

JETRO SYMPOSIUM ON ASIA PACIFIC ECONOMIC INTEGRATION

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CHICAGO

CHAIRMAN ISHIGE, TO WHOM WE ARE GRATEFUL FOR BRINGING THIS DISTINGUISHED SYMPOSIUM TO CHICAGO, CONSUL GENERAL YOSHIDA, OUR GOOD AND ABLE FRIENDS AT JETRO CHICAGO, MR. SHINDO, RALPH INFORAZATO AND THEIR ASSOCIATES, DISTINGUISHED SPEAKERS AND FRIENDS.

IN 1953, WHEN I WENT TO JAPAN AND KOREA AS A MARINE CORPS PLATOON COMMANDER, EAST ASIA, THE WORLD'S MOST HEAVILY POPULATED REGION, COMMANDED ABOUT 4% OF GLOBAL GDP. JAPAN LED ITS RECOVERY. FOR DECADES IT HAD AN OLIGARCHIC ONE PARTY SYSTEM WITH THE POWER TO BE RATIONAL, BASICALLY SUBORDINATING CONSUMPTION TO INVESTMENT, PRODUCTION AND EXPORTS. ARMED WITH LARGE TRADE SURPLUSES, JAPAN INVESTED FIRST IN THE US AND EUROPE - BUT INCREASINGLY IN EAST ASIA. OVER TIME EAST ASIANS, INCLUDING CHINA, INVESTED IN ONE ANOTHER, SEEKING COMPLIMENTARITIES FOR ECONOMIC EFFICIENCY, STABILITY AND TRADE. ECONOMIC INTEGRATION AND DEVELOPMENT IN EAST ASIA WAS LED BY INVESTMENT. IN EUROPE IT WAS IN LARGE MEASURE LED BY US EFFORTS TO CONTAIN THE SOVIET UNION.

NOW, 60 YEARS LATER, EAST ASIA IS THE WORLD'S LARGEST AND MOST DYNAMIC REGION WITH MORE THAN 40% OF THE WORLD'S FOREIGN EXCHANGE RESERVES. CHINA WILL SOON HAVE THE WORLD'S LARGEST ECONOMY. ITS FOREIGN EXCHANGE RESERVES EXCEED \$3 TRILLION. ITS OPENING UP AND ECONOMIC REFORMS BEGAN LITTLE MORE THAN 30 YEARS AGO.

CHINA EXPANDS IN THE WORLD THROUGH INVESTMENT, STEP BY STEP INTERNATIONALIZING THE REMNIMBI, LIBERALIZING ITS CAPITAL ACCOUNT AND DEVELOPING ITS FINANCIAL MARKETS. THE REMNIMBI COULD BECOME A RESERVE CURRENCY FOR THE WORLD, REPLACING OR SUPPLEMENTING A DOLLAR BURDENED BY DEBT AND A DYSFUNCTIONAL POLITICS. IN 1971

THE DOLLAR WAS OFFICIALLY CONVERTIBLE TO GOLD AT \$35, NOW IT TRADES AT ABOUT \$1,300 EVEN AS THE FEDERAL RESERVE BANK PUSHES MORE LIQUIDITY INTO THE ECONOMY, MUCH OF IT INVESTED IN THE CURRENCIES OF OTHER COUNTRIES WHICH ARE THEN FORCED TO DEFEND THEM AGAINST APPRECIATION. AUSTRALIA REDUCES INTEREST RATES. AND NOW JAPAN'S CENTRAL BANK IS ENGAGED IN QUANTITATIVE EASING, DEPRESSING INTEREST RATES AND THE YEN TO SUPPORT EXPORTS. SO, KOREA REDUCES INTEREST RATES. MEANWHILE PUBLIC DEBT IN JAPAN ALREADY APPROACHES 240% OF GDP AND REQUIRES HALF OF JAPAN'S TAXES TO SERVICE IT.

REGIONAL AND BILATERAL FREE TRADE AGREEMENTS PROLIFERATE IN THIS UNTAMED ENVIRONMENT. THE TRANS PACIFIC PARTNERSHIP (TPP) IS BEING NEGOTIATED WITH A COMPREHENSIVE SUBJECT MATTER JURISDICTION BUT A MEMBERSHIP WHICH EXCLUDES CHINA, INDIA, INDONESIA AND OTHERS.

JAPAN'S GOVERNMENT IS CHALLENGING POWERFUL INTERESTS AT HOME AND MAY JOIN THE TPP, THEREBY ALSO FACILITATING A TRILATERAL FREE TRADE AGREEMENT WITH CHINA AND SOUTH KOREA AND A TRADE PACT WITH THE EUROPEAN UNION. MEANWHILE, THE US AND EUROPE NEGOTIATE A FREE TRADE AGREEMENT - AND SO IT GOES. THE ASEAN ECONOMIC COMMUNITY IS SCHEDULED FOR 2015 - AND THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP WITH A SHARE OF THE GLOBAL POPULATION AND GDP AS LARGE AS THE TPP'S.

THIS "BOWL OF NOODLES" THREATENS TO UNDERMINE THE WORLD TRADE ORGANIZATION (WTO). IT IMPLIES ABANDONMENT OF THE STALLED DOHA ROUND AND A MULTILATERAL TRADE REGIME FOR THE WORLD. REGIONAL AND BILATERAL FREE TRADE AGREEMENTS ARE NOT FREE. THEY ARE DISCRIMINATORY AND DIVERSIONARY, SOMETIMES INFLUENCED BY POLITICAL CONSIDERATIONS.

THE BOWL OF NOODLES DOES NOT INCLUDE A GLOBAL MONETARY SYSTEM TO STABILIZE CURRENCIES, REGULATE CAPITAL FLOWS, PROVIDE LENDER OF LAST RESORT FINANCING AND FACILITATE TRADE AND INVESTMENT.

EAST ASIA WAS DE STABILIZED IN 1997 BY CURRENCY SPECULATORS AND CAPITAL FLIGHT. WITH PRESCIENCE, JAPAN HAD PROPOSED AN EAST ASIAN MONETARY REGIME, BUT IT WAS NOT UNTIL AFTER THE US AND IMF INFLICTED PUNITIVE CONDITIONALITIES ON EAST ASIANS IN 1997 THAT THE PROPOSAL WON SUPPORT THROUGHOUT THE REGION AND AT THE ASIAN DEVELOPMENT BANK. (THE US NEVER ACCEPTED SUCH CONDITIONALITIES FOR ITSELF.) BUT REGIONAL MONETARY REFORM AND INTEGRATION HAS FALTERED SINCE THE CHIANG MAI INITIATIVE, REFLECTING THE DIVERSITY AND DIFFERING LEVELS OF DEVELOPMENT IN THE VAST REGION.

TRADE IS HAMPERED BY FOREIGN EXCHANGE COSTS AND RISKS, EXCEPT FOR THE US WITH ITS LIQUID DOLLAR. THE DOLLAR REIGNS BY DEFAULT AS THE DENOMINATOR OF INTERNATIONAL TRANSACTIONS, ALBEIT DEFECTIONS ARE DETECTED. KUWAITIS DON'T WANT THEIR OIL PRICED IN DOLLARS. YET, LITTLE ATTENTION IS PAID MONETARY INTEGRATION AND REFORM EVEN AS THE DOLLAR FAILS AS A STORE OF VALUE, DEPRIVING THE WORLD OF A TRUE RESERVE CURRENCY. THE REMNIMBI IS NOT READY TO SUCCEED IT. A NEW CURRENCY, AS MAYNARD KEYNES PREFERRED, A MULTI CURRENCY REGIME, NOTHING SIMMERS IN THE BOWL OF NOODLES.

THE WORLD'S MONETARY GOVERNANCE REFLECTS THE WORLD OF 1944. IT LACKS A GLOBAL MONETARY AUTHORITY, AN IMF WITH ADEQUATE REGULATORY POWERS, RESOURCES FOR LENDER OF LAST RESORT FINANCING AND A GLOBAL CURRENCY UNIT. FRANCE HAS MORE IMF DRAWING RIGHTS THAN CHINA WHICH QUIETLY DISCUSSES WITH BRAZIL, INDIA, RUSSIA AND THE UNION OF SOUTH AFRICA A NEW WORLD ORDER TO REPRESENT THE NEW WORLD. THEY SEEK TO SALVAGE THE WTO AND MULTILATERALISM, SUPPORTING ELECTION OF A WTO DIRECTOR GENERAL FROM BRAZIL AGAINST THE DEFEATED CANDIDATE SUPPORTED BY EUROPE, THE US AND JAPAN.

DEVELOPED AND DEVELOPING COUNTRIES, THE LATTER WITH MORE THAN 70% OF GLOBAL POPULATION, SHOULD BE JOINED IN A COMMON EFFORT TO CONTINUE MANKIND'S EVOLUTION TO GLOBAL GOVERNANCE OF MONEY AND TRADE FOR A GLOBAL ECONOMY. THE

WTO SHOULD BE SUPPORTED, NOT DROWNED IN THAT BOWL OF NOODLES, THE IMF REORGANIZED AND STRENGTHENED. REGIONAL INTEGRATION SHOULD LEAD TO GLOBAL INTEGRATION AND STABILITY, HELPING ALSO TO PRODUCE PEACE IN THE WORLD. THAT IS THE CHALLENGE - AND THE OPPORTUNITY.