

# JOINT U.S.-KOREA ACADEMIC STUDIES

2013 | VOLUME 24

EDITOR-IN-CHIEF: GILBERT ROZMAN, PRINCETON UNIVERSITY

## CJK ECONOMIC TRILATERALISM: THE PROSPECTS AND PERILS OF A NEW FTA

## The U.S. Perspective

Claude Barfield

The proposed China-Japan-Korea (CJK) FTA, if it comes to fruition, will be a major economic accomplishment in its own right; but it will also constitute an important milestone and potential way station on the road to a region-wide FTA, embodied in previous proposals for an ASEAN+6 agreement and in the recently launched negotiations for a Regional Comprehensive Economic Partnership (RCEP) agreement. This chapter analyzes the implications for the United States of the CJK FTA against the background of competing pathways to an ultimate regional economic architecture.

## U.S. Trade Policy: From Multilateralism to TRANS-PACIFIC REGIONALISM

From 1945 to the late 1980s, the United States steadfastly adhered to multilateralism in international economic policy, taking leadership in the GATT and in the other pillars of the postwar Bretton Woods agreement, the World Bank, and the IMF. What follows is a very brief history of the shift in policy that saw regional and bilateral policies and agreements supplement multilateralism in trade policy.1

Changes came to the fore in the George H.W. Bush administration, notably under the leadership of Secretary of State James Baker, the driving force behind a significant reorientation of U.S. international economic policy. With regard to trade policy, Baker stated that in addition to liberalization under the GATT, "bilateral and minilateral systems may help move the world toward a more open system." NAFTA became the most immediate symbol of the U.S. shift, but soon after Asia also moved to a top priority. Baker was quickly receptive to the proposal put forward by Australia and Japan for APEC, in which the United States would be expected to play a leading role. And he was immediately hostile to the subsequent proposal by Malaysian President Mahathir for an East Asian Economic Caucus that would include only Asian nations and exclude the United States. It was in response to Mahathir that Baker famously set out an enduring U.S. strategic position when he avowed that the United States would oppose any "plan that drew a line down the middle of the Pacific," with the United States on one side of the line and Asian nations on the other. As Baker would state later in his memoirs, while there was no immediate security challenge to the United States at that time, he viewed his statement as a projection of diplomatic and security power as well as a statement of economic interest. The inextricable linkage between U.S. economic and trade goals with larger diplomatic and security goals has been a hallmark of U.S. policy toward Asian integration down to the present time.<sup>3</sup>

Bill Clinton was fortunate to preside over what historians have labeled the brief "unipolar moment" in postwar history. The Cold War was over, and U.S. economic and military power unchallenged. More specifically, in Asia by the mid-1990s Japan had begun its long period of stagnation and China's rise was still just over the horizon. Thus, regional security concerns remained dormant, and economic priorities came to the fore with the upgrading of APEC in U.S. trade priorities and the establishment of Bogor goals of free trade in the Asia-Pacific by 2010 for developed APEC nations, and 2020 for developing APEC nations. The U.S. tried unsuccessfully to change the APEC mode of operation (concerted unilateralism) in 1997-98. With the failure to move toward binding reciprocity-based rules, the Clinton administration, in effect, gave up on APEC as a near-term vehicle for trade and investment liberalization.4

The shock of 9/11 deeply colored and shaped the foreign and international economic policy of the George W. Bush administration. The war in Iraq and the war on terrorism moved to center stage; and from 2001 through 2005, APEC drifted. Though Asian regional policy seemed rudderless during these years, Bush administration trade policy did not ignore Asia. It played a key role in two crucial strategic innovations instituted by U.S. Trade Representative Robert Zoellick. The first was the doctrine of "competitive liberalization," a slogan that signaled a commitment to supplement the multilateral agenda in the WTO with one to negotiate FTAs, bilaterally, minilaterally with small groups of nations, or regionally if the opportunity presented itself. Zoellick argued that the discrete use of the huge U.S. market would trigger a competitive process toward global free trade. The second hallmark was a public and explicit linkage between trade policy and overall U.S. foreign and security policy. In speeches and congressional testimony, Zoellick succinctly elucidated the elements of the twin trade and security goals. He affirmed that in choosing prospective FTA partners, the Bush administration would seek "cooperation—or better—on foreign and security policy... Given that that the U.S. has international interests beyond trade, why not try to urge people to support our overall policies."

Under these criteria, the Bush administration went on to conclude some seventeen FTAs with nations around the world. With regard to Asia, Zoellick saw FTAs as a means of getting around the stalemate in APEC. Thus, the United States completed a pending FTA with Singapore; successfully negotiated an FTA with Australia; commenced negotiations with Thailand and Malaysia (suspended later); and, most significantly, negotiated an FTA with South Korea. Foreign policy considerations played a central role in the choice of partners: Australia was moved to the head of the line as a result of support for the war in Iraq. Conversely, New Zealand was rebuffed because of long-standing disagreements over nuclear policy and its opposition to the 2003 invasion of Iraq.5

Finally, of great significance for this paper, during its last months in office, the Bush administration announced that it would move to enter the so-called P-4 trade negotiations (New Zealand, Brunei, Singapore and Chile) that aimed for a high level, deep integration trans-Pacific trade pact that would ultimately encompass all of the major economies of the region. With U.S. membership, the negotiating title became the Trans-Pacific Partnership Agreement (TPP).

## THE OBAMA ADMINISTRATION AND THE ASIAN PIVOT

Though in many ways the foreign policy of the Obama administration differed dramatically from that of the Bush administration, diplomatic and security considerations played a large role in shaping trade policy in both administrations. This was underscored by the decision of the Obama White House to assign major strategic and political decisions to the National Security Council, and not to the USTR. Further, the role of individual leadership in shaping U.S. Asian policy forms a key element, with Secretary of State Hillary Clinton's central focus on Asia providing a bookend to Secretary Baker's guiding vision two decades previously.

## Obama and Asia: Trade and Economic Policy

As he entered office, Obama seemed an unlikely candidate to push forward a bold United States trade agenda. Famously, in the 2008 campaign he boasted that he had opposed the NAFTA

agreement and subsequent bilateral FTAs; and he led a Democratic party deeply divided by trade liberalization and globalization issues. For almost a year the United States, in effect, had no trade policy, but by the end of 2009, a combination of economic imperatives and foreign policy challenges impelled a major turnaround on the trade front.

Though the financial crisis ebbed during 2009, the recession dragged on; and despite continuing Democratic congressional opposition, Obama turned to trade policy—and exports—to boost the flagging U.S. economy. This resulted in a major National Export Initiative to boost U.S. exports around the world, but particularly in the rapidly expanding Asian economies. Under the initiative, the president promised to double U.S. exports over a five-year period.<sup>6</sup>

#### Asia: The Pivot

Though economic factors were important, what more decisively shaped policy were the rapidly shifting diplomatic and security conditions in the region. Within months after Obama assumed office, North Korea heightened tension on the peninsula and threatened South Korea, a U.S. ally, by first conducting an underground nuclear test, and then lobbing two rounds of shortrange missiles across the Sea of Japan (East Sea). Pressure mounted immediately for a show of support for South Korea, resulting, from the administration's own accounts, in a decision by the president to announce a goal of completing negotiations on the stalled KORUS agreement.

On a broader scale, even before the Obama administration took office, Beijing had hardened its attitude and diplomacy on a raft of disagreements and conflicts with its East Asia neighbors. Though not repudiating the mantra of a "peaceful rise," China's leaders became much more assertive in their relations with individual nations—as well as ultimately with ASEAN as an organization. In May 2009, the government published a map of the South China Sea containing nine dashed lines in a U-shape that laid claim to over 80 percent of this maritime area. Subsequently, it clashed repeatedly with its neighbors, particularly the Philippines and Vietnam inside this self-proclaimed perimeter. In addition, the PRC grew bolder in contesting the claims of South Korea and Japan, respectively, in the Japan and East China seas.

## TPP, Symbol of the "Pivot"

Secretary of State Clinton's first trip abroad was not—as had been traditional—to Europe, but to Asia. In speeches and testimony during the first months of the administration she proclaimed with some bravado that the United States was "back" in Asia, vowing to pursue a "more rigorous commitment and engagement." To that end, she beefed up the economic resources and mission of the State Department and pressed for forward movement on U.S. regional trade and investment issues. Within months, the United States had signed the Treaty of Amity and Commerce with ASEAN, paving the way for membership in the East Asian Summit. The secretary made nine trips to Asia, more than to any other region. Most significantly, just before Obama's first trip to Asia in November 2009, the administration announced that it would move to ratify the KORUS FTA and would join the TPP talks initiated by the Bush administration.

## Obama's Trip to Asia

The president's 2009 commitment to the TPP set the stage for the substantive capstone of the U.S. "pivot" during his nine-day trip to Asia in November 2011. Starting in Hawaii as host to the APEC Leaders Meeting, the president went on to make major pronouncements

and policy advances in Indonesia where he met with ASEAN leaders and became the first American president to join the East Asian Summit. Obama chose Australia to deliver his most far-reaching address reaffirming the U.S. commitment to Asia—and to the Australian alliance. "The United States is a Pacific power, and we are here to stay," he averred, adding: "In the Asia Pacific in the 21st century, the United States of America is all in." Later in Darwin, the president and the prime minister announced a new security arrangement under which the United States would deploy a rotating group of 2500 marines, establishing an important symbolic presence in maritime Southeast Asia.

From the outset of the trip in Hawaii, however, it was the TPP that created the "buzz" that would continue through the remainder of the president's journey. With the announcement that a "framework" had been agreed to, the TPP moved to center stage as the most concrete symbol of renewed U.S. leadership in the region. As deputy national security adviser Michael Froman has recently stated: "This really embeds us in the fastest-growing region of the world, and gives us a leadership role in shaping the rules of the game in that region."<sup>7</sup>

## THE TRANS-PACIFIC PARTNERSHIP AGREEMENT: What it is and Where it Stands

Just what is the TPP and why is it so significant for the future leadership role of the United States in Asia? The current negotiations grew out of a four-nation agreement (P-4) concluded in 2006 by Chile, New Zealand, Brunei, and Singapore. Subsequently, Australia, Peru, Vietnam, and the U.S. signed on, followed in 2010 by Malaysia and most recently by Mexico and Canada. Detailed negotiations began early in 2010, and since then there have been seventeen formal negotiating sessions. The ultimate goal of the TPP is to include all of the nations in APEC.8

## REDO FOR JAPAN?

At the present time, should the eleven nation negotiations be successful, the TPP would encompass an FTA of some 658 million people and almost \$21 trillion in economic activity. Should Korea and Japan join the agreement, as many expect in 2013-1014, the territory would expand to a combined GDP of \$27 trillion, constituting a trade bloc of over \$10 trillion in goods and services. If the negotiations for the CJK FTA prove successful, the resulting trade bloc would constitute about 20 percent of world GDP and about the same percentage of world exports. China is the largest trading partner and a major investment destination for both Japan and Korea. In 2011, trilateral trade volume amounted to \$690 billion, almost six times the total in 1999. Together Japanese and Korean investment in China amounts to over \$130 billion.9

Substantively, the TPP has been called the first "21st Century Agreement." If successful, it will put in place international trade rules to lower or eliminate "behind the border" domestic barriers to foreign competition. Among the twenty-nine chapters under negotiation will be rules to open government procurement contracts to foreign competitors, rules to liberalize service sectors, such as telecommunications, banking and accounting, non-discriminatory health and safety regulations, fair competition with state-owned enterprises, and a level playing field for foreign investment.

Despite the emphasis on 21st century regulatory reform, there are also longstanding 20th century trade issues that will prove difficult to resolve. For the United States, the greatest challenges stem from sugar, dairy, cotton protection and subsidies, textiles, so-called rules of origin that hamper clothing supply chains, and finally union demands for interference with the labor laws of TPP trading partners. In the end, the key to success will come down to trade-offs between 21st century liberalization and old-fashioned 20th century protectionism.

## Intra-Asian Regionalism

The countries comprising ASEAN have striven mightily to make certain that ASEAN as an entity remained the central focus of East Asian regionalism. This was true despite the fact that a number of ASEAN nations—for instance, Singapore, Thailand, Malaysia, and Brunei independently forged bilateral FTAs with individual trading partners. Thus, for some years, ASEAN has proceeded on several tracks. First, internally ASEAN incrementally moved to complete the promise of a *de facto* as well as *de jure* FTA among ASEAN member states. At this point, the goal is to achieve a unified ASEAN Economic Community by December 2015. In addition, through the ASEAN+1 process, ASEAN has completed FTAs with China, Japan, India, Australia, and New Zealand. By and large, these agreements do not aim for socalled "deep integration," but rather for more shallow liberalization focusing on incremental tariff reduction.<sup>10</sup>

Modeling efforts have produced somewhat differing economic results, depending on the assumptions and calculations behind the particular model. In an initial effort in 2005, the Korea International Economic Policy Institute (KIEP) found that under the most conservative assumptions (the so-called static model that includes tariff reductions and not liberalization of services or does not factor in potential productivity gains) the CJK FTA would increase the GDP of China, Japan, and Korea, 0.89 percent, 1.05 percent, and 3.27 percent, respectively. Exports from the three nations would increase 11 percent, 5 percent, and 8 percent respectively.<sup>11</sup> More recently Chinese scholars, using less restrictive assumptions, predicted that over the medium term the CJK FTA could raise China's GDP by 2.9 percent, Japan's by 0.5 percent, and Korea's by 3.1 percent, over baseline increases. 12 Finally, in a just published, exhaustive analysis of the economic effects of sequential liberalization under both the so-called Asian track and the TPP track, Petri, Plummer, and Zhai find that implementation of the CJK FTA by 2015 would result immediately in income gains for China, Japan, and Korea, of 0.2 per cent, 0.4 percent and 1 percent respectively.<sup>13</sup>

Though further liberalization of the Chinese, Japanese and Korean economies would benefit their ASEAN trading partners, prospects for a stand-alone CJK FTA have raised serious concerns throughout Southeast Asia. Specifically, ASEAN leaders worry openly whether the CJK FTA—as well as other trade movement in the region—put at risk the centrality of ASEAN as the lynchpin of East Asian economic integration. <sup>14</sup> ASEAN fears combined with the PRC's stepped up effort to head off the challenge of the TPP explain the decision in November 2012 to launch formal negotiations for a RCEP in 2013.

## **RCEP**

At the November 2012 ASEAN summit, two important decisions were taken: first, ASEAN nations agreed to postpone completion of the planned ASEAN Economic Community (AEC) from January 1 to December 31, 2015; and second, ASEAN launched the RCEP, with the aim also of completing negotiations by the end of 2015. Formal negotiations among the ASEAN+6 nations are slated to begin sometime in the first half of 2013. Inevitably, RCEP is being compared with the TPP. If successful, both would reduce the "spaghetti bowl" effect of the multiple bilateral agreements that have been concluded throughout East Asia. There is also some overlap in membership in that Australia, New Zealand, Singapore, Malaysia, Brunei, and Vietnam are participating in both negotiations. In other ways, however, the two agreements, if successfully completed, will be quite different. First, unlike the TPP where individual ASEAN nations are negotiating separately, in RCEP ASEAN is represented as a single economic and political entity, including, from the outset, even the less developed ASEAN members: Laos, Cambodia, Myanmar.

In part, this membership difference—as well as the inclusion of ASEAN as a distinct entity—has dictated contrasting ground rules for the negotiations. First, according to the ASEAN Secretariat's statement of the RCEP Guiding Principles and Objectives for Negotiations, there will be a great deal of flexibility in the negotiating mode, which "can be accomplished in a sequential manner or a single undertaking or though any other agreed modality." RCEP will also provide "special and differential treatment to ASEAN Member States."15

Finally, there is one other highly significant difference between the two potential agreements. RCEP's membership is fixed and limited to the present sixteen negotiating partners (though at some later date after conclusion of the agreement it could be expanded). TPP, on the other hand, is unique in that it has added members during the course of the negotiations, starting with the P-4, then adding five additional partners from 2005 to 2010, and two additional members, Canada and Mexico, in December 2012. There is also the potential that two more nations, Korea and Japan, could join before the terms of the agreement are settled in 2013-2014.<sup>16</sup>

Substantively, in contrast to the deep integration goals of the TPP, the initial aims for the RCEP are less ambitious. Three negotiating subgroups are being established in goods, services and investment; but it is not expected that the agreement will contain many of the "behind the borders," nontariff barrier liberalization rules that are the object of TPP negotiators. At a minimum, the RCEP negotiators have set as a goal the simplification and harmonization of the existing ASEAN+1 agreements. For instance, differing tariff classifications in these agreements could be unified into one system; and as nearly as possible, a common tariff schedule could be constructed. As an important complement, the agreement will attempt to simplify the multiple rules of origin (ROOs) in the bilateral pacts. On services, some of the ASEAN+1 agreements contain WTO-Plus commitments; others do not. The goal would be to expand existing WTO-Plus commitments, as well as to introduce new liberalization in additional sectors.<sup>17</sup>

## FUTURE SCENARIOS: CJK, RCEP, AND THE TPP

This concluding section considers potential future scenarios for the emerging Asian economic and trade architecture. It begins with an analysis of political and security factors that may complicate—both frustrating and spurring—diverse future outcomes. It then

describes plausible pathways for negotiations leading to a future FTAAP, including the role of the CJK FTA, RCEP, and the TPP.

## History, Conflict in the South China Sea, and the U.S. "Pivot" to Asia

FTAs, whether bilateral or regional, are not undertaken in an economic vacuum. Gains to GDP, terms of trade, and export enhancement are all important factors in deciding to embark upon negotiations, but these calculations are always shaped by equally important political and security judgments. This juxtaposition is certainly evident in the recent history of economic and political integration in East Asia. This paper highlights several of the most important background factors.

## Beijing, Tokyo, Seoul

Recent events are playing out against the advent of more belligerent moves by the PRC. After the Second World War, China, in the famous nine-dotted line map (inherited from the Chinese Nationalist Government), officially laid claim to some 80 percent of the South China. Only in recent years, however, has conflict flared, driven by the prospect of large deposits of oil and gas reserves. While in most cases, the true legal rights are lost in the mists of history, both the PRC and other claimants (Japan, Vietnam, Philippines, Brunei, and Malaysia) have stepped up their assertion of claims and their defenses. The growing tension between Beijing and Tokyo over the Senkaku/Diaoyu Islands has spilled over into economic relations. The PRC, despite a recent record of intransigence on regional disputes with its neighbors, is by no means totally at fault for the dangerous escalation: the Japanese government's move to "buy" the islands, to some degree, forced Beijing to more vigorously assert its own authority, leading to the current standoff with ships from both nations circling each other in the area. The dispute has fed nationalist impulses and groups in both nations, hampering efforts to move forward on closer trade relations.

Similarly, Japan and Korea have become embroiled in highly emotional disputes, such as the alleged use by Japan of "comfort women" during the long Japanese occupation of Korea. Earlier, Japan had "apologized" for the human rights violations, but recently some Japanese politicians in the newly triumphant LDP have called for rescinding the apology, sparking deep resentment in Korea. In addition, Japan and Korea are embroiled in a territorial dispute over a rocky outcropping in the Sea of Japan that Korea calls Dokdo and Japan calls Takeshima. 18

## ASEAN Centrality

A second looming dilemma concerns the viability of the "centrality of ASEAN" in future moves toward Asian economic and political integration. 19 As this chapter has noted, RCEP is at least partially driven by ASEAN's determination—at least aspiration—that the confederation will continue to occupy the driver's seat as closer economic and political ties are forged over the next decade. This aspiration faces internal and external challenges. Internally, it is by no means clear that ASEAN will meet the 2015 deadline to complete the AEC through final liberalization of tariff and nontariff barriers. The deadline has already slipped from January to December 2015, and outside observers express skepticism that even that goal is attainable—skepticism reinforced in January by warnings from Indonesia's trade minister that his country was not "ready to face the AEC" and little had been done to prepare for the new obligations.<sup>20</sup>

Of equal importance are outside pressures—most particularly from Beijing—that already have caused fissures among ASEAN nations and almost certainly will continue. The failure in May 2012 to produce a joint communiqué at the close of the ASEAN Ministers Meeting was the result of an open, direct intervention by the PRC that caused Cambodia, the chair, in effect to veto any reference to conflicts over South China Sea territorial claims. It was an unprecedented failure in the forty-five years of such meetings; as one observer noted "The 'ASEAN Way' of consensus failed."<sup>21</sup> The divisions continued at the November 2012 East Asian Summit, when Cambodia once again succumbed to PRC pressure but was met with strong opposition from the Philippines, with support from Singapore, Malaysia and Thailand. In defiance of the PRC demand for individual bilateral negotiations, Singapore Prime Minister Lee Hsien Loong called for "multilateral talks between ASEAN and Beijing."22

Should ASEAN fail to meet its AEC deadlines or should the PRC continue to exploit economic hegemony over the smaller, least developed ASEAN states, it will put ASEAN's future in peril. At worst, individual ASEAN nations might drift toward independent economic and political arrangements, leaving ASEAN itself an increasingly hollow shell.

#### The U.S. Pivot

A third strong influence on future developments in East Asia will be the future course and impact of the Obama administration's pivot to Asia. Though there were strong economic reasons for joining and leading the TPP, as noted above, following Obama's landmark trips to Asia in 2011 and 2012, the TPP has become the single most important symbol of the U.S. commitment to a continuing strong leadership role in the region. Thus, success or failure of these trade talks will have repercussions well beyond the undoubted large trade and investment consequences.

With the RCEP now launched alongside the TPP, in the future the two negotiations will be seen as both complementary and competing visions for an Asian economic (and ultimately political) architecture. The PRC, particularly, has evinced strong misgivings about U.S. strategic goals in the region. While official pronouncements have been fairly circumspect, outside spokespersons economic and security analysts, former military figures and other former officials—have more bluntly labeled the TPP as a vehicle for the "containment" of China.<sup>23</sup>

The competition and divisions over the TPP and RCEP, however, should not be overstated. On the U.S. side, Obama administration officials have stressed repeatedly that the TPP is not aimed at China—and that in time, they hope and foresee that China will see fit to join the agreement. And it is true that TPP member nations, from the outset of the negotiations, have stressed that the TPP is a way station to the larger goal of a FTAAP, which would include, at a minimum, all of the nations in APEC. It is still likely that the PRC will for the near and medium term continue to see the RCEP as the main vehicle for further regional liberalization, but the RCEP itself has an open-ended membership policy and, theoretically, there would be nothing to preclude U.S. membership.

## GOING FORWARD: U.S. OPTIONS AND PRIORITIES

What follows is a brief list of possible pathways for East Asian regionalism, and recommendations for U.S. policy and actions.

#### The TPP

Whatever transpires with the CJK FTA or RCEP, in 2013 and 2014, the U.S. should focus almost exclusively on the successful conclusion of the TPP negotiations. As this author has written elsewhere, 2013 is "crunch time" for the TPP.<sup>24</sup> Since early 2010, TPP member states have held seventeen intense negotiating sessions. It is now agreed by the TPP trade diplomats that much of the technical detail has been cleared away, and over the next few months tough political decisions will have to be made by the heads of state or their immediate political staffs. As noted above, for the United States, the tradeoffs will entail pressing for liberalization on the so-called 21st century issues, while conceding ground on more traditional 20th century issues: advances on services, investment, SOEs, and regulatory reform against concessions on textiles, sugar and dairy subsidies, rules of origin, and possibly labor regulations.

Should the negotiators not be able to point to major compromises and work-arounds for sensitive issues in the fall of 2013, there is a real danger that the talks will unravel. Though it will take much longer to complete, the RCEP now stands as a potentially viable alternative, and a path that for the moment is closed to the United States.

#### **CJK FTA**

The economic benefits of the proposed CJK FTA for each individual nation have been authoritatively documented in a number of studies. But the key determinants of forward progress over the next several years lie outside trade and investment statistics: trilateral political and security considerations will have equal place in governing the outcomes. During the last months of 2012 and the first months of 2013, relations between the PRC and Japan deteriorated dramatically, as an action/reaction syndrome seemed to take hold, heightening chances for conflict. Since the election, however, Abe has followed a mixed course. On the one hand, he has drawn back, adopting a more conciliatory tone. In January 2013, he dispatched envoys to both Beijing and Seoul, with the stated purpose of preparing the ground for future high-level exchange of visits and accommodation. On the other hand, on his first visits to Vietnam, Singapore, and Thailand, he seemed to revive Aso Taro's "arc of democracy" from his earlier term as Japan's leader, Fukuda, taken as a rallying cry for resistance to Chinese hegemonic ambitions.<sup>25</sup> In mid-January, the Obama administration became so concerned with the drift toward confrontation that it sent a high-level mission to Japan and South Korea to call for "cooler heads to prevail" in the developing crisis.<sup>26</sup>

Some observers argue that, despite the obstacles, the economic gains from the proposed trilateral FTA will trump diplomatic spats, and that for the foreseeable future the combination of "hot economics, cold politics" will be the norm.<sup>27</sup> Others, including the view in this paper, hold that over the short term both economic and strategic factors will delay the CJK FTA. Abe faces domestic opposition to any move toward greater liberalization of the Japanese economy. The combination of economic divisions with heightened nationalistic resentment against China makes it unlikely that the trilateral negotiations will go forward quickly.

Such is not the case, however, with a parallel bilateral FTA negotiation between the PRC and Korea, whose outgoing trade minister, Bark Taeho has stated often over the past year that protection of Korea's large investment in China was a high priority for his government. In his view, that protection can best be achieved through either the CJK FTA, or—as now seems more likely—through a bilateral CK FTA.<sup>28</sup> With regard to its largest trading partnersChina, the United States, the EU and Japan—Korea already has completed FTAs with two. A bilateral agreement with the PRC would leave only the Japanese market where no preferences were available. Given this situation, Korea is likely not to fret over a desultory process for the CJK FTA.

And how should the United States react to the CJK FTA, whatever the course and timing of the trilateral negotiations? From a foreign policy perspective, the Obama administration should craft a positive response, since it is in U.S. interest that relations among China, Japan and Korea not deteriorate further and threaten East Asian stability. Though closer economic ties do not guarantee enhanced political relations, they do have an ameliorating effect—and they can act to keep politicians mindful of the positive benefits through promised spurs to economic growth and wellbeing in all three economies.

#### **RCEP**

If the thesis advanced in this paper is correct—that the crucial time for completion of the TPP negotiations (at least for the eleven current member states) is within the next twelve to eighteen months—then initially there will be no real competition between the RCEP and the TPP. The RCEP nations have set a tentative goal of finalizing an agreement by 2015. This goal almost certainly will not be met—failing a decision to sign a purely political document almost void of substance.

Various RCEP member states have argued—particularly those that are also participating in the TPP process—that the final agreement must achieve a higher level of liberalization than existing WTO rules, even if the RCEP does not aim for the very high so-called 21st century standards of the TPP. Given the diversity of membership (including still-closed economies such as India and Indonesia) and the huge development gaps among members, RCEP negotiations are likely to extend some years beyond the current timetable.

What, then, should be the U.S. response? Following a general rule to encourage trade and investment liberalization no matter where it occurs and what the specific circumstances, the United States should adopt a positive response, supporting any initiative or alternate path that will lead to an ultimate FTAAP. Beyond this benign response, there are more specific actions that the Obama administration should take in coming months. First, the United States should give higher priority to forging a closer economic relationship with ASEAN. In November 2012, at the ASEAN Summit, Obama and ASEAN leaders reset economic relations with the launch of the Expanded Economic Engagement (E3) initiative, which could bolster ongoing Trade and Investment Framework (TIFA) negotiations. While Obama has greatly increased U.S. attention to ASEAN, the TIFA negotiations have proceeded fitfully. Partly, this is a result of the reluctance of some ASEAN nations (Indonesia) to commit to further liberalization, and partly this stems from the reality that the less developed ASEAN states lack the capability to sustain an opening of goods and services. Whatever the reason, the United States should take the lead in pushing for incremental reforms, possibly staggered and tailored to the development level of individual ASEAN members.<sup>29</sup>

As this chapter was being completed, an important turn of events reconfigured the regional architectural landscape in East Asia: this was the formal decision by Prime Minister Abe to request that Japan be included in the TPP negotiations. Abe's decision stemmed from several

factors. First, during a February visit to the United States, Abe received from President Obama the assurance he needed that while "all goods would be subject to negotiation," Japan would not be required to precommit to specific liberalization measures. The joint statement read: "Recognizing that both countries have bilateral trade sensitivities, such as certain agricultural products for Japan and certain manufactured products for the United States, the two governments confirm that, as the final outcome will be determined during the negotiations, it is not required to make a prior commitment to unilaterally eliminate all tariffs upon joining the TPP negotiations."30

The second factor was Abe's calculation that his very high personal approval ratings with the Japanese public (over 70 percent), signaling support of his comprehensive economic reform plans, would give him the clout and power to win crucial July elections for the upper house of the Diet, even with the risky decision to enter TPP negotiations. Thus, on March 15, Abe formally requested to the eleven members of the TPP that Japan be allowed to enter the trade talks. He directly tied the decision to his broader plans for economic reform, and he adopted a strong sense of urgency, stating: "Emerging countries in Asia are shifting to an open economy, one after another. If Japan alone remains an inward-looking economy, there will be no chance for growth. This is our last chance. If we miss this opportunity, Japan will be left behind."31

As it turned out, both the United States and Japan moved with dispatch to complete negotiations for Japan's formal entrance into the TPP talks. (The U.S. position was central to moving the process forward, as other TPP nations, though they had specific concerns, were certain to follow the U.S. lead). On April 12, the two nations announced that they had reached terms of an agreement that would allow the United States to support Japan's entrance into the negotiations after a 90-day period for congressional notification. It was expected that Japan would join the next round of TPP negotiations scheduled to take place in Peru in mid-July.32

Under the agreement, Japan and the United States issued separate statements confirming preliminary decisions in the politically sensitive automobile and insurance sectors. Both agreed that the United States would phase out its auto tariffs—2.5 percent on cars and 25 percent on trucks—over the longest period possible under any future TPP deal; and Japan agreed to negotiate liberalization of other nontariff barriers to foreign automobile sales, such as standards, certification, and distribution. As a gesture of good faith, Japan also pledged not to expand further the Japan Post's products in cancer and medical products insurance.<sup>33</sup>

Japan's swift entrance into the TPP negotiations will have major consequences for both the concurrent CJK FTA negotiations, as well as the RCEP negotiations. Abe has now given top priority to the TPP. Crucially, he has established an independent negotiating team above the cabinet and in his own office. That team will be headed by Cabinet Secretary Yoshida Suga, and will report directly to the prime minister. This will lessen—though not eliminate—the strong influence (and veto power) of powerful cabinet ministries, particularly the agriculture ministry.

Thus, for the foreseeable future most resources and attention will be devoted to the TPP negotiations, and the CJK and RCEP negotiations will perforce take a back seat. In sum, these recent events and decisions reinforce the point made earlier in the paper: that the TPP is now on a faster timetable than either the CJK or RCEP negotiations and, if successful, will not compete with them.

More broadly, for the United States, there are both great benefits and great dangers in Abe's decision. On the plus side, most observers hold that once Japan has acted Korea will follow soon after with a request for membership. The addition of Japan and Korea will in turn constitute an important tipping point, giving the TPP the heft and weight in Asia to become the central focus of an East Asian economic architecture. If successful, a thirteen-member TPP would create a \$27 trillion trade bloc (40 percent of world GDP), that includes about one-third of total world trade.34

Down the road, the danger is that, despite its commitment not to reopen decisions already made in TPP negotiations and to negotiate swiftly and in good faith, Japan could prove obdurate and unable to fulfill its promises to greatly reduce or eliminate major nontariff trade barriers. This could lead to a crisis in the negotiations or produce a stalemate. In order to avoid this outcome, the Obama administration will have to give the TPP top priority status as the talks move to crucial decisions in late 2013. Japan will have to compromise—but so will the United States and other TPP members.

In the end there are both overriding economic and security reasons for the United States to include Japan and Korea in the TPP. First, if the CJK FTA does go forward to completion, there will be a moderate, but identifiable negative discriminatory effect on U.S. corporations and the U.S. economy, while all three CJK FTA economies would achieve important income gains. In contrast, if the two join the TPP, Petri et. al. calculate that Japan and Korea will experience income gains (vs. a base case) of 0.3 and 0.2 percent respectively in 2015—rising to 1.8 and 2.0 percent in 2020.35 The United States would also benefit from small GDP and trade gains.

On the strategic and security fronts, there is one highly relevant developing reality to consider. The current debate in the United States over the mounting U.S. debt is well beyond the subject of this paper, but the debt crisis, trade policy, and future Asian security policy dovetail down the road. While there is great uncertainty about how the negotiations will play out, one thing is certain: for the foreseeable future U.S. defense expenditures will be highly constrained, putting at risk the ability to make good on the security promises implicit in the Asian "pivot." Successful TPP negotiations that encompass the United States and its major Asian allies will make it much less difficult for Obama and his successors to persuade Congress that U.S. economic interests in Asia are inextricably entwined with U.S. security responsibilities.

## ENDNOTES

- 1. The theme of this section—inextricable strands of U.S. trade and diplomatic/security—is more fully detailed in Claude Barfield, "The United States and East Asian Regionalism: Balancing Economics and Security," paper presented at the Alliance 21 Conference, hosted by the United States Study Centre, University of Sydney, Sydney, Australia, December 1, 2012.
- Vinod K. Aggarwaal and Kim-Chin Lin, "Strategy Without Vision: The US and Asia-Pacific 2. Economic Cooperaton," in Jugen Ruland, ed., Asia-Pacific Cooperation (APEC): The First Decade (London: Curzon Press, 2002), pp. 91-122.
- 3. James A. Baker III and Thomas W. DeFrank, The Politics of Diplomacy: Revolution, War, and Peace, 1989-1992 (New York: G.P. Putnam and Sons, 1995).

- For a more extended analysis of the Clinton years, see: Claude Barfield, "The United States 4. and East Asian Regionalism: Competing Paths to Integration," International Journal of Korean Studies, Vol. 16, No. 2 (2012), pp. 157-78.
- 5 Claude Barfield, "The United States and East Asian Regionalism: Competing Paths to Integration."
- 6 Claude Barfield and Philip I. Levy, "Tales of the South Pacific: President Obama and the Transpacific Partnership," International Economic Outlook 2 (Washington, D.C.: American Enterprise Institute, December 18, 2009) http://www.aei.org/article/foreign-and-defense-policy/regional/asia/ tales-of-the-south-pacific/.
- Barfield, "The United States and East Asian Regionalism: Balancing Economics and Security." 7.
- For the most recent description of the contents and challenges in the TPP, see: Jeffrey J. Schott, Barbara Kotschwar, and Julia Muir, "Understanding the Trans-Pacific Partnership," Policy Analysis in International Economics (99), (Washington, DC: Peterson Institute for International Economics, January 2013). See also Barfield and Levy, "President Obama and the Trans-pacific Partnership"; and Meredith Kolsky Lewis, "The Trans-Pacific Partnership: New Paradigm or Wolf in Sheep's Clothing?" Boston College International and Comparative Law Review, No. 27 (2011), p. 34.
- 9 Ralph A. Cossa and Brad Glosserman, "Regional Overview: 2012 Ends with Echoes of the Past," Comparative Connections, PacNet No. 5 (January 15, 2013), pp. 1-17, http://csis.org/files/ publication/1203q.pdf.
- For more details on ASEAN activities, see: Pradumna B. Rana, "Towards a Region-wide FTA in Asia: Wither the Trilateral FTA?" RSIS Commentaries, No. 096/2012, June 8, 2012. http:// www.rsis.edu.sg/publications/Perspective/RSIS0962012.pdf; and Daniel Wu and Mark Mealy, "Asia's Competing Visions," The Diplomat, June 12, 2012. http://thediplomat.com/new-leadersforum/2012/06/12/asias-competing-visions/.
- Lee Chang Jae, ed., Rationale for Korea-China-Japan FTA and Its Effects on Korean Economy (Seoul: KIEP, 2005).
- 12. Pradumna Rana, "Towards a Region-Wide FTA in Asia."
- Peter A. Petri, Michael G. Plummer, and Fan Zhai, The Trans-pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment (Washington, D.C.: Peterson Institute for International Economics, 2012). http://xxx.iie.com/publications/pb/pb12-16.pdf.
- Yang Razali Kassim, "East Asia Summit 2012: Power Game in Asia Unfolds," RSIS Commentaries, No. 207/2012, December, 2012. http://www.rsis.edu.sg/publications/Perspective/ RSIS2172012.pdf.
- As quoted in Daniel Chen, "TPP v. RCEP: Competing Visions for East Asian Trade Architecture?" BASC Newsletter, Vol. 15. (Berkeley APEC Study Center:, University of California, Berkeley, Fall 2012 http://basc.berkeley.edu/pdf/Newsletters/fall2012.pdf.
- Schott, et al., "Understanding the Trans-Pacific Partnership."
- Hank Sim, "The way forward for RCEP negotiations," East Asia Forum, December 3, 2012. http://www.eastasiaforum.org/2012/12/03/the-way-forward-for-rcep-negotiations/.
- Victor Cha, "Four Lessons in History," The Nelson Report, Samuels International Associates, Inc., August 29, 2012; and "South Korea, China, Japan to soon start talks for giant free trade pact," Washington Post, November 20, 2012. See also, Peter Ennis, "How the Current Japan/Korea Mess Developed," The Nelson Report, August 31, 2012; and Frank Ching," East Asia's Free for All," Real Clear Politics, August 31, 2012. http://yaleglobal.yale.edu/content/east-asias-free-all. For a recent analysis of Japan-Korean relations, see: David Kang and Jiun Bang, "Japan-Korea Relations: Leadership Changes and National Trajectories," Comparative Connections PacNet No. 5, January 2013, pp. 125-136. http://csis.org/files/publication/1203q.pdf.
- Amitav Acharya, "ASEAN's Dilemma: Courting Washington without Hurting Beijing," Asia-pacific Bulletin, No. 133, October 18, 2011, East-West Center, Washington, D.C. www. eastwestcenter.org/sites/default/files/private/apb133 1.pdf; and Benjamin Ho, "ASEAN centrality: a year of big power transitions," East Asia Forum, March 6, 2012. www.eastasiaforum. org/2012/03/06/asean-centrality-a-year-of-big-power-transitions/.
- Faisal Maliki Baskboro, "Indonesia 'Not Ready' for ASEAN Free-Trade Zone, Minister Says," Jakarta Globe, January 4, 2013. www.thejakartaglobe.com/news/indonesia-not-ready-for-aseanfree-trade-zone-minister-says/564563.

Don Emmerson, "ASEAN Stumbles at Phnom Penh," Comparative Connections PacNet No. 21. 45, July 19, 2012, http://csis.org/files/publication/Pac1245.pdf. Cossa and Globe, "Regional Overview."

- 22. Sheldon Simon, "US-Southeast Asia Relations: High-Level Attention," Comparative Connections PacNet No. 5, January 15, 2013. http://csis.org/files/publication/1203qus\_seasia.pdf.
- Zhang Zhixin, "A rebalancing that is way out of kilter," *China Daily*, November 30-December 1, 2012, http://usa.chinadaily.com.cn/weekly/2012-11/30/content 15972981.htm For a more extended analysis of opinions from Chinese scholars and think tanks for former government officials, see: Wen Jin Yuan, "The Trans-Pacific Partnership and China's Corresponding Strategies," (Washington, D.C.: A Freeman Briefing Report, Center for Strategic and International Studies, June 2012. http://csis.org/files/publication/120620 Freeman Brief.pdf.
- Claude Barfield, "Crunch Time for the TPP," Real Clear Markets, December 2, 2012. http://www. realclearmarkets.com/articles/2012/12/06/crunch time for the trans-pacific trade pact 100028. html.
- 25. Editorial, "Abe's dangerous doctrine," China Daily, January 17, 2013. http://usa.chinadaily.com. cn/opinion/2013-01/17/content 16129269.htm.
- 26. Martin Fackler, "U.S. Calls for 'Cooler Heads' in Dispute Over Asian Islands," New York Times, January 18, 3013. http://www.nytimes.com/2013/01/18/world/asia/american-envoy-calls-forcooler-heads-in-asian-island-dispute.html? r=0.
- Amy King, "Japan and China: warm trade ties temper political tensions," East-West Forum, October 22, 2012. http://www.eastasiaforum.org/2012/10/22/japan-and-china-warm-trade-tiestemper-political-tensions/.
- 28. Youkyung Lee, "S. Korea, China, Japan to talk FTA," China Post, November 20, 2012. ://www. chinapost.com.tw/business/asia/korea/2012/11/20/361516/S-Korea.htm; Taeho Bark, "The KORUS FTA, Koreas' FTA Policy, and the Dynamics of East Asian Economic Integration," (Washington, DC: Speech delivered at the Peterson Institute for International Economics, May 16, 2012).
- Murray Hiebert, "The E3 Initiative: The United States and ASEAN Take a Step in the Right Direction," CSIS Newsletter, December 20, 2012. http://csis.org/publication/e3-initiativeunited-states-and-asean-take-step-right-direction; Rodolfo C. Severino, "The United States and ASEAN," East-West Forum, November 30, 2012. http://www.eastasiaforum.org/2012/11/30/ the-united-states-and-asean; Donald K. Emmerson, "Challenging ASEAN: The American pivot in Southeast Asia," East-West Forum, January 13, 2013. http://www.eastasiaforum.org/2013/01/13/ challenging-asean-the-american-pivot-in-southeast-asia/.
- Doug Palmer, "U.S., Japan agree on approach to Trans-pacific Partnership talks," *Reuters*, February 22, 2013; Inside US Trade, March 1, 2013; The Nelson Report, February 22, 2013.
- Kaori Kaneko, "Japan seeks to join U.S.-led Pacific trade talks, reform hopes stir," Reuters, 31. March 15, 2013; Isabel Reynolds and Takeshi Hirokawa, "Japan to Join Trade Talks as Abe Defies Key Voting Bloc," Bloomberg, March 15, 2013.
- Kaori Kaneko and Doug Palmer, "Japan, U.S. agree on Tokyo joining Trans-Pacific trade talks," Reuters, April 12, 2013; "Japan-U.S. TPP deal sets stage for Congress verdict," Japan Times, April 12, 2013; Inside US Trade, April 12, 2013.
- Statement by Acting U.S. Trade Representative Demetrios Marantis Regarding Japan and the Trans-Pacific Partnership, April 12, 2013, http://www.ustr.gov/sites/default/files/Amb%20 Marantis%20Letter%204-12-13.pdf; Information on Consultations with Japan, http://www.ustr. gov/sites/default/files/04132013%20Japan%20OVERVIEW%20factsheet%20FINAL\_1.pdf; Joint Statement by United States and Japan, February 22, 2013, http://www.whitehouse.gov/thepress-office/2013/02/22/joint-statement-united-states-and-japan; Letter from Ambassador Sasae to USTR Marantis, April 12, 2013, http://www.ustr.gov/sites/default/files/Amb%20Sasae%20 Letter4-12-13.pdf; Motor Vehicles terms of Reference Sheet, http://www.ustr.gov/sites/default/ files/Motor%20Vehicle%20TOR%20-%20Attachment%20to%20Amb%20Sasae%20Letter%20 4-12-13.pdf; Letter from USTR Marantis to Ambassador Sasae, April 12, 2013 http://www.ustr. gov/sites/default/files/Amb%20Marantis%20Letter%204-12-13.pdf.
- 34. Schott, et al., "Understanding the Trans-Pacific Partnership."
- 35. Petri et. al., The Trans-pacific Partnership and Asia-Pacific Integration.



# ASIA'S UNCERTAIN FUTURE: KOREA, CHINA'S AGGRESSIVENESS, AND NEW LEADERSHIP

## EDITOR-IN-CHIEF: GILBERT ROZMAN, PRINCETON UNIVERSITY

 Bilateral Competition and Cooperation Under New Leadership

The United States and China Robert Sutter

China and Russia Sergey Radchenko

**South Korea and Japan** *Cheol Hee Park* 

**South Korea and the U.S.** *Scott Snyder* 

China's National Identity and the Sino-U.S.
 National Identity Gap: Views from Four Countries

The Debate Inside China William Callahan

The View from Japan Ming Wan

The View from South Korea
See Won Byun

The View from Russia Gilbert Rozman

 CJK Economic Trilateralism: The Prospects and Perils of a New FTA

The Chinese Perspective Scott Harold

The South Korean Perspective Chang Jae Lee

The Japanese Perspective T. J. Pempel

The U.S. Perspective Claude Barfield

Prospects and Challenges for Korean Reunification

Competing Regional Interests and Reunification

John Park

South Korea's Unification Policy and Prospects
Ho Yeol Yoo

Understanding Peaceful Reunification: Its Dynamics and Challenges Abraham Kim



1800 K Street, NW Suite 1010 Washington, DC 20006

