

U.S. Rethinks Trade Ties with Asia

By Dick K. Nanto

A confluence of world trends and events has turned the attention of the United States toward rethinking the structure under which it conducts its economic relations with the developing economies of Asia. The United States now faces chronic trade deficits, strong competition from Asian exporters, a growing Asia-Pacific trading bloc, the need to recycle East Asian capital surpluses, and volatility in foreign exchange markets. Such economic considerations have combined with a thaw in East-West military relations that has placed more emphasis on economic factors in discussions of national security policy. This has elevated the importance of the Asian economies in U.S. policymaking.

Both the Bush administration and members of Congress have proposed new institutional arrangements for U.S. relations with Asian trading partners. These include U.S. Secretary of State James Baker's proposed Pan-Pacific entity, Senator Bill Bradley's Pacific-8, Senator Alan Cranston and Representative Mel Levine's Pacific Basin Forum, and various combinations of free-trade agreements.

Limits on power

A decade ago, similar proposals died primarily because most Americans could see no compelling need for closer economic cooperation among nations of the Pacific Rim. Many Americans also suspected that such a formal organization would cost more than it would provide in benefits. Since then, however, the limits on U.S. economic power have forced it to reach out to cooperate and build coalitions with its Asian trading partners. For example, the United States is unlikely to be able to resolve world financial problems, such as Third World debt, without cooperation from the cash-rich Pacific economies.

In addition, many in the United States feel that more needs to be done to resolve trade issues despite the passage of the Omnibus Trade Act in 1988. One line of thought calls for more free-trade areas patterned after the Canada-U.S. agreement or the more unified European Community. The rationale for such an

approach is that the level of interdependence between the United States and the economies of the Asia-Pacific region is so great that relationships should not be threatened by constant bickering over market access and perceived unfair trade practices. Trade friction has often threatened to damage political, security and cultural ties.

In terms of legislation, most of the bills introduced in the U.S. Congress focus on a free trade agreement with Japan. Representative Philip Crane, however, has sponsored bills that would also authorize such agreements to be established between the United States and Taiwan, South Korea and ASEAN. The advantages envisaged include mutual economic benefits in the form of trade generated, greater economic efficiency, enhanced competition and lower consumer prices, removing the remaining formal and informal barriers to trade in each country, and providing an effective vehicle for developing rules in nontraditional areas such as services, investment and intellectual property rights.

U.S. opinion leaders seem to feel that if a free trade agreement were established, it should be consistent with GATT and broad in its coverage of other economic issues. One concern is that the U.S. market is so large that a free trade agreement with an Asian economy would give away more market opportunities than it would gain.

The earliest that Congress could give serious consideration to the free trade agreement bills would probably not be before the 1990s. As the 1980s end, the focus of U.S. trade policy has been to proceed with the Uruguay Round and to continue bilateral, market-opening efforts.

In June, Secretary of State Baker announced that the Bush administration would explore the possibilities for a new mechanism for multilateral cooperation among the nations of the Pacific Rim. He indicated that he did not intend to offer a definitive blueprint but would be looking for consensus among Asia-Pacific leaders.

In Congress, Senator Bradley has proposed forming a coalition of eight Pacific nations which would organize to coordinate exchange rates, seek solutions to the

Third World debt crisis, and negotiate common positions for GATT negotiations. Although members of the group would not provide trade preferences to each other, the four industrial and four industrializing nations would cooperate on international economic policy.

Wrong focus

Senator Cranston and Representative Levine have introduced bills calling for a Pacific Basin forum to discuss economic, diplomatic and other issues unique to the region. The forum would include annual meetings with a permanent secretariat to do research and pursue dialogue on long-range concerns of mutual interest in the Pacific.

U.S. policy has long favored close cooperation among Pacific Basin states. In 1985, President Ronald Reagan directed executive branch officials to promote closer cooperation with countries in the Pacific Basin through expanded involvement in such regional forums as the ASEAN 6+5 dialogue framework (ASEAN plus the five industrialized countries of the Pacific) and the Pacific Economic Cooperation Conference. As of mid-1989, however, there was no agreement on a detailed plan to create a governmental Pacific Basin institution.

The current consensus seems to be that the United States should remain actively engaged in discussions on creating a Pacific institution, if only to avoid formation of an organization that would pursue Western Pacific interests at the expense of those of the Eastern Pacific. There is some concern, however, that the focus on creating a formal institution could divert attention from the actual work of fostering greater economic cooperation or could provide participating nations with an excuse to delay further market liberalization.

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