

Policy Recommendation for South Korea's Middle Power Diplomacy: Trade

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Knowledge-Net for a Better World

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South Korea emerged as a major player in the establishment of FTAs in East Asia, by exploiting its positional advantage driven by a bridge between East Asia and the United States. In 2003, the Roh government setup an aggressive FTA policy, known as the "simultaneous multi-faceted FTA promotion" approach, that aimed to quickly catch Korea up to and fill the lag created by its late adoption of the global trend toward the proliferation of FTAs. By successfully concluding a FTA with the United States, Seoul was able to provide a boost to its economy and help elevate South Korea's status as a middle power in the regional strategic balance. Due to its increased positional power, as it has linked itself to the U.S., subsequently, major economies including immediately the European Union, China and Japan approached the country for FTA deals.

As Korea sat in a strategically advantageous position within newly emerging FTA networks, the Lee Myung-bak government presented an ambitious FTA roadmap in August 2008, the so-called "global FTA hub." The country would establish a hub-and-spokes trade network by successfully promoting FTAs with China, Japan, Russia, and the Gulf Cooperation Council (GCC). It anticipated that positional advantage driven by Korea's status as being the only country in the world having concluded FTAs with both the United States and China, should empower the country to play a leading role in regional multilateral FTA negotiations.

Unfortunately for Korea, world trends shifted toward multilateralization of FTAs before it could fully prepare and materialize its "hub strategy." By late 2010 the TPP became a key trade issue in the region because the United States quite successfully pushed for a multilateral FTA in the TPP as a primary means to engage Asia and the Pacific. As Japan responded positively as an ideal candidate, China countered by FTAs with Taiwan (ECFA) and Korea, and



took the initiative in promoting China-Japan-Korea (CJK) FTA negotiations as well as the Regional Comprehensive Economic Partnership (RCEP). With two multilateral FTAs competing, South Korea's FTA hub strategy needed revision. The Japanese decision to enter TPP negotiations, in particular, made Korea's calculation complicated. Now, participating in the TPP meant that Korea should enter negotiations with a difficult Japan, talks that had been stalled for eight years due to the former's hesitation. On the other side, The American geopolitical pressure was felt strongly as Japan entered negotiations.

While situated in a difficult position, South Korea still can find room to play a middle power role in East Asia. It is still well-positioned in the new FTA environment. Korea will find that both the TPP and RCEP will be relatively easy to conclude because it already has concluded, or is negotiating, FTAs with most of the members. Even better, the government and national assembly have already approved high-quality agreements with the U.S. and EU. Moreover, Korea-China FTA negotiations were just completed. This unusual position gives South Korea an advantage to play a proactive role. The New Park Geun-hye government has responded positively. Its new trade roadmap issued June 2013 calls for South Korea's role as a "linchpin in regional economic integration." Specifically, it aims to link the U.S.-driven TPP and the China-driven RCEP, but the roadmap does not explore how this will be achieved. There are several specific areas in which South Korea can play a middle power role in contributing to regional stability and prosperity.

Policy Recommendations

1. South Korea Can Seek Ways to Assuage "Over-Securitization" of Trade Relations.

The TPP seems politically divisive because China is not included. The TPP might cause trade diversion effects against China, but it will not critically affect the seemingly ever-expanding Chinese economy. Risks to the U.S. economy caused by the RCEP or CJK are minimal. In fact, as long as the U.S. concludes the TPP deal first, the U.S. will hardly feel threatened by the RCEP and CJK. It does not matter whether the RCEP materializes or not. The question is about how threatened China feels by the TPP. In this regard, the speed by which RCEP and CJK negotiations proceed is important. If RCEP and CJK negotiations make progress, China will not feel isolated by the US-led TPP network. As more dual membership countries come out, it will decrease China's fear and its tendency to over-



securitize the trade architecture. South Korea's role is to help in promoting the RCEP and CJK in parallel with TPP negotiations.

2. South Korea Should Lead a Middle Power Network to Propagate Against the View that Sees the Regional Free-Trade Agenda Reduced to a Sino-American Relationship.

Many see that China or the U.S. may end up having veto power over any regional agreement that may develop. This situation is not conducive for all countries in the region, so where opportunities exist for middle power countries to make a deal to their mutual benefit, they should grasp those opportunities and do so by convening mechanisms where middle powers come together in sharing common interests.

3. The Most Important Task is Designing a New Regional Trade Architecture.

At the November 2014 APEC Summit meeting, China showed its preference of promoting the Free Trade Area of the Asia-Pacific (FTAAP). In contrast to the American position, which views the TPP as a building block for a FTAAP. The Chinese proposal of a FTAAP is seen as sort-of-a bridge between the TPP and RCEP. Either way, the FTAAP would create a substantially larger FTA than either of the other currently negotiated pacts such as the TPP and the RCEP. What is needed is designing an architecture where these two trade networks can evolve to coexist. One potential solution is functional differentiation. Given the TPP is already identified as a high-quality, comprehensive FTA, it is desirable to define the RCEP as functionally different but still compatible with the TPP. The South Korean role is taking the initiative in elaborating the RCEP's objectives that supports and contributes to regional economic integration, equitable economic development, and strengthening economic cooperation between advanced industrial and developing countries. With successful brokerage, a harmonious regional economic architecture can emerge, and ultimately, help to establish regional complex networks that can assuage potential conflicts in the making of a regional security architecture rivaled by two superpowers.

4. Seoul Can Play a Broker Role in CJK FTA Negotiations.

Given the extensive cross-border production networks or supply chains among the three economies, trade needs complex rules rather than tariff reductions. In this regard, South Korea will need to take prudent action that puts less weight on tariff concessions than trade rule



making. This is partly because many hurdles arising from the conflicting interests exist in negotiations over tariff concessions. It will be a smart strategy to lead the other two rivals to stay focused on negotiating trade rules including ROOs, Intellectual Property Rights (IPR), competition policy, and regulatory rules while keeping a tariff concession level that is not too high. In the end, Seoul can help shape the deal as a standard for the future rules in RCEP. In doing so, the three-way standard should be designed for plasticity and scalability.

5. The Government Needs to Better Prepare for Multilateral Diplomacy in Trade.

The recent government reorganization of trade negotiations: detaching trade negotiation functions from the Ministry of Foreign Affairs and Trade submerged into the Ministry of Knowledge Economy (previously the Ministry of Industry and Energy), renamed as the Ministry of Trade, Industry and Energy (MOTIE); was aimed at fostering closer relations between industries and trade in dealing with trade issues and negotiations. This domestically oriented move has generated some concerns over the government's strategic response to the increasing need of middle power diplomacy in multilateral settings. Given the undeniable geopolitical competition between the U.S.- Japan and China in the region, Korea's trade policy requires a critical understanding of the complex nature of trade issues and a balanced approach in a turbulent region. The government needs to address these concerns and proactively engage with trade diplomacy in order to secure prosperity and peace in the region.■



Author's Biography

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Yul Sohn is Dean and Professor of the Graduate School of International Studies at Yonsei University, Seoul, Korea. Before joining at Yonsei, Sohn taught at Chung-Ang University, Seoul, Korea, and was a visiting scholar at institutions in the University of Tokyo, Waseda University, and the University of North Carolina at Chapel Hill. Currently, Sohn serves a number of government advisory committees including the Ministry of Foreign Affairs, Korea National Diplomacy Academy, and the Northeast Asian History Foundation. He also has served President of the Korean Studies of Contemporary Japan. Sohn has written extensively on Japanese and East Asian political economy, East Asian regionalism, and global governance. His most recent publications include “Attracting the Neighbors: Soft Power Competition in East Asia,” “Securitizing Trade: The Case of U.S.-Korea FTA,” and “Japan’s New Regionalism: China Threat, Universal Values, and the East Asian Community.” Sohn received his Ph.D. in Political Science from the University of Chicago, Illinois, USA.

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