

*Keynote Address***"Japan Rethinking Northeast Asia"**

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I would like to talk on three themes today. First of all, I would like to give the background, in simple form, of the evolution of Japan's foreign policy and international relations over the last 60 years. Next, I would like briefly to talk about the recent overall situation regarding the policies and directions of the ROK, China, Russia and the DPRK, and finally about Japan's economic policies vis-à-vis those countries.

[Japan's Foreign Policy Viewed in 15-Year Blocks]

Following its defeat in World War Two the cornerstone of Japan's diplomacy became its alliance with the US. That this forms a major refrain within Japan's diplomacy has scarcely changed through to this day. If you look closely at this, however, the timbre changes somewhat practically every 15 years. Why every 15 years or so? It may have to do with economic developments, technological progress, or changes in US policy, but I think domestic factors feature large.

In other countries, notably in the US and Europe, it is often remarked that Japan is slow in making decisions. According to Tadamori Oshima of the LDP, a Diet policy committee chairman, it is customary in the Diet that nobody dares to take the first step, so that progress is small. A similarly thing was also said by former US Secretary of State Henry Kissinger; that Japanese people are very slow in coming to a decision, and are slow however large or small the problem.

He gave three examples. The first was when Commodore Perry came to Japan in 1853. Japan dithered for 15 years, however, and during that period there was something akin to civil war. Why had the Japanese been slow in making a decision? In 1868, 15 years on, the Meiji Restoration took place.

The second example was 1945, when Japan was completely defeated in World War Two and capitulated. Subsequently, the ruling party was vehemently divided, but eventually a conclusion was reached for Japan to just go along with the US. Even though there was a decision at the government level, however, it was 1960 when this permeated down to the public. This had taken 15 years.

The third example was the collapse of the bubble economy in 1991. Subsequently, 15 years were spent in the conflict over the pros and cons of the injection of public funds into delinquent loans and over the amount of that injection, and in 2006 it was finally resolved to all intents and purposes.

That is Japan's method of debate. If one looks at other countries, for example Britain, the 30-year-long debate there on nuclear submarines still has not ended. Conversely, the US seems to make decisions in a flash, but it takes them 10-15 years to get back to their original starting point.

It all depends on how you look at it, but it seems to me that Japan is proceeding at just the right speed. These 15-year blocks work well when looking at the changes in Japanese diplomacy.

Post 1945, what is generally called the Yoshida Doctrine continued until 1960, and in that period the opinions of Japanese were violently split, with infighting and conflict. I think that the process of reaching a conclusion to these was probably the right thing to do. Following that, from 1960 to around 1975, was the period for the implementation of the Yoshida Doctrine, with the result that the Yoshida Doctrine, where security was delegated to the US and Japan concentrated on economic matters, continued until the first oil crisis and war in the Middle East.

Due to the oil crisis and the Middle East war, it became clear that for Japan to devote itself entirely to the economy was untenable, and the shift in direction toward being a more active member in the Western Alliance occurred from 1975 to 1990. They would henceforth have to try and do what they could as a member of the Western camp.

Just when they thought they would have some stability, along came the end of the Cold War, and both the Western and Eastern Blocs entered unsettled times. Amid this situation what would be a good policy for Japan's diplomatic line? Japan came up with a different course, and started down a new path of "civilian power," meaning a country where military power would not be utilized much at all and a contribution could be made to the world. Before much progress could be made, however, difficulties in various forms began to crop up. Global terrorism, in particular, became prominent, and the campaign in opposition to this, with the US at the center, gained strength, and Japan participated too. Eventually it became the case that being a civilian power alone wouldn't work. Furthermore, Japan plunged into the very difficult period of the first decade of the 21st century, which had to greatly affect domestic politics also.

Regarding 1945–60, 1960–75, 1975–90, 1990–2005, and 2005, I have said that these are 15-year blocks of a mechanical, repetitive fashion, and every 15 years changes have come about. In 2003 Japan participated in the Iraq War, there was also the "new Anti-Terrorism Special Measures Law" debated in the current Diet session, and although it is unclear how far Japan would proceed along this path, as Kissinger had said, it is after roughly 15 years that Japan's course finally becomes fixed.

With the passing of just 15 years, the situation and one's own thinking will change, and again a different course will emerge. From 2005 to 2020, passing through many twists and turns, globally, there will however probably be

a change toward a course of aspiring to do things normally, in a way similar to other countries. A "normal country" can be taken as meaning that we won't definitely not wage war, but what is called a "normal country" here means doing to a small degree what many other nations do, and in the case of Japan, reality is probably already in the lead.

Over the last 60 years, the diplomatic line has differed subtly, but its core has been the alliance with the US. Yet at the beginning of the 21st century great changes are taking place.

One example is the explosive increase in intraregional trade in East Asia. Currently China is Japan's number one trading partner, and the combined trade between Japan, the ROK and China has increased much more greatly in comparison to that with the US.

In addition, there has been a similar explosive increase in passenger numbers since 2000. These have continually risen, and the annual number of air-travelers between Japan, the ROK and China has increased to around 10 million, and within five years will probably reach 15 million or even more.

The traffic between these countries has resulted in a very dense interchange of people, goods, ideas and technology, and what's more is hastening.

A direct indicator of this is that the airports near the centers of major cities are expanding. In Japan this is Haneda Airport. Haneda (as opposed to Narita Airport) and in the ROK, Gimpo Airport in the old city area, (rather than Incheon Airport), are striving to expand.

In Beijing, rather than Beijing Airport on the outskirts, Nanyuan Airport is rapidly increasing its efforts for the Olympic Games. In Shanghai, Hongqiao Airport, an old airport within the city, is expanding. Pudong Airport, built later, is huge, but it lies far from the city center, and Hongqiao is once again the focus of attention.

When people move, it facilitates the establishment of businesses, and an increase in trust. It facilitates technology transfer. Good effects in many areas can be expected, understanding of the other countries' history, culture and people will be facilitated, and this will probably usher in great changes.

[The Foreign Policies and Directions of the Nations of Northeast Asia]

In the new millennium, great changes from the bottom-up have been quietly taking place. On the other hand, however, there are various bottlenecks. Whichever (Northeast Asian) country you look at, while there are many instances of infrastructure that is not always smooth and efficient and there are businesses which don't always do that which is concomitant to any change, major changes are occurring in any event.

Japan's alliance with the US will probably continue for some time, with no great changes. Against such a backdrop, I will state in simple terms what kinds of policies the ROK, China, Russia and the DPRK have come up with.

Firstly I would like to talk about the ROK, and about the president-elect, Lee Myung-bak, who won the December election. Mr. Lee was originally a businessman, who became mayor of Seoul, and he is very dynamic. He

is also very progressive. According to the description by Diet policy committee chairman Tadamori Oshima, he is different to Japanese people, and is more progressive.

It's worth mentioning that, although making good sense, the powers of the president under the ROK constitution are enormous. The president's secretary has boasted that presidential powers are so great that, other than change male to female and vice versa, the president can do anything. In contrast the powers of the Japanese prime-minister are negligible. The prime-minister's powers are almost at the same level as cabinet ministers' and only a little higher. Direct subordinates are few, and as the office of prime-minister scarcely exists in institutional terms, it mostly is unable to create specific policy. That is laid down by the constitution. Beyond that the Cabinet Law has hardly changed from that before the war.

As to how the powers of the president of the ROK will evolve, it is worth looking at the thinking of president-elect Lee Myung-bak; his approach will be very proactive.

Firstly, he places importance on active investment into research and development into science and technology. In this area, he would actively push the ROK into the seventh, sixth or fifth position among the OECD nations.

He is proactive on free trade agreements (FTAs). The preceding ROK administration signed an ROK-US FTA, and even if its implementation takes some time, it's a question of sticking with it. Whether things will go well amid the state of affairs in both the US and the ROK is not clear, but Lee Myung-bak is incredibly proactive. Why? Because he, more than Roh Moo-hyun, believes that agriculture should be further liberalized. He thinks that service industries and manufacturing industries with low productivity should be liberalized even if it leads to temporary unemployment of workers.

Immediately after the former-Prime Minister Shinzo Abe took office, he visited the ROK and China. When he visited the ROK he met President Roh Moo-hyun, and there was a draft for a Japan-ROK FTA, in which the details had been mostly settled, and which was about to be signed. Ban Ki-moon (then the Minister of Foreign Affairs, currently the Secretary-General of the United Nations) handed it to President Roh Moo-hyun for signing, but President Roh refused to do so. The major reason for that refusal, although it seemed a little strange for the Japanese, was that it was apparently true, after the ROK's great determination in liberalizing agriculture vis-à-vis the US, that there was irritation toward the fact that progress in agricultural liberalization had not gone any further in the Japan-ROK FTA. In addition, there was the influence of President Roh Moo-hyun having negative feelings toward Japan on such matters as the interpretation of history, and in the end things did not work out. President-elect Lee Myung-bak, however, seems to be different. He will probably strongly promote agricultural liberalization.

On direct investment, president-elect Lee Myung-bak is active. Wherever you go around the world, you will find ROK financiers. They are courageously and vigorously investing in—as viewed by Japanese enterprises—small-scale businesses and those where there is a low expectation of growth. Under (president-elect) Lee Myung-bak this would most likely accelerate further. Although there has

been the kidnap of an ROK Christian group by the Taliban in Afghanistan, there truly seems to be a great many people in the ROK who are ready to go out and proselytize, and a very large number who are willing to make investment.

He is proactive too on direct investment in the DPRK. In a difference to President Roh Moo-hyun, he has made clear that there must be a "real reciprocity"; if the DPRK doesn't move forward in the direction of denuclearization, the ROK will not move forward on investment in the DPRK. He has made clear his thinking that the ROK will actively seek to invest in the DPRK only as long as the DPRK opens up. There is a modest investment in the center of Kaesong, but he will strive to expand that. Depending on the situation in the DPRK, and with the completion of the six-party talks or an agreement, it is evident that the DPRK and the US want to advance the normalization of relations. The ROK is considering incorporating within its own framework commitments along the lines of Japan's in the Japan-DPRK Pyongyang Declaration. The ROK is actively considering investment in the DPRK, more so than Japan, but from the position of "real reciprocity" it will probably make strong demands concerning the denuclearization of the DPRK.

The ROK's get-up-and-go can be explained by the differences in the extent of development and the stage of economic development, but its get-up-and-go on globalization contrasts with Japan, and they have decided that the Chinese and Japanese languages are to be compulsory at the junior-high-school-level. Having a second language taught as part of compulsory education is not just to have it taught, but has the aim of its acquisition. This differs greatly from the actual situation in Japan where English acquisition is not making progress. All ROK university students are proficient in English. They are better at it than Japanese university students. In addition to this, if junior high school students don't learn Chinese or Japanese they won't graduate. That should be food for thought.

I will now move on to China. What President Hu Jintao is promoting is harmony, or *hexie* in Chinese. Due to intense economic development, difficult social problems have accumulated, and almost on a weekly basis there are demonstrations, protests and disturbances drawing hundreds and thousands of people. To bring reconciliation in these situations the government is doing its best to try and solve problems as peacefully as possible, and in foreign relations also they want to move forward peacefully without confrontation, no matter the country.

In China today they are enjoying economic momentum, although they don't know whether this will continue for 10 years or 20 years, and they are determined that they definitely not sacrifice it over a confrontation with another country. The *hexie* policy will probably permeate domestically and internationally, although domestically this will be quite difficult. In China there is growing corruption, the forced appropriation of land, the creation of people whose human rights have been dramatically infringed and amid this backdrop the problem is difficult of how far they will be able to implement the policy in the name of harmony. Their stance toward others countries, however, is very clear.

Last year a US aircraft carrier left Yokosuka, and although having received permission to make a port call in Hong Kong, on its way there the Chinese government revoked the once approved entry into port. For the US it was hard to believe, but in the end the ship returned to Yokosuka. On that occasion, however, the US aircraft carrier came back via the Taiwan Strait. It is questionable whether it was a good idea to go that far, although it is probable that the national line vis-à-vis Taiwan would not be able to permeate domestically if they didn't drive the message home. While President Hu Jintao is beset by extremely difficult problems, I think that at any rate he wants to make the most of the momentum of the economy. I believe this is the chief route to making China a global major power, and they have to consider domestic and external policy in that way, otherwise things won't go smoothly.

Robert Zoellick, the President of the World Bank, has said "China must become a responsible stakeholder," and that argument doesn't differ to such a large extent from President Hu Jintao's *hexie* policy. In that sense, China doesn't make much fuss, although when it considers its own position to be paramount, for example on Taiwan, human rights, history and territorial disputes, it is highly inflexible.

When Prime Minister Fukuda visited China, there were no concrete agreements reached. The East China Sea problem is mixed up with energy and territorial problems, and that no decisions were made speaks volumes about the character of Hu Jintao's policy.

This Hu Jintao line, however, is very proactive on links with Japan, and via economic, technological and cultural ties, is attempting to advance the science and technology and state-of-the-art technology which China itself needs. In state-of-the-art technology, taking the example of specialty steel, China is still unable to produce high-quality specialty steel. The ROK can produce it, and Japan has been able to do so for quite some time. The current situation is that China cannot do so and the Chinese leadership is quite frustrated about that. Regarding the solution, they understand well that the development of science and technology is essential, and strongly hope for progress in it.

On maintenance of the environment in a sustainable manner, with the Olympics just round the corner they are going all out with improvements, but this can't be achieved overnight. I think cooperation with Japan is very important regarding environmental issues.

Now a "Bubble" is beginning to form, and they are very concerned about financial stability. At the moment monetary economics and financial engineering are becoming very popular subjects. The well off have increased, but at the same time the flow of money has become quite uneven, and they are aware of this yet don't know what to do.

Under these circumstances, I think that China and Japan will want to build up solidly their mutual beneficial relationships.

I will move now to the Russia of President Putin. In the recent elections, President Putin's party won a large victory. Following that he decided that, in keeping with the

constitution, he would himself become prime minister, and his subordinate would become president in his stead. The most important thing in Putin's policy at this point in time is that Russia does not want to become a northern Saudi Arabia.

Saudi Arabia and the Gulf States, thanks to their oil reserves, have pockets bulging with money. Their investment in infrastructure is somewhat poor, and investment in industry, having small populations, has not made much progress. It has been declared that, although having resources, if it doesn't develop its science and technology to a high level, then Russia will follow in the footsteps of Saudi Arabia or Kuwait.

In autumn of last year, President Putin sent a deputy prime minister and the Minister for Science and Technology to Japan. It was not major news in Japan whether they wanted to get an agreement on intergovernmental cooperation in science and technology, or only came on a fact-finding trip, but it is a certainty that Russia is thinking about cooperation with Japan in this field. My friend Professor Shigeki Hakamada met President Putin, and Putin said that in science and technology he had rediscovered Japan.

President Putin is a judo expert. When he came to Japan he did some judo. His daughter is studying Japanese at Saint Petersburg State University. That doesn't mean he's a Japanophile, and President Putin takes a tough position on energy and territorial issues and on a peace treaty. Furthermore he is very active in cooperation in science and technology.

He is very critical of the active anti-terrorism policies of the US. In Poland and the Czech Republic, the US is trying to construct missile bases or subsidiary facilities which are thought to have Russia in mind. President Putin strongly objects to them. He advocates a "sovereign democracy" which absolutely rejects interference in domestic politics, and liberty and democracy are not things which interfere from abroad. It's extremely interesting what policies he will develop once he becomes the next prime minister.

Finally I would like to draw together briefly what the thinking is of the DPRK and National Defense Commission Chairman Kim Jong-il.

For the DPRK, the end of the Cold War saw the ushering in of conditions that were to prove the beginning of its years of great crisis. While the Cold War existed, and with the DPRK troubled by the ROK, the US and Japan seeking to expand their spheres of influence, both China and the Soviet Union supported the DPRK in various ways. With the end of the Cold War, however, the DPRK went on as if nothing had changed. In both China and Russia the per capita national income is very low. The active support for the DPRK—with nothing at all, with zero energy or foreign currency—shrank.

Furthermore in 1994, 1995, 2004 and 2005 there were a great many deaths from large-scale famine. Various factors combined, such as flooding and crop failures, leading to a situation, occurring on a ten-year recurring cycle, where a great many people had no food for their stomachs.

The DPRK is extremely energy-poor. The country's electricity generating facilities are not fully utilized. There is the Supung Dam on the Yalu River, which forms part of the border with China. The dam was built in the Japanese colonial period and some minor improvements were made, and it is still a major supplier of electrical power. In such circumstances, with a shortfall in supply, the development of nuclear power has moved forward, but it has not been too successful, and there have been various small-scale impediments.

Misgivings from other countries have been strong that this is the development of nuclear energy not for peaceful means alone, but for use in nuclear weapons as well, and the six-party talks framework was put together. The US has increased international sanctions, and Japan has participated in those sanctions, and this has been a blow, and is continuing as an ongoing "body-blow."

Ultimately, the US and the DPRK's final point for agreement, as seen from the US-side, is denuclearization. They advocate "Stop nuclear development and get rid of your nuclear capability," and they are making efforts for inspections to verify how that is proceeding. The reports from the DPRK, however, are ambiguous, and do not touch upon this matter.

For the DPRK-side, they are insisting that they get guarantees for the survival of their system, as they don't want the collapse of their political system with Kim Jong-il at the helm. It is unclear as to whether the DPRK is waiting for the US to concede to their retaining a power that in part includes maintaining their nuclear capability, or whether they are just trying it on.

For the US, to what extent they will guarantee the DPRK's system is the issue. Giving guarantees and letting the DPRK do what it wants would go against US national interests. Maybe both sides would like to arrive at a joint agreement, and progress on this is just about to be made at the six-party talks. Although there have been many twists and turns, there seems to be a pattern of agreements involving understanding each other up to a point where they meet half way, while at the same time making some concessions.

As a backdrop to this, there is the current situation of the US devoting substantial military power to Palestine, Iraq and Afghanistan, and the US wants to avoid the opening of a new theater of operations with the DPRK. It wants the elimination of the DPRK's nuclear weapons, but may be ready to allow nuclear power in some form for the development of energy. In the case of Iran, in the middle of the development of a nuclear program, it is considered that, in terms of effectiveness, dealing with Iran first has overtaken dealing with the DPRK. During the eight-year Democrat administration the DPRK had practically produced a nuclear weapon, and it would be difficult to completely nullify that. The current hardening position is a target of non-proliferation for the DPRK, and absolutely no production of nuclear weapons for Iran.

Along with the six-party talks probably reaching agreement, or more specifically sometime later the probable restoration of diplomatic relations between the US and the DPRK, there will be a climbing on board of this direction by Japan, one of the members of the talks, and talks on a

separate restoration of diplomatic relations between Japan and the DPRK will commence.

Moon Chung-in, a Yonsei University professor, who accompanied the first visit to the DPRK by former ROK-President Kim Dae-jung and the visit to Pyongyang by Roh Moo-hyun, shook hands with Kim Jong-il on both occasions, and he said that, in comparison to the first time, the handshake the second time was limp. I think that amid the uncertainty about the fate of the nation, perhaps Kim Jong-il is conscious that his own strength is fading, but I really don't know what consequence this holds.

In the case of China, it would be a headache if the DPRK collapsed. Lying across the Yalu and Tumen rivers, China's territorial sovereignty can be easily breached, and this is a factor for destabilization, including in the political sphere. In order to sound military and political warnings, China has adopted an aggressive posture at the six-party talks. For the ROK too, they want to do something as a collapse would spell trouble for them. For Japan as well, it cannot ignore the problem if it becomes a factor in increasing instability.

If the DPRK collapsed, and the whole Korean peninsula fell to the ROK, that would be a problem for the ROK also. The DPRK this year celebrates the 60th anniversary of its establishment in 1948. The population has decreased, and the people's physical stature has also got smaller.

In any case events are approaching a major crossroads. I think that the DPRK will probably not collapse, agreements from the six-party talks will be enacted, and for the US, China and the ROK, if the DPRK were to conduct politics in a slightly more civilized manner, then there would be the outcome of their permitting the survival of the DPRK of today. On nuclear weapons, however, it is thought that the course of the desired elimination of nuclear weapons will move forward.

Kim Jong-il is cautiously pushing ahead, little by little, in a fashion that will not create internal destabilization. Regarding the ROK, the thinking has gone as far as considering that all the funds for cooperation from Japan, the disputed compensation payments, be placed within the ROK's own framework. While being aware of this point of view, how should Japan respond? Japan's thinking when the six-party talks are concluded must be robustly discussed.

[Japanese Economic Foreign Policies toward its Four Neighbors]

Finally I will speak about Japan's economic policies. Put simply, business is moving apace in areas not deeply bound up with such issues as territorial disputes, the interpretation of history and human rights. As a recent piece of evidence for this I can give the example of when former-Prime Minister Abe visited China, and with a desire to somehow resolve several issues, economic, technological and financial ties were improved at a stroke; and they are also presently rapidly expanding. Even where intergovernmental talks have not advanced, Toyota, for example, has built an automobile plant in Saint Petersburg. In areas where political problems do not form major obstacles this situation will probably rapidly progress from this point on.

If we talk about why things haven't progressed until now, however, a factor other than political problems is that the business infrastructure on both sides is extremely weak.

Although I commented earlier on airport infrastructure, it is a problem for the major cities of every country. Gimpo Airport in the ROK is a short distance from the center of Seoul. Incheon Airport is distant from Seoul. Beijing Airport is far from the central city area, and under debate is how and to what extent they can utilize Nanyang Airport, which is in the city center. In Shanghai, they built Hongqiao Airport, although small in scale, and Pudong Airport way out toward the coast. The latter, although again large in scale, is far from Shanghai city center. In many forms infrastructure is inadequate, and Japan and the ROK cannot congratulate themselves that they are superior. If improvements are not made swiftly, in spite of a flourishing business momentum from economic development, it will be unusable.

Public opinion is the foundation for political matters, and political agreements far removed from that will be difficult to conclude. We can only wait for future developments. Regarding infrastructure improvements, if there is no coming of business, then they will take both time and money. It is certain, however, that we will end up looking idly on as such business opportunities pass by, and it is a problem about which something must be done.

As to why the situation is unfolding in this way, the answer is population dynamics. Where are the "population superpowers," countries which will have an increasing population in 2050? The most obvious is probably India. Next comes the United States. Increasing continuously in small increments will be Britain. In contrast Russia will see its population fall rapidly. In both Europe and Japan the population will be falling.

As to how this will end up, the answer is an increase in the elderly. Pensions and medical treatment will be all the more necessary, and that cost will rise rapidly. In such a situation, infrastructure policy will slip down the order of priorities. The consent of all citizens will not be received readily. Not to mention there will be strong opposition to military matters. That will be the same for every country, with India and the US probably being the countries that won't oppose it.

In places where the momentum of economic development similar to East Asia's is still obscured, doing away with both investment into infrastructure and investment into research and development in science and technology is not the solution to that problem. The population will be decreasing, but the things that will develop society dynamically are these two kinds of investment. The time is coming of being able to make a Seoul-Beijing-Tokyo day-trip. An air-shuttle route resembling the Yamanote Line [Tokyo subway circle line] is possible, in terms of technology, in East Asia, but at the present time the various kinds of infrastructure are incomplete. As for public opinion, there are many doubts as to whether there should be the investment of large amounts of money. This is, however, a factor which is clearly arresting business development.

Additionally, finance in particular will become a major problem in the 21st century, and with the occurrence of

problems such as with subprime mortgages, adverse effects can spread from one original point. In order to respond to such an emergency situation, the cooperation of financial authorities in various forms and a swift response are required.

The ROK is actively playing for high stakes in the resuscitation of the DPRK. China is not seeking confrontation but wants to be proactive. Russia wants to do things aggressively. The US is proactive too. Although the economy is gradually losing ground, when it comes to business they are enlivened. I think things will probably follow that pattern over the next 10–20 years.

In those circumstances, it is extremely important for Japan how they think about political obstacles, what kind of agreements they make, and to what extent they earnestly and swiftly carry out infrastructure improvements. With the momentum in economic development of the neighboring countries of the ROK, China and Russia looking set to explode, taking an even greater interest will probably lead

to an increase in business opportunities.

Within this, Niigata Prefecture and Niigata City are in a central position. I earnestly hope for the creation of various kinds of business here. I would like to see the tackling of infrastructure matters as swiftly as possible. This is not a question for delay, and today, which is brimming with so much momentum, I think we won't have a problem if a lot of infrastructure is put in place.

There are two airports in Hong Kong, nearby are the airports of Shenzhen and Guangzhou, and with other airports in the surrounding area, there are a lot of airports larger in size than Haneda and Narita in Japan. Business opportunities are expanding with that kind of energy.

It is striking, in Japan's case, that it is overly cautious. I sincerely believe that moving forward with great vitality and courage will hold the promise of development for a region like Niigata.

[Translated by ERINA]

の席に着きたいということだ。

私自身はいわゆるドミノ理論を強く支持している。忘れてならないことは、もし2008年ではなく2009年に米韓合意が締結されれば、それがドミノ効果を生み出し、他国も加わらなければならないと思うようになるかもしれないことである。これまでそのようなことがなかったのは、米国の交渉相手国は、小さな国々だったからだ。大国同士では、まだ交渉を行っていない。ある二国が交渉を始めると、他国も動かなければならなくなるが、この場合は日本が動き始めるだろう。日本が対米、対韓という形で近づいてくる

のか、それとも両方が分からないが、日本が動き始め、それが成果となっていくであろう。

前提になるのは、ブッシュ政権において特徴的と思われていた通商・対外政策全般で、新しい政権も今後アジアに関わっていかなければならないということである。それは過去10年間に関わってきたようなやり方ではいけない。つまり、これまでのような二国間だけでなく、さらに広げて地域的な関わりをもつということだ。最後に述べた2つが米国にとって最も成果の大きなものになると考える。

[ERINAにて翻訳]

Keynote Address

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

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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 floundered 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.