

The Political Economy of the Asia Pacific

Vinod K. Aggarwal
Seungjoo Lee *Editors*

Trade Policy in the Asia-Pacific

The Role of Ideas, Interests, and
Domestic Institutions

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Chapter 7

Evolving Trade Strategies in the Asia-Pacific

Vinod K. Aggarwal and Seungjoo Lee

7.1 Introduction

How have trade strategies of key countries in the Asia-Pacific evolved over time? At a time when the proliferation of bilateral trade agreements and a host of multilateral accords are underway, we believe that examining the strategies being pursued by countries in the Asia-Pacific is of crucial importance for both scholars and policymakers.

This chapter evaluates the trends we have seen in the Asia-Pacific, with an eye to explaining the dynamics of the formation of trade policies and negotiation of agreements, focusing primarily on bilateral FTAs pursued by countries. As we suggest, it is not enough to look at national policies in billiard-ball fashion. Instead, our interest is in considering the interplay of ideas, interests, and institutions in the formation of trade policies. Only then can we understand how different subnational actors are maneuvering to achieve their desired outcomes. Simply examining the overall economic benefits of different types of trade accords is insufficient to understand the likely evolution of trade accords in the Asia-Pacific.

After first considering the trends we have seen in a more general fashion in [Sect. 7.2](#), we consider the specific policies of countries as discussed by the authors of the case study chapters in [Sect. 7.3](#). We conclude with our own perspective on the most probable trajectory of trade policy in the region in [Sect. 7.4](#).

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7.2 Analyzing Trade Strategies in the Asia-Pacific

East Asian countries and the U.S. have responded with different trade policies to the external shocks and systemic changes we have seen over the last 2 decades. When East Asian countries embraced regionalism in the 1990s, their specific strategies and preferred institutional choices were different. In the 2000s as well, East Asian countries and the U.S. adopted divergent FTA strategies in terms of partner selection, sequence, actor scope, issue scope, nature, and strength of FTAs.

Engaged in negotiations with 15 regional and transregional FTA partners, China has gradually shifted from regional to transnational FTAs in terms of sequence. Reflecting the fact that the Chinese government still finds it necessary to protect various manufacturing and service industries, China tends to prefer FTAs that are narrow in issue scope, weakly liberal in nature, and less binding. By contrast, Singapore has taken a much more aggressive approach. To conclude or negotiate 24 FTA pacts, Singapore adopted a multi-pronged approach with regards to the geographical distribution of FTAs. In addition, Singapore pursued FTA strategies that are comprehensive (including the so-called Singapore issues and economic cooperation) and very liberal in nature. In terms of the strength of FTAs, as a small power, Singapore takes a flexible approach to accommodate the preference of its FTA partners, rather than trying to impose its own preferences. For its part, the U.S. has negotiated a number of bilateral FTAs; but with the exception of the unratified Korea-U.S. Free Trade Agreement (KORUS), these accords are primarily with small countries.

Japan and Korea have displayed largely similar postures in their FTA strategies. Both countries have taken a multi-directional approach by simultaneously launching FTA negotiations with regional and transregional partners. Still, Japan seems to place higher priority on signing FTAs with countries in the region. In terms of issue scope as well, both countries favor FTAs with comprehensive coverage. While Japan attempts to insert sections on economic cooperation in FTAs, Korea places less emphasis on economic cooperation. Japan and Korea also pursue rather liberal FTAs, although they attempt to exclude agricultural products from liberalization. Table 7.1 summarizes the main features of FTA strategies of East Asian countries and the US.

Based on the divergence of East Asian and U.S. FTA strategies, we devised what we term four “trade strategy constellations” that help us to identify the main thrust of each country’s trade strategies. The first type is the continuation of the status quo where no changes in existing trade strategies take place. This type is not found in East Asian or U.S. trade strategies, as all countries have adopted bilateral and minilateral FTAs as a new center pillar of their trade strategies. The second type of constellation is modest or limited change. Countries in this category tend to prefer FTAs with such features as primarily few regional partners, limited coverage (many exceptions), and weak liberalization. China belongs to this category.

Japan and Korea belong to the third type of constellation, where substantial changes in trade strategies are likely. Both Japan and Korea take quite a balanced

Table 7.1 Divergent trade strategies in the Asia-Pacific

	China	Japan	Korea	Singapore	The U.S.
Partners	Many (15)	Many (16)	Many (16)	Most (24)	Relatively few
Sequence	Regional → Transregional	Multi-directional	Multi-directional	Multi-directional	Regional → Transregional
Actor	Balanced	Regional	Balanced	Transregional	Regional
scope					
Issue	Narrow; simple; excludes various issues	Comprehensive; includes economic cooperation	Comprehensive; less emphasis on economic cooperation	Comprehensive	Comprehensive
Nature	Weak liberal	Liberal; excludes agriculture	Highly liberal; excludes agriculture	Most liberal	Most liberal; reciprocal agreement
Strength	Less binding	Flexible	Flexible	Flexible	Most binding

approach in terms of the number of partners, geography, and sequence. In addition, while they generally pursue comprehensive FTAs with a strong liberal orientation, they sometimes try to incorporate protectionist elements with many exceptions in their FTAs, depending on their partner countries and domestic political situation. The U.S. also fits this type to some extent, but its policy objectives under the Bush Administration were primarily security-rather than economics-driven.

The fourth type of constellation is most vividly demonstrated by Singapore. This type represents a fundamental departure from existing trade strategies. By adopting the new trade constellation, Singapore has attempted to conclude FTAs with as many countries as possible, either regional or transregional partners. The scope and nature of the FTAs Singapore has thus far concluded are comprehensive and strongly liberal. The main features of each trade strategy constellation are summarized in Table 7.2.

As we have observed, East Asian countries have sought different trade strategies in the face of the same external shocks. In this regard, existing explanations fall short of illuminating the deeper micro-foundations of how each country's regional and trans-regional strategies are formulated in the domestic arena. With this backdrop, we suggested that it is necessary to examine the way in which ideas and interests interact with each other within the contour of domestic institutions to locate the systematic sources of why each country formulated different trade strategies.

With four distinctive types of trade strategy constellations and explanatory variables clearly defined, now we can add another dimension to better explain how the policies of East Asian countries and the U.S. have evolved (Table. 7.1). As discussed in Sect. 7.1, the first evolutionary path is likely when ideational changes do not take place, domestic-oriented groups remain strong, and/or domestic institutions are status quo-oriented. However, no country we have examined in this ideal type took this path.

Ideational changes may not take place immediately, as existing players may still believe in the long-term efficacy of traditional trade strategies. Under these conditions, because major players tend to be cautious in actively reconfiguring their interests and revamping existing policymaking structures, the main thrust of traditional trade strategies is likely to remain intact. Thus, the first outcome derived from our framework is the continuation of the status quo.

Table 7.2 Trade strategy constellations in the Asia-Pacific

Type	Main features	Country
Type 1	No significant changes; existing strategies continued	None
Type 2	Modest or limited changes; primarily regional; limited issue scope with many exceptions; weak liberalization	China
Type 3	Substantial changes; balanced in terms of the number of partners and sequence; generally comprehensive, strong liberal with some protectionist elements	Korea, Japan, U.S.
Type 4	Fundamental departure from existing strategies; regional and transregional; comprehensive; strong liberal	Singapore

The second path, where modest or limited changes are expected, has been undertaken by China. In order to analyze the outcome in this path, we examined how ideas affect the interaction between key players' interests and the policymaking institutions. The outbreak of external shocks spurs policymakers to re-evaluate the long-held trade strategies, igniting demand for policy shifts. In China, the political leadership played a pivotal role in adopting new ideas. External changes indeed facilitated the interest of the Chinese government in critically reexamining the efficacy of the traditional trade strategies that may potentially pave the way for business sectors to reconfigure their interests. However, because the Chinese government dominates the trade policymaking process, the magnitude of the change was quite limited. Rather than attempting to create a fundamentally new policymaking structure, the Chinese government chose to maintain the existing one.

As a consequence, China moved away from traditional multilateral regional trade strategies to adopt a new bilateral one. As we expected, however, China pursued FTAs that created minimal changes in its current trade strategies. China sought FTAs that involve only a limited degree of trade liberalization. With these FTAs, the Chinese government could effectively prevent domestic opposition from escalating into social disturbances in China.

Substantial changes are likely in the third type. In this path, the nature of competition between traditional key players and new players and institutional re-formulation combine to shape the range of changes in trade strategies. In Japan, ideational changes did not bring in new players. Instead, inspired by ideational changes, traditional key players redefined their interests. Traditional key players with reconfigured interests such as export-oriented industries, Keidanren, and the Ministry of Economy, Trade and Industry of Japan (METI) pushed for profoundly different trade strategies. However, recognizing that the creation of a new institution and policymaking structure involves high transaction costs, they chose to take advantage of the existing policymaking structure as a means to realize the newly forged interests. And they faced organized groups who are equally privileged under the existing institutional structure. Wielding substantial political influence, this protectionist group effectively blocked fundamental changes in new trade strategies that could cause massive-scale economic restructuring. Those who would benefit substantially from the new trade strategy could achieve substantially different trade strategies, but only by incorporating interests of other key players who are expected to suffer from it.

In the case of Korea, the emergence of new ideas and institutional changes related to trade policymaking contributed to a shift in the subtle political balance between traditional players and new players in favor of the latter. Disenchanted with the existing trade strategy, the new players with the support of the political leadership and the relatively autonomous Office of the Minister for Trade (OMT) were able to seek fundamentally new trade strategies. However, traditionally politically entrenched groups favoring the status quo such as the agriculture sector attempted to block the fundamental changes at the ratification stage. It was thus inevitable for the new players to calibrate their interests to some extent to accommodate opposing voices. This competition between the two groups resulted in substantial changes in trade strategies rather than a fundamental departure from traditional strategies.

In the case of the U.S., its policy has overtly changed from the pursuit of multilateralism to the active pursuit of bilateral FTAs. But the domestic constraints that the U.S. faces remain strong. Any efforts to negotiate with large trade partners, as for example, with KORUS, have faced dramatic opposition. Thus, the U.S. under the Bush Administration focused on the pursuit of a large number of what it viewed as “high quality” FTAs. Yet in many cases, these agreements were driven by security concerns, rather than by strong economic interests that were pushing for specific agreements. As a country where many veto players can block agreements, the U.S. trade representative has not found it easy to conclude and negotiate trade agreements – despite the clear preponderance of both security and economic capabilities that it possesses.

In the fourth type, we expect fundamental changes in trade strategies. Along this path, new players are less likely to face serious political resistance to fundamental changes in trade strategies, as politically entrenched groups who used to be powerful are limited in translating their interests into policy outcomes. Furthermore, even in the face of opposition, policymakers will be able to cope with these pressures because they are effectively insulated from this pressure under the new institutional structure. In Singapore, the government and private firms with substantial stakes in new trade strategies were in a relatively good position to formulate new trade strategies. The absence of serious resistance provided a political backdrop in which the Singapore government could aggressively launch FTAs that were fundamentally different from its traditional trade strategies. However, if the government fails to develop institutionalized measures to incorporate opposing voices into the new policymaking process in the long run, traditionally powerful players may attempt to prevent the new players from seeking drastic policy changes. If this scenario plays out, the nature of policy change will look similar to the third outcome.

To summarize, the analytical framework focusing on interaction among ideas, interests, and institutions allows us to examine the logical and theoretical paths that East Asian countries and the U.S. took in carrying out their trade policy changes. It also effectively explains the dynamics of how and why these countries varied in a specific choice of trade strategies. In the following, a concise comparison of case study chapters provides us with an in-depth analysis of how these changes took place in each country.

7.3 Cases

7.3.1 *China*

In examining the evolution of Chinese regional and trade policies, Ming Wan argues that China has taken a state-centric approach to regional free trade agreements. Wan shows that various schools of reformers and conservatives, who viewed regional cooperation as vital to China’s strategic interests, took the initiative in China’s

dramatic shift to regionalism in 2000. Recognizing the heightened U.S. interest in pursuing FTAs with East Asian countries, China jumped on the FTA bandwagon with vigor as a means to counter U.S. attempts to increase its influence in the region. In terms of institutional arrangements, argues Wan, all the ministries and commissions under the State Council have taken part in policymaking in regional economic cooperation forums or FTAs without invoking serious bureaucratic turf wars.

Wan also argues that because the potential losers of FTAs are not well organized and the Chinese government is sympathetic to the plight of losers, sectoral conflicts are not fully developed in the making of foreign economic policy. Without being hampered by severe domestic struggles between winners and losers, the Chinese government could pursue strategic and decisive policymaking. Although it is estimated that China-ASEAN FTA could generate negative effects on 160 million farmers, they have not opposed FTAs vociferously. Wan explains that Chinese farmers still perceive the central government as their political ally, because they are in dire need of the support of the central government in order to solve more pressing concerns, primarily generated by the local government. Thus, Chinese farmers are relatively mute in opposing FTAs, which is a less palpable issue to them. By contrast, contends Wan, the interests of private businesses whose status rose to the third pillar of economic policymaking in China are better represented in FTA policymaking. In his view, the absence of political pressure arising from sectoral conflicts allowed the Chinese government to make strategic policymaking from the perspective of national interests.

7.3.2 *Japan*

Recognizing that Japan was traditionally more interested in regionalization rather than regionalism, Ellis Krauss and Megumi Naoi argue that Japan began to diversify its trade strategies as it aspired to distance itself from its traditional reliance on the bilateral relationship with the United States. The Japanese attempts were vividly demonstrated in its efforts to establish APEC. However, a domestic political landscape that blocked trade liberalization in sensitive sectors inherently constrained the Japanese government's ability to work out compromises for trade liberalization in the APEC arena, dampening the hopes of big businesses and export-oriented manufacturing sectors.

Coming into the 2000s, the aggravating domestic and external environments such as the decade-long recession and the emergence of NAFTA spurred the Ministry of Economy, Trade and Industry of Japan (METI) to adopt a new policy idea for FTAs. Krauss and Naoi argue that institutional arrangements, coalitions among key players, and their pattern of interaction combined to shape the nature of Japanese FTA policy. Within the government, METI was able to play a pivotal role in launching the FTA drive only after it overcame the skepticism of the Ministry of Foreign Affairs (MOFA) that perceived METI's initiative with respect to FTAs as encroaching on its own mandate.

Krauss and Naoi found that the domestic politics concerning Japan's regionalism became complicated in the 2000s. Departing from their previous practices of organizing votes based on the urban-rural divide, the major political parties tended to incorporate broader interests to adapt to the new electoral system. The pattern of political coalition has become complicated as voters became ambivalent in identifying and articulating their interests and preferences about trade. The interests of the agricultural sector that had led staunch anti-liberalization movements diverged between traditional protectionists and internationalists corporations. The interests of the manufacturing industry were not monolithic, either, as they were divided between highly competitive multinational corporations and small and medium corporations. Krauss and Naoi contend that the simple dichotomy of conflicting interests between the agricultural sector and the manufacturing sector is misleading. As the power balance has gradually shifted to internationalist groups in the 1990s, the Japanese government was able to shift to a policy of promoting bilateral FTAs.

7.3.3 *Korea*

Sang-young Rhyu traces the way in which Korea's foreign economic policy has evolved from multilateralism to regionalism and bilateralism. Rhyu argues that changes in Korea's trade structure as well as the security order surrounding the Korean peninsula contributed to this policy reversal. In the aftermath of the Asian financial crisis, there was a dramatic turnaround in Korea's trade structure as China and Japan took a bigger share of its trade, surpassing the United States. In addition, the inter-Korean summit in 2000, though did not eliminate, eased tension between South and North Korea.

While the Asian financial crisis and improvement in inter-Korean relationship broadly provided a policy environment for Korea's regional and FTA policies, argues Rhyu, the Kim Dae-jung government played a critical role in this transition. The Kim Dae-jung government chose East Asia-focused regionalism to overcome the crisis and facilitate economic reform. Rhyu argues that it was critical that in order to carry out its strategic vision, in March 1998, the Kim government reformulated trade policymaking institutions by revamping the organization of the Ministry of Foreign Affairs (MOFA) to create the Ministry of Foreign Affairs and Trade (MOFAT). Furthermore, the Kim government established the Office of the Minister for Trade under the MOFAT that is in charge of trade negotiations and overall foreign economic policy. This institutional re-arrangement enabled the Korean government to actively pursue bilateral FTAs with countries both within and outside the region.

While not ruling out that the diametrically divergent interests of the manufacturing sector and the agricultural sector and their respective political influence shaped the contours of FTA policymaking in the domestic arena, Rhyu employs the concept of hegemony to explain why Korea could conclude an FTA with the U.S., but not with Japan. In addition to the fact that the Asian financial crisis

ignited the emergence of regionalism in East Asia, argues Rhyu, it was critical that recognizing the role of the U.S. as essential in the Korean peninsula as well as in the region, the Korean government initiated FTA negotiations with the U.S. government as a way to revitalize and consolidate the bilateral security relationship. And the Korean government's strategic approach to the KORUS also provided the U.S. with a window of opportunity to tap into East Asian regionalism.

7.3.4 *The United States*

Amy Searight contends that although the U.S. has departed from its reactive leadership, epitomized by its relatively passive participation in APEC to establish itself as an active player in designing regional frameworks in East Asia, the main thrust of U.S. policy toward East Asia remains reactive. With this backdrop, the U.S. strategy of maintaining the hub-and-spokes system has not fundamentally changed, while its tactics have shifted to incorporate its global strategic objectives.

Searight conceptualizes the U.S. responses to welcoming the flurry of East Asian FTAs and East Asian economic groupings as "benign neglect." For example, the U.S. neither opposed nor supported the East Asian Summit (EAS). Instead, the U.S. adopted a two-track approach in responding to East Asian regionalism: (1) to revitalize the Free Trade Area of the Asia Pacific (FTAAP); and (2) to actively seek FTAs with such countries as Singapore, Chile, New Zealand, and Brunei in the Asia-Pacific to create the Trans-Pacific Partnership (TPP).

Searight argues that the U.S. conclusion of an FTA with South Korea demonstrated that FTA policy has emerged as an important element in the U.S. policies toward East Asia. However, Searight goes on to argue that the U.S. started FTA talks with South Korea in a broader strategic context rather than focusing on the KORUS FTA itself. In her view, the U.S. hoped that KORUS could serve as a building block to trans-Pacific network of FTAs and a broader APEC-wide trade agreement.

7.3.5 *Singapore*

Analyzing Singapore's regional and bilateral trade policies, Lee Lai To and Ren Yi Hooi argue that the proliferation of PTAs in Europe and North America pushed Singapore to search for alternatives to multilateralism that it had supported throughout the Cold War period. Its frustration with ASEAN, which had been reluctant to embrace full-scale trade liberalization in the aftermath of the Asian financial crisis, further solidified Singapore's determination to pursue alternative strategies that turned out to be a rush to FTAs. Lee and Hooi argue that while Singapore was initially interested in concluding FTAs with like-minded countries, Singapore perceived FTAs as stepping stones toward regional and global trade liberalization.

In examining the formulation of Singapore's FTA strategy, Lee and Hooi focus on its highly stratified and well-coordinated policymaking structure. As a state-led economy relatively free from societal pressures, Lee and Hooi argue that the Prime Minister and his cabinet were critical in guiding Singapore's bilateral and regional trade policymaking. Within the government, the Ministry of Trade and Industry (MTI) mission lies in supplementing Singapore's efforts for multilateral trade liberalization with bilateral FTAs with key trading partners and it thus played a pivotal role in orchestrating various issues in policy implementation stage. Moreover, various government-related agencies such as International Enterprise Singapore (IE Singapore) provide MTI with various support such as organizing meetings and programs to raise the awareness of the economic and strategic importance of FTAs.

Lee and Hooi point out that to establish itself as a hub country in East Asia, Singapore has implemented FTA strategies that could be characterized as "omni-directional" and "*quyibu qu nan*." In terms of issue scope, Singapore has been consistent in negotiating FTAs with WTO-plus provisions. For example, in concluding a series of FTAs with advanced countries such as Japan and the U.S., Singapore was not reluctant in opening its service sector. As a result, the 2005 Globalized Index compiled by A. Kearney ranked Singapore as the most globally connected country in the world. In this sense, Lee and Hooi conclude that Singapore serves as a model case for other East Asian countries.

7.4 The Future of Trade Policy in the Asia-Pacific

More than at any time in the last six decades, trade policy among countries in the Asia-Pacific is in dramatic flux. The last two decades have seen the end of the Cold War, the rapid rise of China, the Asian financial crisis, the September 11 attacks, and most recently, the global financial crisis.

In this environment, countries' trade policies and the institutions to manage trade are under-going significant changes. The Doha Development Round of the World Trade Organization remains moribund. The Asia-Pacific contains institutions such as ASEAN with its AFTA trade efforts, ASEAN + 3, APEC, and the East Asian Summit. Moreover, this variable geometry in the broad region has been increasing with recent calls by the Australians for yet another institution – the Asia Pacific Community. Finally, and as the primary focus of this volume, countries through the Asia-Pacific (and elsewhere) are pursuing a host of bilateral FTAs, further complicating the institutional trade picture. Other recent calls, primarily from the U.S., have been to bring these FTAs into some semblance of order through the TPP, which would build on the existing network of bilaterals among Chile, Brunei, New Zealand, and Singapore (the P4).

An important factor in the evolution of the trade architecture in the Asia-Pacific is the changing views of trade liberalization among countries. Of these, the U.S. has likely undergone the most dramatic transformation, with growing disenchantment among domestic constituencies of the benefits that they see from a global liberal

trading order. Tied to the recent “murky protectionism” that we have seen in the current financial crisis, the call for “rebalancing of the global economy” and the rise of efforts by countries to provide their firms with competitive advantage through government intervention policies among countries, the trajectory of Asia-Pacific remains more complicated to analyze than ever before.¹

How this institutional *mélange* will eventually be sorted out is a function of both international political economy and the domestic political economy of policymaking within states. As this book has emphasized, the interplay of ideas, interests, and domestic institutions – which has led to considerable variation in trade policies in the Asia-Pacific – must be analyzed if we wish to make sense of the likely trajectory of institutions in this region.

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¹ On “murky protectionism,” see Baldwin and Simon (2009). For a discussion of industrial policy in the context of the financial crisis and the rebalancing debate, see Aggarwal and Evenett (2010).