

# TRADE ARCHITECTURE IN EAST ASIA: US-CHINA COMPETITION?

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*The recent FTA networking trend in East Asia is puzzling in terms of actors and timing. By analyzing four cases: the Korea-United States (KORUS) FTA, the Trans-Pacific Partnership (TPP), the China-Korea (CK) FTA and the China-Japan-Korea (CJK) FTA, this paper argues that trade architecture in East Asia is being shaped by competition between the US and China for spheres of influence. This argument is supported by the realist's approach on trade-security nexus because the US and China's strategic, as well as economic, interests allows them to compete in East Asia by promoting FTA networks that they pursue while attempting to exclude each other. The findings of this paper show that the KORUS FTA and the TPP are part of a US strategy to strategically contain China as well as to revive its economy, while the CK FTA and the CJK FTA are China's strategy to counter the spread of the US-led FTA networks in the region. The two different FTA networking attempts, one by the US and the other by China, prove that the current trade architecture in East Asia can be understood through a framework that has as its centerpiece a burgeoning US-China competitive relationship.*

## Introduction

With the Korea-United States (KORUS) free trade agreement (FTA) coming into effect on March 15, 2012, the US made its first FTA with a Northeast Asian partner, considering it as a model for trade agreements for the rest of the region and underscoring the US commitment to, and engagement in, the Asia-Pacific region.<sup>1</sup> In addition, the US is engaging in the Trans-Pacific Partnership (TPP) trade negotiations as a mechanism to improve linkages among many of the major Asia-Pacific economies since joining the TPP in March 2008.<sup>2</sup> Meanwhile,

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1 "South Korea Free Trade Agreement," US Department of State, <http://www.state.gov/e/eb/tpp/bta/fta/c26417.htm> (accessed March 9, 2012); "New Opportunities for US Exporters Under the US-Korea Trade Agreement," Office of the United States Trade Representative, <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta> (accessed March 17, 2012).

2 Hillary Clinton, "Remarks on Regional Architecture in Asia: Principles and Priorities," US Department

East Asian economic powers such as China, Japan and Korea have promoted bilateral or trilateral FTAs under China's lead. Currently, a bilateral FTA between China and Korea is under negotiation while China, Japan and Korea are preparing for trilateral FTA negotiations to commence.

The recent FTA networking trend in East Asia is puzzling in terms of actors and timing even though most of the cases mentioned above are ongoing FTAs. Why has a vigorous proliferation of FTA networks emerged recently in East Asia? If the momentum occurred from specific critical junctures such as financial crises, why did the 1997 Asian financial crisis not bring about the same phenomenon as the 2008 global financial crisis? In addition, why does the US actively seek to extend its FTA networks in this region? The United Nations Conference on Trade and Development (UNCTAD) 2010 report states that "it is highly likely that trade policy will be placed on the back burner, and that there will be slower progress in FTAs involving the United States" given the fact that the priority of the Obama administration has been to rebuild the domestic economy after the 2008 global financial crisis and the subsequent recession.<sup>3</sup> Yet the direction of the US trade policy appears to have dramatically changed in light of the conclusion of the KORUS FTA and potential benefits of the TPP.

The basic objective of an FTA is to obtain economic benefits by promoting enhanced market access through free trade among member states. However, countries also seek to achieve their strategic goals through FTAs.<sup>4</sup> Thus, in order to gain a greater understanding of the proliferation of real and potential FTA networks in East Asia, this paper aims to investigate the economic and strategic interests of the US and China and their influence on the current form of trade architecture in East Asia. I posit that the trade architecture can be a multilateral, bilateral or unilateral form depending on US and Chinese interests. If they share interests, it might result in a peaceful multilateral trade architecture. However, if their interests are competing, the result would be a bilateral (or if one state's influence dominates power in the region, even unilateral) trade architecture. I argue that the current trade architecture in East Asia has been created by interest

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of State, January 12, 2010, <http://www.state.gov/secretary/rm/2010/01/135090.htm> (accessed April 3, 2012).

3 "International Trade After the Economic Crisis: Challenges and New Opportunities" UNCTAD, (United Nations Publication, 2010), [http://unctad.org/en/docs/ditctab20102\\_en.pdf](http://unctad.org/en/docs/ditctab20102_en.pdf) (accessed May 16, 2012).

4 Vinod K. Aggarwal and Min Gyo Koo, "Asia's new institutional architecture: evolving structures for managing trade, financial, and security relations", in *Asia's New Institutional Architecture: Evolving Structures for Managing Trade, Financial, and Security Relations*, eds. Vinod K. Aggarwal and Min Gyo Koo (New York, N.Y., Springer 2008), 1-34; Yul Sohn and Min Gyo Koo, "Securitizing Trade: The Case of the Korea-US Free Trade Agreement," *International Relations of the Asia-Pacific* 11 (2011), 433-460.

competition between the US and China.

To see whether the current trade architecture is a product of US-China competition, I will analyze four cases: the Korea-United States (KORUS) FTA, the Trans-Pacific Partnership (TPP), the China-Korea (CK) FTA and the China-Japan-Korea (CJK) FTA. Although two of the cases are not under negotiation at this moment (the CJK FTA is not under negotiation, and the TPP does not include Japan), this paper attempts to focus on the intentions behind them. The cases are divided into two parts: 1) the KORUS FTA and the TPP cases as US strategy and 2) the China-Japan-Korea (CJK) FTA and the China-Korea (CK) FTA as China's strategy.

By analyzing the four concluded or ongoing FTA case studies, I argue that trade architecture in East Asia is being shaped by competition between the US and China for spheres of influence. I attempt to support this argument by the realist's approach on trade-security nexus because the US and China's strategic, as well as economic, interests allows them to compete in East Asia by promoting FTA networks that they pursue respectively, while attempting to exclude each other. The findings of this study demonstrate that the KORUS FTA and the TPP are part of the US strategy to strategically contain China as well as to revive the US economy, while the CK FTA and the CJK FTA are part of China's strategy to counter the spread of US-led FTA networks in the region.

The next section provides a literature review on the trade-security nexus, since the concept is the main analytical tool to analyze the independent variables of this study. Realist, liberal and imperialist views on trade-security nexus will offer a framework in which to understand the intentions of the US and China. Part Three outlines the US and China's different interests in East Asia and their implication on direction of trade architecture in the region. Part Four examines the four FTA cases in the region by using theoretical frameworks of trade-security nexus. By using trade data and official statements by both the US and Chinese governments, I point out that the TPP and the CJK FTA are good examples that reflect the competition between the US and China and how this competition is based on their strategic interests. Lastly, Part Five provides a conclusion and future implications for the trade architecture in East Asia.

### **Literature Review on Trade-Security Nexus**

It might seem that trade is one thing and security is another. However, the two are interconnected and influence each other as previous literature on the trade-security nexus has demonstrated. A variety of theoretical views on the relationship between trade and security will offer a framework to understand the US

and China's intentions regarding trade architecture in East Asia.

The term "trade-security nexus" appears to be new in the field of international relations, given the fact that trade relationships and levels of interdependence among nations have become much more global and complex since the 1990s. Thus, numerous debates over trade interdependence and its political and security implications have grown since then.<sup>5</sup> However, attention to the relationship between trade and security is not new. Although full-fledged studies became widespread in the 1990s, most cases can be traced back to the early twentieth century or even further.

The previous literature takes various theoretical approaches in order to analyze the cases. In particular, Jon C. Pevehouse highlights the key theoretical arguments of both realists and liberals.<sup>6</sup> Yet, Pevehouse focuses only on the influence of trade on political relations and generalizes theoretical arguments based on relationship. I aim to explicate the opposite influence: the political and security influence on trade relations. Therefore, I will compare two different approaches and apply them theoretically.

First, liberal and imperialist theorists believe that economic and trade relations determine security. Although liberals and imperialists have some differences, both pay attention to trade and economic relations, such as trade interdependence, and analyze their political influence. Gallagher and Robinson analyze the British imperialism of free trade in the nineteenth century and argue that the willingness to limit the use of power to establish security for trade is the distinctive feature, in contrast to the mercantilist use of power.<sup>7</sup> They also suggest that the fundamental continuity of British expansion is only obscured when a sharp change in trade happens.<sup>8</sup> That is, a change in trade was the only determining factor that influenced British imperialism.

Liberals share a similar argument with imperialists by focusing on trade and economic influence, but they also consider democracy as another crucial factor.

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5 Jon C. Pevehouse, "Interdependence Theory and the Measurement of International Conflict," *The Journal of Politics* 66:1 (February 2004), 247.

6 Pevehouse, "Interdependence Theory," 248-251. He reviewed various literatures and drew four hypotheses. The four hypotheses are: H1: Increasing levels of trade dependence between states will result in increasing political cooperation among those states; H2: Higher levels of trade dependence between states will lessen the probability of political-military conflict; H3: Higher levels of trade dependence between states will lead to a greater probability of conflicts between those states; and H4: Trade has no systematic relationship with political-military conflict. The first two are liberals' and the latter two are realists' arguments respectively.

7 John Gallagher and Ronald Robinson, "The Imperialism of Free Trade," *The Economic History Review*, Second series 6:1 (1953).

8 Ibid.

The classical liberal philosopher Immanuel Kant argues that expanding political participation and increasing economic interdependence would promote peace among states.<sup>9</sup> The first pillar of his argument has been strongly supported by the democratic peace literature.<sup>10</sup> Since then, analyzing democratic peace has been revisited by international theorists with the addition of economic interdependence being factored in.<sup>11</sup> Oneal and Russett's work has developed these liberal arguments by using pooled-regression analyses for the Cold War era. Oneal and Russett take into account the relationship among democracy, trade interdependence and conflict, claiming that economic interdependence by trade reinforces structural constraints and liberal norms, which consequently encourages accommodation rather than conflict.<sup>12</sup>

Some differences exist among liberal and imperialist theories, even among liberals themselves. Some liberals argue that trade interdependence brings about political cooperation among states, while others contend that high levels of trade interdependence lessen the possibility of conflict.<sup>13</sup> Either way, both liberals and imperialists believe that political and security relations highly depend on trade and economic issues.

On the other hand, realists do not view trade interdependence as a source of peace or a deterrent to conflict. Rather, they pay more attention to power and security relations. Also, realist forms of international theories stress the importance of alliances and relative power, in contrast to liberals emphasizing absolute gain. Some realist literature points out the relationship between alliances and trade. These realists argue that free trade is more likely within, rather than across, political-military alliances. Since trade produces security externalities, power politics is a crucial element of international trade relations.<sup>14</sup>

Other theorists also emphasize trade as a source of power, although they have failed to regard alliance relations. Albert Hirschman analyzes how foreign trade can efficiently be used as an instrument of national power policy. He argues that the gains from trade may not be proportional across all states and that this disparity in relative gains can be a source of leverage of one state over

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9 Hyung Min Kim and David L Rousseau, "The Classical Liberals Were Half Right (or Half Wrong): New Tests of the 'Liberal Peace,' 1960-88", *Journal of Peace Research* 42: 5 (2005), 523-543.

10 Ibid.

11 John R. Oneal and Bruce M. Russett, "The Classical Liberals Were Right: Democracy, Interdependence, and Conflict, 1950-1985", *International Studies Quarterly* 41:2 (1997), 267-93.

12 Ibid., 267-93.

13 Gallagher and Robinson, "The Imperialism of Free Trade," 248-249.

14 Joanne Gowa and Edward Mansfield, "Power Politics and International Trade," *APSR* 87:2 (1993).

another.<sup>15</sup> Ripsman and Blanchard also prove that political and security-related concerns override the constraints of trade dependence by providing evidence from 1914 and 1936. In both years, trade dependence failed to deter war.<sup>16</sup>

### Realism and Trade Architecture in East Asia

All the aforementioned theoretical approaches have appeared to be correct when selectively choosing historical cases and time periods. Then which approach or argument is most applicable to the current situation in East Asia?

While both liberal and realist approaches are helpful to understand the current trade architecture in East Asia, this paper follows the realist approach to explain the current trade architecture in East Asia. This paper posits that economic interests cannot fully explain trade relations, particularly in East Asia where the US and an emerging China compete for influence.

Trade-security nexus analysis has been used when discussing a state's trade policy or trade relations between states. Since the East Asian region is an arena where proliferation of bilateral and multilateral free trade agreements are being created, the region is frequently analyzed by using the trade-security nexus. The "US Approaches to the Trade-Security Nexus in East Asia" by Min-gyo Koo (2010) is a good example. Koo explains the reasons why US approaches to the trade-security nexus in postwar East Asia have emerged in three critical stages: securitization, de-securitization, and re-securitization. The most recent book by Aggarwal and Lee (2012) also examines different types of East Asian countries' trade policies and American strategies.<sup>17</sup> Some other papers also analyze trade-security nexus when explaining the factors that catalyze a bilateral free trade agreement between two states. Sohn and Koo (2011) suggest that the KORUS FTA is a clear example to show how countries pursue both economic and strategic interests at the same time.<sup>18</sup> In particular, they emphasize security and strategic calculations that would catalyze or erode trade relations between states.<sup>19</sup>

### The US and China's Different Interests in East Asia

The different interests of the US and China encourage them to pursue differ-

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15 Albert Hirschman, *National Power and the Structure of Foreign Trade* (1945), pp. 3-40, 53-116, 143-51.

16 Norrin Ripsman and Jean-Marc Blanchard, "Commercial Liberalism Under Fire: Evidence From 1914 and 1936", *Security Studies* 6:2 (1997), 4-50.

17 Vinod K. Aggarwal and Seungjoo Lee, *Trade Policy in the Asia-Pacific: the Role of Ideas, Interests, and Domestic Institutions* (Springer 2012).

18 Sohn and Koo, "Securitizing Trade," 433-460.

19 Ibid.

ent strategies in East Asia, which result in the US-China competition in FTA networks. While the US prefers to be engaged and create a new architecture as a leader in Asia, China intends to create an Asian community that excludes the US.

US president Obama made his first trip to Asia in November 2009. As the first US president with an Asia-Pacific orientation, Obama wanted to send a message that the US intends to be a leader in the region in the twenty-first century on the full range of issues.<sup>20</sup> Although the visit did not include any specific visions for a regional architecture, it was an important signal that showed America's attention and interests were refocused on Asia.

In January 2010, the US engagement strategy in Asia became more specific with the Secretary of State, Hillary Clinton's remarks on "Regional Architecture in Asia: Principles and Priorities."<sup>21</sup> Clinton addressed five principles that would define America's continued engagement and leadership in the region by using the term "architecture." The key point is a multilateral approach, but with the US as a leader. Especially with its bilateral security allies like Korea and Japan, the US would like to play a key role in building a new regional architecture.

On October 28, 2010, Secretary Clinton specified the idea by stating tools and tracks for a US engagement in Asia. She highlighted three tools: 1) alliances; 2) emerging partnerships; and 3) cooperation with regional institutions.<sup>22</sup> According to Clinton, the US is using these tools to pursue forward-deployed diplomacy along with the three tracks: 1) shaping the future Asia-Pacific economy; 2) underwriting regional security; and 3) supporting stronger democratic institutions and the spread of universal human values.<sup>23</sup> Considering her use of the term "forward-deployed diplomacy," the implication is that the US regards alliance networks and FTAs as crucial parts to the US version of regional architecture.

Unlike the US, China has not clarified its visions and interests for "regional architecture" clearly. While the US enthusiastically addressed its principles and priorities for regional architecture, including security and economy in the Asia

20 The White House Press Briefing, White House, November 9, 2009, <http://www.whitehouse.gov/the-press-office/briefing-conference-call-presidents-trip-asia> (accessed June 2, 2012).

21 Hillary Clinton, "Remarks on Regional Architecture in Asia: Principles and Priorities," US Department of State, January 12, 2010, <http://www.state.gov/secretary/rm/2010/01/135090.htm> (accessed June 13, 2012).

22 Hillary Clinton, "America's Engagement in the Asia-Pacific," US Department of State, October 28, 2010 <http://www.state.gov/secretary/rm/2010/10/150141.htm> (accessed June 13, 2012).

23 Ibid.

Pacific, China has not proposed anything similar in return. Rather, China underscores the importance of economic cooperation among Asian countries, and the leading mechanisms are multilateral institutions in the region such as ASEAN, ASEAN Plus Three, and China-Japan-Korea cooperation.<sup>24</sup> In other words, China tends not to deal with traditional security issues; it stresses economic and financial cooperation among Asian countries.<sup>25</sup> China underlined the role of ASEAN Plus Three for economic cooperation and the role of the Chiang Mai Initiatives for financial cooperation in the region,<sup>26</sup> implying that China prefers regional economic cooperation excluding the US.

This feature is well reflected in Chinese Foreign Minister Yang Jiechi's remark at the First Lanting Forum in December 2010. Yang addressed four principles on regional development so as to build the Asia-Pacific into a community: 1) cooperation as a basis; 2) development as a key; 3) a new security concept as a guarantee; and 4) respect for diversity.<sup>27</sup> Among the four principles, the fourth principle warrants more attention because it draws a clear distinction between the US and China

China does not regard itself as a leader; it emphasizes equality among countries, which is different from the US proposal to lead. This emphasis on equality is developed with the fourth principle on respect for diversity.

Respect for diversity is the premise. Diversity and complexity are a distinctive feature of the Asia Pacific. Countries in this region have diverse political and economic systems, histories, cultures and social development models, which have grown side by side over the long years of history. Diversity is a source of the unique strength and enduring vitality for the Asia Pacific. We need to uphold this tradition...so as to build the Asia Pacific into a community in which diverse nations and cultures live in peace and friendship.<sup>28</sup>

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- 24 Dai Bingguo, "Embrace New Opportunities for China-ASEAN Cooperation," Ministry of Foreign Affairs of the People's Republic of China, January 22, 2010, <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t653431.htm> (accessed May 10, 2012).
- 25 Wan Jiabao, "Remarks by H.E. Wen Jiabao Premier of the State Council of the People's Republic of China At the 13th ASEAN Plus Three Summit," Ministry of Foreign Affairs of the People's Republic of China, October 29, 2010, <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t765939.htm> (accessed May 13, 2012).
- 26 Ibid.
- 27 Yang Jiechi, "Shape the Future of Asia Pacific with Confidence and Cooperation," Ministry of Foreign Affairs of the People's Republic of China, December 1, 2010, <http://www.fmprc.gov.cn/eng/zxxx/t773516.htm> (accessed April 22, 2012).
- 28 Ibid.

The respect for diversity was also reemphasized by President Hu Jintao at the opening ceremony of the Boao Forum for Asia Annual conference 2011,<sup>29</sup> and seen as the key on China's white paper, *China's Peaceful Development 2011*.<sup>30</sup> The emphasis on diversity can be interpreted as the need for China's unique political and economic system to be protected.

### Case 1: US Strategy

Although East Asian countries have achieved more intra-regional trade since the 1997 Asian financial crisis,<sup>31</sup> the two cases of the KORUS FTA and TPP indicate how the United States is still playing an important role in the region. By creating free trade networks with its allies and partners, the US is increasing its influence in the region. Even though there are some differences in degree, both cases demonstrate the US strategic and economic interests in East Asia.

The cases of the KORUS FTA and TPP are key engines of America's regional engagement policy. The first product is the KORUS FTA, expecting a "domino effect."

An FTA with Korea would ensure that the United States had an institutional presence in East Asia. In addition, the KORUS FTA could generate a 'domino effect' that leads to other countries, such as Japan, entering into similar arrangements with the United States. All of this would come at a time when the discussions within the Asian-Pacific Economic Cooperation (APEC) Forum have stalemated.<sup>32</sup>

Although the report was released in 2006 before the actual negotiation process, it clearly represents the US goals regarding the KORUS FTA. This is repeated by US secretary of state, Clinton recently when the agreement entered into force.

Not only will the agreement provide a significant economic boost to

29 Hu Jintao, "Towards Common Development and a Harmonious Asia," *China News and Report*, April 15, 2011 [http://www.china.org.cn/report/2011-05/13/content\\_22560866.htm](http://www.china.org.cn/report/2011-05/13/content_22560866.htm) (accessed April 16, 2012).

30 "China's Peaceful Development," Information Office of the State Council of the People's Republic of China, September 6, 2011, [http://www.china.org.cn/government/whitepaper/node\\_7126562.htm](http://www.china.org.cn/government/whitepaper/node_7126562.htm) (accessed April 19, 2012).

31 Kent Calder, "Critical Junctures and the Contours of Northeast Asian Regionalism," in *East Asian Multilateralism: Prospects For Regional Stability*, eds. Kent F. Calder and Francis Fukuyama (The Johns Hopkins University Press, 2008), 24.

32 Mark Manyin and William Cooper, "The Proposed South Korea-US Free Trade Agreement," Congressional Research Service Report for Congress, May 24, 2006.

both of our economies, it will strengthen the US partnership with a key ally in a strategically important region. This is a powerful signal of America's commitment to the Asia Pacific and to securing and sustaining our role as a regional leader and Pacific power.<sup>33</sup>

She clearly declares the US interest and goals in the region, which can be achieved through the KORUS FTA. Now the domino effect is about to be seen by the Japan's joining into TPP. In April 2012, Japanese Prime Minister Noda and US president Obama had a meeting and released a Joint Statement. Although the Joint Statement deals with various issues such as alliance, regional security and trade and energy issues, the most relevant part was that it reaffirmed Japan's interest and intentions in participating in TPP negotiations. According to the Joint Statement:

We will continue to advance our ongoing bilateral consultations on the Trans-Pacific Partnership (TPP), and further explore how bilateral economic harmonization and the promotion of regional economic integration could be achieved.<sup>34</sup>

This was re-addressed by Prime Minister Noda on the same day at the Joint Conference. He emphasized bilateral economic ties through their promotion of economic integration in the Asia Pacific region.<sup>35</sup> To do that, he insisted that Japan should advance consultations with a view to participating in the TPP negotiations.<sup>36</sup>

In brief, both the KORUS FTA and the TPP can be regarded as part of the US strategy in East Asia. By using these tools, the United States wants to maintain its role as a leader and maintain good relations with its old allies, Korea and Japan. With the close economic and strategic relationship, the United States expects to cooperate with the allies in a regional trade architecture context, in which China is included as another actor.

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33 Hillary Clinton, "US-Korea Free Trade Agreement Takes Effect," US Department of State, March 15, 2012, <http://www.state.gov/secretary/rm/2012/03/185844.htm> (accessed May 11, 2012).

34 "United States-Japan Joint Statement: A Shared Vision for the Future", White House, April 30, 2012, <http://www.whitehouse.gov/the-press-office/2012/04/30/united-states-japan-joint-statement-shared-vision-future> (accessed April 26, 2012).

35 Yoshihiko Noda, "Remarks by President Obama and Prime Minister Noda of Japan at Joint Press Conference" White House, April 30, 2012, <http://www.whitehouse.gov/the-press-office/2012/04/30/remarks-president-obama-and-prime-minister-noda-japan-joint-press-confer> (accessed May 2, 2012).

36 Ibid.

*The KORUS (Korea-United States) FTA*

The FTA between the US and Korea is considered one of the most important FTAs for the two countries. In particular for the US, the KORUS FTA represents the United States' most commercially significant FTA in over a decade.<sup>37</sup> Strategically as well as commercially, the KORUS FTA is meaningful since the agreement indicates the changes in the US strategic interest in Asia. USTR (office of the United States Trade Representatives) clearly indicated those interests:

In addition to strengthening our economic partnership, the KORUS FTA would help to solidify the two countries' long-standing geostrategic alliance. As the first US FTA with a North Asian partner, the KORUS FTA could be a model for trade agreements for the rest of the region, and underscore the United States commitment to, and engagement in, the Asia-Pacific region.<sup>38</sup>

As seen above, the KORUS FTA is not only about trade, but also about US strategic policy. In fact, some scholars emphasize bilateral concerns as the impetus behind the agreement, arguing that FTAs did not become an important part of America's Asia policy until the announcement of the KORUS FTA talks.<sup>39</sup> That is, the KORUS FTA is the first FTA that is used as a part of America's Asia policy.

The Korean government also revealed the strategic implication of the KORUS FTA in terms of enhancing alliance relations. An article at *Korea.net* underscores these implications:

Overall, President Lee's latest US trip produced win-win results for both countries. The most meaningful outcome of the trip comes from the agreement between the two leaders to upgrade the 58-year-old Korea-US alliance by increasing its scope.... The two leaders also agreed to renew and upgrade the joint vision for the alliance between South

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37 "New Opportunities for US Exporters Under the US-Korea Trade Agreement," Office of the United States Trade Representatives, <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta> (accessed October 25, 2012).

38 "South Korea Free Trade Agreement" US Department of State, <http://www.state.gov/e/eb/tpp/bta/fta/c26417.htm> (accessed May 8, 2012); "New Opportunities for US Exporters Under the US-Korea Trade Agreement," USTR, <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta> (accessed May 8, 2012).

39 Aggarwal and Lee, *Trade Policy in the Asia-Pacific*.

Korea and the United States which they initially adopted at the Korea-US summit in June 2009 so that the two countries can work together to resolve challenges facing the international community, such as climate change, the global economic crisis, and poverty.<sup>40</sup>

Thus, the KORUS FTA shows how a trade relationship can be used to achieve security goals, as the realists argue. In particular, the realist argument seems to be far more plausible considering that it is a trade agreement between military allies.<sup>41</sup>

In conclusion, neither security concerns based on alliance relations nor the economic benefits of trade constituted the only stimulus for the agreement. The dynamic calculation regarding both economic and security benefits allowed the KORUS FTA to be concluded.

### *The TPP (Trans-Pacific Partnership)*

The Trans-Pacific Partnership (TPP) was initially conceived in 2003 by Singapore, New Zealand, and Chile to promote trade liberalization in the Asia-Pacific region. It came into effect in 2006. With the US joining in March 2008, the role and status of this partnership has dramatically changed. Hillary Clinton's remark in January 2010 indicates that the US intends to use the TPP as a tool to promote cooperation in Asia. As of 2012, the TPP has nine members, including the members that are in the negotiation process (Singapore, New Zealand, Chile, Brunei, the US, Australia, Peru, Vietnam and Malaysia).

The TPP entered a new phase in November 2011 when Japanese Prime Minister Noda announced at the APEC meeting in Honolulu that Japan would enter into consultations toward participating in the Trans-Pacific Partnership negotiations with the countries concerned. The importance of this announcement can be explained by the size of Japan's economy compared to the other members' in TPP. Japan's economy is twice the size of the eight countries currently participating in TPP negotiations. As Table 1 indicates, the gap between the current GDP share of TPP members excluding Japan and the one including Japan is quite big. That is, the participation of Japan will make a huge difference in the status of the TPP.

40 Yoon Sojung, "President Lee's US visit brings fruitful outcome in free trade and alliance," Korea.net, October 18, 2011, <http://www.korea.net/NewsFocus/Policies/view?articleId=89323> (accessed October 24, 2012).

41 Joanne Gowa and Edward Mansfield, "Power Politics and International Trade," *American Political Science Review* 87:2 (1993), 408-420.

**TABLE 1 GDP SHARE OF GLOBAL FREE TRADE AGREEMENTS**

	% GDP	% of the members
CJK FTA	19.6	3
ASEAN +3	27.4	13
TPP (excluding Japan)	26.7	9
TPP (including Japan)	35.3	10
EU	25.7	27
NAFTA	27.1	3

Source: *Global Insight (2010)*

Considering their economic size and the trade volume between the US and Japan, the TPP can be regarded as a US-Japan bilateral FTA. Japan and the United States comprise about 30 percent of world GDP in 2011. In fact, Japan's GDP is about two and a half times greater than the combined GDP of the other eight TPP partners (excluding the US).<sup>42</sup> In addition, the US-Japan two-way trade relationship, which is about \$250 billion, is greater than the sum of the other TPP countries.<sup>43</sup>

The question of whether Japan should join the TPP negotiations has often been front-page news in Japan and has generated enormous political controversy since serious discussions began in 2009 and 2010.<sup>44</sup> Both the ruling Democratic Party of Japan (DPJ) and the largest opposition party, the Liberal Democratic Party (LDP) are split over the TPP issue.<sup>45</sup> Prime Minister Noda's basic reasoning is based on the economic effect of the TPP. Noda mentioned that, "Japan should tap into the growing power of the Asia-Pacific region to hand down to future generations the affluence our country has built up as a trading nation."<sup>46</sup> It seems to make sense regarding Japan's long economic depression while China

42 Wendy Cutler's remark at the conference, "Japan and the Trans-Pacific Partnership" The Brookings Institute, December 2, 2011, Washington, DC.

43 Ibid.

44 William H. Cooper and Mark E. Manyin, "Japan's Possible Entry Into the Trans-Pacific Partnership and Its Implications," *Congressional Research Service*, August 24, 2012, 14.

45 Ibid., 14.

46 Natsuko Fukue, "Japan will join TPP dialogue, Noda decides", *The Japan Times*, November 12, 2011, <http://www.japantimes.co.jp/text/nn20111112a1.html> (accessed April 18, 2012).

and Korea have kept economic growth by promoting more trade.

For the US, Japan's possible entry into the TPP is largely viewed as an important step in forming a wider Asia-Pacific regional trade arrangement.<sup>47</sup> On the other hand, the absence of Japan could undermine the credibility of the TPP as a viable regional trade arrangement and a setback for Asia-Pacific economic integration.<sup>48</sup> Consequently, Japan's potential entry into the TPP agreement has become not only a focal point of US-Japan relations and East Asian regional architecture.

### Case 2: China's Strategy

The incentive for China to pursue regional economic cooperation became more imperative after the 2008 global financial crisis.<sup>49</sup> Neither cases of the CK FTA or the CJK have been concluded. Nonetheless, the two cases indicate how China is attempting to increase its influence in the region by creating free trade networks with neighboring countries. Even though the CK FTA is under negotiation and the CJK FTA is just under consideration, the recent activities by the three governments hint that these FTAs have implications for the regional trade architecture in East Asia. China is the most passionate actor, and its actions can be understood within a realist framework because economic interest itself cannot fully explain the reasons why China is eager for FTAs.

Some liberals such as Oneal and Russett would disagree with this by arguing that trade interdependence among three countries would allow the three to have better political relations. However, their interdependence is not symmetric but asymmetric, so pure economic interests cannot fully explain the cooperation among them because asymmetric trade dependence produces security externalities by enhancing the potential power of the trading partners.<sup>50</sup> Also, thinking of the close relationship of Korea and Japan with the United States in terms of security and economy for more than half of the century, economic interests cannot fully explain the trend of the CK and the CJK FTA.

Therefore, a realist approach is more appropriate to understand both cases despite the lack of military alliance relationships and a number of historical disputes among China, Japan and Korea. China's strategic and economic inter-

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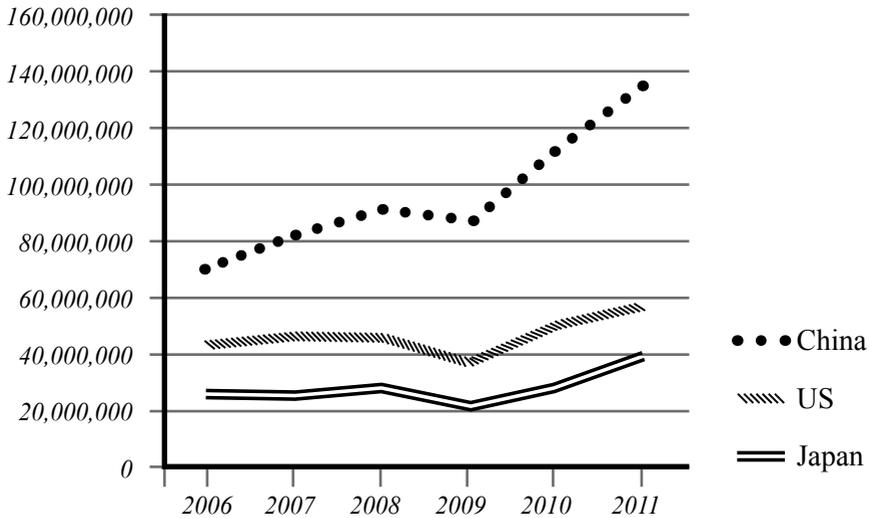
47 Cooper and Manyin, "Japan's Possible Entry," 18.

48 Ibid., 18.

49 "Sino-Korea FTA a win-win arrangement for both countries," Ministry of Commerce, People's Republic of China, June 20, 2012, <http://english.mofcom.gov.cn/aarticle/newsrelease/counselorsoffice/westernasiaandaficareport/201206/20120608189518.html> (accessed June 3, 2012).

50 Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (1945), 3-12.

**TABLE 2 KOREA'S EXPORT PATTERNS (THOUSANDS OF US\$)**



Source: Korean International Trade Association (KITA)

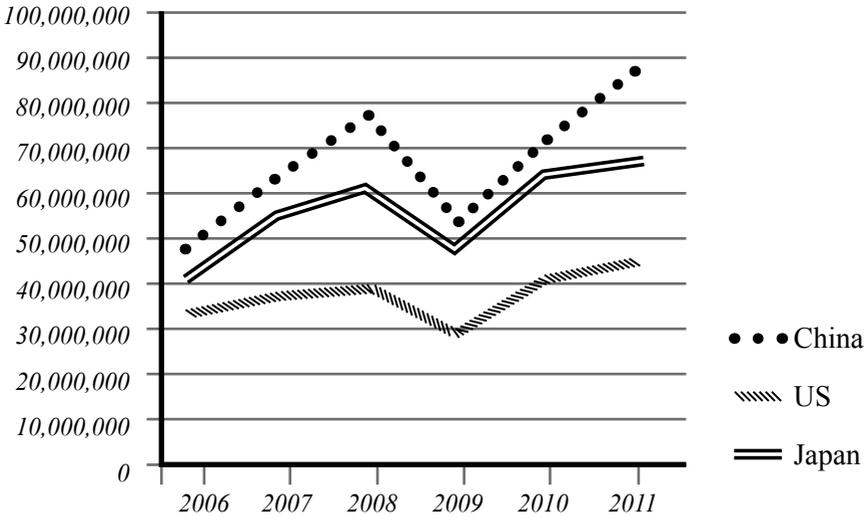
ests encourage China to pursue the CK and CJK FTA as a means of balancing against the spreading US-led FTA networks in the region. The timing of both cases should also be analyzed through the realist approach. The Chinese government began to consider the FTA with Korea after the KORUS FTA was finalized in 2007. The CJK FTA also started to move to the next step by the time the US joined the TPP. In other words, the CK and the CJK FTA can be regarded as China’s strategy to balance against the US.

*The CK FTA*

China and Korea have an important and growing trade relationship. China is Korea’s number one export market and the main source of imports, as Table 2 and Table 3 indicate. Furthermore, Korea’s exports to China have rapidly increased since the 2008 global financial crisis. This rapid increase has not been observed in Korea’s exports to the US or Japan.

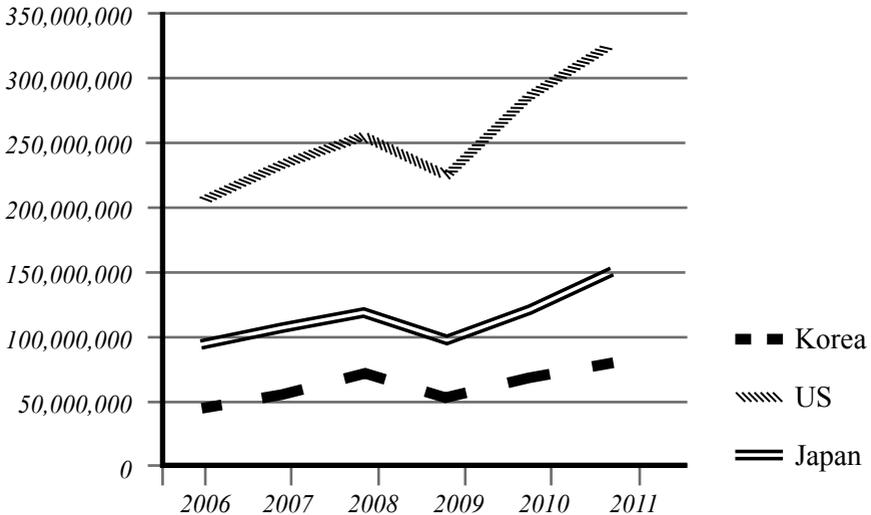
For China, however, Korea is just one of the important trading partners in the region. Compared to other major trading partners such as the US and Japan, the Korean market does not seem to be the best choice for China, as seen in

TABLE 3 KOREA'S IMPORT PATTERNS (THOUSANDS OF US\$)



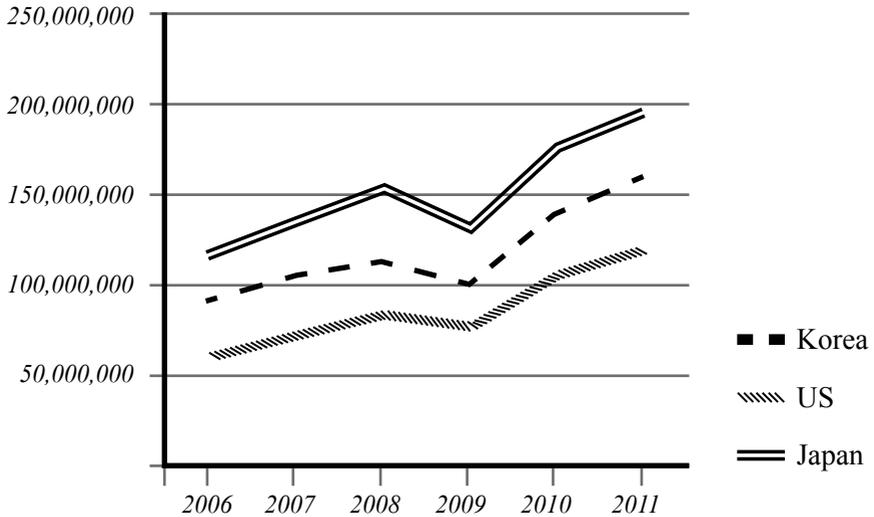
Source: Korean International Trade Association (KITA)

TABLE 4 CHINA'S EXPORT PATTERNS (THOUSANDS OF US\$)



Source: Korean International Trade Association (KITA)

TABLE 5 CHINA'S IMPORT PATTERNS (THOUSANDS OF US\$)



Source: Korean International Trade Association (KITA)

Table 4 and Table 5. Moreover, no drastic change is seen in Chinese exports to Korea or imports from Korea.

Nevertheless, China has immediately begun seeking an FTA with Korea in April 2007, only days after the signing of the initial KORUS agreement. Although China and Korea agreed on an official feasibility study of an FTA in November 2006, the actual step was made after the finalization of the KORUS FTA. Chinese Prime Minister Wen Jiabao called for an early start to FTA negotiations so that an agreement could be reached as soon as possible.<sup>51</sup>

Regarding the fact that there is no drastic change in China's economic benefits out of the trade with Korea, we should consider the strategic implication of China's decision to pursue the CK FTA. A *Chosun Ilbo* news article pointed out China's desire to check US influence in the region, which is expected to grow with the KORUS FTA.<sup>52</sup> Since Korea is at the mid-point between these

51 "Should Korea Rush Into Free-Trade Talks With China?" *Chosun Ilbo*, April 9, 2007, [http://english.chosun.com/site/data/html\\_dir/2007/04/09/2007040961008.html](http://english.chosun.com/site/data/html_dir/2007/04/09/2007040961008.html) (accessed June 20, 2012).

52 Ibid.

two economic spheres, China has no choice but to push for an FTA.<sup>53</sup> In fact, the urgency in reaching the CK FTA decreased with the delay in the ratification of the KORUS FTA, but it gained renewed momentum after the KORUS FTA entered into force in March 2012. Accordingly, China has become more assertive in pursuing the CK FTA, which can be understood as a balancing mechanism against the KORUS FTA.

Chinese analysts said that the planned CK FTA is expected to spur the integration of East Asia's three major economic powers, China, Korea and Japan.<sup>54</sup> According to Dong Yan, a research fellow at Chinese Academy of Social Sciences (CASS), "After the China-ASEAN FTA and the Korea-ASEAN FTA being signed, if the CK FTA is to be reached as planned, the bilateral trade pact is highly likely to develop into the three-way agreement among China, South Korea and Japan, leading to the East Asia Free Trade Agreement (EAFTA)."<sup>55</sup>

### *The CJK FTA*

Since the first summit meeting in 2008, a Chinese-Japanese-Korean summit has been conducted every year and finally produced an outcome. The leaders of China, Japan and Korea agreed to begin FTA negotiations by the end of 2012. If it were concluded, the CJK FTA would account for about 20 percent of global GDP (Table 1). It can be compared with 27.1 percent for NAFTA, which includes the US, Canada and Mexico, and 25.7 percent for the EU. Therefore, the effort to forge greater cooperation among China, Japan, and Korea itself has a lot of economic implications, even though the three countries have not even commenced FTA negotiations.

The case of the CJK FTA also has strategic implications. Korea and Japan, two of the most successful military allies of the US, now trade more with China. This change in trade is meaningful in that Korea and Japan's number one trading partner used to be the US. As a result, this change in trade has enabled China to be more assertive in FTA networking competition in East Asia.

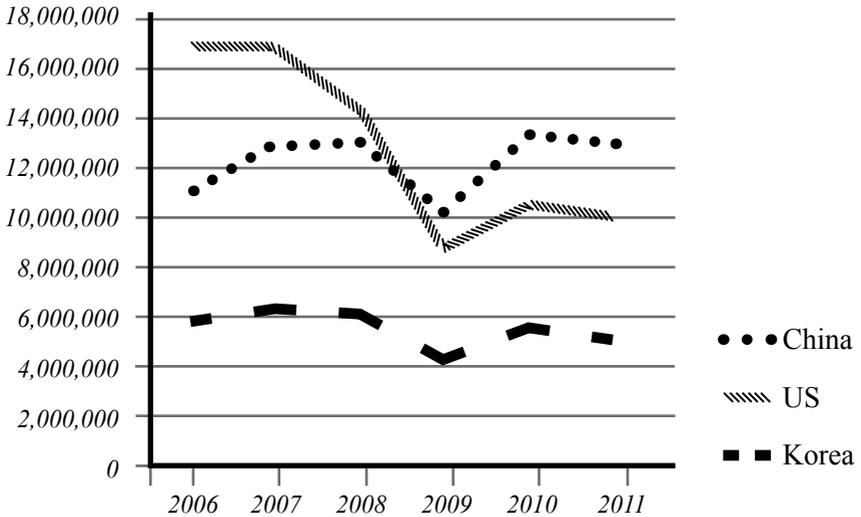
Some might be skeptical about the CJK FTA, since this agreement includes old regional rivals: Japan and China. Greg Corning, a professor at Santa Clara University, argues in his article that bilateral FTAs are a more important force in East Asia than negotiations for a CJK FTA due to the strategic nature of FTA

53 Ibid.

54 "Sino-Korea FTA a win-win arrangement for both countries," Ministry of Commerce, People's Republic of China, June 20, 2012, <http://english.mofcom.gov.cn/aarticle/newsrelease/counselorsoffice/westernasiaandfricareport/201206/20120608189518.html> (accessed June 29, 2012).

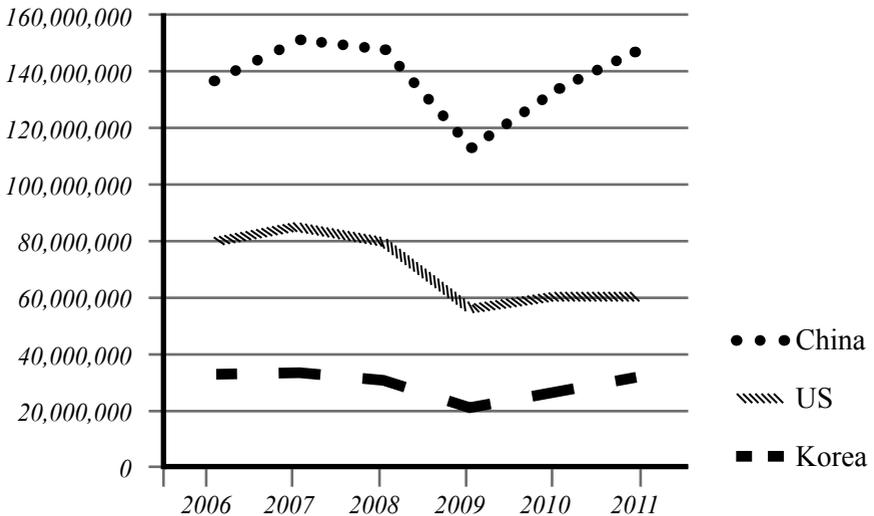
55 Ibid.

**TABLE 6 JAPAN'S EXPORT PATTERNS (THOUSANDS OF US\$)**



Source: Korean International Trade Association (KITA)

**TABLE 7 JAPAN'S IMPORT PATTERNS (THOUSANDS OF US\$)**



Source: Korean International Trade Association (KITA)

competition in Asia.<sup>56</sup> If this argument is correct, why has the CJK FTA developed recently? It can be understood by Chinese intentions. An article from the Ministry of Commerce of the People's Republic of China states:

If the CK FTA is implemented as planned and the pact develops into the EAFTA (East Asian FTA) in the end, the deepening regional cooperation can increase China's influence in Asia against the Trans-Pacific Partnership (TPP), which is viewed as a de-facto free trade pact between the US and Japan.<sup>57</sup>

From the article, we can infer that China regards the TPP as a de facto FTA between the US and Japan. Accordingly, the first thing China has to do is to embrace Japan with an alternative FTA pact, which is the CJK FTA.

Considering the economic relationship, Japan might consider the CJK FTA more positively. As seen in Table 6, Japan's number one export destination changed from the US to China after the 2008 global financial crisis. This is a remarkable change for Japan, considering that the US has maintained the number position, with China as a distant second, until the outbreak of the crisis.

This allowed China to be more assertive and confident about pursuing the CJK FTA.

## Conclusion

The current proliferation of FTA networks in East Asia has evolved since the 2008 global financial crisis. With the relative decline of the US economy and the rise of China's economy, East Asia has faced changes in terms of their respective trade relations. Since the US became dominant in both security and the economy in East Asia during and after the Cold War, the rise of China as a leading economic power yields new implications for the region.

The US and China's FTA patterns are very similar. In general, they seek bilateral FTAs first and then multilateral agreements later. The KORUS FTA recently entered into effect in March 2012, and now the US seeks other like-minded states, like Japan, to participate in the TPP. Similarly, China is also promoting the CK FTA more than before, which is expected to help propel the

56 Gregory P. Corning, "Trade Regionalism in a Realist East Asia: Rival Visions and Competitive Bilateralism," *Asian Perspective* 35 (2011), 259–286.

57 "Sino-Korea FTA a win-win arrangement for both countries," Ministry of Commerce, People's Republic of China, June 20, 2012, <http://english.mofcom.gov.cn/aarticle/newsrelease/counseloroffice/westernasiaandfricareport/201206/20120608189518.html> (accessed June 29, 2012).

CJK FTA.

The four cases in this paper suggest that the US and China are competing in East Asia for spheres of influence by promoting their respective FTA networks, while attempting to exclude each other. The KORUS FTA and the CK FTA can be compared as a first round of competition between the US and China, and the TPP and the CJK FTA are the second round of competition between them. The findings indicate that this competitive trend in East Asia cannot fully be explained by economic logic. Beside the economic interests, the strategic interests of both the US and China encourage them to pursue separate FTA strategies in the region.

Lastly, both cases of the China-led and the US-led FTA networks include Japan and Korea. As the most successful US allies, Japan and Korea have maintained a stable economic and security relationships with the US since the end of World War II. With the rise of China, however, the prestige that the US has traditionally had is being challenged. Korea and Japan have become more and more dependent on China economically. Particularly after the global financial crisis in 2008, Korea and Japan's asymmetric trade dependence on China increased further.<sup>58</sup> This indicates that the future of trade architecture in East Asia is highly dependent on embracing Japan and Korea. Considering the nature of complex interdependence in the region, however, neither China nor the US can easily do that. Thus, the current pattern of competition between the US and China is likely to remain for the time being. **YJIS**

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58 Yul Sohn, "Uigi Eehu Segye Muyeokjilseoui Byeonhwa," EAI National Security Panel Working Papers (East Asia Institute, February 2011) [http://www.eai.or.kr/data/bbs/kor\\_report/2011022311241147.pdf](http://www.eai.or.kr/data/bbs/kor_report/2011022311241147.pdf).