S. RAJARATNAM SCHOOL
OF INTERNATIONAL STUDIES
A Graduate School of Nanyang Technological University

RSIS COMMENTARIES

No. 098/2012 dated 11 June 2012

Trilateral Northeast Asia FTA: Pragmatic Regionalism

By Bhubhindar Singh

Synopsis

Bilateral political tensions between China, Japan and South Korea stand in the way of the proposed trilateral Free Trade Agreement. However pragmatism by all three countries can strengthen their endeavour to forge Northeast Asia regionalism.

Commentary

The announcement by China, Japan and South Korea on 12 May 2012 that they are to begin negotiations later this year on a trilateral free trade agreement portends a major development in regionalism in Northeast Asia. If realized the new free trade area will be one of the largest free trade zones in the world, accounting for around 20 percent of the global gross domestic product. The leaders of the three countries also signed an investment agreement as a "strong push to the promotion, facilitation and protection of reciprocal investment" among them.

Besides its economic significance, based on China and Japan being among the largest economies in the world, and making the grouping the third largest after NAFTA and EU (which account for 27% and 26% respectively) the proposed trilateral FTA hold out the promise of a pragmatic regionalism that transcends historical animosities and political nationalism among the three large economies of Northeast Asia.

Indeed these non-economic factors particularly their different political systems, generate serious skepticism and considerable caution within and without the region about the prospect of such a FTA being realized soon. This doubt is underscored by the absence of any bilateral free trade agreement between the three countries, though there is a healthy two-way trade among them, mainly between Japan and the other two countries. Market analysts see potential difficulties being raised by the strong agricultural sectors in Japan and South Korea against farm products from China. However these have been eroded through the conclusion of FTAs between the three countries and ASEAN which have included agricultural products and services.

Political analysts see challenges being raised by the centrally-controlled communist system of China and the factionalised democracies of Japan and Korea. The three countries have also been long divided by their different political and security affiliations. Nevertheless the three countries have demonstrated a willingness to meet these challenges by their commitment to negotiate the FTA. Their approach is based on the exercise of a strong pragmatism as a defining feature of regionalism. This assessment is based on the following three considerations.

Pragmatism Exercise

First, notwithstanding their bilateral tensions China, Japan and South Korea have recognized the value of strengthening trilateral cooperation, which they initially engaged in through the ASEAN PLUS THREE dialogue mechanism begun in 1997. From meeting on the sidelines of the APT summits, they agreed to have a separate trilateral summit from 2008, where they are able to focus on specific issues pertaining to Northeast Asia. The institutionalizing of these annual meetings has advanced with the establishment of a Trilateral Cooperative Secretariat in 2011 and the appointment of a Secretary-General by rotation among the three countries. They have thus shown a serious commitment to strengthening this regionalism, albeit at a modest pace.

Second, China, Japan and South Korea have shown pragmatism in ensuring that the trilateral meetings focus on economic issues with the aim of strengthening economic cooperation. This decision was based not only on economics being a "safe" area to boost cooperation but also in acknowledgment of their economic complementarities. This refers mainly to the synergies between the three economies, China's advantage in low-cost and efficient manufacturing and Japan's and South Korea's advantage in high technology sectors. While North Korea's nuclear programme and possible nuclear tests were probably possibly discussed in Beijing, the three countries mainly focused their discussions on economic issues and cooperation.

Third, all three countries recognize the value of a trilateral free-trade agreement. Even though the negotiations could face many hurdles and be protracted it is not inconceivable that an agreement could be reached. The FTA would be narrower in scope, with "sensitive" sectors omitted, as compared to other major FTAs. However China, Japan and South Korea are aware of the benefits of reaching an agreement for their respective countries and the region.

Challenge to ASEAN's Centrality?

Further evidence of the pragmatism displayed by China, Japan and South Korea is their understanding of the limits of the trilateral regionalism project. The three countries are aware of the many factors that could impede the strengthening of Northeast Asian regionalism. Some of these factors are the bilateral tensions fueled by an unsettled historical legacy between the three countries, leadership issues within this arrangement, Japan's and South Korea's concerns of China's political and military rise, and the ability of Japan and South Korea to commit to the trilateral arrangement to the fullest extent, beyond economics, in light of their strong alliances with the United States.

Recognizing these difficulties, China, Japan and South Korea still understand the value of strengthening trilateral cooperation. They will pursue a modest pace in the efforts towards Northeast Asian regionalism and keep economics as the main binding force in this endeavour. What this also means is that Northeast Asian regionalism will not compete with the ASEAN-led effort to establish an East Asian multilateral structure.

The possibility of Northeast Asia becoming the centre of an East Asian multilateral structure has often been discussed as an outcome of trilateral cooperation. It is important to note that China, Japan and South Korea are active participants in various ASEAN-led political, economic and security arrangements and strong proponents of ASEAN's centrality in this structure. It is therefore likely that a trilateral Northeast Asia FTA will complement and reinforce the development of an ASEAN-centred multilateral regional architecture in East Asia.

Bhubhindar Singh is Assistant Professor and a member of the Multilateralism and Regionalism Programme at the S. Rajaratnam School of International Studies (RSIS).