

Smart Q&A  
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Free Trade Agreement Networks in East Asia

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A series of summits held in June, including the U.S.-China and South Korea-China, accelerated the progress in pursuing regional economic networks that have been in negotiation. Recent emergence of regional economic agreements, particularly the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP), has been perceived as a competition between the United States and China. Despite the fact that the TPP was not the U.S. initiative, TPP is seen as being led by the United States, while RCEP is viewed as China's response to the U.S.-led TPP. The increased presence of the United States and its allies in the TPP only escalates the suspicion that the TPP is an attempt by the United States to encircle China in its own region. The East Asia Institute invited Vinod Aggarwal, Professor at the University of California at Berkeley, to assess the recent emergence of regional economic networks in East Asia, its impact on the U.S.-China relations and the region, and the implications for South Korea.

**Q1: How should the recent emergence of regional economic networks, such as the South Korea-China-Japan trilateral Free Trade Agreement (FTA), TPP, and RCEP, be interpreted with respect to the U.S.-China relations?**

**A1: "...an argument that the U.S. involvement in the regional economic networks is a sign of the China encirclement policy is not convincing."**

- No economic networks, either the TPP or RCEP, should be construed as a balancing behavior. Trade cannot be used solely to encircle countries; therefore, an argument that the U.S. involvement in the regional economic networks is a political maneuver to contain any country is not logical.
- That the TPP is an attempt by the United States to balance China is a misperception. From the inception, TPP was not initiated by the United States. The TPP goes back to the P4 or "Pacific 4" countries, which includes Brunei, Chile, New Zealand, and Singapore. When the TPP was initiated by the P4 countries, it was perceived as an insignificant effort by a small number of economically open countries with a commonly-held idea that the TPP would affect sanitary and phytosanitary measures, government procurement, regulatory standards, and intellectual property protection, to name just a few. In fact, these standards have already been agreed upon and established prior to the United States' membership. Moreover, the standards are so high that even the United States fails to satisfy some of these P4 requirements that a member country must meet in order to join the TPP. The United States was initially against even Canada, Mexico, and Japan joining the TPP because these three staunch U.S. allies wanted to open parts of the U.S. market, such as the auto industry, that the U.S. government wanted to protect.

This product presents a  
policy-oriented summary  
of the Smart Q&A.

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- The likelihood of China joining the TPP is low not because the United States is blocking China's membership, but because China is unwilling to follow the TPP requirements. For example, China will not give up the government procurement code, one of the P4 standards. China has never signed the government procurement code, which it agreed to sign when it joined the World Trade Organization (WTO) in 2001. Thus, the official statement from China's Ministry of Commerce spokesman in May that China is considering joining the TPP may only be diplomatic at best. Therefore, more realistic picture of the likely outcome for the East Asian region would be that instead of being absorbed into the TPP, RCEP will keep its entity separate and set its standards relatively low. RCEP will likely be a main focus of the East Asian FTA networks, covering broadly-based issue, while the TPP will remain a high-level trade agreement.

**Q2: What is the impact of the increasing number of regional economic arrangements on the development of the international free trade?**

**A2: "There has been excessive proliferation of institutions in Asia, which weakens the institutional capacity of regional networks to enhance economic policy coordination."**

- The proliferation of institutional arrangements as demonstrated by a series of bilateral FTAs, the TPP, RCEP, and East Asia Summit (EAS) has complicated the system. This negates the original mandate in creating the regional networks, which was to facilitate trade and investment across the region. The increasing number of regional economic arrangements leads to inefficiency due to bureaucracy and in some cases creates opportunities for corruption. Institutional proliferation has only been detrimental to creating an open forum for trade and investment. Instead of relying on bilateral or even regional trade arrangements, countries should focus on strengthening the WTO.
- Another problem with the institutional proliferation is from the perspective of small and medium enterprises, the so-called "salvation of the global economy." More specifically, unlike the multinational corporations, small and medium enterprises lack resources to follow new trade and investment agreements and changes in regulatory policy. It is difficult for a small company to focus on all the government regulations, rules, and procedures that have been adopted in newly-signed agreements. Therefore, the rapidly increasing number of regional economic networks creates a problem by making it harder for small and medium enterprises to follow all the changes in the regulations.

**Q3: Will the strengthened economic cooperation under way among East Asian countries mitigate the so-called "Asia's paradox," a phenomenon in which territorial sovereignty and historical issues create greater tension despite the increasingly high level of economic interdependence in East Asia?**

**A3: "Asia's paradox is not a convincing argument since such phenomenon is not unique to Asia. Increasing level of economic interdependence does not necessarily lead to the development of stable security relations."**

- A phenomenon called "Asia's paradox" is not unique to Asia, nor is it inevitable. As can be seen in the fact that the United States and China engage in massive flows of capitals, goods, services, and trades for more than twenty years despite the obvious sign of conflict and suspicion between the two countries, it is possible for countries to move forward in trade negotiations in spite of political or historical disputes. This is not to argue that security issues and trade are unrelated, but rather countries have historically shown to be able to make trade agreements and cooperate on economic issues despite the political disputes. In this sense, "Asia's paradox" is not a convincing argument since the Asian countries are capable of moving forward on the impending trade agreements in the midst of historical disputes. Taking into consideration the fact

the world is in complete transformation and rapidly evolving, Asian leaders who overemphasize the historical disputes are misplacing what is strategically important to their own national interests.

- An example of European economic integration clearly demonstrates that political and security issues can be postponed to facilitate economic cooperation. In spite of territorial disputes regarding the Alsace-Lorraine region between France and Germany, the two countries played a significant role in creating the European Coal and Steel Community in 1951, which later merged with the European Economic Community. While this example shows that territorial disputes between countries do not necessarily negate the ability to go forward on trade, it must be noted that the European integration took place in the context of the Cold War. With the strong support from the United States to put aside political differences and instead focus on the common threat posed by the Soviet Union, the European economic integration was able to proceed. Due to an extraordinary security threat posed by the Soviet Union, there was clearly a security context within which the European economic integration took place.
- However, the case of the European economic integration does not directly apply to the current state of East Asia. There is no such security context as the Cold War or the Soviet Union to the recent efforts for economic integration in the East Asian region. Therefore, it is imperative for South Korea, China, and Japan to move beyond any historical issues that might hinder their efforts at economic cooperation and to move forward on trade integration on their own. Historical and territorial disputes that South Korea, China, and Japan are entangled in are not extraordinary security issues and therefore, need not stand in the way of cooperating on trade agreements. In other words, unlike the European integration case in which security issues were closely linked to the trade, in the case of South Korea-China-Japan trade networks, delinking political issues from trade is crucial. In order to delink political and historical issues from trade, one should not overemphasize the trade security nexus and issue linkage. Linking too many political, environmental, or security issues to trade makes it difficult to move forward with trade agreement.
- Unless South Korea, China, and Japan delink political issues from trade, East Asia would fall behind in establishing the international trade standards. As the FTAs are proceeding in other parts of the world, international trade standards are established. The most important point of engaging in the FTAs is initiating the regulations beneficial to national interests, such as health standards or safety standards. Thus, by not being able to move forward with economic issues due to historical disputes, the East Asian region would have to be a “follower” instead of a “setter” of the international standards.

**Q4: What are the policy recommendations for South Korea to effectively respond to this emergence of regional cooperation as a middle power or even a “hub” in the East Asian region?**

**A4: “South Korea as a middle power should devise its long-term strategy with an outcome-driven focus on its national interests rather than a strategy geared towards getting credit for developing initiatives.”**

- Middle powers have played a major role in fostering regional economic cooperation among bigger countries. The example of how P4 countries took an initiative in promoting open trade in the absence of progress in the WTO demonstrates that the middle powers can take a leadership. What initially began as an exclusive agreement among four little countries expanded to include greater powers such as the United States, Australia, Japan, and Canada by the pure force of intellect and ideas. The example of TPP shows that some of the trade arrangements that were advocated by smaller countries can be accepted as the global standard.

- In order for South Korea to play a dynamic role in the global economy, it should devise initiatives that are particularly beneficial for not only South Korea, but also the region and the global economy. However, middle powers such as South Korea should not focus on getting credit for the initiatives taking the rightful claim for those initiatives. Middle powers lack resources to coerce a country; therefore, in order for a middle power to wield an influence in the international community, it must transform sheer intellectual force into feasible policy ideas and then rely on great powers with resources and power to actually implement and enforce these ideas. Therefore, South Korea should devise its strategy based on the long-term perspective with a practical focus on the outcomes beneficial to South Korea's national interests. As seen in the example of the creation of APEC and TPP which were not initiatives of big countries, it is possible for middle powers to utilize intellectual force to affect the global economy. In other words, South Korea should figure out its specific goals in pursuing regional economic networks, and work with countries with similar objectives and interest in high economic growth, inclusiveness, and global equity.

## **About the Interviewee**

### **Vinod Aggarwal**

Vinod Aggarwal is currently a professor in the Department of Political Science and the Business and Public Policy group in the Haas School of Business, and Director of the Berkeley Asia Pacific Economic Cooperation Study Center (BASC) at the University of California at Berkeley. He received his Ph.D. from Stanford University.