The Second Bush Administration and Southeast Asia

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Overview

For the rest of its term the Bush Administration will continue its current policy towards Southeast Asia based on the assumption that the region will remain an area of peace, stability, economic growth, relatively free and open trade and comparatively low priority to US global interests. President Bush's cancellation in early July 2007 of what would have been the first annual US-ASEAN Summit, scheduled for September 5, and Secretary of State Condoleezza Rice's decision to skip the annual ASEAN Regional Forum meeting for the second time in three years underscored the region's secondary place in the Administration's priorities.

The Administration has achieved significant results in promoting anti-terrorist cooperation with Southeast Asian countries but otherwise its policies have shown neither a strategic vision nor a consistent focus. The preoccupation of senior officials with the conflicts in Iraq and Afghanistan and a mismatch of desired objectives and resources have been important sources of inconsistency. The Administration has made some modest policy adjustments in the past several years that should keep US involvement with the region generally on an upward path, but follow-through remains a problem. The Administration has belatedly responded to China's rising role and influence with several low cost initiatives designed to signal greater support for the 10-member Association of Southeast Asian Nations (ASEAN). On the other hand, its efforts to respond to the ever expanding "noodle bowl" of low quality and preferential free trade agreements (FTAs) in Southeast Asia, such as the so-called China-ASEAN FTA, have been hampered in part by a "one-size-fits-all policy of using regional FTA negotiations to promote a global trade agenda.

Changing Regional Dynamics

Since the 1991 Paris Peace Accord on Cambodia, which brought to an end more than four decades of conflict, Southeast Asia has enjoyed nearly 16 years of comparative peace, stability, and economic growth. The Association of Southeast Asian Nations (ASEAN), which is celebrating its 40th Anniversary, now encompasses all ten countries of the region. All of the Southeast Asian governments have rhetorically committed to the goal of creating an ASEAN Economic Community by 2010. If anything, the rise of radical Islamist terrorism and other nontraditional security threats, which still appear manageable, have drawn the affected countries closer together rather than driving them apart.

Competition for markets and influence, not military rivalry or proxy warfare has characterized relations among the main extra-regional powers, the United States, China, and Japan. In the future, China's rising power and influence could disturb Southeast Asia's current internal cohesiveness and stability. Thus far, the ASEAN countries have emphasized the opportunity side of growing economic integration with China in public and expressed their worries about possible domination by Beijing only in private conversation. Because of the huge power differential between China and its neighbors, their ability to avoid Chinese hegemony will depend significantly on the policies of the United States and its main Asia-Pacific allies, Japan, the Republic of Korea and Australia, which also play an important regional economic and security roles.

Status of US Engagement with Southeast Asia

In terms of perceptions of the United States, the Administration had largely recovered the ground lost when Secretary of State Condoleezza Rice decided to skip the July 2005 ASEAN Post-Ministerial Meetings (PMC) and ASEAN Regional Forum (ARF) meeting in Vientiane, Laos. The impact of her decision to skip the August 2, 2007, meeting in Manila, coupled with the President's decision to cancel the planned US-ASEAN summit, takes US political standing in the region back to square one. The Administration did further damage by leaving it to Singapore, which had eagerly looked forward to hosting the summit meeting, to announce that it had been told that it "was not convenient" for the President to come.

Southeast Asians had viewed the planned summit, billed as an occasion to celebrate the 30th Anniversary of US-ASEAN relations, as an important step towards greater US political engagement with the regional organization. The fact that the President would bypass the planned summit in Singapore while keeping his plan to attend the annual Leaders' Summit of the Asia-Pacific Economic Cooperation forum (APEC) in Sydney also suggested that the Administration viewed the larger Pan-Pacific grouping as more important than ASEAN.

In addition to their concerns about their place in US priorities, Southeast Asians also perceive an *ad hoc* aspect to US policy. To be fair, the Southeast Asians also tended to view the preceding Clinton Administration in this light; officials and analysts in the countries most affected by the 1997 Asian financial crisis still complain about the failure of the United States to render direct financial assistance during a time of need.

In contrast with effect of its erratic policy moves, the Administration's response to unexpected human security crises in Southeast Asia had an important positive impact on US standing in the region The impressive response to the disastrous 2004 Indian Ocean Tsunami by American naval and other military forces helped significantly to raise the United States' image in the region. The United States also gained significant credit from the efforts of Center for Disease Control (CDC) and other US government agencies to support regional surveillance and enhance the technical capacity of countries threatened by the spread of the H5N1 Avian flu virus. The Administration's response to both crises

underscored for Southeast Asians the value of certain unique American capabilities, which no other power can provide.

The Bush Administration's Policy Priorities

For most its tenure the Bush Administration has focused on two primary policy objectives towards Southeast Asia: (1) gaining cooperation against local Islamic terrorist groups with ties to Al Qaeda; and, (2) promoting bilateral Free Trade Agreements (FTAs) to expand trade and strengthen ties with strategically important countries. Somewhat counterproductively, the Administration also has aggressively pursued in Southeast Asia its global strategy of seeking bilateral "WTO-plus" FTAs. The "plus" aspect refers to negotiating trade deals involving concessions by individual trading partners on sensitive issues touching on national sovereignty that go beyond current WTO rules or what would be achievable even in a successful Doha Round.[1]

Counterterrorism Cooperation

The development of productive working relationships among American and regional intelligence agencies has been one area of clear success in an area it regards as the "Second Front" in the global fight against radical Islamic terrorism. Cooperation against terrorism, as well as piracy and other nontraditional security threats has been facilitated by the shared perception of common interests between the US and Southeast Asian governments. In December 2001, just three months after 9/11, Singapore discovered and arrested Jemaah Islamiyah (JI) militants who were planning terror attacks on American and Australian military facilities embassies, as well as British and Israeli embassies and diplomats. Malaysia, Thailand, the Philippines, and Indonesia have all made major terrorist arrests in cooperation with US intelligence agencies.

Southeast Asian complaints after 9/11 that the Bush Administration was focusing on combating terrorism and radical Islamic extremism to the detriment of other issues tended to subside after the home-grown terrorists began their deadly work. Both governmental and public attitudes in the region changed markedly after the devastating bombings at a Bali nightclub in October 12, 2002 and the Marriot Hotel in August 2003. The Bali bombings killed more than two hundred people, both foreigners and Indonesians. The high concentration of container cargos emanating from major regional ports and transiting major regional sea-lanes and the Strait of Malacca and other "choke points" also has been a spur to regional cooperation against terrorism and piracy, as has ASEAN's dependence on Persian Gulf oil.

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[1] "Developing Countries Warned Against WTO-Plus Issues and Rules in FTAs," Third World Network (TWN) Report in the *SUNS (South North Development Monitor)* http://www.twnside.org.sg/title2/twninfo253.htm; August 31, 2005; UNDP Regional Centre in Colombo, Discussion Paper, "The Great Maze: Regional and Bilateral Free Trade Agreements in Asia," September 2005. http://www.twnside.org.sg/title2/FTAs/General/TheGreatMazeUNDPDiscussionPaper.pdf

Cooperation with Southeast Asian governments has produced a number of counterterrorist successes. The Administration has been frustrated at times with the judicial follow up to these arrests, but overall intelligence and police cooperation has been highly successful.

Malaysia was cooperating closely with the CIA even before the 9/11 bombings and had supplied information that might have prevented the attacks if it has been acted on. The Malaysia security forces captured a number of JI members who had fled from Singapore after the discovery of the December 2001 plot against American and other foreign embassies and other facilities. In September 2003 Thailand's security forces captured Hambali, a senior Jemaah Islamiyah figure believed to be a close aide to Osama bin Laden and the mastermind behind the October 2002 Bali night club bombings. As recently as June 2007 Indonesian security forces captured Zarkasih, said to be the "Emir" of the JI operations in Indonesia as well as a senior terrorist commander.

Role of US Military Forces

The tendency towards what some call the "securitization" of US foreign policy seems to have lessened since the departure of former Secretary of State Donald S. Rumsfeld. Nonetheless, the ample financial resources of the US Department of Defense and the American intelligence agencies have been a significant factor in promoting cooperation and expanding the capacity of regional intelligence, police, and paramilitary organizations.

The US Pacific Command (PACOM) continues to play a major role in US regional counterterrorism cooperation and diplomacy. Port visits, training, and joint exercises aimed at enhancing cooperation on problems like piracy and natural disasters play a particularly important role in relations with strategically important countries that are not allies or primary security partners.

Since February 2002 the Bush Administration has deployed hundreds of US Special Forces troops to support counterterrorism operations by the Philippines Army in the southern islands of Mindanao and the Sulu Archipelago against Abu Sayyaf, a home grown terrorist group with ties to Al Qaeda and Jemaah Islamiyah. These special operations force (SOF) units conduct training and civil-military operations on a day-to-day basis and through multi-month "Balikatan" military exercises. Some of these exercises have taken place very near to areas of actual combat. The Administration is likely to maintain this deployment so long as Abu Sayyaf continues to carry out kidnappings and terrorist attacks in the region, and the Philippines government is politically able and willing to withstand criticism that that US SOF troops are violating Philippines law by conducting combat operations.

The bloody anti-government insurgency by ethnic-Malay Muslims in three provinces of Southern Thailand has caused growing Administration concern. US relations with Thailand have been strained in recent months because of public resentment of what are

seen as excessive American demands in the FTA negotiations and the criticism by senior Bush Administration officials, albeit somewhat perfunctory, of the September 2006 military coup.

Apart from the practical necessity of working with the Thai military to combat terrorism, US officials also recognized that the coup was a special case. US diplomats and Thai specialists recognized that the Thailand's 16th constitution since 1932, adopted in 1997, never contemplated the chaotic situation that followed the opposition's boycott of the April 19, 2006 snap parliamentary elections. Widespread doubts about whether Prime Minister Thaksin's "interim" government was even constitutionally legitimate also reinforced the Administration's decision to minimize criticism of the coup.

US military and intelligence analysts have watched the situation in the southern provinces closely because of the evidence that the Muslim separatists are receiving outside funding and training from radical Islamist groups with Al Qaeda connections, and the presence of a small number of foreign fighters. Whether informal intelligence cooperation has taken place between US and Thai intelligence organizations cannot be determined from open source information.

The similar considerations governed the decision to go ahead with PACOM's annual multinational "Cobra Gold" joint exercises, which take place in the Gulf of Thailand. These exercises have long provided a venue for engagement with regional military forces. Especially because Thailand, a treaty ally, hosts the multilateral exercises, the Defense Department went forward with the 26th annual exercise during May 8-18, 2007. This year's exercise focused on UN-sanctioned peace support operations (PSO) and related contingency planning and execution.

Multilateral Counterterrorism Cooperation in Southeast Asia

Beyond bilateral intelligence and police cooperation with the United States, Southeast Asian countries themselves have hosted multilateral programs for regional capacity-building and engaged in their own intelligence-sharing and anti-piracy initiatives. In July 2003, with support from the United States, Australia, Japan and other countries, Malaysia established a multinational Southeast Asia Regional Center for Counterterrorism (SEARCCT). The Center focuses on training regional officials and police, and on information sharing. It has little organic capability but relies on experts from a wide variety of Asia-Pacific and European countries to provide training for Southeast Asian military, police and civilian intelligence agency personnel.

The US-Thailand International Law Enforcement Academy (ILEA) in Bangkok, which predates 9/11, also supports regional capacity-building against terrorism and international crime. Like the SEARCCT, the ILEA cooperates closely with American, Australian and other allied police and intelligence agencies, and draws upon experts from a wide range of countries for training.

Maritime Security Cooperation in the Strait of Malacca

Malaysia and Indonesia initially reacted negatively to the Administration's proposed Regional Maritime Security Initiative (RMSI) focused on securing the Strait of Malacca and adjacent waters against piracy and terrorism, but later agreed to cooperate in ways that did not violate their sovereignty. Both countries bristled after then PACOM Commander Admiral Thomas B. Fargo suggested at a March 31, 2004, congressional hearing the possibility that Navy and Marines units might patrol the Strait of Malacca, which falls within their territorial waters. Under international law, warships have the right of "innocent passage" but cannot conduct military operations.

Malaysia, Indonesia, and Singapore, which itself had no qualms about patrols by the US Navy, themselves took the lead by establishing a Malacca Straits Security Joint Working Group (MSJWG) to promote the same objectives. In July 2004, less than four months after Admiral Fargo's much criticized remarks, Malaysia, Indonesia and Singapore deployed a total of 17 ships to begin Operation Malindo, an initiative designed to provide year-round anti-piracy patrols. A month later Malaysia formed a Coast Guard to patrol the Strait of Malacca. The three countries have established an "Eyes in the Sky" program to carry out aerial sea lanes surveillance and Intelligence sharing.

The combination of tighter port security and patrols both by reconnaissance aircraft and maritime patrol craft quickly reduced incidents of piracy or attempted piracy, most of which involved common thievery, from a peak of 46 incidents in 2004 to 19 the following year and 16 in 2006. Lloyd's took the Strait off its list of dangerous waters requiring an added insurance premium in 2006, after the naval patrols began.

The Administration and PACOM will likely to continue to push for additional cooperation with Australia and Japan, especially, to work with littoral states to increase intelligence cooperation and improve their capacity for anti-terrorist and anti-piracy operations. The sharp fall in incidents since the littoral states began their patrols undercuts the main rationale for US initiatives, however. This could complicate the Administration's efforts to pursue its larger agenda, which includes not just preventing terrorist incidents but also activities such as stopping ships that might be carrying weapons of mass destruction.

Anti-terrorism Cooperation in Southeast Asia under the APEC Framework

In the weeks after the 9/11 attacks the Bush Administration cast the widest possible net in its effort to mobilize international support for what the called the "Global War on Terrorism. One of the first opportunities arose at the annual Leaders Meeting of the 21-Member Asia-Pacific Economic Cooperation (APEC) forum in October 2001, in Los Cabos, Mexico, where Bush gained a strong commitment to anti-terror cooperation under several relevant UN resolutions.

Cooperation within APEC has been ambitious and purposeful, both on the part of governments and industry groups, but action has come very slowly. In February 2003 the APEC Senior Officials group established a Counterterrorism Task Force (CTTF), which resulted more than three years later in a Symposium on Total Supply Chain Security. The symposium addressed ways to promote business-government cooperation to protect trade and commerce against terrorism. Almost four years later, at its first meeting in Canberra in January 2007, the group agreed to develop a framework for reconstituting the global supply chain after a terrorist attack

The main value of the APEC statements and initiatives is the creation of frameworks for bilateral and multilateral cooperation by government departments and ministries with the relevant responsibilities and the requisite capabilities. The biggest limitations on anti-terrorism cooperation under APEC are the same one that confines the 21-member forum to the periphery of trade and economic liberalization – its wide diversity of size, interests, and level of development – and the voluntary nature of cooperation with its initiatives.

Bush Administration Initiatives for Engagement with ASEAN

Southeast Asian countries have regarded with considerable skepticism the Administration's efforts to demonstrate its commitment to ASEAN as an organization and its support for their aspirations to create a region-wide political and economic community. US officials have from time to time made clear their frustration with "the ASEAN Way," with its principles of consensus and non-interference in member countries' internal affairs. The Administration has consistently stressed its impatience with the reluctance of the more economically and politically advanced ASEAN countries to support sanctions against the military regime in Myanmar (Burma).

One reason for Southeast Asian doubts about the Bush Administration's intentions has been its reliance on a succession of initiatives that involve little cost and very modest objectives. The Administration's proposals for greater cooperation with ASEAN have served as useful frameworks for US policy formulation and coordination across bureaucratic lines, but their actual impact has been very limited.

In order to achieve maximum impact, the Administration has always announced its initiatives at ASEAN ministerial level meetings or in meetings between the President and ASEAN leaders in the wings of the annual APEC Summits. Then Secretary of State Colin Powell announced the US-funded ASEAN Cooperation Plan (ACP) during an eight-state swing through South and Southeast Asia prior to attending the annual ASEAN ministerial meetings and ASEAN Regional Forum (ARF) in Brunei. The ACP emphasized broad objectives that are as important to ASEAN as to the United States. These included mobilizing limited US budgetary and human resources for three purposes: to help ASEAN absorb and integrate its newest and poorest members, Cambodia, Laos, and Myanmar (Burma); to strengthen the resources and capacity of the ASEAN Secretariat; and to promote cooperation on growing transnational problems such as HIV/AIDS and trafficking in persons.

Three months later, at the October 2002 annual APEC Leaders' Summit in Los Cabos, Mexico, President Bush announced an Enterprise for ASEAN Initiative (EAI), a follow on to the then nearly completed Singapore-US FTA. The initiative aimed at fostering over time a network of FTAs which would promote stability in the region and generate trade and economic benefits. In October 2003 and March 2006, respectively, the Administration launched the now stalled FTA negotiations with Thailand and Malaysia under the EAI framework.

President Bush proposed yet another initiative, the ASEAN-US Enhanced Partnership (EP), during a meeting with ASEAN leaders at the November 2005 APEC meeting in Busan, South Korea. The EP sets out a broader framework for multi-sector cooperation, including both security and economic cooperation. The significance of the EP will depend on what level of resources and high level policy attention the Administration is chooses to provide. Action thus far has been mainly rhetorical.

Trade Policy Initiatives

The Administration's pursuit of FTAs and other trade agreements in Southeast Asia has involved a mix of objectives that may be congruent in terms of its overall trade and foreign policy goals, but which have not always been mutually reinforcing as received by the Southeast Asians. The most direct motivation for seeking trade agreements in Southeast Asia is the fact that the region collectively is the fourth largest US trade partner, with annual two-way trade in excess of $150 billion, but one that maintains significant tariff and non-tariff barriers to US exports and business investment. Additionally, the Administration has tried with almost no success thus far to respond to the growing "noodle bowl" of low quality preferential trade agreements involving the Southeast Asian countries and their more developed East Asian neighbors and Australia and New Zealand.

Beyond the obvious economic motivations, the Administration has used offers to negotiate FTAs and Trade and Investment Agreements to consolidate ties with strategically important countries and to promote US-style globalization in the absence of progress in the Doha Round of the WTO negotiations. With the exception of the 2003 US-Singapore FTA, the latter goal may have compromised the prospects for FTAs with ASEAN countries whose industries are not ready for developed country standards on market opening and IPR protection, and whose farmers oppose US agricultural subsidies and protectionism.

Thus far the Administration has not succeeded in applying the template of the Singapore-US FTA in its currently stalled negotiations with Thailand and Malaysia. In fact, the Singapore agreement was unique in two aspects. First, Singapore already was one of Asia's most open economies. Second, and perhaps more important, former Prime Minister Lee Kwan Yew, who continued to set broad policies from his position as "Senior Minister," saw an FTA with the United States as a means to imbed the United

States more deeply in Southeast Asia. The strategically minded Lee worried that in the future the United States might scale down its regional military presence, or even lose interest in the region, thereby leaving Singapore and other Southeast Asian countries to face a rising China by alone.[2]

Until the 9/11 attacks the Bush Administration had viewed the FTA negotiations, which had begun in the months of the Clinton Administration, with some diffidence. The talks made little progress as of the fourth round of talks, which concluded on July 20, 2001, but everything changed after 9/11. Of necessity the Administration postponed the fifth round, originally scheduled for September 20-25, 2001, but in when the talks resumed during October 22-26 both countries' negotiators reengaged with a stronger sense of purpose. The parties reached an agreement in January 2003, which the President signed on May 6, 2006. Congress passed the US-Singapore FTA in August 2003 and it came into effect in January 2004.

The outlook for the FTA negotiations with Thailand and Malaysia remains very doubtful, especially since the lapse of Presidential Trade Authority at the end of June 2007. The September 2006 Thai military coup already had forced the suspension of negotiations on an FTA with Bangkok. Demonstrations by Thai farmers who criticized protectionist aspects of the US draft and by urbanites who opposed the Bush Administration's demands on patent protection for pharmaceuticals had already clouded the prospects for the negotiations. Well-organized Thai civil society groups contend that giving in to US demands will raise the cost of medicines for HIV/AIDS and other life-threatening diseases, by outlawing the production generic brands that are produced locally under prevailing patent laws.

The negotiations with Malaysia stalled in the Spring of 2007 because of a reported lack of consensus in the Malaysian ruling coalition in the face of public opposition to provisions in the draft on IPR, genetically modified (GM) crops and food, and agriculture. Malaysia has strongly resisted US negotiating demands that affect its New Economic Program (NEP), a kind of affirmative action program for the indigenous ethnic Malay population which generally has not been able to compete with the business acumen of the ethnic Chinese minority. Some provisions of the NEP, which Malaysia initiated in 1979 following ethnic riots, are transparently anti-competitive but politically sacrosanct.

More broadly, public opposition to both of these negotiations has stemmed from a nationalistic reaction to globalization and in particular to US pressure for concessions on contentious provisions that probably would be unachievable in multinational negotiations. Because the President's congressionally granted Trade Promotion Authority (TPA) expires on June 30, 2007, the prospects for concluding these

[2] Tommy Koh, Introductory Remarks, "US-Singapore FTA: Implications and Prospects," *Trends in Southeast Asian Affairs Series*, May 2003, Institute of Southeast Asian Studies http://www.iseas.edu.sg/52003.pdf

negotiations are increasingly doubtful. The Thai negotiations cannot be resumed until after planned elections in November 2007, at the earliest, and US and Malay negotiators do not expect to wrap up sectoral negotiations until July 2007 at the earliest.

Ineffective Response to the "Noodle Bowl" of Regional FTAs

Thus far the Administration has not been able to the recent proliferation of preferential trade agreements. The current suspension of the Doha Round of the WTO as well as China's aggressive courting of ASEAN has played a significant role in the proliferation of bilateral and multilateral Free Trade Agreements (FTAs) in Asia, most of which involve Southeast Asian countries. Few of these are comprehensive, "high quality" agreements. Most cover a limited number of sectors or tariff lines. These deals transparently create preferential trade, tariff, and investment agreements whose benefits are not available to other trading partners.

Most of these trade agreements involve Southeast Asian countries and their more industrialized trading partners. Many of them, including the 2005 Australia-Thai FTA, fall short of the comprehensiveness required for WTO compatibility, but no country has yet been willing to open "Pandora's box" by challenging them. The 2002 China-ASEAN agreement to achieve free trade in agricultural and manufactured goods by 2010 falls well short of WTO standards on comprehensiveness and many other grounds. Agreements such as the 2002 Japan-Singapore Economic Partnership Agreement do not pretend to be FTAs. The scope and quality of the Australia-ASEAN-New Zealand FTA, now in the substantive phase of market access negotiations, remains to be seen.

The Bush Administration and the Office of the US Trade Representative have struggled to forge a response that counters the preferential aspects of these agreements, but this goal faces several severe obstacles. For decades the US Congress has granted the President authority to negotiate agreements that are not subject to legislative amendment, but only under condition that the parameters of the agreement fit within specific congressional guidelines. In recent years the Trade Promotion Authority (TPA) has included strong IPR protection, a well as labor rights and environmental conditions considered important to securing a "level playing field."

The 21-chapter Singapore-US FTA in fact broke new ground with regard to issues such as liberalizing professional services; granting American investors national treatment; IPR protection; regulatory transparency; rules of origin; and labor and environmental rules. The extent to which the Administration sought to establish the FTA as a template for other negotiations can be concluded from its insistence that Singapore, with the strongest and best managed currency in Southeast Asia, agree to compensate US investors in the event that it imposed capital controls in a financial emergency.

The reduction of US tariffs served the interests of both trade partners, since American multinational companies generate well over half of US imports from Singapore. The deal, which included a commitment by Singapore to accede to the World Intellectual

Property Organization (WIPO), among other steps, is claimed to have made Singapore's IPR regime the best in Asia.

Although the United States generally has gotten its way, thanks largely to the huge size of the American market, the US approach may have outlived its usefulness in Southeast Asia. Even before the Thai military coup the US-Thai FTA negotiations had faced strong, vocal and growing opposition from farmers and civil society organizations concerned about American demands in the pharmaceutical sector while seeking to maintain protectionist policies against Thai agricultural exports. Neither country has been willing to subject its less competitive industries to the ambitious standards of the US- Singapore agreement. The Malaysian government likewise has resisted the US demand that it foreswear the introduction of capital controls, as under the FTA with Singapore. While the issue continues to be a subject of debate among economists, the Malaysian political and economic elite strongly believes that then-Prime Minister Mahathir's imposition of temporary restrictions on outward capital flows saved the country from the worst effects of the Asian financial crisis.

The Administration has attempted, with little success thus far, to promote trade and investment liberalization with other ASEAN countries whose stage of development rules out what USTR Susan Schwab calls "Gold Standard" FTAs. A number of the Administration's trade-related initiatives such as the Enterprise for ASEAN Initiative (EAI), ASEAN-US Enhanced Partnership (EP), and the initiation of the ASEAN-US Trade and Investment Framework Arrangement (TIFA) have had largely symbolic importance thus far.

The TIFA proposal seems to reflect both the desire to find a mechanism to respond to the flurry of bilateral and multilateral trade agreements involving Southeast Asian countries that are not near-term prospects for US-style FTAs, and the search for an alternative in the event that the Congress does not renew TPA when it expires on June 30, 2007. The offer of a TIFA to ASEAN, however qualified, also appears intended to overcome the political obstacles created by its refusal to deal with the Myanmar regime because of its suppression of the democratic movement led by Aung San Suu Kyi. Although the letter A in TIFA has always stood for "Agreement," in the US-ASEAN TIFA the "S" stands for "Arrangement." The change in nomenclature may appear relatively insignificant, but in the history of US diplomacy, seemingly small steps have often led to major policy changes.

Significance of PNTR for Vietnam

The Administration's success in negotiating and gaining congressional approval of Permanent Normal Trade Relations (PNTR) to Vietnam in December 2006 reflected mutual acceptance of the underlying strategic and economic logic of ties between the two former enemies. Vietnam's desire for both rapid economic growth and to avoid Chinese regional hegemony complemented the Administration's own goals. Hanoi further increased its standing with the Administration and showed off its economic progress by

successfully hosting the November 2006 annual meeting of the APEC leader's and senior ministers.

Geopolitical considerations related to China's growing regional role were more at play in the Administration's successful effort to negotiate and gain congressional approval for Permanent Normal Trade Relations (PNTR) for Vietnam. As in the case of the FTA with Singapore, both parties had foreign policy as well as economic interests in promoting closer trade and investment ties. In spite of some last minute technical hitches in getting the bill passed by Congress before the President's trip to Hanoi for the APEC Leaders Summit in November 2006, the bill easily gained final passage a few days after the President left Vietnam. The cleared the House by a solid bipartisan margin of 212 to 184 despite concerns of many Members about human rights violations in Vietnam, the Senate by an overwhelming margin of 79-9. As with many issues of local community interest, gaining support in the House can sometimes be more difficult than in the Senate, with its state-wide constituencies.

The Hanoi meeting gave President Bush a unique opportunity to engage with the leaders of seven of the ten ASEAN countries that belong to APEC, i.e., Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The Administration's achievement in negotiating the PNTR agreement with Vietnam was diminished only slightly by its inability to gain congressional approval before the President's trip to Hanoi for the APEC meeting the previous month. The bill easily passed the Senate but initially failed in the House on the evening of Friday, November 13. Despite a strong majority of 228-161 the bill did not achieve the two-thirds majority necessary for passage under a "suspension of rules" provision. The bill finally passed the House a week later, on December 9, as a part of a package of trade legislation.

In fact, PNTR for Vietnam was comparatively popular in Congress. This was the case in spite of growing resistance to trade liberalization in the face of the continued loss of manufacturing jobs and the soaring US trade deficit. Corporate investors and agricultural exporters needed PNTR to take advantage of the market-opening commitments that Vietnam had made as a requirement for gaining accession to the WTO, to which it acceded on January 11, 2007. US companies, acting mainly through their regional affiliates in other Southeast Asian countries, had already become the largest investors in Vietnam. Intel Corporation underscored the potential for the blossoming of trade and economic ties with Vietnam when it decided in early 2006 to build a $300 million semiconductor assembly and test facility in Ho Chi Minh City.

Centrality of China to US Southeast Asian Interests

The most glaring weakness of the Administration's approach to Southeast Asia has been its inability thus far to develop an effective response to China's growing regional role and influence, and the. The Administration has not articulated a clear vision for the role it would like China to play in Southeast Asia, and lacks the leverage to significantly influence Beijing's policies. Unlike Northeast Asia, where China has cooperated with the

United States by hosting the Six-Party Talks on North Korea's nuclear program and other issues of mutual interest, Beijing treats Southeast Asia as its own bailiwick.

The Administration's most signal failure has been its inability to effectively address China's growing regional role and influence and the parallel rise of Asian regionalism, in which ASEAN plays a central geographic and political role. Beijing's rising economic power and cheap agricultural and manufactured exports, coupled with a huge demand for raw materials and other industrial inputs, have been the main drivers of economic integration with Southeast Asia. China has also fostered economic integration and expanded its influence through its large and un-transparent aid programs.

In 2005 China passed the United States to become ASEAN's third largest trade partner, and is likely soon to surpass Japan. Along with the accelerating flow of cheap fruit and vegetables and manufactured goods, has come hundreds of thousands of Chinese citizens migrate illegally or overstay tourist visas in mainland Southeast Asia. Especially in Cambodia, Laos, Myanmar and Northern Thailand, the illegal Chinese migrants have established businesses and put down roots.

With official backing, Chinese companies are setting up joint-venture rubber plantations in northern Laos, and China is financing the 228 kilometer Laotian section of a highway connecting Kunming, in Yunnan Province, and Bangkok. The link is part of the Greater Mekong Subregion (GMS) cooperative development project led and substantially funded by the Asian Development Bank (ADB). A spur of the same North-South Corridor will connect Kunming to Hanoi and its port of Haiphong via a multilane highway.

Beijing's crash program to exploit the immense hydropower potential of its mountainous Yunnan Province has become the largest national infrastructure project since the Three Gorges Dam. China's efforts to build massive hydropower dams on the upper Mekong, which it calls the Lancang; and the Salween River, which it calls the Nu, will give it extraordinary economic and geopolitical leverage. The same dam projects will also support navigational improvements in the upper and middle reaches of the Mekong to facilitate greatly expanded river trade with downstream countries. In January 2007, two Chinese ships, carrying cargoes of refined oil, made maiden voyages from Thailand's river port of Chiang Rai to a port in Southwestern Yunnan Province. Reportedly, China plans to ship some 70,000 tons of refined oil yearly up the Mekong, and to build a pipeline through Myanmar to Kunming to reduce its dependence on the Strait of Malacca for its oil shipments.

The Administration has rightly chosen not to regard China's emerging regional leadership and influence as a direct security challenge. However, this stance appears as much a lack of ideas and the means to carry out meaningful counter-measures, as much as a calculated policy judgment.

Part of the reason that the Administration has failed thus far to come to terms with China's growing regional influence, partly because it needs Beijing's cooperation on higher priority objectives in Northeast Asia, especially its role in hosting the 6-Party

Talks on eliminating North Korea's nuclear weapons capability. In addition, the Administration has failed thus far to reach internal agreement on how to respond to ASEAN-centered Asian regionalism as symbolized by the annual East Asia Summit (EAS) meetings.

Conversations with senior American officials in Southeast Asia produce expressions of concern about China's growing economic and political influence, especially in mainland Southeast Asia. Likewise, senior officials in friendly Southeast Asian capitals express concern both about China's rising influence and the lack of a sufficient response from the United States.

The immediate costs to the United States of failing to match China's initiatives may not be great, especially because the still very important US market and the American offshore military presence remain important to Southeast Asian countries. Nevertheless, the continuing lack of a strong American response to China's advances may have negative longer term implications for Southeast Asia's stability and prosperity; and, more broadly, for US allies and friends in East Asia.

Neglected Opportunities for US-Japan Cooperation in Southeast Asia

Japan shares with the United States a strong interest in an economically dynamic and politically stable Southeast Asia, but for the Bush Administration thus far has made little serious effort to add a trade and economic dimension to its alliance cooperation in the region. The reasons are rooted in a lack of strategic focus in capitals, as well as domestic politics and incompatible national economic and business models. Nonetheless, the lack of broader policy coordination between the United States and Japan on Southeast Asian issues remains a lost opportunity for both countries.

More so than in the case of alliance security cooperation, trade and economic policy in both countries respond strongly to domestic constituencies with deep connections to the political process. Consequently, the idea of "national interest" in both countries with regard to trade and economic policy tends to be whatever results from the interplay of competing interests in the political arena.

Because of the much greater freedom of action of China's leaders in shaping foreign policy, Beijing at least superficially has considerably eclipsed its northeast Asian rival in the competition for regional influence. For most of the past decade Japan has been playing catch up, especially in regard to Beijing's "smile diplomacy" and promotion of preferential trade arrangements such as the so-called China-ASEAN FTA that *appear* to involve some sacrifice of certain economic interests in the interest of stronger political ties. On the surface, China's promotion of "early harvest" agreements under the CAFTA involve some market opening concessions, ostensibly in the interest of promoting good will, but whether by design or because of the actions of local interests, Thai, Filipino, and Vietnamese farmers, for instance, have been crying foul.

Japan joined the competition with a proposal for an ASEAN-Japan Economic Partnership (AJCEP) in late 2002, also at the annual ASEAN+3 Summit, a year after the beginning of negotiations on the China-ASEAN.

Japan's fortunes are of considerable importance to the United States and vice-versa. Tokyo's image has been eclipsed in recent years by China, which has been much more deft and creative in its diplomacy. Nonetheless, Japan remains the leading source of business investment, technology, and development assistance, and Southeast Asian governments remain very mindful of this fact.

Japan's strongest asset remains its financial and economic power, and its technological leadership. The Japanese Ministry of Finance has played a leading role in promoting currency stabilization since the Asian financial crisis, most notably the May 2000 Chiang Mai Initiative (CMI) for creating a regional currency swap mechanism to deal with temporary balance-of-payments crises. The CMI involves ASEAN and its "plus one" partners, Japan, South Korea, and China. Tokyo likewise has been the driving force in the creation of an Asian Monetary Fund (ABM) and a regional bond market.

Japan remains the largest donor of official development assistance (ODA) in Southeast Asia, both bilaterally and through the Japan Special Fund to the Asian Development Bank (ADB), which constitutes about half of the total Asian Development Fund (ADF), the bank's window for grants and soft loans. Japan has begun refocusing its ODA on the same kind of health and human security issues that are the main focus of the comparatively small US assistance role in Southeast Asia, but its total aid remains overwhelmingly focused on highly visible infrastructure projects, including loans for bridges, ports, and airports in Cambodia, Laos, Vietnam, Indonesia and the Philippines. Many if not most of Japanese aid projects involve the creation of infrastructure to facilitate Japanese business investment and much of the business goes to Japanese contractors and machinery suppliers.

Like the United States, Japanese trade policy is severely constrained by strong protectionist forces, especially the powerful Agriculture Ministry, which until recently had a virtual veto on trade agreements that involved agricultural concessions. As a consequence, Japan finds it difficult to significant market-opening opportunities that would allow Southeast Asian countries to capitalize on their own comparative advantage and gain more access to the Japanese market. Although the situation has changed considerably since surge of FDI into Southeast Asia during the "bubble economy" years of the late 1980s, Japanese companies still tend to favor investment aimed at third countries, not the home market. On the whole, the market access aspect of US FTAs is considerably more attractive, since US companies tend to go offshore as much to enhance their domestic price competitiveness as to expand their regional markets.

Of course, Japanese manufacturing investment plays a key role in a number of the larger Southeast Asia economies, especially in electronics, automobiles and trucks, and other important export sectors. Vietnam and other industrializing Southeast Asian countries are also beginning to benefit from the current "China plus one" investment strategy of

Japanese multinational companies, which stems both from a desire to hedge against political risk as well as to anticipate rising labor and other costs as demand continues to outstrip supply in China overheating economy. Nonetheless, the high degree to which Japan's trade deals promote specific sectors rather than providing a more general liberalization of investment and trade creates preferential arrangements that are not open to other countries. Unlike the more comprehensive US-style FTAs, Japan's deals tend not to do very much to help its trade partners to raise their competitiveness overall.

Japan's value as a US partner in Southeast Asia has been reduced to a certain extent by negative reaction to Prime Minister Shinzo Abe's nationalistic stance and historical revisionism, which are an affront to countries that suffered from Japanese aggression and brutality in World War II. These feelings are not as strong as in China and South Korea, where Abe's efforts to deny official culpability in the case of the "comfort women" has created public outrage and fueled anti-Japanese demonstrations, but they are strong enough to hamper Tokyo's efforts to counter Beijing's "Smile Diplomacy" towards Southeast Asia.

The Future Bush Agenda in Southeast Asia

Looking ahead, the Bush Administration will continue to put most of its emphasis on anti-terrorism cooperation and maritime security in Southeast Asia, areas where it also has the greatest financial resources. The administration faces major challenges in promoting further trade liberalization after the expiration of TPA.

In addition, the Bush Administration is running out of Southeast Asian countries with whom to negotiate US-style FTAs. The US-Singapore FTA was relatively easy to negotiate because of Singapore's status as one of the most open economies in Asia; the long presence of US multinational companies; and because it has no agriculture sector. Negotiations with Thailand and Malaysia, both of which have diversified economies and major agricultural sectors, have been much more difficult. At the moment, no other ASEAN countries are sufficiently developed or open enough to qualify for initiating FTA negotiations.

At the same time, the failure of current FTA initiatives and the expiration of TPA is likely to promote some creative thinking about alternative approaches to "gold standard" FTAs. Some in the Administration, including the USTR, appear to be considering alternatives for achieving further market opening, greater protection for IPR and other goals without TPA. One indicator in this direction was the signing of the ASEAN-US TIFA. While the agreement might look like more of a public relations response to the China-ASEAN agreement and the proliferation of other preferential trade agreements, Deputy USTR Karan Bhatia has suggested otherwise on several occasions. According to Bhatia, the Administration would like to use the TIFAs to negotiate sectoral agreements or other agreements with Indonesia and additional ASEAN countries to achieve near-term progress on issues that currently are obstacles to negotiating an FTA.

The Real Issue: Can the Bush Administration Craft a Coherent Strategy for Southeast Asia?

For the rest of its term the most important issue for the George W. Bush Administration is not the future of its ongoing initiatives towards Southeast Asia but whether it can yet craft a broader strategy to meet the challenge of China's rising regional influence and the wider effects of globalization. The nub of the issue is how the Administration addresses the challenge of Asian regionalism.

The Administration would appear to have four basic options:

1) Join the East Asian Summit

The future of East Asian regionalism remains very much a "work in progress," but Asian leaders, many analysts, and observers argue that in one way or another, regionalism is the wave of the future. The Bush Administration is not likely to join the East Asia Summit (EAS) for at least two reasons, though this cannot be ruled out. First, membership in the EAS requires signing the 1976 Treaty of Amity and Cooperation. The Administration has acknowledged the treaty but is unlikely to sign it because of concerns about its effect on the right of free navigation through territorial waters such as the Strait of Malacca. Second, like many Western governments, the Administration has not been able to decide how important or effective the organization is likely to be.

It may be somewhat more likely that the Administration might decide to accede to the ASEAN Treaty of Amity and Cooperation (TAC), which currently is the main obstacle to US participation in the East Asia Summit (EAS) meetings. That will not happen, however, unless and until the Administration resolves larger question of whether and how to respond to the movement towards Asian regionalism.

2) Continue to Emphasize its Bilateral Hub-and-Spoke Alliance Relationships

This option follows from the first. US bilateral relations with its allies and other regional partners are far more substantive than anything that takes place in regional organizations. Moreover, so long as US allies and partners have their own interest in not seeing the United States isolated in Asia, the Administration is unlikely to take multilateralism very seriously. In particular, the successful efforts by Japan, Singapore, and some other countries to get India, Australia and New Zealand into the EAS, seem to have lessened the Administration's concerns about US isolation. In fact, the successful effort to dilute membership in the EAS appear to have caused China--which hoped to use the meetings as a vehicle for regional leadership--to lose interest and focus instead on the ASEAN-Plus Three (Japan, ROK, China) structure.

3) Seek Deeper Engagement with ASEAN

The United States needs to maintain productive political ties with ASEAN, and will continue to do so, but it could do much more to forge stronger ties and support for

ASEAN's ambitions to become a more integrated regional community even if this is likely to remain a distant goal. The United States supports ASEAN in both symbolic and substantive terms, but could easily spend more political capital even if it is unlikely to provide more economic assistance. The Bush Administration and its predecessors have found the ASEAN Regional Forum (ARF) to be a useful platform for security dialogue and confidence building, especially as regards terrorism and nuclear proliferation. In fact, the more effort the Administration expends to make the ARF more effective, the less it need worry about the EAS or ASEAN-China relations.

The Bush Administration, like a number of other governments, sis likely to continue to in its inner councils to regard both ASEAN and the ARF primarily as a "talk shops."

Even if the Administration is correct in viewing the ASEAN Community as a distant dream, ASEAN has an important role to play in helping the Southeast Asian countries cooperate on a number of emerging "nontraditional" security issues of mutual interest. These include such issues as air pollution from forest burning in Sumatra, Indonesia, avian flu and other potential pandemics, global warming, possible conflicts over scarce resources such as water, human trafficking, and illegal migration.

4) Seek to Reenergize APEC

US ambitions for APEC peaked with the 1995 Bogor Declaration (Indonesia), in which the 21 APEC economies committed to free and open trade and investment in the Asia-Pacific region--by 2010 in the case of the developed economies, and 2020 in the case of the less-developed countries. Momentum towards this goal slowed as early as the 1995 meeting in Osaka, when Japan, China, and other countries argued for flexibility in interpreting the goal of comprehensiveness and Malaysia insisted that the Bogor goals be made voluntary. The 1997 Asian financial crisis put most APEC goals on the shelf. The Bush Administration further diluted the goals of the organization by focusing on cooperation against terrorism rather than trade and economic issues.

The Bush Administration signaled revived interest in APEC in July, 2005, when it appointed a career foreign service officer with long service in Asia as Senior Official, to APEC. The Administration has also devoted considerable attention to working with Vietnam on the November 2006 APEC meeting in Hanoi, which Secretary of State Rice and USTR Susan Schwab both attended. The President and the Secretary of State both emphasized that APEC was the "preeminent channel for engagement with East Asia and the Pacific."

The Administration appears to remain unclear about what goals it wants APEC to accomplish and how it will go about strengthening the organization. APEC has a number of limitations--it may be too broad (i.e. transpacific) to serve as a vehicle for promoting ties with ASEAN and Northeast Asia and it is out of step with current trends towards regional FTAs. The voluntary aspect alone raises doubts about achieving anything more than a forum, as does the continued emphasis of the Administration on a broad range of discussion topics.

Certainly, APEC is unlikely to serve as a useful vehicle for countering Chinese influence in Southeast Asia or facilitating stronger US leadership. APEC's greatest utility is likely to be its role as a forum for getting the US President to Asia, when Asian countries are hosting the meetings, and for the opportunity to elevate bilateral and multilateral issues to the head of state level.

Conclusions

For all of the reasons noted above, the engagement of the second George W. Bush Administration with Southeast Asia is likely to be episodic and ad hoc. The Administration is unlikely to devise any serious response to China's growing influence and the "noodle bowl" of preferential – and hence discriminatory -- regional Asian trade agreements. FTA activity will likely be limited by the small number of suitable negotiating partners and growing disillusionment--within the US public and Congress--with free trade.

Even if the Administration were to undertake significant new initiatives, Congress is unlikely to be supportive. Thus far Congress has taken little note of Beijing's growing ties to Southeast Asia or even economic regionalism. Instead, Congress has focused most of its attention on the huge and growing *bilateral* trade deficit with China and the related issue of what is widely believed to be a significantly Beijing's undervalued currency. Congress shows no sign of taking China's rising influence into account when addressing human rights issues in countries along China's periphery. However legitimate these concerns may be, constituent pressure, rather than by any broader foreign policy perspective has tended to drive congressional legislative initiatives and oversight.

Despite a negative view of the Administration's policies in some Southeast Asian countries the United States will retain considerable baseline importance to the region almost regardless of the Bush Administration's policies or those of its successors. This is true for at least three enduring reasons. First, every country in the region wishes to avoid domination by China, or by any external power, for that matter, and all of them will try to maintain balance in their relations with Beijing, Washington, and Tokyo. Second, the US economy will remain highly important both as a market and as a major source, along with Japan and the EU, of high technology investment. Southeast Asian countries have a critical need for such investment if they are to achieve an acceptable economic "division of labor" in an FTA with China. Third, the United States remains the only country with an on-station military capability to reinforce regional security and stability; and provide the kind of support to disaster operations that it demonstrated following the devastating December 2004 Indian Ocean Tsunami.

Apart from the important stabilizing role of the US military presence in the region, it is likely that the continuing importance of the United States to ASEAN will lie less in the realm of policy initiatives than in the private trade and investment actions of American companies and the still coveted US market. In this respect, American "soft-power," such

as the continuing attractiveness of US higher education, technology, and popular culture will continue to be important assets. These are not assets that are very deployable by the Administration, but policy changes can influence them – for instance by making it easier for Southeast Asians to get visas for education, investment, and professional employment.

US economic and financial management could also have a major indirect effect on the region, as would the imposition of trade barriers on certain Chinese exports, or success in getting Beijing to revalue the Yuan upward. Trade barriers against China might benefit Southeast Asian exporters, but the spillover effect on Southeast Asian currencies would be potentially destabilizing.

In the absence of a clear strategy towards Southeast Asia, US interests and influence will depend importantly on day-to-day cooperation among US departments and agencies across a range of issues such as trade disputes; narcotics; counterterrorism operations and other nontraditional security issues; as well as ongoing military-to-military relationships. Attentiveness to Southeast Asian concerns and opportunities for cooperation could reinforce the role of the United States as a stabilizer if not a source of strong leadership.