

CRS Report for Congress

East Asian Regional Architecture: New Economic and Security Arrangements and U.S. Policy

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East Asian Regional Architecture: New Economic and Security Arrangements and U.S. Policy

Summary

The end of the Cold War, the rise of China, globalization, free trade agreements, the war on terror, and an institutional approach to keeping the peace are causing dramatic shifts in relationships among countries in East Asia. A new regional architecture in the form of trade, financial, and political arrangements among countries of East Asia is developing that has significant implications for U.S. interests and policy. This report examines this regional architecture with a focus on China, South Korea, Japan, and Southeast Asia. The types of arrangements include bilateral free trade agreements (FTAs), regional trade pacts, currency and monetary arrangements, and political and security arrangements.

The East Asian regional architecture is supported by two distinct legs. The economic leg is strong and growing more intense. A web of bilateral and regional FTAs is developing. An East Asian Economic Community (with 13 nations), an East Asian FTA (with 16 nations), and an Asia Pacific FTA (with 21 nations) are being discussed. In contrast, the political and security leg remains relatively underdeveloped. The most progress has been made with the Association of South East Asian Nations playing the role of convener and has taken the form of the ASEAN Security Community (10 Southeast Asian nations) and ASEAN Regional Forum (25 nations, including the United States). In Northeast Asia, the six-party talks aimed at resolving the North Korean nuclear program are ongoing.

As U.S. policy toward economic and security arrangements in East Asia evolves, it is turning on matters of intensity, inclusiveness, and final structure. Should the United States intensify its efforts to either hinder or support the architecture? Who should be included in the arrangements? Should the groupings be exclusively Asian? On the economic side, current U.S. policy appears to hedge by not trying to block attempts to create exclusive Asian FTAs but doing deals to keep from being cut out from their benefits. On the security side, U.S. interest in stability, counter-terrorism, and nonproliferation in East Asia is so great that the United States has sought a seat at the table when Asians meet to talk and often leads in attempts to resolve contentious issues. The East Asian Summit excluded the United States, but Washington has called for a Northeast Asia Regional Forum that would include the United States, China, Russia, Japan, and South Korea.

At the core of U.S. concern over the developing regional architecture in East Asia is the growing influence of China. A danger exists that if China comes to dominate regional institutions in East Asia, it could steer them down a path inimical to U.S. interests. Some Asian nations, however, are wary of excessive Chinese influence and are hedging and maneuvering against possible Chinese dominance.

The final question for the policy deliberations on trade and security arrangements in East Asia is what form the architecture will take. The industrialized world seems to be evolving into three distinct blocs, but a trans-Pacific trade and security arrangement is possible. This report will be updated periodically.

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East Asian Regional Architecture: New Economic and Security Arrangements and U.S. Policy

The shrinking of the remnants of the Cold War in Asia is causing a fundamental rethinking of interests and relationships among the countries and economies of East Asia. For a half century following World War II, East Asia was divided into two blocs: communism on one side confronting the United States and U.S. allies on the other. Smaller countries at sundry times were ensnared in the confrontation, and in cases — such as in Korea and in Vietnam — the great power rivalry manifested itself in intense, but limited, warfare. International trade patterns tended to follow political alliances with the American market serving both as the anchor of the Asia Pacific economy and as the preferred export destination for many of the non-Communist countries.

Now a tectonic shift is occurring in the landscape in East Asia. Five forces are driving these shifts: (1) the rise (re-emergence) of China and its jockeying for influence and leadership with Japan and South Korea and other Asian countries, (2) globalization and the cross-border expansion of corporations and supply chains, including supplies of energy and raw materials, (3) liberalized trade and investment flows, (4) the global war on terrorism, and (5) the rise of the European security model (keeping the peace through progressive institution building and increased stakeholder relationships) to challenge balance-of-power realism (keeping the peace through a confrontational stalemate among big powers).

The purpose of this report is to examine the developing regional architecture — the growing trade, financial, and political arrangements among countries of East Asia — and what that implies for U.S. interests and policy. The focus is on China, South Korea, Japan, and Southeast Asia with some mention of links with Australia and New Zealand. The types of arrangements include bilateral free trade agreements (FTAs), regional trade pacts, currency and monetary arrangements, and political and security arrangements.

The East Asian regional architecture is supported by two distinct legs. The economic leg is strong and growing more intense. A web of free trade and regional monetary agreements is developing rapidly. It is driven primarily by the quest for business profits, for economic stability, and for high rates of economic growth. While East Asia lags behind North America and the European Union in the extent and depth of economic integration, the region is catching up quickly despite strong historical animosities that chill otherwise warm economic relations — particularly among Northeast Asian nations.

East Asia is home to many of the most dynamic economies in the world, and competition is intensifying to join in regional trade agreements. Beginning with the ASEAN¹ FTA in 1992 (an agreement that lowered but did not eliminate intra-regional tariffs), the momentum for countries in Asia to conclude FTAs both among themselves and with countries outside the region has been increasing. Singapore, in particular, already has FTAs with ten nations and is negotiating a half dozen more. Indonesia, Thailand, Malaysia, the Philippines, and Vietnam in ASEAN as well as Japan, South Korea, and Taiwan also have been reaching out to establish free trade with willing partner countries. China also has ridden the crest of FTA fever with a notable deal with ASEAN.

The political and security leg of the East Asian regional architecture remains relatively underdeveloped. The most progress has been made with ASEAN playing the role of convener and has taken the form of the ASEAN Security Community² and ASEAN Regional Forum (ARF).³ In Northeast Asia, the six-party talks aimed at resolving the North Korean nuclear program have been operating in fits and starts on an *ad hoc* basis. Unlike closer economic ties that tend to benefit both sides (positive sum), security arrangements may pull in strategic competitor countries in an attempt to resolve difficult issues that benefit one at the expense of another (zero-sum).

Political and security fora, furthermore, usually exclude the very officials most involved with security issues — the military. In Asia, military relations tend to be conducted on a country-to-country basis rather than through regional institutions. Regional security meetings tend to be attended by foreign affairs ministers or their representatives rather than by defense chiefs, and they often result in “talk and photo-ops” rather than in actual problem solving or confidence building. Still, pressures for greater security cooperation are being driven by the boom in economic interchange and its concomitant requirement for political stability. Also, the transnational character of security threats (particularly with terrorism, illegal narcotics, and weapons proliferation), and a need to replace the Cold War structure with something more cooperative and less prone to generating hostility beg for a political/security organization for East Asia that is less process-oriented (meetings) and more directed toward functions and achieving concrete results. Asia, moreover, still is rife with nationalism and power rivalries operating in a 20th century fashion with interstate conflicts and territorial disputes flaring up on occasion.

As U.S. policy toward economic and security arrangements in East Asia evolves, it is turning on matters of intensity, inclusiveness, and final structure. The whole region is moving toward formalizing trading and investment relationships through free trade agreements or other such preferential trading arrangements. The

¹ The Association of Southeast Asian Nations, or ASEAN, is an economic and political association that includes its five 1967 founding members (Indonesia, Malaysia, Philippines, Singapore, and Thailand) plus five countries who joined later (Brunei, Vietnam, Laos, Burma/Myanmar, and Cambodia).

² The security side of ASEAN.

³ The 25 participants in ARF include the ten members of ASEAN, the United States, China, Japan, European Union, Russia, Australia, Canada, New Zealand, South Korea, North Korea, India, Pakistan, Mongolia, Papua New Guinea, and East Timor.

further development of these FTAs is likely to proceed regardless of U.S. action. The United States also is in this game with the Korea-U.S. FTA awaiting legislative approval and negotiations ongoing, albeit fitfully, with Malaysia and Thailand plus existing FTAs with Singapore and Australia. The United States further is working toward an FTA with ASEAN as a whole, may consider a regional FTA with Chile, New Zealand, Singapore, and Brunei. Various interest groups also have pushed for FTAs with Taiwan and Japan. Any change in U.S. FTA policy, therefore, seems one of intensity rather than direction. A question is whether the United States should speed up the work by the U.S. Trade Representative to conclude more FTAs with Asian economies, continue with the status quo, or halt further efforts.

The questions of intensity and inclusiveness dovetail with each other. As the intensity of FTA negotiations rises, the question of inclusiveness looms ever larger. It is clear that many in Asia wish for an Asian-only organization that would be a counterweight to the European Union and the North American Free Trade Agreement. American interests in Asia, however, are so deeply ingrained and the American presence so large that some argue that American interests need to be represented whenever Asians meet. If the United States is not there, some feel that China will assume the leadership mantle and work at cross purposes to American interests. Should a future Asian FTA, for example, include only East Asia or should it cross the Pacific Ocean as the Asia Pacific Economic Cooperation forum does? For example, some are proposing an ASEAN + 3 (China, Japan, and South Korea) FTA. Others may see, instead, an ASEAN + 4 FTA to include the United States. Japan has proposed a 16-nation Asia free trade area to be coordinated by an organization similar to the Organization for Economic Cooperation and Development. The 16 nations would include the ten members of the Association of Southeast Asian Nations, Japan, China, South Korea, India, Australia and New Zealand.

Current U.S. policy is to conclude bilateral FTAs with individual Asian countries and work toward both a U.S.-ASEAN FTA that would serve as a counterweight to the China-ASEAN FTA now being implemented and an FTA of the Asia-Pacific FTA (FTAAP) proposed by the United States in 2007. Such a trans-Pacific FTA is one of the main goals of the 21-nation Asia Pacific Economic Cooperation (APEC) forum whose membership includes the United States, ASEAN, China, Japan, South Korea, Taiwan, Canada, and Mexico.

The reality with Asian nations is that some do not have the institutional and industrial development necessary for a comprehensive FTA that meets U.S. standards. With some countries, therefore, the United States can negotiate toward an FTA (Malaysia and Thailand), but with others a TIFA is more appropriate (Trade and Investment Framework Agreement that may specify areas for improvement needed before considering an FTA). And with some countries, such as Vietnam, a bilateral trade agreement that may establish normal trading relations status and other basic conditions in the relationship may be more appropriate.

By relying primarily on bilateral FTAs with Asian nations, the United States seems to be hedging its bets — not trying to block attempts to create exclusive East Asian FTAs but doing deals to keep from being cut out from their benefits. The danger seems remote at this time that an exclusive and inward looking trade bloc will

emerge in East Asia. The spaghetti strands of the FTAs in the region curl around both within Asia and across the oceans.

On the security side, the issues of intensity and inclusiveness have a more direct bearing on U.S. national interests. The United States already is viewed as a hegemonic power in Asia with as many as 100,000 military personnel forward deployed in the Pacific Command and strong alliance relationships with Japan, South Korea, the Philippines, Thailand, and Australia/New Zealand plus close security relations with Singapore and Taiwan. East Asia includes countries with three of the world's six largest armed forces: those of China, North Korea, and South Korea. Russia also is nearby. China is a nuclear power, and North Korea has tested a single nuclear weapon. In addition, Japan is upgrading its defense forces; terrorist attacks are frequent in Southeast Asia; and flashpoints exist along the Taiwan Strait and on the Korean peninsula. U.S. security interests in East Asia are so great that in issues related to Asian security the United States has sought a seat at the table and often leads in attempts to resolve contentious issues. The United States has joined with Tokyo and Seoul in calling for a Northeast Asia Regional Forum that would include the United States, China, Russia, Japan, and South Korea. This forum, a counterpart to the ASEAN Regional Forum (that also includes these countries plus others), could institutionalize cooperation in Northeast Asia on issues related to security, energy, or disease. There also is some discussion of linking the major democracies in the region (United States, Japan, Australia, and India) in some form of regional organization.

At the core of U.S. concern over the developing regional architecture in East Asia is the growing influence of China. Beijing aims to reclaim its position as the leader of Asia. It already is displacing Japan and the United States among Southeast Asian nations as their primary trading partner and an increasing source of economic assistance. It also has pursued a "charm offensive" that appears to be winning the "hearts and minds" of many people in the countries there. China has accomplished this through skillful diplomacy, use of aid resources, by presenting a more friendly face, and also through formal trade and other agreements. The danger exists that if China comes to dominate regional institutions in East Asia, it could steer them down a path inimical to U.S. interests, much as Beijing has already done with the Shanghai Cooperation Organization. In the future, when security issues arise in East Asia, policymakers may face a question: Will countries look toward the United States or toward China for a solution?

Chinese recent successes, however, should not be over emphasized. The United States still is the world's preeminent military and economic power, and while many global supply chains include China, they also include the United States — particularly in product design, technology, and marketing. Although Asian nations are seeking to broaden international options with major powers, they also engage in a continuing round of hedging and maneuvering for advantage and against possible Chinese dominance. In this process, they are seeking closer ties with each other and

also with the United States. The United States still is seen as the region's security stabilizer and economic partner of choice.⁴

The final question for the policy deliberations on trade and security arrangements in East Asia is what form the architecture will take. This includes whether the economic and security organizations are to be separate or merged, how countries are to be grouped, where the center will be located, and how much voice each participant will have. So far, U.S. policy has been to allow the Asian nations to take the lead in proposing various organizations. Most have either an economic or security focus or are divided into two parts, one addressing trade and possibly leading to an FTA and another to address security issues.

Reshuffling the Asian Deck

The end of the Cold War and demise of communism triggered two revolutionary movements. The first was political — symbolized by the fall of the Berlin Wall and the breakup of the former Soviet Union. The second was economic — symbolized by the privatization of state-owned enterprises, the loosening of centralized control, and adoption of market principles not only in the former Soviet Union but in East Asian countries such as China and Vietnam. On the economic side, a global consensual philosophy is now evolving that the economic system that provides the highest growth rates, greatest consumer satisfaction, and best standard of living is market-based with private ownership, access to global markets, freedom of capital movement, and government intervention/regulation primarily in cases of market failure. Autocratic governments, moreover, have found that they can use the market system and the growth it generates to gain legitimacy, repress opposition, fund military expansion, and build nationalistic pride in their countries. Even with the uneven income distribution and potential for conflict between the “haves” and “have-nots” caused by rapid economic growth, governments increasingly are placing their policy bets on globalization, international trade, and industrialization to raise standards of living and garner popular political support. Eventually, moreover, experts see economic growth as creating a middle class and competing power centers wherever it occurs. This arguably leads to more democratic societies and less chance of military confrontation with the industrialized countries of the world.

During the Cold War, trade patterns followed security relationships. The United States became a major (if not the main) trading partner of Japan, South Korea, Taiwan, and several countries of Southeast Asia. Communist countries likewise gravitated to China and the Soviet Union and were rewarded with special trade credits. Currently, however, those trade patterns have changed. Globalization knows no political philosophy. Businesses seek low cost, high quality production bases regardless of where they are located. China is rapidly becoming the preferred manufacturing platform for companies from Japan, South Korea, Taiwan, the United States, and other countries. Formal trading arrangements are following the newly developed trading patterns. The structure overlaying the individual market

⁴ Sutter, Robert. *China's Rise: Implications for U.S. Leadership in Asia*. East-West Center Washington, Policy Studies 21, 2006. p. vii-ix.

economies is rapidly becoming crisscrossed by bilateral and regional preferential trade agreements.

During the Cold War, the security overlay for countries often coincided with the philosophy underlying the organization of government and their economies. Communist blocs arose among socialist countries, while the United States formed explicit and tacit alliances with the more market-oriented economies. On one side was a U.S.-led arrangement with the United States as a benign hegemon supported by bilateral security alliances with key non-Communist Asian countries. The United States maintained strategic and allied relationships with Japan, South Korea, Taiwan, the Philippines, Thailand, Australia, and New Zealand in a type of hub and spoke configuration. This U.S.-protected block dominated peripheral Asian and Pacific Ocean countries. On the other side was a communist China that shared a hostility toward the United States with the Soviet Union and dominated the interior of the Asian land mass. China and the Soviet Union supported countries with communist governments, such as North Korea and North Vietnam. The result was bifurcation of East Asia into U.S.-dominated and communist-dominated blocs with some countries attempting to follow more independent paths. The two sides intersected with a balance of power regionally that derived from the Cold War balance of terror globally. Some intra-Asian or world organizations existed, but none of them could effectively deal with overarching security, political, or economic issues in Asia.

The political and security arrangements that were formed among East Asian nations, moreover, tended to be anti-China or anticommunist in nature. ASEAN or SEATO (South East Asia Treaty Organization⁵) are two cases in point. Currently, however, the economic and political arrangements are crossing philosophical lines, and China is emerging as a regional hegemon in Asia. These changes are manifest in intra-Asian organizations such as the East Asia Summit, ASEAN Economic Community, ASEAN + 3 (ASEAN plus China, Japan, and South Korea), the ASEAN Regional Forum, and the six-party talks, as well as track-two fora, such as the Shangri-La Dialogue or the Northeast Asia Cooperation Dialogue.⁶

Why Join Together?

Countries join in bilateral agreements and multilateral arrangements in order to prevent or limit armed conflict, ease tensions, gain economic advantages, and, in cases, raise standards for human rights. On the security side, the uncomfortable fact faced by all nations is that the space above the level of countries is basically anarchy. Throughout history, nations have attempted to step into that anarchy to pursue narrow national interests. Until World War II, countries countered such behavior mainly by

⁵ The SEATO alliance was organized in 1954 by Australia, France, Great Britain, New Zealand, Pakistan, the Philippines, Thailand, and the United States after the French withdrawal from Indochina. It was created to oppose further Communist gains in Southeast Asia. It was disbanded in 1977.

⁶ For information on the Shangri-La Dialogue, see [<http://www.iiss.org/conferences/the-shangri-la-dialogue>]. For information on the Northeast Asia Cooperation Dialogue, see [http://www-igcc.ucsd.edu/regions/asia_pacific/neacdefault.php].

creating security alliances. No global institution with global sovereignty existed. Now, international laws and norms have been established, and institutions (e.g., the United Nations) exist, but these institutions wield sovereignty only to the extent that individual countries cede power to them. In many cases, a primary benefit of such institutions is to provide a mechanism to resolve international disputes, provide non-hegemonic peace-keeping forces, and to bring countries face to face in a diplomatic setting rather than on the battlefield.

On the economic side, the space above national economies also is anarchic, but unlike many zero-sum security exchanges (such as conquering territory), international economic transactions are positive sum and usually provide gains for businesses and consumers on both sides. In cases, however, private trading gains may conflict with national policies (such as in illicit trade). The role of nations in legitimate economic activity is to provide the crucible for it to occur, to facilitate it, to regulate it, and in some cases, own it. In facilitating trade in the anarchic space among nations, for example, governments establish trading rules and cede preferential benefits to other nations through formal mechanisms. These include granting normal trade relations (most-favored nation) status, establishing the World Trade Organization (WTO), adopting free trade agreements, or organizing special financial institutions such as the World Bank or International Monetary Fund.

Trade and security arrangements and institutions also provide a platform for countries to take leadership roles and to spread their influence. The end of the Cold War brought unipolarity with the United States sitting at the top. Asian nations recognize that the United States will continue to exercise major influence in the region, but Beijing, in particular, sees the formation of an exclusive Asian organization as an opportunity to help reclaim what it considers to be its historical position as the regional leader in Asia. China also would like to weaken the relationships between the United States, Japan and South Korea (India also) and see countries in Asia more acquiescent to its own desires.⁷ ASEAN, likewise, sees itself as a more neutral party in the big power rivalry as this plays out in Asia and a moving force for regionalism. Southeast Asians observe that it matters not whether the big elephants are courting or fighting, in the process the surrounding spectators can get trampled.

East Asia also has a unique history that plays into the interaction among nations and the composition of any regional organization. Historically, there have been two major models that linked East Asian countries. The first occurred when China considered itself the “Central Kingdom” and sat atop a hierarchy as a “superior state” whose values and culture spread throughout the region. This Sino-centric order required surrounding countries to treat China somewhat like the head of a family and to pay respects and tribute to Peking. The second model came under the Japanese-controlled Greater East Asian Co-prosperity Sphere prior to and during World War

⁷ Roy, Denny. China-Japan Relations: Cooperation Amidst Antagonism. Asia-Pacific Center for Security Studies. Special Assessment, October 2004. Available at [<http://www.apcss.org/Publications/SAS/AsiaBilateralRelations/China-Japan%20Relations%20Roy.pdf>]

II.⁸ Under this model, Japan forcibly subdued or received through war settlements territory that now includes the Korean peninsula, Taiwan, much of China, and much of Southeast Asia. Japan's occupation of many of these areas was often brutal, and resentment still lingers, particularly in South Korea and China. The wariness of some Asian nations to join in a grouping that would allow China or Japan to take the lead often harkens back to memories of either of these historical East Asian structures.

Scholars have long observed the relationship between economic interaction and warfare. A "democratic peace" hypothesis states that democratic nations (particularly liberal democratic nations) almost never go to war with one another. Recent academic studies of the results of economic interdependence and security indicate the following:

- Among nations, the greater the interdependence (the greater the costs of exiting from an economic relationship), the greater the probability that the nations will not seek political demands that could lead to conflict. On the other hand, economic interdependence also can be used as leverage to extract political demands.⁹ The greater the extent that internationally oriented coalitions in a country (actors with interest in expanding foreign markets or in importing) have political clout, the more likely that outside, economic incentives or sanctions will be effective in influencing policy in the country in question.¹⁰ The more democratic and market-oriented a country is, the more likely this will occur.
- The expectation of future commercial gains between nations helps to dampen political tensions and deter the onset of hostilities. Such future gains are enhanced by preferential trading arrangements, such as FTAs. Membership in preferential trading arrangements tends to inhibit interstate conflict.¹¹
- Economic and security arrangements increase opportunities for communication, establishing personal ties between people, and cooperating in diplomatic endeavors. This reduces the chances for

⁸ See, for example, Han Dongyu. What Anti-Japanese Protests Tell Us, *Japan Spotlight*, November/December 2007. Pp. 42-43.

⁹ See, for example: Crescenzi, Mark J. C. *Economic Interdependence and Conflict in World Politics* (Lanham, MD, Lexington Books, 2005) p. 6.

¹⁰ Papayoanou, Paul A. And Scott L. Kastner, "Sleeping With the (Potential) Enemy: Assessing the U.S. Policy of Engagement with China," in Jean-Marc F. Blanchard, Edward D. Mansfield, and Norrin M. Ripsman, *Power and the Purse, Economic Statecraft, Interdependence, and National Security* (Portland, OR, Frank Cass, 2000) p. 159ff.

¹¹ Copeland, Dale C. "Trade Expectations and the Outbreak of Peace: Dètente 1970-74 and the End of the Cold War 1985-91," p. 93 and Edward D. Mansfield, Jon C. Pevehouse, and David H. Bearce, "Preferential Trading Arrangements and Military Disputes," p. 16, both in Jean-Marc F. Blanchard, Edward D. Mansfield, and Norrin M. Ripsman, *Power and the Purse, Economic Statecraft, Interdependence, and National Security* (Portland, OR, Frank Cass, 2000) 343 p.

miscalculations and misperceptions and increases the chances for direct diplomacy and back-channel communications. On the other hand, economic arrangements may increase competition for domestic industries and invite blowback from trade liberalization.

What Are Regional Trade Agreements?

The motivation for trade and financial agreements is usually to gain benefits for exports, imports, or investments that are not available through global concessions agreed to multilaterally through the WTO. Under WTO rules, bilateral and regional trade agreements can lower barriers between signatory countries but cannot raise barriers to other economies.

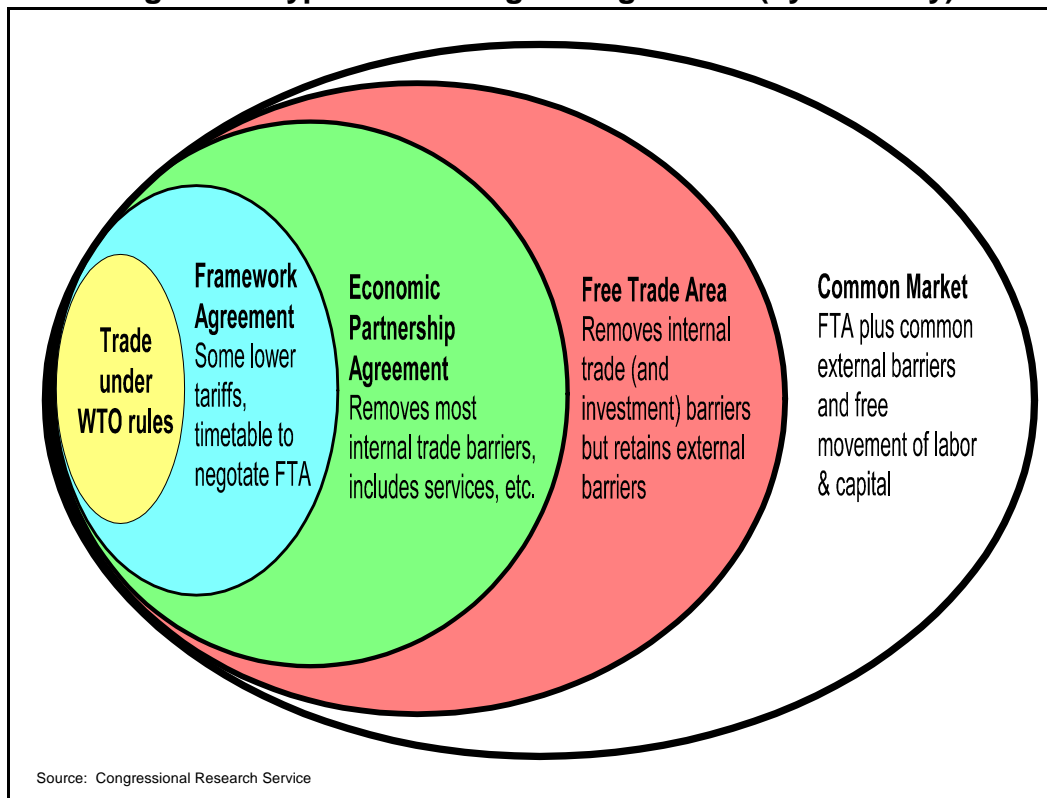
Trade agreements have both trade diversion and trade creation effects. They divert existing trade toward the signatory countries but also may create more trade overall.¹² Free trade and other trade agreements also may lock in market access or other benefits provided by one government in a country that are under risk of being withdrawn by successive governments. They also may induce governments to take politically difficult actions, such as opening agricultural markets or providing labor rights or protection for the environment. Any change in the rules of trade, however, creates both winners and losers — those who can take advantage of the new trading regime and those who are hurt by it. There usually will be some economic actors (particularly declining or non-competitive industries or certain labor groups) that are protected from international competition under an existing trade regime that will be worse off if that protection is eliminated by a free-trade agreement. Environmental or other interests also may be threatened by more trade (e.g., logging of old growth forests).

As with the European Union or the North American Free Trade Area, preferential trade arrangements usually follow trading patterns. FTAs do not spring into existence *ex nihilo* (out of nothing), although in cases FTAs are pursued for political more than economic reasons. FTAs typically proceed through evolutionary stages with respect to intensity (greater liberalization) and expansiveness (more members). As shown in **Figure 1**, trading relationships begin with unorganized trade and investment flows based on comparative economic advantage. Trade then can come under broad international trading rules such as those stemming from normal trade relations (most-favored nation) status or from the WTO. Trade then can be placed under a preferential trading arrangement with special access privileges or reduced barriers but not necessarily free trade. As a precursor to a preferential trading arrangement, the United States uses Trade and Investment Framework Agreements (TIFA) to strengthen bilateral trade and support economic reform in the partner country through regular senior-level discussions on commercial and economic issues. Other countries use Framework Agreements that may provide for an “early harvest” of trade concessions and launch discussions on a future FTA.

¹² For discussion of free trade agreements, see CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, by William H. Cooper.

Japan and other countries often negotiate partial FTAs called Economic Partnership Agreements (EPA). These have established free trade in most manufactured goods, but they also may exclude sensitive sectors, such as agriculture. In some cases, they include only a few actual trade concessions. They also may map a path toward a full FTA. An FTA usually provides for eliminating tariffs on goods, liberalized access in services and investment flows, as well as other provisions. The most extensive trading arrangement is a common market which goes beyond an FTA. Its members have free trade among themselves plus common external barriers and allow for free movement of labor and capital among member states.¹³ As trade arrangements become more intense, they also can become more expansive by including other countries (such as is occurring with European Union enlargement).¹⁴

Figure 1. Types of Trading Arrangements (by Intensity)



In East Asia, most trade agreements have been driven by the market. They also have been competitive. The benefits available under a preferential trade agreement usually induce other countries to seek the same trade advantages or risk losing business for their exporters or investors. In some cases, the arrangements (or lack

¹³ In a customs union, members have common external tariffs but not free trade among themselves.

¹⁴ One author claims that bringing other countries into the European Union changes them forever and creates a zone of power rather than one of weakness. The author claims that this process eventually will allow Europe to lead the world in the 21st century. Leonard, Mark. *Why Europe will Run the 21st Century*. New York, Fourth Estate, 2005.

thereof) are politically driven, particularly in the case of Taiwan as Beijing attempts to isolate it diplomatically while Taipei tries to counter the diplomatic snubs that belie existing underlying trading relations. In other cases, politics and disputes over history (especially between Japan and China and South Korea) have hindered the conclusion of free trade agreements.

Regional Economic and Financial Arrangements

Regional trade agreements (RTAs), including FTAs, have become a major vehicle to achieve trade and investment liberalization. They are being negotiated both as a supplement to and concurrently with multilateral trade negotiations under the WTO. While some see RTAs as stumbling blocks to global trade liberalization, others see them as building blocks to eventual global free trade. WTO agreements tend to result in “lowest common denominator” outcomes, whereas RTAs can go beyond WTO agreements with deeper concessions made by like-minded nations.

The complex web of free trade agreements in the world, sometimes referred to as a “spaghetti bowl,” is becoming denser each year. The WTO reports that as of July 2007, 380 regional trade agreements had been notified to the WTO, and 205 agreements were in force. Close to 400 RTAs are scheduled to be implemented by 2010.¹⁵ The major East Asian RTA relationships are summarized in **Table 1**.

Existing Preferential Trading Arrangements

In East Asia, home to many of the most dynamic economies in the world, the competition is intensifying to join in regional trade agreements.¹⁶ In 1992, **ASEAN** created an ASEAN FTA (AFTA) among its member nations. Under this arrangement, ASEAN states have already made significant progress in lowering intra-regional tariffs. The ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) have reduced tariffs to 5% or less on 99% of the products agreed to under the Common Effective Preferential Tariff Scheme for AFTA. Cambodia, Laos, Burma/Myanmar and Vietnam have been given more time to lower their tariffs.¹⁷ This FTA covers all manufactured and agricultural products. However, 734 tariff lines in the General Exception List, representing about 1.09% of all tariff lines in ASEAN, are permanently excluded from the free trade area for reasons of national security; protection of health and human, animal or plant life; and for artistic, historic or archaeological reasons.

¹⁵ World Trade Organization. RTA Gateway at [http://www.wto.org/english/tratop_e/region_e/region_e.htm].

¹⁶ For a listing of regional and bilateral free trade agreements, negotiations, and those under discussion (with links to official documents and press releases) by APEC members, see: [http://www.apec.org/webapps/fta_rta_information.html#others_fta].

¹⁷ Association of Southeast Asian Nations. Trade/The ASEAN Free Trade Area (AFTA). On Internet at [<http://www.aseansec.org/12021.htm>].

Table 1. Free Trade Agreements, Negotiations, and Discussions by Selected East Asian and Other Nations, 2006

		Singapore				Indonesia							
		ASEAN			Thailand								
		Taiwan		Malaysia									
		South Korea		United States									
		Japan		Australia									
		China		Other									
China		D			PF	PF	PF	PF	PF		N	a	
Japan	D		N		F	F	N	F	F		D	b	
S. Korea		N			PF	PF	PF	N	PF	N	D	c	
Taiwan												d	
ASEAN	PF	N	PF								N	a	
Singapore	PF	F	F				F	F	F	F	F	e	
Indonesia	PF	F	F				F	F	F	D	N	f	
Thailand	PF	F	N				F	F	F	N	F	g	
Malaysia	PF	F	F				F	F	F	N	N	h	
Philippines	N	F	F				F	F	F	F	D	N	i
Vietnam	N	N	F				F	F	F	F		N	j
Australia	N	N	D		N	F	N	F	N	F			k
N Zealand	N				N	F	N	F	N		F	l	

Source: Various news articles and Asia Pacific Economic Cooperation Secretariat.

Notes: F = Existing FTA (may not be fully implemented). PF=Partial FTA (many sectors not included or plan for future FTA implementation). N = FTA Negotiations. D = FTA Discussions.

^aChina has an FTA with Hong Kong, Macao. Partial FTA with Chile. Negotiations with Pakistan with early harvest agreement. Discussions with Iceland and Gulf Countries. ^bJapan has an FTA with Mexico and Chile. Negotiations with Brunei. ^cS. Korea has an FTA with Chile, EFTA, and the U.S.(unratified). Negotiations with Canada, Japan, Mexico. ^dTaiwan or Chinese Taipei has an FTA with Panama, Guatemala, Nicaragua, El Salvador, Honduras. ^eASEAN has a Closer Economic Partnership with India. ^fSingapore has an FTA with India, EFTA, and New Zealand; a partial FTA with Jordan, is a member of the Trans-Pacific Strategic Economic Partnership Agreement with Brunei, Chile, and New Zealand, and is in negotiations with Mexico, Canada, Peru, Bahrain, Egypt, Pakistan, Kuwait, Qatar, U.A.R., Panama, and Sri Lanka. ^gIndonesia is a member of the South Pacific Regional Trade and Economic Cooperation Agreement, is negotiating with the U.S., and is in discussions with India. ^hThailand has an FTA with Bahrain, a partial FTA with India, and negotiations with Peru, Chile, and Papua New Guinea. ⁱMalaysia has an FTA with Chile and Brunei, negotiations with New Zealand, and discussions with India. ^jThe Philippines has an FTA with EFTA and is in negotiations with New Zealand and Israel. ^kVietnam has an FTA with the Andean Community and negotiations with New Zealand, EFTA, and the UAE. ^lAustralia has talks with UAE, Egypt. ^mN. Zealand is a member of the Trans-Pacific Strategic Economic Partnership Agreement with Brunei, Chile, and Singapore.

In 2003, ASEAN also established the ASEAN Community. This has three pillars: the ASEAN Security Community, the ASEAN Economic Community, and the ASEAN Socio-Cultural Community.

While ASEAN has been fostering closer political, economic, and cultural relations among its member states, the organization also has concluded various agreements with other nations that provide some immediate trade liberalization and contain provisions for negotiations that are to lead to formal free trade agreements. In November 2002, ASEAN and China signed a Framework Agreement on Comprehensive Economic Co-operation. This provides for an ASEAN-China Free Trade Area (ACFTA) by the year 2010 between China and the more industrialized ASEAN-6,¹⁸ and by 2015 for Cambodia, Laos, Myanmar, and Viet Nam.¹⁹ ASEAN also has signed a Closer Economic Partnership Agreement with Australia and New Zealand, and in 2005, began negotiating an FTA with those nations. In November 2007, Japan and ASEAN endorsed a free trade agreement under which tariffs would be eliminated on 90 % of imports by both sides, but key items such as rice and beef would remain protected. ASEAN is negotiating a similar Agreement with India.²⁰ With South Korea, ASEAN has signed an FTA pact that covers goods trade only. In December 2005, Thailand refused to sign the agreement because South Korea excluded rice from the 4,000 items that are to have import tariffs cut to below 20% and then to zero by 2009 (with an additional five years for the newer ASEAN member nations).²¹ In 2008, Thailand and South Korea concluded negotiations that brought Thailand into the ASEAN-Korea FTA and gave Thailand more flexibility than other ASEAN nations in cutting or waiving its tariffs or both.²²

Since ASEAN is not a common market, it may negotiate an FTA agreement, but each individual member must sign it and implement it as if it were a bilateral agreement. ASEAN does not have common external tariff rates. Individual ASEAN countries also may pursue bilateral FTAs on their own. **Singapore** has been most aggressive in doing so. It has concluded free trade agreements with the United States, European Free Trade Association (EFTA),²³ Japan, Australia, South Korea,

¹⁸ The ASEAN-6 are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

¹⁹ Association of Southeast Asian Nations. Do Business with China under the ASEAN-China Free Trade Area (ACFTA). c. 2003. At [<http://www.aseansec.org/4920.htm>]

²⁰ Association of Southeast Asian Nations. Ministerial Declaration on the AFTA-CER Closer Economic Partnership. September 14, 2002. Framework for Comprehensive Economic Partnership Between The Association of Southeast Asian Nations and Japan. October 8, 2003. Framework Agreement on Comprehensive Economic Cooperation Between the Association of Southeast Asian Nations and the Republic of India, October 8, 2003.

²¹ South Korea Signs Free Trade Pact with ASEAN, Excludes Thailand. *Jakarta Post*, December 13, 2005. Accessed through [<http://www.Bilaterals.org>]. ASEAN. Joint Media Statement of the Third ASEAN Economic Ministers-Republic of Korea Consultations, Makati City, Philippines, May 16, 2006.

²² *Washington Trade Daily*, volume 17, January 1-4, 2008. P. 4.

²³ EFTA (European Free Trade Association) members are Iceland, Liechtenstein, Norway (continued...)

and Panama, as well as partial FTAs with China, India, and Jordan. Singapore is a member of the Trans-Pacific Strategic Economic Partnership Organization (an FTA among Singapore, New Zealand, Chile, and Brunei).²⁴ It has ongoing negotiations with Mexico, Canada, South Korea, India, Pakistan, Peru, Sri Lanka, Egypt, Bahrain, Kuwait, Qatar, and the United Arab Emirates.

In addition to being a member of the ASEAN FTA, **Thailand** has concluded FTAs with Australia, New Zealand,²⁵ Japan, and South Korea. It has framework agreements with India,²⁶ Peru,²⁷ Bahrain,²⁸ and BIMSTEC.²⁹ Thailand is negotiating FTAs with the United States,³⁰ India, and EFTA. In 2005, Thailand and Pakistan agreed in principle to draw up a free trade agreement under the Economic Comprehensive Partnership existing between the two nations.³¹ Thailand also is considering an FTA with Morocco.

Likewise, the **Philippines, Indonesia, and Malaysia** have been initiating talks and signing various types of trade agreements. Negotiations for a U.S.-Malaysia FTA began in June 2006.³² **Cambodia, Vietnam, and Laos** are far behind in the process. They barely have been able to sign trade agreements, let alone free trade or other types of preferential trade arrangements. Laos is not a member of the WTO, and Cambodia joined in 2004 while Vietnam joined in 2007. Vietnam and Japan are negotiating on a bilateral FTA. All ASEAN members are committed to trade liberalization within ASEAN and generally have attempted to negotiate bilateral FTAs parallel with ASEAN's FTA agreements with other countries and also to conclude preferential trading arrangements with a variety of other nations.

²³ (...continued)
and Switzerland.

²⁴ For details, see [<http://www.iesingapore.gov.sg/wps/portal/FTA>].

²⁵ For details, see [http://www.thaifta.com/english/index_eng.html].

²⁶ Framework Agreement for Establishing Free Trade Area Between the Republic of India and the Kingdom of Thailand, October 9, 2003. See text at [http://www.thaifta.com/english/index_eng.html].

²⁷ See text at [http://www.thaifta.com/english/index_eng.html].

²⁸ The agreement provides for initial tariff reductions with zero tariffs phased in by 2010. See text at [http://www.thaifta.com/english/index_eng.html].

²⁹ BIMSTEC was established in June 1997 to foster socioeconomic co-operation leading to an FTA among Bangladesh, India, Sri Lanka, and Thailand. Myanmar was admitted in 1997, and Bhutan and Nepal were admitted in 2004. See [<http://www.bimstec.org>].

³⁰ See CRS Report RL32314, *U.S.-Thailand Free Trade Agreement Negotiations*, by Raymond J. Ahearn and Wayne M. Morrison.

³¹ Phanayanggoor, Preeyanat. Plan for FTA with Islamabad. *Bangkok Post*, May 10, 2005. Accessed through [<http://www.Bilaterals.org>].

³² For details, see CRS Report RL33445, *The Proposed U.S. Malaysia Free Trade Agreement*, by Dick K. Nanto.

The **People's Republic of China** has taken an aggressive stance toward establishing FTAs with trading partners. In 2002, it signed an FTA (Framework Agreement) with ASEAN that would create a zero-tariff market for China and the six original ASEAN members by 2010 and in 2015 for the other four members. This included an early harvest program that eliminated tariffs on goods and in 2007 the a further agreement included services under the FTA. China also has FTAs with Hong Kong and Macao and an FTA in goods trade with Chile. It has discussed FTAs with 27 countries and is negotiating with Canada, Pakistan (agreed to an early harvest program), Australia, New Zealand, Iceland, Chile, the Southern Africa Customs Union, and Norway. China also has signed a framework agreement on economic cooperation with the countries of the Arab Gulf Cooperation Council and has held discussions with South Korea, Peru, and Switzerland that may lead to FTA negotiations.

Japan joined the FTA race relatively late. It is burdened by a highly protective agricultural sector and a trade agenda that has placed top priority on multilateral trade negotiations under the WTO. In 1999, officials in Tokyo decided to jump on the free trade bandwagon and signaled their policy change by calling for a free trade agreement in Northeast Asia.³³ Japan began its quest for FTAs by signing an Economic Partnership Agreement (EPA) with Singapore in 2003. It then sought to counter the effects of the NAFTA by signing an EPA with Mexico in 2004. Japan signed an economic partnership agreement with the Philippines in 2006,³⁴ also signed an EPA (eliminating tariffs on 97% of goods traded) with Malaysia that went into effect in July 2006,³⁵ in 2005 agreed to an EPA with Thailand, in 2006 to one with Indonesia, and in 2007 signed EPAs with Chile and Brunei and a framework agreement with ASEAN as a whole that is to lead to an FTA. The Japan-South Korean FTA talks have bogged down over disputes dealing with agricultural products, history, and competing claims to an island. Japan also is negotiating with India, the Arab Gulf Cooperation Council, Australia, Vietnam, and Switzerland.³⁶ Japan is exploring possible FTA negotiations with Switzerland and Australia.³⁷ Brazil is a further target creeping into Japan's bilateral trade agenda,³⁸ and in 2007 Japan signed a Framework Agreement with ASEAN. Japan reportedly views FTAs

³³ Ravenhill, John. A Three Bloc World? The New East Asian Regionalism. *International Relations of the Asia Pacific*, August 1, 2002. Vol. 2, Issue 2. P. 179ff.

³⁴ Japan. Ministry of Foreign Affairs. The Signing of the Japan-Philippines Economic Partnership Agreement, September 8, 2006.

³⁵ Japan. Ministry of Economy, Trade, and Industry. Joint Press Statement on the Occasion of the entry into force of the Agreement between the Government of Japan and the Government of Malaysia for an Economic Partnership, 13 July 2006.

³⁶ Tariq Khonji. Japan Pushes for Trade Accord with GCC States. *Gulf Daily News*, December 21, 2005, at [http://www.bilaterals.org/article.php?id_article=3340].

³⁷ Japan External Trade Organization. *2007 JETRO White Paper on International Trade and Foreign Direct Investment — Increasing Utilization of Asian FTAs and Growth Strategies for Japanese Companies — Summary and Reference Materials*. August 8, 2007.

³⁸ Japan. Ministry of Economics, Trade, and Industry. Japan's Policy on FTAs/EPAs, March 2005. Online at [http://www.meti.go.jp/english/policy/index_externaleconomic_policy.html].

with China, India, and Australia as a means to gain more clout in a proposed East Asian community.³⁹ It has backed the creation of an East Asia FTA that would include ASEAN, China, Japan, South Korea, Australia, New Zealand, and India, the same composition as the East Asia Summit. Japan also participates actively in the ASEAN + 3 group that includes ASEAN plus China, South Korea, and itself.

South Korea also has joined the rush to conclude FTAs. After seeing a surge in its exports to Chile after its first free trade accord with that country came into effect in April 2004, South Korea announced in March 2005 that it intended to initiate trade talks with as many as 50 countries and push for FTAs with more than 15 of them.⁴⁰ In addition to Chile, Seoul has signed FTA arrangements with Singapore⁴¹ and EFTA,⁴² and all the major ASEAN countries have signed the ASEAN-South Korea FTA agreement.⁴³ South Korea also has ongoing FTA talks with Japan, Canada, India, China, Mercosur,⁴⁴ Mexico, and the European Union. In 2007, South Korea and the United States concluded negotiations on their bilateral FTA which awaits legislative approval. South Korea also is having discussions on beginning FTA negotiations with Israel, the Gulf Cooperation Council (Saudi Arabia, Kuwait, the UAE, Bahrain, Oman and Qatar), Peru, South Africa, and Russia. For now, Seoul is only studying a possible FTA with Australia, a country rich in agricultural products, and is considering raising the possibility with North Korea.

With the international status of **Taiwan (Chinese Taipei)** in dispute along with a campaign to isolate it by Beijing, Taiwan faces great difficulty in finding partner countries willing to negotiate free trade arrangements. Taiwan has FTAs with Panama, Guatemala, Nicaragua, El Salvador, and Honduras. It is pursuing a similar agreement with Paraguay. Pressure from China, however, apparently has led the South American trade bloc Mercosur to prohibit its members from signing unilateral

³⁹ Trade Reports International Group. *Washington Trade Daily*, Vol. 15, No. 2 and 3, January 3 and 4, 2006. P. 2.

⁴⁰ Lee, Si-wook. Understanding FTAs: Going Back to the Basics. *Korea Herald*, posted on Bilaterals.org on November 14, 2005. Lee, Jong-Heon. Analysis: S.Korea's FTA Push. UPI newswire, March 30, 2005.

⁴¹ Signed August 4, 2005. Approved by the Korean parliament on December 1, 2005. Scheduled to come into effect in March 2006. It calls for Korea to remove tariffs on 91.6% of its trade items with Singapore within 10 years and for Singapore to lift tariffs on all trade items with South Korea. (Parliament Ratifies FTA with Singapore, *Daily Chosun Ilbo*, December 2, 2005.)

⁴² Signed July 12, 2005, with Iceland, Norway, Switzerland, and Liechtenstein. EFTA is to lift all tariffs on imports from South Korea as soon as the deal goes into effect while South Korea is to remove duties on 99.1% of products imported from EFTA over the next seven years.

⁴³ In December 2005, Thailand insisted that Korea place rice on the list of goods facing tariff cuts before it would sign the accord.

⁴⁴ Mercosur is a trading zone established in 1991 by Brazil, Argentina, Uruguay, and Paraguay. It was later amended and updated by the 1995 Treaty of Ouro Preto. Its purpose is to promote free trade and the fluid movement of goods, peoples, and currency. Bolivia, Chile, Colombia, Ecuador, Mexico, Peru, and Venezuela are associate members.

trade agreements with other economies, particularly as Mercosur considers an FTA with China.⁴⁵ Taiwan has indicated that the United States, New Zealand, and Singapore are the top priority for FTA partners.⁴⁶ Taiwan also has raised the topic with Thailand, Japan, and ASEAN. Taipei is particularly concerned about being excluded from the ASEAN+3 group and the East Asian Summit and the discussions about building an East Asian Community consisting of the Summit attendees. Taiwan also is wary that a U.S.-South Korean FTA, if implemented, would divert trade away from Taiwan toward South Korea.

East Asian Economic Community

The ASEAN + 3 process (the ASEAN ten⁴⁷ plus China, Japan, and South Korea) has spawned cooperation among these thirteen countries in politics, security, and economics. The group is working to form an East Asian Economic Community (EAEC) that parallels the East Asian Economic Caucus (also called the EAEC) originally proposed in 1990 by former Prime Minister Mahathir Mohamad of Malaysia. At the time, the United States opposed such an exclusive East Asian grouping primarily out of concern that it would develop into an exclusive Asian trading bloc even though it was proposed as mainly a consultative mechanism. Now, however, the U.S. strategy is not to oppose regional trading and consultative arrangements but to ensure U.S. access through bilateral agreements, global institutions, or through close coordination with friendly member nations.

The ASEAN Plus Three Unit helps coordinate the activities of the group and is located within the ASEAN Secretariat in Singapore. The ASEAN + 3 group holds its annual summit immediately following the ASEAN summit. So far it has focused on its annual summits, trade facilitation, establishing institutional structures for financial and monetary cooperation, and discussing political and security matters.

An East Asian Economic Community eventually could become a free trade area and powerful Asian trading bloc that could rival the free trade areas in North America and Europe. Economic and financial cooperation among the ASEAN + 3 nations was given a fillip by reports by the East Asia Vision Group in 2001 and the East Asia Study Group in 2002. These reports laid out a vision for the group and proposed specific measures including holding the East Asian Summit, completing bilateral FTAs and eventually an East Asian FTA, greater financial cooperation including an Asian Bond Market, establishing a network among East Asian think tanks, forming an East Asian Business Council, and pursuing a more closely coordinated regional exchange rate regime. Since most of the more industrialized countries of ASEAN already have bilateral FTAs with China, Japan, and South

⁴⁵ Ho, Jessie. Paraguayan FTA Safe: Government. *Taipei Times*, February 15, 2005.

⁴⁶ Chen, Melody. FTA Push Moves Into High Gear. *Taipei Times*, November 8, 2004. P. 2.

⁴⁷ The ten members of the Association of Southeast Asian Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Burma/Myanmar, and Cambodia.

Korea, the building blocks exist for the East Asian Economic Community.⁴⁸ This, however, would require that the negotiations on the Japan-South Korea FTA be completed and that FTA agreements be concluded between China and Japan as well as between China and South Korea.

China is a major force in the ASEAN + 3 process. This reportedly has become China's preferred regional forum in which both political/security and economic issues are addressed. In East Asia, China, Japan, ASEAN, and the United States all are vying for leadership of the region. Traditionally, Japan has led in economics and finance, ASEAN in coordinating regional institutions, and the United States and China in security issues. With China's rise and its increasing clout in political, economic, and security matters, Beijing apparently sees ASEAN +3 as an institution in which it can take the lead without competition from the United States or Europe or the dilution of East Asian interests by India or Australia.

The ASEAN + 3 nations have already established certain cooperative financial arrangements.⁴⁹ These have resulted primarily from the adverse effects of the 1997-98 Asian financial crisis. In particular, in May 2000, the ASEAN+3 Finance Ministers agreed to what is called the **Chiang Mai Initiative** (named after the city in Thailand where the meeting took place). The initiative aims to create a network of bilateral swap arrangements, by which short-term liquidity can be provided to support participating ASEAN+3 countries in need. The idea is that in times of currency crisis, China, Japan, and South Korea would swap their foreign exchange reserves for the currencies of ASEAN countries in crisis. This network of bilateral swap arrangements has been formalized among China, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore and Thailand — the major countries in ASEAN+3.⁵⁰

Proposed East Asian Free Trade Area

In 2006, Japan proposed a 16-nation East Asian Free Trade area to be coordinated by an organization similar to the Organization for Economic Cooperation and Development (OECD). The 16 nations would include the ten members of the Association of Southeast Asian Nations, Japan, China, South Korea, India, Australia,

⁴⁸ Association of Southeast Asian Nations. ASEAN Plus Three Cooperation. Accessed December 29, 2005, at [<http://www.aseansec.org/16580.htm>].

⁴⁹ For an extensive discussion, see Cowen, David, et al. Financial Integration in Asia: Recent Developments and Next Steps. IMF Working Paper, WP/06/196, August 2006. 59pp.

⁵⁰ See UNESCAP. Regional Financial Cooperation in East Asia: The Chiang Mai Initiative and Beyond. *Bulletin on Asia-Pacific Perspectives 2002/03*. Chapter 8. Available at [<http://www.unescap.org/pdd/publications/bulletin2002/ch8.pdf>].

and New Zealand,⁵¹ identical to the membership of the East Asia Summit. Japan stated that it planned to launch negotiations for the East Asia FTA in 2008.⁵²

The concept was welcomed by ASEAN and India, but China and South Korea indicated that their first priority would be the ASEAN + 3 FTA proposal.⁵³ U.S. Ambassador to Japan Thomas Schieffer has expressed some concern about the proposed Asia FTA saying it could damage U.S. interests in the region. He said that the United States is uncomfortable “when people start talking about somehow trying to exclude the United States from Asia.” The United States has tremendous interests there and wants to be a part of Asia, he remarked.⁵⁴

Proposed FTA of the Asia Pacific and APEC

At the 2006 Leader’s Meeting of the Asia-Pacific Economic Cooperation forum the APEC members decided to study the possibility of a Free Trade Area of the Asia Pacific (FTAAP). This trans-Pacific FTA was promoted by the United States and would encompass the 21 APEC economies and would include the ASEAN-6 plus Vietnam, China, Chinese Taipei (Taiwan), Hong Kong, Japan, and South Korea in Asia; the United States, Canada, Mexico, Peru, and Chile in the Americas; Australia, New Zealand, and Papua New Guinea in the Pacific; and Russia.⁵⁵ In 1994, APEC declared the so-called “Bogor Goal” of free and open trade and investment in the Asia-Pacific by 2010 for industrialized member economies and 2020 for the rest.

The FTAAP would realize the Bogor Goal, but it raises the question of timing. Should the nations of the Asia Pacific seek a comprehensive trans-Pacific FTA first and skip the intermediate FTA configurations centered on ASEAN or should the immediate focus be on the “ASEAN plus” process with the ultimate aim of linking FTAs in Asia with those in North and South America after the Asian FTA architecture is complete? The question actually centers on China. Which is more likely to materialize: a China-Japan FTA in an ASEAN + 3 or ASEAN + 6 context or a U.S.-China-Japan FTA in an FTAAP context?

A strategy that the United States has been pursuing is for the FTAAP to begin with a few willing nations on both sides of the Pacific to form a nucleus FTA that could be extended to include other APEC members later. One proposal is to begin negotiations for a trans-Pacific FTA that would include with the United States, Chile,

⁵¹ Japan Aims to Launch East Asia FTA Talks in ‘08: Nikai. Jiji Press English News Service. Tokyo: April 4, 2006.

⁵² Japan Aims to Launch East Asia FTA Talks in ‘08: Nikai. Jiji Press English News Service, April 4, 2006.

⁵³ S. Korea, China Snub Japan’s 16-nation FTA Plan. Organisation of Asia-Pacific News Agencies. August 24, 2006.

⁵⁴ US Envoy Expresses Concern About Japan’s Idea of East Asia Free Trade Zone. BBC Monitoring Asia Pacific. London: April 19, 2006.

⁵⁵ Asia Pacific Economic Cooperation. “14th APEC Economic Leaders’ Meeting, Ha Noi Declaration.” Ha Noi, Viet Nam, 18-19 November 2006. For information on APEC, see [<http://www.apec.org>].

Brunei, New Zealand, and Singapore. Exploratory talks reportedly began in late 2007. Four of these countries (excluding the United States) signed a Trans-Pacific Strategic Economic Partnership Agreement (known as the Pacific Four (P4) Agreement) that entered into force in November 2006 and eliminated 90% of tariff lines for the member countries. Brunei joined the negotiations for the agreement later than the other three. The pact is considered to have potential for possible “docking and merging” into an eventual FTAAP.⁵⁶

The Asia-Pacific Economic Cooperation forum, or APEC, was established in 1989 to facilitate economic growth, cooperation, trade, and investment in the Asia-Pacific region. It operates on the basis of non-binding commitments with decisions made on the basis of open dialogue, equal weights for all participants, and consensus.⁵⁷ For the United States, one important feature of APEC is that it includes Taiwan (Chinese Taipei). Other economic and political groupings generally include China but exclude Taiwan.

Regional Political and Security Arrangements

Security arrangements, in most cases, are designed to reduce the risk of hostilities by coopting the interests of the signatory nations and also by presenting a united front to potential adversaries. Such arrangements range from formal alliances and mutual defense institutions to merely creating a forum to discuss security issues in order to build confidence and resolve conflicts through diplomacy.

Under the European model of security, intra-European wars, particularly among Germany, France, England, and Spain, have become a dimming memory as the countries have joined together under the European Union and, for most, the North Atlantic Treaty Organization. Trans-Atlantic institutions, such as the Organization for Security and Cooperation in Europe (Helsinki Commission) also exist that provide a regularized forum to discuss security and human rights issues. Such security arrangements underlie what is sometimes referred to as the new security paradigm: “disconnectedness defines danger.” The threat of the Cold War has been replaced by terrorism, rogue nations with possible weapons of mass destruction, competition for energy and resources, and ethnic or religious conflict. Today, most dangers originate from areas of the world without collective security arrangements and disconnected from the process of globalization, network connectivity, financial transactions, and liberal media flows.⁵⁸ Even in this new age, however, the potential

⁵⁶ U.S. In Trade Talks With Singapore, Brunei, New Zealand, Chile, *Inside U.S. Trade*, December 21, 2007.

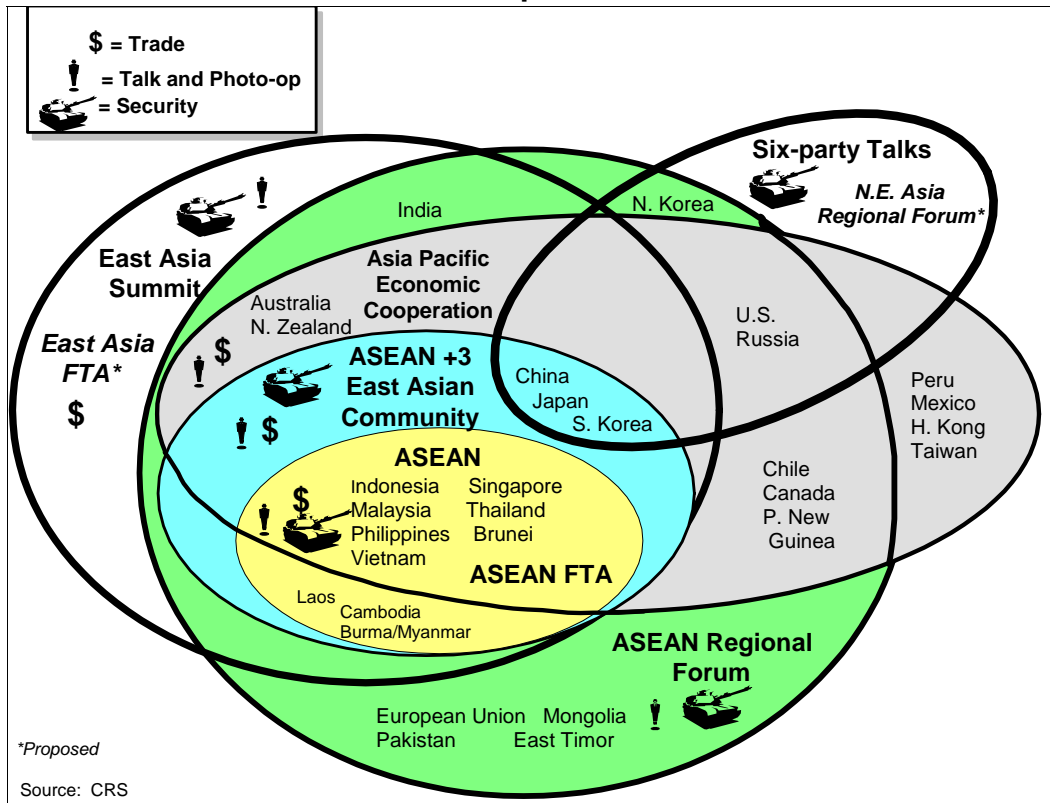
⁵⁷ For information on APEC, see CRS Report RL31038, *Asia Pacific Economic Cooperation (APEC), Free Trade, and the 2006 Summit in Hanoi, Vietnam*, by Michael F. Martin.

⁵⁸ Barnett, Thomas P.M. *The Pentagon's New Map, War and Peace in the Twenty-first Century*, New York : G.P. Putnam's Sons, 2004, 435 p.

for a big power confrontation (including one with a nuclear-armed China) still exists.⁵⁹

Regional political and security arrangements in East Asia are still in the developmental stage compared with those in Europe, the North Atlantic, or Gulf States. The major efforts in Asia include the ASEAN Security Community, ASEAN Regional Forum, the East Asia Summit, the Shanghai Cooperation Organization, and the six-party talks. **Figure 2** shows current and proposed regional trade, political, and security arrangements in East Asia. Currently, ASEAN is playing a key organizing role in several of the arrangements, but it is doing so partly at the strong instigation of China and with close cooperation from Beijing. The United States also is a major player and is acting from both inside and outside depending on the organization. The United States plays a central role in APEC and the six-party talks, and is a major participant in the ASEAN Regional Forum. The United States also would be a key member of the proposed Northeast Asia Regional Forum and could join the East Asia Summit. The security related organizations in East Asia are discussed below.

Figure 2. East Asian Regional Arrangements — Existing and Proposed



⁵⁹ See, for example: Office of the Secretary of Defense. *Annual Report to Congress, The Military Power of the People's Republic of China, 2005*. Released July 19, 2005, p. 42.

ASEAN and the ASEAN Security Community

The Association of Southeast Asian Nations or ASEAN was established in 1967 with five original members: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Brunei joined in 1984, Vietnam in 1995, Laos and Burma (Myanmar) in 1997, and Cambodia in 1999. ASEAN was formed at the time of the Vietnam war purportedly to enhance economic, social, and cultural cooperation, but in reality, it was a product of the Cold War and part of the U.S. strategy to contain communism, particularly that being promulgated by China and Vietnam. After the 1975 U.S. withdrawal from Vietnam, ASEAN increasingly became a vehicle for the Southeast Asian nations to resolve territorial and other problems through consensual and informal community building efforts. ASEAN has attempted to coopt the interests of Cambodia, Burma/Myanmar, and Laos by bringing them into membership, but the results have been mixed, particularly with respect to the military junta in Burma/Myanmar.

Currently, ASEAN is playing a leading role (with a strong play by China) in moving the countries of the region toward organizing into cooperative arrangements. ASEAN often can take the lead in building multilateral institutions because it is viewed as more neutral and non-threatening than China or Japan. ASEAN has created the ASEAN Security Community to foster greater political and security cooperation and help ensure peace and harmony.

ASEAN + 3 (China, Japan, and South Korea)

ASEAN + 3 came about in 1997 as an unanticipated result of a Japanese proposal to create a regular summit process between ASEAN and Tokyo with an agenda that included security. Concerned with possible negative response from other Asian nations, ASEAN subsequently broadened the proposed summit to include China and South Korea. The ASEAN + 3 members meet regularly after each ASEAN summit to discuss finances, economics, and security. China reportedly favors this organization over the East Asian Summit because it does not include other big powers, such as India, although Beijing continues to support the East Asian Summit.

ASEAN Regional Forum

The ASEAN Regional Forum (ARF) was established in 1994 with the purpose of bringing non-ASEAN nations from the Asia-Pacific region together to discuss political and security matters and to build cooperative ties.⁶⁰ The 25 participants in ARF include the ten members of ASEAN, the United States, China, Japan, European Union, Russia, Australia, Canada, New Zealand, South Korea, North Korea, India, Pakistan, Mongolia, Papua New Guinea, and East Timor.

In a region with little history of security cooperation that crosses philosophical lines, the ASEAN Regional Forum is the principal institution for security dialogue in Asia. ARF claims that it complements the various bilateral alliances and

⁶⁰ The ARF homepage is at [<http://www.aseanregionalforum.org/default.aspx?tabid=55>].

dialogues which underpin the region's security architecture. ARF was created to provide the missing link between U.S. security guarantees that appeared to be weakening in the early 1990s and the uncertainties produced by the prospect of a new regional multipolarity developing with the resurgence of China. The ARF is characterized by minimal institutionalization and the "ASEAN way" of gradualism and consensualism.⁶¹ The ARF process begins with transparency (through the publication of military-spending and deployment information), dialogue, and confidence-building measures; then moves to preventive diplomacy (discussion and mutual pledges to resolve specific disputes solely through peaceful means); and, in the long term, hopes to develop a conflict resolution capability. The vision of ARF is to manage and prevent conflict rather than engage in it.⁶²

Currently, most of the ARF measures have been at the level of dialogue and confidence building, particularly with respect to the region's counter terrorism effort and the North Korean missiles/nuclear program.⁶³ Still the ARF provides a venue for foreign ministers (Secretary of State for the United States) from Asia/Pacific countries to meet and focus on specific current issues. This also can be one of its weaknesses. Security discussions do not include defense ministers. In the July 2006 annual meetings, eight of the members held talks on North Korea. Although North Korea was also in attendance, it was not invited to join the talks.⁶⁴ This annual meeting also seemed to compel U.S. decision makers to focus on Asian issues at a time when the Middle East was dominating world attention.

East Asian Summit⁶⁵

The East Asian Summit (EAS) is a new organization that met for the first time on December 14, 2005, in Malaysia. It brought together the ten ASEAN nations, the "plus three" states of China, South Korea, and Japan, as well as Australia, New Zealand, and India. The United States was not invited to attend. This meeting was timed to follow the ASEAN Summit as well as bilateral meetings between ASEAN and Russia, Japan, South Korea, and India.

Many see the EAS as a reformulation on the political and security side of the East Asian Economic Caucus (EAEC). At the time, the United States opposed such an exclusive East Asian grouping primarily out of concern that it would develop into

⁶¹ Ooi, Su-Mei. *Globalisation and Security: The Role of International Financial Institutions in Pacific Asian Security*. Baden-Baden, Germany, Nomos Verlagsgesellschaft, 2001. P. 106.

⁶² Asian Anxieties, Pacific Overtures: Experiments in Security. *World Policy Journal*, Summer 1994, Vol.11, Issue. 2; pp. 37-45.

⁶³ Australian Government. Department of Foreign Affairs and Trade. Background to the ASEAN Regional Forum, accessed June 5, 2006. [<http://www.dfat.gov.au/arf/background.html>].

⁶⁴ Wright, Robin. Rice to Hold Talks on North Korea. *Washington Post*, July 27, 2006. Online version.

⁶⁵ Based on CRS Report RL33242, *East Asia Summit (EAS): Issues for Congress*, by Bruce Vaughn.

an exclusive Asian trading bloc even though it was proposed as mainly a consultative mechanism. Now, however, the U.S. strategy is not to oppose regional trading and consultative arrangements but to ensure U.S. access through bilateral agreements, global institutions, or through close coordination with friendly member nations.

China has played a strong role in promoting the EAS partly as an offsetting force to the ubiquitous U.S. presence in the Asian rim. Japan and Singapore, however, reportedly pushed to have Australia and India included, partly to offset the feared dominance of China in the summit. Since then, Beijing has been less enthusiastic about the EAS and more willing to retreat to the ASEAN + 3 concept in which it has a more central position.

At the first EAS meeting, the delegates established the EAS as an integral part of the evolving regional architecture in Asia. The countries also declared that EAS efforts to promote community building in East Asia are to be consistent with and the realization of the ASEAN Community; that the EAS is to be an open, inclusive, transparent, and outward looking forum with ASEAN as the driving force; and that the EAS will focus on fostering strategic dialogue and promoting cooperation in political and security issues to ensure that the EAS countries can live at peace with one another and with the world at large in a just, democratic, and harmonious environment.⁶⁶

For the initial meeting of the EAS, membership required that participants sign the ASEAN Treaty of Amity and Cooperation, be a formal dialogue partner⁶⁷ of ASEAN, and have substantive cooperative relations with ASEAN. Non-ASEAN signatories to the Treaty include China, Japan, India, South Korea, Russia, Pakistan, and Papua New Guinea, but not the United States.

The 2007 East Asian Summit resulted in a declaration addressing climate change. The 2006 summit (initially cancelled but later held) focused on the future purposes and operation of the summit and a declaration on energy security.

U.S. concerns with the EAS are that it could potentially work to diminish U.S. influence in Asia, could replace APEC as the main multilateral forum in Asia on trade and investment liberalization and economic integration, and could further marginalize Taiwan (who was not invited to the EAS but is a member of APEC). Still, the United States has not overtly opposed it and, at some point, may join it (this would require that the United States sign the ASEAN Treaty of Amity and Cooperation).

Shanghai Cooperation Organization

Although the Shanghai Cooperation Organization (SCO) is not an East Asian organization, *per se*, it was initiated by China and is of interest to the United States because it has adopted a somewhat anti-American stance. The SCO was organized

⁶⁶ Kuala Lumpur Declaration on the East Asia Summit, Kuala Lumpur, December 14, 2005.

⁶⁷ ASEAN dialogue partners include the United States, China, Japan, South Korea, Russia, Australia, Canada, the European Union, India, and New Zealand.

in 2001 by six countries: China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. Mongolia, Pakistan, Iran and India are observers.⁶⁸ Its secretariat is located in Beijing and its Regional Anti-Terrorist Structure (RATS) is in Tashkent, Uzbekistan. The main goals for the organization as stated in the 2001 Shanghai Pact are to fight terrorism, separatism, and extremism. China's initial motive for establishing the SCO seems to have been to prevent ethnic Kazakhs or Uighurs in China from using Central Asian states as a haven from which to plan separatist activities in China's Xinjiang Uighur Autonomous Region (formerly East Turkestan). As the SCO has developed, however, it appears now to be a vehicle for China and Russia to curb U.S. influence in Central Asia in order to establish a joint sphere of influence there. This includes access to energy resources by China as well as markets for exports and collaboration against Islamist movements.⁶⁹ As China, Russia, and other SCO members have conducted war games under the auspices of the SCO, some observers have pointed out the potential for it to take on a military role not unlike that of the North Atlantic Treaty Organization.⁷⁰

As the SCO has entered into its fourth and fifth years of existence, it seems to have become an effective vehicle for Beijing and Moscow to pursue geopolitical aims. It was the first regional bloc to oppose the bid by Japan, Brazil, Germany, and India to enlarge the United Nations Security Council's permanent membership. In 2005, the SCO called for a date certain for U.S. troops to be out of Central Asia, and at the 2006 summit, the Iranian President, while not mentioning the United States by name, spoke against "the threat of domineering powers and their aggressive interference in global affairs."⁷¹ In 2007, the SCO conducted extensive joint military exercises in Russia using the most modern weapons and equipment. Given that Beijing plays a primary role in giving direction to the SCO, the way that the SCO has developed might provide clues to the direction other regional organizations, such as ASEAN + 3, might take if China is able to assume a dominant position. Both China and Russia, however, insist that the SCO is not a bloc that is directed against any third forces or countries. In June 2007, the Chinese Defense Minister emphasized that the SCO is a geopolitical structure whose work is aimed at combating terrorism and safeguarding the region's safety and security.⁷²

⁶⁸ The SCO's website is at [<http://www.sectsc.org>]. For background on the early years of the SCO, see CRS Report RL31213, *China's Relations with Central Asian States and Problems with Terrorism*, by Dewardric L. McNeal and Kerry Dumbaugh.

⁶⁹ Weinstein, Michael. Intelligence Brief: Shanghai Cooperation Organization. Power and Interest News Report, July 12, 2005.

⁷⁰ Weir, Fred. Russia, China looking to form 'NATO of the East'? ; A six-member group, seeking to balance US power, meets in Moscow Wednesday, *The Christian Science Monitor*, October 26, 2005. p. 4.

⁷¹ Lim, Louisa. Asian and Central Asian States Meet in Shanghai. National Public Radio, Morning Edition, June 15, 2006.

⁷² SCO Not Aimed Against Third Countries — Chinese Minister. *Interfax*, June 27, 2007. SCO Member States to Increase Defense Cooperation. *People's Daily*, c. June 27, 2007. Both articles reproduced in U.S. Army Asian Studies Detachment, Area Surrounding Japan, OSINT Report (ASJOR), Report #ASJOR 178-07, June 28, 2007. P. 25.

The Six-Party Talks

The potential nuclear threat from the Democratic People's Republic of Korea (DPRK) induced five countries with the most direct interest in this issue to join in talks with Pyongyang. The participants include China, the United States, Japan, South Korea, Russia, and the DPRK. In early 2003, China hosted the first round of talks in Beijing, and they have continued sporadically since then. This is another venue in which China is able to cooperate with other nations and take the lead in dealing with an issue directly affecting its national interests and on its border. The talks resumed in September 2006, and in 2007 showed considerable progress. The talks are yet to succeed in curtailing/eliminating North Korea's nuclear weapons program, but they have brought together the major players in northeast Asia to seek a solution to the problem.⁷³

The Proposed Northeast Asia Regional Forum

Some have suggested that the five countries (excluding the DPRK) in the six-party talks formalize this *ad hoc* grouping into what might be called the Northeast Asia Regional Forum (NERF). As proposed by one group of authors, the purpose of NERF would be to organize multilateral diplomatic meetings at regular intervals to consider key security, energy, health, and economic issues in the region. The state representatives attending would have the same diplomatic level as those in the six-party talks.⁷⁴

At the 13th ASEAN Regional Forum meeting in July 2006, Secretary of State Condoleezza Rice expressed the need for a “robust dialogue on Northeast Asian Security” and for discussions on how to “move forward on issues of cooperation and security.”⁷⁵ At the ARF meeting, the five non-North Korean members plus Malaysia (the 2006 host of ARF), Australia, and Canada met for a discussion on the North Korean situation. This was held in lieu of a session of the six-party talks, since North Korea at the time was refusing to attend them.⁷⁶

A major problem in East Asia is that differences among China, Japan, Russia, the United States, and South Korea are so vast that the only time the countries get together and work toward a common end is when they all face a single problem large enough that they are willing to put aside their strategic rivalries and cooperate to find a mutually satisfactory solution. The trouble with this approach is that *ad hoc* organizations, such as the six-party talks, come into existence only when the problems are large, transcend borders, and seem intractable — such as North Korea's

⁷³ See CRS Report RL33567, *Korea: U.S.-Korean Relations — Issues for Congress*, by Larry A. Niksch.

⁷⁴ Bremmer, Ian, Choi Sung-hong, and Yoriko Kawaguchi. A New Forum for Peace, *The National Interest*, Winter 2005/2006, Issue 82, pp. 107-111.

⁷⁵ Rice, Condoleezza. Remarks on Multilateral Talks on North Korea. U.S. Department of State press release 2006/T19-12, July 28, 2006.

⁷⁶ Wright, Robin. Rice to Hold Talks on North Korea. *Washington Post* (Online version), July 27, 2006.

nuclear weapons program. In tackling such mega-issues, the parties involved are expected to cooperate and find common ground even when there may be no history of cooperation between them or the parties involved may even be strategic competitors and hold antagonistic feelings toward each other. Many experts feel that there needs to be a way to get the major players in northeast Asia together more often, for them to pursue confidence building measures, and to have more discussions and joint policy actions. The countries could begin by addressing areas of overlapping interests where there already is some degree of consensus. Such issues in the region might include infectious diseases, terrorism, transportation security, or energy. This process could establish lines of communication and build confidence much as occurred in Europe with the Commission on Security and Cooperation in Europe (the Helsinki Commission).⁷⁷

Track Two Dialogues

In addition to official regional organizations, a number of track two dialogues also exist. These include the International Institute for Strategic Studies' Shangri-La Dialogue,⁷⁸ the Council for Security Cooperation in the Asia Pacific,⁷⁹ and the University of California's Northeast Asia Cooperation Dialogue (NEACD). These usually involve top-level officials and academics from countries of the region who meet to discuss issues of mutual importance. The 2006 NEACD meetings in Tokyo, for example, included most of the negotiators in the six-party talks that at the time were stalled.⁸⁰

The Pacific Command

The U.S. Pacific Command (USPACOM) also works to advance cooperation in regional security primarily through two channels: the first is country-to-country with visits by the U.S. Commander, joint military exercises, military-to-military training, and relief operations, such as post-tsunami assistance. The second is through hosting *fora* for military officers and civilians from various countries to come to PACOM headquarters for education and training. PACOM's Asia Pacific Center for Security Studies, in particular, provides a venue, similar to track two dialogues, for military officers from across the Asia-Pacific region to meet in an unconstrained, off-the-record learning environment to discuss security issues.⁸¹

⁷⁷ For information on the Commission on Security and Cooperation in Europe, see their website at [<http://www.csce.gov>].

⁷⁸ For information on the Shangri-La Dialogue and 2006 conference, see [<http://www.iiss.org/conferences/the-shangri-la-dialogue>].

⁷⁹ For information on CSCAP, see their website at [<http://www.cscap.org>].

⁸⁰ For a summary of the 2006 NEACD meetings, see [http://www.ucop.edu/research/documents/igcc_newsletter07.pdf#search=%22neacd%22].

⁸¹ For information on USPACOM, see [<http://www.pacom.mil/about/pacom.shtml>].

Policy Issues

The development of new trade and security arrangements in East Asia raises several issues for U.S. policy makers that stem from essential U.S. interests.

U.S. Interests

Rising regionalism in East Asia enters into U.S. policy considerations because of its effect on three vital national interests: security, economic well being, and value projection. With respect to security, the United States has fought three wars in East Asia and still maintains significant military forces in Japan, South Korea, and the Pacific. In recent years, terrorist attacks on U.S. businesses and on American citizens also have occurred there (particularly in Indonesia and the Philippines). China is a recognized nuclear power while North Korea is rapidly becoming one. Potential flashpoints in East Asia include not only the confrontations between Taiwan and the PRC and between North and South Korea but also terrorist attacks on businesses, diplomatic assets, and citizens of the United States or other countries in the region. Disputes also are flaring up over islands or resources in various East Asian areas. One author points out that every major al Qaeda plot since 1993 has had some link to radical Muslim groups in the Philippines.⁸²

Asia also plays an essential role in America's economic well being. Globalization and the growth of supply links that cross the Pacific Ocean have woven the U.S. and Asian economies into an intermeshed and interdependent tapestry whose threads are constantly being adjusted. The population of East Asia at 2.1 billion accounts for a third of the total 6.2 billion people on earth. If the Indian subcontinent is added, Asia accounts for more than half of the world's population. These countries both compete with and complement the U.S. economy. For the many exporting countries in East Asia, the United States is the market of last resort and the source of much of their capital, technology, and ideas for product design. The U.S. market, however, is rapidly being displaced by China and intra-regional trade among the Asian countries themselves. China's rapid growth also is generating huge demand for limited natural resources and pushing up their prices. Asia is a major competitor for global energy supplies and is a source of some new infectious diseases (avian flu and Severe Acute Respiratory Syndrome [SARS]) that can threaten the essential well being of Americans.

Another challenge for the United States with respect to East Asia is that trans-Pacific economic and financial relationships are fundamentally unbalanced. China, Japan, South Korea, and Taiwan alone account for about 40% of the U.S. merchandise trade deficit. Those same countries have become major financiers of U.S. budget and saving deficits. Many U.S. jobs once thought secure also are being outsourced to Asia, and some Asian nations have lax enforcement of intellectual property rights and questionable labor or environmental policies.

⁸² Ressa, Maria. *Southeast Asia and the Seeds of Terror*. New York, Free Press, 2003. 254 p.

In the projection of U.S. values, a major goal of the United States is to help create a world of democratic, well-governed states that can meet the needs of their citizens and conduct themselves responsibly in the international system.⁸³ In this respect, Asia is both a success story and cauldron of concern.⁸⁴ While democracy in most of the countries is vibrant and representative, glaring exceptions remain in Burma, China, and North Korea. Likewise with human rights, these three countries along with Vietnam, Indonesia, Cambodia, and Laos are often cited for human rights abuses.

U.S. goals in East Asia include preserving U.S. influence and alliance relations, fostering stability both with and within the region (particularly with China, across the Taiwan Strait, and on the Korean Peninsula), reducing the terrorist threat, working for equitable trade and investment relations, protecting Americans from new threats (such as a human avian flu pandemic), and developing sufficient supplies of energy and raw materials needed for economies to grow.⁸⁵

The policy tools the United States can use include both hard and soft power: military threats and action, diplomacy, political and economic alliances, trade and investment measures, and the spread of ideas and ideals. The means to wield the tools include engagement (cooperating with but not joining), cooptation (joining with them or bringing them into an existing organization), containment (hindering progress), and rollback (seeking to turn back gains already made). The means also include wielding an array of military activities (including pre-emptive strikes) and an assortment of law-enforcement and diplomatic measures. For purposes of this report, the focus is on engagement and cooptation through formal international arrangements as a means to accomplish U.S. policy goals.

The importance of considering these changes in East Asia was stated by Kurt Campbell, an expert on security affairs. He said that while the most important issue facing the United States today is the war on terrorism, in 20 or 25 years, we may find that the dominant issue of today in retrospect was actually the rise of China and that Asian dynamics actually were more significant than those issues that are likely to be with us for some time in the Middle East.⁸⁶ Ellen Frost of the Institute for

⁸³ The White House. The National Security Strategy of the United States of America. March 2006. p. 1.

⁸⁴ As one indicator, the Heritage Foundation's *2006 Index of Economic Freedom* categorizes Hong Kong, Singapore, Australia, and New Zealand as "free," Japan, South Korea, Cambodia, Malaysia, and Thailand as "mostly free," The Philippines, China, Indonesia, and Vietnam as "mostly unfree," and Laos, Burma/Myanmar, and North Korea as "repressed." The index is based on 50 independent variables divided into 10 broad factors of economic freedom.

⁸⁵ The White House. Office of the Press Secretary. President Discusses Freedom and Democracy in Kyoto, Japan. November 16, 2005. And, Dr. Condoleezza Rice Discusses President's National Security Strategy, Waldorf Astoria Hotel, New York, NY, October 1, 2002.

⁸⁶ Cambell, Kurt. Chinese Ambitions and the Future of Asia. Edited transcript of remarks at the Carnegie Council on Ethics and International Affairs, October 19, 2005. At (continued...)

International Economics and National Defense University, a scholar who long has followed Asian security and economic issues, stated, “If the United States continues to downplay Asian regional arrangements — demonstrating an attitude of ‘benign neglect’ and a preference for bilateral agreements only — it will gradually lose influence, especially relative to China.”⁸⁷ In short, the ultimate driver of U.S. concern over East Asian regional arrangements lies in U.S. strategic relations with the PRC.

The core question for many analysts, therefore, is what to do about the growing influence of China in Asia. What is clear is that China sees itself as a regional economic and military power. It is aiming to establish its position as the leader of Asia, is already displacing Japan and the United States among Southeast Asian nations as the primary trading partner and source of economic assistance, and has pursued a “charm offensive” that appears to be winning the “hearts and minds” of people in many of the countries there. China has accomplished this through skillful diplomacy, use of aid resources, and by presenting a more friendly face, but it also has relied on formal trade and other agreements. Nevertheless, the United States still is the dominant military power in Asia. As one observer noted, the danger in this rise of China as a friendly economic giant, is that countries in the region could “subordinate their interests to China’s and no longer reflexively look to the United States for regional solutions.”⁸⁸ In the six-party talks, for example, some have suggested that the United States is “outsourcing” its leadership role to China.

In addressing the issue of growing regionalism in East Asia, there are first two basic questions: (1) what is the U.S. vision for Asia and Asian regionalism, and (2) does Asian regionalism threaten U.S. interests and goals, particularly with respect to China?

Visions for East Asia

Currently, several visions for East Asia are competing for traction as the spaghetti strands expand in the East Asian bowl of trade and security arrangements. The vision of the **United States** begins with a preeminent position for the country both as the keeper of the peace, a wellspring for economic prosperity, an advocate for open markets, and a role model for social, cultural, and political values. The United States shares leadership with other nations and institutions, but it seeks a seat at the table when decisions are made affecting its interests in East Asia. U.S. goals are to prevent any other single power from dominating Asia; to maintain peace and stability through a combination of military presence, alliances, diplomatic initiatives, and economic interdependence; and to increase access for U.S. exports and companies

⁸⁶ (...continued)
[<http://www.cceia.org>].

⁸⁷ American Enterprise Institute. Summary, China and the New Economic Geography of Asia? July 2005. See [<http://www.aei.org/events/filter.all,eventID.1109/summary.asp>].

⁸⁸ Kurlantzick, Joshua. China’s Charm: Implications of Chinese Soft Power. Carnegie Endowment for International Peace Policy Brief No. 47, June 2006.

through the World Trade Organization, Asia Pacific Economic Cooperation forum, and free trade and other agreements.

China's vision for East Asia is to establish itself as the leading regional power and to attain a status in the world community of nations commensurate with its position as one of the five permanent members of the U.N. Security Council and a population comprising a sixth of global humanity. China sees a U.S. decline as the corollary to its rise⁸⁹ and seeks to displace Japan as the economic leader of East Asia. China's strategy is to foster favorable conditions for continuing its modernization while also reducing the perception that its rise threatens the interests of others. China needs peace and stability in the region while it grows and resolves numerous internal economic, political, and social problems. Beijing recognizes that the United States is perhaps the only power that can thwart its plans to bring Taiwan under its sovereign control or can impose a system of economic sanctions that could cripple its economic — and military — rise. China prefers an exclusive East Asian regional organization that would enable it to take the lead and place the United States and Japan in secondary roles. Paramount in China's vision is a region in which countries respect what it considers to be its territorial integrity (including its claim to Taiwan), allow for flows of trade and investment necessary to sustain its high rates of growth, and not interfere with what it considers to be its internal affairs.

Japan's vision for East Asia is one in which the United States continues to provide a nuclear umbrella for the region and in which Tokyo relies on its economic power to exercise leadership. It seeks to be a "normal" nation without vestiges of its defeat in World War II, particularly the self-maintained constraints on its military. Japan would like to bury its World War II history and be viewed as a peaceful nation and a force for betterment in Asia through economic progress. Prior to the resurgence of China, Japan characterized the countries of East Asia as flying in a wild geese migrating pattern with Japan playing the role of the lead goose. Tokyo recognizes now that Beijing is rapidly assuming the leadership role in East Asia, and China is becoming the center of gravity for trade and investment activity. Japan, however, would like to maintain a position of leadership in Asia, accommodate China's rise without becoming subservient to it, and continue to be at the forefront in economic and financial affairs. Japan is attempting to establish itself as a normal advanced nation in its own right and not as a surrogate in East Asia for the United States.

ASEAN's vision for East Asia is to develop a counterweight to the European Union and NAFTA (and perhaps NATO) with ASEAN taking a prominent organizational role for regional institutions and providing venues for meetings. ASEAN also seeks a counterweight to China in the region and, in general, is more inclusive in terms of allowing countries, such as Australia and India, to participate in regional organizations. Indonesia traditionally has been the dominant leader in ASEAN, but now Thailand and Malaysia along with Singapore also vie for leadership. ASEAN relies on the European model of engagement to influence and engender change in countries such as Burma/Myanmar and Laos. ASEAN's basic

⁸⁹ See, for example: Qiang, Shen. New Developments in Evolving Relationships among Major Powers. *International Strategic Studies*, 3rd Issue, 2005. p. 54.

goals are to achieve cooperative peace and shared prosperity, and it sees itself as the primary driving force in building a more predictable and constructive pattern of relationships among nations in the Asia-Pacific region.⁹⁰

South Korea's vision for East Asia is for the country to become a hub for economic activity⁹¹ and to gain greater security by engaging with North Korea and pursuing closer relationships with China and ASEAN countries. South Korea also depends heavily on the United States to maintain security both on the Korean peninsula and in the region. South Korea seeks to be an export power able to use North Korean and Chinese labor, generating its own high technology, and with national champion companies that are highly competitive in the global marketplace.

Taiwan's vision for East Asia is existential and revolves around whether it can maintain its *de facto* independence while finessing its relations with the PRC. It sees a major role for the United States in maintaining security in the region. Since China ensures that Taiwan is shut out of regional organizations (except for APEC), Taiwan pursues bilateral trade agreements and organizations with inclusive membership, such as the WTO and United Nations.

Australia and New Zealand are pulled between their European heritage and Asian proximity. Since they trade heavily with East Asian countries and have deep security interests there, they envisage regional organizations inclusive of themselves and other nations. Australia was instrumental in ensuring that APEC encompassed the Asia Pacific and the United States. Australia envisages a strong role for the United States in Asia. It always is in danger of being excluded from Asian organizations because of its Anglo-Saxon and Celtic origins, although debates over an East Asian identity also categorize people by major religion rather than ethnic origin. Australia and New Zealand continue to engage China and recognize that they must cope with the challenges of maintaining their close relationships with the United States. Australia, in particular, has become a target of radical Muslim terrorism, has irritated its neighbor Indonesia through its participation in the Iraq war and support for independence for East Timor, and is viewed by China as a segment of a broader U.S.-Japan-South Korea-Australia axis that could potentially encircle China in the maritime region of East Asia.⁹²

This brief overview of visions for East Asia indicates that the U.S. vision is roughly compatible with that of Japan, South Korea, most of ASEAN, and Australia/New Zealand. All recognize that multipolarity is developing in East Asia not only with the rise of China but a more normal Japan, a somewhat recidivist Russia, and a rapidly developing India. There is conflict between U.S. and Chinese visions with respect to which country will be the preeminent power in Asia. The rise

⁹⁰ Association of South East Asian Nations. Politics and Security: Overview. Accessed June 23, 2006. [<http://www.aseansec.org/92.htm>].

⁹¹ The hub concept was first adopted as a policy of the South Korean government in 2002. See Lee, Chang-jae. "Korea as a Northeast Asian Business Hub: Vision and Tasks." Korea Institute for International Economic Policy monograph, 2005.

⁹² Bordonaro, Federico. Asia's Dawning Multipolar System Increases Australia's Geopolitical Importance. Power and Interest News Report, June 14, 2006.

of China as an economic juggernaut could be duplicated in the political and security realms as well.

The U.S. vision also conflicts with that of China (and at one time Malaysia) on the principle of exclusivity: whether the United States is able to participate as a member or observer or whether U.S. participation is relegated to being through a surrogate. By definition, the ASEAN + 3 meetings exclude the United States. The United States could join the East Asia Summit. The United States (along with the European Union and Canada) participates in the ASEAN Regional Forum. The United States, along with Canada, Mexico, Peru, and Chile are members of APEC. The 16-nation East Asia FTA proposal announced by Japan would exclude the United States.

In the case of the exclusionary East Asian Economic Caucus (EAEC) proposed by Malaysian Prime Minister Mahathir Mohamad in 1990, the U.S. strategy took two tracks. The first was to oppose its founding through diplomatic and other means. The second was to join with Australia in pushing for APEC, a more inclusive organization. With the momentum for regionalism now growing in East Asia and world wide, opposing the trend toward regionalism seems both unnecessary and futile. The important factor, some say, is to ensure that U.S. interests are protected and adequately represented and to connect the U.S. economy with Asian free trade arrangements through bilateral and other FTA agreements.

Asian Regionalism and U.S. Interests

Economic Interests. As for U.S. interests in East Asia, the new regional trade agreements, in and of themselves, do not seem to threaten vital U.S. economic interests. As a State Department official put it, it is not necessary for the United States to “be in every room and every conversation that Asians have with one another.” The United States does, however, want to “ensure the strongest possible continuing U.S. engagement in the region.” The United States also holds that the strategic and economic geography through which Asia can best build on its successes so far is through trans-Pacific partnerships and institutions. In other words, the United States would like for Asian institutions to straddle the Pacific Ocean rather than stopping at the international date line in the Pacific. The United States also looks toward multilateral structures in the Asia-Pacific region that strengthen existing partnerships, particularly bilateral U.S. security alliances and free trade agreements with East Asian nations.⁹³

The ASEAN FTA and the many bilateral FTAs may result in some diversion of trade and investment from the United States, but to the extent that they represent true liberalization of trade and investment flows, and as long as the United States continues to ink bilateral FTA agreements with Asian nations, they do not seem to be generating ill effects on U.S. exporters and business interests there. If the enlarged Asian markets and marketing opportunities divert some Asian exports toward the region instead of toward the United States, the FTAs may result in a

⁹³ Michalak, Michael. U.S. Views on Asia Regional Integration, Remarks at the International Institute of Monetary Affairs, Tokyo, Japan, January 25, 2006.

reduction in U.S. bilateral trade deficits with Asian nations. There is some concern that the proliferation of bilateral and regional FTAs will detract from multilateral negotiations under the World Trade Organization. While that concern is real, given the problems with the Doha Round and its collapse in mid-2006, the opposite case also can be made. In this view, the FTAs represent real progress in liberalizing trade and can serve as a backup position if trade liberalization under the WTO fails.

The spaghetti bowl problem of multiple agreements all intertwined but each with different provisions can actually hinder rather than facilitate trade by raising transaction costs for businesses. Calculating complicated rules of origin for products with parts from many countries each with different tariff rates and phase-in periods for lowering those tariffs can be costly and bothersome. The U.S. approach is to have a “gold standard” template that provides for similar elimination of all tariffs and addresses other barriers to economic interaction such as liberalizing investment flows, enforcing intellectual property rights, and increasing access for providers of services. Eventually, this “gold standard” template could provide the basis for regional FTAs that include the United States. U.S. adherence to this “gold standard,” however, can create ill will as the United States is perceived to be excessively intrusive in requiring reforms in FTAs. The Asia Pacific Economic Cooperation forum, however, also is developing best practices and model measures for FTAs that are working to standardize agreements.

A problem with any liberalization of trade and investment is that each economy will have winners and losers. The losing sectors typically are agriculture, textiles, and apparel. In nearly all Asia Pacific countries, including the United States, they are either protected to some extent or subsidized heavily (particularly agriculture). The proliferation of FTAs threatens the economic viability of these sectors, since the FTAs remove protection, although each FTA will have phase-in periods and exceptions.

Security Interests. The developing regional security arrangements in East Asia could have a mixed effect on U.S. security interests. To the extent that they encourage peaceful resolution of conflicts, they correlate well with U.S. goals of stability and the maintaining of alliance relationships in the region. They, however, could have some negative effects. They may lead to political and security arrangements in which Chinese influence is large and Beijing is able to work at cross purposes to the United States. They also may require further consideration of the role of U.S. forces based in Japan and South Korea. As Asian populations perceive that external threats to their countries have diminished because of cooperative regional security relations, they may question the need to continue to support so many U.S. troops stationed in their home countries. These sentiments often are reflected in what is called rising nationalism and may take the form of protests over actions of U.S. soldiers, resistance to military base operations, and parliamentary pressures to reduce the budgetary costs of host nation support for the U.S. military.

China has taken a dual approach to East Asia of both working through ASEAN⁹⁴ and signing agreements with individual member countries. The United States has placed emphasis on bilateral agreements. Five of the seven worldwide U.S. mutual defense treaties are with countries of the Asia Pacific.⁹⁵

Membership in regional organizations could have a “European Union effect” in reducing tensions, moderating China, encouraging dialogue, and seeking peaceful solutions to security issues. The developing regional architecture may work to temper the excesses of the Chinese government and make it a more responsive stakeholder in regional affairs. For example, China has joined with the United States in opposing radical Muslim terrorism (albeit with its own domestic interests at stake), performed the function of host and “penholder” to draft the Joint Statement at the September 2005 six-party talks, and has stopped forcibly claiming disputed territory between it and Southeast Asian nations (such as Mischief Reef) in the South China Sea. China still has overt disputes with Japan, a nation with which it has refrained from establishing either preferential economic or bilateral security links. In some cases, moreover, Beijing has used regional meetings to exacerbate problems with Japan. At the 2005 APEC Leaders’ Meeting, China refused to hold a bilateral summit with Japan and widened the gap between them. Yet at the July 2006 ASEAN Ministerial Meeting, the foreign ministers of China and Japan did meet and narrowed that gap somewhat.

What can be said is that no one knows for certain whether China will be a military threat in the future and what effect various regional ties and interaction will have. It is clear, however, that Chinese military strategists define grand strategy in a broad sense. They pursue their grand strategy by using overall national strength to achieve political goals, especially those related to national security and development. Put another way, Chinese strategy, as they define it, is one of maintaining balance among competing priorities for national economic development and maintaining the type of security environment within which such development can occur. Beijing uses the concept of “comprehensive national power” to evaluate and measure the country’s national standing in relation to other nations. This includes qualitative and quantitative measures of territory, natural resources, economic power, diplomatic influence, domestic government, military capability, and cultural influence. Regional trade and security arrangements in East Asia can assist China in developing its economic power, diplomatic influence, and cultural reach. Economic power also can lead to greater military capability and can generate support for the ruling Communist Party and its lock on domestic government. In this sense, the proliferating trade and

⁹⁴ In 2003, China signed its first agreement with a regional organization, the China-ASEAN Joint Declaration of a Strategic Partnership for Peace and Prosperity and followed with its 2003 accession to the ASEAN Treaty of Amity and Cooperation, the first non-ASEAN country to do so. In 2004, China signed a memorandum of understanding with ASEAN on Cooperation in the Field of Non-Traditional Security Issues and also endorsed the ASEAN Code of Conduct for the South China Sea.

⁹⁵ U.S.-Republic of the Philippines (Mutual Defense Treaty, 1952), ANZUS (Australia - New Zealand - U.S., 1952), U.S.-Republic of Korea (Mutual Defense Treaty, 1954), South East Asia Collective Defense (U.S. - France - Australia - New Zealand - Thailand - Philippines, 1955), and U.S.-Japan (Mutual Defense Treaty, 1960).

security arrangements in East Asia can contribute to Chinese comprehensive national power,⁹⁶ but whether the regional arrangements will also attenuate the aggressive use of that power cannot now be determined.

Another long-term security related issue for the United States in Asia is the rising nationalism in Japan, South Korea, Malaysia, Thailand, Indonesia, the Philippines, and other nations of Asia. These countries appear to be growing weary of being dominated by outside powers, whether they be the United States, China, Russia or their sometimes hostile neighboring states. In Japan and South Korea, for example, although most recognize their dependence for security on their respective military alliances with the United States, many government elites and a growing segment of the public have recently been pushing for more independence of action and for government policies more in line with their, not America's, national interests. The value system of unfettered democracy, free trade, and human rights, buttressed by the ever present threat of intervention and preemption by the U.S. military also seems to be wearing thin in many Asian nations. There is not the hatred of the United States that is frequently found in the Middle East, but East Asian nations often chafe under the weight of U.S. hegemony and a perceived unipolar world and all that this implies for their independence of action and what they view as their traditional values.⁹⁷ For example, in a June 2006 Pew survey of attitudes toward the United States, America's global image had again slipped. From 1999/2000 to 2006, America's image (those with favorable opinions of the United States) had declined significantly in Indonesia (from 75% to 36%) and in Japan (77% to 63%).⁹⁸

The United States also is often blamed for the dislocations caused by globalization⁹⁹ and the growing inequality of income both within and among countries. As one analyst explained it, Americans today are perceived as the world's market-dominant minority, wielding outrageously disproportionate economic power relative to their numbers. As such, they have become the object of the same kind of mass popular resentment that afflicts financial elites around the world (such as the overseas Chinese of Southeast Asia).¹⁰⁰ It is not clear whether the developing regional architecture in East Asia will add to or ameliorate the anti-American and nationalistic sentiments growing in Asia, but those organizations that exclude direct U.S. participation provide avenues for Asian leadership and values to be showcased, particularly the process of consensus building.

⁹⁶ Office of the Secretary of Defense, *Military Power of the People's Republic of China*, 2005, op. cit.

⁹⁷ See, for example: Ma Ying. *China's America Problem*. *Policy Review*, Feb/Mar 2002. p. 43-57. Jeffrey S. Robertson. *Anti-Americanism in South Korea and the Future of the U.S. Presence*. *Journal of International and Area Studies*, Vol. 9, No. 2, 2002. pp. 87-103.

⁹⁸ Pew Research Center. *America's Image Slips, But Allies Share U.S. Concerns on Iran, Hamas*. Released June 13, 2006.

⁹⁹ Pearlstein, Steven. *World Puts the Brakes on the Rush to Globalization*. *Washington Post*, July 5, 2006. p. D01.

¹⁰⁰ Chua, Amy. *A World on the Edge*, *The Wilson Quarterly*, Autumn 2002. Vol. 26, Issue 4; p. 62-78.

A stronger regional security organization in East Asia could play a role in quelling terrorism by violent extremists. Since terrorism is a transnational problem, the United States relies on international cooperation to counter it. Without close multilateral cooperation, there are simply too many nooks and crannies for violent extremists to exploit.¹⁰¹ Currently, most of that cooperation is bilateral or between the United States and its traditional allies. While the ASEAN Regional Forum and ASEAN + 3, for example, have addressed the issue of terrorism, neither has conducted joint counter-terrorism exercises as has the Shanghai Cooperation Organization. Neither organization as a group, moreover, has joined U.S. initiatives aimed at North Korean nuclear weapons (e.g., the Proliferation Security Initiative).

Meanwhile, tensions continue across the Taiwan Strait, and disputes over territory and drilling rights have flared up between China and Japan and between Japan and South Korea. (For the United States, there is a growing possibility of nationalist territorial conflicts between two or more U.S. allies.¹⁰²) The North Korean nuclear issue remains unresolved; North Korea has conducted tests of ballistic missiles and a nuclear weapon; and the oppressive military rule in Burma/Myanmar continues. Added to these concerns are several regional issues: diseases (such as avian flu, SARS, and AIDS), environmental degradation, disaster mitigation and prevention, high seas piracy, and weapons proliferation. Memories of the 1997-99 Asian financial crisis still haunt policy makers in Asian countries.

These are some of the major U.S. interests and issues as the United States proceeds with its policy toward a regional architecture in East Asia. Since this policy is aimed at the long-term structure of East Asian nations, it can be separated, somewhat, from current pressing problems. A metric by which any architecture can be evaluated, however, is how well it contributes to a resolution of problems as they now exist or will exist in the future.

Policy Options

For the United States, policy options include (1) disengage from institution building in Asia, (2) continue current Bush Administration policy, and (3) establish a stronger presence in existing institutions, particularly in Southeast Asia, and push for a new regional organization for Northeast Asia.

Disengage from Regional Institution Building in Asia

One policy option is to disengage from direct participation in negotiating economic and security institutions in Asia and allow Asian nations to determine their own architecture. The United States already is a member of APEC and the ASEAN

¹⁰¹ Rosenberger, Leif. A Socio-economic Strategy Against Violent Extremism, in *Asia-Pacific Economic Update, 2005*. U.S. Pacific Command. Vol. III, p. 23.

¹⁰² For discussion of this possibility, see Unger David C. Asian Anxieties, Pacific Overtures, Experiments in Security for a New Asia-Pacific Community. *World Policy Journal*, Summer 1994, 11, 2. p. 37-44.

Regional Forum as well as the six-party talks on North Korea. The United States has relied upon a spoke and hub system of military alliances and forward deployed troops to look to U.S. security interests. Many feel that regional organizations tend toward being “talk shops” anyway. The United States could disengage from regional institution building without disengaging from economic and security ties with Asia. Currently no locus of opinion seems to be manifesting itself in the United States on this issue

On the economic side, however, debate is intense over the effects and utility of free trade agreements. Opposition toward further FTAs has been building in Congress, although Congress did approve the U.S.-Oman FTA and a U.S.-Peru Trade Promotion Agreement.¹⁰³ Legitimate concerns, however, were raised with respect to issues, such as the large U.S. trade deficit, outsourcing of jobs, protection of intellectual property rights, and labor and environmental conditions abroad. U.S. debate over future FTAs appears to be more between domestic interests opposed to or in favor of more liberalized trade than over the geopolitical and international implications of closer economic relations with other countries. The creation of an Asia Pacific FTA encompassing the 21 APEC nations (including the United States) seems distant.

An East Asian Economic Community (ASEAN + 3 FTA) or East Asian FTA (ASEAN + 6) could divert trade away from the U.S. market, but the United States can continue to negotiate bilateral FTAs with countries belonging to any Asian regional trade arrangement. A system of bilateral FTAs and security alliances emanating from the United States as a hub should be able to poke spokes into the various Asian regional organizations existing and being proposed. Still the United States could use its influence to dampen enthusiasm for new Asian regional organizations, or Washington could let the Asians wrestle with each other to determine the size, shape, and reach of any new institution.

A danger of disengagement from institution building on the security side is that Asian nations may see that as evidence that the United States is distracted by the Middle East and has lost interest in Asia. Disengagement also opens the way for China to assume a leadership role and possibly to move the organization in ways that are inimical to U.S. interests.

Continue Current Engagement

Another option is to continue current policy of engagement in institution building in Asia as pursued by the Bush Administration and Congress. This includes seeking bilateral FTAs, a future FTA with ASEAN, and a future Asia Pacific FTA; strengthening the ASEAN Regional Forum and the Asia Pacific Economic Cooperation forum; holding discussions on establishing a security forum for Northeast Asia; and maintaining current strategic alliances with certain countries in the region.

¹⁰³ See CRS Report RS22391, *U.S.-Peru Trade Promotion Agreement*, by M. Angeles Villarreal, and CRS Report RL33328, *Proposed U.S.-Oman Free Trade Agreement*, by Mary Jane Bolle.

Current U.S. policy has evolved from historical conditions and through the tussle of political, military, and economic forces that drive decision making and provide opportunities for leaders to place their patina on the tenor of relations among nations. The strategy of the United States at the present with respect to East Asia appears to be based on two primary factors. The first is the reality that the Middle East takes priority over Asia. The amount of new resources and energy the United States can devote to issues in East Asia is constrained by commitments in Iraq and Afghanistan and by the war on terrorism.

The second factor seems to be that peace and prosperity in East Asia is possible in the short run only if the United States maintains a strong military and political presence in the region and in the long run only if nations have political and economic systems that allow human ambition to be channeled into constructive and peaceful endeavors. The U.S. military presence in East Asia is based on a series of treaty alliances. Some of these alliances have required a major adjustment recently, but they still form the bedrock of U.S. security in Asia.¹⁰⁴

As for the rise of China, current U.S. strategy seems to be to engage China but also to place constraints on activities potentially inimical to U.S. security or economic interests. Both “idealism” and “realism” come into play. The Pentagon’s military planning, of necessity, tends to be power- and threat-based and built on realism as a lens through which to view the world. It considers and prepares for several scenarios, including the “worst case” in order to provide for the security interests of the United States. These policies stress contingent military planning, export controls, strong alliance relations with Japan and South Korea, and rising levels of engagement.¹⁰⁵

Other U.S. policies toward China tend to be based on an idealistic view of the world. They are aimed at promoting U.S. ideals of democracy, a liberal market economy, and human rights. In the long run, matters of war and peace depend on actions of national governments or the lack thereof. In this view, conditions favorable for peace are generated most generally through political systems in nations with strong democratic institutions and economic systems that are vibrant and market-oriented with liberal trading and investment opportunities. Such economic systems support a knowledgeable middle class that, in turn, forms the foundation for democratic society. A democratic society is less likely than a dictator-dominated state to seek to achieve its goals through belligerent means. A country without a viable economy and functioning representative government also is vulnerable to becoming a failed state and home to terrorist organizations. This economic-democratic-peace hypothesis calls for opening borders to foreign trade, liberalizing domestic economies, developing representative governments, establishing the rule of law with a court system to back it, and reducing corruption. This is a major rationale for current U.S. policies of liberalizing trade, facilitating China’s

¹⁰⁴ See, for example: CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress*, by Emma Chanlett-Avery, Mark E. Manyin, and William H. Cooper, or CRS Report RL33567, *Korea: U.S.-Korean Relations — Issues for Congress*, by Larry A. Niksch.

¹⁰⁵ See CRS Report RL32882, *The Rise of China and Its Effect on Taiwan, Japan, and South Korea: U.S. Policy Choices*, by Dick K. Nanto.

membership in the World Trade Organization and other international institutions, encouraging communications at all levels, and engaging Beijing on a multitude of fronts including through regional institutions.

Increase Regional Efforts

A third policy option overlaps with current policy somewhat and is more incremental than divergent. It would be to increase efforts to energize or join existing organizations and to push harder for a Northeast Asia Regional Forum. The United States first could join the East Asia Summit. Russia, India, and Australia already have signed the ASEAN Treaty of Amity and Cooperation required for membership. So far, the United States has not signed the Treaty apparently because of its provisions that call for renunciation of the use of force to settle disputes and a commitment not to participate in any activity that threatens the sovereignty, political and economic stability or territorial integrity of another contracting party.¹⁰⁶ Such commitments, if honored, potentially could obviate the doctrine of preemptive strikes and hamper other interventions based on use of force.

The United States could do more to reinvigorate APEC. At the 2006 APEC Leader's Meeting in Hanoi, the United States did push for the Asia Pacific FTA. This would realize the Bogor goal of achieving free and open trade and investment among the industrialized APEC members by 2010 and the remainder of the members by 2020. While the APEC working groups seem to be accomplishing considerable trade facilitation, the large goal of establishing a free trade area that spans the Pacific and includes the United States, Canada, Mexico, Japan, South Korea, China, Taiwan, Australia, Singapore, and other APEC members does not seem even remotely feasible within three years as stated in the Bogor Declaration.

With the proposal for an East Asian Economic Community seeming to be gaining traction, the industrialized world appears to be coalescing into a three bloc world — three large geographical free trade areas: North America, Europe, and East Asia. How would a potential East Asian FTA affect the United States? Judging from U.S. relations with the European Union, the formation of the EU as a trade bloc meant that the balance of economic power across the Atlantic became more equal. Rather than the United States with its \$12.5 trillion gross domestic product (\$14.4 trillion for NAFTA) negotiating with the UK (\$2.2 trillion GDP) or Germany (\$2.8 trillion GDP), the United States now faces an equal in the EU with its combined GDP of \$13.4 trillion. An East Asian FTA encompassing 16 nations not only would constitute half the world population but a combined GDP of \$11.4 trillion that is growing faster than either North America or Europe.

Realistically speaking, however, a 16-nation Asian FTA would be far into the future, if at all. China and South Korea are lukewarm to the idea, and Japan and South Korea currently cannot even agree on an FTA between themselves, let alone one that includes China and 13 other nations. A more probable path for FTAs now

¹⁰⁶ For the text of the treaty, see Association of Southeast Asian Nations. *Text of the Treaty of Amity and Cooperation in Southeast Asia and Related Information*. ASEAN Knowledge Kit, March 2005. [<http://www.aseansec.org/TAC-KnowledgeKit.pdf>].

being implemented between ASEAN and the other three nations to become a structure for regional trade. The ASEAN FTA becomes the center of a hub and spoke network of FTAs with the spokes (Japan, China, and South Korea) having more weight than the hub.

The possible inclusion of the United States into the Trans-Pacific Strategic and Economic Partnership existing among the four countries of Chile, New Zealand, Singapore, and Brunei is one proposal for a trade and security arrangement that includes countries on both sides of the Pacific. Such an arrangement, along with the ASEAN FTA, could form the nucleus for the FTA of the Asia Pacific that would include the willing among the 21 members of the Asia Pacific Economic Cooperation forum.

On the security side, another measure for U.S. policy could be to convene a conference to organize the Northeast Asia Regional Forum. Current proposals for membership are to invite countries with strong interest in Northeast Asia, such as the United States, Russia, China, Japan, South Korea, and North Korea. Other possible candidates for membership are Mongolia, Canada, and Taiwan (as an observer). Current proposals are for such a forum to be attended by foreign ministers. Attendance could be expanded to include defense ministers or heads of state (as with APEC). In order to generate interest and participation in such an organization, an expectation would have to be established that the organization would go beyond a “photo-op and talk shop.” The organization could be aimed at resolving particular problems of common concern, those that are tractable, build confidence, invite a high level of participation by members, and maximize benefits of coordinated collective action. It could take up issues related to the North Korean nuclear program — currently the topic of the six-party talks — but also could address issues such as trade liberalization, combating terrorism and corruption, energy security, and containing the spread of infectious diseases. It also could work toward resolving disputes related to history, such as sponsoring the joint writing of textbooks on sensitive historical topics such as World War II or Japan’s annexation of Korea.