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## The United States and East Asian Regionalism: Inclusion-Exclusion Logic and the Role of Japan

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OVER THE PAST several decades, as regional economic institutions have begun to take root in East Asia and the Pacific, Japan—together with Australia—has taken a leadership role in helping to organize major initiatives such as the Pacific Economic Cooperation Council (PECC) and the Asia-Pacific Economic Cooperation (APEC) forum.<sup>1</sup> Japan also played a pivotal role, as did China, in the development of East Asian regional institutions such as the ASEAN+3 and the East Asia Summit, while simultaneously contributing to the regional proliferation of bilateral free trade agreements (FTAs).<sup>2</sup> A chief and consistent element of the Japanese approach to these institutions has been its advocacy of “open regionalism,” a symbolic phrase that connotes Japan’s preference for US engagement in any Asian regional institution.

Any regional grouping that is defined by a concept also needs to identify its geographical boundaries. Without clear and agreed-upon boundaries, there can be no demarcation of the “region” upon which regional institutions are created. This feature of regionalism bedevils those nations that are geographically excluded from regional institutions, since nonmembers tend to have increased anxiety that exclusion will entail harmful policy outcomes.<sup>3</sup> The United States, for example, is not geographically located in East Asia and thus is not seen as a natural member of East Asian regionalism despite a general acknowledgment of its significant contribution to stability and prosperity in the region.

Therefore, Japan has striven to promote open regionalism primarily to pave the way for US participation in East Asian regionalism.

US engagement in East Asia has primarily evolved around its bilateral arrangements: bilateral security treaties with key allies such as Japan, Korea, and Australia, which are perceived as regional stabilizing mechanisms; and bilateral trade relations with major markets such as Japan, which are intended to promote exports. This means that the United States has not viewed the regional institutions in which it is an official member—such as APEC or the ASEAN Regional Forum (ARF)—as practical organizations for attaining concrete policy goals. John Ikenberry labels these kinds of American East Asia policies “hard bilateral security ties and soft multilateral economic relations.”<sup>4</sup> The American bilateralism-centered regional engagement, dubbed a “hub-and-spoke” system, has served as its preferred regional approach in both the security and economic arenas. This has helped the United States exert influence on its trading and security partners more effectively and directly, based on its predominant military and economic superiority. As Ralph Cossa states, given the remaining regional flashpoints such as the Korean Peninsula, the Taiwan Strait, and the South China Sea, “no US administration will likely allow such [multilateral] mechanisms to substitute for or threaten US bilateral alliances and other US-led security arrangements.”<sup>5</sup> This approach to regional security has remained “unaltered” even under the Obama administration, as Secretary of State Hillary Clinton declared in a speech in Honolulu in January 2010.<sup>6</sup>

In addition to the propensity to pursue bilateralism in East Asia, Charles Morrison attributes the unenthusiastic American attitude toward these regional institutions to their process- rather than outcome-oriented features.<sup>7</sup> On the other hand, the United States has at times strongly repudiated an East Asian regionalism that has threatened to exclude US participation. As is discussed below, the proposals for an East Asia Economic Caucus (EAEC) and an Asian Monetary Fund (AMF), in which Japan was supposed to take a leading role, are prime examples of this phenomenon. The United States viewed these proposals as advocating the development of outcome-oriented institutions that would potentially be detrimental to its interests, and it consequently pressured Japan, as its powerful regional agent, not to support or lead either of these initiatives.

East Asian regionalism finally started to flourish after ASEAN+3 was established in 1997, amidst the gloom cast over the region by the Asian

financial crisis. It was widely noted at the time of the crisis that the United States failed to demonstrate a strong commitment to helping the region. The United States did not oppose the emergence of ASEAN+3 because, unlike the cases of the EAEC and the AMF, ASEAN+3 was established without any clear future agenda and with only a tentative path toward institutionalization, leading the Americans to conclude that it would be mostly process oriented and thus relatively harmless to US interests. Yet the United States was forced to change its “benign neglect” attitude toward East Asian regionalism during the first decade of the 21st century due to two substantial developments in East Asia: the rise of China and the growth of preferential trading arrangements promoted by East Asian states. The United States was concerned that, given China’s huge market, rapid economic growth in that country was exerting an overwhelming influence on regional trends in East Asia, and that China’s aggressive trade diplomacy was responsible for the regional proliferation of FTAs, which excluded the United States.

The United States employed two approaches to tackle the problems arising from the inclusion-exclusion logic in East Asia. The first was an indirect approach: the Americans encouraged Japan, its key ally and agent in East Asia, to actively support initiatives to include nations that share the common value of democracy—such as Australia, New Zealand, and India—in the formation of another, more US-friendly regional institution, the East Asia Summit, which was established in 2005. The second was a direct approach: utilizing APEC and US membership therein to parallel and hopefully overshadow East Asian integration. In 2008, the United States expressed its desire to formally join a new trade initiative, the Trans-Pacific Partnership (TPP) Agreement, as a steppingstone toward an APEC-wide Free Trade Area of the Asia Pacific (FTAAP). This decision was premised on the US belief that, as stated by US Trade Representative (USTR) Ron Kirk, “the number of trade agreements in the Asia-Pacific that exclude the United States has proliferated, shutting American business and workers out of valuable opportunities.”<sup>8</sup> As a result, the first TPP meeting in which senior officials from eight APEC members participated was held in March 2010 in Melbourne.

This chapter will examine how the United States, an outsider, has engaged in East Asian regionalism directly and indirectly to manipulate regional trends in its favor. The regional structure surrounding East Asian regionalism can be partly characterized by the inclusion-exclusion dichotomy: the United States, influential on regional stability through

bilateral security arrangements, is normally viewed as an outsider in matters of East Asian regionalism, and the development of East Asian regionalism has been substantially influenced by this structure. This chapter will demonstrate how the United States has acted when it has believed that a development in East Asian regionalism would be detrimental to its interests. Specifically, it argues that the United States has used a strategy of maneuvering Japan, its key ally in the region, into the role of managing regionalism in the interests of the United States. The failure to realize the EAEC and the AMF, which Japan ultimately backed away from, and the establishment of the East Asia Summit, which Japan supported, were outcomes resulting from American requests and can thus be attributed to Japan's susceptibility to American pressure. Finally, this chapter explores the potential implications for East Asian regionalism of new diplomatic thrusts in the United States and Japan, including President Barack Obama's East Asian engagement and Prime Minister Yukio Hatoyama's East Asian Community proposal.

### THE UNITED STATES AND EAST ASIAN REGIONALISM IN THE 1990S

As mentioned above, the United States has not traditionally been interested in East Asian regionalism. However, whenever it has believed that its interests might be imperiled by any such development, it has sought to undermine or demolish it by using Japan as its regional agent. The EAEC and AMF proposals provide two classic examples of this pattern. Japan's predominant economic presence in the 1990s made it an indispensable nation for the realization of the EAEC and the AMF. Its reluctance to promote these regional proposals—a result of American pressure behind the scenes—meant that these initiatives would never materialize. For its own part, however, Japan has long pursued the concept of “Asia Pacific” or “Pacific” economic cooperation. It was not ready to join regional institutions that excluded Pacific nations such as the United States. The involvement of the United States in any Asian regional institution was especially significant to Japan given the strong US military and economic presence in Japan. In fact, it was Japan that insisted on the inclusion of the United States—despite Australia's initial hesitation—in the 1989 establishment of APEC.<sup>9</sup>

From the beginning, Malaysian Prime Minister Mahathir Mohamad, the original EAEC advocate, strongly urged Japan to be the linchpin of the EAEC, stressing that Japan was “the only Asian country with the ability to help fellow Asian countries.”<sup>10</sup> One way in which Mahathir tried to gain Japan’s support was his appeal that the EAEC could serve as a platform for Japan to gather opinions from Asian countries collectively before the G7 meetings.<sup>11</sup> Japan takes its role in G7 meetings seriously and has adopted a self-appointed mission to serve as Asia’s representative in the G7.<sup>12</sup> Yet its attitude to the EAEC was lukewarm.

The United States consistently expressed its concern about the emergence of the EAEC, as it feared it would split the Asia Pacific region, hampering America’s economic interests in Asia. Based on this notion, Secretary of State James Baker wrote, “In private, I did my best to kill [the EAEC] . . . Without strong Japanese backing, [the EAEC] represented less of a threat to [America’s] economic interests in East Asia.” This implies that the United States placed strong pressure on Japan not to participate in the EAEC.<sup>13</sup> The United States seems to have been reluctant to share the limelight with another power that could drastically lower American influence in the region. Adding to the US concern was the perception of the EAEC proposal as a reaction to the formation of the North American Free Trade Agreement (NAFTA). Malaysian foreign ministry sources made it clear that the EAEC concept was retaliatory in nature and not merely a consultative forum stating, “The Prime Minister has called it a spade for a spade.” They also noted that the proliferation of trade blocs meant that “smaller developing countries like Malaysia are extremely vulnerable.”<sup>14</sup> This rationale was intolerable to the United States inasmuch as the EAEC was expected to become a regional trading bloc, institutionally excluding the United States from East Asia.

Given America’s overwhelming position in Japan’s security and economic policies as its ally and largest trading partner, it was difficult for Japan to accept Malaysia’s request to take the lead in creating an EAEC that would exclude the United States. Moreover, the timing was poor. When the EAEC was proposed, Japan and the United States were engaged in heated debates over Japan’s contribution to the Gulf War. Daisuke Matsunaga, a Ministry of Foreign Affairs (MOFA) official then serving in the North American Affairs Bureau, attributed Japan’s reluctance to support the EAEC to the already troubled relations with the United States. He recalled, “The atmosphere at that time did not allow Japan to make any declarations that would further antagonize the United

States, which had already been highly critical of Japan's slow reactions to its urgent requests for cooperation."<sup>15</sup> In the end, Japan and other East Asian countries became concerned about the idea of creating a trading bloc that would stand in opposition to the United States, and ASEAN members persuaded Malaysia to change the basic framework of the EAEC, making it merely a caucus within APEC in 1993. Importantly, as Ippei Yamazawa observed, the EAEC proposal also encouraged a greater US commitment to APEC. It played a pivotal role in the 1993 establishment of the APEC Secretariat in Singapore, to which a senior American diplomat was appointed as the first executive director, and created momentum for the inclusion of a liberalization program and concrete economic cooperation agendas into the APEC process.<sup>16</sup>

The Asian financial crisis made the desirability of regional approaches such as the ASEAN+3 all the more apparent to East Asian countries. As Filipino Secretary of Foreign Affairs Domingo Siazon Jr. explained, "One has to recognize that [ASEAN+3] is logical because of a shared experience and a recognition of the interlinkages during the financial crisis."<sup>17</sup> Once the United States gave the region the impression that it was not interested in the Asian financial crisis issue, it accelerated the idea that America's commitment to the region was declining. Indeed, in 1998 US Secretary of Defense William Cohen admitted, "The American people have not fully appreciated the depth and significance of the Asian crisis."<sup>18</sup> Lee Kuan Yew regarded the fact that the United States held back from participating in the rescue package for Thailand as "a very grave mistake" because it sent a signal to the region that "the United States did not consider this a crucial matter." He noted that the United States became involved in support for Indonesia "reluctantly," making a relatively small contribution, and he concluded, "I think it sent the wrong message."<sup>19</sup>

This negative perception was compounded by the fact that when another initiative arose to create a concrete institution to tackle the region's financial problems, the United States once again acted to block it, just as it had in the case of the EAEC. The AMF was proposed in September 1997 by Eisuke Sakakibara, Japan's vice finance minister for international affairs, as an Asian financing facility with an initial capitalization of US\$100 billion. The United States and the International Monetary Fund (IMF), however, were staunchly opposed to the plan. The United States thought of it as eroding the significance of the US-dominated IMF and causing a moral hazard problem for the borrowers. And in

fact, Sakakibara confessed that the exclusion of the United States from the AMF proposal was intentional, designed to promote solutions to regional financial issues by Asian leaders themselves without US pressure.<sup>20</sup> The United States, however, made it clear that it would object to any regional grouping that excluded it and that could become a potentially harmful, results-oriented institution. Sensitive to US views, Japan, despite its initial enthusiasm, heeded the warnings from the United States and IMF officials and began to back off from the proposal. Asian leaders began to “make speeches lauding the importance of the IMF,” and as one scholar notes, demonstrated that there was little appetite in the region “for a confrontation with the United States and the IMF amidst plummeting currencies and stock markets.”<sup>21</sup>

Despite the failure to create the AMF, Japan continued to be engaged in efforts to shore up the region’s economy through its substantial contribution of US\$44 billion to the IMF-led rescue packages for Thailand, Indonesia, and Korea, which were suffering from severe capital shortages. These initiatives were effective. Lee Kuan Yew has noted that the recoveries in South Korea and Southeast Asia were partly a result of the help that Japan extended.<sup>22</sup> The United States came to appreciate the robust financing that Japan provided for the region.<sup>23</sup> In sharp contrast to its stark opposition to the EAEC and AMF proposals, America’s restraint in criticizing Japan’s new aid program during that time demonstrated its growing understanding of the need for Japan to take the initiative in promoting financial stability and economic prosperity in East Asia. This changing US attitude subsequently created an environment in which countries in the region were encouraged to move forward in establishing a mechanism for crisis management. To counter the influence of US dollars, ASEAN and three of the Northeast Asian countries (China, Japan, and South Korea) formed ASEAN+3, through which they worked to increase their foreign reserves. They also developed the Chiang Mai Initiative, which stipulated a network of bilateral swap arrangements to address short-term liquidity issues in the region. Nevertheless, as scholar Richard Stubbs observes, Japanese leaders remained reluctant to go along with a formalization of ASEAN+3 for fear of further antagonizing the United States.<sup>24</sup>

The US opposition to the EAEC and AMF proposals thus illustrates the intention of American leaders at that time to strongly repudiate any form of East Asian regionalism that would exclude its participation. Consequently, Japan, seen as a potential leader within these East

Asian cooperative frameworks at that time, presented itself as a nation that was susceptible to US pressure and that was acting as an American regional agent.

## THE RISE OF CHINA AND THE ESTABLISHMENT OF THE EAST ASIA SUMMIT

East Asia has emerged as an increasingly significant region in international politics and economics, and the credit for its newfound importance, especially in the United States, has been mainly attributed to the rise of China.<sup>25</sup> Putting it simply, the rise of China has meant that a traditional political power that used to lack economic prowess is now emerging as a potential superpower whose political influence is backed by consistently high economic growth, impacting both political and economic spheres on a global scale. The US concern over China, arising from both its growing economy and increasing military build-up, was well reflected in the 2006 Quadrennial Defense Review, which declared China to have “the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional US military advantages absent US counter strategies.”<sup>26</sup> The economic diplomacy that China has been executing is designed to frustrate the containment strategy that a US coalition might employ, and has involved a process of “knitting together the ‘spokes’ of the US-centered hub-and-spoke security-alliance system and connecting them more closely with governments less friendly to Washington.”<sup>27</sup> In keeping with this approach, China’s proposal for an FTA with ASEAN symbolized China’s serious commitment to regional economic diplomacy. This represented a policy reversal given that it had previously been focused on negotiations concerning its accession to the World Trade Organization (WTO) and had opposed a discriminatory regional integration approach.

The US concern about China came to be associated with ASEAN+3, through which China could gain predominant influence. There were growing perceptions that China was using ASEAN+3 “as a shield to avoid other big powers’ pressure by the maintenance of good relations with other regional members to avoid containment coalitions with foreign big powers.”<sup>28</sup> US concerns were shared not only by Japan, but also by other nations such as Indonesia and Singapore. Singapore, for instance,

considered it difficult for any nation, including Japan, to block China's predominance within ASEAN+3 and it feared that China would become a rule-setter as a result. In short, there was a growing consensus that a China-centered East Asia community might eventually emerge.<sup>29</sup>

Japan, under Prime Ministers Junichiro Koizumi and Shinzo Abe, became responsive and reactive to US regional concerns over China. Both administrations played a pivotal role in the realization of the ASEAN+6 framework by inviting Australia, New Zealand, and India to join the East Asia Summit, all of which share a belief in common values such as democracy. While he was in office, Koizumi expended his greatest energies on the strengthening of the US-Japan alliance, drawing on his personal rapport with President George W. Bush. As he explained, "The US is the only nation in the world which says that an attack or aggression against Japan is an aggression or attack against their own country."<sup>30</sup> As a result, Koizumi pushed to provide support for the United States in Afghanistan and Iraq, managing to widen the operational scope of the Self-Defense Force (SDF) beyond the limitations imposed by Article 9 of the Japanese Constitution by enacting special laws to dispatch the SDF to these areas. In this way, Koizumi found a method of fulfilling Japan's obligation as a US ally in the war against terrorism. As a result, as Vice President Dick Cheney commented, the relations between the two nations during the Koizumi era were seen as being the "best" they had ever been in the entire postwar period.<sup>31</sup> Koizumi saw the US-Japan alliance as the foundation of his Asian policy, stating, "With Japan-US relations as the basis, I will advance our cooperative relations with China, the ROK, and other countries in Asia and the rest of the world."<sup>32</sup> It should be noted, however, that such robust bilateral relations were seen as a necessity mainly in light of China's rise.

Japan also endeavored to support Australia's involvement in East Asian regionalism by persuading it to sign ASEAN's Treaty of Amity and Cooperation (TAC), a condition for East Asia Summit participation. Hitoshi Tanaka, who as director-general of MOFA's Asian and Oceanian Affairs Bureau was responsible for drafting Koizumi's January 2002 speech in Singapore on building an East Asia community, commented in a 2005 interview given to an Australian newspaper, "In my heart I truly hope Australia will participate in the East Asia Summit . . . We have worked very hard to make it possible. We are doing this not for Australia's sake, but for Japan's sake. We need you . . . I have a very strong feeling about our co-operation with Australia and I have been

advocating it for a long time.”<sup>33</sup> Later that year, Australia participated in the inaugural East Asia Summit in Kuala Lumpur in 2005, as did New Zealand and India.

Similarly, Prime Minister Abe sought to deal with China’s rise by involving the United States in East Asian regionalism. As a strong supporter of values such as the rule of law and democracy, Abe insisted on organizing a summit meeting among Japan, Australia, the United States, and India, all of which, he believed, share universal values such as democracy and respect for human rights. His underlying purpose was to discuss ways of making East Asian countries, including China, accept such values.<sup>34</sup> For instance, in his speech before the Indian parliament on August 22, 2007, Abe introduced a new regional concept, “broader Asia,” by stating, “The Pacific and the Indian Oceans are now bringing about a dynamic coupling as seas of freedom and of prosperity. A ‘broader Asia’ that transcends geographical boundaries is now beginning to take on a distinct form.” One goal of Abe’s proposal was to encourage “the democratic nations located at opposite edges of these seas [to] deepen the friendship among their citizens at every possible level.”<sup>35</sup> What Abe tried to do by introducing the new concept of a “broader Asia” was to include one specific nation that the East Asia Summit did not include at that time, namely the United States. Abe’s support for the quadrilateral approach, sustained by his emphasis on such values as democracy and human rights, was strengthened after he met with Vice President Cheney in February 2007. They discussed the idea of Japan working together with Australia, India, and the United States to form a quadrilateral grouping among like-minded democratic nations.<sup>36</sup> This proposal led to the organization of an informal meeting in May 2007 involving representatives from the four nations, which was held on the sidelines of a meeting of the APEC. China was wary of such a move and issued “formal diplomatic protests to Australia, Japan, and India out of concern that they were forming a security alliance with the United States against China.”<sup>37</sup> Japan’s effort to strengthen its strategic relationship with India continued even after Abe left office. In October 2008, India became the third country, following the United States and Australia, to issue a joint security declaration with Japan.

In sum, the ASEAN+6 regional concept originated mainly from the concerns of Japan and the United States that China’s political influence, backed by its rapid economic growth, was beginning to exert an excessive influence on political and economic developments in the

region, which would be detrimental to American and Japanese interests. Subsequently, Japan sought to involve Australia and India, nations that share basic democratic values with Japan and the United States, as useful counterbalances against China.

## THE REGIONAL INTEGRATION MOVEMENT IN EAST ASIA

Since 2000, the number of FTAs, either proposed or negotiated, has been increasing in East Asia. For example, China's October 2000 proposal for an FTA with ASEAN, applying the so-called "ASEAN+1" approach (in which the ASEAN nations are regarded as a single collective negotiating partner), inspired Japan to propose its own FTA with ASEAN in January 2002. South Korea, India, and Australia/New Zealand have followed suit, with the result that ASEAN today functions as a hub for five ASEAN+1 FTAs. These could potentially serve as an initial step toward an East Asian integration scheme under the frameworks of ASEAN+3 and ASEAN+6. In 2009, both the ASEAN+3 and ASEAN+6 leaders' meetings endorsed the respective recommendations on moving toward regional economic integration that were submitted by their respective study groups, and both have begun the next stage of feasibility studies.

Each study group has a different approach to regional integration. The East Asian Free Trade Agreement (EAFTA), an FTA among ASEAN+3 nations that was proposed by China in 2004, would be formed by consolidating the existing three ASEAN+1 FTAs with China, Japan, and Korea, while the 16-nation ASEAN+6 FTA proposed by Japan in 2006 and known as the Comprehensive Economic Partnership in East Asia (CEPEA) would focus more on institutional development, with an emphasis on economic cooperation and sustainable development. The ASEAN+6's CEPEA study group suggested the formation of a stable institutional foundation by utilizing a research and technical support mechanism to be provided by a new organization, the Economic Research Institute for ASEAN and East Asia (ERIA), which was subsequently established in 2007 and is intended to serve as an "East Asian OECD."

The fact that the United States, the global superpower, has not been included in these proposals for new regional arrangements is important

symbolically, and the Americans did not hide their disappointment at having been excluded from the East Asian integration movement, as touched upon in the beginning of this paper. The fears and criticisms of nonmembers such as the United States could be further intensified if a regionwide FTA in East Asia were to be accomplished. Noboru Hatakeyama, a former vice minister of the Ministry of International Trade and Industry, also indicated that participation by the United States would be difficult if any form of East Asian FTA were to be formed, because the United States is not geographically part of East Asia.<sup>38</sup> Especially if the FTA were to have an exclusive nature and if major benefits, such as tariff eliminations, accrued to its members at the expense of third parties, such concerns would intensify. Companies from non-FTA partner countries would thus be greatly disadvantaged in competing with firms from FTA partners, whose products would enjoy tariff-free privileges, leading to a clear trade diversion effect.

Traditionally, the United States has responded directly to the East Asian regionalism movement by utilizing APEC, in which it is a member, as an alternative regional integration framework. The trading arrangements that have proliferated in East Asia, with their legally binding provisions for the reciprocal exchange of preferences that discriminate against nonpartner countries, are a distinct departure from APEC's original approach of nondiscriminatory, globally oriented regional cooperation. Thus, the United States sought to introduce a rules-based, reciprocal, and discriminatory integration norm into APEC to emulate East Asian regional integration. This was the rationale behind the US interest in promoting the FTAAP idea, using the APEC framework to form a regionwide FTA—an idea that has been adopted by the Obama administration as well.<sup>39</sup> As US Senior Official for APEC Kurt Tong stated in October 2009, "America risks becoming disadvantaged economically if we do not participate constructively in the process of economic integration that is already underway in the [Asia Pacific] region."<sup>40</sup>

Yet the United States needs to take at least partial responsibility for the declining significance of APEC among some of its members from the early years of the 21st century. Following the 9/11 terrorist attacks, the Bush administration began to place greater emphasis on APEC's dialogue function. Its interest in the institution lay primarily in its potential function as a mechanism for the formation of consensus on combating terrorism. In other words, from the US perspective, security issues appeared to replace economic interests—including liberalization—as

APEC's major function. But as one ASEAN official indicated, the response from other members was to say that "if the United States is going to focus more on security issues, we will move to a framework in which the United States is not involved to work on our economic goals."<sup>41</sup> The growing interest in ASEAN+3 among East Asian states can be attributed to their shared perception of this problem in APEC. In short, as ASEAN+3 became more institutionalized and ideas for the establishment of an East Asian FTA were more vigorously pursued by many countries in the region, APEC was widely seen as becalmed, adrift, or crisis stricken.

In the meantime, a new trade scheme emerged in APEC in 2004. The APEC Business Advisory Council, a consultative body for the APEC leaders that includes the participation of delegates from the business sectors of 21 APEC members, proposed the formation of the FTAAP within the APEC framework. This was an attempt, amid the profusion of bilateral FTAs being formed by members, to focus liberalization efforts within the Asia Pacific region while maintaining consistency with WTO rules. A major factor behind the proposal was an assessment by the region's business community that complete liberalization of trade and investment among the advanced member economies by 2010, which was stipulated in the Bogor Declaration announced by APEC leaders in 1994, was not possible. When asked whether he was supportive of the FTAAP proposal, however, then Prime Minister Koizumi replied that it was "premature" and that it would be an issue for future discussion since the advancement of bilateral FTAs was a greater priority for many countries, including Japan.<sup>42</sup> Considering the difficulty of forming a discriminatory FTA among 21 members of APEC and the region's vastly differing levels of economic development, this seemed a reasonable view.

Despite the cold shoulder the FTAAP initially received, it began to garner more attention in the region once the United States made the same proposal at the Hanoi APEC Leaders' Meeting in 2006. The Hanoi Leaders' Declaration states, "We instructed Officials to undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia-Pacific as a long-term prospect, and report to the 2007 APEC Economic Leaders' Meeting in Australia."<sup>43</sup> This represented APEC's first endorsement of the FTAAP as an agenda item at the official level. The US proposal ensured that the FTAAP concept received considerable publicity within the region,

and Japan's newspapers, for instance, granted the scheme a significant amount of column space.

Although the view that the FTAAP was infeasible prevailed within American policy circles, as reflected in comments by Robert Zoellick, then serving as the USTR,<sup>44</sup> American policymakers were also frustrated by the criticism that the United States was disengaged from the East Asian FTA movement while China enjoyed credit for promoting "low quality" FTAs in Southeast Asia. For instance, American industry bodies such as the National Association of Manufacturers and the US Chamber of Commerce and Industry voiced their fears about the exclusion of the United States as a result of the rising tide of East Asian regionalism.<sup>45</sup> Eventually, the United States began to use the FTAAP concept to change the discourse, or at least to change the expectation of where the politics of regional trade would be headed in the future.<sup>46</sup> Alternatively, a Japanese source suggests that it was the "Nikai shock," an ASEAN+6 FTA proposal—excluding the United States—made in April 2006 by Toshihiro Nikai, then head of Japan's Ministry of Economy, Trade, and Industry (METI), that compelled the United States to push for the FTAAP idea.<sup>47</sup> METI was worried that the United States had less interest in Asian affairs because President Bush was too preoccupied with the wars in Iraq and Afghanistan. As a senior trade official in METI explained, the idea that the CEPEA would not include the United States was partly intended to draw greater US attention to Asian affairs, and especially to East Asian integration, in which the United States was involved only through a bilateral FTA with Singapore at the time.<sup>48</sup>

FTAAP negotiations will not, of course, commence any time soon, nor have the norms by which APEC operates changed, but the larger goal of the FTAAP is reflected in the announcement by the United States of its intention to participate in the FTA formed in 2005 among Singapore, Chile, New Zealand, and Brunei, known as the TPP. As Australia, Peru, and Vietnam are also now involved in the TPP negotiations, the first meeting of which was held in Melbourne in March 2010, the requisite critical mass may be building for the formation of a trade agreement that can eventually be expanded into an FTAAP. The primary US motivation to participate in the TPP was not to secure export markets. The size of the markets in the original four members was too small, while Australia and the United States had already signed an FTA. Instead, the United States regarded the TPP as a building block for an FTAAP because it

was a “high-quality” FTA under which tariffs on all products would be eliminated by 2015, as Assistant USTR Wendy Cutler stated.<sup>49</sup>

The American interest in developing the FTAAP via the TPP as a direct way of challenging East Asian integration may make it difficult for Japan to vigorously promote the ASEAN+6 FTA (i.e., the CEPEA). China’s ASEAN+3 FTA (the EAFTA) may be undercut as well, since some key APEC members have developed an interest in the FTAAP through their initial participation in the TPP. There are not enough trade negotiators in most Asia Pacific governments to be engaged all at one time in multiple FTA negotiations at both the bilateral and regional levels. The prospects for the CEPEA will become even more uncertain if Japan’s rivals like South Korea, which has already signed an FTA with the United States and completed negotiations for one with the EU, decide to join the TPP. Although China has yet to declare its interest in the TPP, President Hu Jintao has said that China was ready to examine the possibility of joining the FTAAP in 2008. While the expansion of the TPP, in which nine of the APEC members are currently participating, appears to be a more practical way of providing the momentum for the formation of an FTAAP, no such scenario, based on the existing regional FTA dynamics, can yet be derived from the CEPEA.

The American push for an FTAAP and its announcement of its intention to participate in the TPP can be interpreted as an expression of its desire to restore APEC to its role as a central regional economic institution. If the TPP were to establish itself as a way of realizing the FTAAP, it would represent a victory of sorts on the part of the Americans because a discriminatory and legally binding mechanism would have been adopted as APEC’s norm, a culmination of US efforts to create this norm for regional integration within the APEC process over the decades. In other words, the United States would finally succeed in transforming the organization into a regional institution of the type it has long desired, an outcome-oriented, trade-liberalizing institution.

## OBAMA, HATOYAMA, AND THE EAST ASIAN COMMUNITY

The United States had never been interested in participating in any East Asian (as opposed to Asia Pacific) regional institutions until Barack Obama assumed office in January 2009 and subsequently declared

himself “America’s first Pacific president.” One of the first steps the Obama administration took in regard to regional engagement was to sign ASEAN’s TAC in July 2009, fulfilling the only precondition for official participation in the East Asia Summit that had not previously been met by the United States. American interest in the summit was then underscored by Obama in a speech he delivered in Tokyo in November 2009, in which he stated that US regional engagement with the East Asia Summit will be implemented “more formally as it plays a role in addressing the challenges of our time.” Soon after, Obama met with Southeast Asian leaders at the inaugural US-ASEAN Summit, held during the Singapore APEC meeting. This involved the first encounter between a Myanmar leader and a US president in almost four decades. Myanmar had previously been an obstacle to the United States signing the TAC, which includes the principle of noninterference in the affairs of other signatories. A linchpin of ASEAN’s political values, that principle appeared to previous administrations to restrict the scope of American regional policy, including the possible imposition of political pressure on Myanmar to promote human rights and democracy. In the end, the United States realized that signing the TAC would not cause serious problems for its diplomacy, as many signatories—including such US allies as Australia and Japan—have demonstrated.<sup>50</sup> Thus, Obama’s decision to sign the TAC and join the East Asia Summit does not rule out the option to pressure Myanmar directly, but it does promote high-level dialogues with Myanmar. This provides a way of enhancing the American presence in Southeast Asia amid the growing Chinese influence in the region.

The historic decision by the United States to engage more officially in East Asia coincided with then Prime Minister Hatoyama’s enthusiasm for the creation of an East Asian Community, signaling the possibility of a partnership in East Asian regionalism. However, the reality proved not to be so simple, due mainly to Hatoyama’s persistence in implementing foreign policy that sought a more autonomous role for Japan. This was indicated in his call for “a more equal relationship with the United States,” by which he sought to show that his foreign policy approach was clearly different from that of the Liberal Democratic Party (LDP) era. This ambition was evident in Hatoyama’s international debut as Japanese prime minister, when he attended the UN Summit on Climate Change in September 2009. He held six bilateral meetings with his counterparts, including Presidents Hu and Obama. What was striking

in Hatoyama's meetings with the "G2" leaders was that he mentioned his East Asian Community idea directly to the Chinese leader but not to the US president. His hope to work with China rather than with the United States on his regional community idea became more obvious in his remarks during the Trilateral Summit in October 2009 in Beijing, where he stated that Japanese foreign policy had been thus far too dependent on the United States. This gave the impression that his East Asian Community idea would serve as a foreign policy tool that would make it possible for Japan to pursue a more autonomous and independent foreign policy from the United States.

Under the LDP, Japan's East Asia policy was conducted in the broader context of US-Japan cooperation. The United States supported Japanese regional initiatives as long as they matched US interests. For instance, promoting an East Asia policy "in synergy" with the US-Japan alliance was a diplomatic guideline advanced by Yasuo Fukuda, prime minister of Japan from 2007 to 2008. Fukuda's suggested diplomatic approach sought to achieve a mutual synergy between the alliance and Japan's Asian diplomacy to strengthen both fronts. Yet there were impediments to the practical implementation of such a diplomatic program. The forces that bind a region together and that further a cooperative regional system also serve to alienate nations excluded from that framework. The US decision to promote the FTAAP has been interpreted as originating from America's sense of alienation as a result of its exclusion from that framework.

Hatoyama continued to be unclear about the US position in his regional community concept. This was viewed as harmful for the maintenance of the alliance with the United States, which had already begun to fluctuate due to outstanding issues on the shift of American bases in Okinawa. Worse, it created a concern among some other countries in the region that his foreign policy stance would be detrimental to a US regional presence, and no less to regional stability, by undermining the hub-and-spoke security arrangement. Many leaders in East Asia, including Singaporean Prime Minister Lee Hsien Loong and Australian Prime Minister Kevin Rudd, have expressed their support for a regional community that includes the United States. Eventually, after receiving criticism and questions over his ambivalent position on having the United States in his East Asian Community, Hatoyama clarified his position at the ASEAN+3 Summit held in Thailand in October 2009 by stating, "Japan will promote cooperation for the realization of an open

community through diplomatic efforts underpinned by its alliance with the United States.”<sup>51</sup>

How to resolve the emerging conflict between Asia Pacific and East Asian regional institutions—APEC versus ASEAN+3 and the East Asia Summit—was a crucial issue for Japan. While the US interest in APEC (particularly its interest in the TPP and the FTAAP) was becoming more evident, Hatoyama’s stance on APEC was never very clear. His advocacy of an East Asian Community was ambiguous regarding the membership, objectives, and institutions that would govern. Many points of disagreement have emerged between the United States and China, including the sensitive renminbi-dollar exchange rate problem. Thus, Hatoyama’s interest in working with China to build a community in East Asia confused American policymakers, as he was perceived to be moving Japan further under the sway of China’s regional hegemony.<sup>52</sup> Naoto Kan, who succeeded Hatoyama as prime minister in June 2010, has practically stopped mentioning the East Asian Community concept altogether, while his government has further committed itself to APEC’s development, serving as the host for the 2010 APEC meetings. APEC can be useful for alleviating the US concerns over East Asian regionalism insofar as it serves as a regular platform through which the United States can maintain dialogues with East Asian countries until the United States officially joins the East Asia Summit in 2011. The Kan administration therefore views APEC as a useful way to avoid a potential clash between a “China-led Asia and a US-led West for leadership of the global economy,”<sup>53</sup> and Japan’s interest in improving ties with the United States has become stronger, especially after the territorial disputes with China and Russia intensified in September and October 2010.

Symbolically, Hatoyama declared in his speech at the United Nations in September 2009 that Japan would work to “become a ‘bridge’ for the world, between the Orient and the Occident, between developed and developing countries and between diverse civilizations.”<sup>54</sup> Such a bridging role can be more effectively pursued within APEC than through East Asian regionalism. The self-conscious international identity of Japan as the first developed country in Asia has led Japanese leaders to state frequently that Japan should serve as a bridge between Asia and America in that context. At the 1994 APEC meeting in Bogor, Foreign Minister Yohei Kono explained that role saying, “Japan can naturally understand the tempos and flows of Asia’s thinking and can indoctrinate a novice in the ways of keeping on good terms with Asia.”<sup>55</sup> Around that same time,

Ichiro Ozawa, then the leader of Japan's opposition party, published a book depicting his grand vision for Japan's future, in which he stressed that Japan could claim such a bridging role on the basis of its status as the first modernized Asian country and of the fact that it enjoys a market economy system similar to that of the United States.<sup>56</sup>

As an initial step in Japan's recommitment to APEC, when it hosted the 2010 APEC summit in Yokohama, Japan needed to indicate its own intention to participate in the TPP, based on which the FTAAP would be pursued. To demonstrate that trade facilitation and the enhancement of economic and technical cooperation are more realistic paths toward the advancement of liberalization, Japan was able to formulate its own FTAAP proposal based on APEC's three principles of liberalization, trade facilitation, and economic and technical cooperation, and also in accordance with its own more comprehensive Economic Partnership Agreement approach, which goes beyond the elimination of tariff and nontariff barriers to include the liberalization of foreign direct investment, trade facilitation, and other measures in order to take advantage of APEC's development-oriented features. This would allow it to fulfill the bridging role between developing and developed members within APEC. It is also important for Japan to focus on areas where its presence is either desirable or indispensable to other member nations, such as pollution prevention measures, where Japan's technology is substantially advanced. By doing so, it can ensure that the United States and developing countries such as China and Indonesia will view partnership with Japan in the development of APEC as more desirable.

Yet Japan was not able to announce its decision to join the TPP during the APEC meetings in Yokohama. Japan's participation in the TPP is politically very difficult as the TPP members include big agricultural exporters such as Australia and the United States. Japan has established FTAs with ASEAN and ASEAN member nations, but given its dominant trade and economic position, it has an overwhelming advantage over partner countries such as Thailand or the Philippines in terms of bargaining power. As a result, in the majority of cases Japan has been able to shelve consideration of the elimination of its agricultural tariffs and the FTAs have ultimately reflected Japan's preeminence. This may represent "liberalization without political pain,"<sup>57</sup> but to persuade its potential FTA partners, Japan has in return utilized its economic power to offer benefits in the form of economic cooperation. The use of this pattern has, up to the present, enabled Japan to conclude FTAs that

have avoided any promise of agricultural liberalization. For this very reason, however, it is questionable whether Japan will be able to play an active role in the TPP or the FTAAP. Within such multilateral FTAs, blocs are likely to be formed during negotiations between the numerous exporting nations that share a common objective of gaining access to Japan's agricultural markets.

The United States in particular presents a challenge since Japan's participation in the TPP would mean it would establish a US-Japan FTA. The Democratic Party of Japan (DPJ) government had initially included the conclusion of a US-Japan FTA into its 2009 Lower House election manifesto, but the term "conclusion" was eventually eliminated and replaced with "promotion" as a result of increasing farmer protests against an FTA with the world's largest agricultural exporter. The DPJ needed the farmers' votes, which proved to be instrumental in securing a landslide victory for the DPJ in the 2007 Upper House election. Thus, Japan's eventual decision to join the TPP will depend on whether political momentum to promote agricultural liberalization can be gained by securing enough funds for the direct income compensation system for all farmers, an approach introduced by the DPJ. The DPJ government is now presented with an excellent opportunity to move forward with the decision to engage in the TPP as major national-level elections are not expected to take place over the next three years, provided that Prime Minister Kan does not dissolve the Lower House. (The next election in the Upper House, which reelects half of its members every three years, will be held in 2013.) This means that DPJ Diet members do not need to worry about gaining farmers' votes for at least a couple of years, creating a very rare scenario in Japanese political history.

## CONCLUSION

This chapter has examined the American involvement in East Asian regionalism over the last two decades by highlighting its endeavors to solve the political dilemma arising from the exclusion-inclusion dichotomy that any regionalism carries: the United States, outsider but influential player in East Asia, has attempted to prevent any negative outcome emerging from exclusive Asian regional institutions. The United States found Japan, a powerful East Asian nation and key US ally, to be its practical agent and pressured it not to support or realize any

East Asian regional framework, as seen in the case of the EAEC. The promotion of the broader East Asia Summit was strongly influenced by this patron-client relationship as well.

More recently, the United States has attempted to resolve the tensions in this dichotomy by trying to revitalize APEC as a more outcome-oriented framework for trade liberalization, specifically by proposing and working to advance an APEC-wide FTA. Although the FTAAP is seen as a pipe dream by most observers, it is a fact that bilateral FTAs are being concluded by the majority of APEC members. In other words, discriminatory, legally binding, and reciprocity-based agreements have taken root among the membership of APEC. The gradual adoption of such agreements may serve as a foundation for the FTAAP. And in fact, at their November 2010 meetings, the APEC leaders stated that it was time for APEC to “translate FTAAP from an aspirational to a more concrete vision,” stating that the FTAAP would seek to build on ASEAN+3, ASEAN+6, and the TPP and that APEC should contribute to that process “by providing leadership and intellectual input into the process of its development, and by playing a critical role in defining, shaping and addressing the ‘next generation’ trade and investment issues that an FTAAP should contain.”<sup>58</sup>

The possibility of finally making the APEC trade agenda match a set of liberalizing norms among its members—an objective of the United States over the last two decades—was furthered by America’s announcement of its own intention to participate in the TPP as a stepping-stone toward the eventual formation of the FTAAP. This has given momentum to APEC, as seen in Malaysia’s recent participation in the TPP in lieu of pursuing a bilateral FTA with the United States. Although strong political pressures against agricultural liberalization in Japan have made it difficult for Japan to make a decision on its participation in the TPP, this would be the most practical approach if Japan’s objective is to support Asia Pacific regionalism rather than East Asian regionalism (e.g., CEPEA). It would also let Japan play a long-cherished bridging role on the basis of its status as a key American ally in East Asia. For these reasons, Japan needs to announce its participation in the TPP as soon as possible as a way of solidifying its own engagement in Asia Pacific regional integration. If not, the negotiations are likely to be completed with no impact from Japan in what will be a critical trans-Pacific trading arrangement.

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