What the Trump Era Portends for Trading Relations in Northeast Asia


Stephan Haggard

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

Vinod K. Aggarwal

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

Suengjoo Lee

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

The articles in this In Focus section were developed from presentations at a workshop on the Japan-South Korea-US Trilateral Dialogue on September 23, 2016. The workshop was co-organized by the Korea-Pacific Program, School of Global Policy and Strategy at the University of California San Diego, and the Asia Research Fund in Seoul.
So Many Choices, So Much at Stake: A Japanese Perspective On Trade Pacts in Asia

By Yukiko Fukagawa

Since 2010, institutionalizing the process of market-led integration in Asia has entered a second phase with the so-called “ASEAN+1” free trade agreements (FTAs) with China, Japan and South Korea, Australia-New Zealand and India, respectively. Plurilateral FTAs also have emerged as a major trend in this second phase in response to the stalled efforts at the World Trade Organization (WTO). These include the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). What are the prospects for these agreements for Japan, particularly in the wake of Donald Trump’s election as the next US president and his rejection of the TPP?

Why TPP for Japan?

There are various reasons for the major economies to be interested in plurilateral approaches. First, given the prolonged stagnation of the WTO, plurilateral approaches by like-minded countries are appealing in terms of speed, scale and functionality. Second, in the face of an ongoing North-South stalemate on trade, so-called “WTO plus” standards are seen as ways for mature economies to boost their own growth through the liberalization of services, the protection of intellectual property rights, national treatment with respect to investment and investor-state dispute settlement (ISDS) mechanisms. Securing fair competition with “state capitalist” systems is another motivation. Third, global supply-chain networks are growing rapidly and common rules for governing competition with “state capitalist” systems is another motivation. Fourth, liberalization of services, the protection of intellectual property rights, national treatment with respect to investment and investor-state dispute settlement (ISDS) mechanisms are also a concern.

A typical example was server control for services provided in China, requiring both ownership and management by Chinese firms as well as other code-opening requirements. As the industrial structure shifted from hardware manufacturing to knowledge- and innovation-based businesses, Japan’s interests aligned with the US on IPR protection, cyber security and investor protection measures.

Bilateral and Plurilateral FTAs

Plurilateral trade deals differ from bilateral ones in that they try to boost not only the national interests of each participant, but also to maximize common rules. The TPP is a high-standard, comprehensive “WTO plus” pact, while RCEP may end up with far lower standards, especially given the need to accommodate India. But bilateral relations will nonetheless be influenced by these plurilateral frameworks. In Asia, South Korea’s participation in the TPP would effectively bring a Japan-Korea FTA into existence within the TPP framework, just as RCEP would effectively realize a Japan-China FTA. A Korea-China FTA has been in effect since 2015, but the negotiation of a China-Japan-Korea FTA has been in progress separately, and would inevitably be affected by the outcome of negotiations over the TPP and RCEP. Each of these developments can be discussed in turn.

A Japan-South Korea FTA under TPP: Negotiations began on a Japan-Korea FTA in 2003, but were suspended after 2005 without even reaching consensus on the modality of the negotiations. Japan has offered to reopen the talks repeatedly since then, only to be rejected. After the TPP agreement was finalized in 2015, South Korea expressed its willingness to participate. But by failing to join as a founding member, around 90 percent of industrialized goods would face immediate tariff elimination with respect to Japan, which is even faster than phase-ins under the Korea-US (KORUS) FTA. Whether the South Korean government could persuade its public to support an FTA with Japan was never certain, and reopening those negotiations before entering the TPP might be an option. But much will depend on the fate of the TPP, a major uncertainty given the election of Trump and his anti-trade rhetoric. Folding South Korea into the TPP would probably be easier than negotiating a separate Japan-Korea FTA, particularly given the political issues between the two countries.

A Japan-China FTA after RCEP: Japan has used the TPP as leverage with respect to other FTAs, especially RCEP and the Japan-EU FTA, while China and South Korea tried the same thing through the negotiations for a China-Korea FTA. However, a China-Korea FTA is probably not strictly consistent with the GATT/WTO requirement that such agreements should apply to “substantially all trade” between the two countries. Although the agreement eliminates 90 percent of goods by tariff line, it does so over a very long, 20-year time period, with 50 percent of South Korean tariffs and only 20 percent of Chinese tariffs being eliminated immediately. The range of sensitive sectors is high, dominated by agriculture in South Korea but granting long phase-outs to a variety of sectors in China: automobiles and auto parts, electronics products such as lithium batteries, TVs, OLED panels, and both steel and petrochemical products.
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As the WTO’s comprehensive Doha Round continues to stagnate, plurilateral pacts to tackle emerging issues have complemented the single undertaking. For instance, IT products have been covered by the Information Technology Agreement (ITA) since 1996. In 2016, the ITA was significantly expanded to include 53 economies that account for 90 percent of global IT trade, with the goal to eliminate 90 percent of tariff lines within 3 years. Since 2013, a new round of negotiations for a Trade in Service Agreement (TiSA) has been joined by 48 countries, with the aim of deepening the General Agreement on Trade in Services (GATS). TiSA deals with regulatory disciplines in telecoms, finance, postal services, e-commerce, shipping and many other services. An Environmental Goods Agreement (EGA), Trade Facilitation Agreement (TFA) and several other pacts are also under negotiation.

China, Market Economy Status and Future Agreements

As mentioned earlier, China accepted non-market economy status upon joining the WTO, and has claimed that market economy status should be granted automatically after the 10th anniversary of its WTO membership on Dec. 10, 2016. However, since MES affects anti-dumping decisions, rising protectionism in advanced economies has controlled the timing of the transition.

Much will depend on the US stance toward China, which has been the leading target of anti-dumping actions since joining the WTO, and the US has more anti-dumping cases against China than any other
country except India. The bar for granting China MES has risen in the US, focusing not only on Chinese government intervention in production and resource distribution but now including FDI liberalization, currency convertibility and wage negotiations. In May 2016, the US imposed anti-dumping tariffs on corrosion-resistant steel imports, but while India, South Korea, Italy and Taiwan faced retaliatory tariffs ranging from 3 percent to 92 percent, China faced tariffs of 209 percent. If MES is not granted for many years to come, China might bring cases of its own against the US, the EU and Japan in the WTO, as well as taking other retaliatory measures. These fights could challenge the WTO regime itself.

If China’s major trade concern is MES, Japan may be in a better position than the EU or the US to address it. Japan has finished a major realignment of its steel industry, and the performance of its steel firms remains generally better than those in the US and Europe, due to a constant effort to avoid competing with China on price. Thanks to labor shortages in Japan, fear of losing jobs is weaker in Japan than in other countries, making it easier to grant China MES earlier. But the use of this card will be highly strategic, depending on Chinese commitment to higher trade standards.

South Korea has already granted China market economy status, alone among all OECD countries except for Australia. However, while Australian trade with China is complementary with respect to iron ore and steel, South Korea is a direct competitor with China. After granting China MES, South Korea became one of the biggest markets for low-cost Chinese steel products, and POSCO and Hyundai have both been squeezed as a result. How South Korea will respond without resorting to anti-dumping measures may influence Japan’s decision on MES, because the decision is directly related to competition policy and a willingness to co-ordinate industrial adjustment across borders among the CJK countries.

**Conclusion**

Some have called the co-existence of ongoing political tension and deep economic integration the “Northeast Asian Paradox.” However, considering the region’s Cold War structures, there may not be a paradox because developmentalism — the use of high tariffs to protect domestic industries — was an essential part of nation-building in all three countries. The process of institutionalizing market realities has been hindered at times by this approach to development, as well as sovereignty concerns. Therefore, institutionalization has occurred through plurilateral frameworks — TPP for a Japan-Korea FTA and RCEP for a Japan-China FTA. Economic relations among all three countries will therefore inevitably be influenced by the fate of these pacts. However, with these agreements in doubt, passive integration alone may not be good enough to prepare suitable institutions to tap the huge potential in the three economies. China, Japan and South Korea together need to confirm a sense of community by sharing deeper substantive goals, such as protecting free trade, promoting competition, enhancing innovation, committing to a sustainable environment and preparing for their aging societies.

Yukiko Fukagawa is Professor of International Economy in the Graduate School of Economics at Waseda University, Japan.

**REFERENCES**