

U.S. Asia Pacific Council

Washington REPORT

*News and analysis from Washington, D.C. about
key issues in U.S.-Asia Pacific Relations*

Volume 4 September 2006

America Must Consider Anew Its Policies Toward The 'New East Asia' USAPC Interview with Amb. Morton Abramowitz

*The era of absolute American preeminence in East Asia is over, asserts Amb. Morton Abramowitz, who with Amb. Stephen Bosworth wrote *Chasing the Sun: Rethinking East Asian Policy* (The Century Foundation: 2006). The region has been dramatically transformed by the combined influences of a rising China, a globalizing world economy, deeper U.S. economic involvement there, and other forces. The authors say it is now incumbent upon the United States to consider anew how it can help keep the peace and retain influence commensurate with its interests in the region.*

In the following interview, Amb. Abramowitz further elaborates on this theme in discussing the challenges to U.S. policy posed by growing interest in East Asian regionalism, the North Korean nuclear problem, Sino-Japanese tensions, and the role and importance of regional institutions.

USAPC: In *Chasing the Sun*, you and Amb. Bosworth say it is very important for the United States to remain engaged with the nations of East Asia, but not in a heavy-handed, overbearing manner. We must respect the desire of these nations to shape their own futures.

Abramowitz: Yes, and we also must recognize that U.S. influence in East Asia has diminished in great part because most of these nations have risen. They are far more capable economically and politically and are becoming more serious actors in regional developments.

USAPC: In recent months, the Bush Administration has made a concerted effort to foster closer relations with ASEAN (Association of Southeast Asian Nations) through such initiatives as the ASEAN-U.S. Enhanced

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United States Pursues Greater Engagement With ASEAN

The Bush Administration has been making a concerted effort this year to disprove critics of its Southeast Asia policy and to reassure those nations of its continued commitment to the region.

The decision of Secretary of State Condoleezza Rice to forego the July 2005 annual meeting of the Association of Southeast Asian Nations (ASEAN) Regional Forum precipitated a flurry of criticism that she was snubbing the region. Some pundits even interpreted her move as a sign that the United States was ceding

Southeast Asia to China.

In the past year, however, the United States has launched several initiatives aimed at enhancing relations with ASEAN, whose members include Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

ASEAN-U.S. Enhanced Partnership—Secretary Rice made good on her pledge to attend the ASEAN Regional Forum on July 27-28. On the sidelines of that meeting, Rice and her ASEAN counterparts signed an

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Partnership and the Enterprise for ASEAN Initiative. Are we headed in the right direction?

Abramowitz: These are positive developments.

ASEAN¹ is trying hard to gain more coherence. Clearly, we should be more actively engaged with ASEAN as an institution as well as with individual member nations. Southeast Asia for some time almost disappeared from our screen.

At some point soon, Washington also will have to come to grips with the increasing interest in region-wide integration. Currently, there is much discussion in the region about a potential East Asia Free Trade Area, an East Asia Community, and so forth. An East Asian Summit took place in December 2005, but participants did little more than agree to meet again this year.

The discussion about regional integration is very much in its early days and has a long way to go. It is premature to say where U.S. policy is headed because Washington has yet to decide on how it feels about more formal East Asian-wide integration.

USAPC: What are the major regional players saying about integration? Is there a role for the United States?

Abramowitz: Japan and China have put forth competing visions of how the region should be organized. China has proposed an East Asia arrangement based on the ASEAN Plus Three group [ASEAN members plus China, Japan, and South Korea]. The United States and other Pacific nations are not included.

Japan has made two regional organization proposals. The first would create a 16-nation East Asian Free Trade Area, involving Australia, China, India, Japan, New Zealand and South Korea, along with the 10 ASEAN members. The second would establish an OECD-type organization for East Asia. Both of these proposals reflect Tokyo's interest in moving away from regionalization limited to ASEAN Plus Three in which China likely would play an ever-greater role.

The question of U.S. participation is one of the hurdles East Asian nations must get over in determining how to improve region-wide cooperation. Beyond the differences between China and Japan on this score, ASEAN nations themselves are divided. Indonesia definitely wants the United States and other Pacific nations to be part of any new regional structure. However, the Thais, the Malaysians, and the South Koreans presently are less enamored with that approach.

Clearly, rising tensions between China and Japan make movement on region-wide political and economic

¹The 10 nations that comprise ASEAN are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

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Congressional Watch

Legislation:

Senate Advances Bill Paving Way To Vietnam's WTO Accession—On July 31, the Senate Finance Committee voted unanimously to approve legislation to grant permanent normal trade relations (PNTR) to Vietnam. Earlier this year, the United States and Vietnam signed an accord which stipulates that PNTR status is a necessary precondition for approving Vietnam's accession to the World Trade Organization (WTO). The House of Representatives must pass similar legislation. The Administration is pressing Congress to pass the legislation this fall.

U.S.-India Civil Nuclear Agreement Passes House—On July 26, the House of Representatives voted 359–68 to approve the “United States and India Nuclear Cooperation Promotion Act of 2006.” The legislation would waive certain provisions of the Atomic Energy Act of 1954 with respect to India. These provisions prohibit U.S. nuclear cooperation with nations that are not signatories of the Nuclear Nonproliferation Treaty (NPT) and therefore have not pledged to forego nuclear weapons development. Similar legislation is awaiting Senate floor action.

House And Senate Unanimously Pass Bills To Reform Foreign Investment Reviews—On July 26, separate bills passed the House of Representatives and the Senate unanimously that would revamp the process by which an interagency panel—the Committee for Foreign Investment in the United States (CFIUS)—considers the possible national security impact of foreign purchases of U.S. companies. Both bills would

mandate a lengthier review of deals in which the acquiring company is owned by a foreign government. Key U.S. business representatives have endorsed the House-passed bill, but expressed concerns that certain provisions of the Senate bill would politicize the review process. They will seek to eliminate these provisions during the House-Senate conference this fall.

Reports:

Joint Economic Committee (JEC) Study Finds Major Challenges To China's Economic Future—On July 27, the Joint Economic Committee (JEC) published a study entitled, *Five Challenges That China Must Overcome To Sustain Economic Growth*. It concludes that Chinese policymakers must address the following issues to ensure China's future economic health: (1) unfavorable Chinese demographic trends; (2) corruption and weak rule of law; (3) financially distressed state-affiliated enterprises; (4) unsound banking practices; and (5) domestic and international imbalances. “Resolving these problems would require major structural reforms that could threaten aspects of the Chinese political system,” JEC Chairman Jim Saxton (R., New Jersey) said. For a copy, see www.house.gov/jec/.

Upcoming Hearings:

- **September 14**, “Japan’s Relations With China, South Korea, And Other Asian Neighbors” House International Relations Committee.
- **September 14-15**, “China’s Proliferation Record and Role in Resolving North Korea Nuclear Crisis,” U.S.-China Economic and Security Review Commission.

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action plan to implement the ASEAN-U.S. Enhanced Partnership. President Bush and ASEAN leaders agreed in principle to the Partnership at the Asia Pacific Economic Cooperation (APEC) forum last November in Korea. It is intended to institutionalize the U.S.-ASEAN relationship and encourage cooperation on economic, educational, cultural, and security matters. The agreement signed in late July establishes a five-year master plan for multi-sector cooperation.

Southeast Asian Financial Representative—On August 9, the Treasury Department announced it will establish a special post for a financial representative in Southeast Asia. The purpose is to demonstrate U.S. commitment to maintaining strong economic ties with these nations. Susan Baker, a financial expert who has worked in the region as a consultant for the World Bank, has been nominated to the new position. Experts say it remains to

be seen whether the creation of this post will help to ease still-bitter feelings in Southeast Asia about Washington’s decision not to come Thailand’s rescue during the 1997-98 financial crisis.

ASEAN Trade and Investment Framework

Agreement—On August 25, U.S. Trade Representative Susan Schwab and her ASEAN counterparts signed a trade and investment framework agreement (TIFA). The TIFA establishes a ministerial-level dialogue to improve coordination on regional and multilateral trade issues and “establishes a course of action for building trade and investment relations.” It may help pave the way for negotiation of a U.S.-ASEAN Free Trade Agreement (FTA) under the broader Enterprise for ASEAN Initiative (EAI). The EAI aims to increase trade and investment between the United States and Southeast Asia through negotiation of bilateral FTAs and, ultimately, a region-wide accord. ♦

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integration very difficult. This is no short-term matter. Much needs to be discussed and sorted out, including whether the United States should be part of any new regional organization.

USAPC: With respect to the ASEAN Regional Forum (ARF)², one commentator noted recently that it originally was conceived as a process for confidence-building in East Asia rather than as a policymaking institution. Yet, some critics charge that ARF amounts to a useless “talk shop.” Does the ARF still play a worthwhile role in the region?

Abramowitz: I used to be cynical about regional efforts, like the ARF and even ASEAN, because the rhetoric appeared to exceed the reality of what these initiatives could accomplish. But now, growing older if not wiser, I have become more optimistic.

The benefits of these regional forums take a long time to play out because East Asia is so diverse. ARF has become a mildly useful forum for consultations on security cooperation at high levels, and those discussions, even if they produce nothing tangible, strike me as worthwhile.

To expect more, certainly at this point, is unrealistic. The ARF is worth preserving as part of a broader effort to maintain regional peace and stability—but it is not a major contribution to security in the region.

USAPC: *Chasing the Sun* suggests that the so-called Six-Party talks aimed at halting North Korea’s nuclear program may serve as a precursor to a permanent consultative forum for Northeast Asian security. [The six parties are China, Japan, North Korea, Russia, South Korea and the United States.] Please elaborate on this.

Abramowitz: Yes, the Six-Party framework has generated considerable discussion about a permanent forum for a security dialogue among the countries of Northeast Asia and the United States. Such a forum might help to reduce the frictions that bilateral alliances and relationships sometimes foster and bring consideration and greater clarity to sensitive issues, such as military spending and planning. But we need more progress on the North Korean nuclear issue in order to move that idea forward.

The Six-Party talks have achieved very little thus far. In September 2005, the six nations issued a statement of principles on the denuclearization of the Korean peninsula.

²The ASEAN Regional Forum is composed of Australia, Bangladesh, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Democratic Peoples’ Republic of Korea, Republic of Korea, Laos, Malaysia, Myanmar, Mongolia, New Zealand, Pakistan, Papua New Guinea, Philippines, Russian Federation, Singapore, Thailand, Timor Leste, United States, Vietnam.

la (see below). However, the next day each party publicly interpreted the statement in its own different way. Moreover, the principles have not produced any negotiating content. For all intent and purposes, there are no serious negotiating proposals on the table.

Nevertheless, the negotiations probably have been a worthwhile effort and certainly enhanced discussion between at least five countries. But the talks are not necessarily a panacea. Indeed, “six-party, six-party” has become something of a mantra for the United States.

However, the fact remains that little has changed—despite North Korea’s provocative missile tests on July 4. In the end, there must be some serious negotiations between the United States and North Korea or the talks will peter out. One cannot be optimistic.

USAPC: Some commentators, including you, have suggested that North Korea probably is trying to “wait out” the Bush Administration in the hope that it will realize a better deal under a new U.S. administration. Can the Six-Party process be salvaged in 2009 or should we try a new approach?

Abramowitz: I think the Six-Party process must be salvaged if the parties are to advance to the stage of serious negotiations. One major impediment is that there still is little agreement between China, South Korea, and the

Joint Statement of Principles of the Six-Party Talks (abridged)

1. The Six Parties unanimously reaffirmed that the goal of the Six-Party Talks is the verifiable denuclearization of the Korean Peninsula in a peaceful manner.
2. The Six Parties undertook, in their relations, to abide by the purposes and principles of the Charter of the United Nations and recognized norms of international relations.
3. The Six Parties undertook to promote economic cooperation in the fields of energy, trade and investment, bilaterally and/or multilaterally.
4. The Six Parties committed to joint efforts for lasting peace and stability in Northeast Asia.
5. The Six Parties agreed to take coordinated steps to implement the aforementioned consensus in a phased manner in line with the principle of “commitment for commitment, action for action.”
6. The Six Parties agreed to hold the Fifth Round of the Six-Party Talks in Beijing in early November 2005 at a date to be determined through consultations.

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United States on how to deal with North Korea.

For the past six years, U.S. policy on North Korea has been a failure. It not only has failed to halt the North Korean nuclear program, but it also has helped to produce a serious split between the United States and South Korea. Until China, South Korea, and the United States can agree on how to deal with North Korea, we are unlikely to see progress on the nuclear issue. We are not even sure North Korea wants an agreement.

China and South Korea basically have pursued policies of engagement with North Korea. Engagement policies with bad governments take a long time to produce systemic change and, at the end of the day, may amount to a triumph of hope over reality. Not much has changed in North Korea.

The Bush Administration argues that such an approach amounts to rewarding North Korea's bad behavior and undermining Washington's negotiating posture on the nuclear issue. Whatever its disclaimers, the White House basically prefers regime change now and sterner measures against Pyongyang. However, the U.S. position is unacceptable to South Korea and China, who contend that regime change in North Korea can only come about through engagement.

Unfortunately, we do not have the time needed to reap any potential benefits of engagement because of the short-term concern: Pyongyang's continued nuclear weapons development.

The Bush Administration went badly wrong when President Bush met former South Korean President Kim Dae Jung for the first time three months into his term. In effect, the president of the United States said, "I know how to deal with North Korea better than you do. Aban-

"For the past six years, U.S. policy on North Korea has been a failure."

don your dealings with North Korea. It is a bad state." Kim was shell shocked when some of us saw him later that day. That was a fundamental error which has soured U.S.-South Korean relations ever since.

USAPC: So you are not optimistic about South Korean President Roh Moo-hyun's meeting with President Bush on September 14?

Abramowitz: It is very hard to be optimistic about a meeting between two rigid leaders with very different views. I suspect we will find rhetorical ways of saying that the alliance is in good shape, we are going to deepen it, and we are dedicated to the Six-Party talks.

But I am greatly skeptical that the Bush-Roh meeting will change anything about how we deal with North Korea. Of course, there are important bilateral issues to

Of Related Interest

Study Shows Rules Changing For U.S. Bases In Asia

A study published by the East-West Center recommends that the United States change its approach when dealing with alliance partners in Asia regarding the deployment and basing of U.S. forces in the region. Specifically, Washington and its Asian allies must give greater attention to local impacts of American forces and develop policies that mitigate the pressures on local residents.

Shifting Terrain: The Domestic Politics of the U.S. Military Presence in Asia was written by East-West Center fellow Sheila Smith, whose team of international scholars met with national and local interest groups in Japan, South Korea, and the Philippines over a two-year period.

Shifting Terrain considers how domestic political tensions over the U.S. military presence are "changing the way governments in Japan, South Korea, and the Philippines manage the America troops stationed in their countries." A free PDF download is available at www.EastWestCenter.org/res-rp-publicationdetails.asp?pub_ID=1979/.

address, like the FTA [U.S.-Korea Free Trade Agreement] and the question of operational command of joint forces on the peninsula. Some useful things may emerge.

One hoped that the resolution approved by United Nations Security Council on July 15 that condemned North Korea's missile tests would have led to a more concerted effort by the China, South Korea, and the United States to create movement in the Six Party negotiations. It may be too early to ascertain the impact of the U.N. resolution. But as we speak, it is hard to see whether that diplomatic initiative achieved anything significant.

USAPC: Focusing again on regional institutions, the Asia Pacific Economic Cooperation forum (APEC) also has been criticized as ineffectual. APEC members are considering various institutional reforms. How can we revitalize one of the few trans-Pacific forums?

Abramowitz: APEC runs up against ASEAN Plus Three and other ideas of how Asia should be organized. My own belief is that East Asia cannot be organized on a trans-Pacific basis. If there is to be serious East Asia-wide political and economic cooperation, it will be East Asian and not include America and other Pacific countries.

There still is a role for APEC, but APEC by and large will not be the generator of regional cooperation in East Asia. APEC can still be a useful economic consultative organization, but I believe its time has probably passed.

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Asia Pacific Dialogue

Asia Pacific Economic Cooperation (APEC) Forum:

APEC Business Advisory Council (ABAC)—

ABAC members met in Cebu, Philippines August 11-15 to finalize the 2006 ABAC Report to Leaders, which they view as an important vehicle for business input into the APEC process. Some of ABAC's priority issues for 2006 include: (1) successful conclusion of the WTO round of trade negotiations; (2) promotion of high-quality regional trading arrangements and free trade agreements; and (3) diversification and conservation of energy sources and development of energy infrastructure, among other issues.

Association of Southeast Asian Nations (ASEAN):

ASEAN Regional Forum (ARF)—Participants at the 13th ARF meeting July 27–28 in Kuala Lumpur, Malaysia could not persuade North Korea to return to the Six-Party talks or even attend the ARF meeting. The nearly two dozen Asian and Pacific foreign ministers did agree, however, to develop guidelines for civilian and military cooperation to ensure swift responses to natural disasters. They also called for a comprehensive, cooperative approach to combat terrorism.

ASEAN Economic Ministers' Meeting—Participants at the August 22-23 meeting agreed to form an

economic union by 2015 to better enable the 10 ASEAN nations to compete with China and India.

Important "Track Two" Initiatives:

Pacific Economic Cooperation Council (PECC)—

On August 14, Charles Morrison, East-West Center president and PECC chair, presented ABAC a draft report. It examined the pros and cons of pursuing a Free Trade Area of the Asia Pacific (FTAAP) as a means of advancing trade and investment liberalization in the Asia Pacific. PECC will present its final report to ABAC at the latter's November 14-16 meeting in Vietnam.

Key Official Meetings, September-October 2006:

- Treasury Secretary Henry Paulson attends APEC Finance Ministers' Meeting, September 7–8, Hanoi, Vietnam.
- President Roh Moo-hyun of the Republic of Korea meets President Bush, September 14, Washington, D.C.
- Treasury Secretary Henry Paulson attends World Bank/IMF fall meeting, September 19–20, Singapore. Paulson also may visit China at this time.
- United Nations General Assembly convenes, September 19–27, New York, N.Y.

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The United States remains a major player in East Asia—admittedly, not as central as we once were. But we continue to be important both economically and militarily. We can affect how East Asia organizes. If Washington wants to prevent ASEAN Plus Three-based regionalism, it can do so. So the future of East Asian regionalism will depend, in part, on how the United States wants to proceed.

USAPC: U.S. "soft power" in Asia has declined significantly in recent years. In addition to opposition to the U.S.-led war in Iraq, what other factors have caused the decline?

Abramowitz: In *Chasing the Sun*, we assert that there has been a *relative* decline in U.S. influence in recent years primarily because the nations of East Asia have risen, particularly China. If I were to point to one of the great dates in world history, it would be 1978. That was the year Deng Xiaoping took over and launched the modernization movement. That changed everything—it changed the world—and has helped in transforming East Asia.

But it also is important to bear in mind that the American presence in Asia has always been overwhelm-

ing. It dominates most everything, and a large percentage of the Asian populace simply has grown tired of us, although less so than in Europe and the Middle East.

And there is the Islamic factor. America's post-9/11 approach to terrorism, our position on the Arab-Israeli problem, and our leadership of the Iraq war all have served to create animosity toward the United States in Asian countries with large Muslim populations.

Yes, our cachet has diminished, but life changes. Much depends on what the United States does. In the 1970s, for example, I remember the *cognoscenti* despairing of U.S. relations with Europe. Well, that soon changed.

In the past few years, we seem to be back in that situation again. Our influence may have declined in parts of East Asia, but all countries want strong relations with us and do not want to antagonize us. ♦

Amb. Morton Abramowitz is Senior Fellow at The Century Foundation. He formerly has served as president of the Carnegie Endowment for International Peace, ambassador to Turkey, assistant secretary of state for intelligence and research, and ambassador to Thailand. An expanded version of this interview is available at www.usapc.org/ResourceBlog/abramowitz.pdf

USTR Schwab Seeks Asian Support To Revive The WTO Round

U.S Trade Representative Susan Schwab reaffirmed July 24 U.S. commitment to a successful conclusion "some day" of an ambitious agreement to liberalize the World Trade Organization (WTO)-based global trading system even as WTO Director-General Pascal Lamy announced indefinite suspension of the talks. Shortly thereafter, she embarked on shuttle diplomacy to revive the negotiations. One of her early tours included important stops in Malaysia and China.

Doha Collapse—In Geneva July 24, Lamy said that concluding the so-called Doha round by the end of 2006—the goal set in 2005—was impossible owing to substantial divisions among Australia, Brazil, the European Union (EU), India, Japan, and the United States over opening agricultural markets and cutting agricultural subsidies. The WTO negotiations commonly are referred to as the Doha round because they were launched in Qatar in 2001.

United States/EU Conflict—Schwab reported that the U.S. and Australian delegations were ready to demonstrate greater flexibility in the area of domestic agricultural supports if the EU and advanced developing economies demonstrated greater flexibility in market access. "We came to Geneva [July 23] ready to make a good deal that achieved an ambitious outcome—in agriculture, industrial goods, and services—if the EU and others showed flexibility by putting real market access on

the table for the first time. Unfortunately, they did not," she said.

When it became clear that the EU was in fact offering even less market access than originally thought, the U.S. delegation "reluctantly had to agree with Director-General Lamy's assessment that the differences among G-6 members remained unbridgeable," according to Schwab. Australia, Brazil, the EU, India, Japan, and the United States comprise the WTO's Group of Six, or G-6 members.

Asian Support Sought—Undeterred, Schwab promptly indicated her willingness to travel extensively in the weeks ahead to work with her foreign counterparts to re-launch the Doha Round. "We are not giving up now, nor are we going to settle for a mere shadow of Doha's promise," she declared.

In particular, Schwab expressed interest in engaging the nations of the Asia Pacific in this effort. Toward this end, she attended the 38th Economic Ministers' meeting of the Association of Southeast Asian Nations (ASEAN) in Kuala Lumpur, Malaysia, August 22–26. Schwab then made her debut visit to China August 27–29.

Insiders say she encouraged both China and the ASEAN member nations to consider carefully whether their trade interests coincide with those of Brazil, India, or other WTO members that profess to speak on behalf of developing nations. If they do not, China and the ASEAN nations should be more vocal about what they want from the Doha round, Schwab was said to have urged. Malaysian Trade Minister Rafidah Aziz responded positively September 7, saying that every effort must be made "to make sure that [the Doha Round] gets restarted where we left off [instead of] back at square one." ♦

Congressional Approval Of Trade Agreements

Although still early to tell, U.S trade diplomacy ultimately may prove successful in salvaging the Doha round down the road. But that may be only half the battle for Amb. Schwab. She must still contend with Capitol Hill, where anti-trade sentiments have been running high.

The President's Trade Promotion Authority (TPA) provides for Congress to vote "yea" or "nay" on legislation to implement any trade agreement, be it a bilateral, regional, or multilateral accord. It effectively prevents lawmakers from unraveling trade agreements with amendments. TPA expires on July 1, 2007.

Schwab acknowledged July 24 that it was highly unlikely that a Doha agreement could be submitted to Congress before TPA expires. Insiders are skeptical that the Bush Administration could win approval of a TPA extension—particularly if the November 7 mid-term elections give Democrats control of the House.

This is not to suggest that there are no trade supporters in Congress. Senate Finance Committee Chairman Charles Grassley (R, Iowa) and Senator Max Baucus (D., Montana), ranking minority member, have provided consistent bipartisan support for a free trade agenda. Both applauded Amb. Schwab's steadfast rejection of a "Doha lite" deal. House Ways and Means Chairman Bill Thomas (R., California), another staunch supporter of liberal trade, also praised Schwab for refusing to accept an "unbalanced deal."

But Grassley and Baucus may prove unable to rally Senate support for trade agreements that undoubtedly will cause dislocation in certain long-protected sectors. In the House, Rep. Thomas is retiring and his successor may have very different views about the U.S. trade agenda. Only time will tell whether American lawmakers possess the commitment to enacting trade reforms that some accused the EU of lacking. ♦



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