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In recent decades, US leadership of trade and security has been the dominant stabilizing factor in East Asia. Trade has anchored the US in Asia, enabled by a robust US military presence. However, this approach has been disavowed by the Trump administration's protectionist worldview that elevates the role of military power above diplomacy and trade. Small states seek security in the orbit of larger states, they are sensitive to the rhetoric of great powers; the Trump administration's espoused worldview leads small states to perceive a US turn from trade and security leadership, while escalating forward military presence. The complex consequences of small states adapting to the new reality is destabilizing.

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*United States Marine Corps
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AUTHOR: Lieutenant Colonel Say Yong Tan, Republic of Singapore Navy

AY 16-17

Mentor and Oral Defense Committee Member: Professor Michael A. Lewis

Approved: 
Date: 4 Apr 2017

Oral Defense Committee Member: Dr. Christopher D. Yung, Ph.D.

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Executive Summary

Title: The Trump Administration: Bad News for East Asia?

Author: Lieutenant Colonel Say Yong Tan, Republic of Singapore Navy

Thesis: The Trump Administration espouses a different worldview than previous US administrations, moving away from a Wilsonian worldview towards a more isolationist and protectionist approach. This has destabilizing effects in East Asia, where US leadership in trade and security has been the primary stabilizing factor in for several decades.

Discussion: In recent decades, US leadership of trade and security has been the dominant stabilizing factor in East Asia. Periods of tension in East Asia have been resolved with US intervention through diplomatic and other means. Trade expansion has been viewed as an anchor for the US in Asia, and a reason for a robust American military presence. However, this Wilsonian approach has been disavowed by the Trump administration in favor of a protectionist worldview that also elevates the role of military power above diplomacy and trade. Because small states seek security in the orbit of larger states, they are sensitive to the rhetoric of great powers; the Trump administration's new espoused worldview changes the status quo in East Asia as small states perceive a US turn away from trade and security leadership. The interactively complex consequences of small states adapting to the new US worldview has destabilizing effects on East Asia's peace and prosperity.

Conclusion: The Trump administration's espoused worldview elicits a new perception of US leadership in East Asia. As US interests in the area are perceived as becoming less substantial and US leadership as more transactional, East Asian states may move away from the US-led international system of trade and security. Such moves would be destabilizing in the short run and may create obstacles to US attempts at returning to pre-Trump administration status quo.

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Preface

At the turn of the millennium, as a midshipman in the Republic of Singapore Navy, I sat in a lecture on the naval fleets of the region. One of my classmates asked the speaker, a senior naval officer, the most earnest of questions: “Which is the most powerful navy in Asia?” The speaker’s unswerving reply was common knowledge to any naval professional- of course the US Navy was the most powerful navy in Asia, and remains so today. For the greater part of my life, the US has remotely projected soft and hard power throughout Asia, acting as a benevolent superpower. In my travel, regional and beyond, I saw American influence everywhere it sought to be. People from tropical islands wore Nike shoes, Levi’s jeans and drank Coca Cola; a local insurance company in Singapore even set the world record for the largest line dance in 2002 with 11,967 participants. As an undergraduate living in the US during 9/11, I saw and indeed felt Americans draw strength from each other in the days and months after that tragic terrorist attack. I thought: no wonder this country can sell American anywhere and everywhere- the global leadership of the US inspires people around the world.

Some years on, amidst the US rebalance to Asia, I returned to the Mid-Atlantic region in the midst of the bitter and divisive campaign season of 2016. President Trump’s victory reflected a mood felt by many- that the fruits of trade and globalization had benefitted society unevenly. I was surprised by the resulting backlash against globalization- was it not obvious that *selling* American to the world had brought great wealth to the nation, all things considered? *Buying* American goes as far as 300 million people, why not continue to sell to the other 7 billion? Instead of covering key issues such as trade and security, I was constantly inundated by personal attacks on both candidates and insubstantial conspiracy theories masquerading as news. This election highlighted that being raised in a small, open nation, I perceived the world differently

from many Americans, as if we were looking at each other from across a wide gap. My “small nation view” was largely shared by my own network of friends and colleagues from across the Asia-Pacific region. As the mood in the US turned, I realized this widening gap could degrade the systemic structures that preserve our hard-won peace and prosperity.

Being from a small nation, aspiring towards a peaceful and prosperous future, I think that people from the US would similarly be interested in peace and prosperity, especially since it has benefitted from an international system built in its image (at no small cost). This is not to say that each nation cannot adjust its own course or have differing opinions, but rather that despite jingoistic campaign rhetoric, a substantial US presence in Asia has indeed benefitted every nation around the Pacific. In this paper, I do not claim a monopoly on knowledge or truth, but merely hope to draw attention to the issues caused by a growing perception gap. While championing trade and security is not without its demands, those drawbacks are not so serious as to compel a complete reshaping of the world order as we have known it. The challenges facing the world are many- better to face them together with strong and committed partners.

In writing this paper, I would like to thank my colleagues in the Republic of Singapore Navy- their collective actions have allowed me a wonderful year at the USMCU. Also, the faculty and staff at the USMC Command and Staff College, who have been consistently welcoming and professionally dedicated to the students’ learning and development. Personal thanks also to Colonel Alan Goh, RSN, for provoking thought and learning all the way from Singapore. I owe an immense debt of gratitude to Professor Michael Lewis, my mentor at MCU, for not only accepting my subject proposal at short notice, but also rigorously clarifying my thoughts on a contentious subject- he has truly been a gentleman, warrior and scholar. Finally, thanks to my wife Kiki, for her support and patience during this year of study.

“When you step back and consider everything that Trans Pacific Partnership (TPP) will help achieve, it’s clear that TPP’s importance is strategic as well as economic – it’s a victory for the open, rules-based system the United States has helped lead for decades. It’s a concrete manifestation of our commitment to the Asia Pacific and a long-term investment in global peace and prosperity.”

- US Trade Representative Michael Froman to the National Foreign Trade Council in Washington DC, October 2015

“Because in fact, you have got a lot of friends, you have got a lot of partners, you have got a lot of interests. Your investments in Asia are considerable and there is goodwill towards America all over the region. If you look at the ASEAN¹ countries, practically all are very happy to see you present in the region. It means prosperity, it gives options and it fosters stability.”

-Singapore’s Prime Minister Lee Hsien Loong, in response to a 2016 TIME magazine interview question suggesting that America’s influence in Asia was in decline.

Introduction

During the 2016 presidential election campaign, Donald Trump expounded a significantly different worldview from administrations of the previous three decades, touting realism and disavowing liberalism. US leadership in trade and security has been the major stabilizing factor in East Asia, to the benefit of US and regional prosperity over the past decades. A change in worldview by the Trump administration could deeply affect the foundations of trade and security across the US and East Asia. Today, liberalism, trade and prosperity accompany realism as seen in a robust US military presence throughout Asia. Abandoning liberalism hurts the global economy, causes uncertainty among smaller states and reduces the substance of US leadership in Asia to raw military power. To a smaller state, a military relationship in the absence of other common interests could be seen as characteristic of a conqueror, not a partner.

¹ Association of South East Asian Nations, ASEAN

This paper will explain how the worldview of the Trump Administration, if fully realized, would be destabilizing to East Asia and negatively affect economic and security relationships across the Pacific. First, by examining the existing trade and security relationship between the US and East Asia, I aim to convince the reader that America's leadership in East Asia has been a stabilizing factor. This position and its attendant relationships are the realization of a century-long vision for the US as broadly laid out in President Wilson's Fourteen Points. Secondly, I will attempt to articulate the Trump administration's espoused worldview and imagine the effects of that worldview on the systemic structures and patterns of behavior in East Asia. Third, I will argue that if fully realized, this worldview changes the relationship between the US and East Asia to the detriment of East Asian security, threatening prosperity across the Pacific. Finally, I will address the counterarguments that the US is not abandoning but merely recalibrating its leadership of trade and security, and that smaller states' positions are insignificant to the US because of their relative strategic weight. My conclusion states that the Trump Administration's espoused worldview is cause for serious concern in East Asia.

The Status Quo

Trade and security have a mutually reinforcing relationship: classical economics proves that an open international trade environment is associated with greater wealth, interdependence and structures that reduce the possibility of conflict. For a business owner, taking advantage of the opportunities from trade with another country is akin to making a bet on political stability and peace of that country. The investment required to buy, add value to, and sell products overseas can easily be lost to conflict or nationalization. Assuming that they act rationally, people whose livelihoods come from trade therefore depend on policymakers to ensure that the conditions of

peace and trade access remain intact. Due to the globalized nature of the modern economy, disruptions to trade will negatively affect all but the most isolated of communities. An economic relationship therefore provides a very strong reason for the US' continued interest in East Asian stability.

Counting physical goods traded in 1985, the total value between US and Asia was \$190B (two ways). By 2015, this number had steadily grown to \$1.46 trillion- equal to the average annual income of 28 million Americans². The high dollar value of trade goods reflects the high value that US and East Asian businesses and nations place on the ability to buy, produce and sell at lower cost; thereby increasing the relative wealth and purchasing power of every member of society. To ensure that these benefits are fairly distributed between different countries, institutions such as the Asia-Pacific Economic Cooperation (APEC) provide a forum for member economies³ to meet regularly. APEC's mission is "to support sustainable economic growth and prosperity in the Asia-Pacific Region"- its member economies make up 59 percent of global GDP.⁴

According to the US Bureau of Economic Analysis, more than half of the imports to the US are not consumer goods, but are inputs for US-based producers.⁵ These US businesses are sensitive to production costs for their business model and would be less competitive if their manufacturing inputs were disrupted. This could be due to higher tariffs resulting from a trade war or a maritime

² <https://www.census.gov/foreign-trade/balance/c0016.html>

³ The term "member economy" is used to allow for participation of entities such as Hong Kong and Taiwan alongside the People's Republic of China, which views those semi-autonomous entities as its provinces.

⁴ Appendix 1 details import and export totals that demonstrate how APEC trade accounts for a significant portion of the US economy, across every sector.

<http://www.apec.org/About-Us/About-APEC/Achievements%20and%20Benefits.aspx>

⁵ <http://www.indexmeasures.com/dc2008/papers/Outsource.pdf>

conflict that disrupts shipping routes- either of which might challenge a business' viability altogether. Indeed, rising tensions across the Pacific or a maritime conflict could threaten the livelihood of millions in America. It is very possible that American response to such a threat might involve the use of security forces.

Amplifying the importance of the maritime commons, US-East Asian trade moves mainly by sea, therefore rising tensions in the region could affect the majority of trade routes. Seemingly benign maritime confrontations can lead to escalation and militarization, affecting perceptions of safety of shipping; incidents at sea have historically increased insurance costs⁶ and degraded the economic viability of trade routes. East Asia is a diverse region, with numerous littoral states and diverse points of view; stability and leadership has depended on external leadership to enforce international norms. For the past 30 years, the US has been that leader in East Asia, enforcing the rule of international law from bases in Japan and Korea,⁷ while using carrier battle groups for regular demonstrations of naval power.

Asian trade and security- US' enlightened self interest

Recent periods of crisis and tension in Asia that could have threatened economic cooperation were de-escalated with US involvement. The capability and will of the US to maintain stability are constantly on open display; troops based in Japan or Korea exercise with nations along the Pacific Coast and regular naval patrols are instruments of US policy, thousands of miles from

⁶ South China Sea Ruling Increases Uncertainty for Shipping, Trade.

<https://www.wsj.com/articles/south-china-sea-ruling-increases-uncertainty-for-shipping-trade-1468487095>

Insurers Drop Malacca Strait as War Risk

<https://www.lloydlist.com/ll/sector/insurance/article82457.ece>

⁷ Biliateral exercises such as FOAL EAGLE (Korea) and KEEN SWORD (Japan) are the largest in the world, involving 30,000 and 44,000 service members respectively.

<http://www.pacom.mil/Media/News/>

Washington. Among the most significant issues today are Taiwan's status, North Korean regime instability and territorial disputes in the South China Sea. A closer examination shows how the US is involved in managing these security challenges, mitigating the potential for these tensions to boil over into open conflict.

Taiwan 1995-96. In 1995, the US Congress granted Taiwan's pro-independence president Lee Teng Hui a visa to visit the US. In June 1995, Lee was granted treatment largely consistent with a visiting head of state- although he did not meet President Clinton, senators and congressmen paid him calls.⁸ China was outraged, viewing the episode as a US move to encourage Taiwanese independence and undermine the One China policy. Diplomatic protests escalated quickly into action in July when the PLA Navy conducted demonstrations such as missile tests into the Taiwan Strait and amphibious troop mobilizations. This display of brinkmanship was limited and flexible in nature, allowing Beijing to de-escalate after the show of force, but Taiwanese reactions did not dissuade Beijing- the exercises continued into March 1996, when Taiwanese elections were held.

The deteriorating security situation heavily diminished investor confidence, causing cross-strait trade to decline by USD 1.5 billion from 1995-1996, and more importantly, capital flight out of Taiwan was estimated at around USD 20 billion.⁹ Taiwan started into a economic downward spiral- as confidence declined, capital left Taiwan as investors sought safe haven elsewhere, causing the Taiwanese currency to drop further in value, further damaging confidence. To arrest

⁸ The Cornell Alumni event was held on June 9-10, 1995. Initially denied a visa by the Department of State, a Senate vote went 97-1 in favor of granting the visa for a private visit.

⁹<http://www3.nccu.edu.tw/~ctung/Dissertation/Chapter%2011%20%20Taiwan's%20Reaction.doc>

the spiral, the government spent approximately USD \$20 billion in currency reserves from June 1995-May 1996 to shore up the the Taiwan dollar.

In March 1996, the US administration announced that the Nimitz and Independence carrier battle groups had been ordered into vicinity of Taiwan. This action, together with the re-election of Lee Teng Hui, marked the end of provocative military action. As commercial activity resumed, the dramatic impact on Taiwan's financial markets tapered off in a return to normalcy. In his second term, and in every administration since, Taiwan's leadership has since shied away from talk of *de jure* independence. The most recent administration of Ma Ying Jeou was run on the "Three Nos" policy: no reunification, no independence, and no use of force.¹⁰ Whether Beijing's coercive diplomacy has been useful in quelling Taiwan's pro-independence camp remains a subject of debate, but cross strait acceptance of Taiwan's legal ambiguity still remains intact.

In the aftermath of the Taiwan Strait Crisis, President Clinton and Japan's Prime Minister Hashimoto signed a joint security declaration in April, pledging to keep 100,000 US troops in East Asia. Clinton's intent to demonstrate American primacy was clearest when he addressed US troops in Yokosuka, Japan, shortly after signing the declaration: "Without firing a single shot, you reassured nations all around the Pacific... and gave the world another example of America's power and America's character."¹¹

North Korea. The Democratic People's Republic of Korea (DPRK), or North Korea, pulled out of the Nuclear Non-Proliferation Treaty in 2003, causing tensions to rise across East Asia as the

¹⁰ "Taipei says yes to Ma re-election and his three no's"

<http://www.reuters.com/article/us-taiwan-election-ma-idUSTRE80D0ID20120114>

¹¹ <http://www.cnn.com/ALLPOLITICS/1996/news/9604/17/clinton.japan/index.shtml>

reclusive state publicly declared their intention to become a nuclear power. The grip of the Kim family on the DPRK and the radical nature of the personalities continue to defy intelligence estimates and pose a dilemma to the security of East Asia. The cost of pursuing regime change by a conventionally-based invasion would be very high, given that internally-driven change is unlikely. The Kim regimes chose widespread starvation and poverty in the hermit nation, rather than open her borders to trade and introduce the risk of institutional change from within.

The combination of an unpredictable regime and nuclear arms threatens the DPRK's immediate neighbors such as China, Japan, and South Korea- nations that are firmly entrenched in the international trade system and the second, third and eleventh largest economies in the world.¹²

To assuage Japanese and Korean fears, the US led the Six Party Talks (formerly the Three Party Talks) aimed at resolving this threat.

Although the Six Party Talks has not had the intended effect of eliminating the DPRK nuclear program, it has had the side effect of getting concerned states to take an active stand¹³ on their rogue neighbor. Active management of the DPRK puts concerned parties in a better position to deal with the consequence of a collapsed state or reach a regional consensus on dealing with the Kim regime. Lifting of sanctions and offers of aid in exchange for joint inspections of the DRPK introduced obstacles to the DPRK's nuclear pursuit buying some time for the other Six Party Talk members to arrange for other means to assure themselves.

¹²<http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/weorept.aspx?pr.x=72&pr.y=7&sy=2016&ey=2020&sort=country>

¹³ The members of the 6PT are the DPRK, US, China, Russia, South Korea and Japan, a grouping that is ideologically unlikely under normal conditions. The talks have resulted in technological transfers, imposition and removal of economic sanctions, and co-ordinated delivery of aid.

When the DPRK finally conducted a series of underground nuclear tests and long range missile launches, the US stepped in to provide theater missile defense systems in Korea and Japan.

These capabilities protect major Japanese and Korean cities from a missile strike originating from the DPRK but more importantly the assurance from this missile “shield” allows economic and diplomatic efforts to continue. This averts the pressure for a destructive conflict that could have enormous cost in lives and treasure for the major Asian economies, foreseeably disrupting trade across the Pacific¹⁴.

South China Sea. The sea lines of communication (SLOCs) that go through the South China Sea carry about half the world’s energy and a third of its trade. Keeping those SLOCs open for trade is essential for livelihoods around the world. Since 1995, the issue of territorial disputes in the South China Sea has gradually received more attention as China’s claims have become more assertive. China claims territorial rights over a “nine-dash line” boundary, encompassing almost the entire South China Sea in contravention of the 1982 United Nations Convention on the Law of the Sea (UNCLOS). This claim creates territorial disputes with Indonesia, Vietnam, Malaysia, Brunei and the Philippines. In 2013, the Philippines entered formal arbitration with the United Nations’ Permanent Court of Arbitration and won the ruling in 2016. However, China did not recognize the authority of the court and continued to militarize disputed islands.¹⁵

In this context, the possibility of open conflict in the South China Sea affecting international shipping lanes is significant and could also damage investor confidence in the region. Attempts

¹⁴ Of the 6PT members affected by the missile shield, China and Japan are the 2nd and 3rd largest economies in the world. South Korea is the 11th, based on 2015 figures from the World Bank.

¹⁵ “China installs weapons systems on artificial islands: US think tank” 15 Dec 2016
<http://www.reuters.com/article/us-southchinasea-china-arms-exclusive-idUSKBN14310K>

by claimant states to mitigate the possibility of conflict through the Association of South East Asian Nations (ASEAN) regional framework have shown some progress. The proposed Code for Unplanned Encounters at Sea (CUES)¹⁶ would go some way towards de-escalating maritime exchanges but, since its inception in 2014,¹⁷ ASEAN and China have not agreed to CUES as a binding protocol. Episodes such as the building of a Chinese oil rig in Vietnam's waters,¹⁸ or the installation of missiles on the disputed islands occur regularly and show no signs of stopping.

While diplomatic efforts to formalize CUES as a de-escalation measure continue, individual claimant states do not have sufficient strategic weight to influence China in a bilateral discussion. ASEAN alone has not been completely effective at bringing the rising regional power in line with perceived international norms. This has left the door open for American naval power to conduct freedom of navigation patrols and declare the validity of the UNCLOS. The Chinese Navy is unlikely to seek a direct confrontation with the US; therefore American naval assets' presence acts as a safeguard protecting UNCLOS as the law of the sea. Because of the stabilizing influence of these patrols, ship owners and investors may perceive that the status quo is likely to remain intact, allowing trade of energy and goods to continue.

The Wilsonian Worldview meets the Trump Administration

In these three cases, the US has been a key source of stability for East Asia through guarantees in the Taiwan Strait crisis, forward deployment of missile defense systems and actions to support international law. While these issues continue to be sources of tension, the actors have stopped

¹⁶ CUES is a maritime protocol to "eliminate mutual interference, uncertainty, and facilitate communication at sea" - <https://news.usni.org/2014/06/17/document-conduct-unplanned-encounters-sea>

¹⁷ Latest statement on CUES declares gradual progress but not binding adoption.

<http://asean.org/storage/2016/09/Joint-Statement-on-the-Application-of-CUES-in-the-SCS-Final.pdf>

¹⁸ <http://www.reuters.com/article/us-southchinasea-china-vietnam-idUSKCN0X50WU>

short of engaging in conflict. Two common threads running through these issues are the healthy trade relationships between the involved parties and the willingness of the US to guarantee the security of the region through diplomatic and military power. By investing a measure of force, the US benefits from continued trade and prosperity- indeed enlightened self interest. This is nothing new, for the century-old worldview that guides American power has been Wilsonian in nature, as explained in his “Fourteen Points” speech.¹⁹

President Wilson wove transparency, democracy and morality together as the foundation of lasting peace in what is now known as the “Fourteen Points”²⁰ address to Congress in 1918. This approach has come to characterize US foreign policy in the century since that historic speech and is consistent with policy in modern East Asia. Almost a century after his speech, one can clearly see that “establishment of equality of trade conditions”²¹ and “freedom of navigation upon the seas”²² remain central to US foreign policy. Wilson’s view of the foundation for lasting peace was almost prescient, right down to “an association of nations...to guarantee independence and territorial integrity to great and small states alike.”²³ Today, UN resolutions are the primary diplomatic instruments to justify or discredit armed intervention. The relative peace enjoyed by nations “great and small” is referred to as “Pax Americana,” thanks to the US’ leadership role in enforcing the status quo. Could this soon be on the brink of change?

Although the Trump administration is still in the early months, his positions taken during the presidential campaign appear intact and, on aggregate, offer a coherent worldview that radically

¹⁹ <https://www.ourdocuments.gov/doc.php?flash=false&doc=62>

²⁰ <https://www.ourdocuments.gov/doc.php?doc=62&page=transcript>

²¹ Ibid

²² Ibid

²³ Ibid

departs from the Wilsonian status quo. This worldview is defensive in nature and is best framed by first examining perceived threats to the US and subsequently articulated in a set of axioms which may guide US policy in the future.

First, the perceived threat of “Radical Islam” supports a monolithic perception of Islam by the Trump Administration. According to the administration, Islam is a “political ideology... (that) hides behind being a religion.”²⁴ There has not been any distinction between Sunni, Shi’a or other factions. In a marked turn from the Obama administration and most modern states, there is little distinction between the bulk of moderate Muslims and totalitarian networks such as Al-Qaeda and Islamic State of Iraq and the Levant (ISIL). The Trump Administration’s view perceives this threat as originating from abroad and also, more dangerously, entering US borders through immigration.

Second, immigration as a whole is viewed as a threat that extends beyond the entry of Muslims. President Trump has blamed immigration for the perceived scarcity of jobs, education, medical care and increased crime²⁵. In similar fashion, there is little distinction between legal and illegal immigration which taps into a broader strain of xenophobia. The Trump Administration’s worldview specifically declares that immigration “ripped (American wealth) from their homes”²⁶ and “(is) taking American lives.”²⁷

²⁴ Quote attributed to Lt Gen Michael Flynn, the first National Security Advisor to the Trump Administration, on the 18th November 2016. – video available at <http://www.politicususa.com/2016/11/19/michael-flynn-called-islam-a-political-ideology-hiding-being-religion.html>

²⁵ Immigration “takes American lives”-<http://www.cnn.com/2016/10/30/politics/donald-trump-hillary-clinton-immigration-criticism/>

²⁶ <https://www.whitehouse.gov/inaugural-address>

²⁷ Ibid

Third is globalization, in the form of “disastrous trade deals” which have “destroyed” American manufacturing and led to unemployment- this was called a “rape of our country.”²⁸ The negatives of globalization take center stage, ignoring possible benefits such as increased US wealth, exports and improved purchasing power parity. The Trump Administration’s view also accuses China, and to a lesser extent Japan, of currency manipulation.²⁹ This threat taps into a simplistic, but incorrect assumption that trade is a zero-sum competition.

Axioms of the Trump Administration's Worldview

Trade Protectionism. In his inaugural address, President Trump declared that on trade, “...we must protect our borders.... Protection will lead to great prosperity and strength.”³⁰ This protectionist view aims to restrict US firms from overseas operations and to impose heavy border and import taxes as high as 45 percent on inbound goods³¹. Even existing trade agreements such as the North American Free Trade Agreement (NAFTA) have been named for review and potentially withdrawal. As a result, the economic mood in Asia has become unsettled. A centrist American think-tank, the Center for Strategic and International Studies, reacted to US’ withdrawal: “Trump’s shelving of the TPP will leave a massive hole in U.S. regional economic policy in Southeast Asia that will need to be filled with other initiatives if the United States hopes to engage Southeast Asian countries on the issues that matter most to them.”³²

²⁸ Trump campaign rally, 28th June 2016 - <http://www.cnn.com/2016/06/28/politics/donald-trump-special-interests-rape-our-country/>

²⁹ Feb 1st, 2017- <http://asia.nikkei.com/Spotlight/The-Trump-effect/Trump-fires-next-salvo-naming-China-Japan-currency-manipulators>

³⁰ <https://www.whitehouse.gov/inaugural-address>

³¹ On the 3rd of January, then President Elect Trump held a meeting with members of the editorial board of the New York Times, and was quoted “I would do a tax(on products from China). And the tax, let me tell you what the tax should be... the tax should be 45%.”

https://www.nytimes.com/politics/first-draft/2016/01/07/donald-trump-says-he-favors-big-tariffs-on-chinese-exports/?_r=0

³² <https://www.csis.org/analysis/southeast-asia-scott-circle-southeast-asia-challenges-incoming-administration>

Enhanced Territorial and Religious Borders. The internal security response to the Trump administration's worldview is best represented by "building the wall." Although the proposed physical wall along the Mexican border receives the most attention, "build the wall" as an extended metaphor includes blanket bans on immigration, sanctuary seekers and visitors from particular states.³³ The espoused goal of domestic security was also mooted in the concept of a "Muslim registry,"³⁴ a controversial method of overtly targeting domestic groups for surveillance. As a guiding policy, this approach narrows the American identity by casting doubt on Muslims in a departure that isolates nations and regions, and may provide fuel for anti-American sentiment in the population of East Asia. Examples of US allies and trading partners with a Muslim majority include Indonesia and Malaysia, states that have territorial claims in the South China Sea and are currently supportive of the US position on international maritime law.

Transactions, not partnerships. Externally, alliances are being recast in a transactional light, with overt valuation of alliances tagged to allies' military spending. Trump's rhetoric suggests an isolationist approach where security relationships are treated as transactional and has threatened to abandon Europe and NATO if a certain spending minimum is not met.³⁵ This approach is a

³³ <https://www.whitehouse.gov/the-press-office/2017/01/27/executive-order-protecting-nation-foreign-terrorist-entry-united-states>

³⁴ During a televised interview in November 2015, then candidate Donald Trump was asked by a reporter "Is there going to be a database that tracks the Muslims here in this country?", to which his response was "Oh I would certainly implement that. Absolutely."

<http://abcnews.go.com/Politics/trump-muslim-registry/story?id=43639946>

³⁵ TRUMP: If we cannot be properly reimbursed for the tremendous cost of our military protecting other countries, and in many cases the countries I'm talking about are extremely rich. Then if we cannot make a deal, which I believe we will be able to, and which I would prefer being able to, but if we cannot make a deal, I would like you to say, I would prefer being able to, some people, the one thing they took out of your last story, you know, some people, the fools and the haters, they said, "Oh, Trump doesn't want to protect you." I would prefer that we be able to continue, but if we are not going to be reasonably reimbursed for the tremendous cost of protecting these massive nations with tremendous wealth — you have the tape going on?(Reporter:We do.) TRUMP: With massive wealth. Massive wealth. We're talking about countries that are doing very well. Then yes, I would be absolutely

dramatic departure from the past, where alliances and collective security arrangements were viewed as being of intrinsic value and pursued as the most preferred, cost effective means of international security. As policy guidance, this has already been realized by deemphasizing alliances and dealing with large powers one on one.³⁶

Steeper escalation gradient. The final axiom of the Trump Administration's response is to advocate a steeper escalation gradient in foreign policy. The president described his approach to defeating the Islamic State as "bomb the s--- out of them,"³⁷ without reference to separating the embedded terrorists from the civilian population, an approach that would avoid civilian casualties. Although this may have been playing to the gallery, President Trump's stated mantra on Iraq is consistent over the past decade and is not mere campaign theater³⁸. This newly installed steep escalation gradient increases the deterrent value of American intervention, but may de-emphasize diplomatic and economic options. This bellicose inclination would create a sense of wariness amongst security partners.

The key challenge of defining the Trump Administration barely two months in (at time of writing) is that the positions of a US President's administration may change over four or eight years. Promises made on the campaign trail may be broken when in office. However, pragmatism dictates that the smaller states of the world pay careful attention to the positions and

prepared to tell those countries, "Congratulations, you will be defending yourself." - https://www.nytimes.com/2016/07/22/us/politics/donald-trump-foreign-policy-interview.html?_r=1

³⁶ "Tillerson plans to skip first NATO meeting, visit Russia in April" <http://www.reuters.com/article/us-usa-trump-tillerson-idUSKBN16S04I?il=0>

³⁷ At an election rally in November in Fort Dodge, Iowa, then-candidate Trump stated "I would bomb the s--- out of 'em. I would just bomb those suckers. That's right... I'd blow up every single inch. There would be nothing left

³⁸ Several statements from President Trump from 2007-2016 have consistently iterated this position.- https://www.buzzfeed.com/andrewkaczynski/trump-cites-iraq-withdrawal-he-passionately-supported-to-say?utm_term=.acWV7KB71#.ydbALD4Lz

directions of the great powers. It is a certainty that the East Asian states would be carefully analyzing the positions of the Trump Administration on trade and security- the key concerns of any state. It is also a certainty that when these positions become policy, smaller states would use the new US positions as a basis on which to conduct their own future trade and security policies. Therefore, whether as a candidate or as President Trump, his words and tweets play significantly into the calculations of smaller states and have the power to shape the political landscape for US-East Asia relations.

Short term effects on East Asia

Economic. As the US shifts from a Wilsonian worldview to that of the Trump administration, the realization of that worldview would have severe impact in East Asia. The leadership role that the US currently plays in security and the economy has been stabilizing to the region, to the benefit and prosperity of small and great nations alike. The US' change in course would lead to reassessments of American commitment to its leadership role in the region- at the same time as a rising China may be seeking to replace the US as the regional economic and security hegemon.

Turning campaign positions into real policy, the Trump administration has officially withdrawn from the TPP, a partnership that was the result of more than a decades' worth of negotiation and amendment to the trade and labor regulations of partner nations. Singapore's Prime Minister Lee Hsien Loong called the TPP a "bulwark against conflict and war....adding substance to the US rebalance to Asia"³⁹. Because the US spent its negotiating power seeking concessions from other TPP members, its withdrawal creates an imbalance in the TPP conditions and makes it unlikely

³⁹ Keynote address to the US Chamber of Commerce, August 2nd 2016. - <http://www.channelnewsasia.com/news/business/tpp-ratification-a-litmus/3005752.html>

that the other partners would carry on. Upon President Trump's inauguration, the website of the US Trade Representative's office also replaced its homepage with a short paragraph espousing protectionism providing a leading indicator of future policy.⁴⁰ Against this backdrop, many of the TPP nations are considering swinging towards the Regional Comprehensive Economic Partnership (RCEP), a much less ambitious trade deal that includes China but excludes the US. Anticipating that the US may play a smaller role in the region's future is a consideration that stems from domestic regime survival.

The nations of East Asia are open and trade dependent. Trade accounts for more than 40% the GDP of in China and Japan, and smaller economies such as Taiwan, Malaysia, Vietnam and Singapore are more exposed—their trade values exceed total GDP. If the US goes down the path of protectionism and triggers a trade war by raising tariffs in order to protect inefficient industries, the foreseeable outcomes could impact these Asian nations significantly. In “Performance-based Legitimacy: The Case of the Communist Party of Vietnam and “Doi Moi,””⁴¹ Le Hong Liep argues that socio-economic growth is the single most important factor for the legitimacy of the regime. In the case of Vietnam, this has been fueled by opening the economy to trade and investment, a variation on a theme present throughout Asia.⁴² If the regimes in those nations believe that trade drives economic growth and is responsible for regime legitimacy and stability, protectionist measures would cause regimes in Asia to feel insecure. In

⁴⁰ This new America First trade policy will make it more desirable for companies to stay here, create jobs here, pay taxes here, and rebuild our economy. Our workers and the communities that support them will thrive again. - <https://ustr.gov>

⁴¹ <http://www.jstor.org/stable/41756339>

⁴² According to World Bank figures for 2015, Malaysia, Singapore, Thailand, Korea, Japan, China, Vietnam and Indonesia have trade accounts that exceed 50% of their annual GDP.

order to survive and seek prosperity, regimes may move away from the US sphere of influence toward promises of stability in the orbit of a large economy such as China.

Security. The form of regional security and economic forums such as APEC and the Shangri-La Dialogue may not change substantially as the level of representation is usually fixed. Even with the beginnings of isolationism, the Trump administration has boasted of a “muscular military” and it is unlikely that the US would completely withdraw from all international forums.

The impact on East Asia may come more from uncertain credibility assessments of the senior US leadership. Although the worldview of the Trump administration has been espoused by the president and his campaign advisors, the work of governing will be carried out by his cabinet and extended circle such as the Secretaries of State, Defense, Homeland Security and Commerce. These individuals will have to deal with the reality of governance and institutions—they will need the flexibility of nuanced language and positions to deal with competing interests, in contrast to President Trump’s typically strong language.⁴³

This lays bare an uncomfortable but vitally important reality—that the Trump administration’s espoused worldview is a radical change of course and that the inertia of statecraft creates a tension between radical and existing positions not so easily overcome. Such tension within the administration has created public disagreements and differing positions, as in the case of President Trump and Secretary Mattis differing on seizing Iraqi oil, the use of torture or Russia’s threat to the US.⁴⁴ Because the president is the head of the federal government and the head of

⁴³ “On Foreign Policy, Trump still speaking campaign language”.
<https://apnews.com/9a5a5fbbb2ba45b2b9316e1734ec22eb>

⁴⁴ “Mattis still opposes torture despite Trump comment” - <http://thehill.com/policy/defense/316356-mattis-remains-opposed-to-torture-pentagon-says>

state, his secretaries will have an uphill task convincing partners and allies of their own, more moderate positions. The president is installed by election, whereas departmental secretaries are appointed and fired at the pleasure of the President.⁴⁵ From another state's point of view, it would be difficult to take a cabinet Secretary's word over President Trump's declarations, even if they come in the form of tweets. In a recent example, President Trump's apparent abandonment of the One China policy was not resolved without a statement from the President reversing himself,⁴⁶ thereby ending the weeks-long diplomatic staring match. The conditions for the introductory phone call between the leaders of the US and China would remain unmet without action from the President, an example of the limits to back-channel diplomacy.

Short Term effects on the US

Trade: Rising costs and a rapidly shrinking market. Rising tariffs would raise costs for production inputs, making final products assembled in the US more expensive and therefore less competitive.⁴⁷ Unlike a Swiss luxury watch where a higher price may increase perceived value, US manufacturing has been centered on consumer goods, where increased prices of trucks and televisions do not have the "Veblen good"⁴⁸ effect, resulting in reduced sales volume. This has the effect of reducing overall revenue for businesses. Implementing tariffs would therefore generate revenue for the government but ultimately hurt US businesses and consumers. Although

"US will not collaborate with Russian military, says Trump's Defence Secretary Jim Mattis"-
<http://www.independent.co.uk/news/world/americas/donald-trump-defence-secretary-jim-mattis-russia-no-military-collaboration-relations-nato-eu-a7583501.html>

"Defence Secretary Mattis: Not in Iraq to seize oil"-

<http://www.aljazeera.com/news/2017/02/defense-secretary-iraq-seize-oil-170220081239567.html>

⁴⁵ The number of Secretaries of Defense under each administration: Obama:4, Bush:2, Clinton:3

Secretaries of State: Obama:2, Bush: 2, Clinton: 2. Secretaries of Commerce: Obama:3, Bush:2, Clinton:4

⁴⁶ "In phone call with Xi, Trump reaffirms US commitment to One China policy"

<http://www.npr.org/sections/thetwo-way/2017/02/10/514459332/in-phone-call-with-xi-trump-reaffirms-u-s-commitment-to-one-china-policy>

⁴⁷ Appendix 3 outlines the benefits of the TPP to the US economy

⁴⁸ In economics, a "Veblen good" is a luxury commodity for which demand is proportional to its high price

it is easy and quick to start a trade war, it takes much more time and effort to reduce barriers to trade, as evident in the multi-year timeline required for implementing trade deals.⁴⁹

Trade and economic interdependence have acted as anchors for the US in East Asia over the last 30 years—no single administration can completely set the trade relationship to zero, even over eight years. However, human perception is more concerned with relative direction than absolute levels.⁵⁰ Even if the trade relationship remains intact, if slightly diminished, every mention of protectionist measures will create and reinforce a strongly negative outlook. This phenomenon can easily create a perception becomes that the US is uninterested in an economic relationship with East Asia. One need look no further than within the US for such an example- the US economy has been constantly growing by every measure.⁵¹ making President Trump’s campaign motto “Make America Great Again” not factually true for national economic power. Yet, the candidate who appealed to relative direction rather than absolute levels went on to win the election. Similarly, axiomatic application of trade protectionism will therefore have an outsize effect in discouraging investment and trade across the Pacific. Anticipating higher tariffs and operating costs, individuals will seek other markets and means of production to ensure business viability; they would also encourage their policymakers to shift focus away from trade with the

⁴⁹ NAFTA negotiations lasted from 1990-1994, the TPP negotiations began in 2006, it was signed by all parties in 2016, the US withdrew in Jan 2017.

⁵⁰ This is a consequence of the logical fallacy known as the “recency effect”. (Dobelli, ch 48) Due to the limitations of short term memory, humans tend to remember and focus on information they have most recently been exposed to, thereby mistaking what has just happened (most recent direction) with what is about to happen. When the US president announces a reduction in trade with Asia, this phenomenon suggests that humans will set mental anchors on the reduction and anticipate a degradation of the trade relationship instead of anchoring on current levels of trade.

An article in Bloomberg News illustrates this in the financial markets: Confusing What Just Happened with What Happens Next, <https://www.bloomberg.com/view/articles/2015-08-04/what-just-happened-versus-what-happens-next>

⁵¹ Other than 2008-2009 when the GDP dipped by 1.5%, gross, net, per capita, adjusted for purchasing power, non-adjusted GDP has grown every other year in the last 50 years. Graphical representation and detailed data available at <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

US market. This would make “Buy American” more expensive due to increased production costs, and “Sell American” far more difficult due to reciprocal trade barriers—the US economy would suffer a shrinking market.

Security- a cooler reception. The likely combination of reduced economic cooperation and diminished credibility may change the nature of US’s role in East Asia and how it is perceived. The combination of liberalism and realism in American foreign policy is classically Wilsonian; in contrast, the Trump administration’s worldview espouses realism and isolationism, emphasizing military power while denouncing trade. By hollowing the US-East Asian relationship, small nations’ perceptions of America’s role in East Asia could move from leadership to domination. This worsens latent problems with the US’ military presence in Asia.

In the example of Okinawa, the current US-Japan partnership has survived challenges stemming from locals resenting the massive presence of troops.⁵² Perceptions of the US as a stabilizing force have gone a long way to check any broadening of this resentment and prevent another exit in the manner of Subic Bay.⁵³ However, US withdrawal from the Trans-Pacific Partnership has changed this perception by decreasing perceived commitment to Japan. Prime Minister Abe enacted politically costly reforms to comply with TPP conditions, a downpayment for greater access to the US market in agriculture, consumer goods and services, but Japan now appears to be left out in the cold. It will become more and more challenging for Abe to convince his electorate to continue hosting US forces, even if their presence brings strategic value. A strong

⁵² <http://www.cnn.com/2016/06/20/asia/us-military-base-protests-okinawa/>

⁵³ Subic Bay in the Philippines was formerly a US Navy base. In 1992, popular sentiment led to the base closure through a Senate vote.

trade relationship spreads ideas and reduces cultural barriers, but if the relationship becomes more transactional and solely militaristic, US forces may find a cooler reception.

Complexity and Uncertainty Lie Ahead

If the US administration is viewed as narrowly self-interested and her diplomatic instruments suffer diminishing credibility, East Asian nations may move away from the US orbit in order to seek a stronger source of security. Because East Asian nations are small, they may band with each other through mutual defense treaties as a form of hedging against a rising China or an unstable DPRK. Such arrangements increase the complexity of entanglements in a parallel to Europe in the early 20th century. World War I became more tragic because the obligations required of each member of the Central Powers and the Triple Alliance dragged more states into the conflict⁵⁴ than were originally belligerent.⁵⁵ If a loose association such as ASEAN was to enter into a mutual defense treaty, member states may be compelled by honor, if not obliged to respond to an attack on one state even though the conflict risks to continental states such as Laos are very different from those faced by archipelagic Philippines. The possibility of increased scale and duration of conflicts in East Asia would degrade perceptions of future stability in the region which has a negative effect on the economic and business environment.

⁵⁴ Wilmott, 2003 pp10-11

⁵⁵ "The war began with a relatively small incident, the June 28, 1914, assassination of the Austrian Archduke Franz Ferdinand and his wife in Sarajevo by Gavrilo Princip, a Bosnian Serb. Serbia disclaimed any responsibility for the attack. However, knowing that Serbia had designs on its territories in the Balkans, the government of Austria-Hungary suspected Serbia of complicity and eventually went on the attack. This attack caused a cascade of alliances to go into effect. Russia rushed to the support of its ally Serbia by mobilizing its troops. This caused Austria-Hungary and Germany to mobilize their troops against Russia. At this point, to defend its ally and attack its longtime enemy, Germany, France began to ready its troops. Germany attacked France through Belgium, a country whose neutrality Great Britain had sworn to defend. This act dragged the British military into the war. By September 1914, Japan and the Ottoman Turks had joined as well, creating a tangled conflict between the alliances that took place not only in Europe but also throughout the world, in the open sea, and in European colonies in Africa and Asia." - <https://www.britannica.com/event/World-War-I>

Since maritime trade routes carrying the better part of the world's oil and natural gas pass through East Asia, a widespread conflict there has consequences far beyond the region. Pirates on simple wooden skiffs in the Gulf of Aden led over twenty nations to commit their ships to open those routes. Restoring safe passage for commercial shipping has been an ongoing effort since 2009.⁵⁶ If the maritime belligerents were not simple wooden skiffs, but instead modern warships wielding advanced weaponry, re-opening those maritime routes and ports would be much more challenging and may invite broadening of the conflict by external power intervention.

Counterarguments

Merely a trade recalibration? Critics may argue that the US is not abandoning trade liberalism altogether but merely re-balancing to a more protected position. This line of reasoning suggests that a reduction in trade freedom could bring jobs to America as labor intensive industries return to the US; therefore a change in direction towards protectionism will benefit America without completely abandoning free trade. This argument had especially strong appeal to the blue collar working class in the 2016 election campaign.

However, this narrative rings hollow to Asian states and understates the importance of withdrawing from the TPP. The Trump administration withdrew from the TPP in January 2017, the largest trade and security agreement in the world.⁵⁷ The TPP is a “high standard⁵⁸” trade deal, the work of years of negotiating, removes over 18,000 tariffs from across the Pacific, and

⁵⁶ <https://combinedmaritimeforces.com/ctf-151-counter-piracy/>

⁵⁷ “TPP strengthens the U.S. economy, which is the foundation of U.S. national security and a critical source of our influence abroad” – from the USTR Office <https://ustr.gov/sites/default/files/TPP-Strategic-Importance-of-TPP-Fact-Sheet.pdf>

⁵⁸ The TPP's impact on market access is outlined in greater detail in Appendix 2

reshapes the business and civil environment in 11 nations. By withdrawing from the TPP, negative effects will be felt across roughly 40% of the world's economies by GDP, approximately one-third of the world's trade. The tremendous benefits from tariff reduction would have been significant to the US economy, but had an even greater impact to smaller nations. Therefore, what may be perceived as recalibration on one end is seen as much more egregious on the other. Singapore's Prime Minister Lee Hsien Loong spoke to Time Magazine in October 2016 in a forthright manner,

It (ratifying the TPP) shows that you are serious, that you are prepared to deepen the relationship and that you are putting a stake here which you will have an interest in upholding. Now, let's say you cannot deliver on the TPP. After you have gotten Vietnam to join, after you have gotten Japan to join, after (Japanese Prime Minister Shinzo) Abe has made very difficult arrangements on agriculture, cars, sugar and dairy. Now you say, "I walk away, that I do not believe in this deal." How can anybody believe in you anymore?⁵⁹

Closer to American shores, this recalibration would not have the stated effect of helping the US economy. Based off 2015 figures, the average hourly wage of an auto worker in Mexico was US \$8-10/hour, compared to \$58/hour at General Motors in the US.⁶⁰ These drastically different labor market conditions make it challenging for such businesses to remain profitable if constrained to operate only in the US. In a protectionist trade war, retaliatory taxes could be imposed on manufacturing inputs such as steel, or on American auto exports—it is difficult to imagine protectionist measures having a positive effect on the US automobile industry. A protectionist "recalibration" may have the opposite to the intended effect—leading to another automotive industry crisis and triggering another bailout.

⁵⁹ <http://time.com/4545407/lee-hsien-loong-singapore-globalization/>

⁶⁰ <http://www.reuters.com/article/autos-uaw-mexico-idUSL2N0WR1KX20150326>

Small countries are just not that important. A second counterargument that enables the Trump administration's worldview moves that because other countries are smaller than the US, their strategic weight is low and therefore, their perceptions should not matter. Policies are dictated by the strong to serve their interest and should be constrained by smaller nations' objections. The quote "We don't need friends abroad"⁶¹ sums up this mindset. However, smaller states have similar concerns and are collectively sensitive to their environment. A US move towards protectionism would be read the same way by a large number of small states. Although light in individual strategic weight, a number of small states reacting similarly collectively create an external trade and security environment of consequence for the US.

In the language of *realpolitik*, the United States' hard power projection requires forward operating bases, especially to balance China's rising military power. Maintaining economic and military relationships gives small nations tangible reasons to be involved with the US. The presence of American businesses, expatriates and cultural ties are substantial proof of commitment towards a shared future. Because Asia's diversity has thus far prevented the rise of a collective security arrangement, small nations⁶² remain unable to balance China's strategic weight one on one and may succumb to coercive measures. It is far more reassuring for a smaller host nation if they feel that the US values them as a long term partner in trade and security.

What if this is just a blip, and small states are overreacting? There is a third counterargument that the Trump electoral victory is the result of a protest vote in American politics and that either

⁶¹ March 2017, President Donald Trump. <https://www.whitehouse.gov/the-press-office/2017/03/15/remarks-president-trump-american-center-mobility-detroit-mi>

⁶² with the exception of Japan which has a slightly smaller economy than China, the other Asian economies are significantly smaller- third placed Korea has an economy about one tenth the size of China's.

during or after the Trump administration, democratic pressures will lead to moderation, realigning the US towards a Wilsonian worldview. Because these moderating pressures are stronger than President Trump's espoused worldview, small states should plan for a moderate trajectory. US leadership in trade and security remains intact as the Trump Administration comes to realize the value of trade and security as a means of enlightened self-interest.

There are three reasons why this counterargument should be treated carefully. First, while small states may view a US return to the Wilsonian worldview as stabilizing and desirable, this desire does not match up with the stated positions of the Trump administration. Even if the Trump Administration's rhetoric does soften, it may be too early to decide that US voters' swing towards populism and nationalism is over. As the next midterm election is less than two years away, Republican electoral success may require continuation of the populist approach.

Second, if the Trump Administration does genuinely move towards the center, changing policy positions mid-course presents cause for concern as policies take on a new direction. US watchers in Asia may not be able to determine how far Trump Administration will shift—while East Asian nations face continued pressure to expand their markets and seek security.

Third, small states may act in a rational manner consistent with their perceptions of current reality. Trade and security relationships are built on trust and mutual agreements—these relationships can be restored with time, but will not quickly return to 2016 levels. The high profile nature of US withdrawal from TPP may weigh on future attempts to build a rules-based community for trade and security.

Conclusion- bad news for East Asia?

The Wilsonian worldview of trade and security has served the US well as the global superpower. In the last thirty years, trade has lifted entire nations in East Asia from poverty just as the US economy has gained from trade liberalization. Presently, a new mood in America has gripped the nation. This mood signals a possible retreat into isolationism and the Trump administration has espoused a new worldview and role that departs from the US' current leadership of global trade and security. The complex nature of trade and security ought to give pause when considering protectionism as a strategy for national power because a turn towards isolationism abandons relationships which have been carefully cultivated over decades. Should the Trump administration's espoused worldview be realized, its effects will be serious. Trade and prosperity will decline in both the US and East Asia. Without substantial US leadership, the door is opened for alternate security structures, setting East Asian states on an unclear path. More importantly, small states may come to view their relationship with the US in an uncertain light. Once a leader and valued partner, thinning US interests in Asia reduces perceived commitment to a shared future. Presidents Kennedy and Reagan extolled the US as "a City on a Hill... with the eyes of the world upon us."⁶³ For the majority of our lifetimes, Americans have proudly claimed the global leadership mantle and exercised power for peace and prosperity; looking now from across the Pacific, the status quo is on the cusp of dramatic change.

⁶³ Kennedy- 9th January 1961- President Elect's Address to Massachusetts Legislature
Reagan- 11th January 1989- Farewell Address from the White House

U.S.-APEC Trade Facts (reproduced from the Office of the US Trade Representative)
<https://ustr.gov/>

APEC Members

APEC has 21 members, referred to as "Member Economies", which account for approximately 41 percent of the world's population, 54 percent of the world's total GDP and 44 percent of the world's trade. APEC Member Economies are Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Republic of the Philippines; The Russian Federation; Singapore; Chinese Taipei; Thailand; the United States of America; and Viet Nam.

U.S.-APEC Trade Facts

U.S. goods and services trade with APEC countries totaled \$2.9 trillion in 2013. Exports totaled \$1.2 trillion; Imports totaled \$1.6 trillion. The U.S. goods and services trade deficit with APEC countries was \$386 billion in 2013.

The United States has a \$2.5 trillion in total (two ways) goods trade with APEC countries during 2013. Goods exports totaled \$971 billion; Goods imports totaled \$1.5 trillion. The U.S. goods trade deficit with APEC countries was \$510 billion in 2013.

Trade in services with APEC countries (exports and imports) totaled \$407 billion in 2013. Services exports were \$265 billion; Services imports were \$142 billion. The U.S. services trade surplus with APEC countries was \$124 billion in 2013.

According to the Department of Commerce, U.S. goods and services exports supported an estimated 5.9 million jobs in 2013 (4.3 million from goods exports; 1.6 million from services exports).

Exports

U.S. goods exports to APEC countries in 2013 were \$971.0 billion, up 3.1% (\$29.2 billion) from 2012, and up 107% from 2003. U.S. exports to APEC countries account for 61.5% of overall U.S. exports in 2013.

The five largest export markets are: Canada (\$301.6 billion), Mexico (\$226.1 billion), China (\$121.7 billion), Japan (\$65.2 billion), and Hong Kong (\$42.3 billion).

The top export categories (2-digit HS) in 2013 were: Machinery (\$139.6 billion), Electrical Machinery (\$118.9 billion), Vehicles (\$96.3 billion), Mineral Fuel (oil) (\$70.7 billion), and Aircraft (\$53.0 billion).

U.S. exports of agricultural products to APEC countries totaled \$104.7 billion in 2013. Leading categories include: soybeans (\$18.7 billion), pork and pork products (\$5.6 billion), wheat (\$5.5 billion), beef and beef products (\$5.4 billion), and corn (\$5.2 billion).

U.S. exports of private commercial services* (i.e., excluding military and government) to APEC were \$265.3 in 2013, up 4.8% (\$12.2 billion) from 2012, and up 128% since 2003.

Imports

U.S. goods imports from APEC countries totaled \$1.5 trillion in 2013, up 1.7% (\$25.1 billion) from 2012, and up 829% from 2003. U.S. imports from APEC countries account for 65.3% of overall U.S. imports in 2013.

The five largest country suppliers of imports are: China (\$440.4 billion), Canada (\$332.6 billion), Mexico (\$280.5 billion), Japan (\$138.6 billion), and Korea (\$62.4 billion).

The five largest categories in 2013 were: Electrical Machinery (\$261.7 billion), Machinery (\$230.2 billion), Vehicles (\$195.2 billion), Mineral Fuel (oil) (\$172.3 billion), and Furniture and Bedding (\$42.8 billion).

U.S. imports of agricultural products to APEC countries totaled \$64.0 billion in 2013. Leading categories include: fresh vegetables (\$6.4 billion), snack foods (including chocolate) (\$5.3 billion), fresh fruit (\$5.2 billion), processed fruit and vegetables (\$5.0 billion), and red meats, fresh/chilled/frozen (\$5.0 billion).

U.S. imports of private commercial services* (i.e., excluding military and government) were \$141.6 billion in 2013, up 4.5% (\$6.1 billion) from 2012, and up 87% since 2003.

Trade Balance

The U.S. goods trade deficit with APEC countries was \$509.7 billion in 2013, a 0.8% decrease (\$4.1 billion) over 2012.

The United States has a services trade surplus of \$123.7 billion with APEC countries in 2013, up 5.1% from 2012.

Investment

U.S. foreign direct investment (FDI) in the APEC countries (stock) totaled \$1.2 trillion in 2013, up 6.4% from 2012.

U.S. direct investment in the APEC countries is concentrated in the nonbank holding companies, manufacturing, and finance/insurance sectors.

The APEC countries' FDI in the United States countries (stock) was \$723.9 billion in 2013, up 10.8% from 2012.

The APEC countries reported direct investment in the U.S. is led by the manufacturing, wholesale trade, and finance/insurance sectors.

*NOTE: Refers to private services trade not including U.S. military sales, direct defense expenditures, and other miscellaneous U.S. government services. Services trade data includes all of APEC economies except Brunei, Papua New Guinea, Peru, Russia, and Vietnam.

**Fact Sheet: How TPP Opens Markets for Made in America Exports
(reproduced from the Office of the US Trade Representative)**

<https://ustr.gov/>

TPP levels the playing field for American workers, farmers and American businesses by eliminating over 18,000 taxes that various countries impose on Made in America exports, providing unprecedented access to vital new markets in the Asia-Pacific region for U.S. workers, businesses, farmers, and ranchers.

- U.S. agriculture products: The agreement will help American farmers and ranchers by expanding their exports, which provide roughly 20 percent of all farm income in the United States. Most U.S. farm product exports will receive duty-free treatment immediately. Over 50 percent of U.S. farm products (by value) will enter Japan duty free once the agreement is implemented. These products include grapes, strawberries, walnuts, lactose, certain fruit juices, and most pet foods. Vietnam has committed to eliminate more than 60 percent of agricultural tariffs on current trade within five years. Malaysia and New Zealand have committed to immediately eliminate more than 90 percent of all agricultural tariffs.
 - Poultry:
 - American farmers exported \$2.7 billion to TPP countries in 2014, despite significant barriers.
 - These include tariffs of 20 percent on American poultry to Vietnam, whether it's from Arkansas or Delaware. TPP eliminates these tariffs.
 - Beef:
 - Japan places tariffs of 38.5 percent on American beef, whether it's from Texas, Montana, or Nebraska. These tariffs will be reduced to 9 percent.
 - With over \$1.6 billion in annual sales in 2014, Japan is our largest export market for beef.
 - Under the TPP agreement, Japan will eliminate duties on 74 percent of its beef and beef product tariff lines within 15 years. Tariffs will be cut on the remaining tariff lines.
 - Pork:
 - Japan accounts for almost \$2 billion in pork exports in 2014—about one-third our pork exports—despite tariff barriers.
 - Under the TPP agreement, Japan will eliminate 80 percent of its pork tariffs in 11 years, and make steep cuts in those that remain.
 - Under TPP, we're going to reduce Japan's tariff on all pork and eliminate the current 20 percent tariff on ground seasoned pork, worth \$435 million annually to U.S. exporters
 - Dairy:

- Japan has a tariff of 40 percent on cheese from the U.S., which will be eliminated in TPP.
 - The U.S. exported \$3.6 billion of dairy to TPP countries in 2014.
 - In the case of Canada, passing TPP means renegotiating NAFTA, which didn't provide any direct benefits for dairy. Under TPP, we'll be able to sell more than 4,000 more tons of butter, nearly 14,500 more tons of cheese, and more than 50,000 more tons of liquid milk to Canada. Plus more to Japan, Malaysia, and Vietnam.
 - Wine/Bourbon:
 - Currently, we sell \$86.5 million per year in wine to Japan. But wine is taxed at levels up to 58 percent when we send the product to Japan. TPP will reduce those taxes down to zero, allowing us to sell more California wines to Japan.
 - Kentucky distillers will no longer face taxes as high as 55 percent when they sell their world-famous bourbon to TPP countries.
 - Soybeans:
 - Japan has a 21 percent tariff on American soybean oil, \$288 million of which were exported to TPP countries in 2014. TPP will eliminate Japan's tariff.
- U.S. information and communication technology products:
 - American companies exported \$36 billion in information and communication technology products to TPP countries in 2014.
 - TPP eliminates import taxes as high as 35 percent on U.S. information and communication technology exports to TPP countries—which include, for example, devices, including smart phones; and equipment, including routers and computers.
- U.S. Service Suppliers: 4 out of 5 American workers are employed by a service business – in retail, communications, logistics, entertainment, software and other industries.
 - TPP eliminates restrictions that have blocked U.S. businesses from providing services overseas, and puts in place rules to ensure that regulations in TPP countries don't discriminate against U.S. service suppliers.
 - TPP will open markets for U.S. service providers, whether it's electronic payment services or engineering, making it possible for American firms to provide services abroad from here in the United States rather than requiring them to move their operations abroad.
- U.S. manufactured products: TPP eliminates import taxes on every Made in America manufactured product that the U.S. exports to TPP countries.
 - In 2014, the U.S. exported \$56 billion in machinery products to TPP countries. Foreign taxes as high as 59 percent on U.S. machinery products in TPP countries will be eliminated.

- Right now, car engines manufactured in Michigan face tariffs up to 55 percent in TPP countries. Thanks to TPP, those taxes will drop to zero.
- Dump trucks made in Illinois have faced taxes as high as 30 percent. Now, those will be cut to zero.
- U.S. automotive products:
 - Despite significant barriers, American companies exported \$89 billion in automotive products to TPP countries in 2014.
 - As part of TPP, we've reached agreement with Japan to remove the non-tariff barriers that have kept U.S.-made autos, trucks and parts out of that important market.

And TPP eliminates the high tariffs that other countries have placed on auto imports that have held back U.S. auto makers, including Vietnam's 70 percent tax and Malaysia's 30 percent tax on foreign autos.

**FACT SHEET: U.S. Market Access Benefits under the Trans-Pacific Partnership
(reproduced from the Office of the US Trade Representative)**

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The United States remains committed to further deepening our long-term economic and strategic relationship with Vietnam, in line with the Administration's rebalance to Asia. Over the past two decades, bilateral trade and investment relations between our two nations have multiplied rapidly, with U.S. goods exports to Vietnam reaching record highs last year. With a population over 90 million and rapid economic growth fueled by its economic reform agenda, Vietnam's economy presents many opportunities for Made-in-America goods exports. The high-standard Trans-Pacific Partnership (TPP) Agreement will strengthen our economic ties and provide the tools to support Vietnam's economic reforms.

Once implemented, the TPP will eliminate over 18,000 tariffs that TPP countries like Vietnam impose on Made-in-America products, providing unprecedented access to some of the fastest growing markets in the Asia Pacific. Nowhere is this market-opening more far reaching than in Vietnam, where average tariff rates are the highest among TPP countries, and where TPP will eliminate over 5,000 tariffs on U.S. goods. The TPP will bring benefits to U.S. workers, businesses, farmers, and ranchers by significantly expanding market access and eliminating tariffs as high as 74 percent on key American exports, extending across the full range of goods from heavy industry to high-tech; consumer goods; crops, agricultural commodities, and food products:

- **U.S. Machinery Exports:** In 2014, the United States exported \$311 million in machinery to Vietnam. However, these goods, like construction equipment, pumps, valves, and electric motors faced tariffs as high as 59 percent when entering the Vietnamese market. When the TPP enters into force, more than 80 percent of Made-in-American machinery exports will be immediately duty free in Vietnam. All other Vietnamese tariffs on machinery will be eliminated on a set schedule.
- **U.S. Automotive Exports:** In 2014, the U.S. exported \$131 million worth of automotive parts, passenger vehicles, motorcycles and related goods to Vietnam. These products face some of the highest tariffs in Vietnam, with tariffs up to 70 percent on vehicles, 74 percent on motorcycles, and up to 32 percent on parts. TPP will eliminate all these tariffs on Made-in-USA automotive industry, opening a fast-growing market and avoiding the risk of prohibitive tariff differentials in competition with Japan, Europe, and China.
- **U.S. Forestry Exports:** The TPP will eliminate tariffs on Made-in-America forest products, supporting and helping to grow the more than \$342 million in American forestry and wood products exports to Vietnam by eliminating import taxes as high as 25 percent on U.S. forestry products like craft paper, paperboard, and plywood. Moreover, the TPP will enforce high standards against illegal logging and deforestation to ensure that trade policy contributes to efforts to protect the unique and irreplaceable upland forest resources and habitat of Vietnam.

- U.S. Textile Exports: The TPP will eliminate tariffs as high as 20 percent on U.S. textile and apparel exports to Vietnam. In 2014, the United States exported \$206 million in these goods to Vietnam. Upon implementation, 98.4 percent of U.S. textile and apparel exports, including nonwoven fabrics, industrial and advanced textile fabrics, and dresses will be immediately duty free in Vietnam.
- U.S. Information and Communication Technology (ICT) Exports: Upon implementation, TPP will eliminate tariffs as high as 35 percent on U.S. ICT exports to Vietnam. In 2014, U.S. exports of video recording equipment, monitors and projectors, optical media (CDs and DVDs), insulated cable contributed to the more than \$525 million in U.S. exports of ICT products to Vietnam.
- U.S. Chemical Exports: Vietnam currently places tariffs as high as 35 percent on Made-in-America exports of chemical goods like cosmetics, soaps, paints, lubricants, glues, and plastic tubes. In 2014, the U.S. exported more than \$465 million in chemical goods to Vietnam, and 87.5 percent of which will be immediately duty free upon implementation.
- U.S. Beef Exports: The United States exported \$22.1 million of beef and beef products to Vietnam in 2014 – a country of 94 million, where every corner stall sells bowls of beef soup. Under TPP, all of Vietnam’s tariffs on beef and beef products, currently as high as 34 percent, will be eliminated in three to eight years. Tariffs on fresh and frozen beef muscle cuts will be eliminated in three years.
- U.S. Wine, Beer, and Spirits Exports: The United States exported more than \$26 million in alcoholic beverages to Vietnam in 2014. Under TPP, Vietnam will eliminate tariffs on all wine products, currently as high as 55 percent, in 11 to 12 years; tariffs on all beer products, currently as high as 35 percent, in 11 years; and tariffs on all distilled spirits, currently as high as 45 percent, in 11 to 12 years.
- U.S. Fresh Fruit Exports: The United States exported \$55 million of fresh apples, \$4 million of fresh cherries, and \$235,000 of fresh pears to Vietnam in 2014. Vietnam’s 10-percent tariffs on these fruits will be eliminated in three years.
- U.S. Wheat and Wheat Product Exports: The United States exported \$78.5 million of wheat and wheat products to Vietnam in 2014. Vietnam’s tariffs on wheat and wheat products, currently as high as 35 percent, will be eliminated within four years.

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