

The US & China-Japan-Korea Free Trade Agreement: A Trans-Pacific Partnership Backup Plan?



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A recent poll by the Pew Research Center and Council of Foreign Relations contained some interesting findings for those seeking to gain insight into how Americans understand the role of the United States in the world, and particularly the relationship between foreign and economic policy. For example, a plurality of respondents indicated that they now saw China, and not the US, as the top economic power in the world. Moreover, a majority of those surveyed (54%) understood this rise of China to pose a major threat, not just to the economy of the US but also to its security. Somewhat consistently, 81% of respondents said that protecting American jobs was a top *foreign policy* concern, with about two-thirds supporting an increased role for the US in the global economy.

The fact that the Obama administration has decided to “pivot” towards Asia, and that the cornerstone of this “rebalancing” of national focus is a reinvigorated economic leadership in that part of globe, is consistent with what the poll data indicate are American priorities.

It is unfortunate that the Pew poll did not go one step further, and ask those surveyed what they thought about the primary economic weapon that the US has deployed to help accomplish this rebalance: the Trans-Pacific Partnership (TPP) free trade agreement (FTA). Had they been asked this question (it was asked only of the respondents who were members of the Council on Foreign Relations, and they were overwhelmingly supportive), I suspect that the results would have been mixed. Although Americans might think that participating in the global economy is important, they tend to be less enamored of free trade agreements as a means to accomplish this end. This potential lack of support has possibly dire implications for American participation in the TPP. Both the TPP and the Trade Promotion Authority (“fast-track”) legislation necessary to secure a final TPP agreement will require the consent of a US Congress that, over that past few decades, has seen what was once a bipartisan consensus in favor of trade liberalization vanish. Therefore, it may be time to consider how the rebalance towards Asia might look without the TPP. Under this scenario, the trilateral FTA currently being negotiated between China, Japan, and South Korea (CJK) begins to increase in importance.

The Trans-Pacific Partnership

To understand how the CJK FTA might fill the vacuum left by a failed TPP, it is helpful first to look at the role the TPP is expected to play in the ongoing rebalance towards Asia. The TPP is potentially a massive FTA, bringing together the economies of the US, Japan, Canada, Australia, Mexico, Malaysia, Chile, Singapore, Peru, New Zealand, Vietnam, and Brunei. Taken together, these economies generate an annual GDP of over \$26 trillion. Still, the agreement appears to be less important, at least to Washington, when one realizes that FTAs already exist between the US and half of the parties to the TPP negotiations. The real significance is that the TPP would for the first time bring together the US and Japan in an FTA. Still, even without an FTA, the US and Japan will remain top trading partners. Also, throughout the years, Japan and the US have demonstrated that they are able to work closely together to address trade concerns.

The TPP’s importance does not only lie with the number and wealth of the countries that are party to the talks. Of equal significance is the fact that the TPP would be a “21st Century” FTA. What this means is that the TPP would be focused on issues such as the impact of State-Owned Enterprises (SOEs) and Intellectual Property (IP) protection. The substance of the rules is important. On the one hand, they are thought to serve as a *de facto* barrier to Chinese participation, thus allowing the US to remain by far the largest economy in the TPP. On the other hand, even if China decided to try to join the TPP, the US could plausibly see this as a victory for both American influence in Asia and, perhaps more importantly, American ideas about trade liberalization.

Rebalancing Without the TPP

Obviously, the failure of the TPP to clear Congress is a suboptimal situation from the perspective of the Obama administration.

CHART 1

US & Japan — top trading partners

US			
% of Exports		% of Imports	
1. Canada	18.8	1. China	19.1
2. EU	17.1	2. EU	16.7
3. Mexico	13.9	3. Canada	14.0
4. China	7.2	4. Mexico	12.0
5. Japan	4.5	5. Japan	6.4

Japan			
% of Exports		% of Imports	
1. China	18.0	1. China	21.2
2. US	17.8	2. EU	9.4
3. EU	10.2	3. US	8.8
4. South Korea	7.7	4. Australia	6.4
5. Taiwan	5.8	5. Saudi Arabia	6.2

Source: World Trade Organization

Nevertheless, the Obama administration cannot bind the US to a trade agreement without the consent of Congress. Yet because of significant and politically powerful domestic political opposition, congressional approval is far from certain.

Even without the TPP, however, the strategic and economic interests that the US has in Asia remain in place. While China's growth may slow in the coming years, it will still pose an increasing economic and strategic challenge to the influence and status of the US in the region. Without the TPP, Washington will have to pursue a more indirect approach to asserting American influence in Asia. The focus will be on building upon existing relationships and supporting actions that are consistent with American interests. Under such a scenario, it is easy to see how the ongoing talks between the two most important American allies in Asia — Japan and South Korea — and the US's greatest economic competitor, China, would garner the attention of the US government.

The China-Japan-Korea FTA

Although discussions about a trilateral trade pact between China, Japan, and South Korea have been ongoing for a number of years, formal negotiations between the countries did not commence until March of 2013. The agreement makes a great deal of economic sense for the three countries involved; combined they already engage in trade worth \$690 billion. Indeed, trade between the three

CHART 2

South Korea & China — top trading partners

South Korea			
% of Exports		% of Imports	
1. China	24.5	1. China	15.5
2. US	10.7	2. Japan	12.4
3. EU	9.1	3. EU	9.7
4. Japan	7.1	4. US	8.4
5. Hong Kong	5.9	5. Saudi Arabia	7.6

China			
% of Exports		% of Imports	
1. US	17.2	1. EU	11.7
2. EU	16.3	2. Japan	9.8
3. Hong Kong	15.8	3. South Korea	9.3
4. Japan	7.4	4. Hong Kong	7.9
5. South Korea	4.3	5. US	7.4

Source: World Trade Organization

nations makes up 20% of total world trade. China is the largest export and import market for both Japan and South Korea. At the same time, Japan and South Korea are among China's top five import and export partners.

Some studies have indicated that the CJK FTA could increase the GDP of China, Japan, and South Korea by 2.9%, 0.5%, and 3.1% respectively. Still, negotiations have just begun, and China and South Korea have indicated that they may want to conclude a bilateral agreement with each other before pursuing a trilateral agreement that includes Japan. This could reflect the fact that South Korea has recently decided to join the TPP negotiations, and a separate agreement with Japan may seem redundant. Alternatively, this might indicate that South Korea is beginning to move closer to China at a time when its relationship with Japan is worsening.

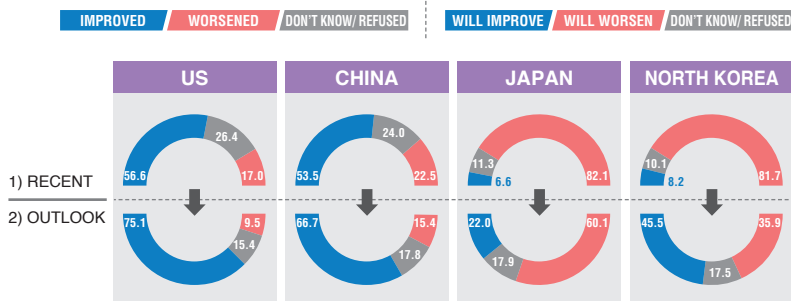
Beyond economic realities, the fact that negotiations are proceeding at all between these three neighbors is a bit surprising. In the Sea of Japan, Japan and South Korea have an ongoing dispute over the Takeshima/Dokdo islands. In the South China Sea, Japan and China are arguing about the Senkaku/Daiyo islands. In fairness, these disputes are not exactly the same. The *status quo* in the Sea of Japan has South Korea in control of the disputed islands. Although Japan may question the claim, it has not tried to force the issue.

The situation with the Senkaku/Diaoyu islands is quite different. China is directly challenging Japan's ownership of these islands, most recently by establishing an Air Defense Identification Zone

CHART 3

Assessment & prospect of South Korea's relationship with surrounding countries

Q 1) Do you think the relations between South Korea and the surrounding countries [the US/China/ Japan/North Korea] have improved or worsened? Q 2) In the future, do you think that South Korea will have improved relations with the surrounding countries?



Source: The Asan Institute for Policy Studies (en.asaninst.org)

(ADIZ) that includes the islands. The ADIZ, however, also overlaps with areas controlled by South Korea, and so has also irritated that country. The expectation, in fact, might have been that the Chinese actions would help to drive Japan and South Korea back towards each other.

From Washington's perspective, such a rapprochement between the two crucial allies is necessary. Yet relations continue to deteriorate. A survey of South Korean opinion taken in the spring of 2013 by the Asan Institute for Policy Studies showed that 82.1% of respondents thought that relations with Japan had gotten worse. Equally disturbing was the fact that 60% of those South Koreans polled also thought that relations between Japan and South Korea would grow even worse in the future. Keep in mind that this poll was taken before the visit by Prime Minister Shinzo Abe to the controversial Yasukuni Shrine in December of 2013. The same Asan Institute poll also showed that more than half of those surveyed thought relations between South Korea and China had improved, with two-thirds expecting more improvement in the future.

CJK, RCEP & the TPP

Beyond the TPP, the only other Asian FTA that has so far garnered much attention from US policymakers has been the Regional Comprehensive Economic Partnership (RCEP). RCEP is a potential FTA being negotiated between the ASEAN countries (Indonesia, Thailand, Malaysia, Singapore, the Philippines, Vietnam, Myanmar, Brunei, Cambodia, and Laos) and China, India, Japan, South Korea, Australia, and New Zealand. The RCEP can be considered similar to the TPP because of the sheer number of countries involved. The major difference is that China is, and the US is not, a party to the RCEP. In the eyes of some, this would allow China to use the RCEP as a counterweight to the US-centered TPP. The US has not actively

opposed the RCEP, but if the TPP falls through one would expect the US to pressure its allies, including Japan and South Korea, to reconsider moving forward with this China-centered FTA. But if the US is not comfortable with the RCEP, then why ought it to encourage three of the larger economies in RCEP — China, Japan, and South Korea — to form their own agreement?

CJK & the Rebalance Towards Asia

US trade policy has always been linked to overall US strategic foreign policy interests. When the US began lowering its tariffs in 1934 in an attempt to counteract the disastrous Smoot-Hawley tariffs passed several years earlier, the main person pushing for reform was

the individual who held the country's foreign policy portfolio, Secretary of State Cordell Hull. Hull's argument was never just economic; he thought that economic relations served a larger role in promoting a more peaceful international community. This, in fact, helps explain why the US has consistently promoted trade liberalization for most of the past eight decades. Free trade is seen as something that promotes the health of the international community, whether or not it benefits the economy of the US.

George W. Bush's first US trade representative, Robert Zoellick, strongly reaffirmed the relationship between US trade policy and foreign policy while at the same time adopting a trade policy that was tilted towards the strategic allies of the US. While Zoellick's approach — for example, preferring FTAs with countries that supported US actions in other areas — might be seen as more narrow than the more idealistic notions held by Secretary Hull, the situation posed by the CJK FTA neatly brings together both perspectives. It is no secret that the US is unhappy about the growing rift between Japan and South Korea. More generally, the entire point of the rebalance towards Asia is to counter Chinese influence in the region. If tensions between Japan and South Korea end up, as seems likely, pushing the latter towards a closer relationship with China, this will be seen as a loss for the US.

Yet the disputes between the Japan and South Korea lie outside of US influence, driven in part by domestic politics within the two nations. The best the US can do, therefore, is to encourage positive developments in the relationship between its two allies. While the CJK FTA will not end the disputes between Japan and South Korea, increased economic ties provide a network of relationships that can be helpful to that endeavor in the long run.

Interdependence Theory & CJK

All of this helps to explain why the Obama administration might want to encourage Japan and South Korea to enter into trade talks with one another. The larger question of whether the US ought to encourage an agreement that includes China remains. The most obvious answer is that, although Japan and South Korea began talks on a bilateral trade deal back in 2003, the discussions are not ongoing. Therefore, without an approved TPP that includes both countries, the only option appears to be the CJK FTA.

Washington might have an additional reason to favor the CJK FTA. First, the trilateral agreement is smaller than the RCEP. Therefore, it does not really look like a competitor to the TPP. More significant, however, is the fact that improved economic relations between Japan and China also serve US interests. The theory in international relations known as “Interdependence” helps to explain why this is the case. Interdependence theory holds that relations between nations are influenced by their relative dependence on one another. Interdependence theory is often contrasted with realist theory, which imagines countries as sovereign political actors who relentlessly pursue their own self-interest. In truth, interdependence can be viewed as complimentary to realism, adding a level of complexity to the notion of national self-interest, and recognizing that a state consists of multiple actors.

The economic relationship between Japan and China offers a classic example of interdependency. In 2012, the government of Japanese Prime Minister Yoshihiko Noda purchased three of the four Senkaku islands from a private owner. The transaction was intended to prevent Shintaro Ishihara, the populist governor of Tokyo at the time, from buying the islands. The Chinese, however, understood the action as an attempt by the Japanese government to nationalize the disputed islands. The result was an economic boycott, encouraged by the Chinese government, of Japanese goods. Exports from Japan to China declined by over a quarter during the next six months. It is very likely that this decline in exports damaged the Chinese economy as much as it harmed Japanese exporters. Many of China’s exports rely on Japanese parts and machinery. It is telling that, during the recent tensions between Japan and China over the latter’s announcement of an ADIZ that includes the area around the Senkakus (recent reporting indicates the zone was set up years ago, but never formally announced), similar economic boycotts have not been instituted. Indeed, Chinese businesses have seen it as in their interests to continue pursuing increased economic ties with Japan.

As the Chinese economy grows, the country finds itself more economically interdependent with other nations. In a sense, this serves to curb any impulses that China might have to assert its corresponding military power. China cannot afford to place in peril its own supply chains, nor can it risk damaging its huge export market.

Photo: AFL0



South Korea’s chief negotiator Choi Kyong-lim (center), his Japanese counterpart Koji Tsuruoka (right) and his Chinese counterpart Yu Jianhua (left) meet for talks in Seoul on March 26, 2013. Senior officials of the three countries held the first round of negotiations for an FTA on March 26-28. (AP photo/Lee Jin-man)

Moreover, a richer China may also be a safer China, insofar as the government can shore up its support through investment rather than by using nationalistic rhetoric.

Insofar as the CJK FTA might increase this interdependence between China and Japan, it is consistent with US foreign policy. After all, it is the settled policy of the US that the Joint Security Treaty between the US and Japan includes the disputed islands. The Obama administration, however, clearly does not want to be dragged into a military conflict with China. The best way to prevent this from happening is to support actions that make an actual conflict less likely.

Conclusion

The Obama administration would clearly prefer that the TPP stay on the front burner of Asian trade discussions, with the RCEP and any talk of smaller multilateral or bilateral deals pushed to the side. If, however, the TPP begins to lose traction, the administration will have to look for alternative routes to maintain US interests in Asia. One option would be to work to support the CJK FTA. The CJK FTA would contribute to a stronger relationship between Japan and South Korea, while reducing the risk of conflict between Japan and China. If such an agreement could be combined with bilateral trade negotiations between the US and Japan, along the lines of the South Korea-US FTA, then a significant Asia pivot could be seen to have taken place even without a successful conclusion to the TPP negotiations.

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