

## The U.S. and China's FTA Networks in Northeast Asia: How Should South Korea Respond?

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**Interviewee**

Yul Sohn

With a new economic order emerging in Northeast Asia propelled by networks of Free Trade Agreements (FTA), regional and global powers alike have begun to aggressively pursue their own interests in the region. In light of this situation, Professor Yul Sohn of Yonsei University gave his insights into the FTA networks in Northeast Asia and offered prospects on South Korea's own strategy. The following is a summary of the main policy recommendations from the interview.

**Q1: What is the current status of FTA networks in Northeast Asia and how should the concerned parties respond to this new phenomenon?**

**A1: "With the Trans-Pacific Partnership (TPP), the United States is competing with regional FTA network led by China. We should view FTAs from the perspective of strategic interests rather than only on economic gains."**

- After five difficult years, South Korea finally concluded an FTA with the United States (KORUS FTA). A number of gains in terms of national interests were expected, but Seoul had not anticipated the dynamics in the international politics of FTAs which emerged after it ratified the KORUS FTA. Consequently, South Korea announced that it would also initiate an FTA with China on May 2, 2012 and agreed to proceed with a Northeast Asia FTA at the May 13 summit between China, Japan, and South Korea.
- What South Korea must focus on in the upcoming discourse on FTA networks is the TPP, which is strongly supported by the United States. Originally, the TPP started out as a multilateral FTA encompassing New Zealand, Singapore, Chile, and Brunei. However, since the United States joined under the Bush administration following Australia and Peru, the TPP has been targeted as a larger FTA for Asia. As a result, Vietnam and Malaysia have announced their intention to join the TPP and even Japanese Prime Minister Yoshihiko Noda at the 2011 Asia-Pacific Economic Cooperation (APEC) Summit stated that his country would participate in the TPP.
- The FTA networks driven by China have dominated the East Asia region by utilizing the Association of Southeast Asian Nations (ASEAN) as a base. Since China, Japan, and South Korea each concluded FTAs with ASEAN, discussions have been focused on a regional FTA

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in the form of ASEAN+3/+6 models with China at the center. From the beginning, China's preemptive FTA with ASEAN pushed other countries in East Asia to consider ways in which they could establish regional FTAs. Subsequent efforts by China to finalize other FTAs with Macao, Hong Kong, Taiwan, and currently South Korea provide Beijing a lead in the FTA discourse of the region.

- The current China-driven FTA networks in East Asia are facing inroads by the U.S.-led TPP, which raises concerns over the potential for increased U.S.-China rivalry or competition. Since the TPP requires a very high-level of liberalization through institutional reforms in addition to tariffs elimination, China's entry into the TPP would seem unlikely because of the overwhelming political costs to meet those requirements. Nevertheless, the United States is pushing ahead with the TPP, and China considers such a move as a strategic move against its rise.
- The reason why the United States and China are in competition for the economic order of the region lies in the characteristics of an FTA as a mechanism for pursuing strategic interests rather than economic cooperation for a win-win strategy. Once concluded, the treaty makes it hard for the contracting parties to cut off relations due to the increased level of institutional cooperation that creates a strategic partnership. This is why no country has pursued an FTA with a country that may in the future be a potential enemy. Moreover, recent studies on FTAs show that the economic benefits of an FTA are often less than expected and therefore, the strategic characteristics of an FTA must be considered when discussing the related policy.
- The U.S. effort to push the TPP cannot simply be viewed as seeking economic recovery by increasing trade with Asia. Already the United States has concluded FTAs with more than half of the current TPP member states. Given this reality, the United States rather intends to use the TPP to check the rising economic influence of China in the region. This explains why Beijing has shown a strong enthusiasm for an FTA with South Korea. Considering that South Korea depends upon twenty-four percent of its total exports on China, while China only relies upon seven percent, there is not much to gain from having a larger share of the South Korean market. Rather Beijing is pursuing an FTA with South Korea in order to balance against the United States.

**Q2: What are the prospects for the Northeast Asian FTA order following the recent China-Japan-South Korea Summit?**

**A2-1: "The Trilateral FTA is very unlikely as China and Japan are strategic competitors and Japan has its own political and economic difficulties."**

- For South Korea, a Trilateral FTA among China, Japan, and South Korea would never be welcomed. South Korea intended to gain a position of advantage between China and Japan by pursuing FTAs with the United States, China, the European Union, and Japan. In the course of such action, the process for concluding a Trilateral FTA among China, Japan, and South Korea was expedited rather unexpectedly, which led to the agreement among the heads of the states during the summit in May 2012.
- The outlook for a Trilateral FTA is not positive. Although the three states have cooperated on a number of different fields including environment, technology, and other issues, there have been no significant achievements. The absence

- of results on even non-political issues demonstrates that cooperation among the three states will be no easy task as trade issues involve high national political costs and strategic considerations hold a powerful influence. Rivalry between China and Japan also has an impact upon this gloomy outlook on a Trilateral FTA. As mentioned before, these two strategic rivals will not be able to establish an FTA. Cooperation therefore is only possible between the two countries at a very low-level. Secondly, Japan's overriding political and economic issues will come into play. While it is true that Japan wants to rejuvenate its economy by using an FTA as a kind of shock therapy for its stagnant economy, Japanese society's increasing inwardness, political instability from constant change of prime ministers, and a political discourse immersed in purely national issues all prevent Japan from successfully negotiating with sizable trade partners such as China and South Korea.

**A2-2: "Tokyo is using the Trilateral FTA as a political bargaining chip to gain concessions from the United States regarding its entry into the TPP?"**

- Then how to explain why China and Japan have made a proposal for a Trilateral FTA at this time, despite the obvious infeasibility? For Japan, it all relates to its entry of the TPP, which it needs for economic and security reasons. Japan needs both economic recovery and external stimulus, while seeking the United States to help balance against a rising China. The problem though is in the strict barriers for entry into the TPP. The United States has defined the TPP as the prototype FTA for the twenty-first century which aims to promote a significantly high-level of trade liberalization. As Japan has never concluded an FTA that includes a wide opening of its agriculture market, the TPP remains a difficulty regarding the entry requirements. Therefore, it is likely that Japan intends to use the Trilateral FTA as a political bargaining chip to induce concessions over its agriculture market from the United States in the process of its entry into the TPP.

**A2-3: "China is seeking to use the Trilateral FTA in order to stall the entry of Japan and South Korea into the TPP?"**

- China views the TPP as part of a move by the United States to contain its rise. Currently, the TPP wields little influence because of the lack of sizable member states other than Australia. However, if Japan does enter into the network, the East Asian FTA order will transform and this will make it harder for South Korea to be just a bystander. In such a case, China will have to both meet the qualifications for entry into the TPP and pay all the national political costs or it should construct its own independent network. The latter though would not produce any meaningful results without the presence of Japan and South Korea. China therefore has little choice but to stall the entry of Japan and South Korea into the TPP while enlarging its own network. In such a context, the Trilateral FTA is a political gamble by Beijing to stall other countries' entry into the TPP.

**Q3: What should be South Korea's strategy?**

**A3: "South Korea should pursue both an Asia-Pacific network and an East Asia network simultaneously while actively developing an ideal East Asian FTA model."**

- For South Korea, the KORUS FTA and TPP are part of an Asia-Pacific network, but a Trilateral FTA among China, Japan, and South Korea is linked to an East Asian network. Crucially, it is important to remember that the Asia-Pacific

network and East Asian network is not a matter of choosing one or the other. Since the U.S.-driven Asia-Pacific network involves a high-level of trade liberalization, such a model cannot encompass all of East Asia. As East Asia does not have many member states with open market economies, it is important to have an FTA model that achieves regional integration through recognizing the unique characteristics inherent in the East Asian context and societal needs.

- South Korea's FTA strategy should follow a wider model for East Asia. The proposed Trilateral FTA among China, Japan, and South Korea should proceed within such a context. Blindly responding to the strategic moves of China or Japan is not a sensible policy. What South Korea must consider when discussing an East Asian model is how to reflect the social context of East Asia as an environment where there is an income divide while at the same time the demand for welfare has dramatically increased over the last decade. Simply pushing ahead with an FTA for the sake of increasing exports and expanding markets will inevitably invite domestic opposition. The ideal FTA model would include domestic arrangements that work to distribute equally all benefits resulting from increased exports. Secondly, such an FTA model must be shown to be supporting job creation. Thirdly, this FTA model must also be compatible with developing countries in the region. To achieve such objectives, China, Japan, and South Korea need to establish a strong network that demonstrates such careful considerations and sets a strong precedent while avoiding the perception that they are simply pursuing their own self-interests.
- Despite the sheer magnitude of trade volume in its economy, South Korea has been promoting an FTA policy out of fear that it remains far behind others in the global FTA competition. From now on, with a broader view, South Korea needs a so-called FTA 2.0 strategy that takes into consideration the political conditions of East Asian states and coexistence with developing states.

## **About the Interviewee**

### **Yul Sohn**

Dr. Yul Sohn received his doctoral degree in political science at University of Chicago. He is currently a professor at Yonsei Graduate School of International Studies (GSIS).