What the Trump Era Portends for Trading Relations in Northeast Asia


Yukiko Fukagawa
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.

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Whither Trade Policy in Northeast Asia?

Introduction by Stephan Haggard

The election of Donald Trump as the next US president has generated substantial uncertainty about the Asian trade architecture. The Trans-Pacific Partnership agreement was not only the premier economic initiative of President Barack Obama’s administration, it also represented a crucial economic building block of the US pivot to Asia. Both Trump and his Democratic rival Hillary Clinton repudiated the TPP during the election campaign with what now appear to be good electoral reasons: patterns of voting for Trump can be explained in part by the level of exposure to trade. Trump has signaled that he is likely to take a tough line with China on trade and investment issues, but the North American Free Trade Agreement (NAFTA) and trade relations with Japan and South Korea — including the free-trade agreement between Washington and Seoul — also came in for critical scrutiny during the campaign.

In the short run, the US withdrawal from TPP appears to leave the field to the China-led Regional Comprehensive Economic Partnership (RCEP). Yet RCEP seeks agreement among a highly diverse set of countries, including India. As a result, it seems doubtful that it will provide significant advantages to the advanced industrial states of Japan and South Korea.

It is also becoming clear that Trump is not opposed to trade agreements per se, but only those that he believes fail to adequately represent US interests. In a cryptic YouTube video message, he even signaled an interest in negotiating new trade agreements, but on a bilateral rather than multilateral basis. This has raised speculation about a potential US-Japan FTA and the possibility that the Korea-US (KORUS) FTA might be reopened. The result is an incredibly fluid policy environment, with a range of options both with and without US involvement. TPP and RCEP could move forward separately, sub-regional FTAs in Northeast Asia remain possible (Korea-Japan, Korea-Japan-China) as well as new bilateral options with the US.

The following essays offer three national perspectives on the post-TPP trade environment in Northeast Asia.

In his discussion of the US, Vinod K. Aggarwal argues that structural, political and ideational factors have weakened the US commitment to a liberal order. His conclusion is quite pessimistic: that the US has effectively ceded leadership and will presumably increasingly act in a transactional and more narrowly self-interested way. Trump may pursue bilateral trade agreements, but Aggarwal argues it is not clear how they would satisfy the demands of his core constituency. One major implication is that multilateral initiatives in the region could exclude the US and by default be led by others, ironically including China.

Yukiko Fukagawa focuses on the decision by the government of Shinzo Abe to join the TPP. She argues that Abe’s leap had both strategic and economic rationales. Japan has much more far-flung regional production networks than South Korea and is less dependent on China. Moreover, she notes that the decision in favor of the TPP might also have influenced Japanese strategy toward Northeast Asia: why negotiate a separate bilateral FTA with South Korea if TPP was becoming the regional standard? But with TPP now in limbo, Japan will be forced to reconsider its options. Can Abe convince Trump to reopen TPP? If not, Japan will inevitably need to look more closely at the triangular relations among China, South Korea and Japan in Northeast Asia. These arrangements are now nested in RCEP. Will Japan pursue a Northeast Asian trilateral agreement or will it try to advance bilateral FTAs or work on higher-quality FTA partners, including South Korea? Fukagawa concludes that plurilateral frameworks through the World Trade Organization may be yet another option; she also reminds us that not all the possibilities are based on the old FTA model. Moreover, she underscores the difficult decision Japan will face on whether to grant China market-economy status, something Beijing has been pushing for with advanced industrial states generally without success.

Suengjoo Lee provides an introduction to South Korea’s trade strategy, which was to build itself up as an FTA hub. The government pursued both a large number of agreements and some bilateral agreements with major parties, while initially staying out of the TPP. The apparent death of the TPP raises the question of whether South Korea will go, particularly given the fact that it faces its own domestic political reluctance to deeper integration. The options for Seoul also have strategic consequences, for example whether to reach out to Japan for a bilateral FTA — with the risks of reopening history issues — or deepen the relationship with China or offer a renegotiation of KORUS with the US.

Whatever the outcome, the many options all clearly have strategic implications. As with the US in the past, China is not afraid to use economic incentives — including trade, investment and aid through the new Asia Infrastructure Investment Bank — for political leverage. To the extent that China pursues a more forward-leaning course, the absence of a strong American hedge could imply an even more China-centric political economy in the Asia-Pacific region than anticipated.

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