

Date: April 26, 2018
To: The Secretary of the State
From: U.S. Department of State (DOS), Advanced East Asia Policy
Subject: U.S. National Interests Report in Southeast Asia/Region

Executive Summary:

US interests in the Southeast Asian region has continued to grow because of Obama's pivot to East Asia, developing disputes between nations, as well as the unstable relationships between the current administration and Southeast Asian country leaders. The main U.S. interests are the following:

- Maintaining U.S. military and diplomatic presence in the region.
 - Maintaining regional peace and stability between nations.
 - Protecting key trade routes through the Malacca Strait and the Indian Ocean.
 - Protecting U.S. economic interests in the region and deepening U.S. credibility.
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PART I: US INFLUENCE IN SOUTHEAST ASIA

Southeast Asia is a geopolitically important region and is increasingly becoming an important point of tension between the US and the rising power of the PRC. Following President Obama's inauguration, there was a shift to rebalance US power in the region by expanding our traditional roles. This intensification of US control in the region prioritizes an overall cohesive foreign policy, as well as military planning and economic policy, to reassure US commitment to Southeast Asian allies. US interest behind maintaining strong alliances in the region is to ensure peaceful resolve of disputes, to maintain the smooth flow of commerce and the freedom of navigation while decreasing the threat posed by emerging regional powers.

PART II: U.S. MILITARY AND ECONOMIC ALLIANCES

The current alliances between the US and Southeast Asian states signify the regional responses to both China's rising power and US rebalance to Asia. Thailand and Philippines, two principal US-treaty allies, remain two important economic partners for the US but differ in their direct relations with the US. Thailand has become an increasingly ambiguous ally, with their military leaders pushing to become a 'free agent', whilst the Philippines has remained a consistent ally, leveraging the US against Chinese naval powers. Countries such as Singapore and Malaysia remain balanced between US and PRC influence, demonstrating facilitation of US deployment but also engage with China significantly. Vietnam has gravitated towards Chinese influence, due to both geographical proximity and complicated relationship with the US. Finally, Australia and New Zealand remain important military allies for the US in Oceania, with Australia as a key defense partner and New Zealand as an important economic ally. It is in US best interest to continue to improve alliances with the entire region, to continually promote US policy and work towards US main priorities

Thailand.

Since WWII, United States and Thailand developed strong military relations. In 1818, two countries signed a Treaty of Amity and Commerce. They have expended a strong diplomatic, security, and commercial relations. They developed military exercises, which

approximately has averaged 40 exercises per year. In 2003, the United States nominated Thailand as a Non-NATO (North Atlantic Treaty Organization) allies. United States military support Thailand Junta in April 20, 2018. But since the United States reduced aid to Thailand during the military coup in 2014, China and Thailand have developed closer military and economic relationships with each other.

US is currently attempting to especially increase economic relationships with Thailand once again to increase security interests and strengthen US influence. Although US exports over \$13 billion to Thailand as of now, we plan to export more by assisting their infrastructure projects such as the Eastern Economic Corridor Project which require foreign investments. Stronger economic ties would benefit both countries and US believes that economically supporting Thailand would lead them to become a more developed country which would then, lead them to democracy.

Philippines.

In 1947, the United States and the Philippines signed a 99-year lease to existing Philippine military and naval bases, giving the U.S. virtual territorial rights. A mutual defense treaty was signed but an amendment to the lease shortened it to 25 years. The main bases maintained by the United States were Clark Air Base and Subic Bay Naval Complex; these bases and smaller subsidiary bases around the Philippine islands were operated until 1992. In the post-US military bases era, the close relationship between the U.S. and Philippines prompted a visiting forces agreement that allows the US temporary deployment of military personnel in the country. The two have been conducting military exercises to counter regional instability such as the South China Sea dispute and Jihadist militant groups in Southern Philippines. Since the Duterte Administration, there has been an increased desire to push US troops out of the Philippines, citing neo-imperialism, the desire of military/economic independence, and crimes committed by US troops. However, the Philippines still relies on the U.S. military as an aid in counterterrorism, a counterbalance to China's rise or power, and as a source of military equipment as many existing equipment are outdated.

The U.S. has been the Philippines' largest foreign investor. Much of U.S. investments are resources such as textiles and agriculture and outsourcing such as business processing, automobile manufacturing, and electronics manufacturing; the two-way investments have reached about 17.3 billion USD. Although the U.S. has withdrawn from the TPP, the Philippines has expressed interest in becoming a signatory to the agreement; however, both nations are members of the Asian Development Bank which aims to promote socio-economic development in the region. The Philippines is also part of the ASEAN Free Trade Area with the other ASEAN member states whose goals include increased foreign development to the ASEAN region

Singapore.

Despite Singapore remaining a 'hedging' country, balanced between the US and China, Singapore and US relations remain strong. In 2005, Singapore and US signed a 'Strategic Framework Agreement', which formalized the countries' commitment to a security and defense alliance. In this military agreement the US capitalized on a 'places not bases' strategy, through working with the existing Singapore-US alliance and utilizing military facilities owned by allies instead of creating new US bases. Within this agreement it allows US military access to facilities, such as using a naval base and an airfield. Further in these agreements allows US fighter planes to rotate to Singapore for a month at a time, with naval combat ships regularly deployed to Singaporean ports.

In terms of trade, there are also close relations between US and Singapore with the United States-Singapore Free Trade Agreement passed in 2004. This agreement created improvement of relations, and successfully increasing bilateral trade over 50%, reaching \$47 billion in goods traded in 2015. Economic relations are further benefited, as the US is Singapore's largest foreign investor, with U.S. investment reaching \$288 billion in 2015. However, Singapore is also a member of the TPP, with Trump severing one of the trade ties the two countries could have had.

Malaysia.

The U.S. and Malaysia have had a strong security cooperation since the 1990s in addition to its Five Power Defense Arrangements with Australia, New Zealand, Singapore, and the U.K. The U.S.-Malaysia military/political cooperation was established by the Australia, New Zealand, U.S. Security Treaty (ANZUS). Through this multinational partnership, Malaysia and Singapore have both relied on U.S. arms shipments to provide for their armed forces. Malaysia has purchased various U.S. high-tech weapons systems such as fighter aircraft and attack helicopters. The two countries engage in military exchanges such as training, exercises, and visits; the exchanges include the Cooperation Afloat Readiness Training (CARAT) which also involves other ASEAN nations, Intl. Military Education and Training (IMET), and defense cooperation in the South China Sea dispute. Both countries are actively conducting programs to increase their military capacities.

The U.S. is one of the largest foreign investors in Malaysia; investment in Malaysia includes resources such as oil, gas, rubber, and energy. Since the 1970s, U.S. based companies have been active in the Malaysian economy (investment in electronics manufacturing has reached about \$15 billion) and the U.S. became Malaysia's fourth largest trading partner. There have been several negotiations to propose bilateral Free Trade Agreements. Before the U.S. withdrew from TPP, both countries have been members of the agreement, aiming to mutually expand market access and support labor/environmental standards.

Vietnam.

Vietnam's Council on Foreign Relations adopted a "Three Nos" policy- no military alliances, no foreign military presence on Vietnamese territory, and no partnering with foreign nations to combat another. Cooperation in defense, nonproliferation, counterterrorism, and international law enforcement is permitted and expanding. During the Obama Administration, the U.S., due to Vietnam's improving rights record lifted a decades-old embargo on military equipment. This further strengthened U.S.-Vietnam military/economic relations and U.S.-Vietnam defense cooperation; the U.S. also deepened its cooperation in the region by pledging its defense of Vietnam against the PRC and the South China Sea dispute. Although the U.S. and Vietnam have no official military alliance, Vietnam has hosted U.S. naval ship and aircraft carrier visits.

Vietnam had also made large reforms to become a part of TPP and although US has withdrawn from the agreement, bilateral trade between the two are still strong. The positive momentum of the U.S.- Vietnam economic relations has continued under President Trump. Bilateral trade has shot up from \$451 million to \$54 billion between 1995 and 2017. Vietnam exports goods (such as clothing, seafood, footwear) to US the most and US exports machinery, vehicles, and agricultural products to Vietnam. Despite this thriving trade, US does hold a trade deficit of \$38 billion with Vietnam and hold concerns towards trade such as piracy and food safety regulations.

Australia.

For over seventy-five years, the United States and Australia have shared close diplomatic relations with one another. The democratic nations established the collective ANZUS security treaty in 1951, agreeing to collaborate with one another to ensure peace within the Pacific Ocean region. The terrorist attacks on September 11, 2001 prompted Australia to invoke this alliance for the first time. The U.S.-Australia Force Posture Agreement, signed in 2014, and Joint Statement on Defense Cooperation, signed in 2015, have further strengthened the countries' defense ties and allowed for annual rotations of U.S. Air Force aircraft and Marines to Australia. Both nations also participated in the Talisman Saber biennial joint-military exercise, displaying their high levels of collaboration. In 2017, both the United States' Secretary of State Rex Tillerson and Australia's Minister of Foreign Relations, Julie Bishop, met with Japan's Minister of Foreign Relations, Taro Kono, for the seventh Trilateral Strategic Dialogue meeting to discuss their concerns about North Korea, South China Sea territorial disputes, ISIS, and cybersecurity and how, together, they could best remedy these threats.

The AUSFTA, put into effect in January 2005, is an important bilateral trade agreement between the United States and Australia. The United States accounts for 27% of Australia's total foreign investment stock, making it the nation's largest investor as well as one of its greatest two-way trading partners in both goods and services. Currently, all products imported from the United States to Australia are exempt from tariffs, along with most exported items from Australia to the United States.

New Zealand.

New Zealand (NZ) has remained a historically strong ally of the United States, with NZ supporting the US in every regional conflict in the 20th century. This relationship was reaffirmed recently in 2012 under the Washington Declaration, in which a framework was established focusing on increasing a NZ-US defense relationship.

Economic ties between the US and NZ are consistent and growing, with US good exports to NZ totaling \$3.59 billion in 2016 and the US importing \$4.07 billion from NZ. The US is NZ second most important investment partner, and the second most popular for NZ foreign investment behind Australia.

Indonesia.

Kopassus, an Indonesian special operations forces had improved its human rights record which prompted the U.S. to lift its ban on military contact with Indonesia in 2010. In a visit to the country, Defense Secretary James Mattis cited Indonesia's important role in maritime conduct in the Asia-Pacific region; interest in U.S.-Indonesia cooperation on maritime security was also expressed by Mattis. Although military cooperation is quite recent, the U.S. still is a prominent role in Indonesia's development of military capabilities. The U.S. has provided various military equipment and services such as fighter aircraft, military financing, and IMET funding. The two countries are also scheduling bilateral military exercises such as humanitarian relief and maritime security along with other ASEAN nations.

Through the US-Indonesia Strategic Partnership (upgraded from Comprehensive Partnership), trade and investment ties have been thriving between the two countries. Indonesia is Southeast Asia's largest economy with steady economic growth and inflation. US-Indonesia bilateral trade reached about \$30 billion in 2015. Indonesia's growing middle class and plans for new infrastructure require a search for foreign investments, making US a potential provider. Though, there are currently some obstacles regarding implementation of protectionist laws,

limited infrastructure, and unevenly applied legal structure. Through USAID, US has been providing about \$700 million for Indonesia's health, environment, education, and governance sectors to assist in fighting domestic development and environmental challenges, which would help them reach prosperous, self-reliant, well-governed lives.

PART III: REGIONAL ISSUES

There has been several regional disputes and issues within Southeast Asia, that are further concerning for the US. The most notable are the following: The South China Sea, climate change, and the threat of terrorism and ethnic conflict in the region. The US maintains interest in all these issues, including promoting regional stability and peace, as well as promoting more sustainable economic and development policy.

South China Sea.

The South China Sea dispute covers over 2,000 acres of sea and continues to strain relations between East Asian countries such as China, the Philippines, Vietnam, Malaysia, Cambodia and Taiwan. This region covers one third of the world's shipping lanes and contains fishing grounds crucial for East Asian food security as well as massive oil and gas reserves.

Although many East Asian Countries have made territorial claims in this region, China has been one of the most vigorous in protecting their claims, covering 80% of the sea's water areas around the so-called "nine-dash line" that delineates PRC and ROC claims to the area. Chinese territorial claims have resulted in a series of physical actions to bolster their legitimacy, such as building artificial islands and developing military infrastructures on these created islets. Other East Asian countries interested in this region have contested these claims, with the United States also viewing the militarization of islands as China imposing sovereignty in the region, with the potential to limit the freedom of navigation in the area.

Furthermore, some of these developed features are not actually above sea level, and so are not recognized under UNCLOS as only naturally-made islands with a population to be claimed as sovereign territory, subsequently, reefs, large rocks, shoals, and atolls are unclaimable. Therefore, manmade islets do not give China ownership of a territorial sea or exclusive economic zone (EEZ), despite PRC believing they get both as they consider their developed features as legal islands. An EEZ are areas of the seas outlined by UNCLOS in which countries have rights to marine resources and sovereign control over. This zone (see appendix) starts at the baseline and extends 200 nautical miles seaward beyond the shoreline. Although other countries, such as Vietnam have also been building islands in the region, China is perceived as the largest threat in causing conflict in the region.

US Foreign Defense Secretary Carter has stated that the U.S. will continue to operate and travel wherever international law allows them, continuing US military operations in the navy and air force. However. U.S. interest in the region continues to advocate for peaceful diplomacy, avoiding the use of force or coercion to resolve disputes, enforcing FONOPS, and refraining from taking any position on disputed territory. These policies ensure good relations with the PRC whilst maintaining security with other countries involved with the dispute.

Countries such as the Philippines have slightly shifted their consensus on the South China Sea; Pres. Duterte, contrary to the previous Aquino administration, whose policy was aligned with the U.S., is more willing to work with the PRC on the dispute. Despite this, the PRC's neighbors such as Vietnam and the Philippines still have no intentions to concede to the PRC's claims, however, all involved parties avoid any confrontation.

Climate Change.

A report by the National Intelligence Council (NIC) found that global climate change posed a direct threat to the integrity of several Asia-Pacific countries, especially those which are islands or low-lying coastal regions (all the Philippines, Vietnam's Mekong River Delta, Cambodia's low-lying regions, and the Java and Sumatra regions of Indonesia, to name a few). Changes in precipitation patterns mean that certain regions experience significantly less rain while others experience significantly more; this, coupled with increased temperatures and atmospheric CO₂ levels has adversely affected staple crop outputs in the region, with some countries producing less and others more. Rising sea levels also pose a significant challenge for the region, with saltwater intruding into freshwater estuaries, aquifers, and coastal agricultural regions, which have already been degraded from years of pollution, agricultural runoff, and destructive fishing practices. In summary, global climate change can have profound adverse effects on the Asia Pacific region by disrupting the area's agriculture, fishing, tourism, and aquaculture industries. Climate change can also increase the intensity of natural disasters like typhoons, which can lead to massive infrastructure destruction. These disruptions can create influxes of economic migrants who have lost their homes and/or livelihoods to the effects of climate change, potentially upsetting the economic/political stability of their home countries which would, in turn, hinder many of our interests in the region.

Islamic Extremism & Ethnic Conflicts.

South East Asia is home to the largest concentrations of Muslims in the world. Approximately 240 million adherents of the religion live in the area (forty percent of the region's total population), with Indonesia alone accounting for over 200 million of them. In recent years, the prevalence of Islamist extremist terrorist attacks has significantly increased, especially in the Philippines, Indonesia, and Thailand. Many of these groups have been fighting under the black flag of the Islamic State (ISIS). There are also concerns that South East Asia is seeing a rise in political extremism, with many hardline Islamists running for office in Malaysia and Indonesia. Indonesia's Ulema Council, the country's authority on Islam, has also issued several *fatwas* (condemnation) on Christian and Buddhist politicians who have blasphemed Islam, even going as far as imprisoning them for their beliefs.

Although the PRC government and PLA has kept the region under relative control, there still is a constant threat of separatist movements from the ethnically separate Uyghur population in China's Xinjiang province. The province is home to several institutions that were labelled as terrorist groups include East Turkestan Islamic Movement and the World Uyghur Congress. These groups in China's far west are predominantly Muslim and many seek to create their own sovereign state separate from the majority Han Chinese PRC. Most movements, whether violent or nonviolent, are assisted by external entities such as support from Turkey, Syria, and other regions with similar religious/ethnic backgrounds. The PRC seems to only use force in the event of civil unrest amidst the ethnic and religious tensions, thus the PRC mainly uses soft power to maintain control during ethnic and religious tensions; the government is promoting Han Chinese migration to the western provinces and assimilation of Uyghur people into mainstream Han culture.

Indonesia is one of the most important and rising country in Southeast Asia. Indonesia's role is counter terrorism against the Islamic terrorist and climate change. The Indonesian National police and Armed forces cooperated to eliminate members of Mujahidin Indonesia Timur, an ISIL supported group. Being one of the country with the largest Muslim population,

Indonesia is critical for US in terms of setting a policy agenda against terrorism around the world. Indonesia has yet to join the 65-member U.S.-led Global Coalition to Counter ISIL. As a burgeoning democracy, Indonesia can be considered a vital partner for promoting our future interests in the region, and as such presents multiple advantages to U.S. partnership.

PART IV: ECONOMIC INSTITUTIONS AND TRADE

Since 1980s the economic center of the world has shifted from traditional western nations to East Asia. The Asian-Pacific region experienced a path of unprecedented economic growth to become a global economic powerhouse. Regional economic and social development remain vital to American economic and strategic interests. This effort can be seen on two major fronts: in our efforts to contain burgeoning Chinese influence in the region and re-establish our domestic economy. As the population and income of these countries grow, they become increasingly attractive areas for American exports and investment.

Trade in Asia Pacific.

Background & Overview.

The Asian-Pacific region accounts for nearly half of the entire global economy and almost half of the top 20 economies are in the region. In 2016, Asian-Pacific region accounted for more than 45% of global trade, with \$20 trillion worth of products and services generated from the region. The massive and growing market economy lead to the rise of US exports to that region. US exports to Asia-Pacific region including agricultural products, manufactured goods and services accounts for \$452 billion dollar in 2016. Trade and investment in Asian-Pacific region also created job opportunities for Americans. In 2015 3.4 million jobs were created due to US export to that region. As the middle class in Asia grows especially China and South Korea, their demand for American goods and services would further expand. In this case, more domestic job opportunities could be generated through exports for both sides. Maintaining security and stability in the Asia-Pacific region therefore essential in keeping commercial lanes open to secure our own interests in the region.

Association of Southeast Asian Nations (ASEAN).

The creation of ASEAN was meant to help foster Pan-Asianism and intergovernmental cooperation to facilitate the economic, political, and socio-cultural flows between member nations that include the entire Mainland and Maritime Southeast Asia. A Free Trade Area (FTA) was established between ASEAN member states in January of 1992 and it promoted the free flow of goods between member states by reducing tariffs and other import duties on nearly all goods to the zero to five percent range. ASEAN FTAs have also helped establish several economic zones throughout the region, including special economic zones as well as industrial and technology parks. Historically, inter-ASEAN trade has been low as most of these countries focused on exporting to international markets, but it has increased modestly since 2010. The United States and the European Union are still the largest destinations for ASEAN exports. In 2017, the estimated combined GDP (in terms of Power Purchasing Parity--PPP) of the 10-member nations was \$7.93 trillion--a third of the combined GDP of NAFTA members.

Regional Comprehensive Economic Partnership (RCEP).

In 2012, the ten members of ASEAN and six other states which it has existing free trade agreements (including China, India, and Australia) began negotiating the Regional Comprehensive Economic Partnership (RCEP). When the RCEP is signed, it will constitute the world's largest economic bloc with over 3.4 billion people (45 percent of global population) and

a GDP of \$49.5 trillion (nearly 40 percent of the world's total). The GDP of member nations is projected to quintuple to nearly \$250 trillion by 2050.

Asia Development Bank.

Established in 1966, the mission of the Asian Development Bank (ADB) is to promote the social and economic in Asia. It started as 31 members but has now grown to 67 members--48 of which are in Asia or the Pacific region. Since the ADB subscribes to the notion that a country's financial system is its lifeline, it focuses on developing its financial sectors and capital markets, allowing small- and medium-sized enterprises to access capital, credit, and other resources with fewer restrictions than traditional banks. The ADB offers both "hard" loans to middle and high-income countries while providing "soft" loans with lower interests rates to poorer nations.

The ADB plans to begin implementing its "Strategy 2030" by the end of this year. One of the big focuses of this new long-term strategy is promoting sustainable and green development. It also seeks to diversify financing sources while making recipient countries less dependent on aid by developing their internal infrastructure and economic systems to make them more self-reliant. The ADB has largely shied away from Washington Consensus-like fiscal and monetary policy suggestions, instead, promoting a more state-involved approach.

The Trans-Pacific Partnership.

The Trans Pacific Partnership, a multilateral trade agreement currently involving eleven Pacific Rim countries, was drafted in late 2015 with the hopes of strengthening economic cooperation and multilateral trade among member states, which represent an astounding forty percent of the world's economic output. President Obama was a staunch advocate of the TPP and saw it as a bulwark to China's expanding economic dominance in the Asia-Pacific. President Trump, however, believed that the TPP would further weaken American industry and trade, and pulled out the deal within days of becoming president of the United States. Recently, President Trump has been rather mercurial on whether to rejoin the TPP. In mid-April after the imposition of Chinese tariffs on several American agricultural goods, Trump took to Twitter to announce he would consider re-entering the TPP but only if it were "substantially better" than what Obama had agreed to. However, just a few days later, Trump announced yet another change of heart, saying there were "too many contingencies" to account for. As previously mentioned, the 11 remaining nations signed the Asia-Pacific Trade Agreement (APTA) in early March of this year.

Economic Challenges.

The economic and political trends are presenting new challenges to the United States. United States is facing the increasing barriers in Asia-Pacific markets. Barriers including high tariffs and conditions imposed on market entry and intellectual property theft as well as regulatory discrimination. Countries like China have stepped up policies that deny market opportunities for American companies to support their domestic industries. South Korea, Vietnam and Indonesia also drafted new laws to create new requirements and data localization. South Korea and Taiwan also continuously intervene in foreign exchange market to keep their currencies undervalued. The withdrawal of United States from TPP created perfect opportunities for other regional trade arrangement especially Regional Comprehensive Economic Partnership.

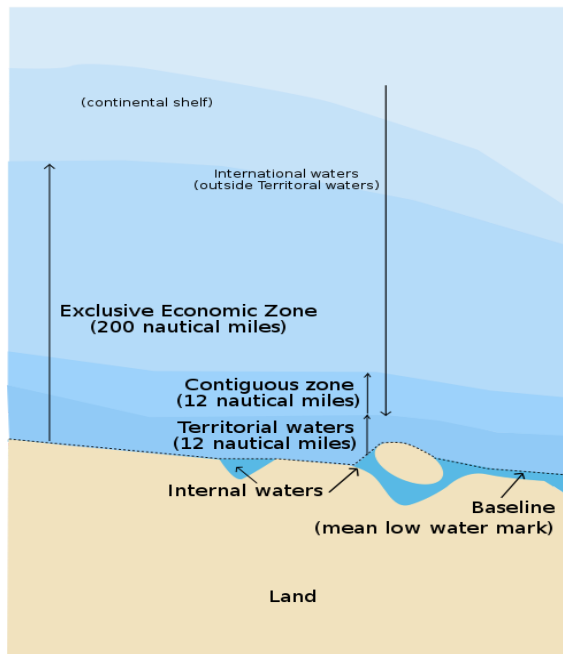
Trade Deficit.

Despite being the world's largest economy, the United States also has the world's largest trade deficit. The deficit in goods and services was \$553 billion in 2017, with two East Asian countries accounting for a large chunk of it. More than 65% of the US trade deficit was with China, which accounts for \$506 billion worth of imports in America. The main Chinese exports

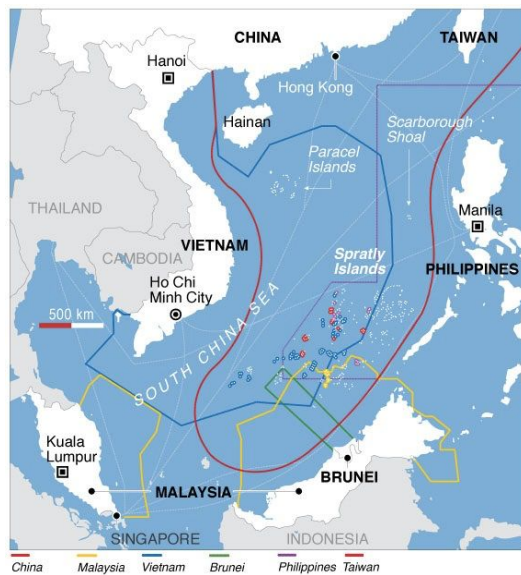
are consumer electronics, clothing, and machinery. America exported \$130 billion worth goods to China. Most Chinese exports are sold by US companies that ship raw materials to be assembled for lower cost in China. This practice directly leads to the outsourcing of American jobs.

The second largest American trade deficit is \$69 billion with Japan. The world's fifth largest economy needs the agricultural products, industrial supplies, aircraft, and pharmaceutical products that the United States makes. American exports to Japan totaled \$68 billion in 2017 while the US imported \$137 billion worth of Japanese goods and services. The majority of composed of automobiles, with industrial supplies and equipment making up another large portion. Trade has improved since the 2011 earthquake, which slowed the economy and made auto parts difficult to manufacture for several months.

Appendix



Outline of Exclusive Economic Zones (EEZ)



South China Sea disputed territory