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Yul Sohn
Yonsei University

November 2014

Knowledge-Net for a Better World

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ISBN 978-89-92395-98-4 95340

East Asia Institute
#909 Sampoong B/D, Eulji-ro 158
Jung-gu, Seoul 100-786
Republic of Korea
Tel 82 2 2277 1683
Fax 82 2 2277 1684



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I. Introduction

Recently, the concept of middle power diplomacy has drawn considerable attention in South Korea. Numerous works have been published and conferences held over the role of South Korea as a middle power in the changing international environment.¹ This debate was provoked by a variety of theoretical and policy-related questions, largely related to the fundamental changes in the international system in general and the decline of American leadership in particular.

South Korea recognizes that the vulnerability of mid-sized countries dramatically increases when there is an absence of either hegemonic leadership or general agreement to share leadership responsibilities between great powers. The global balance of power has begun to shift over the first decade of the 21st century, with the United States (U.S.) in relative decline, Japan and Europe in stagnation, and the so-called BRICS countries (Brazil, Russia, India, China and South Africa) on the rise. This is creating a fluid international space in which more than a few states are thriving as dominant global players. As the U.S., South Korea's traditional ally, has been in relative decline, reevaluation of its traditional foreign policy line exclusively reliant on its alliance with the U.S. has become imperative. The international economic arrangements sustained by the old power relationship no longer provide the same advantages. It is therefore not surprising that South Korea pays more attention to other sources of leadership and initiative, and makes efforts to engage in the difficult process of "relocating" itself in the changing international system.

One potential opportunity for middle powers like South Korea comes from another



source of changes in the international system. The global trend toward greater interdependence among states and non-state actors, particularly in the international economic system, has created networked structures. Proliferation of trans-governmental networks and NGO networks or hybrids has led some to promote them as a new form of global and regional governance (Slaughter 2009). States also produce networks whose structures both empower and constrain themselves. Here, structural relations in the networks are as important as attributes of individual units (states) for determining international outcomes (Kahler 2009). In other words, state power is no longer derived solely from material capabilities but from its position in the network. ‘Positional advantage’ grants middle powers a wide range of opportunities to exercise international influence regardless of material resources constraints. The notion that we live in a networked world and that one’s ability to capitalize on this connectivity impacts one’s global standing is highly influential among key foreign policy players.

The network concept generates new theoretical understandings of power in three ways (Hefner-Burton et al. 2009; Kim 2014). The ability of actors to connect with many others increases their power, because connectedness allows easier access to resources and information. Middle powers are often enthusiastic in connecting with others in trade arrangements or entering international institutions. Whether increased connections will increase the country’s influence depends on issue areas. Middle powers can hardly compete with the network of military arrangements and alliances made by the great powers like the U.S., but they would be able to connect to more than just the U.S. by forging economic agreements.

Second, a network actor can gain influence when it connects partners that are otherwise weakly connected to the network. It plays influential roles by bridging structural gaps. For example, great powers may establish dense networks of military and economic ties, but they divide the system in ways that creates critical structural holes or weak ties between them. Middle powers like South Korea can benefit from low connectedness between the U.S.-centered cluster and the China-centered cluster, linking countries to different segments of networks that might be set apart.

Finally, individual actors may seek to design whole or part of the network structure in ways that provide norms and values to the system. Middle powers’ influence depends on their knowledge and specialization, which help to create new networks or sub-networks or make seemingly incompatible clusters compatible.

As noted earlier, while network power may grant middle power countries possibilities of increasing influence beyond their distributed national capabilities, the world is not uniformly networked. Actors in some issue areas are more networked than others. Typically, trade networks are denser than security networks where traditional international relations



based on distributed capabilities prevails. But at the same time, trade networks are more or less securitized because trade policy often is used as a foreign policy tool (Gowa and Mansfield 1993). It involves strategic considerations as is frequently understood by an economics-security nexus. In that sense, playing a middle power role in trade areas requires prudent statecraft that meets complexity in a world that mixes networked politics with *realpolitik*. This differentiation allows South Korea to exploit an opportunity to play a middle power role in economic areas, and ultimately contribute to assuaging great power competition over security architecture.

The following section first narrates the profound challenges South Korea faces in the region, and then analyzes its attempts to engage in the new trade diplomacy games a middle power plays. The final section illustrates the role of South Korea as a middle power broker and its potential contribution to the building of network-based regional trade architecture.

II. Rival Visions of a Regional Architecture

As the international system changes, middle power behavior is modified. Two developments need mentioning. First, global power shift matters. Tight bipolarity constrained middle power diplomacy to a reactive quality. With the international system dominated by geopolitical-security issues, middle powers had little room for maneuvering. Likewise, unipolarity powerfully induced middle powers to bandwagon with a hegemon. They were often left to be mere by-standers. Now, it is clear that the unipolar system has eroded. From the beginning of the twenty-first century, the long-term decline of the U.S., combined by the rise of BRICS and by Japanese and European stagnation, has dramatically shifted the global balance of power. It is creating a fluid international space in which more than a few states are becoming dominant players as global or regional actors. Accordingly, middle powers like Korea may find room (or a niche) to play a meaningful role.

But, this very shift is what is creating tensions in East Asia, driven by the logic of power transition between the U.S. and China. China is increasingly assertive while the U.S. is responding by complex strategies of engagement and balancing. With its sustained high-speed growth, China has moved into the hub of East Asian economies that has now become the key engine of the global economy. It then skillfully used economic might to increase political leverage in the region, emerging as the leading actor in many regional frameworks and institutions (Shambaugh 2003/4). Further, it increasingly challenges the U.S. military supremacy in



the Asia-Pacific by enhancing its military capabilities commensurate with soaring economic power and narrowing the gap vis-à-vis the U.S. that cut their own defense budget by USD\$487 billion over the following decade. China pursues an anti-access/area-denial strategy, developing capabilities to deny the U.S. freedom of movement in the region.

The “Asia rebalance” announced by the Obama Administration in the fall of 2011 and early 2012, appears to have been provoked by several developments. Washington realized that the region’s growth and dynamisms is central to American security and economic interests. It needs to respond to an increasing perception among Asian people that the U.S. commitment to the region will wane as U.S. military operations in Iraq and Afghanistan wind down (Clinton 2011). But it is essentially a response to the rising Chinese influence in the region. New troop deployments to Australia and Singapore, new areas for military cooperation with the Philippines, the strengthening of the military presence in the region, making it “more broadly distributed, more flexible, and more politically sustainable,” The enlargement of the Trans-Pacific Economic Partnership Agreement (TPP) being a prime example. This strategic turn underscores U.S. concerns over the growing economic importance of China to its economic future and over China’s growing military capabilities and diplomatic assertiveness (Manyin et al 2012).

The U.S. rebalancing efforts have been centered on the concept of “regional architecture.” As U.S. Secretary of State Hillary Clinton puts it, it is “a network of alliances and partnerships, regional organizations and institutions, that is durable and dynamic enough to help us meet today’s challenges and adapt to threats that we cannot even conceive of, just as our parents never dreamt of melting glaciers or dirty bombs” (Clinton 2010b). Here, building of a regional architecture requires a complex approach that deals with multiple issue areas including security, economy, and values. In implementing it, she provides five principles: first, new strategy emphasizes alliance relationships as a firm foundation; second, it is based on clear and increasingly shared objectives (i.e., security, stability, economic growth, democracy and human rights); third, it should be motivated by concrete, pragmatic considerations and focus on deliverable results; fourth, it flexibly uses informal and mini-lateral forums; and finally, it needs to be more actively committed with regional institutions (Clinton 2010a). In sum, the U.S.-led regional architecture is largely sustained by twin pillars: the security architecture firmly founded on extended and flexible alliances and partnerships and the economic architecture founded on trade-based, comprehensive economic partnership arrangements. Further strategic and economic dialogue, these two are intertwined to be a security-economics complex: as Clinton puts it, “economic progress depends on strong diplomatic ties, and diplomatic progress depends on strong economic ties” (Clinton 2011).

However, this complex architecture appears to provide a relatively small space for a giant



China. In the security architecture, it is given to share, a space for partnership states while allies are given priority. In the economic architecture, a bilateral framework (i.e., US-China Strategic and Economic Dialogue) is sidelined while the entry barriers for a key multilateral mechanism, the TPP, are at too high a bar for China to enter, as will be explained later. Given a more integrated approach in which various tools of power and influence are utilized to restrain China, it is no wonder that China is not accommodating this architecture but is attempting to provide an alternative.

Back in 2010, Foreign Minister Yang Jiechi suggested a Chinese version of a regional architecture, a nuanced one that in essence counters the American version (Yang 2010). The objective of building a regional architecture is a “harmonious world” based on peace, prosperity and harmony, (but neither democracy nor human rights) while it is to be built under four principles: cooperation, development, new security concept and respect for diversity (in contrast to concrete, result-based principles). In contrast to the so-called “Washington Consensus” and American pursuit of high-level liberalization, President Hu Jintao advocated “inclusive development” that gave respect for diverse developmental models coming along with balanced growth (Hu 2011). All this represents Beijing’s Asia-only regionalism that competes with Washington’s Asia-Pacific networks. Likewise, the recent slogan of a “China Dream,” a concept that President Xi Jinping has been promoting reverberates through Asian regionalism. The renaissance of the Chinese nation is to return China to the position it held in the pre-modern ages, the most advanced and civilized center in Asia (CEG Commentary, March 28, 2013).

In his October 2013 speech at a Chinese Communist Party (CCP) conference on diplomatic work, Xi made known explicit Chinese strategies for friendly relations with its Asian neighbors. In order to “make our neighbors more friendly in politics, economically more closely tied to us, and deeper security cooperation and closer people-to-people ties,” he claims, “the basic tenet of diplomacy with neighbors is to treat them as friends and partners, to make them feel safe and to help them develop.” Xi suggests that “friendship is the consistent principle of China's diplomacy with its neighbors and sincerity is the way to cultivate more friends and partners; cooperation with neighbors should be based on mutual benefit and create a close network of common interests.”²

This speech attempts to present a new type of neighbor-country relationship, following Chinese attempts at fostering a new type of “great-power relationship” with the U.S. Soon after, Beijing presented new proposals for regional security and economy. First, it ambitiously called for a new regional security cooperation architecture centered on security multilateralism - the Conference on Interaction and Confidence Building Measures in Asia (CICA). Criticizing military alliance as “the outdated thinking of the Cold War,” Xi in turn offered an



alternative vision for Asia, one based on an all-inclusive regional security framework that he advocated in the 2013 October speech that proposed new set of norms on security, featuring mutual trust, reciprocity, equality and coordination, and reiterating China's push for comprehensive, common and cooperative security.

Likewise, China has proposed the Asian Infrastructure Investment Bank (AIIB), a “multilateral” development body, that counterbalances the influence of the World Bank and ADB, which Beijing views as too dominated by the U.S. and Japan respectively. This is another strategic move. As Keck puts it, China is seeking to build up infrastructure throughout the greater Asian region to more tightly tie its smaller neighbors’ economic livelihoods to trade with China. And as China has already made clear in its territorial disputes with countries like Japan and the Philippines, Beijing is quite willing to exploit other nations’ economic dependencies on it to force them to comply with its political mandates.³

Such developments make it more difficult for Korea to pursue its own goals. The fate of the Korean peninsula, located in the fault line drawn by the two superpowers, is steadily falling again into the realm of great power politics. Given the rivalry over leadership in building a regional architecture, South Korea might be mired into an “either-or” situation. But at the same time, greater economic interdependence between China and the U.S. gives breathing space: “a new type of major-power relationship” with the United States, its leaders hope, will allow China to avoid destabilizing competition while sustaining its economic growth, reaching a moderately prosperous society (*shaokang*) when the party celebrates its 100th birthday in 2021. The U.S. welcomes Chinese determination and works to avoid the tragedy of a great clash between the rising and established great powers. But this new type of great-power relationship applies to bilateral issues while they continue to compete in regional affairs such as competition over regional architecture.

III. Korea’s Trading State as a Middle Power

Under the superpower contest over the shaping of the regional architecture of East Asia, trade policy has drawn particular attention. As stated earlier, trade is the engine of growth for the regional economy. In East Asia most states have successfully pursued export-led growth. Equally important, it is a means of foreign policy. Because FTAs have the value of increasing one’s political influence and international status, strategic reasons for choosing trading partners are numerous. Trade policy is driven by as much political and strategic interests as busi-



ness interests. In East Asia, proliferation of FTAs has been driven by what Ravenhill terms a “political domino effect,” with governments’ primary concern being their potential exclusion from a new dimension of regional economic diplomacy (Ravenhill 2010, 199-200). Once the FTA bandwagon starts rolling, rival countries competitively rush for trade agreements. Of particular importance has been the rivalry between China and Japan for leadership in the economic sphere (Terada 2006). At the dawn of the new century, Japan, then the largest Asian economy, first concluded an FTA with Singapore (2002), which in turn pushed China aggressively who moved forward and concluded FTAs with ASEAN (CAFTA). It was in part designed to assuage ASEAN fears of losing competitiveness from a Chinese rise. It then served to push Tokyo to move toward negotiating the Japan-ASEAN FTA. And then South Korea followed suit.

Increasingly at the center stage of FTA dominos has been China. Bolstered by its phenomenal economic growth and increasing economic leverage vis-à-vis neighboring countries, China became the largest trading partner for almost all significant economies in the region. As neighboring countries have depended more on China trade than vice versa, so has asymmetrical interdependence in China’s favor granted it a foreign policy advantage. As Albert Hirschman (1948) astutely points out, such asymmetry would lead weaker (or more vulnerable) states to reorient their economies and foreign policies to the preference of the stronger (or less vulnerable) states. This development altered strategic calculations of the U.S. that had been heavily mired in the war on terror. By the mid-2000s, American strategists increasingly felt that China was stepping into the void left by America’s increasing disengagement in Asia. In other words, there were structural holes where connections were sparse or weakened between the East Asian and American markets. The existence of such holes provided opportunities for actors to play a bridging role. Invigoration of APEC as well as bilateral FTAs with South Korea and Japan emerged as an idea of bridging (Sohn and Koo 2011).

While South Korea was eager to reach an FTA deal with the United States, the latter was largely uninterested, because, together with the weak commercial value of the Korean economy, they questioned Seoul’s ability to have big commercial deals concluded. By the mid-2000s, U.S. policymakers recognized the strategic significance of an FTA with South Korea as a way to engage in a region which was increasingly becoming centered on China. The office of the U.S. Trade Representative (USTR) stated clearly: A “KORUS FTA will strengthen a strategic alliance forged in war and growing in peace [...] will serve the U.S. vital interest in maintaining and expanding [U.S.] partnerships in Asia” (USTR, 2006: 14). Despite the fact that the commercial value of the Korean economy had changed little, the American interests dramatically increased as a result of a Chinese rise and Japanese inaction.

For the U.S., Japan was naturally the first choice as a security-embedded FTA partner.



The U.S. urged Japan to move toward bilateral FTA negotiations for a combination of commercial and strategic reasons. A U.S.-Japan FTA would constitute a critical part in an emerging web of FTAs that the U.S. had worked on in the region. Armitage and Nye (2007: 17-18) urged both governments to sign an “economic alliance agreement” that would send a powerful message to the region, particularly to China. But Japanese exporters showed tepid support for this proposal because U.S. tariff rates to Japanese exports were already very low. More importantly, the country’s politically powerful agricultural sector was vehemently opposed to such a trade agreement. Although the farming population in Japan today is no more than 5 percent of the labor force, it wields large political power. Overrepresented in the national Diet, the farmers organized agricultural cooperatives or Nokyo, and have used it to protect Japanese agriculture, particularly Japanese rice producers, against competition from foreign producers (Mulgan 2007).

As a result, Korea was left alone and was able to exploit its advantage by occupying bridging positions. Although Korea had no intention of creating bridging structures that benefited itself, now it was Korea’s prerogative to make use of such advantages when possible. And it seemed Korea was prepared to respond. Back in 2003, the Roh government setup an aggressive FTA policy, the so-called simultaneous multi-faceted FTA promotions that aimed to quickly catch up and fill the lag from its late adoption of the global trend toward the proliferation of FTAs. To this end, Minister for Trade Kim Hyun-chong was instrumental. His office sought out the opportunity to drive KORUS FTA negotiations forward. Seoul believed that a KORUS FTA would boost South Korea’s economy and help balance the security areas of difference between Seoul and Washington and provide a new ground for the alliance. It was also hoped that successful FTA negotiations would help boost South Korea’s status as a middle-power balancer by ensuring that the U.S. would remain a strategic and economic counterbalance to China and Japan.

Just as Seoul concluded its KORUS FTA in 2006, Beijing, the European Union (EU) and Tokyo almost immediately expressed interests in negotiating a FTA with Korea. It was the KORUS FTA effect: Korea was granted further opportunities because its positional power increased as it linked itself to the U.S. The EU desired to link itself to a vastly growing East Asian economy via Korea, a country that had proven itself to be able to secure big trade deals. The KORUS FTA pushed China to speed up its counterbalance measures against American influence in Korea. Japan also approached Korea so as to not fall behind as well. In other words, Korea sat in a strategically advantageous position within the newly emerging FTA networks. Soon, Seoul made another outstanding achievement in concluding a FTA with the EU, becoming so far, the only country connected with the two giant economic blocs of the U.S. and the EU.



IV. Vying for a Regional Trade Architecture

The Lee Myung-bak government presented a new FTA roadmap in August 2008 to find a breakthrough in the worsening economic environment (portending the upcoming global financial crisis) that led to the decreasing of exports and the stagnation of potential growth rates. The “global FTA hub” strategy was proposed as the country would establish a hub-and-spokes trade network by successfully promoting FTAs with China, Japan, Russia, and the Gulf Cooperation Council (GCC). The new government considered the FTA hub strategy particularly attractive because the U.S., China and Japan were less likely to conclude FTAs with each other in the near future. The hub country gets greater economic advantages than other countries (i.e., spokes) because it as a hub gains preferential access to more markets than other participating countries or spokes do. It also can take advantage in attracting investment as the only location with access to all the others because such trade networks tend to favor locations of firms in the hub that has preferential access to all spoke markets (Wonnacott 1996).

Korean trade officials expected greater access to the U.S. market and hoped to overturn the existing situation where Korea’s market share had been stagnant due to export rivals from China, Japan and Taiwan. Likewise, the conclusion of a China FTA would give Korea a greater advantage over the U.S. and Japan that have virtually little chance of concluding FTAs with China. Korea also expected that increased inward foreign direct investments would revitalize the struggling domestic economy and create jobs. Bark remarked that “as a global FTA hub, Korea will emerge as the gateway for a multitude of American, European and Chinese investors seeking access to enormous and dynamic [Asian] markets.”(Bark 2012) The Ministry of Foreign Affairs and Trade (2012) envisioned a three-stage FTA strategy that started bilateral negotiations with China and possibly Japan, followed by China-Japan-Korea (CJK) FTA, and then the Regional Comprehensive Economic Partnership (RCEP).

Korean officials were hoping that once a FTA with China was concluded, their economy should benefit enormously from the hub-and-spokes FTA before a major step into regional multilateral FTAs by regional actors are taken. They anticipated that positional advantage driven by Korea’s status being the only country in the world having concluded FTAs with both United States and China should empower the country to play a leading role in the regional multilateral FTA negotiations.

Suddenly and unfortunately for Korea, world trends shifted toward multilateralization of FTAs before it could fully prepare and materialize its “hub strategy.” It was the United States that pushed for a multilateral FTA in the TPP as a primary means to engage Asia and the Pacific. By late 2010 the TPP became a key trade issue in the region. There were reasons why



the TPP suddenly drew attention. One reason was changes in the market where proliferation of FTAs and the presence within them of restrictive rules of origin (ROOs) prevent companies from optimizing their value chains, causing them to pressure governments to remove discriminatory provisions in their trade agreements. They ask for multilateral rules that help in facilitating cross-border business activities. In essence, Baldwin (2011) claims that the 21st century FTAs are not primarily about preferential market access but about rules that underpin the trade-investment-service nexus of corporate activity.

The TPP is riding on the demands for multilateralization whose membership has already been extended beyond that of its original founders—Chile, New Zealand, Singapore, and Brunei — and later joined by the U.S., followed by Australia, Peru and Vietnam, and then Mexico, Canada and Japan. The TPP aims for a “high standard” because it aims to liberalize nearly all goods and services and include commitments beyond those currently established in WTO rules. TPP chapters are “comprehensive”: competition, cooperation and capacity building, cross-border services, customs, e-commerce, environment, financial services, government procurement, intellectual property, investment, labor, legal issues, market access for goods, rules of origin, sanitary and phytosanitary standards, technical barriers to trade, telecommunications, temporary entry, textiles and apparel, trade remedies.

By 2010, TPP has been driven by the American initiative as “the strongest vehicle for achieving economic integration across the Asia-Pacific region and advancing American economic interests” (USTR 2010, p. 8). It is seen as the best way to (1) increase its economic engagement in East Asia and a central pillar of the economic architecture in the region, as well as (2) counteract China’s economic sway in the region (Capling and Ravenhill 2011; Ferguson et. al 2013). Together, at a time when Secretary Clinton formulated the U.S. “rebalance” to Asia-Pacific, the TPP was used to develop effective transpacific linkages and institutional ties for security as well as economic reasons. The TPP, coupled with KORUS FTA finally concluding renegotiations in November 2010, could begin to reverse the advent of China-led, Asia-only regional trend by reasserting meaningful U.S. economic engagement in Asia.

The U.S. sought partners that help to enlarge this TPP network. Japan responded positively as an ideal candidate, a key military ally and third-largest economy in the world. Japanese Prime Minister Kan Naoto indicated Japan’s participation in TPP negotiations when he hosted an APEC meeting in October 2010 six months after the first TPP negotiation was held. After spending two years in taming domestic opposition led by the agricultural sector, Prime Minister Shinzo Abe decided to enter TPP negotiations. This move became a game changer, stimulating many countries to consider entering. Mexico and Canada were influenced by Japan’s lead and decided to join.

Although regulatory emphasis of the TPP arrangement makes China less likely to join,



the country is keeping a close eye on TPP development because the TPP agenda is regarded by many Chinese experts as a force that would divide East Asian economic integration pursued by China. It is also viewed as U.S. strategy to economically contain China (Wen 2012, 1). Worse, those negotiating membership of the TPP has been increased. In particular, Japan's decision to enter TPP negotiations gives the TPP an image of a containment system. *Xinhua* asserts that Japan's successful entry into the TPP negotiations means that the U.S. has taken a step forward in encircling China.⁴ Li Xiangyang, Director of the Institute of Asia-Pacific Studies under the Chinese Academy of Social Sciences (CASS), contends that Sino-American competition should be considered an important element when analyzing the TPP, and that the U.S.' main political objective in joining is to contain China's rise in East Asia. Similarly, Yang Jiemian, president of the Shanghai Institute of International Studies, suggests that the United States strategy "dilutes" and "reduces" China's influence in the Asia—Pacific region.⁵

To counter such an initiative, China made an FTA with Taiwan (ECFA), and is negotiating with South Korea. With Beijing's initiative, the China-Japan-Korea FTA negotiation was launched. Beneath the surface there is a deep-seated political motivation vis-à-vis the U.S. More ambitious, Beijing demonstrated a stronger stance than ever in favor of a region-wide FTA called the Regional Comprehensive Economic Partnership (RCEP). It has worked closely with ASEAN, worried about marginalization by the U.S. pushing the TPP. At the same time, China aims to further integrate with other economies, such as in Latin America and Europe. President Xi's visit to Europe in March 2014 signaled that Beijing seeks to promote economic cooperation and strategic partnerships via FTAs.

China will most likely elevate the RCEP as counter to TPP's high standard model. Already in the aforementioned November 2013 speech, Xi promised to make great efforts to "make use of China's advantages in economy, trade, technology, and finance; and actively taking part in regional economic cooperation." Xi continued, along with a Silk Road Economic Belt and a Maritime Silk Road for the 21st century, "China should accelerate establishment of free trade zones, with neighbors as the foundation stone, expand trade and investment and create a new pattern of regional economic integration." Likewise, the Third Plenum of the 18th CCP Congress in November 2013 called for China to boost cooperation with countries and regions through FTAs.

Viewed from regional trade architecture, the dynamics of the TPP including the U.S. and not China; competing with the RCEP including China but not the U.S., easily slips into a view of strategic competition between the U.S. and China extending to trade areas. Clearly, these two are different. Besides the membership composition, the TPP aims at a high-level of liberalization with few exemptions and extensive regulatory harmonization in areas such as labor law, environmental protection and intellectual property rights. In contrast, the RCEP



by far sets a low bar on market access with a gradual and flexible approach to reduce trade barriers especially among less developed members and makes limited demands for regulatory harmonization. These differences are not mutually exclusive, however. Many Asian countries can enter both. Japan, Australia, Malaysia, New Zealand, Singapore, and Vietnam are currently members of both negotiations.

V. South Korea's Middle Power Role

South Korea's FTA hub strategy is increasingly challenged by multilateralization of FTAs including the TPP. Trade officials believed that participating in the TPP was not urgent because Korea has already concluded FTAs with most TPP negotiating members (Park 2012). The TPP deal seemed relatively easy because the country already accomplished the high-standard KORUS FTA. But the Japanese decision to enter TPP negotiations made Korea's calculation complicated. Now, participating in the TPP meant that Korea should enter negotiations with a difficult Japan, talks that had been stalled for eight years due to the former's hesitation. On the other side, The American geopolitical pressure was felt strongly as Japan entered negotiations. State officials pushed Seoul to accept the TPP as evidence of supporting the U.S. rebalance to Asia.⁶ Korea was put in a difficult position. Its successful pursuit of a global FTA hub strategy was being undermined by the progress of the TPP. A former high-ranking trade official confessed that Korea's best interest is capitalizing on bilateral FTAs with major partners including the U.S. while TPP negotiations are being delayed. It was hoped that a FTA with China, completion of the global FTA hub strategy, would give Korea a central place in CJK FTA as well as a regional FTA. But the unexpected progress of TPP deals would most likely dilute the expected outcome of Korea's hub strategy.

One side effect from the Park Geun-hye government launched in February 2013 is the reorganization of trade negotiation functions. Trade negotiation functions of the Ministry of Foreign Affairs and Trade were detached and submerged into the Ministry of Knowledge Economy (previously the Ministry of Industry and Energy), renamed as the Ministry of Trade, Industry and Energy (MOTIE). Such reorganization was aimed to foster closer relations between industries and trade in dealing with trade issues and negotiations. This move has been criticized as an inward-looking approach at a time when the global trading regime has shifted toward the making of multilateral FTAs, which in turn requires an outward-looking, complex approach to trade affairs. There is an increasing need of middle power dip-



lomacy in multilateral settings. Given the undeniable geopolitical competition between the U.S. and China in the region, Korea's trade policy requires a critical understanding of the complex nature of trade issues and a balanced approach in a turbulent region.

South Korea can find room to play a middle power role in East Asia. It is still well positioned in the new FTA environment. Korea will find that both the TPP and RCEP will be relatively easy to conclude because it already has concluded, or is negotiating, FTAs with most of the members. Even better, the government and national assembly have already approved high-quality agreements with the U.S. and EU. Korea-China FTA negotiations are well in progress, both parties hope to conclude negotiations by the end of 2014. This unusual position gives South Korea an advantage to play a proactive role. The New Park Geun-hye government has responded positively. Its new trade roadmap issued June 2013 calls for South Korea's role as a "linchpin in regional economic integration." Specifically, it aims to link the U.S.-driven TPP and the China-driven RCEP, but the roadmap does not explore how this will be achieved.

There are several areas in which South Korea can play a middle power role in contributing to regional stability and prosperity. First, it can seek ways to assuage "over-securitization" of trade relations. The TPP seems politically divisive because China is not included. The TPP might cause trade diversion effects against China, but it will not critically affect the seemingly ever-expanding Chinese economy. Risk to the U.S. economy caused by RCEP would be minimal. In fact, as long as the U.S. concludes the TPP deal first, it will hardly feel threatened by the RCEP. It does not matter whether the RCEP materializes or not. The question is about how threatened China feels by the TPP. In this regard, the speed by which RCEP negotiations proceed is important. If RCEP negotiations make progress, China will not feel isolated by the US-led TPP network.⁷ As the RCEP moves forward and eventually more dual membership countries come out, it will decrease China's fear and its tendency to over-securitize the trade architecture. South Korea's role is to help promoting the RCEP in parallel with TPP negotiations.

Equally important, Korea should lead a middle power network to propagate against the view that sees the regional free-trade agenda reduced to a Sino-American relationship, China or the U.S. having veto power on any regional agreement. Where opportunities exist for middle power countries to make a deal to their mutual benefit, they should grasp those opportunities and do so by convening middle powers sharing common interests.

The most important task is designing new regional trade architecture. A comparable example is a China-proposed infrastructure investment bank, the AIIB, seen as a threat to the Japanese-led Asia Development Bank (ADB) and the U.S.-led World Bank. Some view the AIIB as a political tool designed to marginalize American and Japanese influence in the re-



gion, and to challenge the ADB's regional hegemony. But others note the huge demand for infrastructure building in Asia and China can provide these resources. At the very least, there is plenty of room for both to coexist. What is needed is designing an architecture where the two organizations can evolve to coexist. Likewise, in order to have two FTA networks coexist, functional differentiation is desirable. Given the TPP is already identified as a high-quality, comprehensive FTA, what's left is identifying RCEP separately.⁸ While already presenting a different approach - flexible and gradual approach to negotiations, regional players including China have yet to provide new trade rules and norms and other contents commensurate with Asian experiences. Korea will have to take the initiative in providing architectural ideas helping to design two rival visions evolved to functionally differentiate with each other. It starts with elaborating the RCEP's objective that supports and contributes to regional economic integration, equitable economic development, and strengthening economic cooperation between advanced industrial and developing countries.

Current circumstances in which to pursue a new architecture would be positive in terms of timing. The TPP seems to be nearing the final stage of negotiations, but there is increasing scepticism over the Obama administration's capability of pushing it through Congress. That means it is not likely that the TPP, if concluded soon will critically shape the following process of RCEP negotiations. While TPP negotiation terms have largely been set, the RCEP process remains open for setting its own trade rules and norms. Depending on how they are shaped, countries are able to choose to enter into either one or both.

Finally, Seoul can play a broker role in CJK FTA negotiations. Given the extensive cross-border production networks or supply chains among the three economies, trade needs complex rules rather than tariff reductions (Baldwin 2011). In this regard, South Korea will need to take prudent action that puts less weight on tariff concessions than trade rule making. This is partly because many hurdles coming from the conflicting interests exist in negotiations over tariff concessions. Japan is reluctant to open its agriculture markets and Korea wants to protect its auto manufacturing markets, while China has advantages in the agriculture and manufacturing sectors. It will be a smart strategy to lead the other two rivals to stay focused on negotiating trade rules including ROOs, Intellectual Property Rights (IPR), competition policy, and regulatory rules while keeping a tariff concession level that is not too high. In the end, Seoul can help shape the deal as a standard for the future rules in RCEP. In doing so, the three-way standard should be designed for plasticity and scalability.

To conclude, trade is a field that easily extends towards many other economic areas including development, finance, environment, labor, and technology. It also involves strategic considerations as it frequently is understood to be an economics-security complex. On this score, building of regional trade architecture by harmonizing two different networks is not an



easy task. But given the networked nature of trade in East Asia, middle powers like South Korea can find a space to actively work in. This paper has highlighted the potential role of a middle power as a broker. With successful brokerage, a harmonious regional economic architecture would be able to emerge, and ultimately, help to establish regional complex networks that can assuage potential conflicts in the making of a regional security architecture rivaled by two superpowers.

One last point is concerned with the new trade roadmap of the Park government that emphasizes stronger relations between industries and trade in dealing with trade issues and negotiations. As stated earlier, the new Ministry of Trade, Industry and Energy (MOTIE, previously the Ministry of Knowledge Economy) received trade negotiation functions transferred from the Ministry of Foreign Affairs and Trade in 2013. This merger might weaken a complex approach to trade as economy-security nexus. The government needs to address these concerns and proactively engage with trade diplomacy in order to secure prosperity and peace in a turbulent region. ■



Endnotes

¹ Middle power diplomacy is now regarded as a viable option for a country's long-term strategic goals. The Korea's Ministry of Foreign Affairs (MOFA) prepared a mid-and long-term strategic plan that adopts middle power diplomacy as one of the key strategic concepts guiding Korea's foreign policy for the coming decade. This concept also appears in the policy briefing to the President Park Geun-hye by MOFA (March 27, 2013).

² Xi Jinping, "China to further friendly relations with neighboring countries" http://news.xinhuanet.com/english/china/2013-10/26/c_125601680.htm

³ Zachary Keck, "China's Growing Hegemonic Bent" *The Diplomat*, June 26, 2014.

⁴ 日本加入 TPP 谈判美“对华包围圈”前进一步 http://news.xinhuanet.com/world/2013-03/17/c_124468170.htm

⁵ Recited from Guoyou Song and Wen Jin Yuan, "China's Free Trade Agreement Strategies," *Washington Quarterly* 35:4(2012), p. 108.

⁶ Interview with an unidentifiable US official (December 2012).

⁷ By 2013 Chinese concerns over isolation have eased and some Chinese observers now see the TPP as a tool to help drive Chinese reforms. In practice, both the U.S. and Chinese governments understand that the TPP will contain provisions that China would find difficult to accept and the reconciliation of the tracks, while desirable and likely, may take time.

⁸ Korea's leverage would have been greatest when the KORUS and K-EU FTA were concluded, while TPP negotiations were still in its infancy.



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Author's Biography

Yul Sohn

Yonsei University

Yul Sohn is Dean and Professor of the Graduate School of International Studies at Yonsei University, Seoul, Korea. Before joining at Yonsei, Sohn taught at Chung-Ang University, Seoul, Korea, and was a visiting scholar at institutions in the University of Tokyo, Waseda University, and the University of North Carolina at Chapel Hill. Currently, Sohn serves a number of government advisory committees including the Ministry of Foreign Affairs, Korea National Diplomacy Academy, and the Northeast Asian History Foundation. He also has served President of the Korean Studies of Contemporary Japan. Sohn has written extensively on Japanese and East Asian political economy, East Asian regionalism, and global governance. His most recent publications include “Attracting the Neighbors” Soft Power Competition in East Asia,” “Securitizing Trade: The Case of U.S.-Korea FTA,” and “Japan’s New Regionalism: China Threat, Universal Values, and the East Asian Community.” Sohn received his Ph.D. in Political Science from the University of Chicago, Illinois, USA.

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- The contents of this article do not necessarily reflect the views of EAI.
- East Asia Institute acknowledges the MacArthur Foundation for its support to the Middle Power Diplomacy Initiative.

