


Asia-Pacific Regional Economic Integration and Korea



Chul Chung

PhD, Research Fellow, Director of Korea National Center for APEC Studies
Korea Institute for International Economic Policy 

With the languishing WTO Doha round negotiations, we have witnessed the proliferation of free trade agreements (FTAs) and regional trading arrangements (RTAs). More recently, significant efforts toward regional economic cooperation/integration are being made across the globe. The Northeast Asia is arguably the most dynamic region that is moving forward with plurilateral trade negotiations for regional economic integration. Most notably, two “tracks” (in Peter Petri’s terms) are underway in the region: the *Pacific track* of the trans-Pacific partnership (TPP) and the *Asian track* represented by the regional comprehensive economic partnership (RCEP).

While the RCEP has just started its first round of negotia

tions aimed to be concluded by 2015, the TPP concluded 19 rounds of negotiations in August, pushing for it to be finalized by October in Bali, Indonesia, where the 2013 APEC leaders meeting will be held. From the start, the United States has emphasized in making the TPP a cutting-edge, 21st century agreement with extensive coverage of *next-generation* trade issues and explicit intention of expanding its membership. Fostered by the United States' strong leadership, the TPP has continuously enlarged the participation of its members, with Japan as the 12th and most recent. Furthermore, many other countries in the region have already expressed their intention and interest in entering the TPP negotiations. In addition to these two initiatives, the notion of creating the free trade area of the Asia-Pacific (FTAAP) has been around in the region for years and the trilateral FTA negotiations among Korea, China, and Japan (also known as CJK FTA) are also underway.

Korea has achieved a milestone of becoming an FTA hub by adopting a *multi-track and simultaneous* FTA policy and by actively engaging in bilateral FTA negotiations, such as the Korea-US FTA (KORUS FTA) and Korea-EU FTA, although it was a late starter in the FTA business. Korea has pursued comprehensive FTAs that cover virtually all aspects of trade in line with WTO provisions, which include not only trade in goods but also trade in services, investment, and trade rules.

At present, Korea is concentrating on what is on hand, a bilateral FTA negotiation with China. While Korea is taking part of the trilateral CJK FTA and RCEP, it has not entered in the TPP negotiations. With Japan's recent entry into the TPP negotiation and geopolitical tension among the three Northeast Asian countries, however, the RCEP and CJK FTA are not expected to make a significant progress in the near future. On the other hand, the TPP is making much faster progress. Although few experts bet on the TPP's conclusion by the end of this year due to unresolved issues, including market access to some highly sensitive agricultural and dairy products, intellectual property rights (IPR), state owned enterprises (SOEs), and investor-state dispute (ISD), many of them agree on three critical points: 1) the TPP is pursuing a high-standard and more comprehensive deal than the RCEP, 2) the TPP will be finalized sooner than the RCEP or the trilateral CJK FTA, and 3) the TPP may set the tone in shaping new rules for the multilateral trading system outside of the landlocked WTO.

On a separate note, it is argued that the TPP is ostensibly intended to "*contain*" China as a part of the United States' geopolitical strategy in the region. While this notion is still debatable, it is also argued by C. Fred Bergsten of the Peterson Institute for International Econom-

ics that the U.S. trade policy has never been pursued separately from its foreign policy in the last 50–60 years. Although the U.S. government has emphasized the importance of globalization and free trade and its consequent economic benefits, political consideration has never been put behind economics.

Regardless of whether the intention of the United States in using the TPP to contain China is true or not, however, the TPP is becoming a *must* rather than an option for Korea because of its economic effects and geopolitical implications for Korea in the region. Economically, Korea is projected to gain about USD 46 billion (2.2% increase in income) by joining the TPP, according to Professor Petri's (2013) calculation, while it would be losing about USD 3 billion (0.13% decrease in income) due to trade diversion if it decided to be left out. It is worth noting that these figures do not even fully reflect potentially huge effects that stem from the supply-chain and rules of origin among other things. Geopolitically, it is crucial for Korea to maintain balance in dealing with the region's sophisticated security and geopolitical issues.

To realize an economic integration framework in the Asia-Pacific region, many experts agree that the TPP and RCEP will function as the dual wheels of the scheme. After having the KORUS FTA and Korea-EU FTA successfully entered into effect, Korea is actively negotiating with China for a trade deal. Once the ongoing Korea-China FTA negotiation is concluded, Korea will be put in a unique position to serve as a linchpin in the new regional paradigm being defined by the two tracks.

Obviously, a glaring missing piece for Korea in the regional integration picture is the TPP. While keeping the Korea-China FTA a top priority, Korea needs to find a pathway to participate in the rules-setting process of the TPP in order to complete the puzzle before it is too late. According to news reports, however, the Korean government is still "cautiously examining potential costs and benefits of entering into it and the best time if the decision to enter is made." At this moment, there are more questions and challenges than answers regarding the TPP and Korea's position. It is certainly imperative and ideal for policymakers to have all the details and scenarios on hand and promote national consensus beforehand. Nevertheless, the key question is "How long can Korea remain outside the TPP negotiations by kicking the can down the road?" More than anything, Korea is at a disadvantage on the time aspect. **KIEP**