

**Ambassador Karan K. Bhatia**  
**Remarks: National Bureau of Asian Research Book Launch**  
**Carnegie Endowment for International Peace**  
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**Ambassador Bhatia:** Ashley Tellis, Rich Ellings, Jessica Tuchmann Mathews thank you so much. It is a real pleasure to be able to join you all today. Every time I get a chance to see Ashley I marvel at how much he's managed to accomplish in his tenure in government. He and I did spend many hours working together when I was over at BIS and we've managed to stay in touch since then. We ended up spending a great deal of time trying to work very difficult issues and move the US-India relationship forward, and I know many others in the administration, continue to benefit from your advice and counsel.

I am particularly delighted to be here today at Carnegie and with NBAR as well. Both are fantastic institutions that have made valuable contributions in the formation of Asia policy for many years. I think the volume that's being released today, Trade, Interdependence, and Security, really does follow in that very fine tradition.

I did manage to spend a bit of time between kids' soccer games last weekend, actually, reading a number of the chapters of the book, and I will confess that it got me thinking back fondly to a year of graduate study that I did in London where I happily whiled away a year tapping out a Master's thesis analyzing Kenneth Waltz's theory of international politics. So I was inspired by today's program to actually dig out and dust off my old Master's thesis yesterday, and about three pages into it I came to the very strong conclusion that the gentle advice of my thesis advisor to forego a career as an academic in international relations theory in favor of going to law school was perhaps the best piece of advice he could have given me. [Laughter].

But my year in London did, I think, help me appreciate the real contributions that are being made to the field, and clearly this volume is just such a contribution. It's thoughtful, it's thought-provoking, and for those of us that are involved in designing and implementing US trade policy in Asia I think it forces us to ask some pretty fundamental questions, like why are we doing what we're doing, whether growing trade relationships affect regional security and stability, and what effects does a relationship have on war and peace.

But I know that the relationship between trade, stability and security will be addressed by many of the speakers later today and I'm not going to dwell on that topic other than simply to note that I do believe and I think many of us who are engaged in the day-to-day process of negotiating trade agreements, believe

that trade does have benefits that go far beyond just the economic.

Tom Friedman's famous observation that no two countries with McDonalds in them have ever gone to war, may be a little cute but it does contain the kernels of two ideas that are compelling. The first is that countries that open themselves to and manage to attract trade and foreign investment also tend to exhibit traits such as the respect for rule of law or an emphasis on transparent governance, of economy, for example, that clearly spill over to other aspects of their political economy that encourage habits of liberty, and that do tend to make them more stable.

The second kernel is that economic relationships between countries, be they investment or trade or otherwise, provide ballast to the broader bilateral relationships. I can attest from my own experience in government thus far, that strong economic relationships do tend to force more careful more cautious, bilateral foreign policy decision-making.

That's enough said on that front. I thought I would focus what time remains on an area where I can offer greater first-hand knowledge. That's what we at the Trade Representatives' Office are seeing in terms of trade and trade policy in Asia.

Here I think the book and Ashley's remarks at the beginning have it precisely right, we are clearly seeing greater regional economic interdependence than ever before.

Take just one statistic: the percentage of East Asian trade that is within the region, intra-regional trade, compared to that destined for points to outside the region. In 1984, intra-regional trade accounted for just 34 percent of total trade for East Asian economies. Twenty years later, by 2004, that number had grown to 54 percent and our expectation is that it will continue to grow.

Those numbers capture I think what we are actually seeing on the ground. Companies' regional production in Asia is growing increasingly integrated. The growth of multinational enterprises and foreign direct investment has clearly been a critical factor in driving this regional integration. MNCs that have earlier spurred trade with their home region are now increasingly promoting trade within the Asia Pacific region through the development of regional production networks.

Take the example of a Dell personal computer. Engineers in Texas or Taiwan may well be designing it. The microprocessor will probably come from one of their factories in the Philippines or China. The memory could come from a Korean or a Japanese firm. The other components will come from factories throughout Asia.

The final assembly will occur in Malaysia. That's just one case study.

Clearly across the board we're seeing greater regional integration.

I should also note that we are seeing greater bilateral trade between the United States and the countries of the region as well. US goods trade with South and East Asia today accounts for a third of total US trade, which is up almost 70 percent over the past decade.

To some extent this growth in trade, is happening independent of governmental policy or direction. Advances in technology, advances in logistics, have made possible degrees of integration that governments quite frankly find harder and harder to control. And that may not be a bad thing.

But clearly the ability of government and government policy to influence trade remains substantial. You can look at the record of the Free Trade Agreements that we've concluded just over the last five years, and the effect that the elimination of tariff and non-tariff barriers has had on increased trade, increasing trade. Australia, exports up 11 percent since 2005; Singapore, up 25 percent since 2004; Chile, 92 percent since '04; Georgia, 90 percent since '01; Morocco, 46 percent since the first six months of 2006.

So I think it's clear that policy changes do have powerful effects on trade. Here in the United States and with respect to the region we are using the full array of tools that are available to us to try and strengthen and deepen our trade investment flows in the region. Let me point to a few. We're in the process of negotiating Free Trade Agreements with Korea and Malaysia. We were until recently also engaged with Thailand. In light of recent developments there, those negotiations have been suspended. We'll have to see how that plays out.

Secondly, we've recently completed Vietnam's accession to WTO, and are very hopeful that Congress will pass permanent normal trade relations for Vietnam in the near future. Bringing Vietnam into the global trading system through its WTO accession we believe to be very important.

Third, we recently concluded a broad-based trade and investment framework agreement with the ASEAN countries and are also engaged in strong TIFA, Trade and Investment Framework Agreement, dialogues with many bilateral partners in the region. These are dialogues that are short of Free Trade Agreements but do have very concrete effects in terms of addressing discrete trade and investment barriers.

Fourth, we've recently launched a Strategic Economic Dialogue with China supplementing the other strong dialogues we have including the JCCT.

Lastly, the President and Prime Minister Singh launched a new Trade Policy Forum between the United States and India just a year ago that has resulted in perhaps more high level interaction between the United States and India to address bilateral trade policy issues than we've had in recent memory.

So we are clearly engaged in a pretty vigorous fashion in the trade and investment area with Asia.

To a large extent what we've accomplished thus far is the creation of institutions. Institutions that should in time strengthen and deepen trade relationships. The value of this institution-building cannot be underestimated.

First, it ensures that the channels will be there to head off trade irritants that will come up over the course of time. Secondly, it is our hope that these institutions will result in concrete measures to reduce trade barriers, thereby stimulate greater flows of trade and investment, and to some extent it has already done that.

But I think, and this is the key point that I'd leave you with today, the creation of institutions alone is not enough. Ashley referred to the rejection of autarky as a guiding concept within the region and I think that's right. But the question that I think we're all confronting now is how far beyond that rejection of autarky is Asia willing to go? What remains to be seen, in a nutshell, is whether the various institutions that have been constructed -- the FTA negotiations, the Trade and Investment Framework Agreements, as well as the regional institutions that don't necessarily involve us whether all these will in fact meaningfully expand opportunities for bilateral trade and investment. Or phrased another way, whether when it comes to the actual hard business of fully opening their economies to global competition, will the Asian governments take the next step?

Here I would submit with a few exceptions, Singapore as notably one. I think the jury is very much still out. It's worth reviewing what we've seen in the area of trade policy coming out of East Asia just in the past 12 months.

Multilaterally. Multilaterally it's got to be said that Asia has been at best puzzling to us. The economies of East Asia that have been built on trade and that probably have more to gain from a significant market opening, multilateral trade round, have played what can be most charitably described as a very quiet role in the Doha Round of negotiations. They could be playing a very substantial role in pushing for a very ambitious expansion of

multilateral trade liberalization. They have not. To the contrary, most have been willing to stand on the sidelines. And China's failure to play a more prominent role has been particularly puzzling.

In a nutshell, I think it's fair to say that while Asia has been willing, even anxious, to participate in the global trading system over the past five years, it has demonstrated a reluctance to own that system.

Regionally, there appears to be more focus right now on creating regional institutions that frankly on expanding trade and investment within the region. The past year has witnessed a smorgasbord of new proposed institutions ranging from the ASEAN+3 to ASEAN+6 to the EAS, all with an idea of creating new regional architectures.

From the US perspective, I think we believe that the challenge is not necessarily the creation of new architectures. There are plenty of institutions, including APEC, that could host meetings, that could host dialogues, that could generate the kinds of discussions that people seek. The question is whether there is a real commitment to actually achieving genuine, deep market opening in the region. Whether the goals set forth at Bogor in the APEC context more than a decade ago, of free and open trade in the Asian Pacific region, whether those will in fact be realized through steps taken by the government. Again, I think the jury is still out.

Bilaterally. Bilaterally, there is a growing array of trade agreements that are being negotiated and are being concluded. But the key question is: what is being committed to?

We believe strongly that bilateral trade liberalization can stimulate trade and economic growth and it can work quite well with multilateral and regional liberalization as well, but frankly, only if it is based on very high quality, comprehensive agreements. High quality agreements require more than just going zero for zero on tariffs in certain lines. It requires frankly, the opening of domestic economies to competition. Even in the toughest sectors. And it requires disciplines on the rules and regulations that govern the economy to allow competition to flourish.

Although there has been a plethora of economic partnership agreements and FTAs and so forth, it is far from clear at this point that these agreements and these relationships will hue to this high quality standard.

To date we have been successful in concluding one FTA in East Asia - with Singapore - and we do have another with Australia. By contrast, we've concluded many more in our own hemisphere. We

do have a number of efforts ongoing: bilateral negotiations with Korea and with Malaysia. And it is our hope that those will get the ball rolling and that it will generate more high quality FTAs in the region. But make no mistake: that is going to require a substantial level of commitment on the part of the governments in the region.

Finally, I think it's worth looking at trade and economic policies that are being adopted unilaterally in the region. Here again I think the story is a mixed one. Let me just point to three countries -- India, China, Japan.

I think it's fair to say that with all three there is a story that is still waiting to be written, with respect to all three. Will the steps that Prime Minister Singh has taken, and his team has taken to open India's economy in certain areas? Including, I would note, in the air services area which I think was a great success for India. But will it extend it to other vitally important but politically tough areas? Areas like financial services, like retail services, potentially even like agriculture.

With respect to China, will China be willing to address the distortions, the subsidies, the other policies that may have helped support some of their industries in their infancy, but now I believe constitute a drain on their economy and frankly risk destabilizing the regional economy and its bilateral relationships as well.

Will Japan, under Prime Minister Abe's leadership continue on the path of reform that Prime Minister Koizumi so admirably launched? And will it also extend to some of the tough sectors that heretofore have not been addressed? Agriculture comes most immediately to mind.

I'll be the first to admit that none of this is easy. It's very hard. It's challenging. And it's challenging for us in the United States. My comments today, mostly have been focused on the policies of the region. I could equally turn to whether we in the United States ourselves have the stomach to maintain our policy and record to date as being one of the more open economies in the world.

What hangs in the balance really is critical. It is economic competitiveness for us and for the region. It is job growth. It is our standard of living. And as pointed out by this book, it may very well also have a bearing on regional interdependence, on stability, and on fundamental questions of war and peace.

With that I thank you all for the opportunity to be able to be a part of today's session.

[Applause].

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