

## Designing Trade Institutions for Asia

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The lament that Asia lacks regional trade institutions has now been replaced by criticism of the excessive number of institutional fora in the region. Taking a broad perspective on Asia, aside from the World Trade Organization (WTO), we now have ASEAN's (Association of Southeast Asian Nations) free trade agreement known as AFTA and its single market platform known as AEC (ASEAN Economic Community), SAARC's (South Asian Association for Regional Cooperation) trade agreement known as South Asian Free Trade Agreement (SAFTA), and APEC (Asia Pacific Economic Cooperation).<sup>1</sup> Negotiations are also moving forward on a Regional Comprehensive Economic Partnership (RCEP) (ASEAN+ Japan, China, Korea, India, Australia, and New Zealand) and were completed in October 2015 (still to be ratified) on the Trans-Pacific Partnership (TPP) by twelve founding members.<sup>2</sup>

The most important locus of trade arrangements, however, on which this chapter concentrates, is undoubtedly the active pursuit of free trade accords (FTAs) at the bilateral level as well as the new so-called mega-FTAs, RCEP and the TPP. In particular, these mega-FTAs reflect efforts to rationalize the multiplicity of bilateral free trade accords, and the TPP has clearly become the focus of US trade policy in Asia. Yet despite this rapid rise in accords—or possibly because of this proliferation—the organizational structure of many of Asia's trade-related regional institutions remains relatively informal and their underlying legal rules tend to be soft. While there are some exceptions such as AFTA and AEC, which at least are backed by a formal organizational structure, by and large Asia's trade institutions to date remain of the SI type advanced in this volume as an ideal-type category.

The changing landscape of Asian trade institutions leads us to focus on three sets of key questions that speak to the analytical focus of this volume. First, how can we characterize the lay of the land with respect to Asian-focused

trade institutions in more systematic fashion? In particular, in light of the framing chapter, what is their organizational structure and to what degree does hard or soft law characterize trade institutions in the Asian region? As noted in the opening chapter, while these dimensions are critical, there are also others that may be important. For our case we believe that a few additional dimensions help us not only better understand the dynamics of the design of trade arrangements in the region but also, by serving as intervening and process variables, they help us better account for preferences about organizational structure and the degree of legality to begin with. Our logic for this claim is that the same countries have different preferences across types of accords, which as we show, can be accounted for by their concerns about these additional dimensions.

Second, although there is a great deal of variety among trade institutions on these dimensions, many of these accords tend to be relatively weak. This allows us to speak specifically to the analytical expectations advanced in this volume's framing chapter. To what extent can we link these weak outcomes to state-based, socialization, and domestic politics in the ways set out? Specifically, rather than just a domestic perspective on the dynamics of interests and identities of regional political actors, to what extent might concerns about the international constraining role of accords on state power, state capacity constraints, uncertainty about outcomes and counterparts, and the lack of socialization in other institutions account for the institutional characteristics we see?

Third, moving beyond the typology and the analytics, can we say something about the likely future trajectory of trade institutions in the Asian region? And how might they be reconciled with one another and with the broader WTO arrangement?

To address these questions, the remainder of the chapter is in four sections. Drawing on the project framework, the first section begins by specifying, then supplementing, the institutional dimensions on which key institutions that influence Asian trade can be analyzed. It then briefly traces their evolution from their origins to the current state of play on five dimensions: organizational structure, the degree of legality, and of particular relevance to the trade case, membership scope, issue scope, and the types of goods. The second section summarizes the analytical approach underlying the project, together with our focus on the three additional dimensions as process variables to account for the varied policy preferences of states with respect to institutional choices. Drawing on this theory, the third section empirically examines the policy preferences of South Korea, Japan, and China with respect to trade institutional choices, focusing specifically on ASEAN+3 and 6 (in particular, RCEP) as well as the TPP at the multilateral level, and FTAs at the bilateral level. The fourth section concludes with some implications for the project framework and speculates about the likely trajectory of institutions in the Asian region.

## The Trade Institutional Landscape in Asia

To characterize trade agreements,<sup>3</sup> one can theoretically consider how countries may have differing preferences with respect to seven dimensions: (1) *membership scope*, which refers to whether the agreement is bilateral, minilateral, or multilateral;<sup>4</sup> (2) *geography*, which refers to the question of whether the agreements are regionally focused or with actors outside the region;<sup>5</sup> (3) the *size of partners*, that is whether the accords have large or small members; (4) *issue scope*, the range of issues that a policy or arrangement deals with runs from narrow to broad; (5) the *nature* of the agreements, which in trade can be market opening or closing; (6) the *types of goods* provided by the agreement (public or private); and (7) the *institutional strength* of the arrangement being negotiated.<sup>6</sup>

Of these many possible dimensions to characterize institutions, this project focuses on the seventh dimension of institutional strength, operationalized by two specific elements of design: the legal rules, whether hard or soft; and the underlying organizational structure of the arrangement.<sup>7</sup> As laid out in this volume, the concept of hardness refers to the extent to which arrangements have high precision, obligations with respect to the mission of the accords, and delegation in terms of dispute settlement. The “organizational structure,” which can be seen as formal or informal, focuses on centralization (e.g., a secretariat), control (e.g., collective decision-making procedures), and flexibility (e.g., limits on ad hoc measures). In our discussion below, we show the value added of including the dimensions of membership scope, issue scope, and types of goods to better account for national preferences about trade agreements.

In terms of the evolution of existing trade agreements and the creation of new ones that directly involve Asian countries, table 2.1 illustrates the historical evolution of these accords. As the table indicates, the most salient features in the development have been the proliferation of trade arrangements in the 2000s, particularly with the negotiation of a host of bilateral FTAs. In the following discussion, we briefly review the major accords noted in table 2.1 and then characterize them based on the two central dimensions of the project. We also consider the other dimensions of membership scope, issue scope, and types of goods to provide us with background to enable us to empirically consider national preferences regarding these agreements.

### General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO)

GATT was created as a multilateral trade arrangement in 1947, substituting for the aborted effort to create a more formalized structure with the

TABLE 2.1  
 Evolution of trade agreements influencing the Asian region

Pre-1970s	1980s	1990s	2000s–2010s
GATT (1947)	GATT	WTO (1994)	WTO
ASEAN (1967) <sup>a</sup>	ASEAN	ASEAN/AFTA (1991)	AFTA
	APEC (1989)	APEC	APEC
	ANZCERTA (1983) <sup>b</sup>	APEC	ANZCERTA
	SAARC (1985)	ANZCERTA	SAFTA 2006
		SAARC <sup>c</sup>	ASEM <sup>d</sup>
		ASEM (1996)	ASEAN+3 (EAFTA)
		ASEAN+3 (1998)	SCO (2001) <sup>e</sup>
			Other bilateral FTAs (2001–)
			ASEAN+6 (2005)
			ASEAN+8 (2010)
			<i>RCEP (2012)</i>
			P4 (2006), TPP (2015)
			AEC (2015) <sup>f</sup>
			<i>Free Trade Area of the Asia-Pacific FTAAP (2006)<sup>g</sup></i>
			<i>East Asia Community EAC (2009)<sup>g</sup></i>
			<i>Asia Pacific Community APC (2009)<sup>g</sup></i>

<sup>a</sup> While ASEAN was established in 1967, it did not actively focus on trade until later.

<sup>b</sup> We include the Australia-New Zealand accord (ANZCERTA) because of the active involvement of Australia and New Zealand in Asian regionalism.

<sup>c</sup> SAARC focused on regional cooperation; SAFTA on a free trade agreement, still under negotiation

<sup>d</sup> ASEM (Asia-Europe Meeting) involved ASEAN+3 and the EU, but because it has not moved forward significantly on trade liberalization, we do not discuss it in depth here.

<sup>e</sup> The Shanghai Cooperation Organization (SCO) has not actively developed a free trade agreement, and thus we exclude it in our discussion here.

<sup>f</sup> The ASEAN Economic Community (AEC) was established in November 2015 with a goal to launch a single market for goods, services, capital, and labor.

<sup>g</sup> Italicized agreements have either been proposed or are currently under negotiation.

International Trade Organization (ITO).<sup>8</sup> With the ITO moribund, the United States promoted a temporary implementing treaty, the GATT, as the key institution to manage trade on a multilateral basis in 1948. Although technically an interim framework for regulating and liberalizing world trade, the GATT turned out to be highly successful at overseeing international trade in goods and progressively reducing trade barriers. After many successful rounds of negotiations, with the most prominent being

the Kennedy and Tokyo Rounds, the WTO was created in 1995 following the conclusion of the drawn-out Uruguay Round of negotiations that began in 1986.

The GATT can be characterized as moderately organized with semi-hard legal rules. In terms of membership, it increased rapidly over time from its original twenty-three founders, and its issue scope also expanded to encompass manufacturing trade issues beyond tariffs and quotas to include government procurement, subsidies, and agriculture. By contrast, the WTO can be characterized as formally organized with hard legal rules. These include very precise provisions on the intentions of the institution with well-specified articles. Members' obligations are clearly enumerated, and most important, the dispute settlement of the WTO is highly developed and members generally abide by rulings—a significant change from the earlier GATT agreement. In terms of organizational structure, the WTO has an independent professional secretariat, clear collective decision-making procedures, and explicit limits on the use of various ad hoc measures by states. Its membership has increased to 162, and its issue scope has continued to expand with attention to services and intellectual property, among others. Although both the GATT and the WTO are club goods with benefits accruing to members, they also can be seen as providing the public good of increased dynamism in the global economy that benefit all countries.

#### APEC, Free Trade Area of the Asia Pacific (FTAAP), and the TPP

The problems in concluding the Uruguay Round and changes in the European Community provided a key impetus for APEC's creation. With the Europeans moving forward toward a unified market and the impasse in the Uruguay Round of GATT negotiations in the late 1980s, Australia, Japan, and other likeminded countries were concerned about the externalities resulting from European integration and GATT's potential demise as a public good. Created in 1989, APEC groups twenty-one economies in the region with the aim of liberalizing trade and investment in the region.<sup>9</sup> In November 1994, the members of APEC issued the Bogor Declaration at their annual meeting in Indonesia, setting its members on the road to trade liberalization with a target for achieving open trade for developed nations by 2010 and developing nations by 2020. Although progress has been made toward these goals, there is little concrete proof that APEC fostered this progress, and most analysts would agree that the Bogor goals have been unmet.

In APEC's case, with respect to institutional characteristics, the actual membership of this unilateral arrangement, in terms of both actor scope

and geography, has been open to considerable ongoing debate. For example, there was some initial debate over inclusion of the United States at the moment when APEC was created. In the mid-1990s, Prime Minister Mahathir of Malaysia attempted to press for an organization such as the East Asia Economic Group (Caucus) as an alternative to APEC. Although the caucus did not really go anywhere at that time, since then the move toward ASEAN+3 is indicative of the lasting impact of this initiative.

In terms of its characteristics, APEC has changed from its origins to become somewhat more institutionalized but still has soft legal rules. APEC remains norm-driven rather than rule-based, primarily because of APEC members' lack of commitment to the underlying principles and norms of the institution. Although there is a high degree of consensus with respect to some norms, even the general principles of open regionalism and voluntarism have been open to contention, helping account for the difficulties in implementing liberalization.<sup>10</sup>

At the APEC summit meeting in Beijing in November 2014, member economies agreed to launch a feasibility study of a Free Trade Area of the Asia-Pacific (FTAAP) as pushed by the host country, China. This was an idea that had been broached by the United States several years ago but which did not garner much support. However, it will take many years for this proposal to materialize and will thus not affect the ways through which APEC has worked: voluntary "Individual Action Programs" undertaken by member governments following the guidelines set by the Osaka Action Agenda and formalized by the Manila Action Plan. The IAP commitments to tariff reduction are nonbinding and voluntary.<sup>11</sup>

With respect to organizational structure, APEC has been moving in the direction of an independent professional secretariat and, in January 2010, appointed its first independent executive director for a three-year term. Previously, the country hosting the yearly APEC leaders' meeting and other activities appointed the executive director of APEC for only one year. In 2007, APEC created the position of chief operating officer as well as a Project Management Unit to coordinate APEC projects. In 2008, APEC formed a Policy Support Unit that would provide its members with independent policy research.

Given APEC's lack of an institutional mechanism to negotiate trade agreements, as well as its large membership of twenty-one economies, efforts to promote FTAAP faced strong headwinds. In 2008, the Bush administration changed tack, signaling its intent in September to become part of the P4, a grouping created by Singapore, Chile, New Zealand, and Brunei in 2005. This grouping has now evolved into the TPP. Although momentum behind the latter was lost as the financial crisis intensified, President Obama decided in November 2009 to pursue the TPP for the reasons given below, as well as to expand exports to a region that still held out significant growth prospects.

Moreover, with Japan's accession to TPP negotiations in 2013, membership has now expanded to twelve countries.

In terms of structure, the TPP is moderately institutionalized, without a formal organizational structure. But at the same time, given US interests as well as those of the majority of members in creating a genuine architecture that will reign in bilateral FTAs, the outcome is quite a high degree of hard law, rather than simply proscriptions about behavior. Indeed, because of this focus on binding rules with few exceptions, it took over six years of difficult negotiations and many missed deadlines before twelve founding members reached final agreement in October 2015. Meanwhile, there remains debate about issue coverage (which is very broad and comprehensive) and the extension of the TPP's provisions to other prospective entrants such as South Korea, Taiwan, Indonesia, and India.

### ASEAN and AFTA

Created in 1967, ASEAN had its origins in an effort to deal with regional security concerns. The association grew out of elites' shared understanding of the importance of protecting state sovereignty, fighting communism, and preventing regional disputes from boiling over.<sup>12</sup> Political elites' common experiences in the Cold War and common threat perceptions following Indonesian President Sukarno's *Konfrontasi* (confrontation) campaign of 1963–1965 also led Southeast Asian states to focus on the possibility that domestic strife could have regional spillover effects. This left them eager to avoid future interference in their domestic affairs, whether from within the region or without. In the 1967 Bangkok Declaration establishing ASEAN—then consisting of Indonesia, Malaysia, the Philippines, Singapore, and Thailand—asserted that they would work together to enhance economic and security cooperation. Membership increased to ten with the addition of Brunei shortly after its creation, followed by the addition of Cambodia, Myanmar, Laos, and Vietnam in the 1990s.

From an economic standpoint, it was only in the mid-1970s that ASEAN members turned actively toward promoting the institutionalization of cooperation in trade. Following the failed efforts to foster regionally-based import substitution industrialization the ASEAN Free Trade Area (AFTA) came into being in 1992, soon followed by ASEAN Vision 2020 in Kuala Lumpur in 1997, and the Hanoi Plan of Action (HPA) in 1998, which sought to systematically implement the free trade area.<sup>13</sup> In 2003, ASEAN began to expand the issue scope of its activities, with the Bali Concord II creating three “pillars” of ASEAN cooperation: an ASEAN Security Community (ASC), an ASEAN Socio-Cultural Community (ASCC), and an ASEAN Economic Community (AEC). At the Singapore Summit in November 2007, ASEAN leaders signed the Declaration on the AEC Blueprint in the context of a new ASEAN

Charter seeking to establish a single market and a production base, and the AEC formally came into being at the end of 2015.

With these efforts to promote greater integration, AFTA has over time become more institutionalized. The rules have become harder, with the creation of the AEC and the 2003 Bali Concord II calls for the creation of a single market and production base for ASEAN with free movement of goods, services, investment, and skilled labor by the year 2020. Rules were created to promote further liberalization, and there have been efforts to strengthen the economic regime through the 2004 Enhanced Dispute Settlement Mechanism (DSM), which creates procedures to handle multiple plaintiffs and interested third parties, as well as for the establishment of an independent appellate body. The new DSM represents a significant improvement over the previous mechanism in its attempt to depoliticize the process and its more consistent rule-based framework. Still, as compared to the WTO, ASEAN cannot impose any sort of supranational authority over the disputants. Additional strengthening of ASEAN came about with the signing of the ASEAN Charter at the Thirteenth ASEAN Summit in Singapore in November 2007. Having been ratified by all members by October 2008, the ASEAN Charter creates a rule-based entity and calls for the creation of enforceable rules in finance, trade, and the environment, as well as the establishment of a regional human rights body.

Despite this strengthening, from an organizational standpoint decision making remains based on consultation and consensus, rather than any voting majority, although this may change in the near future. ASEAN's organizational culture has exhibited a clear preference for informal diplomacy and personal elite relationships over rule-based interaction. Still, over time the secretariat has been strengthened, and the organization has developed an independent research capacity.

### From ASEAN "Plus" Institutions to RCEP

In 1996, Singaporean Prime Minister Goh Chok Tong proposed a meeting of ASEAN with the Europeans, leading to the first Asia-Europe Meeting (ASEM) in March 1996.<sup>14</sup> This meeting brought twenty-five heads of state from Europe and East Asia together. Most significant is that when ASEAN members asked that Japan, China, and South Korea join the meeting, the so-called ASEAN+3 (APT) grouping began to take shape. The APT meeting also set in motion a trend toward cooperation among Japan, China, and South Korea, which has manifested itself more recently in talk of a trilateral FTA.<sup>15</sup> The APT grouping has also considered creating a free trade area that is known as the East Asia Free Trade Agreement (EAFTA). But the most important new institutional development, as noted, is the current negotiations over the creation of RCEP, which as of March 2016 had completed eleven rounds of negotiations.



In terms of proposed institutional strength, RCEP is likely to remain weak, both in terms of degree of formality of the organizational structure and the hardness of rules. RCEP draws on ASEAN's original norms of consensual decision making and mutual noninterference in member states' domestic affairs but has not become more deeply institutionalized along the lines of ASEAN efforts noted above. Although RCEP has discussed a wide-ranging number of trade issues, it is likely to follow East Asian traditions in containing elements of "sign first" and negotiate later.

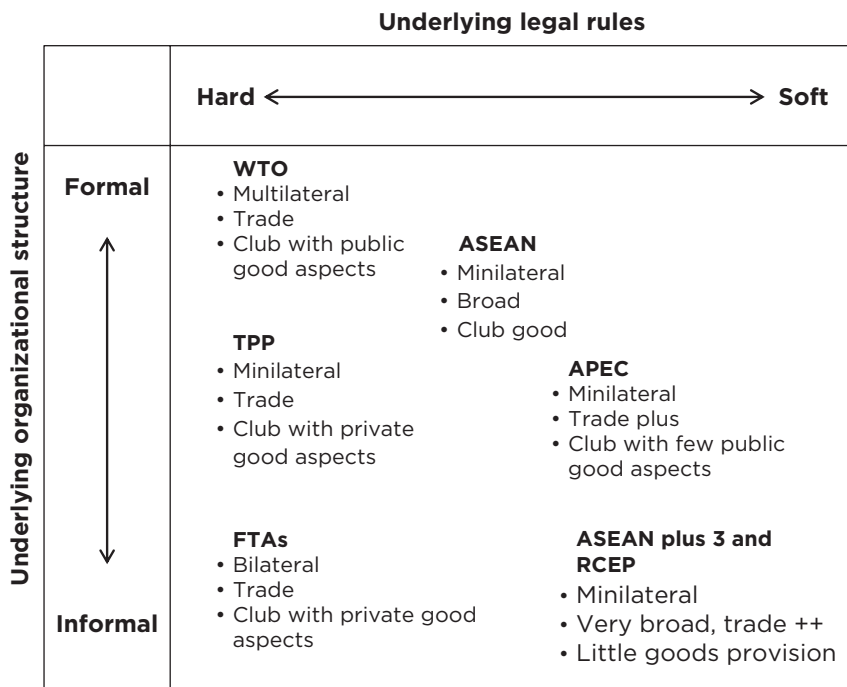
## Bilateralism

Part of the newfound enthusiasm for RCEP and the TPP comes from the trend toward bilateral FTAs.<sup>16</sup> This has taken different forms. One approach is a purely country-to-country accord, with the trendsetting Asian-only Japan-Singapore Agreement for New Age Economic Partnership agreed to in October 2001.<sup>17</sup> Others soon followed, with accords including South Korea and Chile (2003), Japan and Mexico (2004), and the like. By 2015, the number of Asia-specific FTAs was around 40, and if one includes transregional accords with countries outside Asia, the number would rise to over 120.<sup>18</sup>

Another trend has been a hybrid variety involving ASEAN as a grouping with other states in the region. In February 2003, China signed a FTA framework agreement with the ten ASEAN countries pledging free trade by 2010, which has now been implemented. Japan followed by starting negotiations of its own in October 2003, but South Korea jumped ahead and signed a FTA of its own with ASEAN in May 2006.

From the perspective of categorizing institutions in this project in terms of rules and organizational structure, there are some striking differences. The bulk of the bilateral accords are characterized by the mix of relatively specific rules and procedures, combined with little organizational structure. Such accords thus provide a sharp contrast to APEC, which has become somewhat more organizationally formal over time despite its nonbinding nature, and the examples of ASEAN+ institutions, which are characterized by resistance to hard rules and greater formality.

To summarize, in terms of the two major dimensions we have been considering, we can array the major agreements we have considered to this point in figure 2.1. As we can see, the institutional arrangement with the most formalized organizational structure and the hardest rules remains the WTO, which is, of course, not an Asia-specific accord but an overarching one in the global system. At the other extreme is the proposed RCEP, whereas FTAs and APEC provide contrasts on the other diagonal. In the middle is the TPP, with a relatively weak institutional structure but harder rules. With this characterization in mind, we next turn to the question of the driving forces of institutional design.



**Figure 2.1** Categorizing select trade agreements related to the Asia-Pacific. This figure provides an overview of Asia-Pacific-related trade agreements and where they would fall on the hard-soft rules and formal-informal structures continuum in table 1.1 (this volume).

Source: Authors' work.

## Theory of Designing Institutions

The introduction to this volume provides some approaches to exploring the types of institutional arrangements we see in trade in Asia—namely state-centered, socialization, and domestic politics reflecting some broad combination of interests and identities.

As a first cut, following Pekkanen, the emphasis on domestic politics, and especially interests and identities dynamics, might hold for ASEAN+3 and RCEP. Yet many of the same actors in these admittedly weak rules-based and informal arrangements also participate in global institutions such as the more formal and legalistic WTO. Moreover, we also have two other anomalies in Asia: the case of APEC (with growing organizational formalization) and the same Asia-Pacific actors in the strongly rule-based FTAs and some in the TPP with little organizational structure. Thus the examples naturally raise an interesting puzzle: why do countries in the Asia-Pacific appear to be willing to be involved with this wide variety of institutional arrangements in trade? It

would appear implausible that their identities and concentration of interests shift continuously to lead to the types of accords we see. Pekkanen, however, considers alternatives as well, to which we now turn.

With respect to state power, she argues that part of the explanation may be driven by the relative power of different states in the Asia-Pacific. In particular, rather than domestic identities and interests, we may be seeing instead a more *realpolitik* approach to institutional design, with some countries that are more powerful having different interests from those that are weak. More specifically, strong countries would be reluctant to bind themselves with accords in view of their power dominance in the region (think China). But here again, this argument runs up against the variation we see among the same countries for different kinds of trade accords, even with the same power configuration.

Another related argument raised by Pekkanen focuses on uncertainty that states might have about each other and the future, with some states being more concerned about this than others. This approach, in our view, adds the useful importance of the variable of uncertainty, but not in the sense of countries with different preferences but rather the characteristics of the accords themselves. Finally, she draws on the socialization literature to consider that states that have more experience in being involved in strong trade institutions might be more willing to consider more robust institutions.

In our view, the key master differentiating variables missing here are membership scope, issue scope, and the types of goods (whether public or private) provided by various trade arrangements. As noted, these dimensions refer to the number of actors involved in different arrangements, the narrowness or breadth of the accord in terms of issues covered, and the benefits provided by various arrangements. Thus these additional dimensions appear twice in the explanation of institutional design. First, they are additional dependent variables to capture the multiplicity of choices about institutional types that may come in packages. Second, the ideas about, or beliefs in, these dimensions of those who negotiate trade arrangements affect their interests in, and identities about, ideal institutional types for their countries.

The GATT/WTO system, for example, albeit formally a club good, has important public good aspects as trade liberalization stimulates global economic growth. Given its club nature, for countries that are highly trade dependent, we would expect support for an accord that is hard and organizationally developed, allowing them to benefit from the open trading system. The interest of all countries in bilateral agreements that are binding can also be directly tied to the decade-long inability of states to conclude the Doha Round of the WTO. In this light, trade negotiators of those countries with high trade dependence have been forced to seek alternatives to the WTO, which currently manifests itself in the pursuit of highly focused bilateral free trade agreements that essentially have many fewer public good aspects and reflect the pursuit of private club goods.<sup>19</sup>

By contrast, the minilateral institutions of ASEAN+3 and RCEP are much more politicized, with a multiplicity of issues being debated (including security, environment, trade, finance, and the like). All countries in Asia would appear to be unwilling to tie themselves to arrangements with a great deal of fuzziness on goals, as well as an unclear mechanism to provide *any* trade liberalization goods to its members. More specifically, it would appear that the smaller membership scope of these arrangements raises the ante on power plays (as opposed to the WTO with the presence of many large countries), thus making smaller countries wary of highly binding institutions. The TPP provides an examples of a hard rule-based approach, but the explanation for this approach appears to lie in the assertive role played by the United States in its negotiation.

We focus on the three most important trading states in East Asia, namely South Korea, Japan, and China. As noted in figure 2.1, these three countries offer an ideal laboratory to assess hypotheses raised in chapter 1, as they have been involved in a variety of trade accords, covering all of the four basic types of institutional arrangements that form the analytical foundation of this volume: (1) HF (WTO) types, and closest to this among Asian institutions, the effort to create some SF (with actually semi-hard rules) structures (ASEAN); (2) SF types (APEC); (3) HI types (FTAs and the TPP); and (4) SI structures (ASEAN+ 3 and RCEP).<sup>20</sup>

One of the most striking features of the institutional design of these countries is that they have departed over the past ten years from multilateralism toward a multidimensional trade strategy focusing on bilateral FTAs, on one hand, and minilateral economic forums such as ASEAN+3 and RCEP, on the other.<sup>21</sup> Although we turn to an explicit evaluation of this volume's explanatory framework later on, in keeping with analytical eclecticism, it is helpful to take the broad range of economic and strategic concerns into account at the start. This is not so much power differentials as stressed as part of this volume's state-centered approach, but rather that East Asian states' interest in a multidimensional trade strategy reflects the growing demand for an "insurance policy" to liberalize trade beyond goods and services. Yet to this point, little has been accomplished with respect to trade, although all three countries also consider financial cooperation as an important economic incentive to pursue minilateralism. Strategic and diplomatic calculations have also been an important driving force toward bilateralism and minilateralism alike.

With respect to the interests-identities framework related to domestic politics, we find a distinct emphasis on the role of interests in this analysis. Despite decades of liberalization (and democratization), East Asia's "strong state-weak society" tradition is embedded in a top-down approach. The new preferences for bilateralism and minilateralism in the three dominant powers in Northeast Asia have been driven by their top political and bureaucratic elites, while other nonstate groups play a less significant role in institutional design at the external level.<sup>22</sup> A new cognitive consensus, rather than variation on legalistic identities, has emerged within government policy circles

that a bilateral and minilateral approach is not only complementary to the multilateral strategy but also crucial for the countries to maintain access to critical export and capital markets in the new millennium. Although the Northeast Asian Three countries' pursuit of bilateralism and minilateralism does not necessarily mean that they downplay the significance of the multilateral trading system, the policy departure is obvious and important.

As we have seen, the most significant development in trade arrangements among Asian countries has been the proliferation of bilateral FTAs, both within and across the region. For the most part, South Korea, Japan, and China have relatively similar underlying motivations regarding the pursuit of relatively hard law but informal organization structures (HI) of this type. Yet given the different domestic politics in each country that we trace briefly over time below, we see some variation in preferences with respect to such accords. Aside from bilateral FTAs, minilateral economic forums have been important avenues for Northeast Asian countries to increase their influence in the region. Yet unlike the bilateral FTAs that we have examined, which create a clear set of winners and losers, minilateral economic forums in contemporary Asia pursue broad issue scope. These broader and often more abstract goals in arrangements such as RCEP include financial and monetary cooperation, human security, and environmental protection, all of which tend to make cost-benefit calculations at the societal level more complex. The TPP example is particularly interesting, as it involves only Japan among these three countries, although South Korea and even China have shown some interest in joining this proposed agreement.

## **Explaining the Trade Preferences of South Korea, Japan, and China**

This section breaks the analysis into two parts, exploring preferences for bilateralism and minilateralism in institutional designs. In what follows, we analyze the moves toward bilateralism and minilateralism in South Korea, Japan, and China in light of state-centered realities, as well as their interactions with political dynamics related to domestic agents' identities and interests. Once again, in keeping with the approach of analytical eclecticism, we also supplement these frameworks with attention to issue scope, actor scope, and goods.

### **Preferences for Bilateralism**

#### *South Korea*

With its multitrack FTA initiative, South Korea has pursued comprehensive and legally binding FTAs with its trading partners, both small and large, and both within and outside the East Asian region. Most significantly, the

financial crisis of 1997–1998 created dramatic socioeconomic changes in South Korea. Higher factor mobility in post-financial crisis South Korea weakened the influence of noncompetitive but politically vocal sectors. This shift, together with a change in the bureaucratic balance of power, created political space for the political and bureaucratic leadership to pursue trade liberalization through bilateral FTAs.<sup>23</sup>

In the immediate aftermath of the Asian financial crisis, South Korea's protectionist veto players such as labor unions and farmers' organizations were temporarily disorganized due to President Kim Dae-jung's (1998–2003) neoliberal reform and the International Monetary Fund (IMF)-imposed austerity program. Although some farmers' groups and labor unions remained militant, their political influence eroded significantly, as both their absolute and relative economic share continued to decline. Driven by President Kim's strong executive power and public support for neoliberal restructuring, the introduction of new FTAs went relatively unchallenged, if not unnoticed, by traditional protectionist interests.<sup>24</sup>

When President Roh Moo-hyun entered office in 2003, he institutionalized his predecessor's FTA initiative by completing the roadmap for FTAs and creating a detailed action plan for a multitrack FTA strategy. In contrast to its somewhat peripheral status in President Kim's economic and strategic agenda, FTAs became a core element of President Roh's economic policy reform and regional vision. Institutionally, the empowerment of the Office of the Minister for Trade (OMT) under Roh allowed the once beleaguered institution to develop firm roots within the government and actively pursued its mandate to initiate and negotiate FTAs.<sup>25</sup>

Why did South Korea's trade elites and protrade businesses prefer a legalistic approach to FTAs? Over the past decades South Korea had been a principal beneficiary of the GATT/WTO. South Korea's international trade as a share of its gross domestic product (GDP) was over 70 percent by the mid-2000s, so securing access to export markets in a binding manner in the face of problems in the WTO became a critical goal. With FTA negotiations orchestrated by the OMT under President Roh, liberal and legally minded OMT officials were able to secure their preferences. The growing power of the OMT was highlighted by the appointment of its third trade minister, Kim Hyun-chong, in July 2004 as well as the promotion of its first trade minister, Han Duk-soo, to the post of deputy prime minister and minister of finance and economy.<sup>26</sup>

Naturally, the rise of the OMT by itself cannot explain South Korea's new appetite for bilateralism to secure trade as club goods.<sup>27</sup> Ironically, because the OMT was institutionally insulated from special interest group pressure, it was unable to actively champion its liberal ideas by securing full public support for its FTA initiatives. The debate surrounding the KORUS (South Korea-United States) FTA illustrates this point. In contrast to their temporary disorganization during the Kim Dae-jung period, traditional protectionist

groups under Roh Moo-hyun began recovering from the shadow of the financial crisis and working closely with antiglobalization nongovernmental organizations (NGOs) and anticapital labor unions. Some radicals even dubbed the implicit linkage of the KORUS FTA to neoliberal reforms and “economic Americanization.” The Roh administration responded to this challenge to a neoliberal vision by combining generous side payments with its market-opening commitments to cushion its citizens from the vagaries of the international market force in return for public support for trade openness.<sup>28</sup>

President Lee Myung-bak made a dramatic break with his predecessors, Presidents Kim and Roh, on many policy dimensions when he came to office in February 2008. Yet the FTA strategy was one of the few areas in which President Lee followed in the footsteps of Kim and Roh. Despite huge political adjustment costs due to the US beef imports controversy in the first half of 2008, the Lee administration remained committed to a multitrack FTA strategy. The conclusion of FTA deals with major economies like India and the European Union (EU) and with the United States under Lee’s presidency illustrated his commitment. As of March 2016, South Korea has concluded fourteen FTAs—with Chile, Singapore, the European Free Trade Association, the ASEAN, the United States, India, Peru, the EU, Turkey, Colombia, Australia, Canada, China, and New Zealand. If all these agreements were fully implemented, nearly 70 percent of South Korea’s total trade would be covered by bilateral or minilateral FTAs.<sup>29</sup>

As Koo notes, South Korea’s FTA strategy has been guided by “developmental liberalism”: a top-down liberal policy in favor of internationally competitive sectors with generous side payments for potential losers.<sup>30</sup> This has not changed under the current incumbent, President Park, whose administration continues to show the same attitudes. Against the backdrop of legalistic identities held by top trade officials and diffuse domestic interests, South Korea has developed its preference for bilateralism characterized by the HI type. South Korea’s preference for bilateralism supplements its traditional endorsement of the WTO as the most important trade institution with its hard legal rules and formal organizational structure.

### *Japan*

Since the conclusion of the Japan-Singapore FTA in 2001, Japan has concluded fourteen FTAs, with Mexico (2004), Malaysia (2005), Philippines (2006), Brunei (2007), Chile (2007), Indonesia (2007), Thailand (2007), ASEAN (2008), Vietnam (2008), Switzerland (2008), India (2011), Peru (2012), Australia (2014), and Mongolia (2015). As elsewhere in the region, Japan’s new FTA policy represents a striking break with its past approach to trade, which relied heavily on working through the GATT/WTO while resisting market opening.

As Pempel argues, the Japanese political economy underwent a fundamental regime shift during the 1990s.<sup>31</sup> The bursting of the economic bubble

in 1989 reduced public trust in the conservative regime and ushered in more than a decade of poor economic performance, a rapidly expanded national debt, a system-wide financial crisis, and a destabilized yen. As economic problems intensified and hard policy choices had to be made, winners and losers emerged both within society and within the political party system. In the presence of a dualist Japanese economy of protected inefficient firms and highly competitive exporters, the game of winners and losers has become much more complicated than elsewhere in the world and the political cost of liberalizing protected industries has become prohibitively high.

Within this fluid domestic political economy, Japan has pursued bilateral FTAs with interest groups and trade officials holding semilegalistic identities and diffuse interests. The resultant preference for the institutional design of Japan's bilateralism is the combination of semi-hard legal rules and informal organizational structure, as hypothesized by the framing chapter and elaborated in the theory section of this chapter.

For Japan, greater access to foreign export markets has been a central economic motivation. For instance, for a number of Japanese industries (automobiles, electronics, and government procurement contractors), negotiating with Mexico was essential to level the playing field vis-à-vis their North American and European rivals, who secured liberal access to the Mexican market as a result of their FTAs.<sup>32</sup> On one hand, the FTA strategy chosen by Japanese reformers might provide an important catalyst for long-term structural changes in the Japanese dual economy that has for so long successfully resisted their efforts at transformation. Indeed, FTAs may force noncompetitive sectors to face difficult structural adjustment. On the other hand, it is equally evident that, despite enormous pressures for reform, the mercantilist legacy continues to shape the content of Japan's economic liberalization.<sup>33</sup>

At this point, any potential institutional backing for a purely neoliberal and legally binding regime is unlikely to come from Japan's bureaucratic and political world. Given the scale of Japan's economic troubles, the Japanese government has implemented a broad program of reform, but only with mixed success. Politicians and bureaucrats have sought to maximize the symbolic impact of reforms while still managing the liberalization process to minimize the harm to important domestic groups.

Prime Minister Shinzo Abe's proactive trade initiatives seemingly offer stark contrast to his predecessors. Certainly his eagerness to bolster economic and trade ties with Japan's trading partners has changed the dynamics of trade negotiations inside Kasumigaseki, Tokyo's bureaucratic district. However, it has not been backed by any institutional arrangements at the bureaucratic level. As a result, Japan has preferred semilegally binding agreements that are limited in issue scope with its trading partners, leaving many politically sensitive items outside those agreements.

Japan's decision to enter into FTA negotiations with ASEAN member countries in the early 2000s illustrates this challenge. Alarmed by China's pre-emptive move, Japan was under pressure to court Southeast Asian countries



and compete for regional leadership. Nevertheless, Japan's negotiations with ASEAN were riddled with conflicts and delays as opposed to ASEAN's relatively rapid negotiations with South Korea and China, mainly due to its reactive and defensive strategy.

In August 2009, as a result of the historical general election of Japan, the Democratic Party of Japan (DPJ) gained a legislative majority and took over the government. Many Japanese hoped that the DPJ would change the old-fashioned and ineffective political economic system. However, the DPJ government faced strong oppositions not only from the Liberal Democratic Party (LDP) but also from its own constituents. Groups that have strong ties with the DPJ—such as agriculture and organized labor—systematically reacted negatively to trade liberalization through FTAs.<sup>34</sup> The Abe government has not faced the same fate as of yet, but his political popularity belies the complexity of interest group politics in Japan.

Aside from strong opposition from agriculture and labor, Japan's diversified FTA policymaking structure has inherently limited its ability negotiate coherent, legally binding FTAs. Government agencies lack coordination, resulting in diffuse interests. The four-ministry system composed of the Ministry of Foreign Affairs (MOFA), the Ministry of Economy, Trade, and Industry (METI), the Ministry of Finance (MOF), and the Ministry of Agriculture, Forestry, and Fisheries (MAFF) requires time-consuming consultations and discussion because each ministry holds veto power.<sup>35</sup> Among others, the MAFF remains a gigantic barrier to legally binding FTAs. In this context, METI and the MOFA are pressing for FTAs as devices that will bolster national economic restructuring in a more palatable manner due to their gradual impact—rather than pursuing the alternative of sweeping domestic neoliberal reforms driven by the WTO.

Against the backdrop of semilegalistic identities held by top trade officials and diffuse but strong domestic interests, Japan has developed its preference for bilateralism with semi-hard legal rules and informal organizational structure. As with South Korea, Japan's bilateral trade strategy intends to supplement its multilateral strategy based on the WTO. However, unlike its neighbor, Japan remains ambivalent not only about the underlying legal rules of bilateral FTAs but also about the membership scope and the nature of club goods provided by such FTAs, which in turn provides some food for thought for the interests-identities hypothesis developed in chapter 1.

Thus conditions surrounding the Abe government with respect to its FTA initiatives have proved to be no more favorable than the ones faced by his predecessors. The Japanese government's best hope appears to be maintaining domestic harmony by supporting internationally competitive industries and at the same time excluding less economically advanced sectors from FTAs.

### *China*

As elsewhere in East Asia, China's newfound interest in FTAs has been characterized by a top-down approach to gain greater political and economic

leverage in the region.<sup>36</sup> Its new appetite for FTAs reflects a convergence of interests in securing inclusive club goods in the face of growing economic uncertainties.<sup>37</sup> Put differently, the political initiatives and intrinsic interest in forming FTAs with like-minded countries reflects the growing need for an insurance policy to realize free trade as traditional mechanisms under the GATT/WTO have stalled. At the same time, a number of noneconomic considerations have been critical. In particular, China views the emerging interest in FTAs as an opportunity to vie for regional economic leadership. This supports the “power impact” and “prior socialization” expectations outlined in the introduction.

By contrast, an analysis of China’s preference for bilateralism based on the interests and identities of its social agents faces a particular empirical hurdle. Unlike their counterparts in democracies, relevant social agents in China’s domestic trade politics do not publicly reveal their identities and interests with respect to the institutional design of trade agreements. Rather, their identities and interests are set by, and reflected in, relevant government agencies. China’s trade elites have semilegalistic identities and reflect diffuse interests, thus leading to a preference for semistrong accords with informal organizational structure such as bilateral FTAs. The Chinese Communist Party (CCP)’s political dominance and centralized policymaking structure, led by the Ministry of Foreign Affairs (MOFA), has helped China carry out its semilegalistic FTA strategy in a coherent manner, as compared with other East Asian countries that often have a hard time in securing domestic consensus on the negotiation of FTAs.<sup>38</sup>

Yet there have also been increasing signs of bureaucratic infighting and differences among key government agencies such as MOFA, the Ministry of Finance (MOF), and the Ministry of Commerce (MOC) over FTA policy, especially with respect to partner selection and the scope of agreements.<sup>39</sup> At the same time, China’s preference for a semistrong institutional design of FTAs comes from its growing concern about social stability in an era of greater trade openness. Chinese leaders are increasingly cognizant that public support for economic liberalism hinges on the willingness and ability of the government to mitigate the social effects of economic openness through trade adjustment and side payments. Because trade causes economic dislocations and exposes workers to greater risk, it generates opposition that political leaders ignore at their peril. Chinese policy elites clearly understand that FTAs will enhance the efficiency and productivity of its old-fashioned command enterprises, partly because of the scale effect and partly because rationalization and modernization will be stimulated by new competition.<sup>40</sup>

Still, this economic transformational goal carries risks of social and political instability. Chinese leaders realize that the success of their economic liberalization—including FTA policy—rests on their ability to embed their efforts within China’s social security system. To address this concern, they have mitigated the potentially domestic disruptive effects of FTAs by negotiating

prolonged phase-in periods, which they have been able to do so more easily than in global trade talks. More specifically, China has used FTA negotiations with New Zealand, Australia, and Chile as domestic leverage. These countries were seen to be ideal candidates for China to train its bureaucrats in negotiating FTAs because they are relatively small economies, posing little threat to China's import-competing industries. The distributional issue has profound political implications for China, given the widening wealth gap between its rural and urban areas.<sup>41</sup>

Against the backdrop of semilegalistic identities held by top trade officials and diffuse domestic interests, China has developed its preference for bilateralism with semi-hard legal rules and informal organizational structure. Although China's view of FTAs as an opportunity to vie for regional economic leadership has motivated Beijing to pursue comprehensive bilateral deals with a number of countries, its concern for domestic stability has inherently limited the membership scope of its bilateral FTAs. Unlike South Korea, China's bilateral FTAs have focused on small countries thus far. This generally supports the "state power" and "prior socialization" umbrella expectations, while partially endorsing the interests-identities framework at the domestic level.

## Preferences for Minilateralism

### *South Korea*

In the case of South Korea, its economic and strategic position as a middle power between China and Japan has created a strong national interest in securing cooperation in minilateral forums in the region. As with bilateral FTAs, policy elites have driven South Korea's move toward minilateralism. Yet in this case, given the significant strategic ambiguities inherent in such minilateral forums and the diffuse interest group environment they face, they have been more wary of legalistic approaches. As compared to bilateral FTA initiatives championed by the OMT, South Korean elites' interests are diffuse because there is no government agency devoted to minilateral forums.<sup>42</sup> South Korea therefore prefers SI-type minilateral institutions.

South Korea's pursuit of minilateralism has centered on presidential initiatives. President Kim Dae-jung pursued an ambitious initiative to make South Korea a regional hub for transportation and international business. He also launched a dramatic policy shift as part of his vision and strategic goals for regional cooperation. At the first APT summit meeting in Kuala Lumpur in December 1997, he made public South Korea's aspiration to become a hub country of East Asia by playing a balancer role among regional powers.

Kim's policy ideas inspired his successor, President Roh, to launch an ambitious initiative aimed at creating a peaceful and prosperous Northeast Asia. Yet despite Roh's wishes to serve as an honest broker between China and Japan and between the United States and China, he faced complex regional

geopolitics from the outset as a result of an ever-expanding global war on terrorism launched by the United States in the post-September 11 era, and growing tension between China and Japan. President Roh was unable to pursue his regionalist vision after he was criticized by his domestic opponents and foreign observers for being naïve and ideologically driven. Beleaguered at home and abroad, Roh switched gears and began advocating bilateral FTAs as an alternative avenue to achieve his foreign and economic policy goals.<sup>43</sup>

President Lee Myung-bak's administration sought a greater role in key multilateral forums for regional issues ranging from trade, finance, investment, currency, and energy to human security. President Lee launched during his visit to Indonesia in March 2009 an ambitious diplomatic initiative, dubbed the New Asia Initiative, that envisioned South Korea as a regional leader that speaks for Asian countries in the international community.<sup>44</sup> The Lee administration welcomed the APT as the basis for an increasingly institutionalized regional body for economic, political, and security cooperation. However, policy elites within the Lee administration remained uncertain about the institutional design of ASEAN+X forums given their ambiguous goals and the ongoing rivalry between China and Japan (and the United States, to some extent). In addition, FTA negotiations were institutionally orchestrated by the OMT, which was liberal and legally minded, whereas ASEAN+X initiatives—and the issue of South Korea's participation in the TPP—have no strong institutional supporters within the government, including the Ministry of Finance and Strategy, the Ministry of Foreign Affairs, the Ministry of Trade, Industry, and Energy, and the Ministry of Agriculture.

In the meantime, South Korea has aspired to play a bridge role between China and Japan and successfully established the Trilateral Cooperation Secretariat (TCS) in Seoul in 2011. In the field of trade liberalization, however, this organization's contribution has been limited, mainly because its mission and operation revolve around a noble but ambiguous goal of “promoting peace and common prosperity among the People's Republic of China, Japan, and the Republic of Korea.” Although the TCS lists a few key cooperation mechanisms, the snail-paced negotiations for a trilateral FTA have been conducted outside TCS.<sup>45</sup>

### *Japan*

Japan has attempted to manage its economic and strategic interests by combining the pursuit of bilateral and multilateral agreements. For example, one of the most noteworthy foreign economic policies launched by the DPJ government was aimed at building an “East Asian Community.” Aside from its own ASEAN+1 agreement, Japan has also attempted to revive interest in a Korea-Japan FTA as a basis for an East Asian Community that would create a free trade zone among ASEAN+6 members (CEPEA). This effort was aimed at showing Japanese leadership in the context of China's increasing integration with ASEAN and its pursuit of bilateral and multilateral agreements.

The biggest change in Japan's position came from the Abe administration's bid to become a member of the TPP as part of its broad-scale reform efforts. Given that trade policy elites tend to hold nonlegalistic preferences, particularly in the face of diffuse interests with respect to minilateral economic forums, this initiative was considered both bold and difficult. Some of the problems in concluding the TPP reflected this ambivalence.

Aside from the lack of consensus within Japan, the rivalry between Japan and China has served as a significant obstacle to greater economic integration in East Asia. The inherent weakness of minilateral economic cooperation has clearly been demonstrated by the lack of sustained cooperation on the part of the great powers—especially China and Japan—that is crucial for the creation of a stable regional society of states to advance “East Asian collaboration in priority areas of shared interest and concern.” Japan initially proposed the ASEAN+6 framework as an expanded East Asian regional concept, despite the existence of the APT forum. The ASEAN+6 proposal evolved into the launch of EAS in 2005. From one perspective, the East Asian Vision Group's proposal that the annual summit meeting of the thirteen member countries be transformed into an East Asian Summit was realized more swiftly than its protagonists initially envisaged.<sup>46</sup> Yet the EAS's creation aggravated interstate rivalry within the region. No one really focuses on institutionally strengthening the APT grouping, as the debate primarily revolves around membership scope. In theory, a larger membership may expand both the security and economic interest of the members. In practice, however, a consequent dilution of common purpose has failed to serve the interests of its members.<sup>47</sup>

Although committed to cooperation within the APT framework, Japan prefers to open up the forum as much as possible to advancing the cause of inclusive regional integration, primarily due to its strategic opposition to the Chinese leadership, which it hopes to dilute with the presence of India, Australia, and New Zealand.<sup>48</sup> Japan's participation in the TPP negotiations served that purpose as well. Prime Minister Abe appears to have strong political support to forge a vision for a new minilateralism and a consensus among his domestic constituents.

### *China*

Chinese leaders acknowledge that joining the WTO in 2001 has accelerated the economic liberalization of the Chinese economy. At the same time, they recognize that China must further widen and deepen its participation in regional economic integration by means of minilateral preferential agreements. Yet compared to its bilateral FTA initiative, China's minilateral efforts have lacked domestic support, making them purely state-centered elite projects.

To China, the APT originally offered an ideal institutional platform to raise its profile and image in the region, as it imposes few economic and political costs while presenting an opportunity to allay concerns about the

“China threat.” Yet after significant progress on the TPP, in 2012, it agreed to an ASEAN+6 approach in the form of RCEP. Still, it continues to press for having ASEAN+1 as the basis of an EAC and ASEAN+3 and repeatedly has said the APT should be the core trade liberalization arrangement in Asia. Indeed, it appears to be willing to add more members to the EAS as a way of diluting this institution’s efficacy. Indicative of China’s interest in making ASEAN+1 and APT its central thrust, China appeared very receptive to working with Malaysia, Thailand, and Indonesia in the face of criticisms of the impact of the newly implemented China-ASEAN FTA.

It is hardly surprising that Chinese leaders have become less wary of the potential disruptive effects of broadly defined minilateral regional forums, while developing a realistic understanding of their limited influence in multilateral talks such as the WTO and APEC, which tend to be dominated by some of the world’s largest economies such as the United States, Japan, and the EU.<sup>49</sup> Instead, China has increasingly become interested in regionalism within East Asia where it could play a dominant and effective role. Aside from the CCP, the MOFA is the lead government agency in this regard. Political and strategic considerations are of great importance in China’s minilateral strategy.

Still, China’s minilateralism faces uncertain strategic challenges, especially its ongoing rivalry with Japan. It is remarkable that Japan and China have managed to agree to limited monetary cooperation through the Chiang Mai Initiative. The two countries have forged closer economic ties, currently making them one of the most important economic partners for each other. In general, however, political wariness and rivalry have characterized post-war Sino-Japanese relations. Diplomacy continues to fail to ease deep mutual suspicions. The so-called “cold politics and hot economics” (*seirei keinetsu* in Japanese or *zhengleng jingre* in Chinese) have thus become a defining feature of their bilateral relations.<sup>50</sup> The essentially unresolved issues of East Asian membership and the relationship of competing forums—that is, ASEAN+3, RCEP, and the TPP—indicate divergent views on China’s regional role and complex economic-security implications for its neighbors.

## Conclusion

This chapter has examined the design of trade institutions in Asia with two goals in mind: to provide an analytical characterization of the trade institutional landscape in Asia; and to consider whether and to what extent the explanatory approaches in the framing chapter might explain institutional design. In terms of characterizing arrangements, and in keeping with the thrust of the volume, we have focused on the degree to which accords can be characterized by hard or soft law and the formality of the organizations that we see in trade. These provide a useful first cut to contrast different accords

in Asia, ranging from HF to SI types. However, as we have suggested, other dimensions such as issue scope, issue membership, and types of goods being provided by the accords can usefully supplement this analysis. These dimensions, along with state-centered and domestic political dynamics involving interests and identities, help us better account for the willingness of Asian countries to work with organizations with hard rules and formal organizations such as the WTO and with informal organizations in the form of bilateral FTAs, while expressing reluctance to deeply institutionalize and create binding rules on an ASEAN+ or Northeast Asian basis.

What kinds of future trajectories can we draw from our analysis of Asian institutional arrangements? At the risk of overly broad speculation, we highlight three major points.

First, the proliferation of (semi-)legally binding FTAs with little organizational structure, namely tending to the HI variety, will continue, at least for the time being. Most East Asian countries are dependent on trade, and that trade is taking place on a reciprocal basis (as opposed to the cold war period of multilateral trade negotiations through the GATT that had allowed a certain amount of free riding). As a result, they would prefer legally binding arrangements that can facilitate the stable provision of trade liberalization as goods, while making it relatively easier to keep pursuing legally binding FTAs. This approach also allows them to exclude politically sensitive sectors from the negotiation table as compared to multilateral trade negotiations.

Second, a variety of minilateral forums with a nonbinding aim to provide shared resources and information to member countries will also persist, but there is little consensus on the membership scope as well as issue coverage. Aside from the growing economic interdependence of Asian neighbors, such a hybrid status of minilateral forums is a byproduct and consequence of the weakening global trading regime centered at the WTO, on one hand, and the rivalry among regional powers, on the other. The top political leadership in Asia, particularly the Northeast Asian Three countries, provides little guidance for the future direction of minilateral forums. President Xi Jinping has his own views about RCEP and FTAAP. Prime Minister Shinzo Abe has tilted the regional balance toward the TPP by joining the US-led forum but offers little vision for the rest who stay outside the TPP. Unlike her predecessors, President Park Geun-hye has not clearly identified South Korea's place in Asian minilateralism.

Third, FTAs alone (let alone informal minilateral forums) cannot provide sufficient safeguards against growing uncertainties in the global trade market. Trade creation through preferential arrangements is inherently limited. The WTO's weaknesses have prompted East Asian countries to pursue FTAs, but at the same time, the trade diversion and complexity introduced by FTAs that can disrupt supply chains has led to efforts to create RCEP as well as the TPP. Some governments may decide to join those who prefer trade arrangements with informal organizational structures. Others, however, may



see the proliferation of bilateralism and minilateralism as a rationale for further multilateral rule making, while another group may wish for the latter over the medium to longer term while engaging in the former in the interim. Although existing WTO rules are incomplete, the empowerment of the WTO will be possible only if governments accept across-the-board binding disciplines on state measures—including preferential arrangements—that discriminate against foreign commercial interests.<sup>51</sup> Being reminded of this fundamental point is perhaps the ultimate lesson of the resort to bilateralism and minilateralism during an era of uncertainties surrounding the global trade system.

