What the Trump Era Portends for Trading Relations in Northeast Asia

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The US perspective: The future is unclear. Can America again provide leadership on trade, or will it abdicate this role to China?

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The Japanese perspective: With uncertainties over TPP and RCEP, Japan must work with its neighbors to tap its potential.

Seungjoo Lee
The South Korean perspective: We must review the TPP, the changing regional architecture and a role in future mega-FTAs.

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The US Pivot and Japan’s Trade Strategies

East Asia entered into the second stage of mega-FTAs when the US government announced its intention to join the TPP negotiations in January 2008. This corresponded with the Barack Obama administration’s rebalancing policy in the Asia-Pacific region. Claiming that the US was an Asia-Pacific power (Obama 2011), the Obama administration sought to redesign the regional architecture in a manner that could advance US strategic, economic and institutional interests in the region (for a concise overview of the rebalancing policy, see Campbell [2016]). The TPP was also considered in part an attempt to help the US better cope with the rise of China by deepening its economic partnership with Asia. The Obama administration also viewed the TPP as a way to create new rules in the Asia-Pacific region (Froman 2014).

The strategic importance of the TPP only grew stronger as China’s foreign policy became more aggressive under President Xi Jinping.

Unlike the US, until 2009 Japan approached the TPP mainly from the perspective of economic effects. Signatories did not pay due attention to making the rules and procedures consistent across agreements, and they suffered from “spaghetti bowl” or “noodle bowl” effects as a result (Kawai and Wignarajia 2009). Consolidating existing bilateral FTAs into bigger FTAs was seen as a way to address this problem.

While economic factors set the primary contours of mega-FTAs in the region, economic interests alone do not explain the existence of competing mega-FTAs or how countries have participated in them. Some countries, such as Japan, Singapore, Malaysia and Vietnam, participated in both the Trans-Pacific Partnership (TPP) agreement and the Regional Comprehensive Economic Partnership (RCEP) agreement. Other countries, such as South Korea, China and Indonesia, have participated in RCEP only.

Why have East Asian countries made different institutional choices? I argue that three factors contributed to this policy divergence: perceptions regarding the rise of China; the path dependent nature of existing FTA policies; and domestic political backlash. South Korea and Japan demonstrate clearly the way in which these three factors affected decision making about mega-FTAs.

THE US PIVOT AND JAPAN’S TRADE STRATEGIES

Since the late 2000s, East Asia has entered new territory in terms of regional institution-building. At the core of this change are so-called mega free trade agreements (FTAs). In the late 1990s, East Asian countries showed heightened interest in bilateral FTAs to catch up with the rapid proliferation of preferential trade agreements in other regions. But the bilateral FTAs signed by East Asian countries did not bring about the expected economic benefits. Signatories did not pay due attention to making the rules and procedures consistent across agreements, and they suffered from “spaghetti bowl” or “noodle bowl” effects as a result (Kawai and Wignarajia 2009). Consolidating existing bilateral FTAs into bigger FTAs was seen as a way to address this problem.

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Why have East Asian countries made different institutional choices? I argue that three factors contributed to this policy divergence: perceptions regarding the rise of China; the path dependent nature of existing FTA policies; and domestic political backlash. South Korea and Japan demonstrate clearly the way in which these three factors affected decision making about mega-FTAs.
By contrast, the latter strategy focused on the TPP to stress its potential to facilitate US engagement in Asia (Abe, Oct. 6, 2015). By incorporating strategic interests, Japan would be able to exercise some flexibility in negotiating the TPP with the US (Lee 2015).

**SOUTH KOREA: THE LEGACY OF A HUB STRATEGY**

While Japan saw advantages to signing on to the TPP, South Korea faced a different strategic setting. Among the major countries of East Asia, South Korea has particularly high levels of trade dependence on China, which emerged as South Korea’s No.1 trading partner in 2004. The outbreak of the global financial crisis in 2008 further increased South Korea’s trade dependence on China, which now accounts for almost a quarter of South Korea’s trade. Given this dependence, the Korean government chose to devise institutional measures to effectively manage it and a Korea-China FTA was a natural candidate to achieve this goal.

The policy inertia of the South Korean government also turned out to be an important factor. Since the Roh Moo-hyun government, Seoul had ambitiously pushed for the simultaneous promotion of bilateral FTAs and FTAs with major economies. The former led it to attempt to conclude bilateral FTAs with as many countries as possible, and by September 2016, it had completed 16. By contrast, the latter strategy focused on FTAs with major economies to maximize economic gains. The South Korean government placed higher priority on FTAs with the US, the EU and China. Under the banner of the two policies, Seoul tried to develop South Korea as a hub of global FTA networks in Asia.

Although the South Korean government understood that East Asian countries, including Japan, were about to move into the second stage of FTAs, the inertia of its existing FTA strategies retarded the country’s participation in mega-FTAs, and in particular the TPP. The strategic thinking of the Korean government was twofold. First, in 2012, it anticipated that while the Japanese government expressed its intent to join TPP, it would take some time for it to join the negotiations formally. The South Korean government also expected that the negotiations would drag on for at least several years until the US and Japan, the biggest economies among the TPP participants, would be able to strike a deal.

Strong opposition was also expected from the agricultural sector in South Korea. With negotiation of the South Korea-US (KORUS) FTA just completed, the Lee Myung-bak government believed it would enjoy first-mover advantages before other competing countries in East Asia could conclude the TPP negotiations, including Japan. The fact that South Korea had already secured FTAs with seven of the TPP participants further strengthened Seoul’s view that it should not rush to join the TPP.

Seoul also thought that it was a good time to push for a Korea-China FTA. The conclusion of the Korea-China FTA would be the ultimate accomplishment of the global FTA hub strategy, because South Korea would become one of the few countries with FTAs with the US, the EU and China. In particular, the Korean government expected that Korea would be in a good position to revive negotiations on the Korea-Japan FTA, which stalled after six rounds of negotiations beginning in 2004. It was against this backdrop that the South Korean government placed a higher priority on the Korea-China FTA than the TPP. In short, the path-dependent nature of the existing FTA strategies prevented the Korean government from joining the TPP as a founding member.

In June 2013, the Ministry of Industry, Trade and Energy unveiled the “New Trade Policy Roadmap” (Ministry of Industry, Trade and Energy 2013: 1). The gist of the roadmap was to strengthen the linkage between industries and trade policy by streamlining the policy-making process for trade negotiations, implementation and complementary measures to assure that domestic stakeholders could share the benefits of trade policy (Ministry of Industry, Trade and Energy 2013: 2). The purpose of this reform was confirmed in an interview with the assistant secretary of the Ministry of Industry, Trade and Energy, Choi Kyung Lim, who said that although the South Korean government thus far has been successful in creating the FTA network, it tended to focus on FTA negotiations at the expense of smooth communications with the private sector and attention to the social costs of trade (Kiganet June 14, 2013).

Meanwhile, the roadmap also included Korea’s vision for a new trade architecture in East Asia. Foreseeing that China-led East Asian economies and the US-led Asia-Pacific economies would form the basis of the trade architecture in the region, the roadmap stressed that South Korea...
would attempt to play the role of a “linchpin” in connecting the two. However, the Korean government could not make a complete departure from existing trade policies until a Korea-China FTA was in place. Given that Korea had already signed the KORUS FTA, the Korean government expected that the country would be in a good position to link the TPP and RCEP, once it could sign a Korea-China FTA.

Concern about a political backlash against the TPP was another factor that delayed the decision about the TPP. Both the Roh Moo-hyun and Lee Myung-bak governments faced serious political opposition to the KORUS FTA. Initially, the Roh government focused on the economic benefits of the agreement, including the prospect of upgrading the country’s economic structure. However, skeptics of the KORUS FTA argued that it pushed for reckless trade liberalization without paying due attention to the potential losers. South Korea’s uncompetitive sectors felt victimized by the government’s FTA initiatives and, more broadly, by its neoliberal economic policies.

Recalling that the previous governments suffered politically from negotiating and ratifying the KORUS FTA, the Park Geun-hye government worried that the TPP negotiations might bring about further political struggles, derailing other domestic reforms during the initial stage of her presidency. The Park government thought that it would be politically risky to push for the TPP, and so South Korea failed to participate in the first round of negotiations.

SOUTH KOREA’S STRATEGIC CHOICES

With the conclusion of the TPP, mega-FTAs became a more pressing issue for South Korea. Since the Korean government expressed its intent to join the TPP negotiations in November 2013, it participated in preliminary bilateral consultations three times. Upon completion of the TPP negotiations, the Ministry of Industry, Trade and Energy announced that it welcomed the development and expected that the TPP would contribute to regional economic integration. But it was cautious on the timing of actual participation by South Korea in the TPP (Ministry of Trade, Industry and Energy 2015).

It is time for South Korea to thoroughly review not only the TPP, but also the changing regional architecture and the role it might play in mega-FTAs going forward. Because ratification of the TPP is highly uncertain, Seoul has time to consider alternatives. South Korea should incorporate recent changes in mega-FTAs into domestic policy as a first step.

After conclusion of the TPP, much attention has been focused on RCEP. Depending on the perspective, the TPP and RCEP can be seen as either contradictory or complementary. From South Korea’s point of view, the focus should not be on their contradictory nature, but on a realistic way to harmonize the two, given the large number of countries — seven — that are participating in both agreements.

The South Korean government should reconsider the possibility of resuming talks on the Korea-Japan FTA, which could potentially complement Korea’s FTA strategy. Since the launch of the TPP is unlikely in the immediate future, the Korean government should push for multilateral FTAs as an alternative. The Korea-Japan FTA is likely to serve as a building block to the Korea-China-Japan FTA, as well as the Korea-US-Japan FTA. The prospects for the Korea-China-Japan FTA are not bright at the moment, but the resumption of the Korea-Japan FTA is likely to boost the momentum for trilateral negotiations. Moreover, president-elect Trump has indicated that the US government would seek bilateral FTAs after its withdrawal from the TPP, opening speculation about a US-Japan FTA. Given that the KORUS FTA has already been launched, conclusion of the Korea-Japan FTA would enhance the likelihood of a Korea-US-Japan FTA as a next step.

Lastly, one reason for South Korea’s wariness about TPP was the domestic political burden regarding the sectors that might be harmed by the TPP. The time needed for the TPP to come into effect may allow the South Korean government to not only alter its foreign policy strategy, but also to handle the domestic policy dimensions of its FTA strategy.

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