The Impact of the Rise of China and Regional Economic Integration in Asia – A Japanese Perspective

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Thank you for the opportunity to appear before this commission. My statement before you is based solely on my personal opinion and does not represent any organization with which I am or was associated.

I will discuss the impact of China's rise from a Japanese perspective focusing on two issues. One is how China's rise as the factory of the world is perceived in Japan. This question is typically phrased as "is it a threat or an opportunity?" The other is how China's new activism in forging regional economic frameworks –particularly free trade agreements– affects Japan's regional economic policy. Both issues have a significant impact on the U.S. position in Asia.

1. China as a Threat or an Opportunity

Perception of China as an economic threat

In the early 1990s, China's rapid economic growth, combined with its external posture, generated an argument in Asia that China could become an economic and military threat. The importance of China in Japan's total trade started to increase substantially around that time and, in 1994, the bilateral trade deficit with China became Japan's largest. Nevertheless, there was no sense of urgency in Japan about the economic threat China was said to pose. It was widely believed that the level of economic development was so different that China was not going to threaten Japan's lead in the immediate future.

By the year 2000, however, the argument that China was an economic threat gained momentum in Japan. There were several inter-related factors behind this development. First, imports from China accelerated in 2000. The success of the Japanese apparel brand "Uniqlo" impressed Japanese consumers with high quality products made in China.

Increased imports of items such as agricultural produce and textiles, in particular, put strong competitive pressure on politically sensitive domestic producers. Not only did the amount of imports surge, but also the composition thereof had shifted to higher value added items. As a result, imports of machinery surpassed those of textiles in 2002.

Second, Japan's foreign direct investment (FDI) to China that had started rising again in 2000, increasingly took on new and alarming dimensions. In the face of the global recession in the information technology (IT) industry, IT companies accelerated the restructuring of their businesses to drastically cut operation costs. They not only built factories in low-cost overseas sites like China but also substantially retrenched domestic operations. The fear of hollowing out was not new in Japan. The drastic appreciation of the yen after the Plaza Accord in 1985 and the surge of the yen above the level of 80 yen per dollar in 1995 had also prompted Japanese companies to move to Asia. In those days, however, there was confidence that large corporations investing abroad would somehow be able to keep current employment at home. The situation in 2001 was different. The decade-long stagnation of the Japanese economy in the midst of intensifying global competition had significantly eroded Japanese manufacturers' commitment to maintaining domestic employment at all costs.

Another new dimension of the Japanese FDI to China was that electronics companies made high-profile investments to produce state-of-the-art consumer products such as digital televisions and digital cameras. The previous surge of FDI to Asia had taken the form of a shift of production of mature, lower value added items and thus had not broken the prevailing confidence that Japan would somehow be able to remain at the top of the regional technological ladder for some time to come. This time, however, it was feared that the shift of manufacturing operations to China of brand new items that still required significant development, if continued at the current pace, would leave little use for Japan's domestic facilities. Furthermore, the moves by the assembly makers had prompted their suppliers to produce in China as well. Therefore, there was also concern that the manufacturing shift, which had started from labor-intensive assembly processes, would continue to the production of high-tech components and precision metal fabrication, and keep moving upstream until China acquired a full-set industrial structure at the expense of Japan. This fear was reinforced by the fact that the famous industrial clusters of small and medium-sized suppliers in such areas as Ohta Ward, Tokyo or Higashi-Osaka City that had supported Japan's manufacturing competitiveness continued to erode due to the shutdown of its member companies.

Indeed, China's rise has posed a unique challenge because of the combination of the inexhaustible supply of low-cost and hardworking laborers and an abundant supply of highly educated engineers and researchers. The Pearl River Delta has a large cluster of electronics assemblers and parts suppliers. This area had initially been focused on labor-intensive assembly and gradually developed into supply of electronic components for key functions, which in turn further attracted assembly makers. The Yangtze River Delta is the gate way to China's vast domestic markets and has many high-tech companies as well as suppliers of basic materials such as steel and chemical products. In Beijing, IT companies establish R&D centers to attract top graduates from major universities.

Third, it is not just foreign companies that are thriving in China. The real challenge is that local Chinese companies are rapidly enhancing their competitiveness not just in price and attention to local needs but also in quality and technological sophistication. Chinese companies maintain a high domestic market share in major consumer durables.

China is also unique in that it has been able to rapidly develop local supporting industries. The Pearl River Delta is particularly rich in competitive local suppliers of low-cost, standard parts and components. Over time, they developed through interaction with foreign companies, particularly from Hong Kong and Taiwan. These suppliers make quick business decisions and form flexible networks. They are suitable to the electronics industry that is under constant pressure to reduce time to market that rapid technological and market changes necessitate. Many Japanese parts suppliers with limited localization of management found it hard to keep up with their pace. China's competitiveness is derived not only from inexhaustible human resources but also from the diversity of foreign companies that interact and develop agile local players, a strength that has been hard to find in Japan.

Local Chinese companies also started to establish an overseas presence, mainly through exports but also through increasingly active outbound FDI. Japanese affiliate companies that had long supplied local markets in Southeast Asia, for example, were forced to shift production to lower-cost countries including China or to stop supplying local markets and concentrate on exports of higher-value added products to developed markets. Furthermore, China's TCL international Holdings and France's Thomson SA recently created TCL-Thomson Electronics, which will be the world's largest television producer. This suggests that successful local Chinese companies are aiming at a global presence and are ready for mergers and acquisitions to expeditiously achieve that goal.

Perception of China as an opportunity

While China poses a formidable competitive threat, it also provides a vast opportunity. As the latter aspect of China's rise became increasingly apparent around 2002, Japan's perception of China became more realistic and balanced.

First, China became the fastest growing export market for Japan. After having grown about 15% against an overall export decline of more than 5% in the midst of the global IT recession in 2001, Japan's exports to China started to surge in 2002 with an annual growth rate of 32%. Their rapid growth has continued this year. Exports through September grew 36% year over year. The main export items for China's industrial markets are electronics parts such as semiconductors, basic materials such as steel and chemicals, and industrial equipment to feed production activities as well as construction machinery for infrastructure development. Automobiles and communications equipment have also been major export items for China's rapidly expanding consumer markets.

Second, the profitability of Japanese investments in China has started to improve. According to a survey conducted by the Ministry of Economy, Trade and Industry (METI) of Japan, the ratio of the profits of Japanese companies in China to those in the entire East Asian region suddenly jumped in fiscal year 2000 to around 18% from less than 5% in the previous year. Other surveys confirmed similar trends of improving profitability, albeit from a low base. These reports afforded a welcome surprise since China had been known for difficulties encountered by Japanese businesses. These difficulties contrasted with Japanese experience in newly industrializing economies (NIEs) and Southeast Asian countries, where Japanese companies had had long experience of operations and relatively stable profits. The improved profitability of local market-oriented operations is particularly significant.

Third, some local Chinese companies have recently begun to actively seek business partnerships with Japanese counterparts. In January 2002, Japan's Sanyo Electric Co. Ltd. (Sanyo) and China's Haier Group Company (Haier) agreed on a comprehensive collaboration deal that included the sale of Sanyo products under either the Sanyo or the Haier brand names, through Haier's sales network and the establishment of a joint venture in Japan to sell Haier products under Haier's brand name. In April that year, Japan's Matsushita Electric Industrial Co., Ltd. (MEI) and China's TCL Holdings (TCL), announced a collaboration agreement, under which MEI would supply Matsushita's key devices such as CRT, plasma displays and compressors to TCL and Matsushita's products would be sold through TCL's sales network. Furthermore, a growing number of Chinese companies are reported to be interested in investing in Japanese companies for the technology and distribution channels in Japan. In July 2003, a major Chinese pharmaceutical company announced an agreement with a medium-sized Japanese manufacturer of Chinese medicines to purchase the latter, the first case ever for a Chinese company to buy a Japanese one. These cases have demonstrated that local Chinese companies can actually provide Japanese companies with distribution channels for their products to be sold in China and with the capital to restructure their businesses.

These positive developments are not just windfalls but the reward for those Japanese companies that are focused on their strengths. For example, Japanese manufacturers have avoided head-to-head price competition with producers in China and shifted domestic production to higher value added devices and materials. Successful companies have been able to compensate for the hollowing-out of lower value added operations and to boost overall sales through strong exports. The strength of Japanese companies is not just technological sophistication. Goods and services such as pop culture, convenience stores, and fashion, which had been developed for and won the hearts and minds of selective and capricious Japanese consumers, started to attract the rapidly emerging middle class in China. In addition, companies that had invested in China some time ago have learned their lessons and become better equipped, albeit with additional costs, to limit the damage caused by various problems encountered in the local business environment, such as the difficulty of collecting accounts receivable and protecting intellectual property. Thus, Japanese companies are learning to live with their Chinese competitors and are increasingly focused on how to capitalize on the opportunities that Chinese customers can offer.

In a speech at the Boao Forum for Asia held on Hainan Island, China in April 2002, Japanese Prime Minister Koizumi Junichiro struck an optimistic note:

"Some see the economic development of China as a threat. I do not. I believe that its dynamic economic development presents a challenge as well as an opportunity for Japan. I believe a rising economic tide and expansion of the market in China will stimulate competition and will prove to be a tremendous opportunity for the world economy as a whole. Since there are differences in our industrial structures, Japan and China can strengthen their mutually complementary bilateral economic relations. I see the advancement of Japan-China economic relations, not as a hollowing-out of Japanese industries, but as an opportunity to nurture new industries in Japan and to develop their activities in the Chinese market. Our integrated efforts for economic reform in both countries should advance the wheel of economic relations."

Prime Minister Koizumi's statement captured an emerging positive atmosphere among Japanese business leaders, who took the formidable competitive threat China presented as a challenge they had to tackle in order to seize the opportunity it provided. This line of thinking gained a solid foothold in the media and the wider public as market sentiments about the Japanese economy improved earlier this year.

Challenges ahead

Unfortunately, however, there is no guarantee that this positive attitude will last forever, particularly in times of severe economic downturn. Not all companies can seize the opportunity that the rise of China offers. Some may simply have to close down their current line of business and start anew. Therefore, now is not the time for the Japanese government to become complacent. There are many business areas that have great potential but have been stifled due to regulations. Affluent and sophisticated consumers who are rapidly aging are attractive markets for health care, care of the elderly, life-long education, housing and other services that enhance the quality of life. Some of these products could find markets in Asia, where the economy is rapidly growing and the population is aging. Manufacturers suffering from a high-cost business environment would keep more operations at home if the costs of utilities, logistics and telecommunications were further reduced. Japan needs strategic moves to encourage and attract business activities of both domestic and foreign companies that are willing to invest and operate in Japan. It has to make a difference on the ground, an enterprise that requires strong political will. Japan should use the challenge that the rise of China poses to muster domestic support for this enterprise to succeed.

At the same time, there remain various problems in China that are frustrating Japanese or other foreign businesses that are trying to seize the opportunities in China. They include rampant infringement of intellectual property, insufficient implementation of WTO rules, and the lack of transparency in many aspects of the local business environment. Moreover, given the size and the level of global integration of the Chinese economy, such economic weaknesses as in the banking sector may have significant global implications, warranting closer international attention.

In my opinion, the bottom line of the issue of the rise of China is to adapt to and live with it. Japan should maximize the gain from its opportunities and minimize the loss from its problems. To do so, Japan should focus on its own strengths and accelerate structural reforms while at the same time working towards closer international cooperation to help solve China's problems.

２． China's Impact on Japan's Regional Policy

State of the game

The rise of China changed the regional landscape in two ways. On the one hand, China's new role as a link in the production network contributed to the growth of intra-regional trade. On the other hand, China became an active player in developing institutional frameworks to promote regional integration. The first element firmly positioned China as an indispensable member of regional economic frameworks in East Asia and reinforced the second element.

China's activism toward regional frameworks, particularly FTAs, started in 2000 following earlier moves by other regional economies. In the wake of the Asian financial crisis, Japan and Republic of Korea (ROK) had started to explore an FTA as a trade policy option and both started to shift away from their single-minded dependence on the World Trade Organization (WTO). There were several factors behind their moves; concern about the growing trends toward regionalism in Europe and America had been exacerbated by the loss of confidence in Asia's economic dynamism as well as the loss of momentum of the Asia Pacific Economic Cooperation forum (APEC). Moreover, the contagion of the Asian financial crisis had impressed regional governments with their mutual economic interdependence. The crisis stirred up a sense of urgency about domestic economic reform, which they hoped that an FTA would facilitate and lock in. The two countries had quasi-government think-tanks to work on a feasibility study of a bilateral FTA between them. The ROK started FTA negotiations with Chile in 1999. Japan and Singapore studied the possibility of a bilateral FTA and announced, in October 2000, their intention to start negotiations. Japan's decision to negotiate an FTA for the first time immediately triggered reactions from the United States and China. One month later, the United States agreed with Singapore to launch FTA negotiations and China proposed an FTA with the Association of Southeast Asian Nations (ASEAN).

For its part, China, having agreed in November 1999 with the United States on the terms of its accession to the WTO and being stimulated by the regional trend towards bilateral FTAs, decided that it should also use FTAs as a policy tool. Since its proposal to ASEAN in November 2000, China has moved swiftly. In October 2001, China and ASEAN completed the joint feasibility study for an FTA, and in November 2001, China persuaded ASEAN to agree to establish an ASEAN-China Free Trade Area within ten years. In November 2002, the Framework Agreement on ASEAN-China Economic Cooperation was signed that would establish a free trade area by 2010 for the older ASEAN members and 2015 for the newer members. In October 2003, beginning with Thailand, China started to implement the so-called early harvest measures to eliminate tariffs on some fruits and vegetables.

The major factors that had prompted China into the FTA with ASEAN were diplomatic considerations. It felt the need to participate in the regional trend toward FTAs. It chose ASEAN as its first FTA partner in order to calm down the sense of threat -both economic and security- that various ASEAN countries felt towards China. China used the FTA to show its willingness to let ASEAN economies capitalize on its growth. China even offered early harvest measures for fruits and vegetables to make the FTA proposal more attractive to ASEAN and to overcome hesitation among the ASEAN members.

An FTA with ASEAN also seemed more doable than FTAs with more developed economies such as Japan and ROK. If negotiations turn out to be difficult, China and ASEAN could invoke the enabling clause for developing members of the WTO and have their FTA be exempt from the strict rule to cover "substantially all the trade," which governs an FTA with a developed member. Japan and ROK have competitive manufacturing industries that state-owned enterprises (SOEs) in China would have difficulty competing with. The resistance from their politically sensitive agricultural sectors would also be difficult to overcome. Although China proposed a feasibility study of an FTA among China, ROK and Japan in November 2002, there is not much momentum building for this idea.

China's activism prompted Japan in turn to accelerate its moves for an economic integration agreement with ASEAN that it had contemplated since the launch of FTA negotiations with Singapore. In January 2002, two months after the China-ASEAN agreement to establish an FTA within ten years, Prime Minister Koizumi proposed an initiative for Japan-ASEAN Comprehensive Economic Partnership. The United States also strengthened its interest in the region and announced the Enterprise for ASEAN Initiative in October 2002 and the launch of FTA negotiations with Thailand in October 2003.

The Sino-Japanese "FTA race" in perspective

This situation may suggest that the classic case of "competitive liberalization" is at work in East Asia, with one preferential trade agreement prompting another to reduce the margin of discrimination of the former. At the same time, there is a growing perception that Japan and China are engaged in an FTA race not only for economic reasons but also for political ones. In other words, they seek not only to counter the trade discrimination and distortion that an FTA without them would create, but also to compete for the dominant leadership position in the region. Many observers, including ASEAN officials, perceive that China is ahead of Japan in the game. While it was Japan that started the process of concluding FTAs in the region, China seems to be leading the process with eager and fast moves. Some argue that China poses a threat to Japan in this regard as well.

In fact, Japan and China are the exact opposite of each other in terms of their priorities and behavior. They are so different that it is odd to see them playing the same game. China's moves are driven by a political agenda of reassuring ASEAN and expanding its political influence in the region. Japan's moves are primarily motivated by an economic agenda of reducing transaction costs of production networks and other business operations in the region and of adding stimulus to domestic economic reform. China is free from messy democratic processes that would substantially consume both time and political capital and can make bold moves once there is a consensus among political elites. Japan tends to be caught up in the details and finds it hard to make bold moves in the face of strong resistance from uncompetitive but politically powerful sectors. These resisting forces in Japan anticipate that legally binding international agreements, once concluded, would be enforced no matter what, and, naturally, fight fiercely against agreements that could deprive them of vested interests. In contrast, China is still struggling to implement WTO rules in its vast territories where local officials have varying levels of willingness and capacity to enforce rules and regulations. Despite the risk of losing credibility with the business sector, China seems to enjoy the diplomatic good will that the FTA with ASEAN brings. For the time being, it does not seem to be worried about the implementation of the agreement on the ground.

These stark differences between Japan and China present both challenges and opportunities. On the one hand, differences could deepen mutual mistrust and bilateral relations could deteriorate. Japan could perceive China as engaging in a power play at the expense of Japan. China could perceive Japan as pointing out small problems and getting in the way of China's initiatives. On the other hand, differences offer them a unique opportunity for cooperation. China's fast moves prompt Japan to react so as to nullify the discriminatory effects an FTA without Japan would create. This challenge acts as a healthy stimulus to Japan to accelerate its domestic reforms. The good will that China wins provides a positive atmosphere in the region that will encourage further cooperation to build regional institutions and help Japan achieve its goals. For its part, Japan should urge China to focus on the implementation of international agreements, reminding China that the loss of credibility with the business sector is not a problem just for China but also for the entire region, given the deepening economic interdependence and China's position as a regional leader. Despite the impression at first sight of direct competition against each other, Japan and China are in fact playing complementary roles, which, if managed well, could produce great synergies in building regional institutions.

3. U.S. Interests

Does the rise of China come at the expense of the United States?

The influence of the United States will not be directly eroded by the rise of China. The peace and stability in the region maintained under the security presence of the United States have enabled active trade and investment, the primary driver of China's rapid growth. No country in sight can take over this role from the United States. The United States and other developed countries have been important export markets and sources of capital and technology. While trade within East Asia is growing faster in recent years than its trade with the world, the region is not becoming self-sufficient. Finer specialization through fragmentation of the production processes within East Asia has significantly contributed to the growth of intra-regional trade of parts and components of final goods that will eventually be exported to extra-regional markets. Although regional final demand will become more important as China continues to grow rapidly, East Asia will maintain its inherent incentive to remain open to the rest of the world.

Impact of U.S. policy

It is Asian countries' perception of U.S. policies, rather than the rise of China, that have had the largest impact on the U.S. influence in the region. When U.S. policy is perceived to accommodate East Asian common interests and to demonstrate a strong commitment to regional stability and prosperity, U.S. influence grows stronger and the momentum among East Asian countries for defensive regionalism, for example, is likely to decrease, and vice versa. Looking back at the evolution of institutional frameworks involving East Asia, there were three unfortunate developments for the U.S. influence in the region.

The first was in the mid-1990s when the United States promoted the agenda of trade liberalization within APEC. The United States successfully overcame Asian developing countries' initial hesitation about and resistance to this agenda. This success, however, did not last very long. Perceived U.S. indifference to developmental concerns and the U.S. pursuit of the North American Free Trade Agreement (NAFTA) and the Free Trade Area of the Americas (FTAA) outside APEC, which were perceived to create trade and investment diversion from Asia, bred discontent among Asian economies with the U.S. leadership in APEC. On the issue of APEC's Early Voluntary Sectoral Liberalization (EVSL), the United States tried to change the modality of trade liberalization in APEC from voluntarism with peer pressure to tariff negotiations. Despite the appearance of Japan's isolation on the issue, Asian economies, which had supported the particular EVSL package because of the choice of sectors and the flexibility available for developing members (but not for Japan), shared concerns about changing APEC into a negotiating body. These developments laid the groundwork for Asian countries' bitter reaction to the perceived narrow-minded focus of the United States' APEC policy on the EVSL agenda during the Asian financial crisis.

The second setback came during the Asian financial crisis. There is a pervasive perception in East Asian countries that the United States and the International Monetary Fund (IMF), which in itself is seen as a tool of U.S. international economic policy, exacerbated the hardship of the countries hit by the crisis. This perception, combined with the fact that U.S. hedge funds substantially profited from the massive selling of Asian currencies, hurt the U.S. image in the region. The argument goes like this: first, the premature opening of Asian capital accounts induced by the so-called "Washington Consensus" was the underlying cause of the destructive capital movements that triggered the crisis. Second, the United States was initially not forthcoming when Asian countries were coordinating a package to support currency stabilization at the early stage of the crisis. Third, the initial prescription by the IMF to induce economic contraction, which did not address the basic problem of the capital account crisis, led to a full-fledged economic crisis. Fourth, measures such as cutting subsidies on imported fuels had a significant impact on the life of the poor and damaged the political stability of Indonesia. The experience of the Asian financial crisis convinced East Asian countries that they had to protect their own interests since global institutions under the U.S. leadership could not always adequately address their interests and priorities. This conviction prompted East Asian countries to build up foreign reserves and to initiate regional cooperation to promote financial stability in Asia. In contrast, China cultivated an image as a responsible regional power by not devaluing the renminbi and by actively participating in regional cooperation.

The third came in the wake of the terrorist attacks on September 11, 2001. Since then, there has been a perception that the United States has been preoccupied with the war against terrorism and proliferation of weapons of mass destruction and that its level of policy attention to Asian economies has been substantially lower than that of China. At the same time, the perceived U.S. inclination towards unilateralism –not just in the field of security but also in such policy areas as trade or environment-- alienated public sentiment in Asia. In the meantime, China won the good will of neighboring countries by expanding imports from them and taking an active role in promoting the FTA with ASEAN.

Thus, Asia's image of the United States was damaged due to America's indifference to how its behavior was viewed by Asian countries during these critical junctures.

U.S. interests in fostering Asian regionalism

Despite the recent setbacks for its image, the United States has by far the largest influence in the region. It should not, however, take its influence in the region for granted, if it is to continue to position itself as an Asia Pacific power. Its influence in the region cannot be maintained by economic and military supremacy alone. It has to be enhanced through being sensitive to and, where possible, furthering the region's aspirations.

East Asia is going through historic geopolitical changes due to the rise of China. The surge of political interest in the vision of an East Asian community suggests that the region is in search of a new order to accommodate China's growing power and influence and to maintain regional peace and stability. It is not an easy enterprise. Asian countries suffer from domestic political difficulties in economic liberalization, large gaps in developmental stages among regional economies, and mutual distrust and historical antagonism between Japan and China. Despite these difficulties, however, there is a growing consensus that, eventually, East Asian countries will come up with some form of a regional community.

The U.S. position on Asian regional forums that do not include it had been strongly negative but became more neutral under the current Administration. It has struck a markedly different note by encouraging liberalization at all levels; bilateral, regional and global. More fundamentally, however, Washington should be positive in embracing regional forums even if the United States is not formally a member because such forums would still serve US interests in having East Asia more mature and integrated.

First of all, East Asian economic integration will help reduce regional tension and lighten America's security burden in the region. Economic integration will engage regional powers in stable regional interdependence where one's prosperity is in the interest of others, and make them more predictable and reliable to each other. Successful development of poorer countries in Asia through integration in regional economic dynamism will help political stability and reduce the possibility that these countries will become hotbeds of terrorism.

Secondly, Japan's future economic prospects substantially depend on its capability to benefit from East Asian economic dynamism. It is in the interest of the United States to encourage Japan, its primary ally in the region, to proactively take up competitive challenges from Asia and to promote reform of its economic structure so that it can turn Asian challenges into new opportunities.

Furthermore, if Japan becomes more open, embedded, and trusted in the region, it can be a more effective and valuable U.S. ally. Acknowledging and encouraging Japan's leadership in the region does not mean reducing U.S. power and influence in the region. Rather, it will enhance the effectiveness of U.S. alliances in dealing with diverse threats and uncertainties in post-Cold War Asia.

U.S. roles

Once Washington gains greater confidence about East Asian regional integration, the United States can take several steps to promote both its interests and healthy developments in Asia.

The first is to exercise leadership in strengthening global institutions. As the only global economic superpower, many hope that the United States will lead the world in completing the Doha WTO Agenda and will refrain from resorting to protectionist measures in its own trade policy. It can also lead efforts to strengthen international policy coordination with Beijing that China's increasing significance in the global economy warrants.

The second is to manage key bilateral relations in East Asia with constant attention. Stable U.S. relations with regional powers are crucial to increasing its awareness of the region's concerns and priorities and to fostering broad understanding within the United States that Asian integration can help promote U.S. interests.

Third, Washington can support building blocks of regional integration that can serve as a model of advanced rules beyond the WTO and reliable implementation on which to build larger institutions. East Asian countries do not have a consensus on the right sequence of FTA developments. In order to achieve a better region-wide framework, countries with longer experience of a market economy and stronger institutions should be encouraged to take the lead in developing the contents of regional frameworks. At the same time, FTAs with ASEAN members should be used to encourage integration within ASEAN. The U.S. can make a unique contribution by negotiating high standards in its own bilateral FTAs with Asian economies, as it has already done with Singapore, and developing innovative rules that can in turn be adopted by other countries.

As Asia adapts to a rising China, active U.S. support for improving global and regional institutions, promoting Asian development and fostering Asian regional cooperation would enhance its influence in the region and elsewhere. Seen in this light, the rise of China and the trend toward intra-regional economic integration in Asia are opportunities, not threats, for both of our countries.