

The Bush Second Term and East Asian Economic Regionalism

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With the American presidential election over, the time has come to ask what economic policies the administration is likely to pursue toward East Asia in its second term. This question is somewhat easier to answer given the fact that President Bush was reelected, so that policy changes are likely to be relatively small. The Japanese government has frequently described the past four years as the best in bilateral relations ever. President Bush has a good rapport with Prime Minister Koizumi. Economic tensions have been virtually absent. And officials of the Bush administration have consulted frequently with the Japanese government on security issues. That general characterization of the U.S.-Japan relationship is likely to remain true in the second term.

However, changes are occurring in East Asia to which the administration must respond in some form. The Japanese government and others continue to pursue free trade agreements with others in the region, and this year will bring an elevation of the ASEAN+3 meeting to become an East Asian Summit. Since these developments do not include participation of the U.S. government, a negative reaction from the Bush administration might be understandable. After all, the administrations of both George H.W. Bush and Bill Clinton reacted negatively to Prime Minister Mahathir's East Asian Economic Caucus in the early 1990s. There are five factors to keep in mind in trying to predict how the administration will react to East Asian economic regionalism in the next four year.

First, this administration's foreign policy has been dominated by security issues—the war on terrorism, the war and occupation in Iraq, tensions with Iran over nuclear development, and the similar confrontation with North Korea. In Asia, the administration appears to remain committed to the six-party process for dealing with North Korea. Whether the administration will be sufficiently flexible to bring about a resolution of the North Korea crisis through the six-party process remains in doubt

given the continuation in the administration of some of the “neo-conservatives” who dominated policy in the first term. But what matters for economic issues is that the overwhelming focus on North Korea and other security issues has caused the administrations to largely ignore what is happening economically in the region. Although various members of the administration are obviously engaged in regional economic meetings or work on regional economic issues, these issues are simply not a priority for this administration. The dominance of security in the second term is likely to continue.

Furthermore, the attitude of the administration toward specific regional governments on economic issues is dominated by security relations. The Bush administration remains pleased with Japan, for example, because of the Koizumi government’s support of the American decision to invade Iraq and its subsequent decision to send Japanese soldiers for the occupation. Similarly, the administration needs and appreciates the cooperation of the Chinese government on North Korea since China is the only member of the six-party talks with a working relationship with the North Korean government. Such bilateral and regional security developments are so important to the Bush administration that its officials have been unwilling to raise any divisive issues on the economic front that might jeopardize security cooperation. This situation is likely to continue as well.

However, the dominance of security issues in East Asia policy could change if the North Korea problem is resolved. Or, the situation could change if the administration were to believe that East Asian economic regionalism were genuinely moving in a direction harmful to American economic interests. Therefore, while the most likely outcome in the second term is for security to dominate as it did in the first, greater attention to economic issues is certainly conceivable.

The second issue is that the administration appears to be relatively unconcerned about regional moves in East Asia because it is pursuing a parallel trade policy. It is difficult for the administration to criticize Japan, China, or others for negotiating bilateral or sub-regional free trade areas within East Asia because the U.S. government has been pursuing a strategy of negotiating such agreements itself. Even at the regional level, the negotiations to conclude a Free Trade Area of the Americas (FTAA) imply that the administration would have a difficult justifying any criticism of China’s FTA with ASEAN or the talk of other possible regional or

sub-regional combinations.

Furthermore, the administration has pursued a counter-strategy within East Asia to ensure that the United States is not kept out of preferential arrangements. The bilateral agreement with Singapore has been completed, one with Thailand is under negotiation, and the administration has announced its intent to proceed in the future with other ASEAN members. Having already passed a preliminary stage of signing trade and investment framework agreements (TIFA) with Indonesia, the Philippines, Thailand, Brunei, and Malaysia, it is quite likely that the Bush administration will initiate formal FTA negotiations with some or all of these countries in its second term. Furthermore, rumors in Washington indicate that the administration might also initiate FTA negotiations with South Korea later in 2005. These moves are intended in part to counter to the emergence of an East Asian economic bloc. Of course, the two big economies in East Asia—Japan and China—appear to be off the list of potential partners for FTA negotiations. Nevertheless, the administration appears to be relatively satisfied that its strategy reduces the possibility that American economic interests will be harmed by bilateral or sub-regional FTAs emerging within East Asia.

On the trade policy front, therefore, the likely outcome for the second term is a continuation of the current situation. The administration shows no inclination to abandon its own FTA strategy, including negotiations with various East Asian governments.

Third, considerable skepticism exists within the administration concerning the speed and strength of East Asian economic regionalism. The Chiang Mai Initiative, for example, was an interesting and useful exercise for East Asian central bankers (who had little previous experience dealing with one another), but one with very limited economic importance. Other than the Chiang Mai Initiative, the ASEAN+3 process appears to be producing little in the form of action-oriented agreements among East Asian governments. Opposition to Prime Minister Mahathir's original EAEC proposal had been based on a presumption that his vigorous anti-Western viewpoint would cause the EAEC to move in a direction harmful to American economic interests. The actual experience so far with ASEAN+3 has not borne out that concern, at least not yet.

At a theoretical level, there has certainly been optimistic talk in Japan and

elsewhere in the region about the eventual evolution of an East Asian bloc much like the European Union, linked internally by trade agreements and a common currency. But such visions have been viewed with some skepticism in Washington. Indeed, a rising concern in the Bush administration is the deepening political tension between Japan and China (undesirable at a time when the administration needs more input from the Chinese government on North Korea). To U.S. officials, therefore, the prospect of a tight East Asian bloc emerging seems to be a distant prospect at best. Unless this perception changes, the safest prediction is that the administration will continue to take a very relaxed view of what is happening in East Asia.

Fourth, the U.S. government appears to maintain its interest in APEC, the principal regional economic organization that does include the U.S. government. Although APEC is not a major focus of the administration, the Bush administration has found the annual leaders meeting to be quite useful, providing the President an opportunity to press leaders around the region on issues related to the war on terrorism. Recognizing that APEC is predominantly an economic organization, however, the desire to maintain the leaders meeting leads to a natural interest in advancing the existing economic agenda.

In the second term, therefore, APEC will probably continue to provide an adequate opportunity for U.S. government engagement in regional economic policy initiatives. Note, however, that this conclusion depends on continued commitment by other governments to the APEC process. Certainly, APEC's accomplishments have been modest, but it is important that the organization continue to be a venue for cooperation and policy formation. In the past year or two, expressions of disinterest or contempt for the APEC process have become quite frequent in the Japanese government. Should the Bush administration come to believe that ASEAN+3, the new East Asian summit process, or other regional groups that explicitly exclude the U.S. government have become the dominant venue for regional cooperative agreements at the expense of APEC, then the benign attitude of the Bush administration could change.

Fifth, the main international economic policy accomplishment of the Bush administration in its first term was to begin the Doha Round. Having started the round, the administration now has the opportunity to complete it during the second term, something that the President and others could point to as a major

accomplishment. Whether they will choose to do so is somewhat in doubt at the moment, given the slowness of the administration to resolve personnel changes. Robert Zoellick clearly desired to shift from being the United States Trade Representative (USTR) to a different position in the administration, which he has now done (Deputy Secretary of State), but his successor remained to be named at the end of January. Nevertheless, once a new head of USTR is named, it remains likely that the Doha Round will resurface as a key policy goal.

The focus on the Doha round means that the administration may assume East Asian governments will naturally pull back from the flurry of activity on FTAs. No government can negotiate at both levels with any vigor, and the Doha round may well absorb much of the negotiating activity for many governments in the next two to three years. Thus, the most likely outcome is that the Bush administration will continue to feel that it need not respond to East Asian regionalism since the Doha round will draw these governments back to making trade concessions in a broad multilateral context.

However, this attitude of the Bush administration could change if key governments, such as Japan, downplay the Doha round and focus instead on their bilateral and regional FTA agenda. This is an important point, because the Japanese government, in particular, appears to be operating on the presumption that the Doha Round is permanently stalled or dead. As a result, the government could be in for a surprise when the American government begins to put pressure on it for flexibility on issues such as agriculture that are part of these negotiations.

In conclusion, these five reasons explain why the second term of the Bush administration will probably take a fairly benign position toward the moves of the Japanese government and others to move forward on regional meetings or regional agreements that exclude the United States as a participant. But the various caveats raised above matter as well and deserve a final word. The benign attitude of the administration is premised on the probability that whatever is happening in East Asia is not harmful to American economic interests. That perception could change, depending on the behavior of East Asian governments, and especially the Japanese government. The United States is tied to East Asia by both strong economic linkages and important security commitments. Should Americans come to believe that they are being asked to play a security role in maintaining peace in the region at the same time that regional governments are acting in a manner that harms American economic

interests in the region, the benign attitude of the Bush administration would change sharply.

Even from an objective economic standpoint, one does wonder why the Japanese government has become so enthusiastic about East Asian economic initiatives that exclude the United States. Japan's primary economic ties are with the United States and other developed nations—despite the recent rise of trade ties with China. As an affluent nation, it also has common economic interests with the United States (such as an interest in enforcement of intellectual property rights in China). Given these facts, it actually makes more sense for the Japanese government to encourage regional initiatives in the broad Asia-Pacific context (such as APEC) rather than a narrower East Asian regionalism. Doing so would also obviate the need to worry about what the U.S. government's reaction will be to East Asian regionalism.

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