



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

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## Summary

The global financial crisis, 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 be 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 address security issues. Some also have called for the United States to join the East Asia Summit or to create 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.

On March 15, 2010, the United States began negotiating to join a regional, Asia-Pacific trade agreement, known as the Trans-Pacific Partnership (TPP) Agreement. The United States, Australia, Peru, and Vietnam are seeking to join with the four existing members of the pact: Singapore, Chile, Brunei, and New Zealand. The TPP could become the basis for a Free Trade Area of the Asia-Pacific over the long term.

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, North America, Europe, and East Asia, but a trans-Pacific trade and security arrangement that includes countries both of Asia and the Americas also is possible. This report will be updated periodically.

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The shrinking of the remnants of the Cold War in Asia along with the rise of China are 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 has occurred 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 ASEAN<sup>1</sup> 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.

Current U.S. policy is to explore FTAs with Asian countries that would be advantageous to U.S. workers, consumers, and businesses. However, since three FTAs negotiated during the Bush Administration (with Columbia, Panama, and South Korea) await approval by Congress, and since labor interests have opposed FTAs, the Obama Administration has pursued only one, long-term free-trade negotiation (see below).

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<sup>1</sup> 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).

As U.S. policy toward economic and security arrangements in East Asia evolves, it is turning on matters of job creation, intensity, inclusiveness, and final structure. The global financial crisis and rise in rates of unemployment both in the United States and in other countries of the world has placed a policy focus on job creation. As part of this focus, the Obama Administration has proposed to double U.S. export growth over the next five years, particularly by small- and medium-sized businesses.<sup>2</sup> U.S. exports either can be pulled or pushed overseas. They are pulled by higher growth rates in other countries, lowered import barriers abroad, and a cheaper dollar that lowers the relative price of American goods. They are pushed by various export promotion programs, including export finance and export facilitation, as well as advances in product design and technology.

On December 14, 2009, United States Trade Representative Ron Kirk notified Congress of the intent of the Obama Administration to enter into negotiations of a regional, Asia-Pacific trade agreement, known as the Trans-Pacific Partnership (TPP) Agreement. This objective is to shape a high-standard, broad-based regional free trade agreement with Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore, and Vietnam. The first round of negotiations began on March 15, 2010, in Sydney, Australia. The TPP negotiations are the first market-opening initiative of the Obama Administration. Singapore, Chile, Brunei, and New Zealand are the original members of the pact. The United States, Australia, Peru, and Vietnam are seeking to join. The United States already has FTAs with Singapore, Chile, Australia, and Peru. The TPP could become the basis for a Free Trade Area of the Asia-Pacific over the long term.<sup>3</sup>

Countries in Asia have been actively concluding bilateral or regional free trade agreements. Singapore, in particular, already has 15 FTAs in force with 23 nations and is negotiating 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 that took effect in 2010. Japan has been pushing for an East Asian Community that would include the 16 members of the East Asian Summit (ASEAN plus Three [China, Japan, and South Korea] and India, Australia, and New Zealand. This also is called the Comprehensive Economic Partnership for East ASIA (CEPEA).

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 East Asia Summit established in 2005 (involving all the members of ASEAN plus China, Japan, and South Korea, together with India, Australia and New Zealand), the ASEAN Security Community<sup>4</sup> and ASEAN Regional Forum (ARF).<sup>5</sup> 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

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<sup>2</sup> Helene Cooper, "Obama Sets Ambitious Export Goal," *The New York Times*, January 28, 2010, Internet edition.

<sup>3</sup> Office of the U.S. Trade Representative, *U.S. Engagement with the Trans-Pacific Partnership: Action to Date*, Washington, DC, December 14, 2009. "New Trans-Pacific Partnership Talks to Take Center Stage in 2010," *International Trade Reporter*, January 21, 2010. See also: CRS Report R40502, *The Trans-Pacific Partnership Agreement*, by Ian F. Fergusson and Bruce Vaughn.

<sup>4</sup> The security side of ASEAN.

<sup>5</sup> 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.

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 that operate in a 20<sup>th</sup> century fashion with interstate conflicts and territorial disputes flaring up on occasion.

The whole East Asian region is moving toward formalizing trading and investment relationships through free trade agreements or other such preferential trading arrangements. The further development of these FTAs is proceeding regardless of U.S. action. The United States also is participating in this activity 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. Various interest groups also have pushed for FTAs with Taiwan, Japan, and ASEAN as a whole. 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 efforts such as negotiations of a Trans-Pacific Partnership Agreement.

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.

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). For example, with Vietnam, a Trade and Investment Framework Agreement (in 2007) established normal trading relations status, and

negotiations were begun in June 2008 on a Bilateral Investment Treaty with the aim of expanding upon the existing investment provisions included TIFA.

By relying primarily on bilateral FTAs with Asian nations while still emphasizing trans-Pacific arrangements, such as the Trans-Pacific Partnership, the United States seems to be hedging its bets—not trying to block attempts to create exclusive East Asian FTAs but pursuing 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. In particular, most Asian nations are members of the World Trade Organization (except for Laos, Taiwan, and North Korea). Any FTA among WTO member nations prohibits raising barriers against non-FTA countries that also are members of the WTO.

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 nuclear weapons. In addition, Japan is upgrading its defense forces; terrorist and insurgent attacks often occur 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 Asian nations as their primary trading partner and is an increasing source of economic assistance to countries in need. China 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, although some backlash has occurred. 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 dilemma: Should they 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.<sup>6</sup> Although Asian nations are seeking to broaden international options with major

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<sup>6</sup> CRS Report R40167, *Globalized Supply Chains and U.S. Policy*, by Dick K. Nanto.



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.<sup>7</sup>

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

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<sup>7</sup> Sutter, Robert. *China's Rise: Implications for U.S. Leadership in Asia*. East-West Center Washington, Policy Studies 21, 2006. p. vii-ix.

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 Organization<sup>8</sup>) 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.<sup>9</sup>

## 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 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.

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<sup>8</sup> 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.

<sup>9</sup> 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](http://www-igcc.ucsd.edu/regions/asia_pacific/neacdefault.php).

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.<sup>10</sup> 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 II.<sup>11</sup> 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:

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<sup>10</sup> 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>

<sup>11</sup> See, for example, Han Dongyu. What Anti-Japanese Protests Tell Us, *Japan Spotlight*, November/December 2007. Pp. 42-43.

- 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.<sup>12</sup> 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.<sup>13</sup> 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.<sup>14</sup>
- Economic and security arrangements increase opportunities for communication, establishing personal ties between people, and cooperating in diplomatic endeavors. This reduces the chances for 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.<sup>15</sup> 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

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<sup>12</sup> See, for example: Crescenzi, Mark J. C. *Economic Interdependence and Conflict in World Politics* (Lanham, MD, Lexington Books, 2005) p. 6.

<sup>13</sup> 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.

<sup>14</sup> 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.

<sup>15</sup> 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.

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.

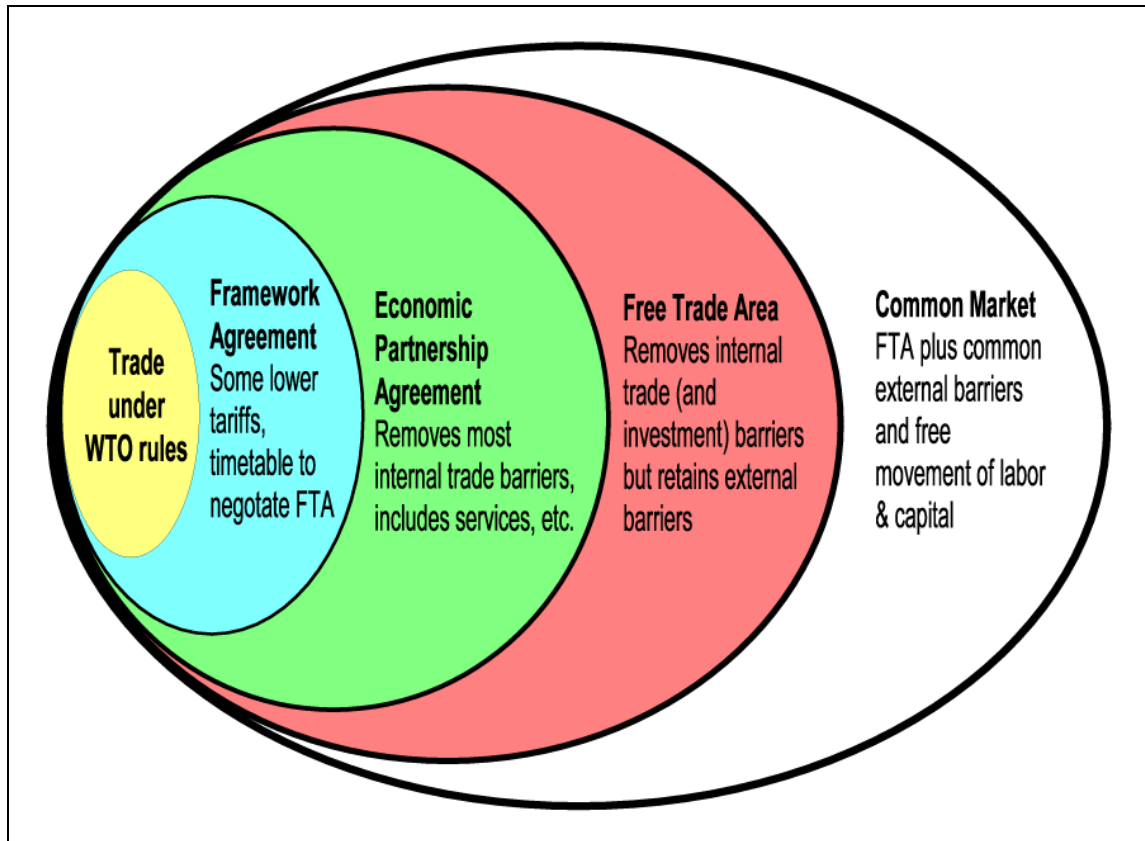
Japan and other countries often negotiate partial FTAs called Economic Partnership Agreements (EPA). These have established free trade in most manufactured goods, but they also may exclude sensitive sectors, such as agriculture. In some cases, they include only a few actual trade concessions. They also 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.<sup>16</sup> As trade arrangements become more intense, they also can become more expansive by including other countries (such as is occurring with European Union enlargement).<sup>17</sup>

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<sup>16</sup> In a customs union, members have common external tariffs but not free trade among themselves.

<sup>17</sup> 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 21<sup>st</sup> century. Leonard, Mark. *Why Europe will Run the 21<sup>st</sup> Century*. New York, Fourth Estate, 2005.

Figure I. Types of Trading Arrangements (by Intensity)



Source: Congressional Research Service

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 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 December 2008, 421 regional

trade agreements had been notified to the WTO, and 230 agreements were in force. Close to 400 RTAs are scheduled to be implemented by 2010.<sup>18</sup> 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.<sup>19</sup> 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.<sup>20</sup> 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. 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. The ASEAN FTA forms the basis of the ASEAN Economic 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. ASEAN views itself as the core of a regional FTA in East Asia. Currently, there are various proposals for membership, such as ASEAN plus three (Japan, China, and South Korea) and ASEAN plus six (addition of Australia, New Zealand, and India). In order to build on such a regional arrangement, ASEAN is concluding bilateral agreements with the countries that are potential members of such a regional agreement.

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<sup>18</sup> World Trade Organization. RTA Gateway at [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm).

<sup>19</sup> 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](http://www.apec.org/webapps/fta_rta_information.html#others_fta).

<sup>20</sup> Association of Southeast Asian Nations. Trade/The ASEAN Free Trade Area (AFTA). On Internet at <http://www.aseansec.org/12021.htm>.

**Table I. Free Trade Agreements, Negotiations, and Discussions by Selected East Asian and Other Nations, 2010**

	China	Japan	S. Korea	Taiwan	ASEAN	Singapore	Indonesia	Thailand	Malaysia	United States	Australia	N Zealand
China <sup>a</sup>		D	D	D	FTA	FTA	PF	FTA	FTA		N	FTA
Japan <sup>b</sup>	D		N		FTA	FTA	FTA	FTA	FTA		D	
S. Korea <sup>c</sup>	D	N			FTA	FTA	FTA	FTA	FTA	FTA-U	N	
Taiwan <sup>d</sup>	D											
ASEAN <sup>e</sup>	FTA	FTA	FTA								FTA	FTA
Singapore <sup>f</sup>	FTA	FTA	FTA				FTA	FTA	FTA	FTA	FTA	FTA
Indonesia <sup>g</sup>	PF	FTA	FTA			FTA		FTA	FTA	D	FTA	FTA
Thailand <sup>h</sup>	FTA	FTA	FTA			FTA	FTA		FTA	N	FTA	FTA
Malaysia <sup>i</sup>	FTA	FTA	FTA			FTA	FTA	FTA		N	FTA	FTA
Philippines <sup>j</sup>	FTA	FTA	FTA			FTA	FTA	FTA	FTA	D	FTA	FTA
Vietnam <sup>k</sup>	FTA	FTA	FTA			FTA	FTA	FTA	FTA	N	FTA	FTA
Australia <sup>l</sup>	N	N	D		FTA	FTA	FTA	FTA	FTA	FTA		FTA
N Zealand <sup>m</sup>	FTA				FTA	FTA	FTA	FTA	FTA	N	FTA	

**Source:** Country trade ministries, news articles, and bilaterals.org.

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

<sup>a</sup>**China** also has FTAs with Hong Kong, Macao, and New Zealand. Partial FTA with Chile; negotiations with Pakistan, the Southern Africa Customs Union, the Gulf Cooperation Council, Iceland, Norway, and Costa Rica, and discussions with India. <sup>b</sup>**Japan** also has FTAs with Mexico, Chile, Switzerland, and Brunei; negotiations with India and Peru; and discussions with Canada and Mongolia. <sup>c</sup>**S. Korea** also has FTAs with Chile, EFTA, India, U.S. (unratified), and EU (unratified) and negotiations with Canada, Japan, Mexico, Peru, Australia, and New Zealand. <sup>d</sup>**Taiwan** or *Chinese Taipei* also has FTAs with Panama, Guatemala, Nicaragua, El Salvador, and Honduras and is negotiating with the Dominican Republic. <sup>e</sup>**ASEAN** also has an FTA with India. <sup>f</sup>**Singapore** also has FTAs with India, EFTA, Jordan, Panama, Peru, the Gulf Cooperation Council, is a member of the Trans-Pacific Strategic Economic Partnership Agreement with Brunei, Chile, and New Zealand in which Australia, Peru, Vietnam and the United States are negotiating to join. Singapore is in negotiations with Mexico, Canada, Pakistan, Costa Rica, Ukraine, and the European Union. <sup>g</sup>**Indonesia** also has an FTA with India waiting approval and is in discussions with Egypt. <sup>h</sup>**Thailand** also has an FTA with Bahrain, a partial FTA with India, is a member of The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, or BIMSTEC, which groups together Bangladesh, Bhutan, Burma, India, Nepal, Sri Lanka, and Thailand and aims for an FTA by 2017, negotiations with Peru, Chile, EFTA, and Papua New Guinea and discussions with the EU. <sup>i</sup>**Malaysia** also has an FTA with Chile and Brunei, negotiations with New Zealand, and discussions with India. <sup>j</sup>**Philippines** also has an FTA with EFTA and is in discussions with Chile and Israel. <sup>k</sup>**Vietnam** has an FTA with the Andean Community and negotiations with New Zealand, EFTA, and the UAE. It also is joining the negotiations on a Trans-Pacific Partnership (TPP FTA) including Singapore, Chile, New Zealand, Brunei, Australia, Peru, and the United States. <sup>l</sup>**Australia** also has an FTA with the United States, with the Pacific Island Countries Trade Agreement (14 members), Chile, is negotiating with China, the Gulf Cooperation Council, Japan, S. Korea, and the TPP. <sup>m</sup>**New Zealand** also is a member of the TPP and is negotiating with the Gulf Cooperation Council, Hong Kong, S. Korea, and India.



As shown in **Table 1**, numerous FTAs have already been concluded or are being negotiated among East Asia countries. In November 2002, ASEAN and China signed a Framework Agreement on Comprehensive Economic Co-operation. This provided for an ASEAN-China Free Trade Area (ACFTA) that took effect on January 1, 2010, between China and the more industrialized ASEAN-6,<sup>21</sup> and by 2015 for Cambodia, Laos, Myanmar, and Viet Nam.<sup>22</sup> ASEAN also has concluded an FTA with Australia and New Zealand and envisages a regional FTA by 2015. 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.<sup>23</sup> 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).<sup>24</sup> 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.<sup>25</sup> Services and investment have also been added to the original agreement.

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. In addition to being a part of the ASEAN Economic Community, it has concluded free trade agreements with the United States, China, Japan, South Korea, Australia, New Zealand, India, Jordan, Panama, and the European Free Trade Association (EFTA). Singapore also is a member of the Trans-Pacific Strategic Economic Partnership Organization (an FTA among Singapore, New Zealand, Chile, and Brunei)<sup>26</sup> that is seeking to expand membership to include the United States, Australia, Peru, and Vietnam. It has ongoing negotiations with Mexico, Canada, Pakistan, Costa Rica, Ukraine, and the European Union.

Likewise, *Thailand, 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.<sup>27</sup> *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

<sup>21</sup> The ASEAN-6 are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

<sup>22</sup> Association of Southeast Asian Nations, "Do Business with China under the ASEAN-China Free Trade Area (ACFTA)," c. 2003, <http://www.aseansec.org/4920.htm>.

<sup>23</sup> 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.

<sup>24</sup> 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.

<sup>25</sup> *Washington Trade Daily*, volume 17, January 1-4, 2008. P. 4.

<sup>26</sup> For details, see <http://www.iesingapore.gov.sg/wps/portal/FTA>.

<sup>27</sup> For details, see CRS Report RL33445, *The Proposed U.S.-Malaysia Free Trade Agreement*, by Michael F. Martin.

with ASEAN’s FTA agreements with other countries and also to conclude preferential trading arrangements with a variety of other nations.

For the United States, the creation of a trading bloc based on ASEAN poses little threat to U.S. commercial interests. U.S. companies are well established in ASEAN member economies, particularly in Singapore, the Philippines, and Indonesia, and lowered trade barriers within ASEAN tends to benefit both U.S. companies there and U.S. exporters to the region. However, the large imponderable in the development of the new trade architecture in East Asia is the *People’s Republic of China (PRC)*. The PRC has taken an aggressive stance toward establishing FTAs with trading partners. In January 2010, China and the ASEAN-6 more industrialized countries reduced tariffs on 90% of products traded. The four remaining ASEAN members (Vietnam, Cambodia, Laos, and Burma) are to follow by the end of 2014. China also has an FTA with New Zealand and is negotiating or discussing FTAs with Japan, Taiwan, Pakistan, and India.

FTAs follow trade, and the Chinese economy is beginning to dominate trade in Asia. As shown in **Table 2**, China has become the top trading partner for Japan, South Korea, Taiwan, and Australia. It is the second largest trading partner for Singapore and Thailand, and the third largest for Indonesia and the Philippines. With the exception of the Philippines, a former U.S. colony, the United States ranks below China in the trade rankings for most of East Asia. While the United States still is a major trader there, increasingly it is being eclipsed by China.

**Table 2. Major Trading Partners of East Asian Nations and the United States**  
Ranked by Total Exports Plus Imports

Country/Economy	Top Partner	Second	Third	Fourth	Fifth
Japan	China	United States	S. Korea	Taiwan	Australia
S. Korea	China	Japan	United States	Saudi Arabia	Singapore
Taiwan	China	Japan	United States	Hong Kong	S. Korea
Australia	China	Japan	United States	S. Korea	India
Singapore	Malaysia	China	United States	Indonesia	Japan
Thailand	Japan	China	United States	Malaysia	Singapore
Indonesia	Japan	Singapore	China	United States	S. Korea
Philippines	United States	Japan	China	Singapore	Hong Kong
Malaysia	Singapore	United States	Japan	China	Thailand
China	United States	Japan	Hong Kong	S. Korea	Taiwan
United States	Canada	China	Mexico	Japan	Germany

**Source:** Congressional Research Service based on data accessed through Global Trade Atlas.

While the United States does not oppose the creation of regional trading arrangements, U.S. commercial interests in East Asia are huge. Therefore, it seems important for U.S. policy to ensure that any such trading blocs do not work to the disadvantage of U.S. exporters and American companies with a presence there, particularly when competing with China. The danger also exists that security considerations will follow trade and investments. Once China becomes the dominant regional economy, governments may turn to China first in seeking solutions to problems. China then may be able to spread its influence in political, security, and socio-cultural issues that may or may not be consonant with U.S. interests and values.

Japan joined the FTA race relatively late. It is burdened by a highly protective agricultural sector and a trade agenda that usually has placed top priority on multilateral trade negotiations under the World Trade Organization. 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,<sup>28</sup> also signed an EPA (eliminating tariffs on 97% of goods traded) with Malaysia that went into effect in July 2006.<sup>29</sup> In 2005, Japan also 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 led 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. In 2009, Prime Minister Yukio Hatoyama called for an East Asian Economic Community consisting of ASEAN, Japan, China, South Korea, India, Australia, and New Zealand. However, considering that Japan and South Korea cannot agree on even a limited FTA between themselves, it is hard to imagine their reaching an agreement on a regional FTA spanning Northeast and Southeast Asia as well as parts of the Pacific Ocean.

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.<sup>30</sup> In addition to Chile, Seoul has signed FTA arrangements with ASEAN, EFTA, and India; and FTAs with the United States<sup>31</sup> and the European Union are awaiting ratification. South Korea also has ongoing FTA talks with Japan, Canada, Mexico, China, Mercosur,<sup>32</sup> Peru, Australia, and New Zealand.

Given that the international status of *Taiwan (Chinese Taipei)* is in dispute and Beijing has waged a campaign to isolate it, 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 trade agreements with other economies, particularly as Mercosur considers an FTA with China.<sup>33</sup> Taiwan has indicated that the United States, New Zealand, and Singapore are its top priority for future FTA partners.<sup>34</sup> 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

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<sup>28</sup> Japan. Ministry of Foreign Affairs. The Signing of the Japan-Philippines Economic Partnership Agreement, September 8, 2006.

<sup>29</sup> 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, July 13, 2006.

<sup>30</sup> 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.

<sup>31</sup> CRS Report RL34330, *The Proposed U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications*, coordinated by William H. Cooper.

<sup>32</sup> 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.

<sup>33</sup> Ho, Jessie. Paraguayan FTA Safe: Government. *Taipei Times*, February 15, 2005.

<sup>34</sup> Chen, Melody. FTA Push Moves Into High Gear. *Taipei Times*, November 8, 2004. P. 2.

Community consisting of the Summit attendees. Taiwan also is wary that a U.S.-South Korean FTA, if approved by Congress, would divert trade away from Taiwan toward South Korea.

## **East Asian Economic Community**

The ASEAN Plus Three (APT) consisting of the ASEAN ten<sup>35</sup> 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 Free Trade Area that parallels the East Asian Economic Caucus originally proposed in 1990 by former Prime Minister Mahathir Mohamad of Malaysia. At the time, the United States opposed such an 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 necessarily 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 APT 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 APT 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 the 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 Korea, the building blocks exist for the East Asian Economic Community.<sup>36</sup> The APT had a report on the possibility of an East Asian FTA at the 12th ASEAN Plus Three Summit in October 2009 in Thailand.<sup>37</sup>

The East Asian Economic Community 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.

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<sup>35</sup> The ten members of the Association of Southeast Asian Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Burma/Myanmar, and Cambodia.

<sup>36</sup> Association of Southeast Asian Nations. ASEAN Plus Three Cooperation. Accessed December 29, 2005, at <http://www.aseansec.org/16580.htm>.

<sup>37</sup> Association of South East Asian Nations, *ASEAN Plus Three Cooperation*, accessed March 9, 2010, <http://www.aseansec.org/16580.htm>.

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 APT nations have already established certain cooperative financial arrangements.<sup>38</sup> These have resulted primarily from the adverse effects of the 1997-1998 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.<sup>39</sup> In February 2009, the ASEAN + 3 nations agreed to increase the size of the Chiang Mai Initiative from \$80 billion to \$120 billion and to develop a more robust and effective surveillance mechanism to support its operation.<sup>40</sup> The APT also has an Asian Bond Market Initiative.

## CJK FTA

In February 2010, South Korean government announced that it would take the initiative in discussions on integrating the East Asian economies and push for a trilateral free trade agreement among China, Japan, and South Korea. In October 2009, the trade ministers of South Korea, China, and Japan agreed to launch the first joint study meeting of a CJK FTA in the first half of 2010. This is to involve business executives, government officials, and academics, and is intended to set a schedule leading to the FTA. Prime Minister Yukio Hatoyama of Japan proposed at the Beijing Trilateral meeting between China, Japan, and South Korea on October 10, 2009, that such an FTA be accelerated.<sup>41</sup>

## Proposed Comprehensive Economic Partnership in East Asia or East Asia FTA

Several have proposed that the countries that are members of the East Asia Summit join to form an Asian free trade area. This has been called an East Asia FTA, but Japan also has proposed a that it be called a Comprehensive Economic Partnership in East Asia or CEPEA. This would be a 16-nation East Asian Free Trade area to be coordinated by an organization similar to the

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<sup>38</sup> 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.

<sup>39</sup> 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>.

<sup>40</sup> Association of South East Asian Nations, *ASEAN Plus Three Cooperation*, accessed March 9, 2010, <http://www.aseansec.org/16580.htm>.

<sup>41</sup> Joel Rathus, *Hatoyama's FTA Strategy: No Strategy at All?*, East Asia Forum, East Asia Forum's Notes, December 3, 2009.

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. China and South Korea, however, have not supported Japan in this idea. Both of these countries have indicated that their first priority would be the ASEAN + 3 FTA proposal.<sup>42</sup> ASEAN and India have welcomed the concept.<sup>43</sup> In 2006, former U.S. Ambassador to Japan Thomas Schieffer expressed some concern about the proposed East 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.<sup>44</sup>

At the 2009 East Asia Summit, the leaders noted the final Phase II Report of the Track Two Study Group on Comprehensive Economic Partnership in East Asia (CEPEA) and welcomed the decision to task their Senior Economic Officials to discuss and consider the recommendations in the report. They stated that CEPEA and East Asia Free Trade Area (EAFTA) could be examined and considered in parallel.

## **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.<sup>45</sup> 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?

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.<sup>46</sup> For the United States, one important feature of

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<sup>42</sup> Japan Aims to Launch East Asia FTA Talks in ‘08: Nikai. Jiji Press English News Service, April 4, 2006.

<sup>43</sup> S. Korea, China Snub Japan’s 16-nation FTA Plan. Organisation of Asia-Pacific News Agencies. August 24, 2006.

<sup>44</sup> US Envoy Expresses Concern About Japan’s Idea of East Asia Free Trade Zone. BBC Monitoring Asia Pacific. London: April 19, 2006.

<sup>45</sup> Asia Pacific Economic Cooperation. “14<sup>th</sup> APEC Economic Leaders’ Meeting, Ha Noi Declaration.” Ha Noi, Viet Nam, 18-19 November 2006. For information on APEC, see <http://www.apec.org>.

<sup>46</sup> For information on APEC, see CRS Report RL31038, *Asia Pacific Economic Cooperation (APEC) and the 2007 Meetings in Sydney, Australia*, by Michael F. Martin.

APEC is that it includes Taiwan (Chinese Taipei). Other economic and political groupings generally include China but exclude Taiwan.

## **Asia Pacific Community**

In building the trade architecture of Asia, Australia has tried to ensure that it would be included in whatever pan-Asian FTA develops as the Asian trade architecture evolves. Australia has joined the East Asia Summit and has been a major supporter of the Asia Pacific Economic Cooperation (APEC) forum. In June 2008 Prime Minister Kevin Rudd announced that Australia would seek to encourage development of an ‘Asia Pacific Community’ by 2020. This community would include at least the members of the East Asia Summit plus the United States and possibly Russia. He argued that no existing cooperation forum so far brings together the whole Asia Pacific region and it was therefore desirable to review the region’s architecture.<sup>47</sup> The APC could be a vehicle to manage great power relationships, both economic and security, in the Asia Pacific.

## **The Trans-Pacific Partnership**

The Trans-Pacific Strategic Economic Partnership (TPP) originally included Singapore, New Zealand, Chile, and Brunei. It is an FTA that spans the Pacific Ocean. On November 14, 2009, President Obama announced that the United States would engage with the Trans-Pacific Partnership: on December 14, 2009, the Office of the U.S. Trade Representative formally notified Congress of the Obama Administration’s intent to enter into negotiations of the Trans-Pacific Partnership. The first TPP negotiating session took place on March 15, 2010, in Australia. Also entering into negotiations with the TPP are Australia, Peru, and Vietnam. The United States already has FTAs with Singapore and Chile and with potential TPP partners, Australia and Peru. Joining the TPP would require that the United States negotiate FTAs with New Zealand, Brunei, and possibly Vietnam. The possible inclusion of Vietnam may prove problematic for U.S. industries, such as textiles, apparel, and fisheries. The process of negotiation may span a considerable period of time, and congressional consideration of any agreement may still be farther into the future, but just the possibility of such an FTA may induce other countries, such as South Korea, to also join the negotiations. If so, the TPP could become the foundation of a Free Trade Area of the Asia Pacific (FTAAP) as envisaged by APEC.<sup>48</sup>

## **The G-20 East Asian Caucus**

After the onset of the Global Financial Crisis of 2008-2010, the Group of Twenty nations<sup>49</sup> (G-20) took an expanded role in coordinating and providing support for policy to cope with the crisis and also to implement regulatory reforms. Some have proposed that rather than create a new institution, that the East Asian members of the G-20 (China, Japan, South Korea, Australia, India, and Indonesia) form an East Asian Caucus. The purpose of this caucus would be to ensure that the

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<sup>47</sup> Frank Frost, *Australia’s proposal for an ‘Asia Pacific Community’: issues and prospects*, Parliament of Australia, Department of Parliamentary Services, Research Paper, No. 13, 2009–10, December 1, 2009. p. 1.

<sup>48</sup> For further information, see: CRS Report R40502, *The Trans-Pacific Partnership Agreement*, by Ian F. Fergusson and Bruce Vaughn

<sup>49</sup> For information on the G-20, see: CRS Report R40977, *The G-20 and International Economic Cooperation: Background and Implications for Congress*, by Rebecca M. Nelson.

major powers of Asia meet and coordinate policies before the G-20 summits and report on the results of the summits to a broader Asian grouping (e.g. at an ASEAN plus Three [or Six] meeting or at the East Asia Summit). This proposal may gain traction since South Korea has assumed the G-20 Chair in 2010, and the G-20 Summit is scheduled for Seoul in November 2010.<sup>50</sup>

## Regional Political and Security Arrangements

Security arrangements, in most cases, are designed to reduce the risk of hostilities by co-opting 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.<sup>51</sup> Even in this new age, however, the potential for a big power confrontation (including one with a nuclear-armed China) still exists.<sup>52</sup>

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 Asian 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 support 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 now can join the East Asia Summit. The security related organizations in East Asia are discussed below.

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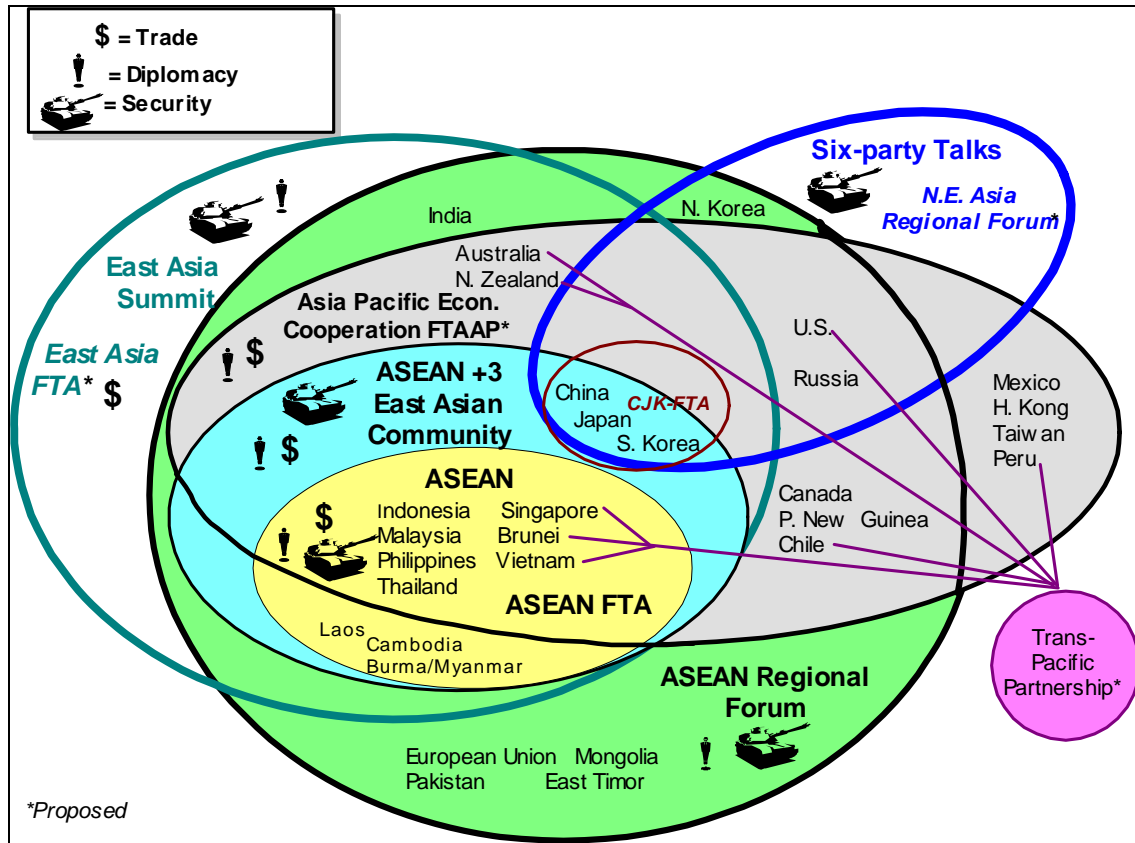
<sup>50</sup> "Architectural Momentum in Asia and the Pacific," *East Asia Forum Quarterly*, vol. 1, no. 2 (September 2009), pp. 1-2.

<sup>51</sup> 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.

<sup>52</sup> 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.



Figure 2. East Asian Regional Arrangements—Existing and Proposed



Source: Congressional Research Service

## 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 strong support from 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.<sup>53</sup> 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 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.<sup>54</sup> 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.<sup>55</sup>

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.<sup>56</sup> 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. In order to bring in defense ministers, ARF holds a separate ARF Defense Dialogue among defense and military officials who also attend the ARF. At the 16<sup>th</sup> meeting in Thailand in July 2009, the representatives discussed several security related topics, such as North Korea's missile and nuclear tests, and they adopted the ARF Work Plan on Counter-Terrorism and

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<sup>53</sup> The ARF homepage is at <http://www.aseanregionalforum.org/default.aspx?tabid=55>.

<sup>54</sup> Ooi, Su-Mei. *Globalisation and Security: The Role of International Financial Institutions in Pacific Asian Security*. Baden-Baden, Germany, Nomos Verlagsgesellschaft, 2001. P. 106.

<sup>55</sup> Asian Anxieties, Pacific Overtures: Experiments in Security. *World Policy Journal*, Summer 1994, Vol.11, Issue. 2; pp. 37-45.

<sup>56</sup> 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>.

Transnational Crime. They also noted that the first ARF field exercise on disaster relief had been conducted.<sup>57</sup>

## **East Asia Summit**

The East Asia 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 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.<sup>58</sup>

For the initial meeting of the EAS, membership required that participants sign the Treaty of Amity and Cooperation in Southeast Asia (TAC), be a formal dialogue partner<sup>59</sup> 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. On July 22, 2009, Secretary of State Hillary Rodham Clinton signed the TAC on behalf of 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.

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<sup>57</sup> ASEAN Regional Forum, *Chairman's Statement, 16th ASEAN Regional Forum, Phuket, Thailand*, July 23, 2009.

<sup>58</sup> Kuala Lumpur Declaration on the East Asia Summit, Kuala Lumpur, December 14, 2005.

<sup>59</sup> ASEAN dialogue partners include the United States, China, Japan, South Korea, Russia, Australia, Canada, the European Union, India, and New Zealand.

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 in 2001 by six countries: China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. Mongolia, Pakistan, Iran and India are observers.<sup>60</sup> The SCO reportedly has not acted on Iran's request for membership. The SCO's 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.<sup>61</sup> 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,<sup>62</sup> although it is not yet developed sufficiently to become a counterpoint to NATO.

As the SCO has entered into its ninth year 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."<sup>63</sup> 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

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<sup>60</sup> 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.

<sup>61</sup> Weinstein, Michael. Intelligence Brief: Shanghai Cooperation Organization. Power and Interest News Report, July 12, 2005.

<sup>62</sup> 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.

<sup>63</sup> Lim, Louisa. Asian and Central Asian States Meet in Shanghai. National Public Radio, Morning Edition, June 15, 2006.

emphasized that the SCO is a geopolitical structure whose work is aimed at combating terrorism and safeguarding the region's safety and security.<sup>64</sup>

In 2008, the SCO members signed an Agreement on Cooperation among the Defense Ministries of the SCO Member States. In 2010, they agreed to a two-year plan that outlines main areas of cooperation among the defense ministries of the SCO member states, including further strengthening of dialogue and consultations in the field of defense and security, preparation of joint counterterrorism military drills, organization of workshops aimed to share experience in fighting against terrorism, conducting peace-keeping operations, army building and development, as well as staging of relevant activities marking the 10th anniversary of the founding of the SCO.

It should be noted that after the 2008 invasion of the Republic of Georgia by the Russian Federation, Russian President Dmitry Medvedev sought support for its action from the SCO. China and other SCO members, however, would not have the SCO give its support for Moscow's action. The SCO refused to support the dismemberment of a sovereign Georgia and the ensuing independence of South Ossetia and Abkhazia. China, itself facing problems with territorial independence movements, indicated that it was wary of this request and merely stated that the situation should be resolved by dialogue.<sup>65</sup>

## 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.<sup>66</sup>

## 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.<sup>67</sup>

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<sup>64</sup> 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.

<sup>65</sup> Stephen Blank, "The Shanghai Cooperation Organization and the Georgian Crisis," *Jamestown Foundation, China Brief Volume: 8 Issue: 17*, September 3, 2008. Olga Tutubalina and Peter Leonard, "Russia Seeks Support from Eastern Neighbors," *Associated Press*, August 28, 2008.

<sup>66</sup> See CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry A. Niksch.

<sup>67</sup> Bremmer, Ian, Choi Sung-hong, and Yoriko Kawaguchi. A New Forum for Peace, *The National Interest*, Winter (continued...)

At the 13<sup>th</sup> 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.”<sup>68</sup> 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.<sup>69</sup>

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 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).<sup>70</sup>

## 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,<sup>71</sup> the Council for Security Cooperation in the Asia Pacific,<sup>72</sup> 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 2009 NEACD meetings in San Diego, for example, included Ri Gun, North Korea’s deputy chief envoy for nuclear negotiations, and U.S. chief negotiator Sung Kim as well as defense and diplomatic officials and academics. It came at a time when the Six Party Talks were stalled.<sup>73</sup>

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(...continued)

2005/2006, Issue 82, pp. 107-111.

<sup>68</sup> Rice, Condoleezza. Remarks on Multilateral Talks on North Korea. U.S. Department of State press release 2006/T19-12, July 28, 2006.

<sup>69</sup> Wright, Robin. Rice to Hold Talks on North Korea. *Washington Post* (Online version), July 27, 2006.

<sup>70</sup> For information on the Commission on Security and Cooperation in Europe, see their website at <http://www.csce.gov>.

<sup>71</sup> For information on the Shangri-La Dialogue and 2006 conference, see <http://www.iiss.org/conferences/the-shangri-la-dialogue>.

<sup>72</sup> For information on CSCAP, see their website at <http://www.cscap.org>.

<sup>73</sup> For information on NEACD, see <http://igcc.ucsd.edu/news/NEACD%20Press%20Clippings.php>.

## 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.<sup>74</sup>

## 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. More recently, terrorist attacks on U.S. businesses and on American citizens have occurred there (particularly in Indonesia and the Philippines). China is a recognized nuclear power while North Korea has tested two nuclear weapons. 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. In 2003, one author pointed out that every major al Qaeda plot since 1993 had some link to radical Muslim groups in the Philippines.<sup>75</sup>

By far, however, the major issue developing in Asia is the growing economic and security presence of China and what that means for the rest of the world. Following the global financial crisis of 2008-2009, China has been exhibiting increased self-confidence (some argue that it is more like hubris) in global affairs and in particular toward the United States. As the London *Economist* stated, "China ... is more assertive and less tolerant of being thwarted.... From its perceived position of growing economic strength, China has been throwing its weight around...."<sup>76</sup>

Given China's conclusion of free-trade agreements with its Southeast Asian neighbors and free-trade discussions with Japan and South Korea, it is possible that, in the future, the industrial world could be divided into three large quasi-blocs for trade: North America, Europe, and East Asia. If each trading bloc pursued its own interests over those of the world, a global consensus

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<sup>74</sup> For information on USPACOM, see <http://www.pacom.mil/about/pacom.shtml>.

<sup>75</sup> Ressa, Maria. *Southeast Asia and the Seeds of Terror*. New York, Free Press, 2003. 254 p.

<sup>76</sup> "Facing up to China," *The Economist*, February 6, 2010, p. 11.

on trans-national issues would be more difficult to achieve. This could affect, for example, the ability to achieve future multinational trade agreements under the World Trade Organization or agreements dealing with climate change. It also could affect the ability to reach agreement on trans-regional standards for rapidly developing technology in areas such as information science, nanotechnology, genetically modified plants, or in intellectual property rights.<sup>77</sup>

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.

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.<sup>78</sup> In this respect, Asia is both a success story and cauldron of concern.<sup>79</sup> 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.<sup>80</sup>

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<sup>77</sup> U.S. National Intelligence Council, *Global Trends 2025: A Transformed World*, Washington, DC, November 2008, p.xi.

<sup>78</sup> The White House. The National Security Strategy of the United States of America. March 2006. p. 1.

<sup>79</sup> 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.

<sup>80</sup> 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 (continued...)



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. In 2005, 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.<sup>81</sup> Ellen Frost of the Institute for 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.”<sup>82</sup> 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.”<sup>83</sup> 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?

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(...continued)

Hotel, New York, NY, October 1, 2002.

<sup>81</sup> 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 <http://www.cceia.org>.

<sup>82</sup> 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>.

<sup>83</sup> Kurlantzick, Joshua. China’s Charm: Implications of Chinese Soft Power. Carnegie Endowment for International Peace Policy Brief No. 47, June 2006.

## 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 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 rise<sup>84</sup> 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

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<sup>84</sup> See, for example: Qiang, Shen. New Developments in Evolving Relationships among Major Powers. *International Strategic Studies*, 3<sup>rd</sup> Issue, 2005. p. 54.

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 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.<sup>85</sup>

**South Korea's** vision for East Asia is for the country to become a hub for economic activity<sup>86</sup> 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.<sup>87</sup>

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

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<sup>85</sup> Association of South East Asian Nations. Politics and Security: Overview. Accessed June 23, 2006. <http://www.aseansec.org/92.htm>.

<sup>86</sup> 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.

<sup>87</sup> Bordonaro, Federico. Asia's Dawning Multipolar System Increases Australia's Geopolitical Importance. Power and Interest News Report, June 14, 2006.

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. This appears to be a major rationale for the negotiations to join the Trans-Pacific Partnership. 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.<sup>88</sup>

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 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

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<sup>88</sup> Michalak, Michael. U.S. Views on Asia Regional Integration, Remarks at the International Institute of Monetary Affairs, Tokyo, Japan, January 25, 2006.

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 ASEAN<sup>89</sup> 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.<sup>90</sup>

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<sup>89</sup> 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.

<sup>90</sup> U.S.-Republic of the Philippines (Mutual Defense Treaty, 1952), ANZUS (Australia - New Zealand - U.S., 1952), (continued...)

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 security arrangements in East Asia can contribute to Chinese comprehensive national power,<sup>91</sup> 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,

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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).

<sup>91</sup> Office of the Secretary of Defense, *Military Power of the People’s Republic of China*, 2005, op. cit.

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.<sup>92</sup> 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%).<sup>93</sup>

The United States also is often blamed for the dislocations caused by globalization<sup>94</sup> 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).<sup>95</sup> 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.

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.<sup>96</sup> 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.<sup>97</sup>) 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 1997-1999 Asian financial crisis still haunt policy makers in Asian countries.

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<sup>92</sup> 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.

<sup>93</sup> Pew Research Center. America's Image Slips, But Allies Share U.S. Concerns on Iran, Hamas. Released June 13, 2006.

<sup>94</sup> Pearlstein, Steven. World Puts the Brakes on the Rush to Globalization. *Washington Post*, July 5, 2006. p. D01.

<sup>95</sup> Chua, Amy. A World on the Edge, *The Wilson Quarterly*, Autumn 2002. Vol. 26, Issue 4; p. 62-78.

<sup>96</sup> Rosenberger, Leif. A Socio-economic Strategy Against Violent Extremism, in *Asia-Pacific Economic Update, 2005*. U.S. Pacific Command. Vol. III, p. 23.

<sup>97</sup> 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.

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 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 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.<sup>98</sup> Under the Bush administration, the United States signed FTAs with Columbia, Panama, and South Korea, but these await legislative action and final approval. Concerns have been 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.

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<sup>98</sup> See CRS Report RS22391, *U.S.-Peru Trade Promotion Agreement*, by M. Angeles Villarreal, and CRS Report RL33328, *U.S.-Oman Free Trade Agreement*, by Mary Jane Bolle.



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 Obama Administration and Congress. This includes seeking membership in the Trans-Pacific Partnership; pursuing possible additional bilateral FTAs, such as 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. The largest item on the agenda arguably is for Congress to address consideration of the Korea-U.S. Free Trade Agreement.

The current negotiations for the United States to join the Trans-Pacific Partnership represents a concrete way for the United States to cement itself into the evolving architecture of international trade in the Asia Pacific. The FTA negotiations were originally among the four countries of Chile, New Zealand, Singapore, and Brunei; Australia, Peru, and Vietnam also have joined the talks. This is one trade arrangement that includes countries on both sides of the Pacific.<sup>99</sup> Such an arrangement, along with the ASEAN FTA, could form the nucleus for an FTA of the Asia Pacific that would include those willing among the 21 members of the Asia Pacific Economic Cooperation forum.

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 and Afghanistan/Pakistan has taken priority over East and Southeast 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.

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.<sup>100</sup>

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

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<sup>99</sup> CRS Report R40502, *The Trans-Pacific Partnership Agreement*, by Ian F. Fergusson and Bruce Vaughn

<sup>100</sup> See, for example: CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress*, coordinated by Emma Chanlett-Avery, or CRS Report RL33567, *Korea-U.S. Relations: Issues for Congress*, by Larry A. Niksch.

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.<sup>101</sup>

According to the 2008 *National Defense Strategy*, China is one ascendant state with the potential for competing with the United States. For the foreseeable future, the United States will need to hedge against China's growing military modernization and the impact of its strategic choices upon international security. It is likely that China will continue to expand its conventional military capabilities, emphasizing anti-access and area denial assets including developing a full range of long-range strike, space, and information warfare capabilities. U.S. interaction with China will be long-term and multi-dimensional and will involve peacetime engagement between defense establishments as much as fielded combat capabilities. The objective of this effort is to mitigate near term challenges while preserving and enhancing U.S. national advantages over time.<sup>102</sup>

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, recognizing China's right to have a leadership role in 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, to push harder for a Northeast Asia Regional Forum, and to encourage Japan and South Korea to join the Trans-Pacific Partnership negotiations. The United States first could join the East Asia Summit. The Obama Administration has taken a necessary step toward this possibility by signing the ASEAN Treaty of Amity and Cooperation, an action required for membership.<sup>103</sup>

The United States could do more to reinvigorate APEC. At the 2006 APEC Leader's Meeting in Hanoi, the United States did push for an FTA of the Asia Pacific. This would realize the Bogor

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<sup>101</sup> 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 and Emma Chanlett-Avery. CRS Report R41108, *U.S.-China Relations: Policy Issues*, by Thomas Lum.

<sup>102</sup> U.S. Department of Defense, *2008 National Defense Strategy*, Washington, DC, June 2008, p. 3.

<sup>103</sup> See: CRS Report R40933, *United States Relations with the Association of Southeast Asian Nations (ASEAN)*, coordinated by Thomas Lum.

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. Rather than a specific goal, the Bogor goals seem to have become more of a long-term prospect.

The next two years may be a critical period for APEC in either setting a concrete direction to achieve its Bogor Goals or to postpone them and treat them as a future target. The 2010 meetings are to be held in Yokohama, Japan—the target year for APEC's industrialized members to achieve the Bogor Goals. The United States will host the 2011 meetings. The Obama Administration has chosen Honolulu as the host city for the 2011 Leaders' Meeting but has not given a clear indication of APEC's role in U.S. trade policy.

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 \$14.8 trillion gross domestic product (\$17.3 trillion for NAFTA) negotiating with the UK (\$2.1 trillion GDP) or Germany (\$3.3 trillion GDP), the United States now faces an equal in the EU with its combined GDP of \$16.3 trillion. An East Asian FTA encompassing 16 nations not only would constitute half the world population but a combined GDP of \$16.4 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 agree on an FTA between themselves, let alone one that includes China and 13 other nations. Recently, however, China, Japan, and South Korea seem to be warming to the possibility of an FTA among themselves. South Korea, in particular, is pursuing several FTAs. The FTAs now being implemented between ASEAN and the three major East Asian nations on a bilateral basis has for now become a structure for regional trade: the ASEAN +1 type of FTA with ASEAN as the center of a hub-and-spoke network of FTAs and with the spokes (ASEAN trade with Japan, China, South Korea, and India) having more weight than the hub.

On the security side, the proposals for future direction go beyond the purview of this report. A direction of thinking by some, however, is that the United States needs to go beyond the threat-centric mode of bilateral security arrangements to one based more on multilateral security partnerships, or what is termed a “convergent security” approach. The reason is that the immediate danger to security appears to center more on terrorism and the threat of nuclear proliferation than on Cold War style attacks by nation states. A “convergent security” approach differs from the concepts of offshore balancing and independent Asian power centers in that it envisages the United States as working as an active partner with its bilateral allies to manage transitions in the region's security order that lead to multilateral stability rather than to geopolitical coalitions. The underlying assumption of this approach is that China has enough at stake in maintaining international stability that it will cooperate in financial and economic issues with the rest of the world and not engage in military action that would destabilize the system. A

“convergent security” approach would, for example, call for greater engagement in new multilateral initiatives, such as the East Asia Summit and Asia Pacific Community.<sup>104</sup>

Another possible 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.

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<sup>104</sup> William T. Tow and Beverley Loke, “Rules of Engagement: America’s Asia-Pacific Security Policy Under an Obama Administration,” *Australian Journal of International Affairs*, vol. 63, no. 4 (December 2009), pp. 443, 453-54. William T. Tow, *Asia-Pacific Strategic Relations: Seeking Convergent Security* (Cambridge: Cambridge University Press, 2001), 303 p.