

# 3

## The United States and Asian Economic Regionalism: On the Outside Looking In?<sup>1</sup>

*AMY SEARIGHT*

THE UNITED STATES faces a central dilemma in its Asia policy. On the one hand, it has played a leading role in the region since the end of the Pacific War. The United States has been the “indispensable nation” for Asian security and prosperity, with extensive American security commitments promoting relative peace and stability, while the large American market, combined with US leadership underpinning the liberal economic order, have provided a stable basis for regional economic dynamism. The United States has understandably grown comfortable with and supportive of its core economic and security policies in the region. And yet, regional enthusiasm for greater multilateral cooperation has begun to shift regional dynamics in ways that may begin to diminish US influence in Asian affairs. The rise of exclusive regional groupings like ASEAN+3 and the East Asia Summit have led to a flurry of initiatives ranging from regional free trade agreements (FTAs) to financial integration to other areas community building—all of which exclude the United States. For its part, the United States has responded to this “new regionalism” in a somewhat uneven and ad hoc fashion. American reluctance to radically alter the status quo has put the country in a defensive, reactive stance. US policymakers have sought to devise new policy tactics to counter unfavorable trends, but they have generally not been interested in reformulating the strategies that underpin US engagement in the region.

This chapter seeks to explain the politics of reactive leadership in America's Asia policy and the implications of current US trade and economic policies for the evolution of Asian regionalism. It proceeds in three sections. The first section provides an overview of traditional American approaches to regionalism in Asia. Although US postwar planners initially favored regional approaches in both security and economic relations in Asia, they were dissuaded from pursuing regional multilateralism because of the preferences of Pacific partners, who harbored deep distrust of Japan and preferred bilateral ties to the United States. Once in place, however, the hub-and-spoke security system and trade relations centered on the General Agreement on Tariffs and Trade (GATT) became entrenched in US strategic thinking, and American policymakers resisted proposals for security and economic multilateralism that began to emerge in the waning days of the Cold War.

The second section examines evolving US responses to Asian regionalism in the post-Cold War period. The United States gradually warmed up to ideas that led to the formation of the Asia-Pacific Economic Cooperation (APEC) and the ASEAN Regional Forum (ARF), and once on board, it sought to play a leading role in these organizations by setting the agenda and seeking institutional improvements. However, American leadership has been episodic and reactive rather than sustained and committed. When US officials grow frustrated with their inability to achieve substantive results in APEC and the ARF, they tend to lose interest and US engagement drifts.

Yet the rise of new exclusive frameworks for Asia-only regionalism has redirected American attention to APEC and led to new engagement tactics. The third section examines the strong signals and tentative policy steps that the Obama administration has taken toward Asian regional community building. On the one hand, the Obama administration has sought to give a strong and consistent message that the "United States is back" in Asia. Joining the East Asia Summit is the most recent—and most dramatic—step taken by the administration to demonstrate the US commitment to regional engagement. On the other hand, concrete policy actions directed toward revitalizing economic cooperation between the United States and its Asian partners have been limited. Of particular concern are the constraints posed by the "new politics of trade" in the United States, which generate Congressional resistance to bold trade initiatives and make it difficult

for the US government to place economic engagement at the center of an Asian regional strategy.

Thus the central question remains: Will the flurry of new interest in regional community building seen today in East Asia lead once again to a reactive American response that seeks to participate in and shape the regional economic community? Or will the United States be left behind?

### THE ROOTS OF REACTIVE REGIONALISM: US APPROACHES TO EAST ASIA IN THE POSTWAR PERIOD

In the early days of the postwar period, US policy planners set about reorganizing the world by creating an institutional framework that would promote peace and prosperity and contain the growing communist threat. American planners focused their efforts on two key regions—the North Atlantic and Asia Pacific. In Europe and the North Atlantic, the American approach was distinctly multilateral. The United States established a collective security defense under NATO, and it promoted regional economic integration by tying massive reconstruction aid under the Marshall Plan to trade and payments liberalization. Moreover, Europe—along with the United States, Canada, Australia, and New Zealand—was at the core of the multilateral economic framework created at Bretton Woods and Geneva, which included the Bretton Woods monetary regime and the liberal trade regime under the GATT.

In Asia, by contrast, the United States structured its relations through a set of bilateral security and trade strategies. Japan was the lynchpin of American strategy in the region, and American policymakers set about remaking Japan as a bulwark in the Pacific and as the “workshop of Asia.” The United States negotiated a bilateral security alliance that provided substantial bases for US forces, which would become the cornerstone for a network of bilateral alliances in the region. The US objective was to tie Japan economically to the West by granting access to American markets and technology to help fuel Japan’s economic recovery, and by pressing relentlessly on reluctant Western countries for Japan’s admission into the GATT trade regime. The GATT provided a relatively open trade structure at the global level, and East Asian countries gradually joined the GATT, beginning with Indonesia, Japan, and Malaysia in the

1950s, Korea in the 1960s, Singapore and the Philippines in the 1970s, and Thailand in the 1980s.

The American approach to the region took this hybrid form of security and economic bilateralism along with global economic multilateralism. On the security side, a hub-and-spoke system of bilateral arrangements with Japan, Australia/New Zealand, the Philippines, and eventually South Korea and Taiwan anchored US engagement in the region. On the economic side, trade and investment relations were structured by US-led global economic regimes in trade and finance, supplemented by bilateral economic leverage as needed.

Notably absent in this mix of policy approaches in Asia were regional multilateralism and institution building. The US preference for bilateralism in Asia in contrast to its multilateral approach in Europe has been explained by the large disparity in size and strength between the United States and its regional partners, as well as the absence of collective identity and sense of shared history and norms.<sup>2</sup> These factors certainly contributed to the failure of regional multilateralism. But they did not rule it out.

In fact, the original vision for Asia was based on regional collective security and multilateral economic cooperation, much like Europe. In security, the United States wanted to create a “Pacific Pact” that would include Japan, Australia, New Zealand, and the Philippines. However, Japan rejected the idea because Prime Minister Shigeru Yoshida preferred an exclusively bilateral security arrangement with the United States, in which Japan would provide bases rather than be asked to rearm. Australia, New Zealand, and the Philippines still harbored intense anti-Japanese sentiment, and were thus hesitant to form a collective defense arrangement with Japan. Faced with this regional opposition, American strategists gave up the idea of forging a Pacific security pact and returned to exclusively bilateral approaches, leaving in place the hub-and-spoke system of bilateral security alliances as the sole architecture for regional security.<sup>3</sup>

On the economic side, a similar story unfolded. The United States had wanted to build regional frameworks to reintegrate Japan into Southeast Asia. With Japan facing great difficulty gaining admission to the GATT, American policymakers worked on a regional economic integration plan that came to be known as the “yen fund.” In effect, the yen fund would directly tie US aid for Southeast Asia to the purchase of Japanese imports. Although this plan had wide support within the US

government and Congress, it was never implemented. As in the Pacific security pact, Japan's Southeast Asian partners showed little interest in developing trade relations with Japan, and Britain and other European powers opposed the idea of giving Japan access to their colonial markets. So instead, the United States redoubled its efforts to get Japan into the GATT, and it relied on bilateral market access as aid or leverage with Japan and other Asian countries.

This combination of economic bilateralism coupled with the broad framework of the GATT trade regime worked extremely well for Japan's economic recovery, paving the way for the industrialization and economic success of other East Asian economies. However, it also led to growing trade frictions as Japanese and later other Asian goods increasingly displaced domestic goods in the US market. Just as the United States relied on bilateral market access to achieve Japanese and Asian recovery, it also resorted to bilateral leverage to readjust trade outcomes through voluntary export restraints, Section 301 sanctions, antidumping measures, and other policy instruments. Indeed, the growing use of bilateral pressure and unilateral sanctions by the United States against Japan and East Asian industrializing countries became a major impetus for regional economic multilateralism in the 1980s.

Thus, in both the economic and security realms, the US preference was for multilateral approaches to reintegrate Japan into the region and build up a stable regional system. However, the resistance of America's Pacific partners to these integration schemes led the United States back to bilateral approaches. And these bilateral systems became entrenched over time. The hub-and-spoke security system came to define US regional strategy and became deeply embedded in domestic systems and regional dynamics. Security assets became specialized and increasingly valuable in bilateral arrangements, and US strategy was designed around these assets and options. In the waning days of the Cold War, proposals for regional security cooperation began to emerge, pushed most prominently by then Soviet leader Mikhail Gorbachev at Vladivostok in 1988. The Americans strongly rejected Soviet proposals, viewing them as thinly disguised attempts to undermine its bilateral alliance system.

Likewise, on the economic side, the combination of global multilateralism and bilateral leverage also became entrenched in American government thinking. The United States tended to resist proposals for regional economic cooperation that emerged periodically in the

region out of concern that at best they were unnecessary, and at worst they would undermine global economic institutions. Thus American officials initially opposed Japan's proposal for an Asian Development Bank because they did not want to undermine or dilute the influence of the World Bank.<sup>4</sup> Three decades later, US rejection of Japan's proposal to create an Asian Monetary Fund in the midst of the Asian financial crisis was based on a similar concern, that a Japan-led fund would dilute the influence of the stronger disciplines of the International Monetary Fund (IMF). It also explains the American indifference to proposals made by the Japanese and others beginning in 1966 to create a Pacific economic consultative grouping. US officials felt a regional economic grouping was unnecessary and would potentially distract from the GATT. Moreover, the United States wanted to preserve room for maneuver in its bilateral dealings with Japan and other trade partners on trade disputes.

## CHANGING US REGIONAL STRATEGY AFTER THE COLD WAR

### *Fear of Exclusion and the Rise of APEC*

In the waning days of the Cold War, a number of countries including Japan began pouring forth ideas and proposals for constructing new economic and security frameworks for regional cooperation. US policymakers at first resisted these proposals, and began to accept them grudgingly only when motivated by the fear of exclusion. This was most clearly seen on the economic side.<sup>5</sup> In early 1989, Australia began floating an idea to ASEAN and other East Asian countries for a regional economic grouping that did not include the United States. This provoked a sharp reaction from US officials at the State Department, who were incensed that Australia had failed to consult with them and had omitted the United States and Canada from its proposal. Secretary of State James Baker made clear that the United States expected to be included in any Pacific grouping. Australia and Japan continued to take the lead in organizing the new grouping, which was named the Asia-Pacific Economic Cooperation, or APEC, and launched this new framework in Canberra in late 1989.

The United States stepped up its support for APEC when Malaysian Prime Minister Mahathir Mohamad began pushing for an East Asian Economic Group. Mahathir envisioned a Japan-led trade bloc that would counter emerging economic blocs in Europe and North America, and he pointedly excluded the United States and its North American partners, as well as Oceania. Baker launched a vigorous diplomatic counterattack, warning starkly of the danger of “drawing a line down the middle of the Pacific.” He strongly pressured the Japanese and Koreans to openly rebuff Mahathir’s proposal, reportedly telling the Korean foreign minister that “Malaysia didn’t spill blood for this country, but we did.”<sup>6</sup>

Baker began more actively promoting APEC as new regional architecture, and at the same time he signaled a new willingness on the part of the United States to consider security multilateralism in the region. In a *Foreign Affairs* article touting the significance of APEC in the winter of 1991, Baker praised the emerging “ad hoc, multilateral approach” to security in the region, and indicated support for creating a regional security dialogue while cautioning against “locking ourselves in to an overly structured approach. In the Asia Pacific community, form should follow function.”<sup>7</sup> This signaled a departure from previous American opposition to a flurry of proposals for multilateral security dialogues put forth by Canada, Australia, South Korea, and Japan in the early post-Cold War years. American antipathy to multilateral security proposals stemmed from the strongly negative reaction to Gorbachev’s proposals for an Asian security forum in the mid-1980s, which the United States saw as a Soviet attempt to undermine its bilateral alliance system. However, by late 1991 US officials recognized that the regional momentum for some type of security multilateralism was building, and at the same time American officials were looking for a way to reassure Southeast Asian nations whose concerns were aroused by the US decision to close military facilities and withdraw forces from the Philippines.

Baker’s *Foreign Affairs* article also signaled a new willingness on the part of American officials to consider security multilateralism in the region. They recognized the growing desire for regional security cooperation in the region, and they decided they needed to get on board. This would lead to the creation of the ARF, which formed the second pillar alongside APEC for US multilateral engagement in the region.

*APEC: Early Optimism and Shifting Strategies*

The tepid and grudging support for regional multilateralism in the elder President Bush's administration was replaced by a much warmer embrace of multilateralism by the Clinton administration. In his April 1993 confirmation hearings as assistant secretary of state for East Asian and Pacific affairs, Winston Lord identified an enhanced multilateral security dialogue as 1 of the Clinton administration's 10 priority goals for Asia. Later that summer, President Bill Clinton gave speeches in Tokyo and Seoul calling for a "New Pacific Community" based on new regional security dialogues and for the maintenance of American security commitments through its bilateral alliances. (Clinton would also invoke the "Pacific Community" vision later that year at the APEC summit in Seattle.) When ASEAN finally seized the initiative to propose a regional security dialogue with its major dialogue partners and the addition of Russia and China, the United States was ready to fully endorse the idea, and the ARF was launched in 1994.

By far the most significant contribution that the Clinton administration made to regional multilateralism was the creation of the Economic Leaders' Meeting at APEC. The idea for an APEC summit originated with Australian Prime Minister Paul Keating, who had proposed to President George Bush during the latter's 1992 visit to Australia that the United States invite leaders to the APEC meeting that was scheduled to be held the following year in Seattle. Bush's successor, President Clinton, embraced the idea and successfully launched the first summit.<sup>8</sup> Leaders met on Blake Island, off the coast of Seattle, in November 1993 and laid out a vision for free trade in Asia Pacific. The Economic Leaders' Meeting gave a tremendous boost to APEC. The involvement of leaders was critical in laying out a bold economic agenda in Seattle, and setting forth the more concrete Bogor Goals the following year in Indonesia, when leaders pledged to establish a free trade area for trade and investment with the target dates of 2010 for industrial countries and 2020 for developing countries.

The United States also began to view APEC as a valuable source of leverage over European regionalism and its intransigence at global trade talks. In particular, after a strong show of unity by APEC leaders in support of the Uruguay Round at the Blake Island summit in 1993, American officials came to believe that European concern over the nascent regional grouping was the primary reason they returned to

the GATT negotiating table to conclude the Uruguay Round, which had stalled in 1991.<sup>9</sup> In a similar vein, the negotiation of the North American Free Trade Agreement (NAFTA) in 1991–1992 had played a role in motivating East Asian nations to eschew Malaysia's proposal for an exclusive East Asian grouping and had provided early momentum in APEC. The United States came to embrace this "multitrack" strategy of pursuing bilateral, regional, and multilateral trade negotiations concurrently as a way to get around recalcitrant countries to achieve progress in trade liberalization and to gain leverage by reminding others that the United States had alternative trade options available.<sup>10</sup> Within weeks of the Bogor Summit pledge by APEC leaders to establish free trade and investment in Asia Pacific, the United States joined with 33 Western Hemisphere neighbors at the Summit of the Americas in December 1994 to pledge to negotiate a Free Trade Area of the Americas by 2005. At that summit in Miami, the United States and its NAFTA partners also announced plans to negotiate Chile's accession to NAFTA as a first step toward a hemisphere-wide agreement.

The Clinton administration was stymied in pursuing these regional FTA initiatives by Congress, which refused to extend fast track authority and thereby undercut the Americans' credibility to negotiate trade deals. The Clinton team remained optimistic, however, about using APEC as a vehicle for trade liberalization in ways that would ratchet up liberalization at the multilateral level in the newly created World Trade Organization (WTO). A step in this direction came with the Information Technology Agreement (ITA), which called for eliminating tariffs on information technology products within a few years. Clinton took the ITA proposal to the APEC summit in Subic Bay, Philippines, in 1996, and personally lobbied other APEC leaders to collectively endorse it. APEC's promotion of the ITA paved the way for its adoption the following month at the WTO ministerial meeting in Singapore. The ITA was launched as a plurilateral agreement within the WTO, signed by 44 countries representing 90 percent of trade in information technology. It was widely touted as a significant step toward liberalizing trade in the fastest-growing sector of the world economy.<sup>11</sup>

The United States viewed the ITA as a model for pursuing sectoral liberalization within APEC, which would serve as a steppingstone to the Bogor Goals of APEC-wide free trade and would perhaps also lead to broader multilateral agreements for sectoral liberalization at the WTO. This gave rise to APEC's Early Voluntary Sectoral Liberalization (EVSL)

program, launched in 1997. The United States once again took the lead in proposing that APEC economies collectively agree to binding commitments to liberalize trade and harmonize standards in designated sectors. Fifteen sectors, including nine priority sectors, were agreed upon at the Vancouver summit in 1997. However, the EVSL negotiations collapsed the following year when several economies, led by Japan, refused to participate in all sectors. The bitter and ultimately abortive negotiations over EVSL exposed deep divisions within APEC over the desirability of pursuing trade liberalization through reciprocity-based negotiations and binding commitments. Many Asian countries made clear their preference for the Asian-style consensus-led, incrementalist, and voluntary approach, characterized by Japanese Foreign Minister Tsutomu Hata in 1993 as “creeping incremental gradualism by consensus.”<sup>12</sup> American hopes for APEC as a vehicle for trade liberalization were dashed, and its interest in APEC diminished accordingly.

The Asian financial crisis dealt another blow to APEC. In the midst of the economic turmoil in 1997–1998, APEC provided no meaningful response, and Asian countries grew disenchanted with both APEC and perceived US indifference to the region’s plight. Japan’s proposal for an Asian Monetary Fund met with swift and harsh rejection by the United States, based on concerns that a Japan-led regional organization would undermine the stronger discipline of the IMF regime. APEC began to look moribund, and many Asian countries channeled their desire for regional cooperation, as well as some degree of resentment against the United States, into the emerging ASEAN+3 process.

Although the Clinton administration’s early optimism for APEC had faded considerably, the United States continued to view APEC, and, increasingly, bilateral FTAs, as vehicles for incubating ideas and forging templates for cooperation that could add value to broader multilateral negotiations. More generally, they viewed APEC and the ARF as useful supplements to the traditional hub-and-spoke approach in security and to the multilateral trade system in the WTO.

The administration of George W. Bush viewed regional multilateral architecture in broadly similar terms. Although the Bush administration quickly gained a reputation for being “unilateralist” and not entirely supportive of multilateralism, in its Asian diplomacy it continued to view APEC and the ARF as the “twin pillars” of American multilateral engagement in the region. In fact, Condoleezza Rice came into her position as national security advisor with a keen interest in Asian institutional

architecture. With her background in European affairs, she shared the view of many Europeanists and political scientists that Asia was “under-institutionalized” and that robust US engagement in the region would depend on improving existing institutions and perhaps building new ones. She believed that the hub-and-spoke system was outmoded, and she instructed her staff to work on making trans-Pacific institutions more effective and relevant.<sup>13</sup>

The major departure from Clinton’s APEC strategy was in the area of security. The Bush administration pushed hard to import a security agenda into APEC, which caused a lot of consternation in the region. The major initial impetus arose from the terrorist attacks on September 11, 2001. China was hosting the APEC summit in Shanghai that October, and the White House was debating whether President Bush should travel to an economic summit so soon after the attack. Eager to ensure Bush’s participation, China offered to make counterterrorism a centerpiece of the summit, and Bush decided to attend.<sup>14</sup> The leaders issued a strong statement on counterterrorism in Shanghai, which laid the groundwork for similar statements with more detailed commitments on counterterrorism in Mexico the following year. At the Los Cabos, Mexico, summit in 2002, the United States also pushed for a package of concrete initiatives to secure the transport of cargo, an area that it had worked on in the G8 earlier that year. This produced the “Secure Trade in the APEC Region” (STAR) initiative. The United States also secured a leaders’ statement at the summit that called on North Korea to give up nuclear weapons.

The following year, in Thailand, the United States pushed further to place a security agenda at the center of APEC. The summit in Bangkok in October 2003 came close on the heels of the disastrous WTO Ministerial Conference in Cancun, Mexico, which caused a major rupture in progress on the Doha Round of trade talks. Thus, securing a strong statement in support of Doha to avoid the collapse of the round was a top US priority. At the same time, the United States pressed for leaders to agree in their statement to “dedicate” APEC to the “complementary mission of ensuring security” in addition to advancing economic prosperity. Further, the United States won agreement to broaden APEC security initiatives beyond issues such as port security that are closely linked to trade, to include issues related to weapons of mass destruction, dismantling terrorist groups, and “other direct threats” to regional security.<sup>15</sup> The US emphasis on these “Bangkok commitments,” coming several

months after the invasion of Iraq, reinforced a growing perception in the region that the United States was preoccupied with security and counterterrorism to the detriment of economic issues. The comparable effort that the Americans put into getting a unified APEC stance on the Doha Round to get it back on track was simply overshadowed, as were ongoing American efforts on APEC transparency commitments, intellectual property rights, and anticorruption.

The security pledges made in the 2003 “Bangkok commitments” were highly controversial in APEC. Although a few countries supported an expanded security agenda, many ASEAN countries felt highly uneasy with broadening APEC’s focus from economic issues.<sup>16</sup> However, the biggest obstacle for the United States on security in APEC has been China, which has resisted discussing security issues in the APEC forum because of Taiwan’s membership. Although China acquiesced to the United States on the leaders’ endorsement of the security commitments in Bangkok, in subsequent meetings China blocked several US-initiated security proposals.

The US effort to develop a security agenda for APEC was motivated by several factors beyond September 11 and other immediate security concerns. The National Security Council (NSC) staff was looking for ways to make APEC more relevant, and more sharply focused on important issues that leaders want to discuss. With the decline of APEC’s trade liberalization agenda after the EVSL debacle, attention in APEC had shifted to reducing business transaction costs through trade facilitation in areas such as improving customs clearance procedures and cutting red tape. Another area of work led by the United States was promoting transparency in areas including services trade, investment, and government procurement. These had considerable value for the business community, but they were not the kind of big-ticket items that were deemed worthy of a summit of Asia Pacific leaders. In the words of one NSC official, “It was hard to justify sending the president to Shanghai five weeks after the 9/11 terrorist attacks to discuss something like trade facilitation.”<sup>17</sup>

Moreover, there was a growing sense of disappointment with the ARF, which had not evolved beyond confidence building to develop its potential as a mechanism for preventive diplomacy and conflict resolution. Along with the “like-minded” countries of Australia, Canada, Japan, New Zealand, and South Korea, the United States pushed continuously for institutional improvements that would make the ARF more effective and

substantive, but most of their proposed reforms were rebuffed by ASEAN. By comparison, APEC not only provided a more favorable institutional framework for accomplishing work in agreed areas, but the summit-level meetings raised APEC's profile considerably. The endorsement of leaders at an APEC summit adds a much higher degree of credibility and commitment than anything that could be achieved at the ARF.

In truth, APEC had long discussed security issues. The leaders' meeting ensured that major political or security issues facing countries in the region would be taken up by leaders, as they did, for example, in the East Timor crisis during the APEC summit held in Auckland, New Zealand, in 1999.<sup>18</sup> Moreover, American interest in using APEC for security issues was long standing. Clinton's defense secretary, William Perry, proposed expanding APEC to include a security agenda in 1995 (and was roundly criticized at the time for the proposal). Within a few years after Bangkok, however, US officials recognized that they had pushed the security agenda in APEC as far as it could go. In the face of growing resistance from China and the ambivalence and discomfort of other countries, the United States began to scale back on its ambitious security goals.

### *Asian Embrace of FTAs*

Meanwhile, the economic landscape in East Asia in the early 2000s began to change markedly, as countries in the region began an almost frenzied pursuit of FTAs with regional as well as trans-Pacific trade partners. In 2000, no East Asian economy had concluded an FTA aside from ASEAN's efforts to create an ASEAN Free Trade Area (AFTA). By 2002, only Japan-Singapore and Singapore-New Zealand FTAs had been completed, but more than a dozen FTAs were under negotiation, and virtually every country in the region had jumped on the FTA bandwagon. By the end of 2006, the number of East Asian FTAs in effect had jumped to 20, with dozens more under negotiation.

The United States was lagging behind this tidal surge of FTAs. US Trade Representative Robert Zoellick had elevated the multitrack strategy to a well-articulated policy of "competitive liberalization," in which the United States would launch multiple FTA negotiations to spur progress on WTO negotiations and regional initiatives like the Free Trade Area of the Americas, and would seek liberalization beyond multilateral

commitments. Yet Zoellick focused his efforts on Latin America and the Middle East, largely ignoring Asia. When the Bush administration secured trade promotion authority in 2002, Zoellick launched a large number of FTAs, but he tended to focus on smaller, strategic US allies rather than pursuing large commercial trade partners in Asia. By 2005, the United States had negotiated FTAs with only two countries in the region, Singapore and Australia. With China and Japan offering FTAs to ASEAN, the United States felt the need to signal its interest in forging closer economic ties with ASEAN countries. However, negotiating an ASEAN-wide FTA was not a viable option for the United States, due to the political problem of Burma and the economic issues raised by the least-developed ASEAN countries. Instead, at the 2002 APEC summit, President Bush announced the Enterprise for ASEAN Initiative, which laid out a roadmap for individual ASEAN countries to pursue FTAs with the United States, and his administration subsequently launched trade negotiations with Thailand (in 2005) and Malaysia (in 2006), although these negotiations both stalled.

By far the most significant American trade initiative was the successful negotiation of the Korea-US (KORUS) FTA in 2006–2007. The original impetus behind KORUS was largely a set of bilateral concerns. Korea was looking for a way to advance and lock in domestic reforms, while the United States was eager to solidify relations with its important ally. However, US officials immediately saw the significance of a KORUS trade deal in terms of changing the dynamics of the emerging FTA network in East Asia. If enacted, the KORUS FTA would be the largest free trade area outside of the EU and NAFTA. The United States hoped to transform regional FTA dynamics by erecting a strong pillar of trans-Pacific free trade, involving two major economies in a very high-standard FTA. However, KORUS faced tough scrutiny in Congress and in the new Obama administration, particularly over market access in Korea for automobiles and beef, causing a substantial delay in efforts to ratify the treaty, as is discussed in further detail later in this chapter.

*The Rise of Asia-Only Regionalism during the George W. Bush Administration: “Benign Neglect,” the FTAAP, and the TPP*

Earlier in the decade, the institutional landscape in East Asia was evolving rapidly in terms of its regional multilateral architecture. ASEAN+3

was deepening and broadening, with momentum building in the area of financial cooperation through the Chiang Mai Initiative (CMI) and Asian bond initiatives, and meetings and initiatives spreading across a wide swath of economic and political cooperation, ranging from setting industrial standards to controlling transnational disease and environmental pollution. Regional support for ASEAN+3 processes and the launch of the East Asia Summit in 2005 gave rise to a growing seriousness in proposals for launching an East Asian FTA, although preferences diverged over whether or not to include India, Australia, and New Zealand. The growing focus on East Asian economic integration, and the corresponding decline in interest in integration across the Pacific Basin, began to concern many American policymakers, businessmen, and commentators.

Despite this growing concern, the response of the George W. Bush administration to the rise of Asia-only multilateral forums was carefully calibrated to avoid voicing overt criticism. In contrast to Clinton administration officials who were quick to condemn Japan's Asian Monetary Fund proposal during the Asian financial crisis, subsequent developments in ASEAN+3 and the launch of the East Asia Summit were met with muted reaction from Washington, and at times even mild support. Assistant Secretary of State James Kelly called ASEAN+3 "an interesting development" and "a very healthy kind of dialogue within East Asia."<sup>19</sup> As US Trade Representative in 2002, Robert Zoellick welcomed Asian regional integration and said that the United States "is not worried about exclusion" from East Asian economic groupings.<sup>20</sup> This policy of "benign neglect" stands in stark contrast to Secretary Baker's strident criticism of Malaysia's East Asia grouping proposal in 1990. One of the few Bush administration officials to express concern over Asia-only regionalism was outgoing Deputy Secretary of State Richard Armitage. In an interview with a Japanese journalist in late 2004, Armitage noted the importance of APEC and the ARF for the United States and said "we are less happy about" ASEAN+3 because the United States was not included. He went on to declare that "we are a Pacific power, we want to be involved in the Pacific and the life of the Pacific, and we intend to be involved."<sup>21</sup>

In 2005, US policymakers deliberated on a policy response to the impending East Asia Summit, and they agreed that the United States would neither oppose nor support it. The United States would not seek inclusion in this forum, and US officials would instead ask lots of

questions about its purpose and direction, aiming to highlight redundancies with APEC and ASEAN+3.<sup>22</sup> The US senior official to APEC, Michael Michalak, laid out this stance in a speech in Tokyo discussing ASEAN+3 and the East Asia Summit:

The United States does not view such meetings as inimical to US interests; we do not need to be in every room and every conversation that Asians have with one another. We do, however, want to ensure the strongest possible continuing US engagement in the region and continue to believe that the strategic and economic geography through which Asia can best build on its success is via trans-Pacific partnerships and institutions... We believe the region and both pan-Asian and trans-Pacific fora would benefit from more emphasis on functions and less on process alone. There is no necessary benefit simply from holding more gatherings... APEC is already the premier forum in the Asia-Pacific region for addressing economic growth, cooperation, trade, and investment.<sup>23</sup>

US officials recognized that an overly hostile or overly solicitous reaction to the East Asia Summit might serve to strengthen the perceived relevance of the institution, and they were hoping that it would simply “die on the vine,” leaving APEC as the premier venue for regional cooperation.

The new Obama administration would quickly depart, at least rhetorically, from this “benign neglect” approach and signaled its determination to be included in key regional groupings, including the East Asia Summit, as is discussed in the next section. However, for the remaining years of the Bush administration, the United States was once again faced with the challenge of finding a way to revitalize APEC and its moribund trade agenda. The security agenda had not enhanced APEC’s relevance in the way that the Bush administration had hoped, and institutional competition from ASEAN+3 and the new East Asia Summit, coupled with the emerging FTA architecture, was threatening to overshadow APEC’s relevance. In response, the United States decided to embrace an idea it had previously rejected, an APEC-wide FTA known as the Free Trade Area of the Asia Pacific, or FTAAP. Chile had initiated the idea for an FTAAP during its year as APEC host in 2004, and it was strongly backed by the business community through the APEC Business Advisory Council. At that time, however, US Trade Representative Zoellick had rejected the idea, in large part because he wanted to focus collective energy on the new momentum in WTO negotiations that appeared to brighten prospects for a breakthrough in the Doha Round.<sup>24</sup>

Two years later, however, the shifting institutional landscape had created a growing sense in Washington that the United States needed to recapture an agenda-setting role for regional economic integration. American officials latched onto the FTAAP proposal as the top US priority in APEC. At the APEC summit in Hanoi, Vietnam, in 2006, the United States secured the agreement of APEC leaders that APEC would study the FTAAP as a “long-term prospect.” In Sydney, Australia, in 2007, leaders agreed to continue to “examine the options and prospects” for an FTAAP through “practical and incremental steps.” Although the wording is vague and hardly serves as a clear mandate for an FTAAP, American officials were pleased that APEC leaders had given their blessing to launch work on examining the FTAAP as a long-term goal, and they began turning their attention to evaluating various modalities to move forward on harmonizing, coordinating, or merging regional FTAs into broader frameworks.<sup>25</sup>

Skepticism remains high about whether the FTAAP is a serious proposal for APEC, since many feel that it has no prospect of materializing in the foreseeable future. But US interest in the FTAAP is not really about delivering a final deal; it is, rather, about shaping process and perceptions. The FTAAP was embraced by US officials at the NSC and USTR as the best available means to recapture an agenda-setting role in the region and revitalize the economic agenda of APEC. US officials hope to use the FTAAP proposal as a way to reframe the discussion and reorient the expectations of regional players by advertising the prospect of a regionwide FTA that would include the United States. After all, the United States remains by far the largest export market for East Asian economies, and thus continues to wield significant economic clout in the region.

The FTAAP, like other aspects of American regional policy, was purely reactive. American officials were seeking a way to counter the growing talk of East Asian FTAs that would exclude the United States. Although most US officials did not find the prospect of a serious, comprehensive FTA emerging in East Asia any time soon, they were concerned about two dangers: (1) that a low-quality, “soft” exemption-ridden FTA would emerge that would simply add to a spaghetti bowl of trade regulations and transaction costs; and (2) that an FTA would not emerge, but the very process of discussing FTAs in an Asian-only framework would lead to a progressive marginalization of the United States. American officials in the NSC and USTR thus decided that it

would be better to seize the initiative rather than continue to downplay such regional schemes. In the words of one former NSC official, “We felt that if other countries were getting credit for offering their ‘pie-in-the-sky’ FTAs, we should try to score points for our own ‘pie-in-the-sky’ FTA proposal.”<sup>26</sup>

The Bush administration launched one final initiative intended to drive and shape expectations surrounding regionwide FTAs. In the final months of the administration, it announced that the United States would join negotiations with Singapore, Chile, New Zealand, and Brunei to create a five-country FTA that became known as the Trans-Pacific Partnership, or TPP. Three of these countries, Singapore, New Zealand, and Chile, had launched negotiations for an FTA on the sidelines of the 2002 APEC summit in Los Cabos, Mexico, and were subsequently joined by Brunei to form the “Pacific Four,” or P4, in 2004. The P4 countries were set to begin negotiating the chapter to liberalize trade in financial services when, in February 2008, the United States announced it would enter the negotiations on that chapter. Several months later, the United States then decided to seek to formally enter negotiations to join the group in a “P5” FTA, which became the TPP. Subsequently, several countries—Australia, Peru, and Vietnam—announced their intention to join the TPP as well. Negotiations were set to begin in March 2009, but were delayed as the new Obama administration undertook a review of US trade policy.

The initial choice of the P4 countries as partners for a trans-Pacific FTA was based on considerations of several advantages. The P4 FTA already in place is of relatively high quality, and the countries involved appear committed to negotiating high-standard provisions in other areas. The United States already had FTAs with two of the original P4 countries—Singapore and Chile—and it also has FTAs with two of the added countries, Australia and Peru. Despite the relatively small commercial size of the TPP countries, the membership is diverse, including both developed and developing countries, it spans the Pacific, and all are APEC members. This makes the TPP symbolically important as a coalition of like-minded, APEC-based, free-trade-oriented trade partners. Consequently, the United States viewed the TPP as a potential pathway toward a reinvigorated trade agenda in APEC, and perhaps as a vehicle that would give credibility to the idea of moving toward an FTAAP in APEC.

*United States Responses to Asian Financial Regionalism:  
From Early Opposition to Benign Neglect*

Financial regionalism in Asia has proceeded quite apart from the proliferation of trade agreements among countries, and in terms of functional cooperation and institution building, it is the area that has seen the most advanced *regional* efforts at economic integration. Unlike Asian trade initiatives, which have taken concrete form primarily at the bilateral level, regional financial initiatives have been based on the ASEAN+3 framework, although Australia, Hong Kong, and New Zealand have also been involved in some initiatives.<sup>27</sup>

The ASEAN+3 framework itself was catalyzed by the Asian financial crisis of 1997–1998, which shaped its mandate to focus on mitigating the crisis and forging regional mechanisms to reduce East Asian vulnerability to future capital outflows and financial instability. As mentioned above, at the height of the crisis in 1997, Japan proposed an Asian Monetary Fund to reduce the role of the IMF in imposing harsh conditionality on Asian borrowers. The US reaction was strong and swift, and together with other G7 countries and China it shot the proposal down. In place of an Asian Monetary Fund, ASEAN+3 negotiated the series of bilateral currency swap agreements known as the Chiang Mai Initiative, designed to provide emergency liquidity in a crisis. Over time, the swap lines were expanded and the institutional mechanisms elaborated, and in early 2010, the CMI was “multilateralized” into a pooled reserve system with plans to institute collective decision making. A second area of financial cooperation has focused on the development of regional bond markets as a way to promote the use of local savings for investment, rather than having them intermediated through international financial channels. This would reduce the vulnerability of regional markets to the currency mismatches in borrowing and lending that helped to trigger and spread the Asian financial crisis.

US officials have long been skeptical of the actual value of ASEAN+3 financial regional cooperation. These views have not changed dramatically, although the tone has shifted from outright opposition to the Asian Monetary Fund proposal, to measured skepticism and mild criticism, to cautious support. This shift is rooted in tactical diplomatic considerations, as well as a modest adjustment in the appraisal of ASEAN+3 initiatives. After the strident opposition to the Asian Monetary Fund proposal, the United States took a less critical, wait-and-see approach

toward the evolving CMI and regional bond initiatives. This more muted response was in large part driven by skepticism that these initiatives would amount to much. US Treasury officials viewed them as marginal in value, but also unlikely to cause much harm. At worst, they were a diversion of policy attention away from more pressing issues, such as the need to liberalize and strengthen domestic financial markets. Moreover, American officials recognized the negative fall-out from the Asian financial crisis on regional perceptions of US leadership, and they were at pains to avoid sounding overly critical and run the risk of reigniting regional resentment toward the United States.

More recently, US officials studying Asian financial regional initiatives have come to hold more nuanced views of the potential benefits, and they have begun to express support more openly for regional financial cooperation that strengthens domestic financial systems by encouraging better regulation and more openness. In a 2006 speech at the World Economic Forum in Tokyo, Under Secretary of the Treasury Timothy Adams singled out for praise the Asian Bond Market Initiative and Asian Bond Fund 2 for helping to “encourage structural improvements” in local bond markets and for having other liberalizing effects in domestic financial markets.<sup>28</sup>

At the same time, US Treasury officials always repeat the mantra that they “support regional cooperation that is consistent with multilateral frameworks.” In other words, they remain concerned that the CMI may seek to cut functional ties with the IMF. They tend to point out the lack of clarity in the new CMI “Multilateralization” (CMIM) proposals, which remain quite vague about the specific conditions under which creditors would disburse funds. These concerns over the CMI reflect the US desire to maintain the IMF’s centrality in managing international economic crises and defining conditionality terms and normative expectations.

However, US financial officials are not overly worried about the CMI or the CMIM, because they remain deeply skeptical that it will actually evolve into a functionally independent and meaningful entity that will pose a challenge to the IMF. No funds have ever been disbursed under the CMI. During the most recent global financial crisis, despite the announcement of ambitious plans to expand the CMI pool of funds and multilateralize the process of disbursement, in practice the CMI process played no direct role in dealing with the regional effects of the crisis. Instead, countries like South Korea facing financial distress turned to the US Federal Reserve for bilateral swap lines. Moreover, Japan and

China, the main creditors, have consistently demonstrated their interest in maintaining the link to the IMF, despite repeated calls from Southeast Asian nations to sever the IMF linkage.<sup>29</sup>

### THE OBAMA ADMINISTRATION: BRINGING THE US "BACK" TO ASIA

The Obama administration came into office determined to send a message that it was shifting away from complacency and toward more active and constructive engagement with regional multilateralism. Hillary Clinton made her inaugural overseas trip as secretary of state to East Asia and pledged more active diplomatic engagement with the region and a cooperative stance toward China. Of particular significance was her visit to ASEAN headquarters in Jakarta, where she announced that the United States planned to accede to the Treaty of Amity and Cooperation (TAC). In July 2009, during her first ASEAN ministerial meeting, she signed the TAC and declared that the "United States is back" in Asia. This became the recurring theme of speeches and remarks made by Obama administration officials in the first year, with Clinton framing a major Asia Pacific policy speech in Hawaii in January 2010 around this theme.

Obama himself delivered this message during his visit to Asia for the APEC summit in November 2009. In a speech in Tokyo, he stressed the importance of multilateral organizations in the region, saying, "I know that the United States has been disengaged from these organizations in recent years. So let me be clear: those days have passed." Calling the United States an "Asia Pacific nation" and declaring himself "America's first Pacific President," Obama said that the United States "expects to be involved in the discussions that shape the future of this region," and he pledged to "participate fully" in regional organizations. He added that the United States is looking to engage with the East Asia Summit "more formally," suggesting that it might seek membership in the grouping.<sup>30</sup>

The Obama administration's more active engagement with ASEAN was warmly embraced in Southeast Asia, in particular by Singapore and Indonesia, where op-ed pages were filled with glowing assessments of Obama's policies toward ASEAN and Asia. In addition to signing the TAC, the United States announced a more flexible approach to dealing with the military rulers of Burma, signaling that US-ASEAN engagement

would no longer be held hostage to this troublesome relationship. Obama then convened the first US-ASEAN summit, meeting with all 10 ASEAN leaders on the sidelines of the APEC summit in Singapore, and issued a joint declaration endorsing the central role that ASEAN plays in regional multilateralism. The statement “reaffirmed the importance of ASEAN centrality” in the process of building regional architecture that is “inclusive, promotes shared values and norms, and respects the diversity within the region.”<sup>31</sup> The message of “ASEAN centrality” was reiterated by Clinton in her Asia Pacific policy speech in Hawaii in January 2010, and was especially welcomed by ASEAN governments at a time when the G20 and Australia’s Asia-Pacific Community proposal were being perceived as threats to ASEAN’s traditional role as the driver of regional community building.

These engagement efforts culminated in the decision by the United States to join the East Asia Summit. Clinton attended the summit in Hanoi, Vietnam, in October 2010, and Obama announced plans to participate in the 2011 summit in Jakarta, Indonesia. The decision to join the East Asia Summit, along with the signing of the TAC, goes a long way to demonstrate symbolically that the United States is now determined to “return to Asia” and maintain robust engagement. At the time of this writing, the substantive US priorities for the East Asia Summit remain unclear. However, it is likely that the United States will seek to promote strategic dialogue on regional and global issues within that forum. To date, the East Asia Summit has been rather unfocused in its agenda. The most substantial concrete initiative the group has been studying is the proposal by Japan to launch an East Asia-wide free trade area.<sup>32</sup> As described above, however, the United States does not support this initiative, and in fact has sought to counter it with its FTAAP and TPP proposals. The US preference for APEC as a venue for trade and investment cooperation is likely to remain strong, since APEC has the institutional underpinnings to carry forth an agenda and has a track record of substantive, albeit modest, economic cooperation. Moreover, APEC has a favorable membership roster for economic initiatives, which includes dynamic Pacific economies such as Chile and Taiwan (which holds membership as Chinese Taipei), while excluding some of the least-developed ASEAN countries like Burma and Laos.

On issues of nontraditional security and strategic dialogue, however, the East Asia Summit has several advantages. Participation in the summit

offers an opportunity for the US president to engage with India—a key Asian partner—on strategic issues within a regional framework. Since India is not a member of APEC, and APEC is not focused on regional security and political issues, the East Asia Summit could fill an important gap by strengthening US-India ties in a regional context and elevating the multilateral dimension of US regional diplomacy. It could also help solidify the annual US-ASEAN Summit, since leaders would be able to meet on the sidelines of the annual East Asia Summit. President Obama has already agreed to meet with ASEAN leaders in Jakarta during his inaugural East Asia Summit participation in late 2011.

### *APEC, Still Adrift?*

It remains unclear, however, how APEC and the ARF will fit into the expanding architectural geometry that will now include the East Asia Summit as well as the newly launched ASEAN Defense Ministers' Meeting Plus Eight, the potential formulation of the TPP trade framework, and the emergence of the G20. Perhaps the most pressing question involves the role of APEC. On the one hand, the United States remains committed to APEC as the premier venue for economic cooperation, and this commitment is strengthened by the US role as host for APEC in 2011. However, APEC's agenda remains disappointingly limited to soft dialogue, and it has struggled in recent years to emerge from the shadow of the new G20. APEC Leaders' Meetings in Peru in November 2008 and Singapore in November 2009 were most notable for the reiteration of pledges on trade and finance that many of the same leaders made just days or weeks before at the G20 summits held in Washington DC (in November 2008) and Pittsburgh (in late September 2009). Japan's APEC summit in November 2010 faced the same challenge, following closely on the heels of the G20 in Korea, with nearly half of the G20 leaders—the nine leaders from United States, Japan, China, Korea, Indonesia, Australia, Russia, Canada, and Mexico—traveling directly from Seoul to Yokohama. This scheduling proximity of summits and the overlap of participating leaders threaten to turn APEC into an echo chamber of G20 discussions on trade and finance.

The more fundamental problem for APEC, however, is the modesty of its ambitions. Although the sequence of Singapore-Japan-US as successive hosts for APEC from 2009 to 2011 had generated optimism

about setting APEC on a more dynamic path and revitalizing the economic agenda, officials from these and other like-minded governments seem to have accepted the “lowest common denominator” approach of voluntary, consensus-driven cooperation. Earlier collective visions for APEC, such as the vision laid out by leaders in the Osaka Action Agenda in 1995, envisioned a much more ambitious and impactful institution that would not only facilitate commitments on trade and investment liberalization, but would also enshrine clear standards on transparency and would evolve procedures for dispute resolution.<sup>33</sup> However, APEC never recovered from the bruising battle over EVSL in the mid-1990s. In the wake of that dispute, APEC members have tended to shy away from any expectation that APEC could produce substantive agreements. Whether the United States has the vision and political will to revitalize APEC remains to be seen. It would take considerable lifting power to forge an agenda that departs in meaningful ways from recent years, which has seen APEC devolve into a talk shop on best practices on a wide range of issues.

### *Plus Ça Change?*

In sum, the Obama administration appears much more committed to regional engagement and multilateral institution building than the George W. Bush administration, much like the Clinton administration seemed to depart from the more tepid approach of the first President Bush’s administration. And yet some long-standing patterns remain evident. Tellingly, much of the Obama administration’s expressed interest in joining new regional frameworks came in direct response to the initiatives of other regional players, notably the East Asian Community proposal put forth by Japan’s then prime minister, Yukio Hatoyama, that appeared to exclude the United States. In the midst of contentious discussions on the future of the Futenma base relocation plan, the United States made clear to Japan that it had no intention of being excluded from Japanese-led efforts at regional institution building. Assistant Secretary of State Kurt Campbell responded sharply to Hatoyama’s proposal during an October 2009 visit to Beijing by telling reporters, “I just want to assure you that . . . the United States is going to be part of this party. We are an active player and we’re going to want an invitation” to any regional grouping.<sup>34</sup>

Moreover, the Obama administration remains committed to “effective” and “results-oriented” institutions. In her widely praised speech on America’s Asia policy delivered in January 2010, Clinton listed this as a top priority, saying that forming regional groupings “should be motivated by concrete, pragmatic considerations. It’s more important to have organizations that produce results, rather than simply producing new organizations.”<sup>35</sup> She went on to say that while “dialogue is critical . . . we must focus increasingly on action.” This formulation of US principles and priorities is strikingly similar to Baker’s insistence that “form should follow function,” or George W. Bush’s call for the success of multilateralism to be measured by “achieving results . . . not endless debate.”<sup>36</sup> In short, the United States remains at odds with the Asian style of dialogue-driven, process-oriented multilateralism.

*US Trade Policy: The Achilles Heel of an Asian Regional Engagement Strategy*

The Obama administration also shares with its recent predecessors the growing constraint posed by rising skepticism toward liberal trade policies in public opinion and in Congress. In many ways, trade policy is the Achilles heel of US Asia policy. At a time when East Asian countries are increasingly focused on trade and economic integration as the core of regional community-building efforts, the domestic politics surrounding trade in the United States have made an active trade policy increasingly difficult. The American public has grown much more skeptical about the benefits of free trade and free trade agreements. In Congress, the bipartisan coalition for free trade that sustained a liberal US trade policy for most of the postwar period began to fray in the 1990s, in the wake of negotiating NAFTA. Although traditional protectionism remains relatively low, new resistance to FTAs has emerged out of concerns over the social costs of trade. In particular, many Democrats are concerned about labor rights and environmental protection in partner countries.<sup>37</sup> More broadly, the American public is much more skeptical about the benefits of free trade deals for American workers and the domestic economy, viewing FTAs as primarily benefiting multinational corporations and foreign trade partners. At the same time, American politics have grown far more partisan and divided, which has affected trade policy as well. The

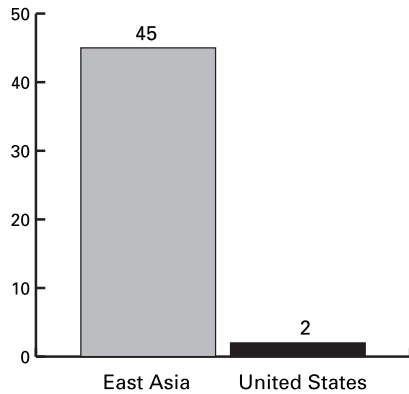
bipartisan cooperation that used to characterize trade policymaking in Congress has completely broken down.

These factors have made Congress much less willing to delegate authority to the president to negotiate FTAs and other deals with our trade partners. Congress refused to extend trade negotiation authority to President Clinton from 1997 onward, and barely approved it for President Bush in 2002, then let it expire in 2007. President Obama has not yet even sought negotiating authority, and it is far from clear whether he could secure it.

The rising public skepticism over free trade and the growing Congressional resistance to trade deals has resulted in the United States lagging seriously behind its Asian partners in negotiating trade agreements. The number of East Asian FTAs has skyrocketed over the past decade, resulting in 45 trade deals in effect as of May 2010, and more than 80 additional trade agreements at various stages of negotiation and implementation.<sup>38</sup> In contrast, the United States has only two FTAs in effect with Asian partners, those with Australia and Singapore (see fig. 1).

In its first year, the Obama administration was strikingly ambivalent toward trade policy. The two trade negotiations left over from the Bush administration, KORUS and the TPP, were put on hold pending a policy review. Obama's hesitation to push for a seemingly strong win-win deal like KORUS concerned many in the region who continue to hope for American leadership in regional economic integration. Obama heard an earful of these concerns and complaints from East Asian leaders during his first trip to the region for the APEC summit in November 2009. He responded to these concerns by announcing the launch of negotiations on the TPP. This trade agreement would be a full-fledged FTA among the United States and eight other Asia Pacific countries—the

Figure 1: FTAs with Asian partners in effect as of May 2010



Source: Masahiro Kawai and Ganeshan Wignaraja, "Free Trade Agreements in East Asia: A Way toward Trade Liberalization" ADB Briefs no. 1 (June 2010): 3, <http://www.adb.org/documents/briefs/ADB-Briefs-2010-1-Free-Trade-Agreements.pdf>.

original “P4” countries of Singapore, Chile, New Zealand, and Brunei, plus Australia, Peru, and Vietnam, and the recent addition of Malaysia, which was invited to join in the third round of negotiations in October 2009. Critics have derided the TPP for its small size and its redundancy with existing US FTAs (with Singapore, Chile, and Australia). However, the intent of the TPP is as much strategic as commercial. By engaging in TPP negotiations, the United States hopes to shape the debate over regional trade integration and to give a boost of credibility to APEC’s “long-term goal” of creating the FTAAP. The magnetic effect of the TPP is already evident, with several countries expressing interest in joining the TPP, including the Philippines, Thailand, and Canada. However, the United States is more interested in participation by Korea and Japan, countries of substantial commercial weight that are capable of making high-level, binding commitments in areas like investment and services liberalization.

The TPP is very much a child of APEC. The original P3 agreement among Singapore, Chile, and New Zealand was launched by leaders attending the APEC summit in Los Cabos, Mexico, and was subsequently joined by Brunei during the following APEC summit. The TPP is seen by its advocates as an ideal vehicle for building a trans-Pacific, comprehensive, “gold standard” FTA that would exert strong gravitational pull on other APEC members to join, diverting attention and negotiating resources away from rival economic frameworks that exclude the United States. Optimistic commentators also point to the TPP as a potential crowning achievement for the US-hosted summit in Honolulu in 2011. However, the TPP negotiations are likely to be a long, complex process, and Congressional approval in the end is by no means assured. The Obama administration will be hampered in negotiations by the lack of trade promotion authority, which as noted above, expired in 2007, and will be difficult to get from an increasingly polarized Congress.

Meanwhile, the KORUS agreement continues to sit on the shelf, despite the clear economic and strategic advantages that would come from the creation of the largest free trade area outside of NAFTA. Opposition to KORUS is centered on market access in Korea for autos and beef. Obama pledged several times to Korean President Lee Myung-bak to work on passing KORUS in Congress, including a pledge to Lee at the G20 summit in Toronto in June 2010 to complete a modified KORUS deal by the November G20 meeting in Seoul, which could be submitted and in Congress in early 2011. However, the two governments failed to

reach a compromise deal on the auto issue, and Obama left Seoul without fulfilling his pledge, leaving the future of KORUS uncertain.

If the Obama administration could find a way to pass KORUS, US trade policy would take a large leap forward. If enacted, a US-Korea FTA would immediately create the largest free trade bloc in Asia Pacific outside of NAFTA. This would likely create a “race to the top,” as countries like Japan would seek to negotiate FTAs with two of its three most important trade partners. The impact would be especially large if it were combined with strong progress in TPP negotiations. Korea could be easily folded into a TPP framework, since Korea is already an FTA partner with many of the TPP countries. This in turn would make it even more likely that Japan would actively seek to join as well. If this scenario plays out, the standard for FTAs in the region would shift swiftly from the “ASEAN Plus” model of soft coverage and limited rule making, to a KORUS/TPP standard of comprehensive coverage and high-quality commitments in areas like investment, services, and intellectual property.

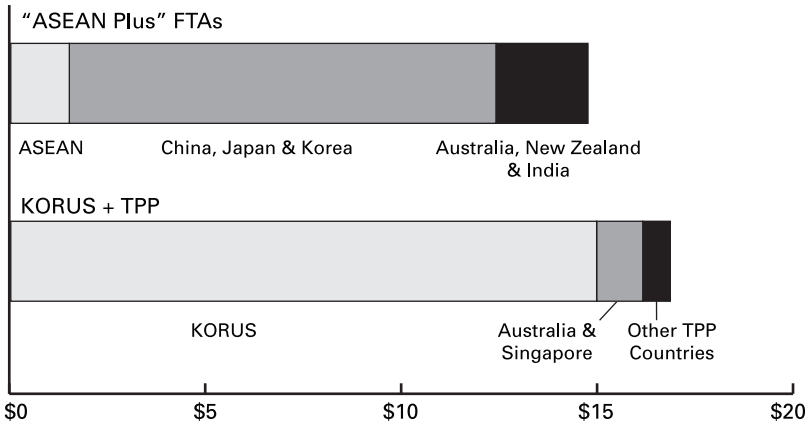
In terms of commercial size as well, a KORUS/TPP combination would exert more gravitational pull than an East Asia-only framework. A KORUS/TPP bloc would represent a very large trade area, with a combined GDP of nearly US\$17 trillion. By comparison, an ASEAN+6 framework would total about US\$14 trillion (see fig. 2).

Success in this trade and regional engagement strategy is by no means assured, because ultimately Congressional approval will be needed to finalize these agreements. The shift to a Republican majority in the US House of Representatives after the November 2010 elections may actually make it easier for the Obama administration to put together a supportive coalition for these trade policies. If successful, then virtually overnight the landscape of regional trade cooperation could change rather dramatically, in a game-changing fashion. The United States would indeed, finally, be “back” in Asia and at the center of the game.

## CONCLUSION

In summary, the United States has evolved from a reluctant, reactive, and somewhat passive participant in the “new multilateralism” in Asia in the early days of the post-Cold War period, to a much more actively engaged player that seeks a leading, agenda-setting role in regional frameworks.

Figure 2. Combined GDP of alternative FTA pathways (US\$ trillions), 2009



Note: The top bar indicates the combined GDP of a proposed ASEAN+6 FTA, with an ASEAN FTA at its core; then adding the "Plus 3" countries of China, Japan, and Korea; and then with the remaining countries that would be part of an ASEAN+6 FTA—Australia, India, and New Zealand. Similarly, the lower bar displays the combined GDPs of a Korea-US FTA (KORUS); then adding the economies of Australia and Singapore, which already have FTAs with the United States; and then finally adding in other countries currently engaged in TPP negotiations.

Source: World Economic Outlook Database (October 2010 Edition), IMF.

And yet, US policy has remained fundamentally responsive to regional trends rather than dynamically engaged in creating a new vision for regional architecture. American support for multilateral processes has grown considerably, but its larger strategic vision still remains largely reactive. It has been hard for the United States to keep a steady focus on Asia. At the end of the Cold War, its focus was on the transformation of Europe; today, attention is diverted to the Middle East and South Asia, and much of the attention in America's Asia policy goes toward bilateral relations with China rather than trends in multilateralism.

And yet, for at least a decade, American leaders have recognized the growing need for more active US engagement in Asian multilateral frameworks since those in the region are determined to move forward with economic integration and enhanced political cooperation, with or without the United States. The Obama administration has taken highly symbolic and substantive steps to finally match rhetoric with action, signing the ASEAN TAC, joining in the East Asia Summit, and launching

TPP negotiations for a trans-Pacific trade framework. Imagination and political will has been in shorter supply for revitalizing APEC and finding a way to pass the KORUS FTA. Moreover, many questions remain about how the emerging patchwork of multilateral organizations will fit together, and how effective and substantive they ultimately will be. Finally, US trade policy remains the Achilles heel of US engagement in Asia. As long as public and Congressional skepticism over free trade deals trumps the realization of strategic and economic benefits of engagement, US leadership will be increasingly questioned. The name of the game in Asia is trade, and the United States may find itself sitting on the sidelines.

### NOTES

1. Portions of this chapter draw substantially on a paper that was published as “The United States and Asian Regionalism: The Politics of Reactive Leadership,” in *The Evolution of East Asian Regionalism: Ideas, Interests, and Domestic Institutions*, ed. Vinod K. Aggarwal and Seungjoo Lee (New York: Springer, 2010).
2. On power disparities, see Galia Press-Barnathan, *Organizing the World: The United States and Regional Cooperation in Asia and Europe* (New York: Routledge, 2003). On collective identity, see Christopher Hemmer and Peter J. Katzenstein, “Why Is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism,” *International Organization* 56, no. 3 (Summer 2002): 575–607.
3. Further complicating the picture was the role of Great Britain, a world power with extensive holdings and commitments in the region. The British vehemently opposed any Pacific security arrangement in which they were not included—a position that found sympathy with Australia and New Zealand. However, the US Defense Department and Joint Chiefs of Staff refused to consider British inclusion over concerns about being entangled in a conflict involving Hong Kong and Malaya. See “Interest of the United States in a Regional Alliance of East Asian and Pacific Powers; Negotiation of a Mutual Defense Treaty with the Philippines and a Security Treaty with Australia and New Zealand” (memorandum by the Special Assistant to the Consultant [Allison] to the Ambassador at Large [Jessup], Subject: Pacific Pact), in United States Department of State, *Foreign Relations of the United States, 1951. Asia and the Pacific*, volume VI, part 1, 133 (Washington DC: US Government Printing Office, 1951).
4. American officials believed that the World Bank was a sufficient and superior solution to regional economic development. The United States came to support the Asian Development Bank by 1965, motivated in part by a desire to demonstrate its commitment to peaceful economic development in the region as fighting in Vietnam escalated. See *Organizing the World*, 160.
5. The United States also reacted in strong, negative terms to a series of Soviet proposals for security multilateralism in Asia. Soviet leader Mikhail Gorbachev proposed a Helsinki-like regional security conference in a speech in Vladivostok in 1986 and a regionwide consultative security body in a speech in Krasnoyarsk in 1988. South

- Korean President Roh Tae-woo followed with a similar proposal at the UN General Assembly in 1988. However, Gorbachev's "peace" initiatives in Asia were resoundingly rejected by the United States and its key allies like Japan, which viewed the proposals as designed to undermine US security commitments in the region since they included a naval freeze in the Pacific, nuclear free zones in Korea and the Indian Ocean, and an offer to withdraw Soviet forces from Vietnam in exchange for the US removing bases from the Philippines. The strongly negative attitude toward other regional security proposals would linger well into the Cold War period. See Richard D. Fisher Jr., "Crafting a US Response to Gorbachev's 'Peace' Initiatives in Asia," *Asian Studies Backgrounder* no. 93 (July 24, 1989), <http://www.heritage.org/Research/RussiaandEurasia/asb93.cfm>; and Akiko Fukushima, "Multilateral Confidence Building Measures in Northeast Asia: Receding or Emerging?" (2000), <http://www.stimson.org/books-reports/confidence-building-measures-and-security-issues-in-northeast-asia/>.
6. John Ravenhill, *APEC and the Construction of Asia Pacific Rim Regionalism* (New York: Cambridge University, 2002), 94.
  7. James Baker III, "America in Asia: Emerging Architecture for a Pacific Community," in *Foreign Affairs* 70, no. 5 (Winter 1991): 1–18.
  8. Ravenhill argues that Clinton sided with "pro-APEC activists in the administration" to launch the Leaders' Meeting "against the advice of the State Department." *APEC and the Construction of Asia Pacific Rim Regionalism*, 93. See also Yoichi Funabashi, *Asia Pacific Fusion: Japan's Role in APEC* (Washington DC: Institute for International Economics, 1995).
  9. Australian Prime Minister Keating and APEC's Eminent Persons Group chair C. Fred Bergsten have argued this point strongly; many American officials expressed the same view. Interview with a former high-level State Department official [interview E], March 2010; Ravenhill, *APEC and the Construction of Asia Pacific Rim Regionalism*, 93–94; Funabashi, *Asia Pacific Fusion*, 107.
  10. Geza Feketekey, "An American Trade Strategy for the 21st Century," in *Trade Strategies for a New Era: Ensuring US Leadership in a Global Economy*, ed. Geza Feketekey with Bruce Stokes (New York: Council on Foreign Relations, 1998).
  11. In Singapore, 29 countries signed the ITA, and by April 1997, 15 additional signatories to the ITA brought the percentage of the world's IT trade covered by the agreement to 90 percent, which was the benchmark required by the WTO for adoption of the ITA to take effect. See [http://www.wto.org/english/tratop\\_e/inftec\\_e/itaintro\\_e.htm#2](http://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm#2).
  12. Cited by Kenneth B. Pyle, "The Context of APEC: US-Japan Relations," *NBR Analysis* 6, no. 3 (1995): 37.
  13. Interview with a senior NSC official [interview A], November 6, 2007.
  14. Interview with a senior White House official [interview A], November 6, 2007.
  15. 2003 APEC Leaders' Declaration, "Bangkok Declaration—A World of Differences: Partnership for the Future," Bangkok, Thailand, October 21, 2003, [http://www.apec.org/Meeting-Papers/Leaders-Declarations/2003/2003\\_aelm.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/2003/2003_aelm.aspx).
  16. Australia has been the biggest supporter, along with the United States, of the security agenda in APEC. Japan, South Korea, and Singapore have also shown support.
  17. Interview with a former senior NSC official, November 6, 2007.
  18. See Alejandro Reyes, "Days of Diplomacy: The East Timor Crisis Showed APEC's Worth—and Also Its Limits," *Asiaweek.com* 25, no. 38 (September 24, 1999).

## A PACIFIC NATION

19. Assistant Secretary of State James Kelly speaking on "Dialogue" program on upcoming ASEAN Regional Forum, US Embassy, Tokyo, July 18, 2001, <http://usinfo.org/wf-archive/2001/010719/epf407.htm>.
20. David Capie, "Rival Regions? East Asian Regionalism and its Challenge to the Asia Pacific," in *The Asia Pacific: A Region in Transition*, ed. Jim Rolfe (Honolulu: Asia-Pacific Center for Security Studies, 2004).
21. Richard Armitage, Deputy Secretary of State, "Interview With Takao Hishinuma of Yomiuri Shimbun," Washington DC, November 30, 2004. Available at <http://www.state.gov/s/d/former/armitage/remarks/39295.htm>.
22. Interview with a senior NSC official, November 6, 2007.
23. Michael Michalak, "US Views on Asia Regional Integration" (remarks given at a meeting on "Perspectives on Asian Economic Cooperation," in Tokyo, Japan, on January 25, 2006), <http://www.america.gov/st/washfile-english/2006/February/20060203155436ajesromo.1477014.html>.
24. Interview with USTR official, November 15, 2007.
25. Remarks by Wendy Cutler, Assistant USTR for Japan, Korea, and APEC Affairs, at "New Asia-Pacific Trade Initiatives" (a conference sponsored by the Japan Economic Foundation and Peterson Institute for International Economics, Washington DC, November 27, 2007).
26. Interview with a former NSC official [interview E], November 29, 2007.
27. One example is the Executives' Meeting of the East Asia-Pacific Central Banks.
28. Remarks by Under Secretary for International Affairs Timothy D. Adams at the World Economic Forum's East Asia Panel on "Asia's Financial Integration: A Miracle in the Making?" (presented in Tokyo, Japan, on June 15, 2006).
29. William Grimes, "East Asian Financial Regionalism in Support of the Global Financial Architecture? The Political Economy of Regional Nesting," *Journal of East Asian Studies* 6, no. 3 (2006): 353–80.
30. Remarks by President Barack Obama at Suntory Hall, Tokyo, Japan, November 14, 2009, <http://www.whitehouse.gov/the-press-office/remarks-president-barack-obama-suntory-hall>.
31. "Enhanced Partnership for Enduring Peace and Prosperity" (joint statement of the US-ASEAN Leaders' Meeting, November 15, 2009), <http://www.aseansec.org/24020.htm>.
32. Japan's proposal is known as the Comprehensive Economic Partnership of East Asia (CEPEA), and it includes a free trade area among the original East Asia Summit countries (ASEAN+6).
33. The APEC Osaka Action Agenda put forth by APEC leaders in 1995 has a section on dispute resolution that declares that APEC economies will "examine the possible future evolution of procedures for the resolution of disputes as the APEC liberalization and facilitation process develops." See <http://www.mofa.go.jp/policy/economy/apec/1995/agenda.html>.
34. Remarks to the press by Assistant Secretary of State Kurt M. Campbell, Bureau of East Asian Affairs, in Beijing, China, October 14, 2009, <http://www.state.gov/p/eap/rls/rm/2009/10/130578.htm>.
35. Secretary of State Hillary Rodham Clinton, "Remarks on Regional Architecture in Asia: Principles and Priorities" (speech given in Honolulu, Hawaii, January 12, 2010), <http://www.state.gov/secretary/rm/2010/01/135090.htm>.

36. Interestingly, James Baker's praise for pragmatic "ad hoc" multilateralism is also echoed in Secretary Clinton's speech. As her fourth principle, she lists the need to "maintain and enhance flexibility in pursuing the results we seek." When large multilateral institutions prove ineffective, the United States will seek "informal arrangements targeted to specific challenges." Clinton, *op. cit.*
37. I. M. Destler, *American Trade Politics*, 4th ed. (Washington DC: Institute for International Economics, 2003), 310.
38. Masahiro Kawai and Ganeshan Wignaraja, "Free Trade Agreements in East Asia: A Way toward Trade Liberalization?" *ADB Briefs* no. 1 (June 2010), <http://www.adb.org/documents/briefs/ADB-Briefs-2010-1-Free-Trade-Agreements.pdf>.