

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

 Springer

# The Political Economy of the Asia Pacific

## **Series Editor**

Vinod K. Aggarwal

For other titles published in this series; go to  
<http://www.springer.com/series/7840>



Vinod K. Aggarwal • Seungjoo Lee  
Editors

# Trade Policy in the Asia-Pacific

The Role of Ideas, Interests, and Domestic  
Institutions

 Springer

*Editors*

Vinod K. Aggarwal  
Department of Political Science  
University of California  
Berkeley, CA  
USA  
vinod@berkeley.edu

Seungjoo Lee  
Department of Political Science  
Chung-Ang University, Seoul  
South Korea  
seungjoo@cau.ac.kr

ISSN 1866-6507 e-ISSN 1866-6515  
ISBN 978-1-4419-6832-6 e-ISBN 978-1-4419-6833-3  
DOI 10.1007/978-1-4419-6833-3  
Springer New York Dordrecht Heidelberg London

Library of Congress Control Number: 2010938432

© Springer Science+Business Media, LLC 2011

All rights reserved. This work may not be translated or copied in whole or in part without the written permission of the publisher (Springer Science+Business Media, LLC, 233 Spring Street, New York, NY 10013, USA), except for brief excerpts in connection with reviews or scholarly analysis. Use in connection with any form of information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed is forbidden.

The use in this publication of trade names, trademarks, service marks, and similar terms, even if they are not identified as such, is not to be taken as an expression of opinion as to whether or not they are subject to proprietary rights.

Printed on acid-free paper

Springer is part of Springer Science+Business Media ([www.springer.com](http://www.springer.com))

# Chapter 1

## The Domestic Political Economy of Preferential Trade Agreements in the Asia-Pacific

Vinod K. Aggarwal and Seungjoo Lee

### 1.1 Introduction

East Asian countries are now pursuing greater formal economic institutionalization, weaving a web of bilateral and minilateral preferential trade agreements (PTAs).<sup>1</sup> This new dynamic was driven home most dramatically with regard to the Association of Southeast Asian Nations (ASEAN). In February 2003, China signed a surprise PTA framework agreement with the 10 ASEAN countries pledging free trade by 2010. In response, in October 2003, Japan signed a PTA framework agreement with ASEAN. Alarmed by Sino-Japanese competition in Southeast Asia, South Korea jumped ahead of Japan and signed a PTA of its own with ASEAN in May 2006. The ASEAN+3 (including Japan, China, and South Korea) has been having regular meetings and the East Asia Summit (EAS) brings together an additional three countries including India, Australia, and New Zealand. Meanwhile, the USA has become an active promoter of a Free Trade Area of the Asia Pacific (FTAAP) under the auspices of Asia Pacific Economic Cooperation (APEC) and more recently of the Trans-Pacific Strategic Economic Partnership (TPP) that would link existing, and create new, bilateral trade agreements among Asia-Pacific countries.

Despite this now apparent proliferation of minilateral initiatives, the most significant development in terms of clear specification of rules and procedures, as well as in directly impacting trade, has been the active pursuit of bilateral accords by countries in the region. Indeed, Korea recently concluded an accord with India,

---

<sup>1</sup> We use preferential and free trade agreements (FTAs) interchangeably although the more accurate usage is PTA.

V.K. Aggarwal (✉)  
University of California, Berkeley, CA, USA  
e-mail: vinod@berkeley.ed

China is actively negotiating with Australia, and Japan concluded an accord with Switzerland, to name just a few examples. In an area that has been long described as under-institutionalized, the dramatic move toward a host of bilateral and minilateral accords provides a puzzle as to the driving forces behind these trends. In particular, this book examines the most significant of these accords in terms of effect on trade — bilateral accords — with an eye to understanding the relationship between these arrangements and further expansion of broader minilateral arrangements in the Asia-Pacific. More specifically, the book focuses on the dynamic interplay of interests, ideas, and domestic institutions as key forces in driving the variety of accords we now see in the region.

In the 1980s and 1990s, analysis of the stimulants and deterrents to integration in East Asia focused on the growth of economic interactions, the networking role of firms and ethnic groups, disputes among major states, and the role of ideas. In the new millennium, however, scholarly analysis of “formal” East Asian regionalism has focused on international political and economic factors such as the end of the Cold War, the Asian financial crisis, rising Sino-Japanese rivalry, and the like.<sup>2</sup> Other scholars have emphasized that East Asian countries’ trade policies and American strategy in the region are a reaction to the global proliferation of bilateral trade agreements in the aftermath of the problems in concluding the Doha Development Round (DDR) of the World Trade Organization (WTO).<sup>3</sup> Yet this new research on the East Asian region tends to be state-centric, focusing on characterizing actors’ national interests,<sup>4</sup> but without paying adequate attention to key subnational players.<sup>5</sup>

Although shocks and systemic changes are key catalysts in accounting for the newfound rush to bilateral and minilateral efforts, these explanations fall short of fully capturing the crucial differences in national responses to common external shocks. For example, South Korea turned to PTAs in the aftermath of the financial crisis, as the crisis opened up political space for executive initiative. The economic crisis muted South Korea’s once rigid protectionist voices, thus providing the government with a more favorable atmosphere for neoliberal economic reform, coupled with the adoption of PTA strategy. By contrast, PTA politics in Japan and China follows a different logic, as both countries avoided the worst of the Asian financial crisis.

---

<sup>2</sup> See for example, Aggarwal and Koo (2007) and Pempel (2006).

<sup>3</sup> See Baldwin (1993) on what he terms a “domino effect.”

<sup>4</sup> This emphasis on government-led national strategies no doubt emerges from the relative difficulty of understanding the interplay of key actors in authoritarian states as in the case of China. In other cases, in the area of foreign policy, the view that bureaucratic strong states set policy on their own is a common belief, and provides an additional reason for the dominance of a state-centric approach.

<sup>5</sup> For exceptions, see the work on domestic politics and security regionalism by Solingen (1998, 2005, 2006). On domestic factors and the creation of APEC in Australia, the USA, Japan, and China, see the appropriate chapters in Aggarwal and Morrison (1998). On the role of domestic factors in Japan and its views on APEC, see Krauss (2000, 2004).

As these examples suggest, key countries' preferences for PTAs or broader trade initiatives vary significantly. To fully understand this cross-national variance in East Asia, we argue that researchers must give greater attention to the domestic politics within East Asian countries and the USA, involving the interplay of government agencies, business groups, labor unions, and NGOs across the region. Specifically, we need to open the black box of each country's decision-making process by examining how contingent shocks and critical junctures have affected coalition politics among different veto holders within and outside the government.

Much analysis of the phenomenon of East Asian and American trade strategies is generally underspecified. Most studies fail to adequately characterize different types of arrangements, often lumping together bilateral accords with minilateral ones, and transregional agreements with those within the region.<sup>6</sup> This jumbled analysis of types of accords makes it more difficult to examine the policy process within countries and specify actors' preferences for bilateral versus minilateral versus global accords, or the motivation of states in constructing agreements marked by geographic propinquity versus those that are geographically dispersed, the choice of partners, the nature of accords, and the like. This book attempts to address these lacunae in the examination of different types of East Asian trade policies and American strategies through the careful characterization of types of accords, and then the development of a systematic domestic bargaining game approach focusing on ideas, interests, and institutions to account for different types of arrangements.

With respect to domestic politics, we show how subnational actors engage in lobbying, both of their own governments and through their links to others in the region. In addition, we trace the evolution of interests and ideas over time, thus helping us to generate a better understanding of historical trends in the region based on changing preferences. And from an empirical standpoint, in view of the relative difficulty of any single scholar having credible expertise on a host of subnational processes across East Asia, we draw on leading country and regional specialists whose main focus is on economic policymaking.

The chapter is organized as follows. Section 1.2 begins by providing a typology to characterize types of trade strategies, focusing on several dimensions that differentiate types of trade arrangements. Section 1.3 uses these elements to examine what we term "trade policy constellations" in the Asia-Pacific. In Sect. 1.4, we provide a brief review of the literature that has considered the causal factors leading to various facets of these trade accords. Section 1.5 then turns to an exposition of our analytical model to provide a template for the case studies that will allow us to systematically compare differences and similarities across countries in the region in the concluding chapters.

---

<sup>6</sup>For exceptions to this generalization about adequately characterizing types of accords in the region, see Aggarwal and Koo (2007) and Aggarwal et al. (2008). For an insightful analysis of what they term "cross-regional" accords, see Katada and Solís (2007).



## 1.2 Categorizing Types of Trade Agreements

East Asian countries and the USA have utilized a host of measures to regulate trade flows. Yet for the most part, the literature on Asian regionalism fails to distinguish among various modes of economic governance. While lacking well-institutionalized organizations like the European Union (EU), East Asian countries have relied on a *mélange* of institutional and semi-institutional measures to manage their trade relations.

These measures can be characterized according to various criteria, but eight main features, grouped into three categories, are particularly important.<sup>7</sup>

First, from an individual country's foreign policy perspective, actors choose: (1) the *number* of accords sought (say, many bilateral PTAs and/or minilateral and global multilateral agreements) and (2) the *sequencing* of trade policies in terms of types of agreements and where they are pursued (say, moving from bilateral to minilateral or the reverse and in what geography).

Second, in terms of agreement characteristics, countries may have differing preferences with respect to the characteristics of three dimensions, involving the number of actors in an agreement, their locations, and sizes: (1) *actor scope*, which refers to whether the agreement is bilateral, minilateral, or multilateral<sup>8</sup>; (2) *geography*, which refers to the question of whether countries seek agreements within East Asia or with actors outside of the region; and (3) the *size* of partners, that is accords with large or smaller countries.

Third, we look at the specific characteristics of agreements in three dimensions: (1) *issue scope*, the range of issues that a policy or arrangement deals with runs from narrow to broad; (2) the *nature* of the agreements, which in trade can be market opening or closing; and (3) the *strength* of the arrangement being negotiated, particularly in terms of the degree of institutionalization.

### 1.2.1 An Example: The Actor Scope and Geography of Trade Arrangements

As a first illustrative cut of the six agreement characteristics over which actors may have preferences, we first focus on two salient features that characterize East Asia's trade strategy profiles, namely *actor scope* and *geography*. This approach allows us to initially explore these dimensions in more detail before turning to a classification

---

<sup>7</sup> Aggarwal (2001) and Aggarwal and Koo (2007) develop these ideas at length, both from a theoretical and empirical perspective on Asia, respectively. Given our interest in developing an explanation of these, the reader is referred to these works for detailed discussion of these dependent variables.

<sup>8</sup> Because we are interested in negotiated accords, we do not consider unilateral measures to control or manage economic flows. See Aggarwal (2001) for discussion of this question.

**Table 1.1** Categorizing trade arrangements on the dimensions of actor scope and geography

Bilateral		Minilateral		
Geographically concentrated	Geographically dispersed	Geographically concentrated	Geographically dispersed	Multilateral
Japan–South Korea FTA (under negotiation)	Singapore–New Zealand CEP (2000)	AFTA (1991)	PAFTAD (1968)	GATT/WTO (1947/1995)
China–South Korea FTA (under study)	Japan–Singapore EPA (2002)	China–ASEAN FTA (2003)	PBEC (1980)	ITA (1997)
Japan–China, Japan South Korea, and China South Korea swap arrangements	Korea–Chile FTA (2002)	Northeast Asian FTA (proposed)	APEC (1989)	BTA (1998)
	US–Singapore FTA (2003)		EAEC (1994)	FSA (1999)
	Taiwan–Panama FTA (2003)		ASEM (1996)	
	Japan–Mexico FTA (2004)		ASEAN Plus Three (1998)	
	Korea–Singapore FTA (2005)		South Korea–ASEAN FTA (2006)	
	Japan–Malaysia FTA (2005)		South Korea–EFTA FTA (2005)	
	China–Chile FTA (2005)		ASEAN–Japan Closer Economic Partnership (under negotiations)	
	Korea–US FTA (2007)		ACU (under study)	

Adapted from Aggarwal (2001) and Aggarwal and Koo (2007). Updated as of January 2010 with illustrative examples.

of East Asian strategies based on the additional elements noted above. Table 1.1 illustrates different types of international economic arrangements.

The first category we focus on is when two countries negotiate a geographically concentrated agreement (*bilateral regionalism*). The prospective Japan–South Korea and South Korea–China FTAs fall into this category. More often than not, such agreements indicate not only geographic, historic, and cultural affinity but also complementary industrial structures.

The second category of bilateral arrangements consists of two actors in a geographically dispersed accord or *bilateral transregionalism*. Trade arrangements that fall under this rubric include the bilateral FTAs between Singapore and New Zealand (2000), Japan and Singapore (2002), South Korea and Chile (2002), Singapore and the USA (2003), Japan and Mexico (2004), and South Korea and the USA (2007), to name just a few.

**Table 1.2** Membership in East Asian focused regional and transregional institutions

	ASEAN (1967)	PECC (1980)	APEC (1989)	AFTA (1991)	EAEC (1994)	ASEM (1996)	ASEAN + 3 (1998)
Korea		O	O		O	O	O
Japan		O	O		O	O	O
China		O	O		O	O	O
Indonesia	O	O	O	O	O	O	O
Malaysia	O	O	O	O	O	O	O
Singapore	O	O	O	O	O	O	O
Thailand	O	O	O	O	O	O	O
USA		O	O				

Expanding the number of actors, the next category consists of geographically concentrated or *minilateral regionalism*. In the trade realm, such agreements include Southeast Asian initiatives at the minilateral level such as AFTA and the 2002 ASEAN-China Free Trade Area (ACFTA) framework agreement. In North-east Asia, Japan, China, and South Korea are increasingly discussing the potential benefits of institutionalizing economic relations at the regional level.

The next category refers to geographically dispersed accords with restricted membership, or minilateral arrangements that span regions. These accords can be of two types: *transregional* or *interregional*. The former involve states as individual members such as APEC (1989), whereas the latter reflect customs unions as members such as EU-Mercosur or CER-AFTA. Hybrid examples include the Asia–Europe Meeting (ASEM, 1996), ASEAN Plus Three (1998), or the South Korea-ASEAN FTA (2006). The creation of semi-institutionalized, nongovernmental institutions as confidence-building instruments and icebreakers prior to the founding of official transregional and interregional institutions has also become an established practice in the Asian region. For instance, the Pacific Trade and Development Forum (PAFTAD), Pacific Economic Cooperation Council (PECC), and Pacific Basin Economic Council (PBEC) preceded the establishment of APEC.

The final category includes *global arrangements*. Trade organizations in this realm include broad-based multilateral arrangements such as the GATT (1947) and its successor, the WTO (1995). East Asian countries have also been participants in multilateral sectoral market-opening agreements such as the Information Technology Agreement (ITA, 1997), the Basic Telecom Agreement (BTA, 1998), and the Financial Services Agreement (FSA, 1999).

These two dimensions of agreement characteristics, actor scope and geography, illustrate how we might categorize agreements. We next consider trade choices, or what we term “trade policy constellations” before the 2000s in the Asia-Pacific.

### 1.2.2 East Asian and USA Trade Accords prior to the 2000s

From the establishment of ASEAN in 1967 until 2000, Southeast Asian countries increased the diversity of their arrangements by increasing the actor scope through

adding new members, widening the scope of issues covered, promoting greater liberalization, and strengthening the institutional capacity of the organization, albeit not always with great success with respect to the latter. Toward the end of the 1990s, they attempted to utilize ASEAN (and the free trade agreement, AFTA) as a stepping stone to building a region-wide institution. By contrast, instead of making concerted efforts to institutionalize regionalism, Northeast Asian countries preferred regional (EAEC) or transnational institutional arrangements (PECC and APEC) (see Table 1.2). Meanwhile, with the exception of APEC in 1989, the USA broke with its exclusive focus on multilateralism in the 1980s by signing PTAs with Israel, the Caribbean countries, and Canada.<sup>9</sup>

East Asian and American trade strategies continued to diverge in the late 1990s. China and Japan, the archrivals in the region, have taken diametrically different approaches. While China chose to consolidate its ties with ASEAN countries first, Japan preferred a wider version of East Asian regionalism through a broad transregional ASEAN+6 approach, as a means of balancing against growing Chinese power. Aspiring to bridge conflicting interests between China and Japan, South Korea began to formulate its own strategy under the Kim Dae-jung government by calling for the establishment of the East Asia Vision Group (EAVG) and the East Asia Study Group (EASG).<sup>10</sup> In short, while East Asian countries shifted to a regional focus in the 1990s, their specific strategies and preferred institutional choices were different. For its part, the USA shifted to a multipronged strategy in the 1990s, with the negotiation of the North American Free Trade Agreement (NAFTA) as a successor to the Canada–USA free trade agreement.

### 1.3 Diverging Trade Strategies after 2000

The 2000s have been marked most prominently by a dramatic turn to bilateral PTAs. Such accords have been pursued by nearly all states in the region, with Singapore being the leader in terms of number of bilateral PTAs signed, and others such as China, Japan, Korea, and the USA not far behind. In many cases, these agreements have not been region-specific, but rather transregional in geographic terms (see Table 1.3). The discussion regarding this table examines all eight dimensions of agreements that we have considered; for presentational purposes, however, Table 1.3 does not show the issue scope, nature, or strength of agreements, although these elements are discussed in the text below. We begin our discussion with the country-specific dimensions of number of partners and sequencing, before turning to the other variables.

---

<sup>9</sup> Note that there was also a sector-specific bilateral accord between the USA and Canada in the 1960s.

<sup>10</sup> Lee and Moon (2008).

**Table I.3** Profile of East Asian and US FTAs

		Trans-regional agreement				Regional agreement			
		Bilateral	Sub-total	Minilateral	Sub-total	Bilateral	Sub-total	Minilateral	Sub-total
Japan Total: 16	Signed	Mexico (2004)	3	APEC	0	Singapore (2002)	7	ASEAN (2008)	1
		Chile (2007)				Malaysia (2005)			
		Switzerland (2009)				Philippines (2006) Brunei (2007) Indonesia (2007) Thailand (2007) Vietnam (2007)			
Korea Total: 16	Under negotiation	India	3	GCC	1	Korea	1		0
		Australia							
		Peru							
Korea Total: 16	Signed	Chile (2003)	3	EFTA (2005) APEC	1	Singapore (2005)	1	ASEAN (2005)	1
		US (2007) <sup>a</sup>							
		India (2009)							
China Total: 15	Under negotiation	Canada	6	EU GCC	2	Japan	2		0
		Mexico				China			
		Australia							
China Total: 15	Signed	New Zealand	4	APEC	0	Macau (2003)	4	ASEAN (2002)	1
		Colombia							
		Peru							
China Total: 15	Signed	Chile (2005)	4	APEC	0	Macau (2003)	4	ASEAN (2002)	1
		Pakistan (2006)				Hong Kong (2003) Thailand (2005)			



US	Signed	Costa Rica							
Total 20		Egypt							NAFTA (1994)
		Israel (1985)	12	Dominican Republic-Central America FTA (2004)	1				
	Sub-total	Jordan (2001)							
	14	Chile (2003)							
		Singapore (2003)							
		Morocco (2004)							
		Australia (2004)							
		Bahrain (2006)							
		Oman (2006)							
		Peru (2007)							
		Colombia (2006) <sup>a</sup>							
		Panama (2007) <sup>a</sup>							
		South Korea (2007) <sup>a</sup>							
	Sub-total	Malaysia	3	Free Trade Area of the Americas (UN) South African Customs Union FTA (N) P7/TPP	3				
	6	United Arab Emirates (UAE) Thailand (N)							
	Under negotiation								

<sup>a</sup>Not ratified yet

### ***1.3.1 Country Specific Dimensions: Number of Partners and Sequence***

East Asian countries' move toward PTAs accelerated in the late 1990s, because their enthusiasm for multilateral accords faded with the ineffectiveness of APEC and the repeated suspension of the Doha Round. All East Asian countries have been involved with ASEAN+3 and/or 6 discussions. The USA also promoted regional and transregional bilateral FTAs as well as a Free Trade Area of the Asia Pacific under APEC auspices.

As of the end of 2009, Singapore was the most aggressive pursuer of FTAs, having been involved in a total of 24 FTAs plus participation in APEC, either signed or currently being negotiated. Japan has concluded or is in negotiations on 16 FTAs plus APEC, South Korea 16 as well, and China 15. For its part, after signing a large number of FTAs with relatively small states, the USA is not actively negotiating with other countries, as the USA president no longer has Trade Promotion Authority as of July 2007.

One can also find significant differences in the sequence of FTAs, of which the prime examples are Chinese and Japanese approaches to FTAs with ASEAN countries. China embarked on FTA negotiations with individual ASEAN countries such as Thailand (2005) and Singapore (2008) only after it concluded an FTA with ASEAN as a whole in 2002. By contrast, Japan initially preferred FTAs with individual ASEAN countries. From 2002 to 2007, Japan concluded FTAs with six individual countries in ASEAN before it finally signed an FTA with ASEAN in 2008. With the exception of an FTA with Singapore in 2005, South Korea largely took a Chinese approach to Southeast Asian countries by signing an FTA with ASEAN in 2006.

### ***1.3.2 Agreement Specific Dimensions: Actor Scope, Location, Size***

As we have already seen in our example relating actor scope and geography, the new emphasis in agreement scope has focused heavily on the negotiation of bilateral PTAs. Thus, while countries continue to discuss the benefits of multilateral arrangements, both regional and transregional, such as ASEAN+3, East Asia Summit, and APEC, they have actively pursued a bilateral PTA strategy.

Japan seems to place a higher priority on forming FTAs with East Asian countries, although it does not dismiss a transregional track. Out of a total of 10 bilateral FTAs it has signed, 7 are with Southeast Asian countries. Meanwhile China and South Korea take a more balanced approach. China concluded five FTAs with neighboring countries such as Macau (2003), Hong Kong (2003), Thailand (2005), Singapore (2008), and ASEAN (2002), while it signed four transregional FTAs with Chile (2005), Pakistan (2006), New Zealand (2008), and Peru (2008). South Korea has signed two FTAs with Southeast Asian countries (Singapore and ASEAN) and three FTAs with Chile (2003), EFTA (2006), and the USA (2007).



Singapore has been most aggressive in concluding transregional FTAs, both bilaterally and minilaterally. Among the 14 bilateral FTAs it has concluded so far, 9 FTAs are with countries outside the region. Starting with its first FTA with New Zealand in 2000, Singapore completed FTA negotiations with Chile (2002), the USA (2003), Australia (2003), Jordan (2004), India (2005), Panama (2006), and Peru (2008). For its part, since the USA had agreements with Canada, Mexico, and the Caribbean, it has now focused on transregional accords.

In terms of size, although Japan, South Korea, and Singapore concluded an FTA with Chile, respectively, they demonstrate substantial differences in selecting transregional FTA partners.<sup>11</sup> Korea, for example, was keen to start with a country that was small and in a different hemisphere while Japan first sought to negotiate with Singapore and then move on to a large country, Mexico. For Japan, the Japan–Mexico FTA was an attempt to alleviate negative impacts of NAFTA and the EU–Mexico FTA on its competitive advantage in the USA market.<sup>12</sup> Rather than taking such a detour, South Korea and Singapore were more aggressive in concluding FTAs with a large country, the USA, even though the KORUS FTA has yet to be ratified.

### ***1.3.3 Agreement Specific Characteristics: Issue Scope, Nature, and Strength***

East Asian countries and the USA have also shown distinctive features in terms of the design of FTAs. In terms of the scope of FTAs, the USA pursues comprehensive FTAs by demanding that its FTA partners include various sectors such as telecommunications services, financial services, and entertainment. The FTAs in which the USA is involved also typically include provisions about intellectual property, labor, and environmental standards that go beyond the WTO agreements.<sup>13</sup> Furthermore, the USA takes advantage of its asymmetric power to elicit reciprocal trade liberalization from its FTA partners and also designs FTAs of which the effects take place immediately.<sup>14</sup>

By contrast, China prefers narrow and simple FTAs in terms of scope and coverage, reflecting that Chinese regulatory frameworks about intellectual property rights, financial services, and investment measures are still under-developed. China usually restricts trade liberalization primarily to trade in goods by excluding or delaying liberalization in services. Another feature is that it tends to include provisions related to economic cooperation when it forms FTAs with other developing countries.<sup>15</sup>

The scope and coverage of Japanese and South Korean FTAs are in the middle of the USA and Chinese FTAs. However, there are still significant differences

---

<sup>11</sup> Lee (2007).

<sup>12</sup> Solis (2003).

<sup>13</sup> Ravenhill (2008).

<sup>14</sup> Feinberg (2003).

<sup>15</sup> Dent (2007).

between the two countries. In terms of trade liberalization, Japan seeks asymmetric agreements by making fewer concessions vis-à-vis its FTA partners. Japan's tariff elimination ratio ranges from 87% (Japan–Mexico FTA) to 99.9% (Japan–Brunei FTA), while the ratio for its counterparts usually hovers around 97–100%. Because it has a clear preference for enhancing economic partnership that goes well beyond trade liberalization, Japan incorporates provisions about intellectual property rights, financial services and investment.

Compared to Japan, South Korea takes a more progressive approach in terms of trade liberalization, while it places less emphasis on economic cooperation. South Korea is one of the few major economies to enter into an FTA with the USA, which will inevitably create a massive scale of economic restructuring.<sup>16</sup> In this agreement, South Korea agreed to eliminate 99.7% of the existing tariffs. South Korea's aggressive approach to FTAs is expected to boost the ratio of its trade covered by FTAs to about 66%, if South Korea concludes the FTAs currently under negotiations.

With respect to strength of agreements, the USA seeks the most binding accords with legal dispute settlement mechanisms while most Asian countries have been willing to sign accords without elaborate specification of duties, obligations, and dispute resolution.

In a nutshell, the above discussion demonstrates that East Asian countries have shown significant variation in formulating their trade strategies in terms of membership in regional institutions, choice of their FTA partners, sequence of FTAs, and scope and coverage of FTAs.

## 1.4 Existing Explanations for Asia-Focused Trade Strategies

We now turn to an examination of the literature on trade and regional strategies of East Asian countries. One can categorize each country's trade strategy as being driven by economic, political or security factors, and further differentiate between domestic and international considerations.

### 1.4.1 *Economic Gains*

Economists have focused primarily on the global economic gains from liberalizing trade.<sup>17</sup> The standard economic approach focuses on efficiency gains from a

---

<sup>16</sup> Chae et al. (2007).

<sup>17</sup> A key economic driving force behind bilateral agreements is related to investment gains. Bilateral FTAs often include an investment treaty, and are likely to trigger an investment creation/expansion effect as well. In the developing Asia-Pacific region in particular, foreign investment has been both exposed to relatively high risks and constrained by strict regulations such as local content rules. See Aggarwal (2006) for a discussion of this factor and also monetary cooperation benefits.

division of labor from increasing trade. The analytical technique to estimate such gains is generally computable general equilibrium models, which have consistently shown greater gains from broader as opposed to narrower agreements.<sup>18</sup> Following this logic, almost all economists note that liberalization through the WTO is preferable to narrower liberalization efforts on a unilateral or bilateral basis.<sup>19</sup> Thus, many economists see unilateral and bilateral agreements as second best solutions, particularly those on a multi-product basis. Moreover, larger trade agreements not only provide companies with the ability to exploit larger economies of scale, but also to reduce the information and organizational costs associated with individually negotiating agreements with large numbers of countries.<sup>20</sup>

Using simulation estimation techniques, economic studies explain East Asian countries' shift to PTAs by pointing to the expected gains at the aggregate level. While not dismissing the necessity for strategic choice of PTA partners, this view suggests that East Asian countries seek PTA negotiations with as many countries as possible to maximize economic gains from trade and investment ahead of their rivals.<sup>21</sup>

In terms of partner selection, gravity models that link geographic distance and economic size to the formation of preferential trading agreements provide more logically coherent suggestions. In order to reduce the costs related to geographic distance and to maximize the benefits from economic size, the gravity model suggests that a country prefers FTAs with neighboring countries.<sup>22</sup> The country creates a natural trading bloc not simply because low transaction costs facilitate trade expansion but also because they can implement policy coordination with neighboring countries.

From this perspective, East Asian countries are expected to form natural trading blocs with the neighboring countries to maximize welfare gains, but place low priority to the formation of unnatural trade blocs between distant and/or small economies because they will produce marginal welfare effects. However, the track record of East Asian countries' PTAs reveals the gravity model's limited explanatory utility. It is unable to explain why Northeast Asian countries — South Korea, Japan, and China — have not formed a trading bloc among themselves, even though they would most likely be better off if they removed existing trade and investment barriers by establishing a trilateral FTA.<sup>23</sup>

---

<sup>18</sup> See Whalley and White (1985), Deardorff and Stern (1986), and Dervis et al. (1982) on CGE models. For a critique of such models, see Kimura (2006) among others.

<sup>19</sup> Yet bowing to the need to liberalize in the face of problems in concluding broad negotiating rounds under WTO auspices, some economists endorse alternatives, both that focus on fewer issues and those that focus on fewer partners. With respect to a multilateral sectoral focus, for example, Tyson (2000) has argued that among multilateral trade options, a sectoral approach is a sound alternative to the multi-sector WTO approach.

<sup>20</sup> On transactions costs arguments and international regimes, see Keohane (1984).

<sup>21</sup> Cheong (2005), Schott and Choi (2001), Nam et al. (2004), and Urata (2002).

<sup>22</sup> Frankel, Stein, and Wei (1997), Krugman (1991), Bhagwati and Panagariya (1996).

<sup>23</sup> Sohn and Yoon (2001).

### 1.4.2 *Political Economic Considerations*

In contrast to the economic logic about benefits from larger agreements and agreements with neighbors (although this depends on the complementarities of production structures as well), political considerations suggest a different logic. Trade diversion from other countries' bilateral agreements may create strong incentives for countries to pursue their own bilateral accords in a "domino effect."<sup>24</sup> But a key debate in this literature revolves around whether sector-specific or factor-based organizations wield more political influence on trade policymaking, and on what their trade preferences will be. In this view, rather than choosing PTA partners purely based on economic gains, governments facing cross-cutting political pressure will prefer PTA partners that can alleviate the domestic politically negative effects of trade liberalization.

Noting that purely economic explanations are not readily applicable to East Asia, more sophisticated political economy explanations have emerged to address an analytical pitfall left by economic studies. Undoubtedly, PTAs can produce overall welfare gains by promoting trade, investment, and technology transfer. Yet the economic studies disregard the political costs of trade liberalization. A key debate in this literature revolves around whether sector-specific or factor-based organizations wield more political influence on trade policymaking such as the selection of PTA partners.<sup>25</sup> Globally competitive and/or export-oriented industries should have policy preferences different from those of domestic-oriented import competing industries. And trade strategy will reflect the political competition between the two opposing groups.<sup>26</sup> In this view, rather than choosing FTA partners purely based on economic gains, the governments under cross-cutting political pressure will prefer FTA partners that can alleviate negative effects of trade liberalization.

It is noteworthy that in contrast to their counterparts in Europe and North America, East Asian countries have displayed a transregional or cross-regional orientation in the early stage of PTAs.<sup>27</sup> Japan, South Korea, and Singapore have been active in pursuing trans-regional FTAs with distant economies, both small and large. The Japan–Mexico, Korea–EFTA, Korea–USA, and Singapore–USA FTAs are cases of unnatural trading blocs. Furthermore, both Japan and Korea concluded FTAs with small economies such as Chile, even though their bilateral trade volume with Chile will remain insignificant, if not negligible.<sup>28</sup> Katada and Solís argue that East Asian countries' preference for transregional partners reflects their political interests in ameliorating domestic opposition to comprehensive trade liberalization.<sup>29</sup>

---

<sup>24</sup> Baldwin (1997).

<sup>25</sup> For a discussion of factor versus sectoral explanations, see Rogowski (1987), Brawley (1997), and Hiscox (2001).

<sup>26</sup> Frieden (1991). See also Solingen (1998).

<sup>27</sup> Katada and Solís (2007).

<sup>28</sup> Koo (2005), p. 144.

<sup>29</sup> Katada and Solís (2007).

### 1.4.3 *Motivations for Domestic Reforms*

A more statist approach can shed light on national policy making, even in countries with relatively weak states such as the United States.<sup>30</sup> Thus, states may attempt to pursue some type of industrial policy, either to defend existing industries or promote new ones. There is also an extensive literature on the relationship between types of states and societal groups in a variety of East Asian countries. It is often claimed that the negotiation of bilateral PTAs will help to facilitate the streamlining, upgrading, and restructuring of their economies. In this vein, countries enter PTAs to lock in domestic reforms so that they may use PTAs for domestic political leverage to pry open protectionist sectors. This tied hands strategy is expected to neutralize resistance by traditionally protected sectors.<sup>31</sup>

### 1.4.4 *Power Asymmetry*

International relations scholars generally argue that power dictates the nature of FTAs. Bringing their asymmetric power to the negotiation table, major powers tend to impose their own distinctive “FTA templates” to elicit greater concessions from their partners.<sup>32</sup> In this view, bigger partners with the ability to extract greater concessions dictate the overall nature of FTAs. In this regard, the USA seeks the most comprehensive FTAs, including trade liberalization in goods and services such as financial services, media, and entertainment sectors as well as various “WTO Plus” provisions such as intellectual property, labor, and environment standards, while excluding politically sensitive sectors from reciprocal liberalization.<sup>33</sup> However, USA FTAs do not insert explicit provisions on economic co-operation or development assistance into the FTA text.<sup>34</sup>

In the face of mounting pressure from bigger partners, smaller countries are forced to concede more in FTA negotiations. The USA FTAs with Australia, Korea, and Singapore as well as Japan’s FTA with ASEAN countries are such cases. Why then do smaller countries enter into FTA negotiations in which they are expected to give up more? Recognizing the voluntary nature of smaller countries’ decisions to

---

<sup>30</sup> Krasner (1978).

<sup>31</sup> Ravenhill (2005).

<sup>32</sup> Dent (2007).

<sup>33</sup> Feinberg (2003).

<sup>34</sup> Not all bigger countries try to elicit greater concessions from their smaller partners. China is a good case in point. As evidenced in the “Early Harvest” provisions in its FTA with ASEAN, China, aspiring to forge a long-term cooperative relationship with ASEAN, gave more concessions to its smaller partners. However, this does not necessarily suggest China’s inclination to conciliatory approach to FTAs. China’s approach may differ in dealing with big advanced countries. Furthermore, its posture toward neighboring developing countries is likely to change in the long term, leading it to seek more reciprocal concessions. For the nature of China’s FTA strategy see Yang (2009).

enter FTAs, Gruber argues that the fear of exclusion forces smaller countries to engage in FTA negotiations. According to this logic, a bigger country with “go-it-alone-power” motivates the smaller country to voluntarily choose to form an FTA, even if the latter prefers the *status quo*.<sup>35</sup> One may argue that the KORUS FTA and the USA–Singapore FTA illustrate that the fear of exclusion from the USA market was a significant catalyst in both countries’ decision to start FTA negotiations with the USA despite serious concerns within and outside the partner governments about “controlling” USA actions.

### 1.4.5 *Diplomatic and Security Concerns*

Diplomatic and security motivations also influence the nature of FTAs.<sup>36</sup> A growing number of scholars explains the way in which government policymakers take diplomatic and security considerations into account in negotiating PTAs.<sup>37</sup> The USA government has been explicit in closely linking foreign economic and security policy, which utilized FTAs as a reward for allies. This tendency was demonstrated in the cases of the USA–Israel FTA and the USA–Jordan FTA. The “securitization” of USA FTA policy has further accelerated in the post-9/11 era.<sup>38</sup>

Both China and Japan also used FTAs as an instrument of foreign and security policy goals. China concluded the China-ASEAN FTA primarily for diplomatic reasons to deepen diplomatic and political ties as well as secure deep integration in the long run even though the current economic structures of China and ASEAN are competitive rather than complementary.<sup>39</sup> Concerned about China’s rising influence in the region, Japan’s FTAs are not purely driven by economic factors, but also reflect a desire to rejuvenate its presence in the region.<sup>40</sup>

## 1.5 The Role of Ideas, Interests, and Domestic Institutions

### 1.5.1 *Four Types of Trade Strategy Constellations*

Thus far, we have demonstrated that East Asian countries have formulated different trade strategies in terms of partners, geography, sequence, issue scope, and nature.

---

<sup>35</sup> Gruber (2000).

<sup>36</sup> In addition, government may seek raw materials through FTAs, as China appears to be doing. See Ravenhill (2008) on motivations for PTAs in the Western Pacific. Ravenhill considers the opportunity to introduce new issues into PTAs (WTO plus) to be a possible economic motivation.

<sup>37</sup> Feinberg (2003), Ravenhill (2008).

<sup>38</sup> Higgott (2004).

<sup>39</sup> Wong and Chan (2003).

<sup>40</sup> Capling (2008).

In order to effectively capture this divergence, we introduce four distinctive types of “new trade strategy constellations.” The first type of constellation is the continuation of the status quo where no changes in existing trade strategy take place. Given that all East Asian countries and the USA shifted to embrace bilateral and mini-lateral FTAs in the face of external changes, no countries fall into this category.

In the second type of constellation, modest or limited change is expected. Countries in this category tend to prefer FTAs with features such as primarily few regional partners, limited coverage (many exceptions), and weak liberalization. China and Japan fall into this category, although Japan displays a more transregional orientation than China.

The third type of constellation, where substantial changes in trade strategy are likely, demonstrates combined features of the second and the fourth types. Countries in this type take quite a balanced approach in terms of the number of partners, geography, and sequence. In addition, while they generally pursue comprehensive FTAs with strong liberal orientation, they sometimes try to incorporate protectionist element with many exceptions into FTAs, depending on partner countries and domestic political situation.

The fourth type of constellation, opposite to the second one, is the case in which fundamental departures from the existing trade strategy occur. Countries in this category attempt to conclude FTAs with as many countries as possible, with either regional or transregional partners. The scope and nature of the FTAs is comprehensive and strong liberal. Singapore falls into this category, for example.

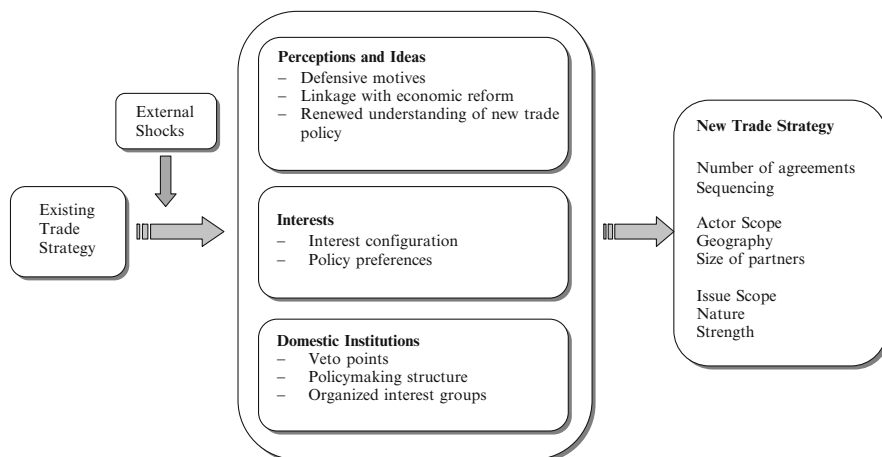
Most explanations of East Asian and American trade arrangements tend to posit changes in the international environment as a primary driving factor shaping their trade strategies. The exclusive focus is on exogenous factors such as the end of the Cold War and the Asian financial crisis. However, this neither adequately explains the differing responses by East Asian countries and the USA to external shocks, nor does it offer an effective theoretical foundation for similar responses. While changes in the external environment broadly set the boundary within which East Asian countries adapt, they alone cannot explain divergence because external changes do not deliver a uniform effect on East Asian countries’ trade strategies.<sup>41</sup> Existing explanations fall short of illuminating deeper micro-foundations of how each country’s regional and trans-regional strategies are formulated in the domestic arena. In order to fill in this gap we, in particular shed light on how ideas, interests, and domestic institutions interact with each other in the face of external shocks (see Fig. 1.1).

### ***1.5.2 Ideas, Interests, and Institutions in the Formation of Trade Strategy***

We introduce three variables as key to the formation of new trade strategy: ideas, interests, and domestic institutions. First, perceptions and ideas held by major

---

<sup>41</sup> Aggarwal and Koo (2005), Aggarwal et al. (2008).



**Fig. 1.1** Key variables in the formation of new trade strategy

players matter because they help policymakers and other players identify and interpret the nature of external changes, which suggests that the choice of a specific trade strategy is not an automatic response to external changes. Second, it is crucial to examine how major players with reconfigured interests coalesce into a new trade strategy. Third, we examine domestic institutional features related to trade strategies such as veto points, governmental policymaking structure, and institutionalized opposition to analyze how external changes and reconfigured interests are channeled in the domestic policymaking process.

### ***1.5.3 Changes in Perceptions and Ideas***

Perceptions about the changing external environment push major players to rethink the efficacy of the existing strategies, paving the way for alternative ideas. Three factors are particularly important in explaining this transition: defensive motives, the idea of connecting FTAs to economic reform, and a renewed understanding of FTAs. While a defensive motive is a factor shared in common by East Asian countries, the latter two items have had differing impacts, which has resulted in variations in trade strategies between countries.

First, East Asian countries' shift to new trade strategies such as bilateral FTAs has been inherently seen as a defensive reaction to the rapid proliferation of FTAs in other regions.<sup>42</sup> They jumped on the FTA bandwagon, fearing that if they got behind in this new trend, they would be at a disadvantage vis-à-vis their competitors

<sup>42</sup> Katada and Solis (2007).



in major exporting markets. This explains why most East Asian countries were eager to conclude FTAs with countries outside the region such as the USA and EU.

Second, another idea prevalent in each country is that the new trade strategy (FTAs) will be better able to lock in domestic economic reforms than the existing trade strategy (multilateral trade liberalization). Policymakers attempting to lock in their reform agenda by way of FTAs are less likely to face fierce opposition in the domestic arena, because by choosing suitable FTA partner(s), the policymaker can control the economic adjustment process with relative ease. But the idea of linking FTAs to domestic economic reform has been embraced in East Asian countries to varying degrees. For example, policymakers in Korea and Singapore are more explicit in connecting FTAs to the domestic political goal than their counterparts in Japan and China. These differences largely have to do with the combination of the following two factors: (1) how urgent the political leadership perceives economic reform and (2) how much the political leadership relies on vested interests that need continued protection.<sup>43</sup>

Both South Korea and Singapore are cases where governments actively sought to establish a linkage between FTAs and domestic reform. The Singaporean government was, from the beginning, explicit in its use of FTAs to upgrade its economic system to a knowledge-based economy.<sup>44</sup> The South Korean government could only substantially accelerate the pace of FTA negotiations after it linked FTAs to economic reform. The Roh Moo-hyun government's idea that FTAs could be tied to the goal of locking in its neoliberal reform packages elevated South Korea's FTA policy to a core element of its reform policy. This is in clear contrast to its peripheral status under previous administrations.<sup>45</sup>

Third, a renewed perception about the merits of regional and bilateral FTAs enabled East Asian countries to change their exclusive reliance on multilateralism. Traditionally, the governments of East Asian countries had long held a firm belief that preferential trade agreements would bring detrimental effects to the highly trade-dependent countries, as they would create trade diversion. However, a new consensus has emerged within these countries' policy circles that a preferential approach to trade liberalization — both bilateral and minilateral — may not necessarily conflict with a multilateral strategy. They regarded the shift to a preferential approach as essential to their economic survival in a world of competitive export markets.

---

<sup>43</sup> For the Japanese case, see Pempel and Urata (2005), Katada and Solis (2007), and Ravenhill (2005).

<sup>44</sup> Low (2004).

<sup>45</sup> Because South Korea's FTA policy under the presidency of Kim Dae-jung was initially conceived as a reactive and defensive strategy to cope with the rise of regionalism in other parts of the world, the linkage between FTAs and domestic reforms was not clearly defined or deliberately minimized. Lee and Koo (2006).

### ***1.5.4 Interest Reconfiguration***

Given that changes in external environments affect domestic players' interests, it is necessary to identify the domestic players involved in formulating trade strategies. The examination of business firms as a source of foreign economic policy provides a useful analytical perspective given that the formation of a new trade strategy is usually constrained by conflicting societal interests.<sup>46</sup> For this, we examine how industries with divergent interests reconfigure their preferences about a new trade strategy. For example, globally competitive and export-oriented industries should have policy preferences different from those of domestic-oriented import competing industries. The nature and scope of the new trade strategy will reflect the political balance between these two opposing camps. Powerful lobbying by export-oriented industries fearing trade diversion effects of FTAs in other countries drives governments to formulate new trade strategy. By contrast, politically entrenched groups in import-competing or declining industries often pressure politicians and bureaucrats to delay and mitigate the scope and depth of FTAs, alleviating the negative effects of trade liberalization. And FTAs are likely to be negotiated when internationalists gain political strength vis-à-vis nationalists.<sup>47</sup>

However, one should keep in mind that the way in which actors with substantial stakes in the formation of a new trade strategy articulate their policy preferences is likely to vary in East Asian countries. On the one hand, potential losers of trade liberalization tend to express their policy preferences explicitly and organize themselves to oppose liberalization.<sup>48</sup> On the other hand, potential beneficiaries may be muted in articulating their preferences for the new trade strategy.<sup>49</sup> Players who have forged long-term relationships with their business partners tend not to explicitly seek their own interests at the expense of others.<sup>50</sup> In both cases, the government should have difficulty in taking a bold approach to new trade strategies. In order to explain this variation, it is paramount to examine the way in which players with reconfigured interests articulate their preferences in the real policy-making process.

---

<sup>46</sup> For example, Helen Milner argues that while increasing returns to scale (IRS) industries tend to mount greater pressure on politicians for higher level of trade liberalization, the sectors that are expected to suffer from new trade agreements are more likely to oppose them. Milner (1997).

<sup>47</sup> Frieden (1991). See also Solingen (1998).

<sup>48</sup> This imbalance has been a perennial problem for the South Korean government in ushering in full-scale trade liberalization (Lee and Koo 2006).

<sup>49</sup> Vogel (1999).

<sup>50</sup> Streeck and Yamamura (2003).

### 1.5.5 *Domestic Institutions*

To examine cross-national variation in domestic institutions, we focus on the following points: (1) veto points; (2) the formal policymaking structure; and (3) the presence of organized interest groups. East Asia is a good test case to examine whether specific political regime types are more suitable to trade liberalization than others. East Asian countries have a variety of political regime types, ranging from full-fledged democracy (Japan) and new democracies (South Korea and Taiwan) to quasi-authoritarian regimes (Singapore) and socialist regimes (China and Vietnam). However, it is extremely difficult to properly capture the nature of political regime types and their impact on the formation of trade strategies. The examination of veto points could be an alternative to the analysis of each country's trade policymaking structure. By figuring out the number of veto players, one can effectively compare the institutional impacts on the formulation of a new trade strategy. A smaller number of veto players will result in drastic policy changes, while a larger number of veto players will lead to maintenance of the status quo, strengthening vested interests. Under an institutional structure with a small number of veto points, the government and private actors will find it easier to establish new trade strategies that are fundamentally different from past ones. Meanwhile, multiple veto players are likely to result in an institutional gridlock that inhibits drastic changes in trade strategy, even if politically powerful players are in favor of new strategies.

Next, the analysis of veto points needs to be supplemented with analysis of the trade policymaking structure because the latter will guide us to understand which players – government and private actors – are involved in the policy-making process and the way in which these players interact with each other to formulate a new trade strategy. If multiple government ministries and political actors are involved in formulating trade strategies, the formal trade policymaking structure is fragmented.<sup>51</sup> In this case, enacting fundamental change of existing trade strategies should be difficult, and the formation of new trade strategies should proceed in a gradual and piecemeal manner. Moreover, this institutional paralysis is more likely to provoke politicians' intervention in trade strategies.

By contrast, a highly unified policymaking structure where policymaking authority is centralized helps establish profoundly different new trade strategies.<sup>52</sup> Under this institutional structure, relevant actors coordinate conflicting interests and dissenting views with relative ease so that the government can formulate coherent trade strategies and carry out trade negotiations with foreign countries without serious impediment.

---

<sup>51</sup> If players have same policy preferences, the number of veto players is reduced. The absorption of one veto player into another suggests that the formation of new trade strategy is more likely Tsebelis (2002).

<sup>52</sup> Whether or not the government can create a unified structure of policymaking is also a function of existing institutions because institutional changes often require the consent of existing players.

### 1.5.6 Dynamic Interplay Among Ideas, Interests, and Institutions

With four distinctive types of trade strategy constellations and three explanatory variables clearly defined, now we can delineate the evolutionary paths through which East Asian countries and the USA have formulated new trade policy constellations (see Fig. 1.2). The first type is likely when ideational changes do not take place, domestic-oriented groups remain strong, and/or domestic institutions are status quo oriented. Ideational changes may not take place immediately, as existing players still believe in the long-term efficacy of traditional trade strategies. Under these circumstances, because major players tend to be cautious in actively reconfiguring their interests and revamping the existing policymaking structure, 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.

Second, modest or limited changes are expected in the following situation. Traditional players are still dominant despite ideational changes, or new players are unable to overwhelm traditional players due to status-quo oriented institutions. In order to figure out the outcome in this path, we examine the way in which new ideas affect the interaction between key players' interests and policymaking institutions.

The outbreak of external shocks spurs policymakers to re-evaluate long-held trade strategies, igniting the demand for policy shifts. How then does the ideational change originate domestically? Both the political leadership and the bureaucracy can play a pivotal role in espousing new ideas.<sup>53</sup> Whereas the political leadership

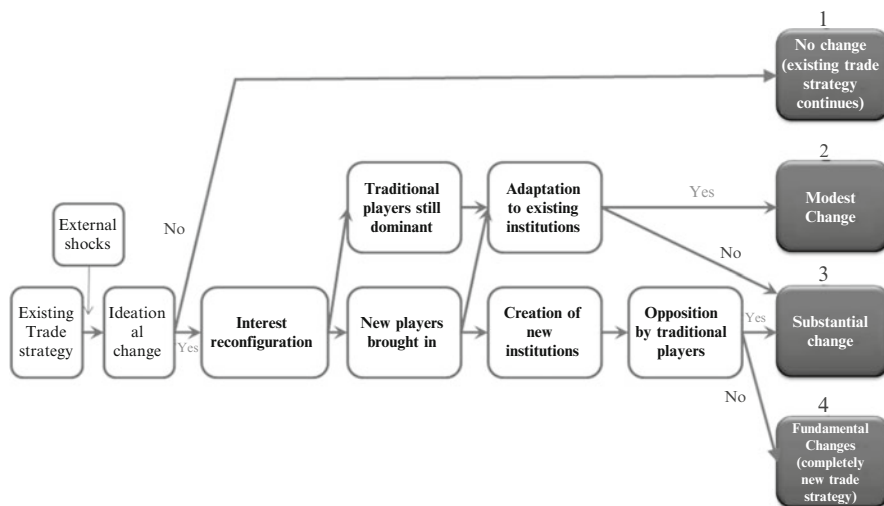


Fig. 1.2 Dynamic interplay among ideas, interests, and institutions

<sup>53</sup> Parsons (2002).

with a new policy idea may impose it on government ministries to implement new trade strategies, the bureaucracy may also be a source of ideational changes. But unless it secures strong support from the political leadership, the bureaucracy is likely to go through a time-consuming coordination process among relevant ministries to finally share the newly emerged idea. When ministries fail to work out the dissenting views among themselves, it will invoke intervention by the political leadership.<sup>54</sup>

As a catalyst providing key players with an opportunity to critically reexamine the efficacy of traditional trade strategies, a new policy idea generally paves the way for these players to reconfigure their interests. But if existing key players drive such ideational changes and interest reconfiguration, the magnitude of the change will still be limited. Rather than attempting to create a fundamentally new policymaking structure, they tend to favor the current policymaking structure because it provides them with highly institutionalized access to policymakers.

In this case, interest reconfiguration usually takes place without bringing in new players, which will result in limited changes in the current trade strategies. In as much as key players with reconfigured interests inspired by new ideas push for profoundly different trade strategies, they may face organized groups opposing the new trade policies that are equally privileged under the existing institutional structure. This traditionally protectionist group will be able to wield substantial political influence, blocking substantially new trade strategies involving massive-scale trade liberalization. Therefore, those who would benefit substantially from the new trade strategy are forced to accommodate the interests of other key players who are expected to suffer from it.

A country in this path is likely to succeed in moving away from traditional multilateral and regional trade strategies to adopt new bilateral trade strategies. But it will engage in FTAs that require minimal changes in the current trade strategies. For example, it will seek FTAs with only a few countries with weak economic ties that will usher in a limited degree of trade liberalization. With these FTAs, it can manage the domestic opposition from groups that will be badly hurt by FTAs.

Substantial changes are likely in the third type of trade policy constellation. In this path, the emergence of new ideas phases traditional players out of the existing policymaking structure and brings in new players. Disenchanted with the existing trade strategy, the new players will seek fundamentally new trade strategies. However, contemplating that the creation of a new institutional and policymaking structure involves high transaction costs, they may choose to take advantage of the existing policymaking structure as a means to realize their newly forged interests. Under these circumstances, traditionally politically entrenched groups favoring the status quo will

---

<sup>54</sup> This difference itself causes the divergence of FTA strategies. Countries where a new idea about FTAs is picked up by the political leadership are likely to take an aggressive approach to FTAs. Countries with a bureaucracy-led policy innovation are likely to take a gradual approach to FTAs. While the political leadership played a critical role in formulating a new policy idea for FTAs in China, South Korea, and Singapore, it was the bureaucracy in Japan that took an initiative in promoting a new conception of FTAs.

also strive to block fundamental changes to the current trade strategies. It is thus inevitable that the new players will calibrate their interests to some extent to accommodate opposing voices, because reliance on the existing institutional structure inherently limits their influence in introducing new trade strategies.

In the fourth type of trade policy constellation, rather than attempting to adapt to existing institutions, new players may opt to create new ones. The new institutional structure provides greater room for maneuvering by the new players, which enhances the chances of fundamental changes in trade strategies. By contrast, politically entrenched groups who used to be powerful under the old policymaking structure are quite limited in translating their interests into policy outcomes. Therefore, a government with strong support from the new players is less likely to face organized opposition in formulating new trade strategies. Furthermore, even in the face of the opposition, it will be able to cope effectively because new players are relatively insulated from this pressure by the new institutional structure. The combination of the new players and new policymaking structure enables the government to launch FTAs that are fundamentally different from traditional trade strategies as well as to speed up FTA negotiations with as many foreign countries as possible.

However, when the government fails to develop institutionalized measures to incorporate opposing voices into the new policymaking process in the long run, it eventually causes serious politicization in formulating new trade strategies.<sup>55</sup> Adroitly adapting to the new policymaking structure, traditionally powerful players will 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 distilled from interaction among ideas, interests, and institutions examines the logical and theoretical paths that East Asian countries may take in carrying out trade policy changes. It also attempts to provide a dynamic explanation of why East Asian countries vary in their specific choices of trade strategies. The case study chapters provide an in-depth analysis of how these changes have taken place in East Asian countries.

## References

- Aggarwal, Vinod K. (2001) "Economics: international trade." In P. J. Simmons and Chantal de Jonge Oudraat (ed) *Managing a Globalizing World: Lessons Learned Across Sectors*. Washington, DC: Carnegie Endowment for International Peace.
- Aggarwal, Vinod K. (2006) "Shifting Ground: Is It Finally Time for Economic and Security Regionalism?" *Global Asia*, 1(1), pp. 28–41.
- Aggarwal, Vinod K. and Min Gyo Koo (2005) "Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia." *The Pacific Review*, 18(2), pp. 189–216.
- Aggarwal, Vinod K. and Min Gyo Koo (2007) "The Evolution of Regionalism in East Asia." *Journal of East Asian Studies*, (7)3, pp. 360–369, Fall.

---

<sup>55</sup> Lee (2007).

- Aggarwal, Vinod K., Koo Min Gyo, Lee Seungjoo and Moon, Chung-in (eds) (2008) *Northeast Asian Regionalism: Ripe for Integration?* Berlin: Springer.
- Aggarwal, Vinod K. and Charles E. Morrison (eds) (1998) *Asia Pacific Crossroads: Regime Creation and the Future of APEC*. New York: Palgrave Macmillan.
- Baldwin, Richard E. (1993) "A Domino Theory of Regionalism." (September). NBER Working Paper no. w4465.
- Bhagwati, Jagdish and Arvind Panagariya (1996) "Preferential Trading Areas and Multilateralism – Strangers, Friends, or Foes?" In Jagdish Bhagwati and Arvind Panagariya (ed) *The Economics of Preferential Trade Agreements*. Washington, DC: AEI Press.
- Brawley, Mark (1997) "Factorial or Sectoral Conflict? Partially Mobile Factors and the Politics of Trade in Imperial Germany." *International Studies Quarterly*, 41(4), pp. 633–654.
- Capling, Ann (2008) "Preferential trade agreements as instruments of foreign policy: an Australia–Japan free trade agreement and its implications for the Asia Pacific region." *The Pacific Review* 21(1), pp. 27–43.
- Chae W., Lee J.G. and Seong H.G. et al. (2007) *Korea's Trade Policy Toward the United States and Related Tasks after the KORUS FTA*. Seoul, Korea: KIEP.
- Cheong, Inkyo (2005) "Economic assessment of Korea-Japan FTA." In Choong Yong Ahn et al. (eds), *Korea-Japan FTA: Toward a Model Case for East Asian Economic Integration*. KIEP Policy Analyses 05–01. Seoul: KIEP.
- Deardorff, Alan V. and Stern, Robert M. (1986) *The Michigan Model of World Production and Trade: Theory and Applications*. Cambridge: MIT Press.
- Dent, Christopher M (2007) "Full Circle? Ideas and Ordeals of Creating a Free Trade Area of the Asia-Pacific." *The Pacific Review*, 20(4), pp. 447–74.
- Dervis Kemal, de Melo, Jaime and Robinson (1982) *General Equilibrium Models for Development Policy*. New York: Cambridge University Press.
- Feinberg, Richard E. (2003) "The Political Economy of United States' Free Trade Arrangement." *The World Economy*, 26(7), pp. 1019–1040.
- Frankel Jeffrey A, Ernesto Stein and Shang-Jin Wei (1997) *Regional Trading Blocs in the World Economic System*. Washington, DC: Institute for International Economics.
- Frieden, Jeffry A. (1991) "Invested Interests: The Politics of National Economic Policies in a World of Global Finance." *International Organization*, 45(4), pp. 425–451.
- Gruber, Lloyd (2000) *Ruling the World: Power Politics and the Rise of Supranational Institutions*. Princeton, NJ: Princeton University Press.
- Hiscox, Michael (2001) "Class versus Industry Cleavages: Inter-Industry Factor Mobility and the Politics of Trade." *International Organization*, 55(1), pp. 1–46.
- Higgott, Richard (2004) "After Neoliberal Globalization." *Critical Asian Studies* 36(3), pp. 425–444.
- Katada, Saori and Mireya Solis (2007) "Understanding East Asian Cross-Regionalism: An Analytical Framework." *Pacific Affairs* (80)2, pp. 229–257.
- Keohane, Robert O. (1984) *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, NJ: Princeton University Press.
- Kimura, F. (2006) "Bilateralism in the Asia-Pacific: An Economic Overview." In V. K. Aggarwal and S. Urata (eds) *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications*. London: Routledge, pp. 50–71.
- Koo, Min Gyo (2005) "From multilateralism to bilateralism? A shift in south korea's trade strategy." In Vinod K. Aggarwal and Shujiro Urata (eds) *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications*. London: Routledge.
- Krasner, S.D. (1978) *Defending the National Interest*. Princeton: Princeton Univ Press.
- Krauss, Ellis S. (2000) "Japan, the U.S., and the Emergence of Multilateralism in Asia." *The Pacific Review*, 13(3), pp. 473–494.
- Krauss, Ellis S. (2004) "The U.S. and Japan in APEC's EVSL negotiations: regional multilateralism and trade." In Ellis S. Krauss and T. J. Pempel (eds) *Beyond Bilateralism: The U.S.-Japan Relationship in the New Asia-Pacific*. Ithaca, NY: Cornell University Press, pp. 272–295.
- Krugman, P. (1991) *Geography and Trade*. Cambridge, MA: MIT Press.

- Lee, Seungjoo (2007) "The Evolution of South Korea's Trade Policy and FTA." *Journal of Korean Political and Diplomatic History*, 29(1), pp. 103–134 (in Korean).
- Lee, Seungjoo and Chung-in Moon (2008) "South Korea's regional economic cooperation policy: The Evolution of Adaptive Strategy." In Vinod K. Aggarwal (ed.) *Northeast Asian Regionalism: Ripe for Integration?* Berlin, Heidelberg: Springer Verlag.
- Lee, Seungjoo and Min Gyo Koo (2006) "South Korea's Multi-Track FTA Strategy: Moving from Reactive to Proactive." Paper presented at the 2006 Annual Conference of American Political Science Association, August 31–September 1, 2006, Philadelphia, PA, USA.
- Low, Linda (2004) "A Comparative Evaluation and Prognosis of Asia Pacific Bilateral and Regional Trade Arrangements." *Asian-Pacific Economic Literature*, 18(1), pp. 1–11.
- Milner, Helen V. (1997) "Industries, governments and the creation of regional trade blocs." In Edward D. Mansfield and Helen V. Milner (eds) *The Political Economy of Regionalism*. New York: Columbia University Press, pp. 77–106.
- Nam, Young-Sook et al. (2004) "Economic Effects of Korea-China FTA and the Main Issues." KIEP Policy Analysis 04–03. Seoul: KIEP.
- Parsons, Craig (2002) "Showing Ideas as Causes: The Origins of the European Union." *International Organization*, 56(1), pp. 47–84.
- Pempel, T.J. (2006) "A decade of political torpor: when political logic trumps economic rationality." In Peter J. Katzenstein and Takashi Shiraishi (eds) *Beyond Japan: The Dynamics of East Asian Regionalism*. Ithaca, NY: Cornell University, pp. 37–62.
- Pempel, T.J. and Shujiro Urata (2005) "Japan: a new move toward bilateral trade agreement." In Vinod K. Aggarwal and Shujiro Urata (eds) *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications*. London: Routledge.
- Ravenhill, John (2005) "Regionalism." In John Ravenhill (ed), *Global Political Economy*. New York: Oxford University Press, pp. 116–150.
- Ravenhill, John (2008) "Asia's New Economic Institutions." In Aggarwal, Vinod K., Koo, Min Gyo, Lee, Seungjoo and Moon, Chung-in (eds). *Northeast Asian Regionalism: Ripe for Integration?* Berlin: Springer.
- Rogowski, Ronald (1987) "Political Cleavages and Changing Exposure to Trade." *American Political Science Review*, 81(4) (December), pp. 1121–113.
- Schott, Jeffrey J. and Inbom Choi (2001) "Free Trade between Korea and the United States?" Policy Analyses in International Economics 62, Washington, DC: Institute for International Economics.
- Sohn, Chan-hyun and Jinna Yoon (2001) "Does the Gravity Model Fit Korea's Trade Patterns?" KIEP Working Paper 01–01, Seoul: Korea Institute for International Economic Policy (KIEP).
- Solingen, Etel (1998) *Regional Orders at Century's Dawn*. Princeton, NJ: Princeton University Press.
- Solingen, Etel (2005) "East Asian regional institutions: characteristics, sources, distinctiveness." In T.J. Pempel (ed) *Remapping East Asia: The Construction of a Region*. Ithaca, NY: Cornell University Press.
- Solingen, Etel (2006) "Domestic politics and regional cooperation in southeast and northeast asia." In E. Friedman and S. C. Kim (eds) *Regional Cooperation and its Enemies in Northeast Asia*. Abingdon, UK: Routledge.
- Solis, Mireya (2003) "Japan's New Regionalism: The Politics of Free Trade Talks with Mexico." *Journal of East Asian Studies*, 3(3), pp. 377–404.
- Streeck, Wolfgang and Kozo Yamamura (2003) "Introduction: convergence or diversity? stability and change in German and Japanese capitalism." In Kozo Yamamura and Wolfgang Streeck (eds) *The End of Diversity? Prospects for German and Japanese Capitalism*. Ithaca, NY: Cornell University Press, pp. 1–50.
- Tsebelis, George (2002) *Veto Players: How Political Institutions Work*. Princeton, N.J.: Princeton University Press.
- Tyson, Laura D'Andrea. "What Really Sabotaged the Seattle Trade Talks" *Business Week*, February 7, 2000.



- Urata, Shujiro (2002) *Nihon no FTA Senryaku: Aratana Kaikokuga Gyosoryokuwo Umu* [Japan's FTA Strategy], Tokyo: Nihon Keizai Shimbunsha.
- Vogel, Steven K. (1999) "When Interests Are Not Preferences: The Cautionary Tale of Japanese Consumers." *Comparative Politics*, 31(2), pp. 187–207.
- Whalley, John & White, Philip M (1985) "A Decomposition Algorithm for General Equilibrium Computation with Application to International Trade Models: A Correction." *Econometrica*, 53(3) (May), pp. 679.
- Wong, John and Chan, Sarah (2003) "China-Asean Free Trade Agreement: Shaping Future Economic Relations." *Asian Survey* 43(3), pp. 507–526.
- Yang, Jian (2009) "China's Competitive FTA Strategy: Realism on a Liberal Slide." In Mireya Solis, Barbara Stallings and Saori N. Katada (eds). *Competitive Regionalism: FTA Diffusion in the Pacific Rim*. Palgrave: 216–235.