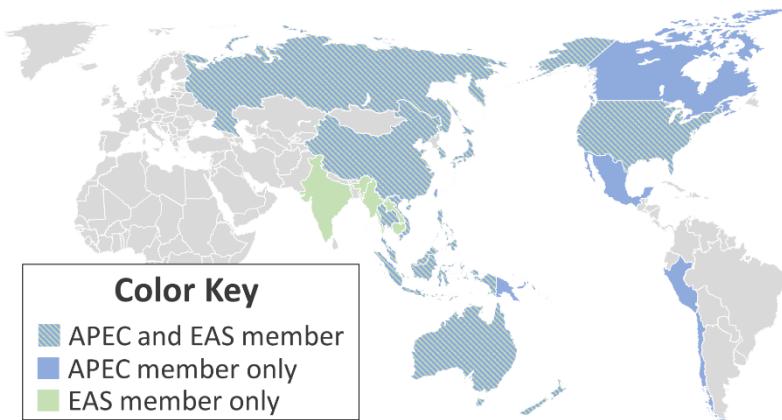


PRESIDENT OBAMA'S TRIP TO ASIA

NOVEMBER 2015

CONTEXT FOR THE VISIT

President Barack Obama will attend the Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting in Manila and the U.S.-Association of Southeast Asian Nations (ASEAN) Summit and East Asia Summit (EAS) in Kuala Lumpur from November 18-22 following the G-20 Summit. Founded in 1989, APEC is an economic forum that seeks to promote trade liberalization and economic cooperation among its 21 member economies who hail from Asia, North and South America. EAS emerged out of ASEAN and was founded in 2005 to facilitate dialogue on a wide array of political and strategic issues impacting the East Asia region. The rotating ASEAN chair hosts the annual meeting, which brings regional leaders of 18 countries together to address topics including energy cooperation, maritime security, non-proliferation, humanitarian assistance, and health.



APEC and the EAS are crucial forums for U.S. foreign policy in the context of the Obama administration's rebalance to Asia. Throughout his trip, President Obama will seek to reinforce the message that the U.S. is an Asia-Pacific nation that is focused on playing an active role in the region's decision-making bodies. The president, a regular participant in APEC and EAS, missed the 2013 meetings due to a U.S. government shut down, causing disappointment among allies in the region and casting doubt on the ability of the U.S. to sustain its commitment to a pivot to Asia. The president's absence worked to the advantage of Chinese President Xi Jinping and Premier Li Keqiang, who, in the absence of U.S. leadership, asserted a more prominent role in the meetings.

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WHAT'S ON THE AGENDA FOR APEC?

President Obama will look to expand U.S. business opportunities in the Asia-Pacific throughout his trip, given that over half of U.S. trading partners are in APEC. APEC facilitates direct industry-to-regulator conversations through the APEC CEO Summit and the APEC Business Advisory Council (ABAC). The president will also use APEC as a platform to meet with leaders of the 11 other Trans-Pacific Partnership (TPP) nations to formally welcome the joint agreement. According to U.S. officials, expanding TPP membership in the future is unlikely to be a topic at this year's summit as current TPP partners are focused now on ratifying the agreement. Several APEC members including China, Indonesia, the Philippines, Taiwan, and South Korea have expressed possible interest in joining the agreement, and TPP, which has an open accession clause, could be a building block for regional economic integration.

APEC brings major geopolitical powers China, Russia, Japan, and the U.S. together on one economic stage at the head of state level and includes several opportunities to interact with senior business community leaders. Attendance is important to the member economies and, as noted earlier, absences by leaders are a focal point for the media. Indonesian President Joko Widodo and Russian President Vladimir Putin will not be present at this year's APEC Summit, disappointing this year's host country, the Philippines, as well as participants at the APEC CEO Roundtable, where the two leaders were scheduled to deliver remarks. A Widodo spokesman indicated that the president will miss APEC because he is consumed with a packed agenda of international summits and urgent domestic matters in Indonesia. President Putin's office explained that he cancelled his trip to tend to the sensitive investigation of the Russian plane crash in Egypt.

As host, the Philippines has formulated a theme of "Building Inclusive Economies, Building a Better World," consistent with Philippine President Benigno Aquino III's economic agenda. Hosting a successful APEC is important for Aquino, who will leave office in 2016 following presidential elections in May. Manila's four priorities for the summit are investment in human capital; Small and Medium Enterprises' (SMEs) participation in regional and global markets; sustainable and resilient community development; and regional economic integration. In accordance with these priorities, the agenda includes:

- **Inclusive Growth:** Members will seek to promote inclusive economic growth through increased liberalization and improving business practices throughout the APEC economies. Members will review the progress and implementation of targets to improve supply chain performance by ten percent and ease of doing business by 25 percent in the region by the end of 2015. They will also focus on integrating SMEs into global value chains through women's empowerment, improving business ethics, and increasing cross border education.
- **Environmental Goods:** Members will review implementation of an APEC commitment to reduce tariffs on a list of 54 environmental goods identified in the APEC Forum in 2012 to five percent or less by the end of 2015. If completed, this would reduce the cost of environmental goods in APEC in light of rising demand for environmental protection and new targets in carbon emissions and renewable energy for many countries in the region.
- **Trade Liberalization:** The forum will focus on the Free Trade Area of the Asia Pacific (FTAAP), the aspirational goal of an FTA that includes all 21 members of APEC. Last year, APEC leaders agreed

to a “Beijing Roadmap” for the FTAAP, which includes a study to be presented to leaders by year end 2016. Any statement on FTAAP will likely reference the recently completed TPP, which was cited last year as a pathway to eventually completing the FTAAP. Though TPP would help advance many of APEC’s regional economic goals for the 12 members it includes and others who may join later, the U.S. power broker role in negotiations poses a palpable challenge to China’s efforts to claim regional economic leadership. Given the release of the TPP text on November 5, China may feel that it has been put on the defensive, as progress has been fitful in the negotiations for the Regional Comprehensive Economic Partnership (RCEP) that involves sixteen Asia-Pacific economies, including China but not the United States (RCEP is discussed in greater detail below). As a result, China may try to use this year’s summit as an opportunity to again highlight its regional role by promoting discussion of FTAAP as a central initiative for all APEC members, while the U.S. remains focused more narrowly on TPP.

- **Information Technology Agreement (ITA):** Perhaps the most substantive trade topic for discussion at APEC will be ongoing negotiations on the WTO’s ITA. The ITA is the first major tariff-cutting deal at the WTO in 18 years and is expected to eliminate tariffs on an additional \$1 trillion in IT trade. Despite progress at last year’s summit and an agreement in July on a product list for ITA expansion, negotiations are again stalled due to China’s continued demands that it be allowed to phase out tariffs on approximately 40 percent of the IT products being considered (about 80 products) over five to seven years after the agreement comes into force (as opposed to the standard 3 years agreed to by other participants). The U.S. and EU have led opposition to China. Participants hope to complete the ITA before the WTO’s December 15-18 ministerial conference in Nairobi, Kenya, which requires parties to complete negotiations on the product scope and submit a detailed schedule of commitments by the end of October.
- **Improving Health Systems across APEC Economies:** Members will also look to discuss the implementation of the “Healthy Asia Pacific 2020 Initiative,” which APEC health ministers endorsed last year in China. The initiative provides guidance for implementing and developing sustainable and high performing health systems across the APEC region. In addition, members will seek to identify trade barriers on health products, particularly non-tariff barriers, and identify opportunities for Public-Private Partnerships on health related issues and investments.

The Philippines has also proposed several policy initiatives to complement the agenda, most significantly:

- **APEC Services Cooperation Framework:** Building on the Bogor Goals of free and open trade and investment within APEC, the proposed APEC Services Cooperation Framework seeks to expand the competitiveness of the members’ services sector and provide a common direction and coherence to trade in services. Services currently make up 67 percent of GDP in the APEC region.
- **Boracay Action Agenda for SMEs:** The Boracay Action Agenda aims to recognize the role of micro and SMEs (MSMEs) as engines for job creation in APEC economies and promote their internationalization and integration into global value chains. The agenda builds on the theme of

inclusive growth, as MSME participation in direct exports remains lackluster due to cumbersome rules and procedures.

- **Disaster Risk Reduction Framework:** In light of vulnerability to natural disasters across APEC economies, the Disaster Risk Reduction Framework calls for greater cooperation between member economies in areas of disaster risk reduction and management. Additionally, it highlights the role of the private sector in disaster preparedness, response, and rehabilitation and calls for greater collaboration between government and private sector in times of disaster.
- **Cebu Action Plan (CAP):** Another initiative that advances progress towards the Bogor Goals, CAP aims to promote greater financial integration, foster fiscal transparency and reform, enhance financial resilience, and accelerate infrastructure development and financing within APEC.

WHAT'S ON THE AGENDA FOR EAS?

President Obama will seek to leverage EAS as a platform to pursue his administration's strategic goals in the Asia-Pacific. In the wake of bombings in Beirut and Paris, counterterrorism will almost certainly move up the agenda. Other priority areas include the management of territorial disputes in the South China Sea and strengthening regional cooperation on the economy and climate change. President Obama will probably also use the U.S.-ASEAN Summit and EAS as an opportunity to congratulate Myanmar President Thein Sein on a peaceful election. Though Myanmar itself is not on President Obama's travel itinerary, Aung San Suu Kyi, Myanmar's opposition leader, has reportedly asked that the president make a surprise visit during his Asia trip in recognition of her party's victory.

- **South China Sea:** The South China Sea, where China and several ASEAN members have outstanding territorial disputes, has emerged as a serious point of tension this year following China's island-building in contested areas. In response to Chinese land reclamation and construction activities on various reefs and land features, the U.S. in late October conducted a "freedom of navigation" operation in the contested waters, challenging China's apparent claims to territorial waters around these land features. U.S. National Security Advisor Susan Rice indicated that territorial disputes in the South China Sea will be a central topic of discussion at EAS and the U.S.-ASEAN Summit, immediately following APEC, where the Philippines as chair has agreed to leave the topic off the agenda. President Obama will likely use EAS to call for a timely conclusion of the code of conduct talks between China and ASEAN. Japanese Prime Minister Shinzo Abe also has signaled his intention to raise the issue of territorial disputes at EAS, as well as in a bilateral meeting with President Obama that Abe has reportedly requested ahead of the summit. China has taken the position that EAS is not an appropriate forum for the discussion of territorial disputes and is opposing its inclusion on the EAS agenda.

Any discussions of the issue are likely to be extremely contentious. In November, defense ministers from ASEAN, Australia, China, India, Japan, and the U.S. were unable to release a joint statement following a meeting in Kuala Lumpur, due to a disagreement over specifically mentioning the South China Sea. Some Southeast Asian ministers believed that issuing no joint statement at all was better than issuing one that did not address the dispute, as the omission would be a symbolic concession to China. Though the U.S. and its allies pushed for a reference

to the territorial disputes in the joint statement, China successfully convinced certain ASEAN ministers, reportedly including its long-standing ally Cambodia, to block mention of the issue. U.S. Secretary of Defense Ash Carter said that the ministers' inability to agree on a statement reflected the region's concern regarding growing tension over the territorial disputes.

- **Climate Change Cooperation:** The Obama administration has put strong emphasis on climate change in the lead-up to the United Nations Conference on Climate Change in December. Many EAS members, especially the United States, China, and India, are among the world's largest emitters of carbon dioxide. In addition, Asia-Pacific countries are some of the most vulnerable to climate change, with huge portions of their populations living near the coast or subject to the constant threat of typhoons and other natural disasters. Some countries in Southeast Asia, including Malaysia and Singapore, also suffer annually from cross-border haze that stems from forest fires in Indonesia, which were particularly extensive this year. The resulting carbon emissions and loss of rainforest cover have elevated the recurring fires to an issue of global concern.

Beyond these U.S. priorities, the summit will focus on greater economic cooperation, particularly in light of the region's slowing economy.

- **Regional Economic Integration:** ASEAN, under Malaysia's chairmanship, is intently focused on reviving flagging efforts to realize the ASEAN Economic Community (AEC) by the end of the year. Adopted in 2007, the AEC seeks to transform ASEAN into a highly competitive single production base and allow the free flow of goods, services, investments, and skilled labor and the movement of capital across the region. In November 2014, ASEAN reported that approximately 88 percent of AEC goals had been achieved, but the business community remains skeptical. A recent U.S. Chamber of Commerce survey showed that only four percent of private sector respondents believe ASEAN will realize all AEC goals by the 2015 deadline, and 54 percent believe those goals will not be realized until 2020 or later. Difficult steps that remain to be taken include the scaling down and eventual removal of non-tariff barriers by 2018 and measures to enable freer movement of capital, direct investments, goods, and skilled labor. Despite widespread skepticism, ASEAN has not delayed the official year end 2015 deadline for the full implementation of the AEC.

Malaysia will also look to accelerate negotiations on RCEP, a free trade agreement negotiation between ASEAN and the six of its dialogue partners that have concluded FTAs with the grouping (Australia, China, India, Japan, New Zealand, and South Korea). RCEP members had earlier hoped to conclude talks by the end of this year, but Malaysia has recently said that 2016 is a more realistic target. Recent achievements by RCEP members include an agreement on the modalities for initial tariff offers in goods and services and an agreement to eliminate 65 percent of tariff lines once RCEP comes into force, followed by an increase to 80 percent in ten years' time. The conclusion of TPP negotiations may have put pressure on RCEP member countries, especially those outside of TPP, to speed up talks. RCEP discussions have lagged, with India and Indonesia, both major economies, failing to submit their tariff schedules in the last round of talks in Busan in October.

EAS member countries will focus on ways to alleviate the economic downturn that has hit most of the countries in the region, including host country Malaysia. Many EAS economies have been hampered by exogenous factors, including the slowing Chinese economy, historically low commodity prices, and the growing prospect of higher U.S. interest rates. Capital outflows and decreased trade have also led to a depreciation of most of the region's currencies. Continued weakness in Asian economies, which have been important drivers for international growth since the 2007 global financial crisis, could hinder the fragile recovery of the world's economy, and EAS countries will look to find ways to keep their economic ties strong against these headwinds.

Malaysian Prime Minister Najib Razak will likely showcase his leadership as host of EAS in an effort to boost his international standing and credibility with the Malaysian people, amid serious corruption accusations related to state investment fund 1Malaysian Development Berhad. Though critics, including senior members of Najib's own party and former Prime Minister Mahatir, have openly called for his resignation, Najib has retained his position and will likely fend off challenges to his leadership in the near future.