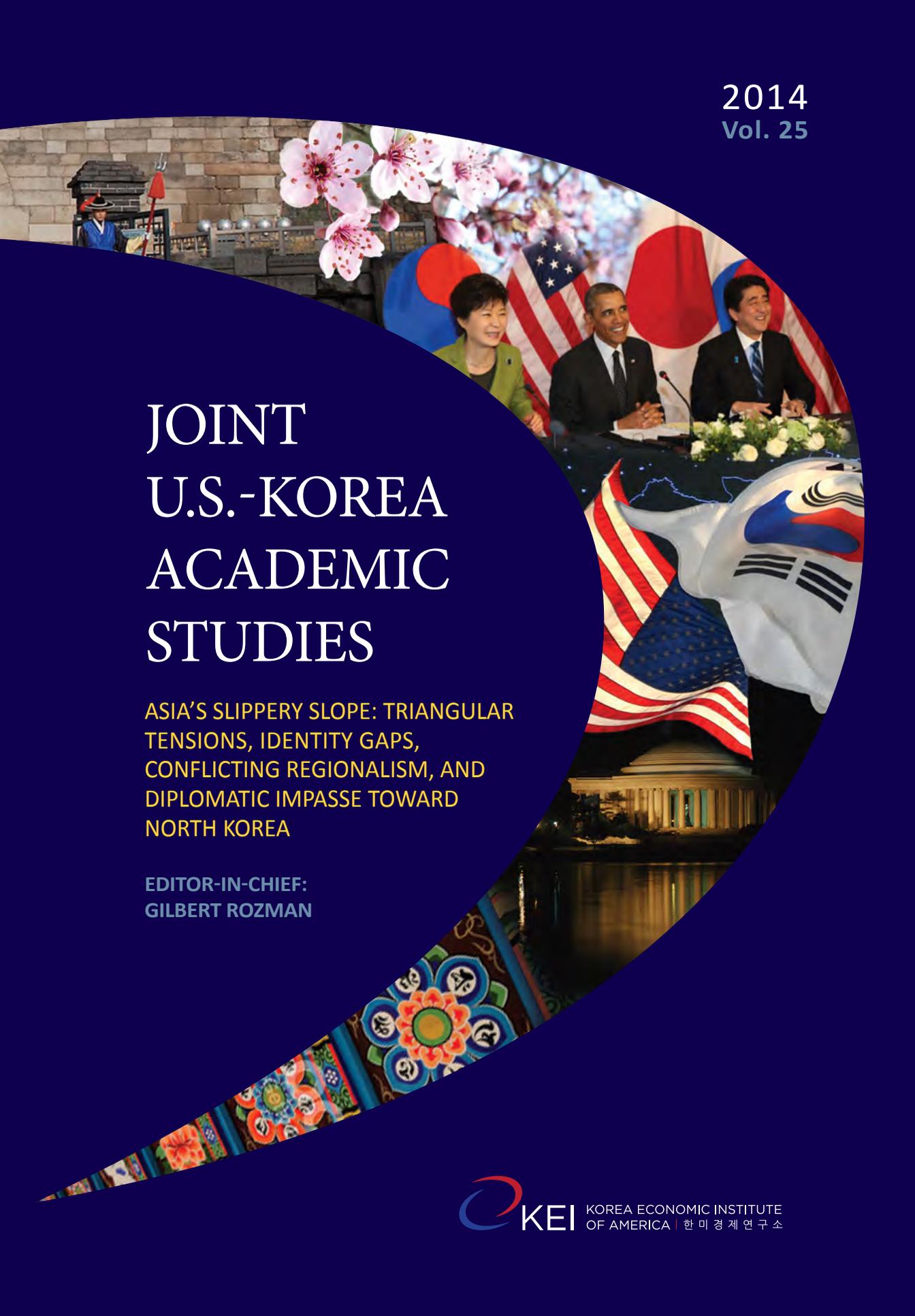


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ASIA'S SLIPPERY SLOPE: TRIANGULAR  
TENSIONS, IDENTITY GAPS,  
CONFLICTING REGIONALISM, AND  
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# DIVERGENCE ON ECONOMIC REGIONALISM

# Korean Bridge: Balancing Asian Economic Regionalism Between the United States and China

Jin Kyo Suh

The debate on TPP versus RCEP has been widely recognized as a struggle between the United States and China for expanding their influence in the Asia-Pacific region, and it is now commonplace for scholars to discuss the rivalry between the two agreements.<sup>1</sup> Both the TPP and RCEP agreements could invigorate the sluggish Asia-Pacific economy by promoting trade liberalization and economic integration; however, the story is not so simple because they have been recognized as being a political tool as well as economic drivers. An important change occurred on March 15, 2013 when Prime Minister Abe Shinzo announced that Japan would formally seek to join the negotiations to establish TPP, in which the United States leads. Japan became the 12<sup>th</sup> member of the negotiations at the 18<sup>th</sup> round on July 2013 and now leads the TPP negotiations with the United States. From its perspective, Japan's participation in TPP might be the best option for revitalizing its economy and restoring its growth.<sup>2</sup> At the same time, it caused the equilibrium between the competing TPP and RCEP to shift toward TPP.

TPP aims to be a 21<sup>st</sup> century trade agreement that sets the rules for trade and investment in the Asia-Pacific region going forward. Achieving this goal will require other major economies in the region to join TPP with the intention of ultimately becoming a FTA of the Asia-Pacific (FTAAP). Japan's participation in TPP will give added momentum towards this goal. As the second largest economy in Asia and the third largest economy in the world, Japan's participation would be pivotal to enhancing the credibility and viability of TPP as a regional FTA. With Japan, TPP covers roughly 40 percent of global GDP as compared to 30 percent by RCEP countries. Furthermore, Japan's entry into the TPP talks gave further impetus to other countries. Korea expressed its interest in joining the ongoing negotiations for TPP late last year. The Philippines and Thailand are watching the TPP negotiations with an eye to joining. The TPP with Japan creates the impetus for China, Korea, and ASEAN to reconsider Asia-Pacific economic regionalism and to modify their regional integration.

ASEAN is on the ropes and will again worry about the possibility of marginalization in the process of Asian economic integration. The sudden rise of RCEP is, in fact, closely related to the rise of the U.S.-led TPP, including the China, Japan, and Korea (CJK) FTA. ASEAN, a group comprised of relatively small countries, entered into the ASEAN FTA (AFTA) in 1992 and began a step-by-step liberalization of trade. RCEP has built an ASEAN+1 FTA network throughout greater Asia with ASEAN occupying the pivotal position. Most likely ASEAN was able to take the helm of the region because RCEP was put forward in an effort to avoid conflict and rivalry between China and Japan and because stable economic growth makes it an attractive candidate.

From 2010, however, ASEAN was worried that the U.S.-led TPP could weaken ties in ASEAN and might marginalize the association. Four of the ASEAN 10 (Singapore, Brunei, Vietnam, and Malaysia) have already joined the TPP talks, causing concern that the association could split into two: TPP-ASEAN and non-TPP ASEAN. The option of ASEAN joining the TPP as a region would be possible, but those countries whose level of development are lagging, such as Cambodia, Laos, and Myanmar, could not accept high-quality market access with few exemptions and extensive regulatory alignment that TPP pursues.

From 2011, TPP was the leading trade policy initiative of the Obama administration. As a core component of efforts to rebalance toward the Asia-Pacific region, TPP negotiations were accelerated. ASEAN also hastened RCEP negotiations with the goal of consolidating the internal solidarity of the association. At first, China was wary of RCEP, taking a strong stance in favor of economic integration only within East Asia,<sup>3</sup> while seeking to prevent direct conflict with the United States by having ASEAN take the lead. Subsequently, China sought to help ASEAN accelerate the progress of RCEP with broader scope, but not with the United States. Since Japan showed strong leanings towards TPP from that time, China shared ASEAN's concerns about a centrifugal force arising to split asunder the economic integration of East Asia. In addition to the U.S.-led TPP, the fact that preparations are underway for negotiations for a CJK FTA has caused ASEAN to move up its proposal for forming RCEP. Because of such concern, ASEAN has more vigorously promoted RCEP in an effort to maintain its centrality in regional economic integration by not falling behind the momentum elsewhere.

ASEAN's efforts have apparently largely been for naught. The TPP alliance was expanded and even strengthened by Japan's participation. The CJK FTA negotiations, which remained elusive until the end of 2012, were launched and even finished their third formal meeting in November 2013. Now there is doubt that ASEAN will preserve its centrality by shepherding RCEP to a successful conclusion. Taking into account these new circumstances, it is time for ASEAN to search for ways to preserve its centrality in economic integration and to discuss its troubles frankly with large economies in the region as well as ASEAN member countries.

China is presumably much less comfortable with Japan's participation in TPP, which it has regarded as the U.S. effort to encircle it. It is obvious that the current TPP contains many provisions that China would find unacceptable, at least in the near future, such as state-owned enterprises (SOE) regulations and increased intellectual property rights (IPR) protection. Although China's attitude towards TPP has softened in recent months, with some officials and analysts recently arguing that China should participate, this is unlikely in the near future. Therefore, China has responded by forging ahead with RCEP and its own FTA negotiations, including the CJK FTA. Development of RCEP could receive strong backing from both China and ASEAN; however, prospects for the CJK FTA have turned darker.

The CJK FTA definitely has large benefits for the three Northeast Asian countries and significant implications for global multilateral trade. It can also be regarded as a stepping-stone for successful conclusion of RCEP negotiations; however, there are significant hurdles that make its expeditious completion or even bilateral FTAs between Japan and China or between Japan and Korea extremely difficult. In particular, historical issues and unsettled territorial disputes continue to cause uncertainty in the future of CJK FTA negotiations.<sup>4</sup>

Korea has dealt with the delicate balance between the United States and China. It signed the KORUS FTA and is now negotiating a bilateral FTA with China. Moreover, Korea is playing a major role in RCEP negotiations. With the KORUS FTA, and agreements with other TPP partners (Australia, Canada, Chile, Peru, Singapore, and ASEAN) already in place,<sup>5</sup> Korea was confident that it could join TPP at a later date. However, Japan's recent entry changes its calculus. Entry into TPP would give Japan a stronger bargaining position in its other

outstanding trade negotiations, such as RCEP and the accord with China and South Korea. In fact, Japan is becoming a linchpin in the overall process of region-wide FTA formations, which Korea had hoped to become after the KORUS FTA.

In summation, in regional context, there appears to be an economic and geopolitical contest between TPP and RCEP. The CJK FTA is also inextricably connected to the region's strategic environment and the alternative FTAs of TPP and RCEP. With those complicated competing negotiations being pressed by the United States, China, Japan, and ASEAN, how these agreements evolve over time will greatly affect the structure of the Asia-Pacific economy in the years ahead, and even the political relationship between the United States and China. Because of Korea's wide-ranging FTA networks, its decisions on economic regionalism will be an important signal of its vision for the future of Asia and the leadership it can exert. This chapter examines its options and the various strategies that Korea could employ to balance the pressures from China and the United States, while gaining the most economic benefit from the potential regional integration. With this in mind, the following sections focus on Korean thinking about both TPP and RCEP in terms of global trade flows and geopolitical impact and consider Korean views of what is the right balance in Asia-Pacific economic regionalism between the two great powers.

## KOREA'S VIEWS ON TPP AND RCEP

### TPP and Korea

**(1) TPP as a New Global Standard for Future International Trade.** TPP clearly has potential to be a new global standard for international trade. With 29 chapters under negotiation, TPP partners seek new disciplines on certain activities not heretofore addressed in both FTAs and the WTO. For example, TPP deals with new issues such as regulatory coherence, supply chain competitiveness, and small-and medium-sized enterprises. This is a major reason why TPP is called a 21<sup>st</sup> century regional FTA. If concluded as envisioned, it could serve as a template for a future global trade pact among WTO as well as APEC members.

Currently ranking as the 7<sup>th</sup> largest exporter and 12<sup>th</sup> largest economy in the world, Korea cannot help having great interest in the new rules and standards under negotiation by current TPP partners.<sup>6</sup> TPP will seriously affect Korea's exports to 12 TPP member countries as well as to non-TPP countries. Furthermore, TPP could influence the shape of Korea's trade policy for the foreseeable future. Korea has a strong incentive to participate in the TPP negotiations as soon as possible in order to put its own interests into the rule-making process on 21<sup>st</sup> century new trade issues before the negotiations are finalized. Last December, Wendy Cutler, acting Deputy U.S. Trade Representative, said it would be very difficult for any country, including Korea, to join the ongoing TPP negotiations, noting that the TPP talks are already in the end game. However, given the substantive disagreements among TPP negotiators on market access, intellectual property protection, and state-owned enterprises, it is conceivable that the negotiations could extend into 2015.

Since Korea is already well prepared to embrace the rigorous standards of TPP, as they closely reflect provisions negotiated in the KORUS FTA and Korea-EU FTA, the adjustment costs of membership are estimated as not very onerous. For instance, the KORUS FTA goes

further than the WTO in a range of areas, including intellectual property rules, services, and non-tariff barriers such as standards. Additionally, it addresses so-called “WTO-plus” issues by including commitments in areas such as investment access and protection, trade facilitation, competition, and environmental and labor policy.

**(2) TPP as a Mechanism for De Facto Isolation of China in East Asia.** Korea’s entrance into TPP could cause serious imbalance in the two competing region-wide FTAs, as noted above. Although the TPP seeks to be a “living agreement”—meaning that other countries can join at any time and other areas of trade can be added to the agreement in the future—the high standards are thought to be too big a barrier for China to overcome in the foreseeable future. While TPP does not intend to marginalize China in East Asia, it is also true that the content of TPP is beyond China’s acceptance limit.

Chinese leaders recognize that a series of policy changes are needed if they are to sustain economic growth, ensure social stability, and restore the tarnished legitimacy of the communist party. However, they fully understand that rapid market reform is not a feasible pathway to this end. China cannot participate in TPP negotiations, at least in the near future, because it could result in both rapid and unsettling reform of its fundamental economic and social structure. Therefore, from China’s point of view, the “living agreement” idea can be seen as a purely rhetorical device. China may believe that Japan’s successful entry into the TPP negotiations means that the United States has taken a step forward in encircling it. In this situation, a decision by Korea to join TPP could be absolutely undesirable for China and could provoke a serious imbalance in two competing mega region-wide FTAs: TPP and RCEP. Already suffering from diminishing competitiveness, China is keen to avoid any further hits to its trade position, which it would view through the lens of geopolitics as well as economics. The impact could be dangerous for regional stability.

**Table 1. TPP versus RCEP: GDP and Trade (Unit: Billion US Dollars, %)**

	TPP			RCEP
	TPP11	TPP12	TPP13	
GDP	22,824	27,831	29,029	20,983
	(31.1)	(37.9)	(39.5)	(28.6)
Trade	7,858	9,543	10,610	13,160
	(21.2)	(25.8)	(28.7)	(35.5)

*Note: TPP11: Japan is excluded. TPP12: TPP11 + Japan. TPP13: TPP12 + Korea. The figure in parenthesis is both the GDP and trade share of each agreement, compared to world GDP and world trade. GDP is based on the 2013 data, and trade is based on 2012 data.*

*Source: IMF, World Economic Outlook Database (October 2013); WTO, World Trade Statistics 2013*

China is the most important trading partner of Korea. The bilateral trade agreement with China covers a quarter of Korea's exports. The trade surplus with China amounted to more than \$53 billion in 2012, which is almost twice Korea's total trade surplus, similarly calculated in 2013. In addition, China has influence on North Korea's decision-making, which directly relates to the national security of South Korea. These significant factors cannot be ignored.

**Table 2. Korea's Merchandise Trade with China (2012-13)**

	Total (A)		With China (B)		(B/A)	
	2012	2013	2012	2013	2012	2013
Export	547,870	559,649	134,323	145,837	0.245	0.261
Import	519,584	515,561	80,785	83,037	0.155	0.161
Balance	28,285	44,088	53,538	62,799	1.893	1.424

Source: KITA (Korea International Trade Association), *Trade Statistics*

As a middle power in this region, Korea needs to pursue a balanced position in the process of Asia-Pacific economic integration, not only economically but also politically. In other words, Korea should prepare for entrance into the TPP negotiations but at the same time should guarantee that its participation in TPP is not harmful to the interests of China. Early conclusion of the bilateral FTA negotiations with China is one way to provide such reassurance. Exerting maximum effort for RCEP negotiations to make rapid progress is another. Both the bilateral FTA with China and RCEP could serve as a kind of insurance, preparing for the non-participation of Korea in TPP, should it be found that the cost of membership would be excessive.

**(3) TPP as Requesting Expensive Entry Fees for Korea.** Although the cost of TPP membership is estimated as not onerous, that estimation does not take into full account market access for goods. In its bilateral consultations with TPP partners, Korea may liberalize its sensitive items (e.g., rice or certain manufacturing sectors such as vehicles) further at the request of each of the current TPP countries.<sup>7</sup> This could impose costs many are unwilling to bear. Korea has finished the first round of bilateral consultations with current TPP members. It is said that Korea took a strong defensive position over manufactured goods in the negotiations with Japan.<sup>8</sup>

Currently Korean farmers strongly oppose its participation in TPP because they recognize TPP to be the second KORUS FTA and the TPP pursues much more ambitious liberalization targets. They seem to believe that the United States could demand the full liberalization of the Korean rice market, which is excluded in the market access of KORUS FTA. Many manufacturing enterprises think that TPP is a de facto bilateral FTA with Japan and are deeply concerned that their enterprises would be adversely affected by Japanese competition. Thus, in return for entry into the TPP talks, Korea may have to pay a significant price such as full liberalization of the agricultural market or immediate

elimination of tariffs on Japanese vehicles.<sup>9</sup> Such a big cost, although it may be smaller than the long-run gains, would be one of the major hurdles for Korea to enter into the gate of TPP. These domestic constraints have weighed heavily on the decision of whether to join TPP.

<b>Table 3. Korea's Merchandise Trade with Japan (Unit: Billion US Dollars, %)</b>		<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2013</b>
Total	Export	20.5	24.0	28.2	34.5
	Import	31.8	48.4	64.3	60.0
	Balance (A)	-11.4	-24.4	-36.1	-25.3
Manufactured products	Export	18.6	22.6	26.3	32.7
	Import	31.4	48.0	63.7	59.6
	Balance (B)	-12.8	-25.4	-37.4	-26.9
Machine & Vehicles	Export	8.4	8.4	9.5	10.3
	Import	17.3	21.3	24.5	21.9
	Balance (C)	-8.9	-12.9	-15.0	-11.6
B/A		1.13	1.04	1.04	1.07
C/B		0.70	0.51	0.40	0.43

*Source: KITA (Korea International Trade Association), Trade Statistics (www.kita.net)*

**(4) Uncertain Expected Gains from TPP.** Korea is expected to reap significant long-term benefits from joining TPP.<sup>10</sup> Furthermore, the benefits of membership are manifold: greater bargaining power in ongoing negotiations with China and Japan to tackle non-tariff barriers, the rationalization of its FTA “noodle bowl” of multiple trade rules, and the consolidation of a forward-leaning alliance with the United States. However, there exist different views on how much Korea would really gain. First, the KORUS FTA and other separate free trade pacts with TPP countries will reduce the additional gains from the TPP pact. Second, although members have agreed to pursue a single set of TPP rules of origin, they are pursuing different approaches to developing a TPP tariff schedule. The United States has maintained that it was negotiating market access bilaterally and only with the TPP partners with which it did not have an FTA. Other participants have sought to negotiate plurilateral market access schedules. Thus, without firm harmonization of TPP rules of origin, the TPP may end up undermining the global trade system by adding more “noodles” to the bowl. Third, it is unclear exactly how TPP will address supply chains. China is, in fact, at the center of Asia’s trade growth and is a key link in global supply chains in Asia. The trade share of most Asian countries with China is higher than 10 percent. Even the U.S. import share from China is more than 19 percent. Therefore, the Asian supply chain without China would seem like an agreement with a big hole.

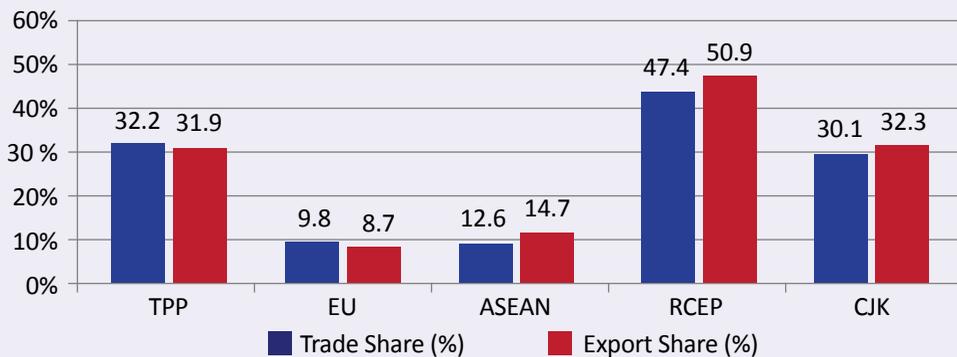
**Table 4. Merchandise Trade of Major Asia Pacific Countries with China (Unit: %)**

	Export Share (to China)	Import Share (from China)
Korea	26.1	16.1
Japan	18.1	21.7
ASEAN	11.4	14.8
Australia	29.5	18.2
New Zealand	15.0	16.4
India	5.0	11.0
United States	7.7	19.2

*Note: The share is the percentage of exports (imports) going to (from) China to total exports (imports) of a country or region. Figures of ASEAN, Australia, New Zealand, and India are 2012 statistics and other figures are 2013 statistics.*

*Source: KITA (Korea International Trade Association), Trade Statistics, MOF (Ministry of Finance), Trade Statistics of Japan, USDA, US Census Bureau, IMF, Direction of Trade Statistics*

Petri, Plummer, and Zhai estimated that RCEP would yield income gains by the year 2025 equivalent to 4.1 percent of GDP, which is almost two times higher than that of TPP.<sup>11</sup> Some Korean scholars argue that Korea should be prioritizing the RCEP negotiations, including CJK trilateral FTA negotiations. Korea's exports to the RCEP economies were \$285 billion in 2013, which is more than 50 percent of its total exports.

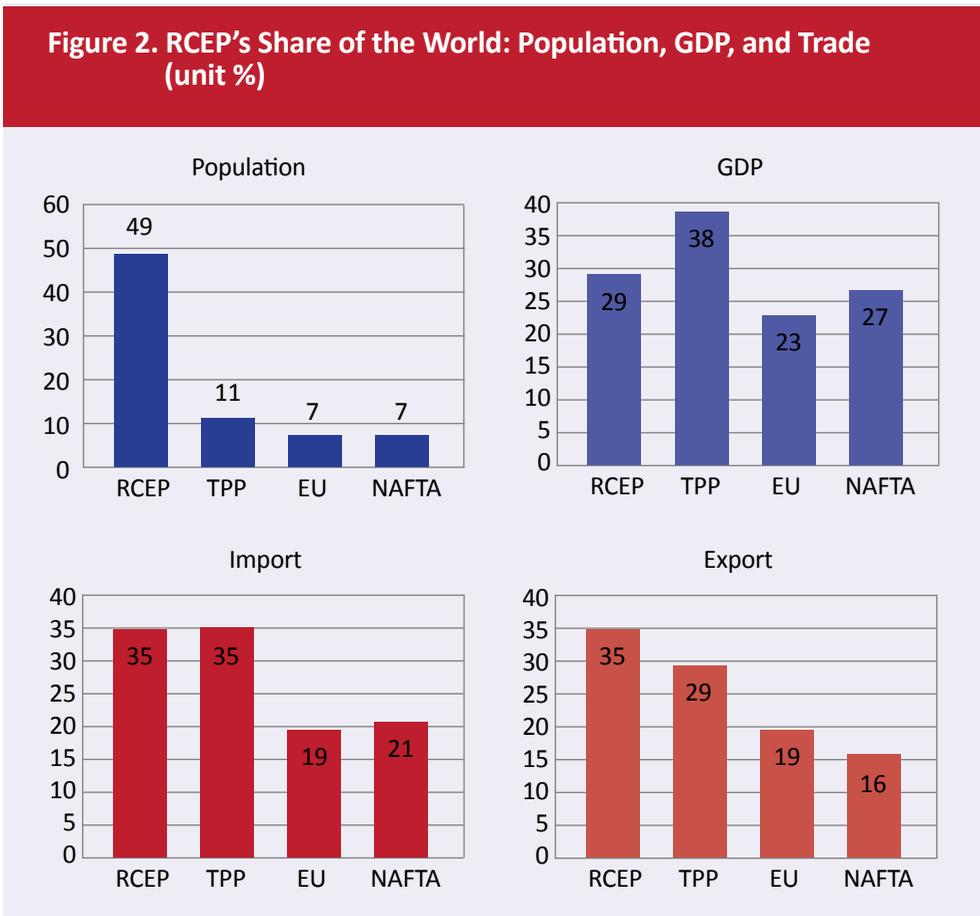
**Figure 1. Korea's Trade and Exports: Shares to Selected Trade Groupings (2013)**

*Note: Trade means the sum of exports and imports*

*Source: KITA (Korea International Trade Association), Trade Statistics*

## RCEP AND KOREA

**(1) RCEP as a Strong Rival of TPP in Regional Integration in Asia.** RCEP includes more than 3.4 billion people, has a combined GDP of about \$21 trillion, and accounts for about 35 percent of world trade. If concluded successfully, RCEP would create the world’s largest trading bloc and has major implications for not only the Asian economy but also the world economy. In particular, it would be a powerful vehicle to support the spread of global production networks and reduce the inefficiencies of multiple Asian FTAs that exist presently.



*Note: Intra-EU trade (both imports and exports) is excluded*

*Source: IMF, World Economic Outlook Database (Oct. 2013); WTO, World Trade Statistics 2013*

It is often said that the RCEP is less ambitious than TPP, because of the “flexibility clause” built into its negotiating principles.<sup>12</sup> However, flexibility is RCEP’s strength, allowing common objectives to be pursued over different paths and the interests of the less-developed members to be met. An important characteristic of Asian societies is their diversity. Cross-cultural diversity adds to the exotic nature of Asia as a gigantic melting pot of diverse

cultures. Thus, flexibility is an essential factor for allowing Asian countries to integrate. Because of this, RCEP could be superior to TPP in regional economic integration.<sup>13</sup> The level of market access in RCEP could be lower than that in TPP, but RCEP could embrace more economies. Thus, RCEP, if completed successfully, can be insurance to Korea and China, including other ASEAN states outside TPP.

**(2) RCEP Needs Strong Leadership Based on ASEAN Centrality.** Flexibility could be a benefit or a bane for RCEP. While it could help break deadlocks and find compromises among disparate national interests, it could also limit change or curtail progress in achieving greater liberalization. Unless there is enough political will to close potential loopholes disguised as “flexibility” and pursue reforms deeper than those ever before attempted, RCEP’s future as a consolidated bloc remains uncertain. Strong leadership is indispensable to concluding the negotiations successfully.

Leadership should be based on ASEAN centrality. China and Japan might not trust each other, but ASEAN is believed to be impartial. In fact, Japan has been searching for a way to manage the rise of China, largely through its relationship with the United States. ASEAN fears China’s military threat on the issue of the South China Sea, too. ASEAN knows that being too close to China or the United States is harmful to its unity. It can retain centrality by using the “ASEAN Way” of consultation and consensus to accommodate all the voices and needs of its members. In this respect, Korea should play the key role of regional mediator between China and ASEAN.

**(3) RCEP as a Tool for Managing the Rise of China.** ASEAN is concerned that China will eventually dominate East Asia through a China-led East Asia Community. Some countries, especially Myanmar and Vietnam, have actively engaged in strategic balancing between China and the United States. They seek more robust economic and strategic relationships with the United States to hedge against China’s threat. Thus, RCEP based on “ASEAN centrality” can be used to check the rise of China. ASEAN has long been considered neutral—it is not dominated by a great power. Fear of such domination may prompt ASEAN to strengthen itself and maintain unity, safeguard the consensus principle, and engage more carefully with regional powers.

## CONCLUSION: DUAL TRACK APPROACH

Initially a trade pact envisaged by Brunei, Chile, New Zealand, and Singapore, TPP was transformed in 2008 when the United States expressed its interest. It has expanded to 12 members. In particular, Japan’s entry into the negotiations brings a critical mass to a deal that, if completed, would cover countries that account for two-fifths of global output. The TPP agreement is ambitious in terms of not only its size, but also the scope and scale of its liberalization. If the United States also concluded a FTA agreement with the EU, it would have signed deals with countries accounting for two-thirds of global output. TPP, in other words, could be part of a grand strategy to conclude an only slightly less ambitious version of the Doha round by other means.

RCEP starts with flexibility in its guiding principles, allowing differential treatment for developing countries while still aiming for a high-standard agreement. While it would

expand ASEAN's role in coordinating regional free trade negotiations, RCEP could help regionalize the sophisticated global production networks that make Asia the world's factory. It would also reduce the overlap among Asian FTAs, lest Asia becomes a confusing "noodle bowl" of multiple trade rules.

TPP and RCEP may end up either providing ballast to the global trading system—and bringing some coherence to the many regional FTAs—or undermining it, by adding more "noodles" to the bowl. To achieve the first scenario, the agreements need to be complementary and outward looking, i.e., they should minimize discrimination towards non-members and be open to adding new members. The worst-case scenario is for these agreements to become competing, exclusive blocs with very little overlap in membership. It is already clear that it will be difficult for China to join TPP given the high hurdles to membership, and the U.S. Congress will not easily facilitate U.S. membership in RCEP.

Many analysts, noting the absence of China, regard TPP as a geopolitical club masquerading as a free-trade one. Until recently, some Chinese leaders described TPP as a plot designed to contain China's rise. In this situation it is not easy for Korea to decide to join TPP; however, it does not want to be excluded in the rule-setting process for future global trade norms. This leads to a dual track approach. On the one hand, Korea pursues entry into TPP. On the other, it makes the utmost effort to conclude RCEP by 2015, based on the completion of a bilateral FTA with China. This is almost the same idea as that of a new FTA roadmap in June 2013, in which Korea plays the role of a linchpin between the integrated market of East Asia centered around China and the pan-Pacific market led by the United States. The synergy effects of acting as a "bridge" in these mega trade negotiations could be substantial. This could play out in three steps.

**Step 1-A: Early Conclusion of the Korea-China FTA.** This could be a crucial precondition for the successful conclusion of the RCEP talks as well as the CJK FTA negotiations. It would also strengthen Korea's bargaining leverage when it starts to consult with existing TPP partners on joining the negotiations, while serving as a kind of insurance, preparing for non-participation in TPP, should the costs prove to be excessive. Since the KORUS FTA has already come into effect, the completion of Korea-China FTA talks has added significance for Korea.

**Step 1-B: Start of Bilateral Consultations with TPP Members.** Korea has already expressed its interest in joining TPP—its application for membership is really a matter of time. Then, the faster it joins TPP, the lower the entrance fees. At present it is proceeding with bilateral consultations with the current TPP countries simultaneously. A final decision on entry would be subject to the results of the bilateral consultations as well as the progress of the bilateral FTA negotiations with China. Korea has to keep open the possibility that it will not join TPP after all. If the entry costs are small enough for Korea to bear, then Korea should finish the China-Korea FTA negotiations quickly and, at the same time, enter into the TPP negotiations.

**Step 2: Acceleration of the CJK FTA.** This step is a natural result of step 1. In addition, the CJK FTA could be a stepping-stone to reach a successful conclusion in RCEP negotiations. Korea needs to accelerate the trilateral negotiations in a balanced manner. Agreement on

the Korea-China FTA could be a useful template for the CJK FTA talks. If Japan opened its agricultural market in TPP, this could also be advantageous for accelerating negotiations on the CJK FTA, as agricultural products are considered a difficult problem for the three states. However, the tension between China and Japan would make the CJK FTA difficult in the foreseeable future. Thus, Korea has to exert utmost effort for progress in the CJK FTA, at the same time leaving room to bypass it in favor of the reduced form of RCEP directly without the CJK FTA.

**Step 3: Creation of a Reduced Form of the RCEP.** RCEP is scheduled to conclude by the end of 2015; however, it will not be easy. Large countries may be reluctant to respect the central role of ASEAN. The flexibility clause could help break deadlocks, but could also curtail progress in achieving greater liberalization. In addition, varying internal policies of countries could prove to be difficult to harmonize and consolidate under RCEP. RCEP could still be put at risk because of tensions between its members, especially China and Japan. The South China Sea dispute involving China and several ASEAN countries also could reverberate in this manner.

In this situation, a more productive strategy is to see a streamlined trade agreement as one of the several steps that will be needed for an RCEP that embraces a more comprehensive program of regional economic integration and development. RCEP participants should not have to wait for a single trade liberalization by all participants and for agreement on all new rules before taking up the other opportunities for beneficial economic integration. RCEP can seek to achieve a significant initial down payment on trade liberalization and lock in progress towards ambitious end-point goals. The meaning of “reduced form” of RCEP can be either a reduced number of participants or a reduced context of market liberalization.

Korea needs to attempt to handpick the best features of existing Asian FTAs and use them as a basis for further negotiations for RCEP. Like early-harvest Bali packages in the Doha Round, a reduced form of RCEP can also be a useful interim solution for the final agreement. In this Asian track, Korea could play a balanced role among China, Japan, and ASEAN nations. Furthermore, based on the FTAs with China and the United States, it could assume a major role in linking RCEP with the U.S.-led TPP. These steps are not very different from a new roadmap for trade policy announced by the Park Geun-hye administration, which puts special emphasis on Korea’s linchpin role in regional economic integration in East Asia through a new FTA with China and the already signed agreement with the United States.

## ENDNOTES

1. This article is revised from, “Korea’s Perspectives on the TPP,” which was presented at the Conference on the Trans-Pacific Partnership and Taiwan’s Future Development Strategy at Stanford University, October 11-12, 2013. I am grateful to John Dyck of ERS/USDA for valuable comments.
2. According to many estimates, Japan’s economy would be about 2.5 percent larger in 2015 with TPP than it would be without TPP.
3. In fact, China proposed the EAFTA (East Asia FTA), which is based on ASEAN+3, and actively promotes the integration of Asia on this basis, not paying much attention to ASEAN’s central position as the driver of Asian reorganization.
4. The tension between Japan and China over the Senkaku/Diaoyu Islands, including the tension between Korea and Japan over the Dokdo/Takeshima Islands would make the CJK difficult to achieve in any case.

5. Recently Korea concluded bilateral FTA negotiations with Canada.
6. In this respect, other major developing countries, such as China, Brazil, and India, may have the same view as Korea.
7. Rice has been excluded in every previous FTA agreement that Korea concluded.
8. The lack of market opening in agricultural goods and pervasive NTBs in Japan was considered to be the reason for the Korea-Japan FTA negotiations' breakdown. At the same time, Korea's concerns with an increase in the trade deficit from trade with Japan and the fear of manufacturing competition, especially for small and medium sized enterprises, are other major reasons.
9. In past bilateral FTA talks, Japan requested the immediate elimination of Korean barriers to manufactured goods as well as some exceptions or other protective measures for Japanese agricultural goods.
10. Petri, Peter A., Michael G. Plummer, Fan Zhai. "The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment," *Policy Analyses in International Economics 98* (Washington: Peterson Institute for Economics, 2012).
11. The larger gains from RCEP reflect the opening of China, with which there is no preexisting FTA, and the benefits of eliminating the larger external barriers of many Asian countries.
12. The flexibility clauses said, "RCEP will include appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States."
13. In this respect, RCEP member economies need to consider the expansion of RCEP to include other economies such as Taiwan.



# ASIA'S SLIPPERY SLOPE: TRIANGULAR TENSIONS, IDENTITY GAPS, CONFLICTING REGIONALISM, AND DIPLOMATIC IMPASSE TOWARD NORTH KOREA

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