

*Keynote Address****"U.S. Trade Policy: The Rise of Regional and Bilateral Alternatives to Multilateralism"***

BARFIELD, Claude

Resident Scholar, American Enterprise Institute for Public Policy Research (AEI)

What I'd like to do this afternoon is to talk a bit about, and explain, though certainly not always defend, the politics, the institutional basis, and the substance of United States' trade policy, and particularly the movement over the last two decades away from multilateralism as being the only tool in the kit of U.S. trade policy instruments toward regional and bilateral agreements. What I'd like to do first, just to give you some sense of how this is going to unfold, is back up for a minute and go over what I would call some basic characteristics or facts about U.S. trade policy that you may or may not know. Then I'd like to illustrate those opening remarks with a brief history of recent administrations and how they illustrate these themes and facts, ending with a few minutes on what this has to do with what's happening out here, and how the United States is reacting, has reacted, and is likely to react to events in not just Northeast Asia but East Asia.

Let me start with one reality that you may not have thought much about, and not just here, but in other countries too. We've heard a lot—and certainly for the Bush administration and even before it—of the strong American presidency, the overwhelming power of the executive in the United States. The Bush administration has met a great deal of criticism that it has attempted to thwart the will of the two other branches, particularly the legislative branch (but it has also gone against the judicial branch). It's certainly true that the Bush administration came into office feeling that the power of the U.S. executive had been diminished by, or during, administrations before it. Indeed, Vice-President Cheney has often talked about the American presidency never having really recovered from the Watergate years of the 1970s.

There's one thing you should be aware of, which is that in the formulation and the execution of U.S. trade

policy the president and the U.S. executive is distinctly the weaker institution. You may not have known that, but I think the United States is unique among the democracies of the world given the fact that the United States Constitution gives original and full authority over inter-state and foreign policy to the U.S. Congress. For two centuries, actually, presidents, administrations, and executives had very little to do with U.S. trade policy. U.S. trade policy from the 1790s through the end of the 1930s to the 1940s was basically tariff policy, and the Congress passed tariffs. There was negotiation with administrations, and it was obvious that before the twentieth century a Republican president would be pushing a Republican Congress for higher tariffs because of verbal agreement that theirs was a protectionist party. But by and large, trade policy of the degree that we had was made, formulated and executed by the U.S. Congress. It was a narrow border-tax policy.

I'm not going to go into detail about how all that changed after the 1930s, but the Congress decided, originally under a Democratic president with a Democratic Congress (but continuing under Republican presidents whether they had Democratic or Republican congresses) that matters had gotten too complex, and that it could no longer administer policy. It could formulate policy, and I'll be coming back to that—particularly when trade policy moved into areas that went beyond the border, or when it had to do with services or with regulation.

Another thing, just as a political footnote, was that there was a wave of reaction in the country to the way that the Congress had handled trade policy during the Depression. A number of figures in the United States at a bipartisan-level came out of the Second World War convinced that while protection in the 1930s by the United States and the rest of the world had not caused the Great

Depression and the Second World War, it had certainly been very intimately involved therein. From an economist's point of view, if it didn't cause the Depression, there was a unanimous agreement politically that it extended the Depression.

And so there was a fair amount of consensus that the president had to take over, and to some degree the president did. Yet it is still true that the United States Congress, the Ways and Means Committee of the U.S. House of Representatives, and the Finance Committee of the U.S. Senate are the final real arbiters. It has been said, not incorrectly I think, that the most important figure in the formulation of U.S. trade policy at any given time is the Chairman of the Ways and Means Committee. This is not to say that there is no coordination, or never any alliance, but ultimately it is down to the Congress.

Now, twenty years ago, the Congress, in continuing the movement to still allow some flexibility to the executive, passed what was called "trade promotion authority", a so-called "fast-track authority". Basically this meant that the Congress said to the president: "We still want to set the guidelines, we still want to set the major policies, but we will allow you, as you have been doing since the 1930s, and certainly since the beginning of GATT and then the WTO, to execute this policy. We expect you to do the negotiations. We cannot negotiate with other countries. However, we will give you the guidelines and we expect you to live up to those." The Congress next said, "What we owe you and what we owe our trading partners, because otherwise they will not come to the table with their final offers, is an up-or-down vote. We may disagree with the president. We may disagree with the administration. But what we will agree to is that within a certain length of time, we will give you a decision." The president could then go, whether to GATT or to a bilateral agreement with someone else, and say "Look, this is what we're going to do and I can assure you that the Congress will make a decision on this. It will not be protracted. It will not be something that will filibuster over several years. And you'll get an up-or-down vote." And that has been the key to the alliance, if you will, or the coordination of U.S. trade policy between the executive and the legislature since the 1970s.

That may be breaking down, and that brings me to a second point that I want to make. That is that since the late 1970s, but particularly from the late 80s through the 90s, the bipartisan support that you had for most of the post-Second World War period began to break down. (From 1945, or the early 1950s from the time that Eisenhower became president, you did have the Republicans ratifying the new trade policies that came out of the Second World War through the 1990s. There was a reasonable consensus that the United States should take the lead in trade liberalization.) That began to break down in the late 80s and certainly has continued to break down in the 90s until our own time. And you have a situation that while the Republicans by and large can be counted on to support free trade agreements, new free trade agreements or GATT/WTO agreements, the Democratic Party is deeply split. Routinely by the end of the Clinton administration of the 1990s (and I'll come back to this) about two-thirds of the

Democrats in the House of Representatives were voting against free trade agreements. This is not to say that there was not a minority or portion of the Republican Party that were voting against them, particularly as the Republican Party moved to the south with textile areas that had also moved in a protectionist or anti-global way. But by and large, it would be no over-simplification that you can think that two thirds of Republican states could be counted on and a third would be skeptical or opposed, and the Democrats would be coming from the opposite direction. And that has, I think, become even more significant now.

I'm not going to spend a lot of time on current U.S. trade politics. What I will say is this: That as late as Bill Clinton, in his early presidency, there was a huge fight about Clinton's inheritance of the NAFTA agreement from the Bush administration (a Republican administration) and his inheritance of the negotiations to end the Uruguay Round. After a real debate within the early Clinton presidency, the president and his chief economic advisers ended up on the side of greater trade liberalization. And Bill Clinton's "mantra" as it were, his slogan, in his early years as president, was "We will compete, not retreat."

Hillary Clinton, and this will be true with Obama—I'll just take the two leading Democratic candidates—have been very careful. While they have not come out totally in disagreement, Mrs. Clinton in particular, who's running to some degree on her husband's presidency, has to be very careful what she says. But she has made it very clear in private that you could not expect a third-term of a Clinton administration in trade policy, if she is elected, while she might follow the policies of others. Therefore you really do have this split in the Democratic Party, and I'll come back to this at the end because it's important. The Democrats took over Congress in 2006, and if they take over the presidency and the Congress in 2008, we are likely to see substantial changes in U.S. trade policy.

I do not know and I cannot predict exactly what those will be, because that brings me to a third point to make and that is that once in office presidents tend to be much more international than elected representatives. And you can understand this. Whether it was Eisenhower in the 1950s (who led the Republican Party away from the century-old protectionism that had been a bedrock tenet of Republican policies) or Presidents Carter and Clinton in the 80s and 90s (who fought the movement of their own party away from trade liberalization), you can normally count on a president to be much more internationally-minded—this is his or her responsibility finally. I'll come back to this because, while I may be fairly pessimistic about the economic underpinning of U.S. trade policy, in the end I think the responsibility of office and another point I'll make about foreign policy may be the reason that we will not see a wholesale turnaround in U.S. trade policy in 2009, no matter who wins or what the makeup of the Congress is.

So those are three political and institutional facts.

But let me move then to a fourth point, of matters of substance, because it'll get to what I'll be talking about a lot for the rest of this speech. And that is, while the United States—and a lot of what I'm going to be talking about after

this will be an analysis of this movement—has moved to add bilateralism or regionalism to its quiver of trade policies, multilateralism and the WTO (or previously GATT) remains the chief priority. It is the number one priority of any administration.

And even though I'm going to go into a fair amount of detail about the Bush administration's bilateral and regional policies, I think it would be unfair to say that the Bush administration moved away from multilateralism and from a top priority for completing the Doha Round at the same time that it began to negotiate bilateral agreements. This is not the time to analyze the Bush administration's positions on the Doha Round, and certainly I have criticized a good deal of what I think is their lack of guts, their lack of courage.

But having said that, in terms of any dumping or in terms of now at the very end of the Round not being able to pull together the political courage—and what the hell, Bush, it's all over so you might as well have political courage now—you have to have the political courage to come forward with the agricultural reforms of the Doha Round. (Looking back, the United States, in manufacturing, in services, in regulatory policy, in the key areas in the Doha Round, has taken the lead I think, and you cannot fault the administration for that, even though I may have some quibbles about what it had to say.) So I think the point is the world, the WTO and the multilateral system is still going to remain the top priority, and I think this will be true, by the way, whether we have a Republican or a Democratic president in 2009 and whatever else there is that they may or may not change about U.S. trade policy.

In some ways it should be a no-brainer for these politicians: We are a world economic power. For us not to try to negotiate with the largest group available would be silly, and I think you could tell that to even the dumbest politician in Washington, even though he or she may have a constituency which would tell them that on a particular issue they shouldn't go in that direction. But I think that's going to be the case.

Now having said that, I think we need to add a couple of other points though; not about the U.S. situation, but about the situation in the world. My own judgment is that we have reached some kind of end-point in the WTO, in the multilateral system. I hope I am wrong about this, but I think we will have, not an explosion, but either no real solution to the major problems of the Doha Round, or some package that is so small that it will impel nations to continue down the path of bilateral agreements and ultimately regional agreements. (This is not just the United States that I'm talking about at the minute, but the rest of the world, whether developed or developing countries.) I will, however, come back later to a point that I think makes regional agreements almost as difficult as multilateral agreements, but my thinking, my feeling is that bilateralism and regionalism are here to stay, and not just in East Asia, but around the world.

Now let me add a footnote. What is not, however, on the cards I think, is something that economists have worried about, starting a decade ago, that somehow the world will break up into three big blocs, that are mutually exclusive;

one in Asia, one in the Americas, and one arranged in some fashion around the European Union. If you look at what is happening that is not likely. Whether you look at the bilaterals that are being agreed to out here, or those of the United States, or those of the European Union, at least a third to a half are cross-regional. I mean, the European Union is following the United States to negotiating with Korea. If you look—I'll come back to this—United States' bilateral agreements are all over the world.

Now you just might expect that of the United States, but just look at a small country like Chile, or Mexico. I mean, Mexico and Chile are the "champions" of bilaterals. Chile has bilaterals with just about every region and as many countries as they can find. Singapore is on its way to doing the same thing. So that, while it's not multilateralism, I think we're not in the process—either in Asia or in any other region—of going for mutually-exclusive blocs that will fight each other. There are problems with bilateralism, but that, I think, is not going to be one of them.

And my final point is a basic general observation that increasingly (and I'm going to go into some detail about this when I deal about the Bush administration) the United States' trade policy is seen not as a separate entity, but as a means for larger foreign policy and security goals. Now I think there are special reasons that this came to the fore, as in our fully-articulated policy under the Bush administration. But I would also bet that in the next administration, whether Republican or Democrat, while they will change the terms, while they will not want to be seen for lots of reasons as an extension of the Bush administration, foreign policy considerations will really become an important, if not the single most important issue in terms of the formulation of U.S. trade policy.

And let me just say as a footnote, I am very skeptical at the moment—I hope I'm wrong again—of the U.S. – Korea Free Trade Agreement going through in the next year. I think it's going to go over to the next administration, and one interpretation will be that that's really trouble, because you've got a new Democratic president, whether it's Obama or Hillary Clinton, who has come into office blasting trade policy, blasting bilaterals, or criticizing the Koreans. But I would bet in the end it's going to go through and it's going to go through because a new Democratic president is not going to have to face the challenge of saying "Who lost Korea?" The point being, that if we slap the Koreans in the face after this negotiation, we should not have gotten into the negotiation if we weren't going to finish it, if we weren't going to vote positively.

The same is the case, right now, for what the Democratic Congress is facing with Colombia. How do you go to the electorate and say "Who lost Colombia?", "Who actually invited Chavez in?" Now I'm exaggerating, but that's where I think the political debate will come. And so increasingly, business will have to look at trade policy in conjunction with larger U.S. political and security goals (though this is not that economics and business interests are not going to be important).

We're not alone in this, but it's particularly important for the United States, I would say. U.S. businesses are going to bitch and moan about this, because they argued all during the Cold War that again and again American presidents

sacrificed U.S. economic interests to the Cold War. Well that actually really wasn't true, because what they were saying was that American presidents lowered barriers, we had a greater trade liberalization policy, and that meant that some industries were hurt by it on a temporary basis. For the national interest it was, I think, all to the good. But it was an article of faith from the 1960s to the early 1990s by certainly the sectoral industry, the steel industry, or even the automobile industry, that somehow they were getting the short end of the stick, because President Eisenhower or President Nixon or President Carter thought that we ought to do something to help our allies economically against the Soviets and the Chinese Communists. It wasn't true then, at least in terms of national interest, but I think it'll come up again.

Now I'm not going to spend a lot of time on individual administrations, but let me take just a couple of minutes and talk through the movement of the United States away from multilateralism as being its only trade policy. In this regard the United States is very much like Japan from 1945 to the late 1980s. Japan, once it got into GATT and the decades after that until 1999-2000, adhered very strongly and faithfully to the multilateral system and only reluctantly moved away from that. There's a lot of literature on this—I'm sure those in this audience know a lot about it.

Well the United States was in the same position for a long time. It actually had two policies. This really fitted with Japan, and Japan was very much involved here. It supported the GATT, but it also had what you might call "bilateralism-unilateralism". There were a number of areas in the 60s and the 70s through the 80s that the GATT didn't cover, and so the United States, whether it was with Japan, the European Economic Community, or other countries, always reserved the right to have individual bilateral negotiations outside of the GATT negotiations. And of course Japan was front and center from the 1970s to the 90s with this. And as I say, you can call it bilateralism or unilateralism, but it was a kind of *sub-rosa* policy that went along with the multilateral policy.

And I would say that in the 1980s and the 1990s, though the United States moved in the direction of bilateralism and regionalism, it did not set out to do so. I think it was not a fit of absentmindedness, but it was reacting to events. I think I've read it in the literature, not just out here in East Asia but in other trade literature, about the impact of NAFTA, or the impact of the Free Trade Area of the Americas, as the United States seemed to signal to the world in an assuming way. But what people don't remember is that the United States did not initiate the negotiations with Canada, they actually did not initiate the negotiations with Mexico, and then the consolidation of those into NAFTA. Canada and Mexico approached the United States. It wasn't something that the United States really had thought of as a consciously-developed theory as of the mid- to the late 1980s.

The only thing we'd had was a bilateral with Israel, which was *sui generis*. It had totally to do with Israel's position in the Middle East and was a vote of political confidence by the United States in Israel, and it was not part of a trade policy. It was, if you will, an early signal of the United States linking security policy to trade policy, but it

didn't really follow through.

And as a matter of fact it wasn't economics, again, it was security and political issues that really moved us in the direction of regionalism in the first Bush administration. I want to highlight this, because there's another theme that I'll draw and that is that people matter, individuals matter, and somebody can have a real influence. And one person who had a real influence on U.S. trade *and* security diplomatic policy was James Baker.

The reason that he was so strongly supportive of NAFTA was the political one, and the reason that the Bush administration first put forward the idea of an enterprise of the Americas which was somewhere way down the road of a free trade agreement of all of the Americas, was because, Baker, a Secretary of State and then later a Secretary of the Treasury, knew that he had to do something to compensate the South Americans. There are echoes here by the way from 1997, with the financial crisis out here—the South Americans had gone through their own financial crisis in the 1980s, though it wasn't as deep, and it wasn't as penetrating as the financial crisis in East Asia, and the United States, with the IMF, had administered, or was pushing them to administer, quite bitter medicine. What Baker said was that we have got to have something on the other side of this, that we have got to give something here. So that was the background.

And by the way, there's one interesting footnote. Baker did this all on his own. He knew at the time, that the U.S. Trade Representative, Carla Hills, and her then deputy, whose name we don't need but who was a long-time State Department and Trade Negotiator in the United States, were adamantly opposed to any movement toward bilaterals and regionals. They took it as an article of faith that the United States should stick with GATT and not move away from that. It would be a terrible signal, they thought, for the United States to move in this direction.

Baker just went around them. And Baker was closer to Reagan and later closer to Bush. The U.S. Trade Representative is ringed-in, often, by more powerful cabinet officers, and Mr. Baker (and Mr. Shultz under Reagan) just went around them. And thus was the reason it really had to do with a political and a diplomatic, rather than a purely economic decision based on some thought-out policy. Now having said that, however, it's also true that a number of events were pushing the United States in the direction of moving away, not the least of which being in 1989, 1990-91, (again mirroring where we might or might not be today), when it looked as if the Uruguay Round was not going to go anywhere. There had been a crisis in 1990, they had had a big meeting (not quite the same as the Cancún meeting of the WTO in 2003) but it looked as if it wasn't going anywhere, and so there was pressure upon the United States to move in another direction and Baker responded to that.

Now let me just quickly talk a little about the Clinton administration. What makes it fascinating is that I've already laid out the theme that by the time Clinton came into office his party was already deeply divided. And I would argue that two of Clinton's bravest acts—at least in one case as president—came in that first year when he backed NAFTA, knowing that his party was going to split

under him, and also backed the WTO.

One other thing to note about trade politics in the United States, however, is that, interestingly, the WTO negotiations and the Uruguay Round have never been as controversial in the United States—and I think if we got a Doha Round negotiation finished that would not be as controversial—as the individual bilaterals. And I think the reason for that is that when you have a multilateral negotiation, it is very hard for the demagogues, who really "demagogue" NAFTA, to make the case that the United States is making an agreement with a country that is much poorer, has much lower wages, and as Ross Perot said, there'll be this sucking sound of jobs out of the United States to some small, poor country, or poor countries. When you have the WTO you have rich countries, you have poor countries, you have middle-level countries—it's harder to make that issue stick. And indeed it didn't stick.

Clinton faced that situation. But he also faced a situation, after the Republicans came in in 1994—in other words, for the last six years of his presidency—where he did not have what I've referred to before; that is, trade promotion authority. The Congress refused to give it to him. And the reason that it did so was the split among the Democrats, and although a minority, you still had to have some votes from Democrats. They wanted the United States to push very hard for the inclusion of a much stronger regulatory system concerning labor and environmental rights, which at first they were willing to settle for outside as a part of a side-agreement, but increasingly have wanted inside the new agreements the United States has had. This opposition has continued right down to today, and it's what the Democratic candidates are talking about.

Now after 1994, Bill Clinton was never really willing to push hard enough to get trade promotion authority because he worried increasingly that it would hurt the party in congressional elections, and then finally in the late 1990s that it would hurt Albert Gore's chances of being president in 2001. In other words you had a split party and so you really couldn't advance.

What still happened, however, was that the Clinton administration, in terms of my theme today, was perfectly willing to make promises, because it didn't have to go to Congress. It first put together, in Miami in 1994, a declaration that moved toward free trade of the Americas by 2005. Now this was going to be after Clinton left office, and he didn't have to do anything with Congress, so he just made the promise.

The same thing is true to a great degree with what happened in APEC, where in 1994, as you know, you had the Bogor Goals which were for 2010 and 2020. Now there's another reason that APEC was *sui generis*, and that is it was a very different kind of trade agreement. Under APEC you did not have, and you do not now have, a normal reciprocity-based agreement. Led by Japan and the ASEAN countries, this was supposed to be what was called a "concerted unilateralism"—that is, you would move toward the goal of free trade by 2010 or 2020 at your own pace. There would be none of this rules-based stuff. So, really, it was easy for Clinton to do this, because he wasn't going to have to live up to it.

There was also one final thing in the Clinton

administration, just for those of you who are economists. That is, under Clinton you had the first of the raging debate among U.S. economists. Not saying that other economists didn't do this, but in the United States there was a debate, purely on an economic basis, on what were the implications of the United States or any other country, or a whole group of countries, going for bilateralism or regionalism versus multilateralism, the dangers of trade diversion, and the dangers of an inefficient system.

And you had on the one hand, someone whose name you probably know over here, Lawrence Summers, who was Under Secretary and then Secretary of the Treasury, then later President of Harvard, and Laura Tyson, another name famous in Japan, who argued within the Clinton administration that all of these are to the good. I think, I forget the quote that Summers had about it, but to paraphrase he said "I'm for all the '-isms'. I'm for multilateralism, I'm for bilateralism, I'm for regionalism, it's all lowering barriers."

Against that was the perennial Nobel Prize—candidate, Jagdish Bhagwati, and a whole other group of economists, who thought that this was the wrong way for the United States to go, that this was a terrible signal and that it would just create great inefficiencies in the world economy and that we should not be leading this. It was an academic debate that spilt over into politics. You had this debate at any rate, but Clinton was really thwarted for the last six years. So you really didn't have any advance beyond just the decision or the Seattle "explosion".

Let me turn now to the Bush administration, and as I've said, we'd had discussions for a decade about bilateralism and regionalism, and you had intimations under James Baker and under Bush "One" that foreign policy and security should have a bigger place in trade policy or stand as an equal.

But for better or for worse it is the Bush administration under Robert Zoellick—and it's not just Zoellick, the president actually backed all this, so it's a Bush initiative—that really put all this together in a set of doctrines, which represented, if not a turning-point, at least a very important establishing of two new tenets as real doctrines backed by a president and the administration, as opposed to debates among economists or debates on the issues that you had no control over as you'd had under Clinton. And I said people were important; I think you might have had a free trade representative do this because it was post-9/11. I think it was key that Zoellick was there because he was a protégé of James Baker. Zoellick was then, and is now, an unusual person as a U.S. trade representative. It is not to denigrate Carla Hills, or Mickey Kantor, or Charlene Barshefsky, for Bush "One" or Clinton, to say that they were trade warriors and their vision was about trade. Robert Zoellick's primary ambition, really, was to be Secretary of State of the United States at some point, and he saw trade policy, as his mentor Baker had seen it, as a part of the larger set of U.S. national interests. This was obviously underscored after 9/11.

But to make a long story short, the Bush administration came forward with two, I think new, tenets, and while new administrations may change these, I think they will abide by them. For one, there was the explicit linking of trade policy,

and indeed bilateral agreements, with larger U.S. security goals. Trade policy became a part of the U.S. national security document of 2002. I'm not going to take the time to read you that part of the document, but it basically says we see trade as an instrument of foreign policy. And that had several implications by the way. It meant, and Zoellick was very explicit about this, that the United States would also reward those who backed it in foreign policy with free trade agreements. At that time it was the Iraq War, and it's the reason that Australia was moved to the front and New Zealand was put to the back of the line, and it's the reason, actually, that in addition to economic FTAs, the United States negotiated FTAs with a number of countries in the Middle East. Therefore it was used both as a reward and a punishment, and they actually acted on it. They were very clear to U.S.-trading partners and our allies.

The second point had been adumbrated before, but it was an explicit theory about bilateralism and regionalism that came under the rubric of "competitive liberalization". What Zoellick and what the administration argued was that—and as I've said from the beginning, I think it's fair to say that they followed this through—the multilateral system is our number one priority, but we think you can build global free trade in a number of ways; what we would like to get is a competition of liberalization—that is, that you build from a whole series of bilateral agreements, and others see the United States going from making bilateral agreements to regional agreements, and build that way to global free trade, as opposed to *just* going to Geneva.

I'm not going into detail about this, but there's one problem or flaw, before I turn, for the rest of this address, to East Asia. At least so far. Zoellick saw that there was another route to go; as I said, you'd build from bilateral to regional to global free trade. The problem so far has been—and this has implications out here in Asia by the way—that it is very easy for the United States, the world's largest economy, to attract and get other countries to come to it for bilateral agreements. We've got this economy—if you want a share in it, just come. But when you get to regional agreements, and the example that I'm going to give (though not in any detail) is the Free Trade Area of the Americas agreement, you find very quickly that you come to many of the same problems and the same obstacles that you have in the WTO, because you have this multiplicity of interests. And what has happened, and what happened to the end of the Clinton administration and through the Bush administration was that, because of disagreements between Brazil and the United States in particular over agriculture, anti-dumping and services, you found you just couldn't proceed beyond a certain point. And so that agreement has stalled. Now as I say, if and when you begin to negotiate beyond bilateral agreements out here in East Asia, you probably will find some of the same problems.

What you have at the end of the Bush administration now are some eight or ten bilaterals that have been negotiated, and you have a so-called "plurilateral", which is the Dominican Republic–Central America Free Trade Agreement with six other countries. There is a substantial record. All of this, however, came to a halt in 2006 when

the Democrats won the Congress back. The Democrats have allowed one small agreement to go through, but they're balking at Colombia and at South Korea. We'll have to wait I think until 2009.

Now let me turn finally to East Asia, and I'll move along quickly here, and oversimplify. There have been, I would say, from the early 1990s, two competing visions about regionalism in East Asia. One—if not predominant, but at least where the region seemed to have been moving from the mid- to the late 1990s—was a trans-Pacific regionalism, embodied in APEC. (I'll come back to this. You can build subsets of this.) And the APEC agreement—and I was critical before and I'll be critical now—I think foundered because of blundering, first with the Clinton administration, and then with the Bush administration. The Clinton administration's reaction to the Asian Financial Crisis, while it was, I would argue, economically correct, was politically a disaster. And then, in the midst of this crisis out here, the Clinton administration blundered forward with pressure on Japan and other countries in APEC to go forward with a set of sectoral liberalizations.

Right in the midst of this, Japan wasn't really hurting that much and it had other reasons I think for digging its heels in, but for other countries it was like a one-two punch. The United States just hit them, ignored them and the Asian Financial Crisis (I don't think it did, but I understand why they thought that) and then came forward with a set of new liberalizations while these guys were down on their knees. The Clinton administration, when it was rebuffed here, just turned away. It spent its last year, actually, trying to get China, interestingly enough, into the WTO. It didn't really pay any attention to the crisis.

Now this was compounded, after Bush came in, by 9/11; the Bush administration actually paid little attention to the trade liberalization part of APEC and to other aspects of APEC beyond just trade, and tried to shift its chief function toward security. Now it makes sense to have a security part of APEC, probably, because of the crisis of terrorism, and because of questions of a new situation post-9/11. But, just as the Clinton administration before it, the Bush administration went too far. Bush went to the APEC meetings in 2003 and gave a speech in which he never mentioned trade once. And so the thinking out here obviously was that the United States really didn't care.

Meanwhile you had the second vision—I don't think planned, initially, but beginning to grow and really take over from APEC—and that is an intra-Asian vision. There was ASEAN Plus Three in 1998, which didn't start with any long-term vision of an intra-Asian regional set of arrangements, but grew like topsy; it was one thing that led to another and then to another. So by 2000 and 2001, when you have the East Asian Study Group, when you have plans regarding the kinds of issues that are larger than trade and than ASEAN Plus Three, you have these two visions and the Bush administration is not paying any attention.

So that is to some degree where we stand now, with things unresolved. I'm not going to go into detail about the East Asian Summit and Japan's attempt to get around the ASEAN Plus Three, or what seems to me is a very ill-thought-out proposal by Japan for an ASEAN Plus Six,

which smacks of desperation about getting allies against the Chinese and gets you away from a decision that Japan, Korea, Singapore, or other allies of the U.S. are going to have to make: Whether you want a trans-Pacific vision, or whether you want an intra-Asian vision. So that, while I understand why the Japanese government did this, it seems to me to do nothing more than confuse the situation and be essentially an abdication of leadership.

Let me finish by saying "Where do we stand now?" And in essence this is about the United States. What are the United States' options? And for the moment I'm going to assume that President Hillary Clinton will not want to "lose Korea" or "lose Asia," and she and her administration, and a Democratic Congress, is going to come back out here with some set of proposals and some kind of policies.

So, that being the case, I think there are three or four options. The United States could just continue—assuming that there is a new president and a new Congress—going a bilateral route. It could go back to negotiations with Thailand, pick up the negotiations with Malaysia, keep pushing gently but firmly on U.S. – ASEAN negotiations, and just see how things play out.

There has been a proposal, that the administration stayed away from for a while but has finally endorsed, by policy entrepreneurs in the United States (Fred Brookson and others), for the United States to go for the "big enchilada" as it were, for a free trade of the Asia – Pacific based upon APEC.

So you've got these "polar" options; you could do bilaterals, or you could go for a big-picture free trade of the Asia – Pacific.

Now I think there are several sorts of intermediate moves that are more likely to be more successful. After consultation with what I think are the three key countries right now—Japan, Korea and Singapore, (Singapore thinks more strategically, because of where it is and what it is, than any other country out here), I think one thing that the United States, in conjunction by the way with Japan, could try to put together is a so-called "coalition of the willing", after discussion with our closest allies; that is, people are understandably scared about this whole big new vision of a free trade of the Asia – Pacific any time soon, but there may very well be nations that are willing to go beyond where APEC is now. And also, I would argue, that while ASEAN has just once again walked away from it, I think that there are a number of countries, despite what was said in

1998-99, that are ready for reciprocity-based agreements—because think of it, every Asian country, certainly every East Asian country, has already negotiated or is negotiating bilateral, reciprocal, traditional agreements. So you might be able to do something there in that regard.

A third option, or a second option within that, would be that the United States basically could do the following: Make the point that we are not going to—as we did in the early 1990s abutment with the East Asian Economic Caucus that Mahathir put forward, which was clearly aimed against the United States—oppose a new intra-East Asian organization, or the meeting of all kinds of different ministers, but there's one thing that we do want to make clear, again to our closest allies, Japan, Korea and Singapore, and that is, we're not going to raise any question until you decide, within whatever forum (the ASEAN Plus Three, or the ASEAN Plus Six), that you will enter into a formal negotiation for a free trade agreement. At that point the United States wants to be at the table. I don't know which way we'll go, and we may not go any of those ways.

I would say that the other thing to keep in mind is that I am a very strong adherent to the so-called domino theory and I think that if, as I believe in 2009, if not in 2008, the U.S.-Korea agreement is ratified, it will produce a domino effect; that is, others will feel that they need to come in. The reason it hasn't happened before is that the countries that Asian countries or we have negotiated with are small countries. None of the big countries, yet, have negotiated with each other. At any point any two of them do, the others are going to have to move, and in this case I think Japan would move. It would either move to come to us, or to Korea, or to both of us. And so I think that you're going to have this trip-wire that will come to fruition.

Now, I think I will leave it there, on a note that, as I say, all of this assumes that a new administration will continue—whatever one thinks about the particulars of the Bush administration's overall trade or foreign policy—to think that the United States has got to be engaged in Asia, and engaged in a way that we have not been for the last decade; and that is not just bilaterally, but in some outreach to regional institutions, in some way, far beyond what we have done so far. I think that there are a lot of ways of doing this, but of the four that I've mentioned, the last two are the ones that are the most likely, or the most likely to be fruitful for the United States.