U.S. Trade Relations with Asia

Remarks by
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Introduction

Thank you, Cathy [Novelli], for that kind introduction. Let me also thank WITA for the opportunity to be with you all today.

I'm delighted to be able to speak to you this morning about U.S. trade relations with Asia, which I believe – without overstating it – stand at a critical juncture today.

What I'd like to do this morning is talk first about economic developments in Asia (in particular, East Asia) and how the United States' relative position as a trading power in this vital region is being challenged; then review how, to address this challenge, this Administration has successfully pursued a policy of active engagement throughout the region to open new markets and promote economic reform; and lastly discuss how sustaining this policy of active engagement – and with it, our economic fortunes in the region – will depend on Congressional action in the weeks and months ahead in approving the U.S.-Korea Free Trade Agreement and reauthorizing Trade Promotion Authority.

Asia Economic Snapshot

Recognizing that many of you are familiar with the general economic landscape, I want to share just a few slides that illustrate Asia's growing economic importance:

Slide 1 – This slide underscores Asia's growing heft in the global economy. In 1990, Asia accounted for 26.5% of global GDP on a PPP basis, today the region has grown to constitute 37.5% of total global output. Fifteen years ago, whether you were a company or a country, having a proactive Asia trade strategy was wise; today, it is essential.

Slide 2 – Here you see two graphs comparing annual global GDP growth rates to those in Asia. Since 1990, the average growth rate in Asia has outpaced the global figure, save for the period surrounding the Asian financial crisis. Starting around 2001, you see the spread between the two rates gradually widening – with the average GDP growth rate for Asia's economies at 5.1% vs. the world average of 3.9% in 2006.

With dynamic economies, growing technological sophistication, increasingly skilled workforces, and greater openness, Asia has become a driver of global economic growth, and will continue to play this role for the foreseeable future.

It is not surprising that during the past 15 years, U.S. trade with Asia nearly tripled, from $300 billion to $900 billion. Nor is it surprising that, as East Asia has prospered, the basket of U.S. exports to the region has diversified and increasingly migrated towards higher value-added goods and services.

What may be somewhat more surprising is that during this period of strong growth, the United States' relative position as a trading power in Asia has declined:

Slide 3 - The blue line shows that intra-Asia imports, as a share of Asia's total imports, have risen from close to 47% in 1990 to nearly 59% in 2006. By contrast, the U.S. and, to a far lesser extent, the EU are losing import share – with the U.S. position declining from roughly 18% in 1990 to less than 10% in 2006.

Slide 4 – Finally, this map shows that we have gained import market share in 7 countries (shown in green) and lost share in 27 (shown in red), including key trading partners like China, India, Japan and Korea.

In simple business terms, what we have here equates to an erosion of market share, if you will, in the majority of key Asian economies.

There are a number of explanations for the diminished U.S. import share. First, there has been substantial economic integration within Asia, with regional arrangements resulting in a boom in intra-regional trade. In addition, trade players outside the region have actively sought an enhanced presence in the world's most dynamic economic region, including through bilateral preferential trade agreements.

In all, more than 100 regional trade agreements have entered into force in Asia since 2002, and 100 more are currently being negotiated.

So the challenge is: at a time when it is more important than ever to be tied into Asia, how do we ensure that the United States retains a strong position in the region?

The Administration Working To Meet the Challenge

The answer is for the United States to be actively engaged, bilaterally and regionally, using a diverse array of trade tools. We must work to open these fast-growing markets to U.S. goods, services and investment and we must retain the openness of our markets to theirs. We must work to promote lasting economic reform among trading partners in the region and integrate them into the multilateral rules-based system to help develop and grow their economies. We must create institutions that firmly tie Asia's economies to ours, and we must dedicate the resources to make sure those institutions succeed. We must think of ourselves as integrally linked to the Asian economy, and act accordingly.

Over the past several years, the Administration has worked to do just this, with partner after partner in the region. Let me run through a few examples:

- China – Let me start with China. The Administration has worked steadily to maintain a trade policy focused on ensuring that China remains an engine of economic growth for the United States and a responsible trading partner for the world. From China's accession to the WTO in 2001 to date, we have used constructive dialogue to ensure that China continues along its historic path of economic reform – not only focused dialogues on sector-specific issues, but also such broad overarching institutions at the most senior levels, such as an elevated JCCT and the new Strategic Economic Dialogue. Such dialogues have achieved a number of notable successes, not least in ensuring that China honors its WTO commitments to reduce tariffs and open its markets to U.S. exports, which has resulted in U.S. exports to China increasing by 180 percent between 2001 and 2006. We've married this policy of constructive engagement with a demonstrated willingness to utilize rules-based dispute settlement, where we believe dialogue has failed to secure compliance with WTO obligations. And while there is more for China to do, this nuanced approach has resulted in China continuing to develop into a major trading partner – today the United States' fourth largest export market.

- India – The U.S.-India trade relationship has developed enormously in the past six years. Not only have trade flows more than doubled, but – with the creation of the ministerially-chaired Trade Policy Forum and the novel CEO Forum – we have created the architecture of a trade relationship that should serve us well for years.

- ASEAN – The United States concluded a Trade and Investment Framework Arrangement with the ASEAN countries last year, and has put in place a strong initial work program. At the same time, we have been pursuing an active agenda of bilateral trade negotiations with almost all of the ASEAN member countries individually. We have concluded a highly successful free trade agreement with Singapore, and are actively engaged in bilateral TIFA dialogues with eight other ASEAN members. We recently concluded a major WTO accession agreement with Vietnam and entered into Permanent Normal Trade Relations with this fast-growing partner shortly thereafter. We continue to pursue FTA negotiations with Malaysia, with a target of completing them next year, and look forward to the restoration of democracy in Thailand that will permit us to recommence those FTA negotiations as well.

- Japan – Under the Economic Partnership for Growth and its constituent dialogues, the U.S. and Japan have worked steadily to promote economic reform in areas ranging from corporate law to foreign investment policies, while heading off other trade problems through quiet dialogue.

- Taiwan – In areas ranging from agricultural trade to investment, the U.S. and Taiwan are steadily putting in place the building blocks for a deeper and stronger trade relationship for the future.

- APEC – We have reiterated our deep commitment to APEC as the premier regional forum promoting economic integration and the only one that effectively counterbalances the all-Asia regional groupings emerging, such as EAS, ASEAN +3, and ASEAN+6. We are working hard to strengthen APEC as an institution and helping it to define and realize its founding vision of free and open trade in the Asia Pacific region, including through the long-term prospect of a Free Trade Area of the Asia Pacific.

- Korea – Finally, let me talk for a few minutes about Korea. On June 30th here in Washington, we took perhaps the biggest step yet toward ensuring long-term U.S. competitiveness in Asia when we signed the U.S.-Korea Free Trade Agreement. Other than a successful conclusion to the Doha Round, enactment of the KORUS FTA may be the single most important action that can be taken today to further U.S. trade objectives in the region.

  As our country's most commercially significant bilateral trade deal in the past 15 years, KORUS eliminates tariff and non-tariff barriers to provide American businesses access to the world's 11th largest economy. Nearly 95% of bilateral trade in consumer and industrial products becomes duty-free within three years of entry into force, while more than half ($1.6 billion) of current U.S. farm exports go duty-free immediately. Studies have estimated that, all told, KORUS will add between $17-$43 billion of income to the U.S. economy.

  But the fact is, KORUS is about much more than numbers. This is a gold standard FTA that boasts state-of-the-art rights and protection for investors, landmark commitments by Korea on market access for services, substantial new protections for intellectual property rights and, in spite of what some critics contend, unprecedented provisions that level the playing field for U.S. automakers in a market in which their ability to compete fairly has long been thwarted.

  In short, the KORUS FTA possesses the potential to be a template from which other high-quality free trade agreements in Asia can be concluded. With this agreement, Korea has taken a giant step down the path of economic liberalization and reform, and I firmly believe others in the region are prepared to follow. To offer you a quick anecdote, following the conclusion of KORUS negotiations in April, Ambassador Schwab and I received a number of calls from counterparts around Asia communicating their congratulations. In a number of cases, immediately after conveying their good tidings, these officials urged us to consider taking our bilateral relations with their respective countries "to the next level", so to speak. So it is clear that the Asians understand the significance of this accomplishment -- now the question is, do we?

The Need for Congressional Action

If we succumb to protectionism within our own borders, and allow KORUS to fail – or not even receive – a Congressional vote, the repercussions promise to be severe and enduring. If unable to effectuate a strong and comprehensive FTA that clearly benefits the United States, U.S. credibility in Asia will be dealt a serious blow as trading partners will be left to question our commitment to our vital relationships in the region. Fearing U.S. disengagement from Asia, Korea and other emerging-market economies of the region will approach more willing trading partners and establish preferential agreements with them. Indeed, Korea is not standing still – it is already negotiating FTAs with the EU, Canada and India, and may be contemplating launching with China as well. The true losers in this scenario stand to be the millions of American workers with export-dependent jobs who would face the consequences of this country competing on an un-level playing field in one-third of the global economy. In short, failure to ratify this agreement would be to fail them – in the Korean market and beyond. It is for all these reasons that I am ultimately confident that Congress <u>will</u> see the critical importance of KORUS, and it will be ratified.

KORUS is not the only congressional action that is important to a vigorous U.S. trade strategy in Asia, however. As most of you know, because KORUS was signed on June 30th, it qualifies to be considered by Congress in an up-or-down vote as stipulated by the Trade Promotion Authority that expired on July 1. But the bilateral and regional trade initiatives that the U.S. will need to keep pace in Asia do not end with KORUS – they only begin with it. For that reason, it is important that this President – and future presidents – be vested with trade promotion authority, and that this happen promptly. Time is of the essence. Other trading partners are moving quickly to conclude preferential agreements in the region, and it will be difficult for the U.S. to capture – or recapture – markets lost to others.

Ultimately, it will be up to you, the trade community that cares about U.S.-Asia trade relations, to make your views on KORUS and TPA renewal known. It is only through your support and advocacy that we can successfully navigate this crossroads and choose the right path – the path that commits to breaking down global trade barriers to afford American companies, farmers, workers and service providers with access to the 95% of the world's consumers that live outside our borders.

Thank you.