U.S. – Asia Trade After September 11
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Introduction

Good morning. I'm here today to talk about how the events of September 11th have affected U.S. trade with Asia. Three months ago, this wasn't even a question. Now, many are concerned that we have more questions than answers. But this morning I'll try to provide a few answers.

There has been much talk that September 11th dealt a stunning blow to the world economy. But while the attacks on the WTC were certainly an assault as well on the values of free global commerce, they were not the primary cause of the economic malaise afflicting most of the world. The attacks effectively exacerbated a downward trend that had been underway throughout much of 2001 - but on this front, there may be reason for optimism.

In the short time I'm here with you today, I'll share with you my reasons for this optimism. I'll try to get behind the numbers to offer an accurate picture of world trade before and after September 11. I'll discuss the impact of these events on our partners in Asia, and will share with you as well how this Administration is working on all fronts: globally, regionally and bilaterally, in ways that promise to restore growth and prosperity to the region.

Backdrop

On September 11th, as our nation was cruelly attacked by the terrorists of Al Qaeda, I was in Vietnam, at a meeting of the ASEAN economic ministers. The next morning, as our delegation began to work through our own shock, we found that we were not alone. We found that we'd been joined in our sleepless vigil that night by our Asian counterparts. As we all emerged red-eyed from our hotel rooms the next day, we came to the same realization - the attacks on the Pentagon and the World Trade Center were not only attacks on America, but, as so many have since pointed out, were indeed a vicious assault on the entire world.

Every meeting I had that day with an Asian minister was underscored by two distinct points. The first, beyond a wellspring of sympathy and support, was an expression of personal loss – Thailand's trade minister Adisai spent the night calling New York to find the whereabouts of his son; George Yeo of Singapore had tried to identify those lost to his country's private and public sectors; the entire Philippine delegation seemed consumed with a search for brothers, sisters and cousins in New York. That day, we had all come under attack.

Our discussions also featured an underlying theme of uncertainty and concern, as each one of our Asian friends wondered aloud if America would now retreat from the world. Would we remain committed to our longstanding engagements in Asia? Would our markets be open, our businesses invest, our spirit remain undeterred? At the time, I answered emphatically that America would not retreat, but would instead re-emphasize our engagement with the world. I can report to you today that indeed, America did not retreat. More than simply holding our ground we've affirmed our commitment to global engagement – we have not and will not abandon our trading partners and allies.

The Economy: Behind the Numbers

But, certainly, our political will does not diminish the immensity of the task at hand. The global economy had already been in a gradual decline before September 11. As the National Bureau of Economic Research reported on Monday, the U.S. economy is in recession, and has been in that state since March, ending ten years of unprecedented growth both here and abroad.

U.S. trade flows reflect this trend; before September 11th, U.S. goods trade turnover for the first 8 months of this year was 1.9% lower than in the comparable period in 2000. If the current trend continues, 2001 will be the first year since 1982 when U.S. goods trade turnover declined on a year-on-year basis.

Looking more broadly at the United States, Canada and Japan, trade turnover declined by 3.6% between January and August, 2001, compared to the same period in 2000. If this pace continues for the full year, trade turnover for these three countries will decline $121 billion. To provide you with a basis for comparison, that's more than the entire GDP of Singapore. *(FYI, Singapore 2000 GDP is $109 billion)*

That trade flows to the U.S. are down probably distresses no one more than exporters in Asia. A few years ago, the strength of our markets was the salvation of damaged Asian economies. During the regional financial crisis in 1997 and 98, the strength of the U.S. economy allowed Asian countries to export their way back to economic health. At that time, cargo containers from the great ports of Asia – from Hong Kong and Singapore – streamed into U.S. ports laden with goods before turning back with empty boxes for more.

Even before September 11, fewer ships and fewer boxes were plying the sea lanes to Asia, as the U.S. economy began to work off the massive inventories purchased in the boom years of 1999-2000. Last month, the World Trade Organization estimated that global trade would grow by a mere 2 percent this year, a comparatively large fall off in growth when compared to the 12 percent growth in world trade in 2000. Following the tremendous growth in trade since the conclusion of the Uruguay Round in 1994 - exports from developing nations from 1994-2000 grew $1 trillion to $2.4 trillion - forecasts this year for Asia are grim. With the exception of China, growth in East Asia this year will be stagnant. Hong Kong, Japan, Singapore and Taiwan are braced for negative growth; while no country in ASEAN expects growth better than 3 percent. Even China, despite the lift of WTO accession, is feeling the pinch, lowering growth forecasts for the year to below 7% for the first time in a decade – a grim forecast indeed.

<u>Particular Risks – Trade Dependent Countries and Key States</u>

It should be clearly understood, then, that before September 11th, world trade was already trending down. The attacks on the World Trade Center and the Pentagon were an assault as well on global commerce, and have exacerbated economic problems for those particular countries exposed to the greatest risks in the coalition's efforts against terror. While the U.S. economy has already demonstrated a deep reservoir of strength and an exceptional flexibility in the face of hardship, throughout much of Asia, political stability rests on renewed economic growth.

Of those "frontline states" most exposed to hardship, Pakistan's economy in particular has suffered the most serious of short term setbacks. Figures released this week in Islamabad observe that, between September 11 and November 10, total Pakistani exports decreased approximately 21 percent from the same period last year. Similarly, orders placed with Pakistani exporters have dropped by 40 percent from the year 2000. The country's reliance on export earnings directly affects an already precarious balance of payments situation, as the government holds reserves worth less than two months of import cover.

Many key states throughout the region showcase political vulnerabilities tied closely with the demands for economic prosperity. In Indonesia, President Megawati's administration must deliver on economic reform and create jobs for thousands of unemployed youths. So great is the potential impact of an unstable Indonesia on the entire region, that the Political and Economic Risk Consultancy, based in Hong Kong, this month highlighted Singapore as the riskiest destination for investment in the region. In the Philippines, President Arroyo similarly faces the challenges of urban poverty, and must address the economic concerns of the power base of her predecessor in office. Elsewhere in the region, countries such as Singapore and Malaysia, where trade is valued at over 200% of GDP, find that the way forward is no longer clear. This week, the Asian Development Bank observed that in the first three quarters of this year, the combined trade balance of the five worst Asian crisis-affected countries (Indonesia, South Korea, Malaysia, the Philippines, and Thailand) amounted to US$40 billion, compared with $51 billion over the same period last year. A return to growth is clearly necessary.

<u>Reasons for Optimism: A Flexible U.S. Economy, Doha and U.S.-Asia Policy</u>

There may, however, already be some cause for optimism on the trade front. At this time I'll share with you three important reasons for confidence.

- The overall strength of the U.S. economy.
- The victory for trade earlier this month at the WTO ministerial in Doha.
- And the Administration's focused efforts on pro-actively engaging our Asian counterparts.

The attack of September 11 was indeed a shock to an American economy already burdened with sliding growth. At worst, in terms of economics, 9/11 coincided with the nadir of the U.S. economy, exacerbating the lowest point in our national economy since 1991. The economy, however, has already shrugged off the short-term shock of the attacks - Americans have gone back to work. While there remains a hard climb ahead for our travel and transport sectors, the U.S. economy is again acting as an engine of growth for world trade. In October, imports to America's largest ports, Los Angeles and Long Beach, rose about 6 percent from October of 2000. The confidence of America's consumers appears also to have survived the events of the last two months - as over last weekend holiday sales surged 4 percent from last year. The conventional wisdom would seem to indicate that the economy is headed toward a recovery.

This has been, the experts say, a "business-led" downturn. The Fed has kept capital available to the business sector, and the Administration is working to increase the incentives at the margins for America's businesses to invest in new plant and equipment. These initiatives, combined with the core flexibilities of a corporate sector that has shed excess capacity to meet these new economic challenges, present on the whole a healthy U.S. economy, now beginning the climb back to growth.

America's rapid economic recovery - and the world's - can only gain momentum from the achievements of the World Trade Organization's recent ministerial conference in Doha, Qatar. Doha was, quite simply, a success for world trade. In what must be a stinging rebuke for the terrorist elements who reject a global community linked by free commerce, the tragedies of September 11 galvanized the world community to staunchly support the values of free trade, leading to the landmark launch of a new global round of trade negotiations earlier this month. The Doha ministerial brought together countries from all over the globe with a very strong statement on trade and growth and development - relinquishing the failure of Seattle two years ago to the trash heap of history.

At Doha, we reached an agreement that affirms the commitment of 144 WTO members to work cooperatively to reduce the world's trade barriers. This signal of forward progress on trade gives an endorsement and very timely boost to the multilateral trading system. This is only a beginning of course, and over the next few years we will certainly face more tests as we engage in negotiations. But I'm optimistic that what we've achieved in Doha lays the ground work for trade liberalization agenda that will be a starting point for greater development, growth, opportunity and openness around the world. Particularly in the aftermath of September 11, Doha’s success is also an excellent political signal that 144 diverse nations can come together to agree on a constructive agenda for the world's public.

To the extent that the region continues to embrace trade liberalization, Asia will benefit directly from the successes at Doha. Consider, for example, the experience of South Korea. In 1967, Korea’s per-capita income was an inflation adjusted $550. Over the next 30 years, South Korea implemented a series of domestic economic reforms, became progressively more integrated with the global economy, and reduced its tariffs. Thirty years later, South Korea’s per-capita income surged to $10,360 - a figure that will grow even more rapidly once South Korea opens up some of the closed sectors of its economy.

South Korea is emblematic of the successful transition made by those economies in the region that began liberalizing their trade regimes after the Uruguay Round. Indeed, by 2000, Asia had recorded the highest export growth among major regions as well as the largest increase in imports, highlighting once again that dynamic exporters are likely to be dynamic importers as well. Asia’s trade volume increased by 15% in 2000, more than twice the average growth rate for the 1990's. Clearly, trade is and will continue to be central to Asia’s economic growth and stability, and the Bush Administration is focused on continuing the prosperity the region has enjoyed over the last decade.

Tasks at Hand: Asia and the Global, Regional, Bilateral Matrix

With regard to trade, the Administration's policy on Asia reflects President Bush's goals of pursuing trade liberalization globally, regionally, and with individual countries. Not only does such a policy promise rewards for America's manufacturers, farmers and service providers, but open markets mean stable societies. As President Bush has said, "Trade creates jobs for the unemployed. When we negotiate for open markets, we are providing hope for the world's poor. And when we promote open trade, we are promoting political freedom. Societies that open to commerce across their borders will open to democracy within their borders."

In Asia we are pursuing open markets, and all the benefits that flow from them, through a policy of engagement and dialogue, and by directing resources to capacity-building and developmental efforts. Our policies toward Asia complement our global efforts to foster a competition of liberalization; a network of opening markets with the U.S. at the hub. Since stepping into office, the United States Trade Representative Robert B. Zoellick has labored extensively to reach out and re-engage with our Asian partners - here is where we are today.

North Asia – China/Japan/Korea

China -- Challenge of WTO Accession

At Doha, trade ministers did more than launch a new round of global trade negotiations. They also approved the accessions of the PRC and Taiwan to the WTO, ending often intense and difficult negotiations of 15 years and 9 years, respectively.

China's accession, in particular, is a decisive victory for China's reformers, who understand the value and benefits of openness and want to transform China's economy and society. The terms of China's accession include dramatic tariff cuts on priority goods for U.S. businesses and farmers and substantially increased market access for U.S. services suppliers. But, they also include commitments that will transform how business is done in China. In particular, China is committed to increased transparency, notice and comment procedures for new trade laws and regulations, uniform application of trade laws throughout the country, and judicial review of administrative actions. China is also committed to the rules-based system of the WTO, which should ensure that China's markets remain open and operate in accordance with international norms into the future.

With both the PRC and Taiwan in the WTO, it will be a boon to U.S. exporters. China has been the world's fastest growing economy over the last decade. During the first nine months of this year, U.S. export growth to China was up 20 percent over the previous year.

The major challenge ahead is China's WTO implementation. China has a huge task in front of it in ensuring its ministries, State-owned enterprises and localities act in conformity with its WTO commitments. The U.S. government will be devoting considerable attention and effort to monitoring China's progress and to ensuring China fully and timely complies with its commitments.

China has already offered a glimpse of the positive role it can play in multilateral fora. This past year, China chaired the Asia Pacific Economic Cooperation Forum. Under Chinese leadership, APEC's leaders adopted the "Shanghai Accord," which reinvigorated APEC's trade agenda. Under the Shanghai Accord, APEC members agreed to reduce costs by facilitating trade, to adopt specific trade policies for the new economy, and to implement transparency principles.

Japan – U.S. Japan Economic Partnership for Growth

The September 11 terrorist attacks certainly did not help Japan, the United States' leading trading partner in Asia, in its battle to turn its economy around. Recent economic forecasts are unfortunately not good, with a number of factors, including September 11, contributing to the poor economic performance in fiscal 2001. The Japanese Government now predicts the year will end with a. 0.9 percent contraction in the Japanese economy.

However, not only has Japan joined the United States in its fight against terrorism, but Japan's constructive participation in Doha helped us to achieve consensus on an agenda to reduce the world's trade barriers, and we expect that the upcoming WTO negotiations will benefit Japan as well as our other Asian partners.

In addition, we have been encouraged to see that many of the reforms that we have identified as key to economic recovery in Japan are high on Prime Minister Koizumi's agenda. The Prime Minister has acknowledged that some of the measures that need to be taken to revive the Japanese economy will engender some short-term pain; however, I think we all believe that the results will make the effort very much worthwhile.

On the bilateral front, the Administration's strategy has been to engage with Japan on a wide range of economic issues at senior as well as working levels. This approach is embodied in the U.S.-Japan Economic Partnership for Growth, or the so-called "Partnership", which was launched on June 30 by President Bush and Prime Minister Koizumi. The objective of the Partnership is to promote sustainable growth in both countries, as well as the world, by substantively addressing the necessary underpinnings for achieving economic growth such as sound macroeconomic policy, structural and regulatory reform, financial and corporate restructuring, and enuring open markets.

Under the umbrella of the Partnership, we established a number of ways to deal with these important issues. These include an <u>annual Sub-Cabinet</u> meeting between key economic policymakers; a new <u>U.S.-Japan Private Sector Government Commission</u> which will incorporate the input of business into our discussions of economic policy, and a <u>Regulatory Reform and Competition Policy Initiative</u> that will focus on further steps Japan should take to deregulate its economy, in such key sectors as telecommunications, information technology, and energy.

Fortunately, the Partnership was in place before September 11th, and the first annual Sub-Cabinet meeting was held immediately following the attacks on Washington and New York. At that time the we had a productive discussion of a number of key issues including Japan's cooperation on counter-terrorism. We are already looking ahead to engaging further with Japan on a wide-range of issues in the coming months in an effort to promote sustainable growth throughout Asia.

<u>South Korea</u>

I’ve already offered South Korea, our sixth-largest trading partner, as an example of the benefits of liberalization. We have found South Korea to be an important player in the WTO; in Doha, Korea’s recognition of our various sensitivities was critical to the overall success of the ministerial. Yet our bilateral trading relationship remains complex, and not without thorny issues that continue to challenge our ability to work together constructively. Automobile imports, the protection of intellectual property and the government’s continued involvement in the corporate sector - from the financial and telecoms industries to the high tech sectors - are among many unresolved issues between us. Tired of recycling the same issues, this year we founded a new mechanism for formal, quarterly bilateral consultations on trade. By reaching out to our counterparts in Seoul, this formal exchange has increased communication, understanding and cooperation on both sides - and we’ve met with initial successes that are encouraging for the future.

South Asia - India/Pakistan

In South Asia we may label our tasks quite simply: fostering stability and seeking responsibility. The Administration has responded to Pakistan’s needs with a package of economic and trade assistance designed to stabilize the country’s economy while restoring it to the mainstream of global economic life.

Ambassador Zoellick and I traveled to India this summer, launching a new Trade Working Group that for the first time established a formal consultative mechanism between our two countries on trade. Such a dialogue can only improve our trade relations.

More than any other country in the region, India should look to the example of South Korea with envy and wonder. South Korea’s pursuit of liberal trade policies led to a growth in per capita income from $550 to $10,360 in 30 years. India, possessed of natural resources Korea must import, and with access to the sea lanes of both Asia and the Middle East, boasts a per-capita income of $2,200. India, with over 1 billion people compared to South Korea’s 49 million, accounts for but 0.7 percent of global goods exports. South Korea, by contrast, is the world’s 12th largest exporter, producing nearly 3% of world goods exports. In terms of U.S. trade, Korea is our 6th largest partner. India, our 21st.

In relative terms our trade with India is out of sync with our mutual commitment to democratic values. Yet for India to occupy a more prominent position in world trade - and for India's populace to reap the rewards of global commerce, the government will have to come to terms with the realities of economic reform and liberalization. We have begun to work on this aspect of our bilateral relationship, but are under no illusions about the real aspects for progress.

ASEAN

Since the 1990's the ten members of the Association of Southeast Asian Nations have pursued an ambitious program aimed at realizing a single regional market of 500 million people. We applaud ASEAN's efforts in this endeavor, an effort that promises to capture the advantages of the region's natural economic geographies. Integration is well under way. Intra-ASEAN trade increased 25% in 2000. Increasingly, Asia is its own market - a trend that should be encouraged.

The continued ability to attract and retain direct investment is critical to ASEAN's project. Many Asian governments, in the wake of the financial crisis, began well intentioned restructuring and reform efforts that were then set aside during the booming trade years of 1999 and 2000, as climbing export earnings eliminated a sense of urgency about economic reform. Now, however these efforts must be renewed.

Fostering investor confidence throughout ASEAN is necessary to bolster the region against this global downturn, and to offset the reality of China's impending accession to the WTO. Investors have already identified China as a ripe destination for Foreign Direct Investment. Indeed, China and Hong Kong together accounted for $105 billion of the total $143 billion of inward FDI to Asia in the year 2000. Of the remainder, ASEAN countries received an approximate $28 billion between them in 2000.

Those investment figures present the real competitive challenge facing the ASEAN partners in the years to come. But we have confidence that ASEAN members have the resources - in dynamic populations and determined governments - to embrace this competition and thrive because of it. We applaud the measures taken since 1997 throughout the region. But clearly, continued liberalization and reform can only assist to attract investment, and create clusters of industries that will promote a rapid climb up the value chain by regional exporters.

From the outset, the Administration's policy has sought to improve investor confidence through the creation of trading opportunities in the ASEAN region. Our negotiation of a Free Trade Agreement with Singapore should serve as a world class model for future agreements in the region, liberalizing markets and enticing investment with real possibilities rather than unrealized potential. In Vietnam, the successful passage of our Bilateral Trade Agreement will usher in a new era of bilateral economic relations, and provide the building block for Vietnam's eventual accession into the WTO. In the past six months, we've also re-established trade and investment councils with the Philippines and Indonesia, seeking to re-engage after an uncomfortable period of dormancy. Responding to the expressed interests of the ASEAN countries, we have also sought to engage the organization as a whole, working over the past year to re-establish a broad trade dialogue that had not been explored since the early 1990's.

<u>Capacity Building</u>

These efforts at broad engagement on trade with our partners in Asia have been complemented by a parallel process of capacity building. Over the past two years we've contributed over $230 million to developing the core competencies necessary for the region's economies to compete and prosper in a globalized world economy. Significant funding has been provided for nearly a dozen diverse types of trade capacity assistance, and resources have been especially concentrated in trade facilitation, human resources and labor standards, and financial sector and economic infrastructure development.

Our programs in Asia include such diverse projects as assisting the Philippines draft WTO-consistent legislation on safeguards, working with China to develop Customs officials who understand the proper methods of customs valuation, and providing Indonesia with technical assistance to improve the financial and accounting systems of the Indonesian Bank Restructuring Agency.

Our attention to development has clearly been rewarded - for evidence one needs turn no further than the Doha Ministerial earlier this month - where support for Asia's developing economies for renewed global efforts at liberalization was critical to the launch of a new trade round. Our Asian partners recognize the benefits of the multilateral trading system, we're working to increase their ability to share in the rewards of global free trade.

Concluding Themes

I believe its clear that, since taking office in January, this Administration has worked hard to cultivate an encouraging pattern of engagement and consultation with our partners in Asia. Over the last six months, we have made initial inroads in several markets, launching new trade initiatives with Japan, India, Korea, Indonesia, the Philippines and the entire membership of ASEAN.

We have continued as well to pursue an expanded role for trade where such action is both plausible and practical. Our negotiations toward a bilateral Free Trade Agreement with Singapore continue to make progress, and a landmark Bilateral Trade Agreement with Vietnam passed the Congress and should soon be ratified by the National Assembly in Hanoi.

We also labored to complement these engagements with an increased focus on developing the capacities of our partners in the region so they may participate more fully in the global trading system. Dynamic exporters are dynamic importers - we're working hard to ensure the benefits of trade flow in all directions through Asia.

Our successes in Doha will prove pivotal in the future of the trading system and are key to Asia's continued prosperity - both in the immediate aftermath of September 11 and beyond the distant horizon. China's accession to the WTO should be properly viewed as nothing short of a landmark achievement for the Chinese economy, for the region, and for the overall welfare of a like-minded community of nations committed to a trading system based on rules and transparency.

Our long efforts over 15 years of negotiations toward China's accession are symbolic of our commitment to remain engaged in Asia. As we have gathered China into the value system of free global commerce, so are we now building new linkages throughout the region - linking our nation to Asia through the values inherent in free trade.

As President Bush has tellingly observed, "The growth of the world economy depends on world trade. The growth of world trade depends on American leadership. And America will lead – toward freer trade, toward wider and more lasting prosperity for ourselves
and for the world."

Our message? We're back in Asia, and we're back to stay. Thank you.