Two days ago, I heard these big chunks of the facade crashing down inside the nylon mesh. It occurred to me that this was the perfect metaphor for the current state of U.S. trade policy.

You have a building that is stuck behind barriers of its own making, which is much like our crippling lack of consensus on trade, and with small chunks falling off, much like the bilateral trade agreements that are still sitting out there and the crumbling Doha Round.

But, optimistically, with a facelift, it will all come out

looking better than ever—which leads to the topic of this panel.

In conventional trade-negotiating terms, I think we would all have to agree that APEC has obviously been a disappointment.

In 1994, five years after its founding, and thanks very much to the work of the gentleman next to me, APEC set out the goal of achieving free



Mr. Edward Alden, Bernard L. Schwartz
Senior Fellow, Council on Foreign Relations

trade in the region by 2010 for industrialized countries and 2020 for developing ones. We still have a few months left in 2010 and another decade for the rest, but I wouldn't guess that free trade in the region is going to happen quite on that deadline.

Transformation of APEC

As a reporter, I was a close witness to the meeting that in many ways marked the turning point from APEC's initial grand ambitions into the more modest organization we see today, one focused on good things like energy efficiency and business facilitation, agricultural productivity, climate change, emergency preparedness, and others—all worthy undertakings but a long way from the original vision of APEC as a building block for a regional trade agreement. That meeting, by the way, was the Vancouver Leaders' Summit in 1997, which was held in the midst of the Asian financial crisis.

As Charles Morrison mentioned at the outset, I was a reporter at the *Vancouver Sun*, which was the hometown paper of the summit. Canada, the host nation, was pushing, with U.S. support, for a series of ambitious trade commitments, particularly the elimination of tariffs in nine sectors, ultimately enlarging to include 15 sectors.

Not surprisingly, they wanted to start with the sectors

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in which Canada was the most competitive, which were fish and forest products. But the idea was that this would be a broad, zero-for-zero initiative that would represent some concrete progress toward APEC's trade liberalization goals.

Fred may not remember this, but that I interviewed him just before the start of the Leaders' Summit began. The interview ended up on the front page of the newspaper, in a headline that said, "Leaders Warned Over Economy." The article then laid out in detail Fred's argument that it was vital that APEC use the Asian financial crisis as an opportunity to make real, concrete progress in other areas, among them trade liberalization.

Opportunity for Trade Reform

What Fred doesn't know is that the next morning, the article precipitated a surprise phone call from none other than Larry Summers, who was then-Treasury Secretary. And for those of you who know Larry Summers, it is safe to say he used colorful language to express his annoyance with me and that the article was on the front page. But it was clear that he thought this had set a bar that was so high that they wouldn't meet it and it was setting up the U.S. delegation for a fall.

And, in fact, of course, no such sectoral trade deal was ever concluded. The Japanese, in particular, made it known that they were annoyed with the pressure from Canada over fish and wood tariffs and, more generally, were not enthusiastic about sectoral liberalization. "This is not the APEC way," was the way one Japanese official put it to me. I thought that was a rather telling quote. And indeed, it has not been the APEC way.

The initiative, known as "early voluntary sectoral liberalization," went into the dustbin of history. And APEC has never made another determined effort to become the negotiating forum for regional trade liberalization.

APEC's Unrealized Ambitions

So the question that existed at the outset of APEC—should it be the foundation for building a regional free-trade area?—remains unanswered, but at the moment is probably no. Obviously there has been trade progress in the region. This would include unilateral tariff cutting, China's entry into the WTO, and, finally, the proliferation of bilateral trade agreements. Many of the latter, however, are rather weak and contain a lot of sectoral exclusions that leave them well short of being comprehensive free-trade deals.

The fact remains that we're really not much closer than we were ten or 20 years ago to a regional trade area. So, as the other two speakers have discussed, the Obama administration is embracing the Trans-Pacific Partnership

as another route towards the goal of expanding freer trade in the region. And in many ways, it does represent a return to a more traditional trade-negotiating focus, rather than the voluntary, slow-moving, "let's-move-when-we-want" format of APEC.

The idea is to do real, hard, traditional trade negotiations. And there is certainly some reason to hope that, if these negotiations are successful, more countries will

This lack of real progress on trade liberalization in the Asia-Pacific is symptomatic of the larger drift that we've seen in U.S. trade policy

want to join. As Fred mentioned, Malaysia is eager and Canada is talking about it. And the TPP could serve as a building block for keeping the U.S. engaged on trade in the region and ultimately move us toward this broader goal of regional trade liberalization that has been out there for so long.

But realistically, it seems to me there is not a great deal to get excited about in the TPP. The best that can be said about it is that it keeps alive an active trade-negotiating agenda for the United States and Asia, which is important, given the potential disadvantages to U.S. exporters and the ambitions of China to build a regional trading bloc.

The worst that can be said, however, is that it will do little or nothing to further liberalize U.S. trade with the region. Perhaps that simply is where the U.S. political process is at the moment. As we all know, there is an ambitious deal with Korea that is sitting out there. And Amb. Kirk has made clear that the administration will not be pushing for congressional approval soon.

Trade Policy Drift

For the United States, this lack of any real progress on trade liberalization in the Asia-Pacific is really symptomatic of the larger drift that we've seen in trade policy. At the end of the Uruguay Round, I remember, again, as a reporter, talking to Congressman Sam Gibbons, who was the former chairman of the Ways and Means Trade Subcommittee.

After the House passed the Uruguay Round agreement, Gibbons predicted it would take another ten years or more before the United States would again do anything ambitious on trade—just because it would take that long to digest what had just been accomplished.

I think the operative phrase there was "or more," because we're already about five years past his ten-year deadline. And it hasn't been from lack of effort. During

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the Bush administration, then-U.S. Trade Representative Robert Zoellick made ambitious efforts to negotiate bilateral and regional agreements and to try to push a new multilateral round. But except for the bilateral deals with mostly small trading partners, the Bush administration didn't find either domestic or international support for that agenda.

Reevaluate Gold Standard

So the question remains what comes next, and to take the language from the session, "Is There a Way Forward?" Maybe TPP will be a new beginning, a new model that involves stitching together bilateral agreements eventually into a whole that's greater than the sum of its parts.

I think that the United States may have to take a deeper look at the question of this "gold standard" for trade agreements. The Europeans, Chinese, and others have been making a lot of progress by negotiating deals that are less complete than ones the United States has been able to accept. And I think our approach of saying, "This is the standard and that's what it must be," means that we have only been able to attract smaller trading partners really willing to do deals on American terms.

The question of whether there's domestic political support for any of this, of course, remains unresolved. Amb. Kirk emphasized that in his remarks. What I'm afraid is equally possible with the TPP is that, rather than being the beginning of a new way forward, it will become an excuse for not dealing with some of these obstacles to progress. As long as the negotiations are proceeding, the administration could claim, "What? No trade agenda? Of course we have one. We have the TPP."

These are difficult questions but they are urgent ones. U.S. trade policy for too long has been like the Winder Building—stuck inside a plastic shell and crumbling at the edges. And there is no question that, unless a new direction can be found, American economic and political interests in the Asia-Pacific region are going to suffer.

MORRISON: Jim, would you like to comment?

KOLBE: Thank you. In response to Fred, I may not have articulated my position very well. I quite agree we can't pursue open-ended trade promotion authority for the president. The effort should be focused around a specific trade agreement, whether it is TPP or possibly the Doha Round, if we thought we were going to complete those negotiations.

Renewal of the president's trade promotion authority, or fast-track authority, virtually always has been focused around a particular trade agreement. But even securing this authority likely will be a fight in and of itself before you ever get to the actual agreement.

QUESTION AND ANSWER SESSION

MUTHIAH ALAGAPPA, East-West Center: I would like to question whether trade liberalization should be the central agenda and focus for APEC. Second, should one temper the expectations of APEC, and consider initiatives that are more doable? For the last 10 years, in fact, APEC has been trying to build on some of those more modest initiatives rather than trying to go for an ambitious goal.

BERGSTEN: If not trade, what else as a focal point for APEC? APEC does lots of useful things around the margins. It has lots of ministerial meetings and task forces and working groups and study committees. But, for better or worse, APEC rises or falls in public opinion and in the consciousness of its member economies on what it does on trade liberalization. That's where it got its start. But that is also where it faltered, as Ed described, and it has gone down downhill ever since.

Every successive host country has tried to bring in new themes and new focal points and new emphases that would, quote, revive APEC, unquote, and none of it has ever worked. We have 10 to 12 years of failure of efforts in other areas to restore vitality and robustness to APEC.

APEC Focus on WTO

My view is that APEC hasn't tried. APEC decided in 1999 at Auckland to put its whole trade focus on the WTO and to support what later became the Doha Round. The first reaction was the collapse of the Seattle Ministerial, which tried to launch what later became Doha Round, in large part because of clashes between APEC member countries.

Then Doha was launched. But continued clashes between APEC member countries helped torpedo it and bring it to this unsatisfactory state today. So the decision to hitch APEC's whole trade wheel to the Doha Round has been a complete failure.

Now you might just say that is because nothing can be done. The underlying politics here and elsewhere preclude it. But I would reemphasize what I said before. If President Obama wanted to avoid trade as badly as he has, but could bring himself to promote a TPP, then it seems to me it does have a chance.

Some of the ministers of ASEAN [Association of Southeast Asian Nations] met yesterday with Rep. Sandy Levin [D., Michigan], who is chairman of the House Ways and Means Committee. He indicated pretty strong support for TPP. Who knows how it can come out, but I do think it's the only game in town that's got a prospect for success because the administration and some key Members of Congress support it. It therefore has at least the possibility to move forward.

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And I include bringing APEC back into some meaningful role in dealing with our economies. You can always say, "Don't raise expectations," like Larry Summers said at Vancouver. Larry and I are great friends. I have riled him a few times. But I think, unless you set goals and objectives, you're never going to get anywhere.

Just one more point. Ted rightly said that the basic question of whether APEC could proceed has not been answered. I think that's correct but I think one fundamental reason is because APEC has never come to grips with the tension between Asia-only trade agreements and Asia-Pacific agreements.

This debate also comes under the heading of "Asian architectures," that is, the question of whether it should be an ASEAN-plus-three, ASEAN-plus-six, or East Asian Summit structure. One very high U.S. policy maker has characterized the 1990s as a decade of Asia-Pacific cooperation and institutional efforts, including notably APEC. The last decade, however, has been a decade of Asia-only cooperation and institutional development. I think that's a good way to put it.

Risks with Asia-Only Agreements

So the question is whether the United States or the Asians themselves want to revive the fear that former Secretary of State Jim Baker raised 15 years ago of drawing a line down the middle of the Pacific. If Asia goes off on Asia-only agreements without some parallel Asia-Pacific agreement, it does seem to raise not only the trade discrimination and economic risks that I mentioned earlier but broader spillover into foreign policy and national security concerns.

For those Asians who want an insurance policy with continued U.S. presence in Asia to hedge against the rise and potential dominance of China, it would be a huge mistake not to pick up this opportunity to start re-forging trans-Pacific ties. Unlike many Americans, I do not oppose the Asia-only regional agreements. But I think it would be a huge mistake for the Asians and the United States to proceed without parallel trans-Pacific arrangements.

TPP is only a start. Four years ago, President Bush proposed a Free Trade Area of the Asia-Pacific, or FTAAP. Amb. Kirk said again today he views TPP as a stepping-stone toward a FTAAP at some point down the road. Unless you go down that path, I think you court huge risks, in both economic and national security terms, whether you're in the United States or in Asia. And it therefore seems to me incumbent that we try to do everything we can to support the TPP as literally the only game in town.

ALDEN: I would agree with everything that Fred said. The only thing I would add is that we need to think

about whether perhaps there is a third way to pursue the goal of trying to knit the U.S. economy more closely with the Asian economies.

We've essentially gone about this two ways. One is the notion of a very ambitious regional trade agreement, either through APEC or some other form, which has

We need to think about whether there is a third way to pursue the goal of trying to knit the U.S. economy more closely with the Asian economies

never flown. This is not just true in Asia. It has been true in the Western hemisphere, too.

The Free Trade Area of the Americas was a top item for the Clinton administration. The Bush administration also indicated interest. It was never able to get that off the ground. Essentially, the dynamics are the same. In Latin America, the biggest economy, Brazil, didn't have any interest in going down that road. Similarly, in Asia, the biggest economies, like Japan, China and India, are the most reluctant to do those sort of deals.

Plan B

As a result, the United States has resorted to "Plan B," which is to do deals with smaller countries and build these up so that maybe the bigger economies will want to join for fear of being left out. And again, that approach has been tried in Latin America, without much success. We've done a number of bilateral deals but they haven't amounted to anything more. And, of course, by not proceeding with the Colombia and Panama FTAs, the United States has really killed the potential for progress on that front.

So, is it worth considering a third way, which would be essentially what the Europeans are doing? This would amount to finding ways to engage the big Asian countries in trade deals that are much less ambitious than the ones the U.S. has historically preferred. I'm not necessarily advocating that, because of the potential downsides or progressively watering down the provisions.

But by insisting on the "gold standard, we've made it impossible to do deals with the economies that matter the most in Asia and elsewhere.

SHERRY STEPHENSON, Organization of American States: I just want to follow up and ask Fred a question. In order to get the TPP really moving forward, what areas of substance would you be willing to sacrifice? The Japanese trade agreements that have been concluded recently with developing countries do not include labor

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and environmental provisions. But clearly, that might be a non-starter for the United States.

BERGSTEN: Ted and I came out at the same place, by saying we would both sacrifice the purity of the standards to get deals among countries that count. One reason that I say it is because the United States, for all its espousal of high standards, often includes carve-outs in its own deals.

In the U.S.-Australia FTA, for example, Washington carved out sugar. My colleague Jeff Schott likes to say the United States wants platinum standards for the other countries and a copper standard for itself. When push comes to shove, the United States does protect its own sensitivities.

The Korea FTA carved out rice for the Koreans. Japan also would want a rice carve-out. I don't see much point, having let Korea off the hook on rice in the KORUS, to go into the TPP saying we want comprehensive coverage for agriculture. We don't even know if we can include dairy vis-à-vis New Zealand given its domestic politics.

As a negotiator, of course, I would go in with a maximum package at the start and only fall back when I had to. But I would not make too much rhetorically out of gold standards if, (1) I didn't know what I wanted, which I don't think is the case yet in the TPP, and (2) if I knew I was going to have to trim my sails later on. I'd try to strike a much more realistic package early on.

Japan's Inclusion in the TPP

It is very desirable to get Japan into this deal in 2010. And with Japan chairing APEC this year, we're in a very strong position to urge Tokyo to join the TPP. If the Japanese do not, the Yokohama Leaders' Summit will be a farce because TPP is going to be the major initiative. If the host country and second-largest economy in the region doesn't join the TPP, it doesn't pass the smell test.

To get Japan to join the TPP, two things are required: (1) that the United States be involved in the talks, and (2) that there be a relaxation of the standards. The latter would mean at least carving out rice and also may include very long phase-in periods for the rest of the agricultural sector.

In some areas, having Japan involved in the TPP will reinforce U.S. goals because Japan likes high standards in areas that it promotes, like investment and technology. The Japanese Economic Partnership Agreements [EPA] are better than our FTAs in some respects because they include some standards that would be of interest to us.

With creative additions as well as subtractions, we could still fashion a net package that would be highly desirable for us in terms of our domestic politics. In fact, it might be even more salable because if we let other countries carve out some of their sensitivities, they likely will be more willing to let us carve out some of ours.

As you suggest, labor and environmental standards will have to be part of the negotiations to win congressional support. But I don't think an agreement modeled after the

Peru FTA would be objectionable to other countries. If we could get the rest of the world to agree with that and add in some Japanese-type EPA components, we could characterize it as a 21st century higher-standard agreement—but one that would then be much more likely to win adherence and achieve the broader geographical coverage objective.

ALDEN: I was struck by Amb. Kirk's comments that we need to start thinking about how to use trade agreements to enhance our biggest advantage, which is being a center of innovation. Much of our economic growth comes from the fact that we are the world's innovation leader. But I can't tell you how that might play out in a trade agenda.

Certainly, innovation would make intellectual property very important. It would make regulatory systems very important. It would make trade in information technology products very important. But for many years, we haven't been thinking strategically about how to use trade policy to advance American economic interests.

U.S. trade policy has been about a type of purity. By that I mean that everything must be included in trade negotiations, dairy, sugar, and so forth. But the future of the U.S. economy is not dairy and sugar.

We need to be thinking about our leading sectors and where we can gain advantages. We then should be willing to negotiate agreements that enhance those



Left to right, Dr. Charles E. Morrison, President, East-West Center, Mr. Edward Alden, Senior Fellow, Council of Foreign Relations, and Dr. C. Fred Bergsten, Director, Peterson Institute for International Economics

advantages, even at the price of carving out sectors that are sensitive for other countries but do not matter too much for the U.S. economic future.

BERGSTEN: In broad terms, I think that means giving a lot of weight to services. We have a huge trade surplus in services. That's where 80 percent of our economy is. That's where job creation takes place. So instead of harking back to the dairy farmers or even to manufacturing, though we should do as much for it as we can, services are where the game is.

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Including Services in Trade Talks

That's been the fundamental flaw in the Doha Round. Agriculture and manufacturing have enjoyed the running of the field without allowing the original third pillar—services—an equal status. During the past eight and a half years, there have not been any meaningful request-and-offer procedures in services. It's scandalous! And any American administration should make that a prerequisite for showing up at the next meeting. And it certainly should extend into any other trade negotiations, including the TPP.

AMY SEARIGHT, George Washington University:

You mentioned a third way, and it strikes me that we're all stuck in a somewhat outmoded paradigm of free-trade agreements. We have the WTO, but the Doha Round is stalled and perhaps dead. We have a range of bilateral FTAs on the ground, but some don't include the United States.

However, we do have APEC. I think we should be considering what APEC can do that these other two things cannot. I strongly believe that there's a lot of ways you could build value into APEC that does not just entail turning it into a forum for negotiating another FTA.

MORRISON: That's an interesting comment. I'm just going to take a moment myself. Actually, what Amy just said reminded me of comment that was made at the Japanese symposium that started APEC 2010. It was made in the context of reviewing the Bogor Goals. A businessperson said, "You know, the world has changed and this is not the agenda that we're really interested in any more."

But I've always thought the Bogor vision was an enormous contribution, because it gave APEC something to work for, and yet I was quite critical of it.

I was critical for three reasons. First, the Bogor Goals provided a vision but there was no mechanism for APEC itself to achieve that vision because APEC is not a negotiating forum.

Second, I believe it's Harold Wilson's aphorism that, you can set a date or set a number, but don't set both. The Bogor Goals this seemed to set both. And so it was, in a sense, guaranteed to fail. And third, I thought the Bogor Goals put too many trade eggs in the APEC basket. You needed some other things that APEC could do so Bogor



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would not become the only measure of whether APEC succeeded or failed.

After the early sectoral voluntary effort failed, the trade agenda kind of went away and a lot of other things came to the fore. But it did seem to people that APEC actually had failed and there was nothing taking place in the forum.

APEC Successes

But I think APEC has been enormously successful on matters that often are below the radar screen. Free-trade agreements seem very sexy and they seem concrete and so people measure that as success. But the trade consultation aspects of APEC and the sharing of ideas about where economies go are things that take place in APEC that don't earn credit.

How did China prepare itself for becoming a member of the WTO? How did Vietnam prepare itself? A lot of that took place through the APEC process of working on these issues on a way that enables a greater understanding of where the APEC economies were coming from.

Also thanks to Fred, we now have another vision, which is the Free Trade Area of the Asia Pacific, which is not too different from the Bogor vision. And the TPP, which I separate from APEC in my mind, may be an avenue toward that goal, a small concrete step. The ASEAN-plus agreements also may be a small concrete step.

But what you really need as you move forward are concrete steps. But those kinds of liberalization measures are certainly not the only efforts that will be undertaken in APEC. The broader value of the APEC needs to be understood better, I think. ♦