

UNIVERSITÉ DU QUÉBEC À MONTRÉAL

CHINA-JAPAN-KOREA FREE TRADE AGREEMENT (CJK FTA) AND
THE PROSPECT OF REGIONAL INTEGRATION FROM THE PERSPECTIVE
OF NORTHEAST ASIAN IDENTITY

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AS PARTIAL REQUIREMENT
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L'ACCORD DE LIBRE-ÉCHANGE ENTRE LA CHINE, LE JAPON ET
LA CORÉE DU SUD ET LA PERSPECTIVE DE L'INTÉGRATION RÉGIONALE
D'UN POINT DE VUE DE L'IDENTITÉ NORD-EST ASIATIQUE

MÉMOIRE

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PAR

HYO SANG YOO

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LIST OF ABBREVIATIONS AND ACRONYMS

AMF	Asian Monetary Fund
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian states
CEPA	Closer Economic PartnershipArrangement
CMI	Chiang Mai Initiative
EAEG	East Asia Economic Group
EAFTA	East Asia Free Trade Agreement
EAFTZ	East Asia Free Trade Zone
EAS	East Asia Summit Conference
EASG	East Asia Study Group
EAVC	East Asia Vision Caucus
EAVG	East Asia Vision Group
ECFA	Economic Cooperation Framework Agreement
EPA	Economic Partnership Agreement
FTA	Free Trade Agreement
FTAAP	Free Trade Agreement Asia Pacific
GCC	Gulf Cooperation Council
MFG	Manila Framework Group
NIES	Newly Industrialized Economies
RCEP	Regional Comprehensive Economic Partnership
SACU	SouthernAfrican Customs Union
TCS	Trilateral Cooperation Secretariat
TPP	Trans-Pacific Partnership

RÉSUMÉ

Ce mémoire est écrit pour examiner la possibilité de la formation de l'identité collective entre les trois pays de l'Asie du Nord-Est, la Chine, le Japon et la Corée du Sud (CJK FTA), en mettant l'accent sur le rôle de l'accord de libre-échange trilatéral sur lequel une série de négociations sont en cours.

En dépit de l'interdépendance économique croissante dans la région, il n'y a pas encore un cadre institutionnel pour coordonner les intérêts. L'accord de libre-échange entre les trois pays est utilisé comme un outil d'analyse pour deux raisons. D'abord, cet accord de libre-échange trilatéral devrait un cadre institutionnel majeur pour la coopération économique comme un moyen de maximiser les avantages économiques pour les pays membres. La deuxième raison pour l'utilisation de CJK FTA dans cette recherche est parce qu'il entraînera inévitablement des questions politiques et économiques auxquelles les pays de la région sont confrontés à l'égard des politiques différentes dans l'Asie de l'Est.

Le cadre théorique de cette recherche est le constructivisme dans l'analyse de la formation de l'identité régionale. La raison de l'utilisation de ce cadre de théorie est pour savoir comment les pays de la région peuvent interagir pour former leurs intérêts et leurs préférences respectives au milieu de l'interdépendance économique croissante et de la coopération politique inactive. La méthodologie pour l'analyse de l'article est une analyse empirique des textes publicitaires et des données statistiques existantes.

Cette recherche montre que, malgré les tensions incessantes dans le domaine de relation politique et de nationalisme croissant, certains résultats tangibles ont graduellement commencé à émerger dans le cadre de l'interdépendance économique et une série de négociations sur sa préparation. Le CJK FTA n'est pas encore lancé, mais il devrait établir des bases vers la création d'un sens de la communauté régionale et de la formation de l'identité collective en Asie du Nord-Est dans l'avenir.

MOTS-CLÉS

CJK-FTA, Asie du Nord-Est, constructivisme, identité collective, intégration régionale, nationalisme, régionalisme, régionalisation

ABSTRACT

This study aims to look into the possibility of the formation of collective identity among the three states in Northeast Asia, China, Japan and South Korea, by focusing on the role of the China-Japan-Korea Free Trade Agreement (CJK FTA) on which a series of negotiations are underway.

Despite the growing economic interdependency in the region, there has yet to be an institutional framework to coordinate the interests. CJK FTA is used as tool of analysis for two reasons. First, the trilateral FTA aims to become the first major institutional framework for economic cooperation as a means to maximize the economic benefits for the member states. The second reason is that CJK FTA will inevitably entail political as well as economic issues that the states in the region are faced with amid differing policies in East Asia.

Theoretical frame of this paper is constructivism in the analysis of the formation of the regional identity. The reason of using the frame of theory, particularly the one defined by Wendt, is to find out how the regional states can interact to form their respective interests and preferences amid the growing economic interdependency and loose political cooperation. The methodology for analysis of the paper is an empirical review of existing literatures and records coupled with statistical study to date.

This study will show that, despite unrelenting tensions in the realm of political relations and growing nationalism, some tangible outcomes have slowly begun to emerge in the course of economic interdependency and a series of negotiation over the preparation for the trilateral FTA. Although CJK FTA has yet to take off, it is likely to serve as the stepping-stone toward creating a sense of regional community and the collective identity in Northeast Asia in the visible future.

KEY WORDS

CJK FTA, constructivism, collective identity, regional integration, nationalism, regionalism, regionalization

INTRODUCTION

This study aims to look into the possibility of the formation of collective identity in Northeast Asia, with which current economic interactions in the region can develop to affect the realm of political and security cooperation. It will also review the reasons of the slow process of regional integration in Northeast Asia amid the increasing economic interdependency. In the course of research, this study will concentrate on the catalyst role of the China-Japan-Korea Free Trade Agreement (CJK FTA), of which a trilateral negotiation is underway, from the perspective of its influence to the formation of state identity, interests, preferences and ultimately the collective identity in Northeast Asia.

The spatiotemporal scope of the research is the Northeast Asian states from the period of post-Cold War to present. Specifically, China, Japan and South Korea will be the states for analysis. Northeast Asia is a region that covers not just the three aforementioned states but includes Taiwan, eastern Russia, Mongolia and North Korea. However, this study will focus on the three states that are currently working on the trilateral FTA, which is believed to create one of the most influential economic regions in the world. The strategic and economic weight of the Northeast Asian region in the global economy has gained importance in recent years. China already overtook Japan in 2010 in terms of the General Domestic Product (GDP) and became one of the G2 with the US. Japan has suffered “the lost twenty years” and is still struggling to recover, but it maintains an absolute economic presence in the global economy and in East Asia, in particular. South Korea ranks sixteenth in the global economy.¹ The foreign currency reserves held by the three states represent 45% of the total. Besides

¹*World Development Indicators*, (World Bank, 2013); available from <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

the three states, Taiwan is the 27th economy in the world and the fifth largest holder of foreign reserves. As such, Northeast Asia is gaining importance in both geopolitical and geo-economic sense. In Southeast Asia, there is the Association of South East Asian states (ASEAN), which has already positioned itself as an influential entity in East Asia. The growth of ASEAN has attracted attention from many because its member states could overcome a number of disadvantages against integration ranging from historical conflicts, different polities, ideologies, and wide development gaps. It is sure that ASEAN will continue to function as an important factor in the process of regional integration of East Asian states. The example of successful formation of a regional group in Southeast Asia provides a useful insight to the future cooperation in East Asia. Northeast Asian states also reveal many differences when compared to ASEAN members in a political, economic and social sense. However, the influence of Northeast Asia on the global economy is much larger than that of ASEAN. Despite economic interdependency in the region, Northeast Asia has yet to develop a sense of regional community. The growing nationalism even makes it difficult for the regional states to come closer to one another. Thus, it can be useful to identify the reasons of the weak regional identity and explore ways for its development. In that respect, this paper will shed light on the on-going negotiations over CJK FTA for two reasons. First, the trilateral FTA aims to become the first major institutional framework for economic cooperation as a means to maximize the economic benefits for the member states. The second reason is that CJK FTA will inevitably address the political positions of the member states amid their differing policies in East Asia. Thus, the progress on CJK FTA is likely to entail various forms of confrontation or coordination with regard to their interests, and lay the ground for the member states to work on the formation of regional identity.

The theoretical frame of this paper is constructivism in the analysis of the formation of the regional identity in Northeast Asia. Specifically, such concepts as identity,

interests, and preferences defined by Wendt will be used in describing the situation in Northeast Asia. The reason of using this theoretical frame is to find out how the regional states can interact to form their respective interests and preferences amid growing economic interdependency and stalled political cooperation. There are other theories that can explain the current situation in Northeast Asia. Classical realists viewed the nature of the state would ultimately be based on the “manifestations of a struggle for power”.² The most efficient way to maintain peace through international cooperation is the consent among states over the power balance.³ Neorealists bring to our attention two crucial factors, the possibility of defection and relative gains, which hinder cooperation among states. Grieco said that the concerns about relative gains make states unwilling to cooperate.⁴ When we rely on neorealism, maintaining the status quo can be the best solution one can expect, with all the confrontations existing among states. On the other hand, neoliberalists talk about the possibility of regional integration based on rational calculation of interests. Mitrany laid importance on cooperation in a non-political context and the functions of international organizations.⁵ Neo-functionalists have focused on supranational interest groups as the driving force of integration while focusing on the possibility of the sense of community and the formation of common norms.⁶

While these perspectives provide valid tools to analyze the issue of integration, we may find it a little difficult to fit the case of ASEAN into them. There is not a

²Hans J. Morgenthau, *Politics among Nations; the Struggle for Power and Peace*, 4th ed. (New York,: Knopf, 1967), p. 101.

³*Ibid.*, p. 167.

⁴Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism," *International Organization* 42, no. 3 (1988), p. 499.

⁵David Mitrany, *A Working Peace System; an Argument for the Functional Development of International Organization, Post-War Problems* (London, New York, Toronto etc.: The Royal Institute of International Affairs; Oxford University Press, 1943), p. 35.

⁶Ernst B. Haas, "International Integration: The European and the Universal Process," *International Organization* 15 (1961), pp. 366-392.

hegemonic power in the group nor is a social and supranational mechanism to encourage them to form common norms and systems to induce regional identity. However, ASEAN could form regional identity and successfully achieved integration by coordinating their interests through institutionalization. Just like the case of ASEAN, where the process of integration actually took place despite difficult physical conditions, we may find it useful to apply constructivist approach to Northeast Asia where identities and interests have yet to develop in to a regional level.

This paper has adopted as methodology for analysis empirical reviews of existing literatures and records coupled with statistical study. Chapters 1 through 3 review theories of regional integration and Northeast Asian identity, for which theoretical papers and various documented sources are used. For the current situation of the three Northeast Asian states introduced in Chapter 4, statistical data available from the World Bank, IMF and other research institutions in respective countries are used. Based on the findings on the above, we will look into the possibility of the formation of collective identity of the region and the expected role of the CJK FTA once it is launched in the coming years.

The structure of this paper is as follows. First, we will look into the theoretical aspects of regional integration from economic, political and social perspective. We will then see the geopolitical importance of Northeast Asia, how it differs from other regional groups including the EU and ASEAN, confrontations and cooperation among regional member states, and the possibility of integration in the near future. We will then move on to the concept of collective identity and see how Northeast Asian regionalism and regional identity are defined. Here, we will review the economic, political and social interactions among the three states, with a focus on the least developed sense of community in the social area that strengthens the growing sentiments of nationalism. Building on the findings over Northeast Asian regionalism,

we will single out the talks over the CJK FTA, which has been one of the most sensitive issues for the three states, concentrating on the intentions of individual states. Then we will see how such differences among the three states represent the difficulties that lie in the path toward a successful launch of the agreement. Finally, we will look into what the CJK FTA can contribute to the formation of the base of integration in Northeast Asia, as the first institutional framework and the stepping-stone toward a state where current progressing economic integration can “spill over” into political commitments.

CHAPTER I

REGIONAL INTEGRATION AND COLLECTIVE IDENTITY

In this chapter, we will first review the concepts of regionalization and regionalism, the two important concepts to discuss regional integration, and then various theoretical approaches toward regional integration on both economic and political fronts. After reviewing various explanations on the issue of regional integration, we will deal with the subject of collective identity from the perspective of liberalism, neo-realism and constructivism, with a view to develop our discussion toward an analysis of the prospect of formation of regional identity in Northeast Asia.

1.1 Regionalization and Regionalism

Regional integration can be defined as the process where states "voluntarily mingle, merge and mix with their neighbors so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts among themselves."⁷ Neofunctionalists tended to have normative position to hold an "implicit assumption that integration is a good thing".⁸ Regardless of the normative nature of the concept, the term "regional integration" is a complex notion. Karl Deutsch defined integration as:

⁷Ernst Haas, "The Study of Regional Integration: Reflections on the Joy and Aguish of Pretheorizing," *International Organization* 24, no. 4 (1970), p. 610.

⁸Joseph S. Nye, "Comparative Regional Integration: Concept and Measurement," *International Organization* 22, no. 4 (1968), p.856.

(...)the attainment, within a territory, of a “sense of community” and of institutions and practices strong enough and widespread enough to assure, for a “long” time, dependable expectations of “peaceful change” among its population.⁹

Haas defined the concept of integration as “the process of attaining the terminal condition of political community” and stated further as follows:

(...) the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectation and political activities to a new center whose institutions possess or demand jurisdiction over the pre-existing national states.¹⁰

Haas views that “conflict resolution” is an indicator for judging the process of integration and gives us three types of compromise: 1) accommodation on the basis of the minimum common denominator; 2) accommodation by “splitting the difference”; and 3) accommodation on the basis of deliberately or inadvertently upgrading the common interests of the parties.¹¹

While reviewing the issue of regional integration, it may be necessary to discern two other concepts, regionalization and regionalism. Evans described regionalization as “the expression of increased commercial and human transactions in a defined geographical space”, while regionalism is the expression of “a common sense of identity and destiny combined with the creation of institutions that express that identity and shape collective action”.¹² Although these two terms are used

⁹Karl W. Deutsch, *Political Community and the North Atlantic Area; International Organization in the Light of Historical Experience, Publications of the Center for Research on World Political Institutions* (Princeton, : Princeton University Press, 1957), p.2.

¹⁰Haas, "International Integration: The European and the Universal Process", pp.366-367.

¹¹*Ibid.*, p. 367.

¹²Paul Evans, "Between Regionalism and Regionalization: Policy Networks and the Nascent East

confusingly, regionalization usually refers to the phenomenon where economic activities are concentrated in a certain region.¹³ The term regionalization may be interchangeable with interdependency or economic integration. Meanwhile, regionalism is a political process where economic policies are drafted or coordinated and its process “appears irreversible, no longer to be dismissed by critics as a mere fad”.¹⁴ The ultimate stage of regionalism will therefore be political integration. In this context, Katzenstein defined the two concepts as:

Regionalization describes a geographic manifestation of international or global economic processes. Regionalism refers to political structures that both reflect and shape the strategies of governments, business corporations and non-governmental organizations and social movements.¹⁵

A region, according to Katzenstein, is a material object and social and cognitive constructs rooted in political practice. He went on to say that regions are “social constructions created through politics”.¹⁶

Fawcett defines regionalism as a policy or project, while regionalization is both project and process.¹⁷ According to this definition, regionalization may both precede and flow from regionalism. Regionalization is also defined as a bottom-up process within a specific geographical area mainly by the market, private sector trade and

Asian Institutional Identity," in *Remapping East Asia*, ed. T. J. Pempel (Ithaca and London: Cornell University Press, 2005), p. 196.

¹³Samuel Kim, "Regionalization and Regionalism in East Asia," *Journal of East Asian Studies* 4 (2004), p. 40.

¹⁴Louise Fawcett, "Exploring Regional Domains: A Comparative History of Regionalism," *International Affairs* 80, no. 3 (2004), p. 438.

¹⁵Peter J. Katzenstein, "Regionalism and Asia," *New Political Economy* 5, no. 3 (2000), p. 2.

¹⁶*Ibid.*

¹⁷Fawcett, "Exploring Regional Domains: A Comparative History of Regionalism", p. 433.

investment.¹⁸ While the process of regionalization is spontaneous without rare intervention from the government, regionalism is the process that comes from top to bottom and is led artificially by the government.¹⁹ The fact that regionalism is driven as part of the intentional actions by the state is also supported by Baogang He, who states “regionalism is a firm intellectual organization that is needed to deal with regional problems that the nation-states cannot or lack resources to solve.”²⁰ Still, it is not easy to relate regionalization simply to economic integration and regionalism to political integration since the concepts of both political and economic cooperation are closely interrelated. For example, political cooperation can result from developing economic relations. Independent states can enter into cooperative relations without any government intervention and, as a result, can face various constraint factors that have barred them from working together. Realization of the existing constraint factors will then trigger the necessity to remove them, which calls for inter-government cooperation. Once governments enter into cooperative relations, it will be highly likely that the existing economic cooperation will gain pace.

As such, both political and economic cooperation can function as catalyst to elevate cooperation. It may be easy to separate the concepts of political and economic relations in an abstract way, but it is hard to expect in the real world due to the blurred borders that separate them. Along with regionalism taking place worldwide, a new perspective emerged to describe the recent developments, particularly in East Asia, as “new”.²¹ With the new regionalism, people see something different in quality of the phenomenon compared to the past. The new regionalism is considered more

¹⁸Hiroiyuki Hosohiro, "Regionalization and Regionalism in East Asia," *ISS Discussion Paper Series F-162* (2013), p. 2.

¹⁹Ibid.

²⁰Baogang He, "East Asian Ideas of Regionalism: A Normative Critique," *Australian Journal of International Affairs* 58, no. 1 (2004), p. 119.

²¹Alice D. Ba, "Regionalism's Multiple Negotiations: ASEAN in East Asia," *Cambridge Review of International Affairs* 22, no. 3 (September 2009), pp. 3-4.

pluralist and inclusive of different actors and developmental experiences beyond Europe.²² The new perspective of viewing regionalism, as upheld by Hettne et al.,²³ provided a tool to explain the development of regionalism after the Cold War era and the beginning of globalization in full swing. Hettne summarized the differences between the old and the new regionalism as (1) whereas the old regionalism was formed in a bipolar Cold War context, the new is taking shape in a more multipolar world order (2) whereas the old regionalism was created from outside and 'from above' (i.e. by the superpowers), the new is a more spontaneous process from within and 'from below' (in the sense that the constituent states themselves are main actors) (3) whereas the old regionalism was specific with regard to objectives, the new is a more comprehensive, multidimensional process.²⁴ The various ways of definition and classification of such terms as regionalism and regionalization can help us view the developments of regional integration particularly in East Asia. Given the diversity in the concepts and classification of the terms, this paper will adopt the term regional integration with more weight on the political aspects as delineated in the definition of regionalism as above.

1.2 Theoretical approaches on regional integration

1.2.1 Economic aspect

Economic cooperation in general refers to exchanges of economic gains among particular states. These gains aim to materialize specific economic goals pursued by the parties concerned. There are various actors involved in the process of economic

²²Ibid.

²³Bjørn Hettne, András Inotai, and Osvaldo Sunkel, *Globalism and the New Regionalism*, *International Political Economy Series New Regionalism* (New York: St. Martin's Press, 1999).

²⁴Bjørn Hettne and András Inotai, *The New Regionalism: Implications for Global Development and International Security* (Helsinki: The United Nations University/WIDER, 1994), pp. 1-2.

cooperation as well as diverse goals of such activities. The form and nature of cooperation differ from one relation to another, but it features preferential treatment exclusive to member states at regional level aiming at an eventual integration. It remains unclear, however, whether integration has to be used in a static or dynamic sense. Balassa defined economic integration as both a process and a state of affairs. According to him, economic integration in a static sense means the absence of various forms of discrimination. As a process, economic integration encompasses measures designed to abolish discrimination.²⁵ If we choose to define regional economic integration as a process, as opposed to a static stage, the process of integration needs to have a goal to achieve. The static meaning of the expression will apply once the integration process reaches the final stage and achieves its goal. Economic integration as a form of economic cooperation is also defined variously. According to Molle, economic integration indicates the gradual elimination of economic frontiers among member states.²⁶ Overall, economic integration refers to the static situation where discrimination is abolished, but it also emphasizes the “process” of the combination of previously separate economies into larger arrangements. The form of integration is generally composed of the five stages,²⁷ depending on the degree of interdependency among member states as shown hereunder. (Table 1.1)

²⁵Bela A. Balassa, *The Theory of Economic Integration, Irwin Series in Economics* (Homewood, Ill.,: R.D. Irwin, 1961), p.174.

²⁶Willem Molle, *The Economics of European Integration : Theory, Practice, Policy* (Aldershot, Hants, England ; Brookfield USA: Dartmouth Pub. Co., 1990), p. 95.

²⁷Balassa, *The Theory of Economic Integration*, p. 2.

Table 1.1 Five Stages of Economic Integration

	Free Trade Agreement	Customs Union	Common Market	Economic Alliance	Complete Economic Integration
Abolishment of tariff/non-tariff barrier					
Common tariff against outsiders					
Customs union without limitations on factor mobility					
Unification of monetary, fiscal, social, and counter-cyclical policies					
Binding supra-national organization					

A free trade agreement (FTA) calls for the abolishment of tariffs and other regulations of commerce on the products originating from the member states. Basically, FTA has the following three characteristics. First, despite the abolishment of intra-regional tariffs, member states maintain their individual tariff barrier against others. Secondly, member states can exercise independent trade policies as they determine their own external trade policies. Lastly, rules of origin and domestic content requirements are imposed to prevent the effect of trade deflection where low tariff products from non-member state are exported to member states that maintain higher tariffs than non-member states. Customs Union also reduces or abolishes intra-regional tariffs, but it imposes common external tariff to non-member states. It is a form of economic integration in which member states adopt common external trade policies. Common market takes one step further from Customs Union to create a single market by adding to these arrangements such factors as free movement of capital and labor. Current European Union and the East African Community (EAC) belong to this category. Complete economic integration is the final stage by adding

integrated economic policies. Once economic integration reaches this stage, the member states have no or negligible control of economic policy in both monetary and fiscal sectors. To carry out common monetary and fiscal policies, however, economic sovereignty of each member state has to be transferred to the supranational entity. Thus, a complete economic integration is only conceivable when each member gives up its sovereignty to the extent that a commensurate level of integration in political area becomes necessary.

1.2.2 Political aspect

There are two approaches in reviewing regional integration from the angle of political and security areas. The first one is an ideological approach that emphasizes cooperation among ideological groups of leftists, rightists, conservatives, radicals, etc.²⁸ One of the successful factors of the integration of Europe can be found in the cooperation between mid-leftists and mid-rightists, in particular, between the Labor Party of the United Kingdom and The Christian Democratic Union of Germany.²⁹ It is therefore possible to view that the European regional integration is rationalized in terms of ideology.³⁰ Second approach is to utilize theoretical approaches in international relations that include notably liberalism, realism and constructivism.

Liberalists view the role of institutions as the core factor in regional integration. Veering away from the state-centric view of realists, liberalists lay emphasis on the

²⁸Hyungdo Ahn and Jehoon Park, "A Politico-Economic Approach to Northeast Asian Regional Cooperation: Search for a New Model and Korea's Strategies," in *Policy Analysis* (Seoul: Korea Institute for International Economic Policy, 2007), p. 79.

²⁹Hong Sik Cho, "Ideology and Political Forces on European Integration," *The Korean Journal of International Studies* 35, no. 1 (1995), pp. 337-360.

³⁰Ibid.

roles played by intergovernmental organizations (IGOs), international non-governmental organizations (INGOs), political groups and individuals. They are interested in how increasing transactions and contacts among various actors affect their attitudes and how institutions accelerate such process.³¹ The functionalist views, which formed the mainstream of integration theories in the 1940s and 1950s, chose to highlight international activities in non-political areas, addressing economic, social, technical and humanitarian issues, as a way of maintaining peace. Functionalists embraced the idea that international agencies would initially have to deal only with mere technocratic matters, whereas political decisions accompanied by consequences of redistributive effects for citizens and social groups would be achieved inter-governmentally.³² However, such a view has been under attack from outside that points to the fact that it is extremely difficult, if not impossible, to set aside economic and social sectors from politics. It is hardly conceivable to expect a government to hand over to supranational institutions the issues that may affect their own political domain. In addition, the road to political integration lies not in functional integration in socio-economic realms but in integrating actions driven by political will.

The neo-functionalism, which emerged in the 1950s, also emphasized the process in which cooperation in one sector spills over into different sectors. Haas' concept of spillover is how increased cooperation between individual states necessitates integration in one policy area that subsequently has a knock-on effect, creating pressures for further integration in other policy areas. However, neo-functionalists were skeptical of the automatic spillover where economic integration evolves to induce political cooperation. They discerned already that integration does not proceed in a linear manner. Haas said, "integrative forces which flow from one kind of activity

³¹ Andrew Gamble and Anthony Payne, *Regionalism and World Order* (New York: St. Martin's Press, 1996), pp. 248-249.

³² Mitrany, *A Working Peace System; an Argument for the Functional Development of International Organization*, p. 37.

do not necessarily infect other activities, even if carried out by the same organization.”³³Spillover can be classified into two, depending on the areas where they take place. One is the functional spillover and the other is political one. Functional spillover is the expansion of the function of supranational organization, that is, their task expansion.³⁴ Political spillover is the expansion of the territory of political activities from domestic to supranational level.³⁵ This spillover at the political level is not a simple functional issue but is supposed to do more than create additional technical tasks and change attitudes, identity, and affect participants.³⁶ Liberalists’ views on regional integration led to the interdependency theory in the 1970s. Keohane and Nye said that the globalization brings higher interdependency, which damages economic autonomy causing vulnerability interdependency, which in turn tends to limit the usage of power among nations.³⁷ As a result, states tend to rely less on power and more on peaceful measures. Increasing interdependency will contribute to the international peace. However, this perspective has been critiqued in that it overlooked the existence and potential of a nation-state while overestimating the influence of non-governmental actors.

The classical realism that emerged as a response to the breakout of the Second World War and the following totalitarian ideology viewed the international relations in the state of anarchy. To them, human beings are not benevolent in their nature but egocentric and competitive. Sovereign states are the principal actors in the international system, and special attention is afforded to major power states as they

³³Haas, "International Integration: The European and the Universal Process", p. 373.

³⁴Ernst B. Haas, *The Uniting of Europe; Political, Social, and Economic Forces, 1950-1957*, *The Library of World Affairs*, (Stanford, Calif.: Stanford University Press, 1958), pp. 289-313.

³⁵*Ibid.*, p. 306, p. 330.

³⁶Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," *International Organization* 52, no. 4 (1998), p. 887.

³⁷Robert O. Keohane and Joseph S. Nye, *Power and Interdependence : World Politics in Transition* (Boston: Little, Brown, 1977), pp. 11-21.

have the most influence on the international stage. A state emphasizes the interest in accumulating power to ensure security in an anarchic world. Power is a concept primarily thought of in terms of material resources necessary to induce harm or coerce other states. The balance of power and policies to preserve it are inevitable and essential in stabilizing a society of sovereign nations.³⁸ However, the classical realism is critiqued because the state is not the sole important actor and can be irrational. In addition, as it underestimated the impact of domestic political factors to the actions of a state, it is viewed as having ignored low politics.³⁹ Neorealism came later as a result to make traditional realism more systematic by complementing its weak points. Waltz said that inter-government cooperation becomes limited in two aspects. First, a state fears that other states have more gains than it does; second, a state is concerned over dependence to others by means of exchange of goods and services. If a state specializes itself to a certain category of goods, it becomes more dependent to other states that can offer the goods it does not produce. Therefore, the fear of economic dependence prevents the state from entering into government-level cooperation.⁴⁰ Neorealists emphasize the difficulties of cooperation in the international system based on the Waltz's idea. The difficulties come from two factors: the possibility of defection and the issue of relative gains. One cannot be sure if the other party will keep to the agreements and rules and will be devoid of measures to sanction if a defection actually occurs. Without a supranational authority in the relations among states, it is difficult to monitor counterparts and acquire relevant information. Worse still, there is no authority or means to sanction the other. This problem is not limited to the early stage of cooperation but throughout the existence of international system. The root cause of deterrence of cooperation, which

³⁸Morgenthau, *Politics among Nations; the Struggle for Power and Peace*, p.167.

³⁹Robert O. Keohane, *Neorealism and Its Critics, The Political Economy of International Change* (New York: Columbia University Press, 1986).

⁴⁰Kenneth N. Waltz, *Theory of International Politics, Addison-Wesley Series in Political Science* (Reading, Mass.: Addison-Wesley Pub. Co., 1979), p.105.

is worse than the fear of defection, is the issue of relative gains. Even though present cooperation can offer absolute gains to both parties, the relative gains may differ. Cooperation may be necessary to maintain power in balance, but concern for relative gains will limit that cooperation because the information about other states' behaviors and interests is not easily obtained. Grieco argues that concerns over relative gains greatly restrict the number of possible agreements because all gains must be distributed in a manner that exactly preserves the preexisting balance of power. He also mentions that a state will decline to join, will leave, or will sharply limit its commitment to a cooperative arrangement if it believes that partners are achieving, or are likely to achieve, relatively greater gains.⁴¹ Gilpin and Kindleberger point to the role of a hegemon in terms of cooperation among states. According to them inter-state cooperation can happen with the leadership of a hegemon⁴² that offers public goods to initiate or impose cooperation for the purpose of short-term gains or to stabilize the system.

1.3 Constructivism and Collective identity

Both liberalism and neo-realism adopt an interest-based approach in their analyses of state behaviors. They argue that the identity and interests of a state are given exogenously and rational choice is possible. Constructivists take a cognition-based approach and they view that it is possible for states to share positive social experience through interactions. For constructivists, the preference of actors with regard to regional integration is not only given exogenously but also created

⁴¹Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism", p. 499.

⁴²Robert Gilpin and Jean M. Gilpin, *The Political Economy of International Relations* (Princeton, N.J.: Princeton University Press, 1987), pp. 72-80.

endogenously.⁴³ Actors learn new norms and values through continuous socialization.⁴⁴ They then develop new identities and preferences. Ruggie explains that constructivism concerns human consciousness.⁴⁵ The core concepts in the process of regional integration from this perspective thus are ideal ones such as ideas, norms or identity rather than materialistic ones.

While describing world politics, Wendt made it clear that it is “socially constructed,” with two basic claims that “the fundamental structures of international politics are social rather than strictly material, and that these structures shape actors’ identities and interests, rather than just their behavior.”⁴⁶ He went on to say that the “structural idealism is the hard core of constructivism”⁴⁷ and emphasized the significance of decision of social structure based on ideational attributes and formations of identity and interests. In this sense, constructivists insist that both structure and agent are considered altogether. To Wendt, states are the principal units of analysis for international political theory and the key structures in the states system are intersubjective, rather than material. State identities and interests are an important part constructed by these social structures, rather than given exogenously to the system by human nature or domestic politics.⁴⁸ As such, the core concept of constructivism is to view the state as an actor and the structure as a system both of which are intersubjective and co-constructive. The state creates the system and in turn, the system affects the state. The

⁴³Alexander Wendt, "Collective Identity Formation and the International State," *The American Political Science Review* 88, no. 2 (1994), p. 385.

⁴⁴Alexander Wendt, "Anarchy Is What States Make of It: The Social Construction of Power Politics," *International Organization* 46, no. 2 (1992), pp. 394-395.

⁴⁵John Gerard Ruggie, *Constructing the World Polity : Essays on International Institutionalization, The New International Relations* (London ; New York: Routledge, 1998),p.33.

⁴⁶Alexander Wendt, "Constructing International Politics," *International Security* 20, no. 1 (Summer 1995), p. 71.

⁴⁷Alexander Wendt, *Social Theory of International Politics, Cambridge Studies in International Relations* (Cambridge, UK ; New York: Cambridge University Press, 1999), p.1.

⁴⁸Wendt, "Collective Identity Formation and the International State", p. 385.

agent-structure problem is interrelated both ontologically and epistemologically. The ontological perspective “concerns the nature of both agents and structures and, because they are in some way mutually implicating, of their interrelationship.”⁴⁹ In relation to the ontological issues, Wendt described three concepts, individualism, structuralism, and structurationism. While the first two concepts, individualism and structuralism, are embraced by neo-realists and world system theorists, the structurationist approach “tries to avoid what are the negative consequences of individualism and structuralism by giving agents and structures equal ontological status.”⁵⁰

Constructivists explain how integration can grow out of inappropriate material conditions. They suggest that the preferences of actors do not necessarily come exogenously but from within as well. Actors go through a continuous process of socialization, in which they acquire the norms and values and form a new identity, which leads to the change of its own preference. Constructivism, which allows the possibility of change of endogenous preference, is useful to explain the reason that a state chooses to go for regional integration while incurring substantial limitation on its own sovereignty. Constructivism concerns the issue of “human consciousness,” particularly “the role it plays in international relations and the implications for the logic and methods of social inquiry of taking it seriously.”⁵¹ It is the ideas, norms and identity that are more important than materialistic factors when explaining the process of regional integration. Shared ideas and norms among states develop the process of institutionalization and form a new identity in the region. Identity positions itself in the historic, political and cultural context, and is regarded as one of the independent

⁴⁹Alexander Wendt, "The Agent-Structure Problem in International Relations Theory," *International Organization* 41, no. 3 (1987), p. 339.

⁵⁰*Ibid.*, p. 339.

⁵¹Ruggie, John G., 1998, *Constructing the World Policy: Essays on Institutionalization*, London: Routledge, p. 33.

variables that cause the changes in the structure and the behaviors of state actors. The concept of identity includes the process of “identification” within a group of actors and that of “differentiation” in relation to different group of actors. While explaining “social identity,” Tajfel defined its concept as:

(...) that *part* of an individual’s self concept which derives from his knowledge of his membership of a social group (or groups) together with the value and emotional significance attached to that membership.⁵²

Constructivism gives explanation on the co-constructive relation between the structure and state actors based on such concept of identity. From that perspective, the international system as a structure is not independent of the behaviors of actors or the cultural relations among actors. So the role of identity, a cultural factor, becomes important in the context of the process of regional integration. State identity can be controlled at the international level. Moreover, if this state identity can be shared among other states, a collective identity is formed.⁵³ The formation of collective identity is accelerated by continued interactions and learning process. There will be the “positive identification with the welfare of another, such that the other is seen as a cognitive extension of the self rather than independent.”⁵⁴ Therefore, continued interactions with other group of actors lay the ground for a community with newly defined collective interests. From this perspective, the regional integration can be achieved through the cognitive process whereby a collective identity is created. As such, the constructivism concentrates on improving the relations among actors and has them participate in a community.

⁵²Henri Tajfel, *Human Groups and Social Categories : Studies in Social Psychology* (Cambridge Cambridgeshire ; New York: Cambridge University Press, 1981), p. 255.

⁵³Wendt, "Collective Identity Formation and the International State", pp.384-396.

⁵⁴*Ibid.*, p.386.

We have so far reviewed the theoretical aspects in relation to regional integration, with a focus on the different views among liberalism, neo-realism and constructivism. While both liberalists and neo-realists adopt an interest-based approach in explaining state behaviors, constructivists take a cognition-based approach pointing out that it is possible for states to share positive social experience through interactions. This study will lay focus on the approach of such interactions that may lead to positive identification and ultimately accelerate the formation of collective identity in Northeast Asia.

CHAPTER II

NORTHEAST ASIAN REGIONALISM

This chapter will address the subject of how Northeast Asian regionalism has developed to date. For that purpose, we will first review the geographical classification of Northeast Asia and see how it differs from the rest of East Asian region from geopolitical perspective. Then we will take the Association of Southeast Asian Nations (ASEAN) as the example of an institutional framework representing the efforts toward regionalism in East Asia. In the process, we will look at the recent history in relation to the formation of ASEAN in Southeast Asia and its development thereafter, before addressing how Northeast Asia can identify itself as a distinct region in East Asia.

2.1 Northeast Asia in East Asian politics

2.1.1 Geographic definition

The geographic definition of “East Asia” poses an ambiguity when we discuss economic integration in the region. There may not be any opponents to the idea of ASEAN+3 being the core member of East Asia. However, there are other nations that are not participating in the group. If an economic integration is the issue at hand, Taiwan is too big to set aside. Taiwan holds a substantial size of economy playing an important role not just in East Asian but also global economy as member of WTO and the Asian Development Bank (ADB). Likewise, the cases of North Korea and

Mongolia have to be discussed in terms of geopolitical importance regardless of their minor contribution to the global economy. From a geographical point of view, the East Asian economic region comprises the Northeast and Southeast economic regions. In the Southeast economic region, the ten members of ASEAN have already created FTA (AFTA) among themselves. Therefore, it would be safe to say that the East Asian economic region is composed of AFTA and Northeast economic region. The problem in classifying the region arises when we narrow the focus on Northeast Asia. In general, this term refers to the specific area that includes China, North and South Korea, and Japan. Classifying “Asia” based on geographic and cultural aspects, the region refers to the part of Eurasian continent except Europe and the region, which belongs to the African continent. The UN categorizes Asia into five groups—central, eastern, southern, south-eastern and western Asia.⁵⁵ However, when we use the term “Northeast Asia” there is no barometer that can cut out this region other than geographical meaning. Culturally, Northeast Asia overlaps with Taiwan, Hong Kong, Singapore and Vietnam. In the broad sense of geographic meaning, there are other countries to include such as Mongolia, North Korea and far-east part of Russia. This kind of classification does not fit into the meaning for which we usually use the term “Northeast Asia”. Therefore, we can understand that the term Northeast Asia is used to highlight the region’s geopolitical significance for the global political economy.

Many features show the geo-political and geo-economic significance of the Northeast Asian region. Most of them are highly contentious and are directly related to the state interests of many countries. There are conflict issues generated from this region based on the state interests of surrounding countries. First, the US has been in pursuit of defending and strengthening its interests in the Asia Pacific region since the Cold War era. Such policy was clearly manifested in its Engagement and Enlargement

⁵⁵*Composition of Macro Geographical (Continental) Regions, Geographical Sub-Regions, and Selected Economic and Other Groupings*, (United Nations, 2013 [cited February 2 2014]).

Strategy since 1995.⁵⁶ Secondly, Japan has maintained the intention to revamp its military power amid concerns of neighboring countries. Thirdly, there is the pursuit of the three party military alliance among the US-Japan-South Korea initiated by the US despite a strong resistance from China, Russia and North Korea. Fourthly, the North Korean nuclear development issue has been all time high. What matters is that, despite increasing geopolitical conflicts, there is not a single institutional system to deal with the security issue. Only bilateral, as opposed to multilateral, relations⁵⁷ have existed to address these current issues.

The Northeast Asian region can be described as part of the world where dynamic geo-economic environment coexists with complex geopolitical issues. This is also a region where there is not a single institutional mechanism for economic and security cooperation, which is the primary hurdle to overcome before advancing toward regional integration. One of the preconditions to induce regional cooperation has to be a peaceful and stable environment surrounding the region. In that regard, it is crucial in Northeast Asia to set up an institutional framework where conflict issues can be addressed to create such environment.

2.1.2 Formation of East Asian regionalism

It was after the year 1997 when the issue of regionalism was first dealt with formally. With the experience of the Asian financial crisis that made the countries in the region realize the necessity of a regional entity for cooperation, regionalism began to

⁵⁶*Engagement and Enlargement Strategy*, (The White House, 1994); available from http://www.dod.mil/pubs/foi/International_security_affairs/other/641.pdf.

⁵⁷China and North Korea signed the Treaty of Friendship, Cooperation and Mutual Assistance in July 1961. Similar treaties exist between the US and South Korea (Mutual Defense Treaty Between the United States and the Republic of Korea, October 1953) and between the US and Japan (Treaty of Mutual Cooperation and Security Between the United States and Japan, 1952).

develop in East Asia. The painful experience led to the creation of ASEAN Plus Three (APT, or ASEAN+3) together with such ideas as the Asian Monetary Fund (AMF) and Chiang Mai Initiative (CMI). The discussion over CJK FTA is situated on the extension of such developments and can be understood in this context, considering its expected role in keeping the region from external economic impacts by forming a substantial level of institutional co-work to integrate the Northeast Asian market.⁵⁸

Participants to a bloc naturally expect more gains than losses when they decide to join it. East Asian states began to weigh seriously the gains from East Asian regionalism. They had tried to integrate themselves into the global economy before then and such efforts enabled them to experience high economic growth. The Newly Industrialized Economies (NIES) such as South Korea, Taiwan, Hong Kong and Singapore, with lean natural resources and insufficient infrastructures could develop their economies by pursuing outward and market-friendly policies. Following NIES, other economies such as Thailand, Malaysia and Indonesia also adopted active export-oriented policies and reaped success. The positive experience in joining the global economy left them with little choice but integrate further into the global system.

In fact, there were regional entities in which Asian nations participated even before the Asian crisis. For example, the Asia Pacific Economic Cooperation (APEC) has upheld the value of "open regionalism" that is open to non-regional countries. The once ambitious initiative of the East Asia Economic Group (EAEG) proposed by Malaysian Prime Minister Mahathir was unwelcomed within the region because it was against the idea of open regionalism.⁵⁹ The idea of EAEG was, unlike that of

⁵⁸Won Geun Song, "Economic Significance of CJK FTA and the Prospect of Northeast Asian Economic Cooperation," in *Significance of CJK FTA from Economic and Security Perspective and the Impacts on Achieving Peace in Northeast Asia* (Seoul: Institute for National Security Strategy, September 20, 2011), p. 29.

⁵⁹Hong Xiang Qin and Seung Rok Park, "Economic Relations among China, Japan and Korea and

APEC, to build a strictly regional organization to call for intra-regional cohesion and exclude the non-Asian states. It was designed to reinvigorate regional economies through trade liberalization and strengthen ties among member states so that they could deal with the US-led market order with more bargaining power.⁶⁰ However, most of the countries in East Asia were concerned that an exclusive bloc in the region might result in more defensive regionalism in Europe and in North America. Tighter blocs in these regions meant higher barriers into these markets, in which the largest US market was included. As a result, the idea of open regionalism continued as a leading principle for East Asia until the breakout of the financial crisis in 1997.

The Asian financial crisis was a wake-up call for the long lasted perception of the regionalism based on an optimistic perspective in terms of economic development. The crisis, which first appeared in Thailand with subsequent hits in South Korea and Indonesia, served as a warning signal about the lack of capabilities within the region for crisis management. They began to find ways to complement the weak points and keep the region in stable condition by creating a pan-regional cooperative order. There were efforts made in two directions: building up one or more new institutions to oversee available regional resources and power and strengthening existing system to that effect.⁶¹ First, the efforts to consolidate regional resources and power resulted in the form of ties between ASEAN and the three states in Northeast region, i.e., China, Japan and South Korea. At the 30th anniversary of ASEAN in November 1997, the heads of these three countries were invited and the ASEAN+3 Summit

Economic Cooperation in Northeast Asia," (Korea Economic Research Institute, 2005), p. 142.

⁶⁰The initiative of the East Asia Economic Group (EAEG) was proposed for the first time in December 1990 at the meeting with Li Peng, then Chinese Premier. Later in July and October 1997 during the ASEAN ministerial meetings, the initiative was officially put on table. The title was changed to East Asia Economic Caucus in the process. Jia Jia Siau, "East Asian Regionalism: The Review of Original Idea of Asean+3 Concepts," *Journal of International Development and Cooperation* 18, no. 1 (2011), pp. 69-71.

⁶¹John Ravenhill, "A Three Bloc World?: The New East Asian Regionalism," *International Relations of the Asia Pacific* 2, no. 2 (2002), p.177.

Conference took place. Since then the ASEAN+3 have accelerated the pace of cooperation within the region. In October 1999, ASEAN+3 launched the East Asia Vision Group (EAVG), a revised version of the former EAVC before the annual conference. After the conference, the regional heads adopted the Joint Statement of East Asia Cooperation, which called for tighter cooperation on economic, political, social and other supranational issues.⁶² In March 2001, a new research institution, the East Asia Study Group (EASG), began to function with a purpose of achieving East Asian vision specified in the report paper by EAVG. The report classified into a mid and long-term project the creation of the East Asia Free Trade Agreement (EAFTA) and regional financial facility, and upgraded the ASEAN+3 Summit Conference into the East Asia Summit Conference (EAS). ASEAN and the three Northeast Asian states agreed in September 2004 agreed to work on the creation of the East Asia Free Trade Zone (EFTZ) and began a research project participated by both private and government sectors. In 2005, the first EAS was convened in Kuala Lumpur, Malaysia, participated by ASEAN+3 and India, Australia and New Zealand. These developments showed that a new wave of regionalism was in the making in East Asia.

There were movements toward institutionalization as well. In November 1997, the fourteen economies⁶³ in the Asia Pacific region launched the Manila Framework Group (MFG) and began a series of meeting among national treasuries and central banks. From October 1998, ministerial level financial meetings took place semi-annually to discuss macro-economic and sectoral policies. In May 2000, financial ministers of ASEAN+3 gathered in Chiang Mai, Thailand, at an annual meeting of the Asian Development Bank and agreed on the Chiang Mai Initiative (CMI), which produced a multilateral currency swap arrangement. Under this arrangement, the

⁶²*Joint Statement of East Asia Cooperation*, (Ministry of Foreign Affairs of Japan, 1999); available from <http://www.mofa.go.jp/region/asia-paci/asean/pm9911/joint.html>.

⁶³Members are composed of Australia, Brunei, Canada, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and the United States.

members of ASEAN+3 made a pool of foreign exchange reserves worth USD 120 billion which they could draw within the pre-arranged limits when they happen to experience liquidity shortage. The pool was extended to USD 240 billion in 2012. The CMI was a significant turnaround for the members in their efforts to solidify cooperation in the financial area. It was actually a substantial alternative to the Asian Monetary Fund (AMF), which came out at the height of the Financial Crisis but could not be materialized. Advocates including mostly ASEAN and South Korea welcomed the idea of AMF.⁶⁴ However, the emergence of AMF was considered as a threat to the US-led order in the global financial market and a significant challenge to IMF's authority and work efficiency. Most of all, the US took the idea of AMF as an attempt to challenge US leadership in the financial and monetary area and rejected it.⁶⁵ The abortion of AMF could be partly due to the feeble leadership⁶⁶ Japan maintained during the time by failing to win over a full support from the regional states. Still, the negotiation over AMF ultimately resulted in a multiple cooperative mechanism. The Chiang Mai Initiative came as the first form of financial cooperation and proved the necessity of a closer relationship among the states in East Asia.⁶⁷

Another salient movement that hastened the pace of regionalism in Asia was the boom of the free trade agreements. South Korea agreed with Chile in November 1998 over concluding an FTA. Japan began to talk with Mexico to pursue a bilateral agreement. Singapore and Japan also began non-official talks for a bilateral trade agreement. China made an official announcement that it began negotiation with

⁶⁴Kent Calder and Min Ye, "Regionalism and Critical Junctures: Explaining the "Organization Gap" in Northeast Asia," *Journal of East Asian Studies* 4 (2004), p. 209.

⁶⁵Qin and Park, "Economic Relations among China, Japan and Korea and Economic Cooperation in Northeast Asia", p. 143.

⁶⁶Nam-Koo Lee and Nak-Doo Sung, "A Study on the Financial Cooperation in East Asia," *The Journal of Eurasian Studies* 3, no. 5 (2005), p. 96.

⁶⁷Jun Hyup Kim, "Conditions and a Process of Development for Economic Integration in ASEAN+3," *The Southeast Asian Review* 21, no. 3 (2011), pp. 227-230.

ASEAN over FTA at the summit conference during ASEAN+3 in 2001. ASEAN members joined the wave in full force. Beginning with New Zealand in November 2000, Singapore showed the most active movement in signing FTAs with its counterparts including the European Free Trade Association, Japan, Australia, the US India, Jordan, South Korea and Panama. The series of FTA were exceptional, considering the fact that there was not a similar agreement within the region before the Asian Crisis except for the case of ASEAN, which had proceeded with a free trade zone itself. The race toward FTA in East Asia can be explained by the “domino effect”⁶⁸ or the “bandwagon effect”⁶⁹ where a state joins the race out of fear of being left out. The booming FTAs influenced even Mongolia that had no previous record of agreement to begin its negotiation with Japan in 2012.⁷⁰ The level of agreements and the coverage under the agreements differ from one country to another in East Asia, however, the successive creation of cooperative networks has become extremely complex and diverse as the term “spaghetti bowl phenomenon”⁷¹ implies.

2.1.3 Northeast Asia versus ASEAN

Contrary to Northeast Asia, the Southeast Asian states have already proceeded with regional cooperation, as represented by ASEAN. ASEAN is working on its roadmap with a vision to create a single market and production base and balanced economic

⁶⁸Richard Baldwin, "A Domino Theory of Regionalism," in *NBER Working Paper Series* (Cambridge, MA. U.S.: National Bureau of Economic Research, September 1993), pp. 2-3.

⁶⁹Soo Yeon Kim, "Regionalization in Search of Regionalism: Production Networks and Deep Integration Commitments in Asia's FTAs," in *Annual meeting of the International Political Economy Society* (Claremont, CA. U.S.: October 25-26, 2013), p. 4.

⁷⁰*The First Round of Negotiation for the Mongolia- Japan Economic Partnership Agreement (JMEPA) Held*, (Ministry of Economy Trade and Industry of Japan, 2012); available from http://www.meti.go.jp/english/press/2012/0607_01.html.

⁷¹Jagdish Bahgwati, "US Trade Policy: The Infatuation with FTAs," *Discussion Paper Series 726* (1995), p. 4.

development. The foundation of ASEAN dates back to 1967. Started as political cooperative body, ASEAN has increased intra-regional economic cooperation by means of preferential trade agreements (PTAs) and industrial cooperative programs. In the 1990s, it set a goal of creating the ASEAN Free Trade Area (AFTA). The financial crisis in late 1990s and the emergence of China as a global economic power pushed ASEAN to come up with a goal of creating an economic community in the region. The level of economic integration in Southeast Asia, however, has not been satisfactory. Although the free trade area is already in place, there are still substantial amount of items that are not included in the agreement and the usage level of preferential tariff is still low.⁷² Even the creation of manufacturing base is mostly led by multi-national corporations. Besides, although there are efforts for a balanced economic development among member states, ASEAN has yet to narrow the development gaps among them. The measures to control foreign exchange flows to prevent financial crisis from repeating are mostly initiated by the Northeast Asian states, not within ASEAN. It was Japan, for example, that proposed the idea of the Asian Monetary Fund (AMF). Also, the Chiang Mai Initiative (CMI) relied heavily on the contributions from the three Northeast Asian states, of which the total contribution was four times that of the ten ASEAN states combined. (Table 2.1)

Table 2.1 CMI Financial Initial Contributions

	\$ Billion	Share (%)
CJK (3)	96.00	80

⁷²Reported reasons for not using FTAs— the most significant reason being a lack of information on FTAs (45%), followed by low margin of preference (26%), delays and administration costs associated with rules of origin (25%), existence of export processing zones and the Information Technology Agreement (11%) and nontariff barriers (9%). (Siow Yue Chia, ADB Working Paper Series, No. 210, 2010)

China	38.40	32
Japan	38.40	32
S. Korea	19.20	16
ASEAN (10)	24.00	20
ASEAN+3 (13)	120.00	100

* Source: The Joint Media Statement of the 12th ASEAN+3 Finance Ministers' Meeting, 3 May 2009, Bali, Indonesia. (adjusted)

More importantly, labor force is not permitted to move freely within the region. The reason that explains ASEAN's loose level of integration is the wide intra-regional development gaps,⁷³ which make it hard for its member states to find common problems and coming up with common interests while working together. However, ASEAN has followed the path of the regional cooperation successfully in East Asia despite the difficulties of diverse level of economic development, culture and language differences. It will continue to lay emphasis on creating "ASEAN Centrality" in the formation of a new order in East Asia. Future development of ASEAN, however, will be influenced by the development in Northeast Asia, considering the size of economy and political weight the it carries.(Table 2.2) At present, there seem to be a couple of options for ASEAN to pursue a free trade area in East Asia: integrating the three ASEAN+1 FTAs into one; and combining the CJK FTA and ASEAN.

⁷³Chang Ku Byun, "ASEAN Identity and Regional Integration: A Constructivist Approach," *Korean Political Science Review* 18, no. 2 (2011),p. 11.

Table 2.2 Basic Indicators: ASEAN vs. Northeast Asia

	Population (Thousand)	GDP (USD bil)	GDP Per Person (USD)	Growth Rate (%)
Brunei	409	11	27,390	2.8
Cambodia	14,953	12	795	6.7
Indonesia	248,256	731	2,946	6.4
Laos	6,586	8	1,177	8.3
Malaysia	29,180	244	8,373	5.2
Myanmar	54,585	46	832	5.5
Philippines	103,775	222	2,140	3.7
Singapore	5,353	220	41,122	4.9
Thailand	67,091	309	4,608	0.1
Vietnam	91,519	112	1,224	5.8
Total (ASEAN)	621,667	1,915		
China	1,344,130	6,989	5,183	9.2
Japan	127,827	5,855	45,774	-0.9
South Korea	49,779	1,164	23,749	3.6
Total (N.E. Asia)	1,521,736	14,008		

(Sources: Rearranged based on statistics available from ASEAN Statistics, The World Bank Group (2012).

2.2 Cooperation in Northeast Asia and its limitation

2.2.1 Political fragmentation with integrating economies

Despite growing interactions, the East Asian regionalism is not solid enough to pull individual nations together. One of the reasons of the weakness lies in its

characteristics of a statist preoccupation about sovereignty. Unlike Europe, where partial transfer of sovereignty and strong institutional framework are achieved, the East Asian states have not yielded on sovereignty issues, slowing down the formation of regional identity. Therefore, it can be said that the East Asian regionalism is for the benefit of nation-state not for the region itself.⁷⁴ Security issue comes first for the East Asian states and they are not prepared to give up their sovereignty. Besides, concerns over insecurity undermine the formation of friendly relations, which prevent the growing interdependency in the economic sector from growing into social and political sectors. Specific examples of the source of insecurity include the confrontation between North-South Korea, conflicts over territories throughout the East Asian maritime regions,⁷⁵ and the growing influence from China in Southeast Asia. Such tensions have led to the creation of bilateral security alliances between the US and South Korea and between the US and Japan instead of multilateral security agreements as in the case of NATO in Europe. In the case of ASEAN, the issue of non-intervention is one of the supreme conditions of the organization. As a result, the East Asian regionalism usually takes the form of material exchanges within the region, FTA, and a security dialogue without political commitment.⁷⁶

In a broad sense, there are more fundamental reasons that explain why regionalism remains at a basic level in East Asia. Focusing on Northeast Asia, it has to be emphasized that, after the Second World War, China, Japan, two Korea and Taiwan maintained a form of somewhat limited military sovereignty amid the US-Soviet

⁷⁴He, "East Asian Ideas of Regionalism: A Normative Critique", p. 120.

⁷⁵China is in the middle of disputes with four Southeast Asian states—Brunei, Malaysia, the Philippines and Vietnam over the Spratly and Paracel island groups in the South China Sea. In the East China Sea, China, Japan, and Taiwan each claim an island group called *Senkaku* by Japan, *Diaoyu* by China and *Diaoyutai* Islands by Taiwan. Other territorial disputes exist between Japan and South Korea in the East Sea/the Sea of Japan, and between China and South Korea in the Yellow Sea.

⁷⁶He, "East Asian Ideas of Regionalism: A Normative Critique", pp. 118-119.

confrontation.⁷⁷ Their relations at an international level were managed in accordance with the interests of the two powers, the US and the Soviet Union. This tradition became the largest obstacle against the formation of regionalism in East Asia, particularly in the Northeast region. The weight of the US power remains active in this region, which signifies that US interests in Northeast Asia will continue to function as one of the most important variables that affect Northeast regionalism. The structure of bilateral security cooperation in Northeast Asia with the US playing the central role poses several problems. First, the bilateral security order shows a stable relation between the US and its counterparts, however, when it comes to the relations among other US counterparts, there is not a binding frame for cooperation. It is not easy for Japan and South Korea, for example, to make cooperative efforts because of the mutual disbelief and their different views over the past history. In addition, as the bilateral cooperative relations over security were initiated by the US, it influences the relations with a strong leadership.⁷⁸ Moreover, the bilateral security relations cannot address efficiently the instability caused by the changing power relations. China's growing economic and military strengths have been addressed with efforts to balance powers among related parties in the form of individual alliances with the US by Japan and South Korea due to the lack of a multilateral framework.⁷⁹ Another salient characteristic of the East Asian regionalism is that it has been led by the market force.⁸⁰ While EU was led by the governments with official, top to bottom and supranational co-efforts, East Asia shows a loose form of network with limited

⁷⁷ Soung Chul Kim, "Significance of China-Japan-Korea FTA in the Economic and Security Sectors and Its Impact on Building a Peace Structure in Northeast Asia," (Institute for National Security Strategy, 2011), p. 69.

⁷⁸ Ibid., p. 70.

⁷⁹ Kap-Sik Kim, "Northeast Asian Regional Security Paradigm and the North Korea Nuclear Issue," *The Korean Journal of Unification Affairs* 52 (2009), pp. 2-3.

⁸⁰ Chang Jae Lee, "Rationale for Institutionalizing Northeast Asian Economic Cooperation and Some Possible Options" (paper presented at the Strengthening Economic Cooperation in Northeast Asia, Honolulu, Hawaii, U.S., August 16-17, 2001), p. 10.

administrative organization, signifying that although the economic logic plays an important role in East Asia, a form of binding institutionalization has yet to emerge.

The current situation in East Asia can be viewed from the perspective of the New Medieval order, an explanation of the new order in the global era that brings about fundamental changes in the modern state system. The New Medievalism is described as “a new concept that highlights the blurring dividing lines between domestic and foreign policies, double loyalties and overlapping realms of power.”⁸¹ Hedley Bull later elaborated the concept of the New Medievalism by describing that the dominant order of the Medieval Europe was theocratic political system and that the New Medieval order is not a return to the medieval era but a “secular reincarnation of the system of overlapping or segmented authority that characterized Medieval Christendom.”⁸² With regard to the relation among sovereign states and other important actors in world politics, Bull said:

It is obvious that sovereign states are not the only important actors or agents in world politics. The mere existence in world politics of actors other than the state, however, does not provide any indication of a trend toward a new medievalism. The crucial question is whether the inroads being made by these ‘other associations’... on the sovereignty or supremacy of the state over its territory and citizens is such as to make that supremacy unreal, and to deprive the concept of sovereignty of its utility and viability.⁸³

The New Medieval order is a phenomenon where supranational integration movements take place on top and, at the lower level, state’s exclusive jurisdiction becomes reduced with the movements for separation by sub-state level organizations.

⁸¹Arnold Wolfers, *Discord and Collaboration; Essays on International Politics* (Baltimore,: Johns Hopkins Press, 1962), pp.241-242.

⁸²Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (New York: Columbia University Press, 1977), p. 254.

⁸³*Ibid.*, pp. 254-255.

International institutions such as WTO, U.N., IMF and the World Bank have expanded their coverage. Amid the globalizing environment, there came regional responses in the form of NAFTA, EU, APEC, Mercosur, GCC, ASEAN and so forth, creating a plural order of governance. Sub-state level networks have been on the increase as well. There are also grey areas, expanding in such areas as international terrorism and criminal organization where a single state power cannot reach.

Drawing on the concept of New Medievalism, Tanaka categorizes the world into three regional groups based on the two universal ideologies: democracy and market economy.⁸⁴ The first group is so-called “Neo-Medieval Sphere” where both democracy and market economy are well developed. This group includes Western Europe, North America and OECD member states. The second group is categorized as “Modern Sphere” where either one of the two ideologies is in a state of imperfection. In this region, the realist international order applies. The third group is the “Chaotic Sphere”, where both democracy and market economy have yet to develop. From Tanaka’s perspective, East Asia belongs to the second regional group, with diverse polities and advancing market economy. In other words, East Asia is a region where modern and new medievaleras co-exist. Such categorization can be compared with Wendt’s description of the three different cultures of anarchy depending on the inter-state cooperation: Hobbesian, Lockean and Kantian.⁸⁵ Unlike Europe where states have already stepped into a Kantian type of culture, East Asia remains in the Lockean state,⁸⁶ with a mixture of hostility and cooperation. The characteristics that describe the Modern Sphere of the world can readily apply to Northeast Asia, where the remnants of the Cold War era are still in function while free market economy is gaining pace all over the region.

⁸⁴Akihiko Tanaka, *The New Middle Ages* (International House of Japan, 2002), pp. 154-173.

⁸⁵Wendt, *Social Theory of International Politics*, pp. 246-308.

⁸⁶Terence J. Vance, "Constructing a Regional Order: Northeast Asia and the Systemic Constraints on Korean Unification" (Naval Postgraduate School, 2006), pp. 67-68.

2.2.2 Lack of leadership

2.2.2.1 Competition over leadership between China and Japan

Another constraint factor standing in the way of regional integration in Northeast Asia is the lack of leadership. The two major powers, China and Japan, have not shown sufficient leadership in this sense. There has been a cooperative momentum building in East Asia, or Northeast Asia in particular amid the environment of growing economic development since the end of the Cold War. However, tensions have mounted as both China and Japan rely on their massive economic status in the global society and hope to shape the integration into their own scheme. Aside from the China-Japan relationship, there are other constraint factors that slow down the movements toward integration such as the lack of policies toward cooperation and the influence coming from the US. While explaining cooperation among nations, Keohane pointed out:

If discord is to be limited, and severe conflict avoided, governments' policies must be adjusted to one another. That is, cooperation is necessary. One way of achieving such mutual policy adjustment is through the activities of a hegemonic power, either through *ad hoc* measures or by establishing and maintaining international regimes that serve its own interests while managing to be sufficiently compatible with the interests of others to be widely accepted.⁸⁷

In the case of EU, there were strong will and efforts of France and Germany, the two economic powers. For the successful launch of NAFTA, the role of the US was instrumental. Likewise, Brazil and Argentina led the discussion over Mercosur into a

⁸⁷Robert O. Keohane, *After Hegemony : Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984), p.243.

success.⁸⁸ For China, regional stability is crucial for its continued growth and would not risk undermining its trade and investment relations with others. Since the initial framework agreement with ASEAN in 2002, China has actively pursued regional cooperation. The pursuit of close regional cooperation by China has been in line with its foreign policy that aims at growth of the Chinese economy. In other words, China needs a stable relation with its neighboring states including Japan to achieve its goal of economic development.⁸⁹ On the part of Japan, it wants to maintain a good and stable relation with China in consideration of the huge Chinese market for investment and trade.⁹⁰ With the perception of mutual interests, the two powers will have no other choice but hammer out some ways to cooperate. However, contrary to this optimistic hypothesis, there are the chronic mutual distrust and differing views over their history, all of which have caused instability in the region. On the security front, China is suspicious of the US-Japan Security Treaty as it has China as the potential target. The end of the Cold War could have dissolved the treaty long ago. However, the military relation between the US and Japan has become closer than ever. Japan is suspicious of China's intention of becoming the regional hegemonic power based on the growing economic and military strengths. Many in Japan view the growing wealth of China backed by its vast pool of low-cost labor will hollow out Japan's industry and China's large and modernizing nuclear-armed military will threaten Japan's national security.⁹¹ The mutual distrusts have prevented both China and Japan from taking leadership in installing a regional institutional mechanism. Japan has relied on regional cooperation to secure its economic stability on one hand. On the other hand, Japan has utilized its cooperative relations with others to keep China under control, as

⁸⁸ Ahn and Park, "A Politico-Economic Approach to Northeast Asian Regional Cooperation: Search for a New Model and Korea's Strategies", p. 35.

⁸⁹ Gyoo-Sang Seol, "East Asian Economic Integration and Its Limit: Focusing on Approaches to Regionalism and Leadership Capacity of China and Japan," *The Korean Association of Area Studies* 24, no. 3 (2006), pp. 121-122.

⁹⁰ *Ibid.*, p. 130.

⁹¹ Edward J. Lincoln, *East Asian Economic Regionalism* (Washington, D.C.: Council on Foreign Relations ; Brookings Institution Press, 2004), p.240.

shown by its active participation in the regional cooperation within the framework of ASEAN+3. Moreover, Japan consistently made efforts to have India, Australia and New Zealand into the East Asian Summit to counterbalance China's growing influence in East Asia.⁹²

2.2.2.2 Lack of policies for integration

Another reason that explains the lack of regional leadership in economic integration in East Asia is based on the fact that there are no coherent policies in any of the two major powers, China and Japan, to that effect. In China's case, the leadership issue is challenged more from its domestic factors. China has pursued economic development while maintaining a stable management of relations with neighboring countries amid its competition with Japan. China signed a free trade agreement with ASEAN and participated in the Declaration on the Conduct of Parties in the South China Sea in November 2002 and the Treaty of Amity and Cooperation in Southeast Asia (TAC) in November 2003. With all these efforts, China aimed at changing its hostile image perceived in the region. In Northeast Asia, China has played a crucial role as a conciliator for the multilateral approach on the North Korean nuclear issue. It may be early to say that these efforts have planted confidence in China, but its efforts have been successful to position itself as an influential entity in East Asia. Contrary to the external achievements, there are areas to be addressed in domestic issues. The case in point is the instability with regard to the transition into a full market economy. China has pursued capitalistic economic policies after the Chinese government adopted the reform and open policy in 1978 when the Communist Party of China under the leadership of Deng Xiao Ping. However, on the political front it still maintains socialist polity. The Chinese economy system is so-called "state capitalism", a system

⁹²Takashi Terada, "Directional Leadership in Institution-Building: Japan's Approach to ASEAN in the Establishment of PECC and APEC," *The Pacific Review* 14, no. 2 (2001), p. 8.

in which the state functions as the leading economic actor and uses markets primarily for political gain.⁹³ The state capitalism shows the existence of close ties between those who govern the country and those who run its enterprises. Although the Chinese government advocates a comprehensive market principle, it is hardly conceivable to expect a country where a widespread government intervention exists to exert leadership over others where market economy functions. The strong influence by the Chinese government on the economy sector has been the base of inefficiency in state-owned enterprises, oversized central bureaucracy and financial institutions with huge debts.⁹⁴ Despite a series of reform measures introduced to the private sector economy at a considerable level, the Chinese government still takes an active role in guiding development in close co-operation with business interests.⁹⁵

Meanwhile, Japan has not gained sufficient trust from regional members. That is because Japan has not assured them of its will to provide public goods as a leader. Some find the reason of insufficient support from the region from the negative perception held by the regional members about the past history. Specifically, the memory of the so-called Greater East Asian Co-prosperity Sphere still lingers and, if Japan comes up with another initiative of integrating regional economy, that action could be perceived as another attempt to advance into the region.⁹⁶ However, the negative perception about the history is insufficient to explain Japan's feeble status as a leader. In fact, Japan has poured efforts to improve its image since the Fukuda Takeo announced the so-called "Fukuda Doctrine"⁹⁷ in 1977 with success to some

⁹³Ian Bremmer, "State Capitalism Comes of Age," *Foreign Affairs* (May/June 2009).

⁹⁴Katzenstein, "Regionalism and Asia", p. 8.

⁹⁵Clem Tisdell, "Economic Reform and Openness in China: China's Development Policies in the Last 30 Years," *Economic Analysis & Policy* 39, no. 2 (2009), p. 287.

⁹⁶Terada, "Directional Leadership in Institution-Building: Japan's Approach to ASEAN in the Establishment of PECC and APEC", p.202.

⁹⁷In 1977 the then Prime Minister Fukuda announced his doctrine, which became the general principle of Japan ever since in Japan's relations with East Asian states. The doctrine proposes: (1) Japan would

extent. The cause of distrust lies in the fact that East Asian states do not fully sympathize with Japan's East Asia policy.⁹⁸ Japan has failed to provide a reliable policy to share benefits with East Asian states and does not seem willing to do so. Japan's unwillingness to support fundamentally the East Asian region was shown later by its passive role in the face of the IMF's structure adjustment policies during the financial crisis in 1997.⁹⁹ Japan's policy toward East Asia is more likely a strategic approach to nurture its own benefits based on its East Asian policy with which it maintains a closer tie with the US and counter the rising Chinese influence in the region. The East Asian community that Japan designs will not harm the US-Japan alliance and any other states, with the possibility open for the US to voice its opinion in the regional developments.¹⁰⁰ The increased number of EAS member states, including Australia, New Zealand and India, can be seen as part of such efforts by Japan to strengthen its relations with the US and counterbalance the growing influence from China.¹⁰¹ Japan has wanted since long ago to play the central role in East Asia while the nations in the region perform their function of supporting its industrial strategy. The highest priority for Japan has been to create and maintain a favorable environment for its economic dominance, and its East Asian policy was unfurled in that context.¹⁰² For Japan, the strategic value of East Asia is the reliable

never become a military power and would work to promote peace and prosperity in Southeast Asia; (2) Japan would build relationships with governments in the region based on mutual trust; and (3) Japan would work cooperatively with ASEAN through an equal partnership to strengthen regional solidarity.

⁹⁸Chang-Soo Jin, "Japan's 'East Asian Community Initiative' - Progress, Issues and Response from South Korea," *Sejong Policy Research* 2011-15 (2011), p. 10.

⁹⁹ Japan was the largest lender with a loan of USD 260 billion in 1996 to Asian nations, which was the largest market for investment and export. The financial crisis in the region could be a significant threat to Japan and made Japanese financial institutions rush to collect their credits aggravating the situation during the period of crisis.

¹⁰⁰Gi-Seok Kim, "Japan's Policy of East Asian Regionalism: ASEAN+3, EAS and East Asian Community," *National Strategy* 13, no. 1 (2007), p. 76.

¹⁰¹*Ibid.*, p. 77.

¹⁰²Christopher W. Hughes, "Japanese Policy and the East Asian Currency Crisis: Abject Defeat or Quiet Victory?," *CSGR Working Paper* 24, no. 99 (1999), p.3.

supplier of resources and a market for Japanese products. The Official Development Assistance (ODA) and direct investments from Japan have greatly contributed to the economic growth of the nations in the region. However, critics point to the fact that Japan's ODA has been used not so much to help developing countries as to advance Japan's own economic interests. Also, the bigger part of Japan's ODA is allocated to motivate commercial interests and induce profits for Japanese companies.¹⁰³

2.2.2.3 US influence

There are several other factors that have slowed down the process of regional integration in Northeast Asia in addition to those listed on the above. For example, there are the development gap between China and Japan, differences in political and economic system, and lack of trusts deriving from disputes over territorial history issues. Another factor to be considered in that respect is the influence of the US. The US has been keen about China's growing influence in Asia Pacific. The Sino-American relation carries significance, as it affects not just their bilateral issues but East Asian regional and even global issues as well. China became the second largest economy in the world, after overtaking Japan in 2010, representing the most salient advancement among the so-called "Rise of the Rest" in the 21st century. China made an offer to the US to maintain a "New Type of Major Country Relationship (*xinxing daguo guanxi*)" during the fourth round of the Strategic and Economic Dialogue (S&ED) held in Beijing in May 2012. In February 2012, then presumptive President Xi Jinping proposed four ways for the United States and China to build a new type of relationship based on four principles: 1) steadily increase mutual understanding and strategic trust, 2) respect each other's core interests and major concerns, 3) work hard to deepen mutually beneficial cooperation, and 4) steadily enhance coordination and

¹⁰³Fumitaka Furuoka, "International Comparison of Japan's Official Development Assistance (Oda) Policy," *MPRA Paper*, no. 11899 (2009), p. 3.

cooperation in international affairs and on global issues.¹⁰⁴ The offer of a new type of relation can be understood within the context of China's foreign policy in response to the "Pivot to Asia"¹⁰⁵ policy declared by the US.¹⁰⁶ Although the possibility of the two states' going into a form of full-fledged conflict is not high, it is likely that the tensions will continue to build up for the time being over the leadership in Northeast Asia.

In this chapter, we have identified the geographical definition of Northeast Asia and its geopolitical implication to begin the analysis of Northeast Asian regionalism. In the process we have looked into the creation and development of ASEAN as an example of how regionalism began to emerge and develop in East Asia. As shown above, Northeast Asia has yet to develop regionalism, although its economic and political influence is much larger than that of Southeast Asia. There are several reasons that explain the lack of regionalism in Northeast Asia. First of all, the region is politically fragmented although economic interdependency has become closer than ever. The lack of leadership in the region provides another explanation, in the situation where China and Japan, the two regional powers, confront against each other. The existence of US interests in the region is another significant factor that causes slow development of regionalism in Northeast Asia.

¹⁰⁴Caitlin Campbell and Craig Murray, "China Seeks a "New Type of Major-Country Relationship" with the United States," (U.S.-China Economic and Security Review Commission, 2013).

¹⁰⁵ Pivot to Asia policy has been promoted by the Obama administration moving away from the Middle East toward Asia, with the main factor driving US interest in Asia being the growing economic and military power of China. (Justin Logan, "China, America, and the Pivot to Asia," *Policy Analysis*, no. 717 (January, 2013), p.1.)

¹⁰⁶Heung Kyu Kim, "Research on the Changing U.S.-China Relation and Its Impact on the U.S.-South Korea, U.S.-North Korea and North-South Korea Relations," (Seoul: Ministry of Unification, Republic of Korea, 2012).

CHAPTER III

REGIONAL IDENTITY IN NORTHEAST ASIA

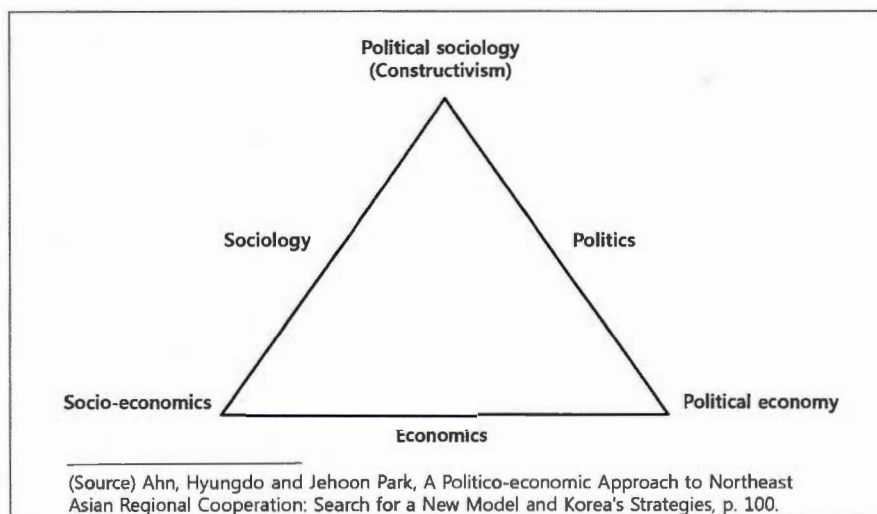
Economic interdependence comes as a crucial element in the formation of regional cooperation in the path toward integration. There are other factors to consider in relation to regional integration, which encompass political, security and social aspects. In order to discuss regional integration in Northeast Asia, we will first take a look at where the three member states are in relation to their regional identity. For that purpose, we will look into the historical background, particularly during the Cold War era, which nurtured nationalism and the slow development of cooperation in political realms in the region.

3.1 Northeast Asian identity

Northeast Asia is fragmented politically while economic integration is in rapid progress as we have seen in previous chapters. To make the growing economic interdependence develop further to contribute to the regional integration, there must be a balanced cooperation in other areas than economic activities.¹⁰⁷ Figure 3.1 shows how this cooperation across inter-disciplinary areas, i.e., politics, sociology and economics, are structured for a regional integration. The top part represents the combination of socio-political aspects, as empathized in the constructivist theories, and shows how social aspect is situated in its relation with economic and political aspects.

¹⁰⁷Ahn and Park, "A Politico-Economic Approach to Northeast Asian Regional Cooperation: Search for a New Model and Korea's Strategies", pp. 99-102.

Figure 3.1 Interdisciplinary Consolidation of Regional Integration Theories



Identity is the basis of a self and is formed in the process of defining the self in relation to the others.¹⁰⁸ The content of an individual state's identity represents how it defines its national interests. Constructivists focus on the process of formation of identity more than its contents or characteristics. Social identities and interests are always in process during interaction.¹⁰⁹ While realists characterize national interests as "self-help", the notion in the context of constructivism is not given but flexible in the process of formation. Individual states interact among one another with open possibilities and co-construct new social identities and interests. To form a community in Northeast Asia, there has to be efforts to build a collective identity by way of interactions in diverse areas among concerned parties. It is necessary to promote social and cultural exchanges and cooperation, which can lay the ground for the sense of community and collective identity. The practice of utilizing the exclusive national sentiments for political purposes, as frequently witnessed in Northeast

¹⁰⁸Wendt, "Collective Identity Formation and the International State", p. 385.

¹⁰⁹Ibid., p. 386.

Asia poses a serious obstacle. The growing nationalism among the three states has its roots in the wide gap of perception of the history in the region and suspicion of the intention of neighboring nations. The gap in understanding of historical experiences made its way through various competitive relations in the region and made each of the three states consider as a victim.¹¹⁰ As such, the past experiences and the differing interpretation led to a high level of nationalism, preventing the three states from advancing regional cooperation.¹¹¹

In the case of Northeast Asia, the role of Western powers in the region at the turn of the 20th century and the subsequent structure of confrontation throughout the Cold War era made the region different from Europe in terms of creating a community. Not just Northeast Asia but also the East Asian regions as a whole show the mixture of the traits of both pre-modern and modern eras. The legacy of the past still affects current political landscape. The compressed history of modern era produced coexistence of the past and present. In addition, it is notable that the order of modern era in Northeast Asia was not formed on its own but forced by external forces. Another difference between the international order in Northeast Asia, as well as the entire East Asian region, and that in Europe during the Cold War, is that East Asian states maintained bilateral, not multilateral security relations with either one of the two hegemonic powers,¹¹² i.e., the US and the Soviet Union. There was not a regional framework that could govern their relations multilaterally. With the end of the Cold War, the necessity to form a multilateral relation came into existence. However, their

¹¹⁰Gilbert Rozman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization* (Cambridge: Cambridge University Press, 2004), p. 17.

¹¹¹*Ibid.*, pp. 354-359.

¹¹²Tae Woon Kim, "Possibility of U.S.-China Power Transition and Security Cooperation System in Northeast Asia," *The Journal of Asian Studies* 12, no. 1 (2009), p. 34.

efforts in this regard remain at an initial stage, with the ASEAN Regional Forum being the only form of security community.¹¹³

Amid the state of a “Modern Sphere,” Northeast Asia is now faced with a new form of network governance in the 21st century. Economic interdependence grows across borders within the region. However, different polities among the three states and clashing national interests over hegemonic leadership between China and Japan, inter-Korean relations, and the US influence in the region stand in the way of regional integration. As such, the Northeast Asian regional identity is unlikely to emerge in the near future unless the legacy of the Cold War and the animosities from unresolved historic and territorial issues are settled in one way or another. However, a social memory is not something that can be “reset”¹¹⁴ so easily, especially when animosities fuel nationalism as today. The bilateral relations among the three states, that is, China-Korea, China-Japan and Japan-Korea, seem to be relatively relaxed, but trusting relationship in Northeast Asia as a whole is still far away. Thus, it becomes important to keep the mutual and trilateral interdependence growing while making additional efforts to encourage exchanges in various private sectors to that effect. The way nationalism affects state interests should be treated as “an open, empirical issue, not assumed *a priori* to produce egoism inevitably.”¹¹⁵ In other words, nationalism itself may not be a problem as long as it does not entail egoism. Taking an example of the exclusive and chauvinistic German nationalism in 1939, which went through a change to harmonize with the European community today, Wendt embraced the possibility of the “constructive nature of nationalism.”¹¹⁶ European and Southeast

¹¹³Jin Yeong Jeong, "From Periphery to Center: South Korea's External Strategy for Northeast Asian Economic Hub," *Korean and World Politics* 20, no. 1 (2004), p. 190.

¹¹⁴Mutsumi Hirano, Collective Identity and Regional Cooperation in Northeast Asia?, The BISA Conference 2013.

¹¹⁵Wendt, "Collective Identity Formation and the International State", pp. 387-388.

¹¹⁶*Ibid.*, p 387.

Asian nations have shown a state-centric tendency but they have also respected sovereignty and the principle of non-intervention.¹¹⁷ In contrast, the three Northeast Asian states have held on to the state-centrism to an extent where state interest overpowers the interests at regional level.¹¹⁸ Therefore, the issue of how to create and nurture common interests at regional level can be crucial in veering the contemporary nationalism toward a more constructive manner.

3.2 Nationalism in China, Japan and South Korea

In East Asia, the security issue has always been on top of the priority list and the states in the region are not prepared to yield their sovereignty for any other cause. The sentiment of nationalism lies in the core of the obstacle that worked against the formation of regionalism.¹¹⁹ Nationalism in Northeast Asia developed differently from one state to another, depending on the unique situation surrounding them. It has to be noted that the nationalism found in this region hinges in large part upon the legacy of the recent past. Perceptions about what happened in the past vary considerably across states. An empirical study conducted on university students in the three states showed that not only the balance of economic and military power but also “the impact of the beliefs about the shared past has on the perception of threat”.¹²⁰ Perceptions of the shared past and the resulting impact on the growth of nationalism, therefore, can play a crucial role in the formation of the present and future foreign policy preferences.

¹¹⁷Eun Ju Chi, "Regional Identities and Nationalism in the Shaping of Northeast Asia Communities," *New Asia, New Asia Research Institute* 15, no. 3 (2008), p. 139.

¹¹⁸*Ibid.*, p. 140.

¹¹⁹He, "East Asian Ideas of Regionalism: A Normative Critique", p.119.

¹²⁰Peter Hays Gries et al., "Historical Beliefs and the Perception of Threat in Northeast Asia: Colonialism, the Tributary System, and China -Japan -Korea Relations in the Twenty-First Century," *International Relations of the Asia-Pacific* 9 (2009), p. 247, p. 263.

3.2.1 China

Since the foundation of the People's Republic of China in 1949, the leaders of the Chinese Communist Party has maintained a tendency to utilize national sentiments in their pursuit of both political and economic goals. Chinese nationalism stimulated and developed by the government has played a significant role in the political realm in China.¹²¹ Nationalism in the form of political doctrine emerged in the mid-1980s after the Opium War during 1840-1842.¹²² Chinese nationalism grew even stronger with the successful economic growth since the 1990s and, together with the long tradition and cultural assets, supported the emergence of China in the global stage. There is the basic sentiment to recover the honor and dignity damaged by a series of humiliation in recent history. To China, the West has changed from an object to imitate to a competitor in the real world while integrating into the global society. Zhao categorizes the evolvement of nationalism in China into three forms: ethnic, liberal and pragmatic liberalism.¹²³ The ethnic nationalism surfaced amid the general sentiment after the intrusion of foreign forces in China to redeem humiliations China suffered. At this stage, it was the *Han* majority that played a central role in the development of nationalism. At the turn of the 20th century, along with the political and economic tumults, a new form of nationalism, liberal nationalism, took over the Chinese society. The characteristic of liberal nationalism was that it was opposed to both Western forces and, at the same time, the state. The growing liberal nationalism was a significant challenge for the Chinese Central Party (CCP) as it was faced with pressures from two sides, i.e., foreign forces represented by the US and Japan in particular and liberal nationalists who resisted foreign pressures and called for active

¹²¹Peter Hays Gries, *China's New Nationalism : Pride, Politics, and Diplomacy* (Berkeley: University of California Press, 2004).

¹²²Suisheng Zhao, "China's Pragmatic Nationalism: Is It Manageable?," *The Washington Quarterly* 29, no. 1 (2005), p. 132.

¹²³*Ibid.*, p. 133.

political participation by the population in the country. The pragmatic nationalism, which emerged in the early 1980s, has been the current feature of China's nationalism. The pragmatic nationalism shows a middle road and interest-driven tendency and avoids ideological doctrine. It is the current reality, therefore, that CCP tends to rein in rising influence from the liberal nationalists.¹²⁴

A recent analysis over the contemporary trend of China's nationalism addresses the issue from the angle of the state-society relation.¹²⁵ According to the research, the Chinese contemporary nationalism developed in three stages from 1980s first with "liberal nationalism" characterized by China's openness and the efforts to learn from the West. The liberal nationalism was then followed by "patriotic nationalism" and "social nationalism", each characterized "defensive" and "offensive", respectively. The current stage belongs to the social nationalism, where the core of the society is made up of "*Fen Qings*" or "angry youths", who maintain a critical stance both internationally and domestically. Mostly born after the 1980s during the period of China's economic growth, these groups of youths are unhappy not just with western societies but also with their domestic situation.¹²⁶ They are unhappy with the perceived unfair treatment of China by others. They have led a series of demonstrations against the US, Europe and Japan in that context. The long-lasting humiliation and the poverty that suppressed China have been slowly overcome but the sentiments against those surrounding China are expressed frequently in the form of nationalism.

¹²⁴Ibid., pp. 142-143.

¹²⁵Lijun Yang and Chee Kia Lim, "Three Waves of Nationalism in Contemporary China: Sources, Themes, Presentations and Consequences," *East Asian Institute Working Paper 155* (2010), pp. 4-5.

¹²⁶Ibid., p. 17.

3.2.2 Japan

On June 9, 1995, Domiichi Murayama, then Prime Minister of Japan announced a statement, expressing “deep remorse” and “apology” for the colonial rule and aggression. However, there were also movements to the contrary in the Diet of Japan. New groups appeared in Japan around the announcement of the statement. The first one was the “League of Members of Parliament for the 50th Anniversary of the End of the War” in December 1994 led by Seisuke Okuno, leader of the Liberal Democratic Party. There was also the “Diet Member Group for Considering Japan’s Future and History” in 1997. These two groups shared their understanding of the past, as they were opposed to the so-called “masochistic historical viewpoint” allegedly imposed by the war victors. They argued that Japan needed to take on roles that were more political and carry out responsibilities commensurate to the economic influence it had. As a result, they took a strong stance in relation to such issues as revision of the history textbooks for school students, hardline resistance on territorial issues and resumption of tributes in the *Yasukuni Shrine*.¹²⁷

External factors for the growing nationalism in Japan derive from its relations with neighboring states on several issues: the rise of China and the legacy the two states both share, nuclear development in North Korea, and the growing pressure from Japanese public calling for an equitable partnership with the US.¹²⁸ Internally, the stagnating Japanese economy and the new generations have formed the ground of contemporary nationalism in Japan. The new generations generally perceive that they

¹²⁷Yasukuni Shrine is a Japanese shrine to war deads from 1867–1951. This eligibility includes civilians in service and government officials. However, those judged as war criminals at the International Military Tribunal for the Far East (IMTFE) during the Second World War were later enshrined. The visits by Japanese Prime Ministers and government officials to the shrine have been criticized by China, South Korea, and Taiwan as being revisionist and unapologetic about the events of the past war.

¹²⁸Arpita Mathur, "Japan's Contemporary Nationalism: Trends and Politico-Security Drivers," *Strategic Analysis* 31, no. 1 (2007), pp. 113-114.

are not responsible for what happened in the past.¹²⁹ The emergence of post-war generation represented the general trend in which the Japanese identity has been rearranged toward conservatism.¹³⁰ The shift from the post-World War II pacifist tradition toward more conservative and nationalistic sentiments among the young generations is attributable to the continued disputes over history and territorial issues with neighbors, growing influence from conservative media and intellectuals and declining voice from leftist parties.¹³¹ Sasada brought to our attention additional factors that explain the shift toward nationalistic sentiments among youths since the 1990s, such as the growing popularity of nationalist *manga* (Japanese comic books), increasing Internet use and interest in international sporting events where sports are used to perpetuate antagonistic notions of identity.¹³²

The growing nationalistic sentiment in Japan was at its highest with the election of Junichiro Koizumi in 2009 as new Prime Minister of Japan. He knew well about the damage to the Northeast Asian regionalism if Japan failed to manage its bilateral relations with China and South Korea. However, he must have judged that a strong Japan based on national pride among the Japanese public weighed more than its relations with neighboring countries did. Koizumi's strong stance was relayed later to Shinzo Abe in 2012. Abe has been successful in gathering the population around the so-called *Abenomics*. *Abenomics* is the name of the economic policy with an aim to revitalize the sluggish economy with a massive fiscal stimulus, aggressive monetary easing from the Bank of Japan, and structural reforms to boost Japan's competitiveness. It is notable, however, that economic recovery in Japan led by Abe's

¹²⁹Ibid., p. 117.

¹³⁰Dong Sung Kim, "Regional Security Order in Northeast Asia and Nationalism," *National Strategy* 15, no. 4 (2009), pp. 12-14.

¹³¹Hironori Sasada, "Youth and Nationalism in Japan," *The SAIS Review of International Affairs* 26, no. 2 (Summer 2006), p. 112.

¹³²Ibid., p. 112, p. 120.

leadership coincided with repeated conflicts over the territorial and history issues and, as a result, accompanied by aggravating nationalism in Japan. It has thus been a routine that the Japanese political leaders tend not to be hesitant to confront or even trigger frictions with China and South Korea over historical issues during the times of rising tensions with these neighboring countries. He was able to combine national pride of economic recovery with nationalism. Although the contemporary nationalism in Japan differs from the pre-war militarism, it tends to incline toward stronger national defense policies and negative views of neighboring countries, accompanied by xenophobic sentiments especially in the youths generation.¹³³

3.2.3 South Korea

The Korean nationalism in recent history has been formed throughout the period of colonialism and imperialism brought by Japan at the turn of the 20th century. Thus, the characteristic of its nationalism shows a tendency of anti-colonialism and anti-imperialism. What matters is that the Korean nationalism failed to develop into a systematic ideology along the path, because it could not develop a society with middle class citizens wealthy enough to lead the social reform.¹³⁴ Devoid of the middle class citizens and a series of invasion from outside, Korean nationalism was directed toward anti-foreign forces rather than internal necessity to fight against feudalistic order. That is, the Korean nationalism laid emphasis more on its independence than the necessity of liberty within the territory.¹³⁵ However, the whole territory turned into the battlefield for surrounding powers, first with the war between China and Japan and then another one between Russia and Japan. Amid the turmoil

¹³³Ibid., p. 111.

¹³⁴Hae Lee Hahn, "A Study on the Historical Characteristics of Korean Nationalism : The Prospect of Korean Nationalism as Unification Ideology in Korean Nation" (Inha University, 2001), pp. 47-50.

¹³⁵Ibid., p. 46.

of wars, the Korean society failed to grasp the opportunity to form a modern nation-state and lost its sovereignty to Japan in the early 1900s. Soon after its liberation after the end of the Second World War in 1945, the nation was divided into two with a communist regime established in North, exposed completely to the confronting logics between the US and the Soviet Union. The division into two Koreas prevented nationalism from growing into a major political influence and created an environment where the sentiment of nationalism was mobilized as a way to strengthen the political ground of the ruling parties. Such a tendency has its base on the fact that the formation of nationalism could not be systemized to be incorporated into a unified policy but exist only as the sentiment among people. In this sense, the nationalism in the Korean society can be described as a national sentiment without a clear goal or direction, which often leads to temporaneous and unorganized manifestation of patriotism.¹³⁶

To form a community in Northeast Asia, interactions in diverse areas among the three states come as an integral element in that effort. However, efforts were made mostly on economic aspects and did not spill over into political realms, as shown above. Such a tendency has its root in the confrontation among the states in the region during the Cold War and growing nationalism, which fuel animosity against one another. This nationalistic sentiment is even stimulated intentionally by the politicians too often. What matters here is that the aggravating nationalism creates a situation where the interests at regional level are overpowered by state interests.

¹³⁶Jong Kwon Lee, "A Study on the Development and the Future Prospect of Korean Nationalism: In Relation to the Characteristic of Korean Nationalism" (Inha University, 2006), pp. 50-57.

CHAPTER IV

CHINA-JAPAN-KOREA FTA

CJK FTA was first included as part of the agenda during the summit talk among the three states in 2009, giving birth to the first official round of meeting in March 2013 with two subsequent meetings following in the same year. The three states shared an ambitious goal of creating a single intra-regional market, addressing such issues as commodities, rules of origin, services, and intellectual property rights. However, the complexity in the region, with rivalry over powers between China and Japan and between the US and China, with South Korea being posed in-between, barred them from producing concrete results out of the meetings. The three participants to the negotiation were motivated by different reasons both in economic and political arena. This chapter will review how the subject of FTA was initiated in the first place and show the different positions of the three states in their approaches toward the talks over FTA. Then there will be a review on the outlook of the effects that are expected to be brought by the trilateral FTA on both economic and political fronts.

4.1 Discussions over China-Japan-Korea FTA

The leaders of China, Japan and South Korea held five summit meetings since 2008 until 2012. The sixth meeting scheduled in May 2013 was canceled due to the Japanese government's decision to nationalize the disputed islands and a series of subsequent protests from China. The history of summit meeting in fact dates back to 1999, when the three leaders gathered separately at the venue of the ASEAN+3 Summit. It was an informal breakfast meeting but later it took form of a formal

annual meeting and gave birth to the ministerial-level "Three Party Committee" in 2004. There were also a series of Trilateral Summit Meetings held annually from the year 2008. However, the trilateral summit meetings among the three states began as part of the ASEAN Summit, not out of their own needs. Furthermore, the fact that the sixth meeting scheduled for 2013 was aborted due to the territorial conflict indicates that the process of cooperation among the three was still at the mercy of abrupt political developments.

The issue of the CJK FTA was first discussed in October 2009 as part of the agenda of the summit talk held in Beijing. During the summit talk, the heads of the three states reached an agreement to work together on a trilateral FTA. They agreed to set up a schedule for further negotiations later in May 2012. The first official negotiation of FTA was made in March 2013 in Seoul, followed by the second meeting in July in Shanghai and the third one in Tokyo in November. However, being at the initial stage of negotiation the three states have revealed a gap in their respective position over the category as well as the territorial issues, implying that there will hardly be a specific outcome in the near future.¹³⁷ In addition, Japan has already entered into FTA talks with EU and had the Trans-Pacific Partnership (TPP) negotiation underway with the US, which implies that the timetable for the CJK FTA was not a pressing object for Japan to work on. Another factor that makes the prospect of the CJK FTA dim in the near future is the political motivation with which the three parties approach the subject. For China, the CJK FTA can serve as a useful tool against the TPP,¹³⁸ while Japan can slow down the expansion of China in Northeast Asia and in East Asia as a

¹³⁷ *China, Japan, South Korea Conclude First Round Trade Talks*, (South China Morning Post, 2013); available from <http://www.scmp.com/news/china/article/1201948/china-japan-s-korea-conclude-first-round-trade-talks>.

¹³⁸ Guoyou Song and Wen Jin Yuan, "China's Free Trade Agreement Strategies," *The Washington Quarterly* 35, no. 4 (Fall 2012), p.119.

whole by not allowing China to build a network where it aims to play a central role. The motivations of the three states are listed in Table 4.1.

Table 4.1 Motivation for a Trilateral FTA

	China	Japan	South Korea
Common	<ul style="list-style-type: none"> · Enhance efficiency and stability through FTA with growing trade volume · Synergies in expanding production network by liberalizing service and investment in addition to commodity trades · Increase intra-regional market size · Develop economic cooperation into other areas including security and diplomacy 		
Individual	<ul style="list-style-type: none"> · Guard against the possibility of Korea-Japan FTA · Usage as a path toward ASEAN+3 · Usage as counterbalance against TPP led by the US 	<ul style="list-style-type: none"> · Guard against the possibility of Korea-China FTA · Advancement into the Chinese market · Rivalry with China over East Asian regional integration 	<ul style="list-style-type: none"> · Advancement into the Chinese market · Make up for the impacts from the ECFA between China-Taiwan (2010) · Usage as a path toward ASEAN+3

Source: Korea Economic Research Institute (2012)

4.2. Different positions by states

4.2.1 China

China has more political than economic intention in its approach toward CJK FTA.¹³⁹

The very fact represents China's basic policy toward FTAs in general, where political and diplomatic relations are considered first. For China, the bilateral FTA with Korea,

¹³⁹Moon-Hyung Lee, "Economic and Security Significance of CJK FTA and Impacts on the Creation of Peace System in Northeast Asia," in *CJK FTA Seminar* (Seoul, S. Korea: Institute for National Security Strategy, September 2011), p. 38.

(China-Korea FTA) can bring more than economic benefits as it offers geopolitical and strategic advantage in the Korean peninsula. China's economic ties with South Korea can also serve to put pressure on Japan and Taiwan. China has already reaped success with Taiwan as it concluded the Economic Cooperation Framework Agreement (ECFA) in June 2010, agreeing upon subsequent negotiations in full scale before June 2011. Although the ECFA is mutually beneficial to both China and Taiwan, the agreement may have been accelerated in the face of the projected FTA among China, Japan and South Korea, given the competitive relation between South Korea and Taiwan over the huge Chinese market. One of the typical characteristics of China's FTA policy is that it has developing countries as counterparts with exceptions of New Zealand and Singapore. In addition, the partners are mostly Asian countries and these partners usually have abundant natural resources.

After successfully joining the WTO in November 2002, China recognized FTA as an important tool for national trade strategy and has actively increased the number of counterparts since then. Beginning with the Closer Economic Partnership Arrangement (CEPA) with Hong Kong and Macau in 2003 and 2004, respectively, China currently has FTAs with ASEAN, Pakistan, Chile, New Zealand and Singapore. China's FTA policy is characterized as a gradual and flexible approach. At an initial stage, it tends to concentrate on commodity trades and then move on to service areas.¹⁴⁰

¹⁴⁰Yunling Zhang, "The Impact of Free Trade Agreements on Business Activity: A Survey of Firms in the People's Republic of China," *ADB Working Paper Series 251* (October 2010), p.1.

Table 4.2 FTA Partners

	Implemented or Concluded	Under Negotiation	Under Study
China	Hong Kong (EPA 2003) Macau (CEPA 2004), ASEAN (2006) Chile (2006), Pakistan (2007) New Zealand (2008) Singapore (2009), Peru (2010) Taiwan (ECFA 2010), Costa Rica (2011)	Southern African Customs Union (SACU), Iceland, GCC Norway, Australia, CJK*	India, Switzerland South Korea
Japan	Singapore (2002), Mexico (2005), Malaysia (2006) Chile (2007) Thailand (2007), Indonesia (2008) Brunei (2008), Philippines (2008) ASEAN (2008), Switzerland (2009) Vietnam (2009), India (2011) Peru (2012)	South Korea, GCC, Australia, Mongolia, Colombia, Canada CJK, EU, RCEP	TPP
South Korea	Chile (2004), Singapore (2006) EFTA (2006), ASEAN (2007) India (2010), EU (2011) Peru (2011), U.S. (2012) Columbia (2012), Turkey (2012)	Canada, Mexico, GCC Australia, New Zealand Indonesia, China, Vietnam RCEP, Japan, CJK	Mercosur, Israel Central America, Mexico

Source: Ministry of Commerce (PRC), Ministry of Trade, Industry & Energy (S. Korea), METI (Japan)

* China has classified CJK under the category of "Under Study", while Japan and South Korea considers it as under negotiation.

China hopes to create a regional economic community where East Asian states play the main role. It is opposed to the idea of creating the Free Trade Agreement Asia Pacific (FTAAP) led by APEC and is keen to reduce America's influence in Asia. In addition, as Japan has entered into negotiation over joining TPP, China felt the necessity to create actively its own FTA networks,¹⁴¹ which include the China-South Korea and CJK FTA. It would be hardly conceivable for China to watch TPP where Japan participates while CJK FTA fails. Thus, China is likely to concentrate on both CJK FTA and China-ASEAN FTA as its integration into the East Asian region progresses.¹⁴²

¹⁴¹Song and Yuan, "China's Free Trade Agreement Strategies", p. 111.

¹⁴²Sang Kuk Kim, "Prospect of TPP and China's Position," in *Current Issues of the Chinese Economy* (Beijing: Korea Institute for International Economic Policy, 2012), p. 8.

4.2.2 Japan

Japan has both strategic and economic intention toward CJK FTA. The long lasted economic recession for the past two decades has led Japan to boost its exports in a larger market. At the same time, it has been in competition with China over the hegemonic position in East Asia. Japan was once criticized by domestic public opinion that it was lagging behind the race of FTA,¹⁴³ but it has increased its trade network significantly since then. Japan has pursued a more comprehensive form of FTA, which includes not just trade of commodities but ways to improve the general business environment. Japan's FTAs are targeted at developing countries rather than advanced ones with large markets, and they call their FTAs "Economic Partnership Agreements (EPAs)" because EPA covers various elements beyond tariff elimination.¹⁴⁴ Japan's FTA strategy is well expressed in the "Basic Policy on Comprehensive Economic Partnerships", announced in November 2011 by the Japanese government. The policy document states as follows:

(...) WTO Doha Development Agenda, their fate remains uncertain and the networks of high-level EPA/FTAs formed by major trading countries are expanding. Despite these developments, Japan is falling behind (...) It is necessary to deepen economic relationships with Asian and emerging countries whose markets are expected to grow, and with Western and resource-rich countries.¹⁴⁵

Earlier than the announcement of the Basic Policy, the Japanese government had made an official announcement in its White Paper saying that it would pursue

¹⁴³Naoyuki Fukuda, "Japanese Businesses Fear Impact of U.S-South Korea FTA," *Asahi Shimbun*, 14 October 2011.

¹⁴⁴Daitsuke Hirasuka, H. Sato, and I. Isono, "A Study on the Impact of Free Trade Agreements on Business Activity in Asia: The Case of Japan," *ADB Working Paper Series* 143 (2009), p.2.

¹⁴⁵*Basic Policy on Comprehensive Economic Partnerships*, (The Ministry of Foreign Affairs of Japan, 2011); available from <http://www.mofa.go.jp/policy/economy/fta/policy20101106.html>.

bilateral trade policy added to its preference of multilateral approach under the WTO agreement. Such change includes both economic and political positions of Japan. On the economic front, it intends to diversify trade and investment counterparts. Traditionally, Japan had the US, Northeast Asia, ASEAN and EU as its major trade counterparts, with the US being at the top of the partners list. However, with NAFTA taking effect in 1994, the US successfully initiated a free trade area with Canada and Mexico, which caused a relative decrease Japan's weight on the part of the US. At the same time, the increasing trade volume with East Asian states triggered the needs to grow the regional community that could rival with NAFTA and EU. Japan's interest in the East Asian region led to a more aggressive involvement in the region where many Japanese firms had already moved for direct investments due to rising yens after the Plaza Accord in 1985.¹⁴⁶

On the political front, Japan found it more efficient to put more efforts on EPA and FTA strategy than multilateral approach as expressed in the above government announcement. One of the factors that motivated Japan to move in that direction was its competitive relation with China over the leadership in East Asia. The fifth ASEAN-China Summit in November 2001 could be regarded as the direct cause of Japan's policy change. During the forum, China and ASEAN agreed to conclude FTA within ten years. In a swift response, Japan made a proposal of the formation of "East Asia Community" in Singapore in January 2002 at the ASEAN+3 meeting. In 2004, after the approval in the Diet of the basic policy for the EPA in the future and Japan began to proceed with a series of negotiations. Later in 2006, Japan made an official proposal in Kuala Lumpur, Malaysia, to extend ASEAN+3 into including three other nations, India, Australia and New Zealand, and form ASEAN+6. The proposal was met with a strong resistance from China which had insisted on limiting the number to 13 (ASEAN+3) in building a free trade area, but was eventually accepted by the

¹⁴⁶Cheol-Gu Kang, "Japan's EPA Policy and Its Implication," in *Japan Research* (2007). pp. 7-8.

members in November 2011 in Bali, Indonesia. The ASEAN+6 had its first official meeting in August 2013 in Brunei with a goal of completing negotiation on the Regional Comprehensive Economic Partnership (RCEP) in 2015. These movements by Japan indicate that its EPA policy is rather political than economic as it wants to maintain EPA as a method to check China which has been active with efforts to embrace East Asia. What motivated Japan to sign the agreement was its sense of competition with China over FTAs. It has traditionally been the US factor that affects Japan's policies of regionalism. However, the recent moves show that Japan's most powerful rival is its neighbor China. The direct cause of proposing ASEAN+6 shows that Japan is considering both the US and China factors in the short term.¹⁴⁷

4.2.3 South Korea

South Korea stepped into the FTA rush after the financial crisis in 1997. Since then it has been one of the most active countries to conclude FTAs with its trade partners. The counterparts used to be smaller economies at first and then was extended to include larger ones such as the EU, the US, and India. Talks over bilateral FTAs with China and Japan are already underway. The Korea-Japan FTA dates back to 1998 when a bilateral ministerial level agreement took place, but the South Korean government is concerned over the negative impacts from the bilateral FTA with Japan due to the similar industrial structure and Japan's higher comparative advantages in the manufacturing sector. Japan also is not an easy situation to open up its agricultural market, where South Korea has advantages. Given the situation, South Korea is now more interested in the bilateral FTA with China. The prospect of building a trilateral FTA network does not seem easy, as the South Korean

¹⁴⁷Terada, "Directional Leadership in Institution-Building: Japan's Approach to ASEAN in the Establishment of PECC and APEC", p. 8.

government fears massive influx of Chinese agricultural products and widening trade gaps with Japan, which will negatively affect the South Korean economy.¹⁴⁸

4.3 Expected effects of CJK FTA on political and economic fronts

4.3.1 Effects on the economic front

The wave of regionalism has swept the entire East Asian region in full swing since the Asian financial crisis. A series of multilateral or bilateral agreements have created a complex network of economic cooperation to the extent of creating a “spaghetti bowl effect.” If the three states in Northeast Asia successfully give birth to a trilateral FTA, it will form a single and the most dynamic economic zone with a population of a 1.5 billion people. The Northeast Asia has already positioned itself as one of the three pillars in the global economy together with the EU and NAFTA. The total GDP of the three states reached U\$14 trillion in 2011, accounting for about 20% of the total global GDP.¹⁴⁹ Corresponding volumes of the NAFTA and the EU were U\$18 trillion and U\$ 17.6 trillion, respectively.¹⁵⁰ Therefore, it will be worthwhile to look at the positive effects that the CJK FTA may bring to Northeast Asia in the near future.

All of the three states have an export-oriented economic structure and external trade plays a crucial role in their economic development. All of them have participated in the WTO multilateral trade system. The weight of intra-regional trade was recorded at

¹⁴⁸Byung Il Choi and Kyung Hee Lee, "Korea's FTA Strategy from the Perspective of the Formation of RCEP " in *KERI Policy Research*, ed. Byung Il Choi (Seoul: Korea Economic Research Institute, 2012),p. 17.

¹⁴⁹The Ministry of Foreign Affairs of Korea (2011)

¹⁵⁰Ibid.

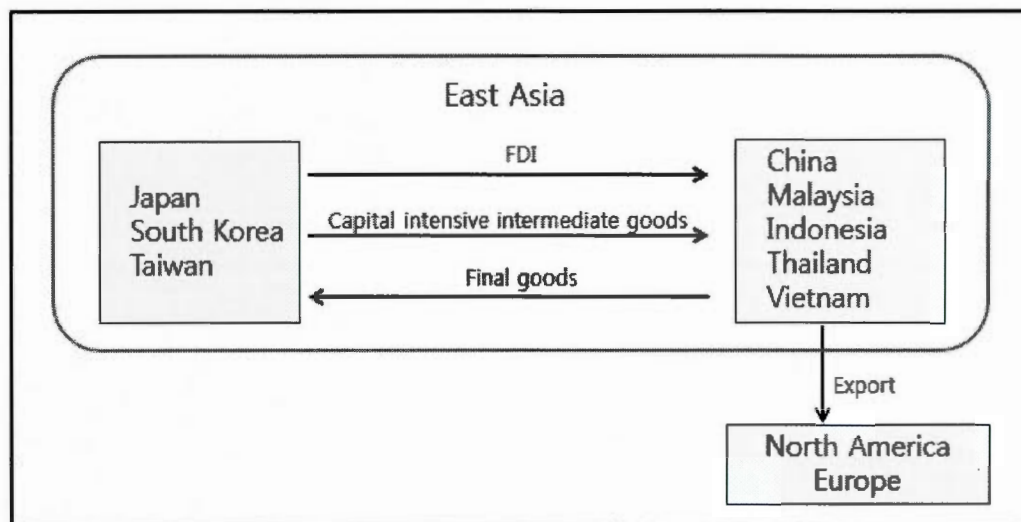
USD 674.3 billion or 21.3% in 2011,¹⁵¹ showing a gradual increase since 1995. China became the largest destination of exports for South Korea in 2003 and the largest market from which South Korea imports in 2004. For Japan, China is the second largest market for exports and the largest importer of Japanese products. Korea is the fourth largest exporters to the Chinese market and the third importer from China.¹⁵² Such relations signify that they have already graduated their previous pattern of unilateral reliance on the US market. The rising trade volume shows that the complementary roles among the three economies are well established. The capital and technology of Japan, management knowhow and capital power of South Korea, and China's labor force, ample natural resources and its dynamic and enormous domestic market can be combined together for the benefit of them all.

The economic growth of China was a substantial variant to the growing trade volume between Japan and South Korea. South Korea's trade volume with China has grown leaps and bounds since the diplomatic relation was made in 1992, except during the period of Asian financial crisis in 1998. The trade patterns in Northeast Asia show the operation of a production network, a structure where the supply chain connectivity is built upon a vertical integration. Japan and South Korea produce capital-intensive parts and semi-finished products for exports to China and the ASEAN region. These products are then assembled and the final products are exported to outer-regional areas including the US and the EU. (Figure 4.1)

¹⁵¹Choi and Lee, "Korea's FTA Strategy from the Perspective of the Formation of RCEP ", p. 14.

¹⁵²*Economy and Trade Statistics of Korea*, (Ministry of Foreign Affairs of Korea, 2012); available from http://www.mofa.go.kr/trade/data/statistics/index.jsp?menu=m_30_210_90.

Figure 4.1 Production Network in East Asia



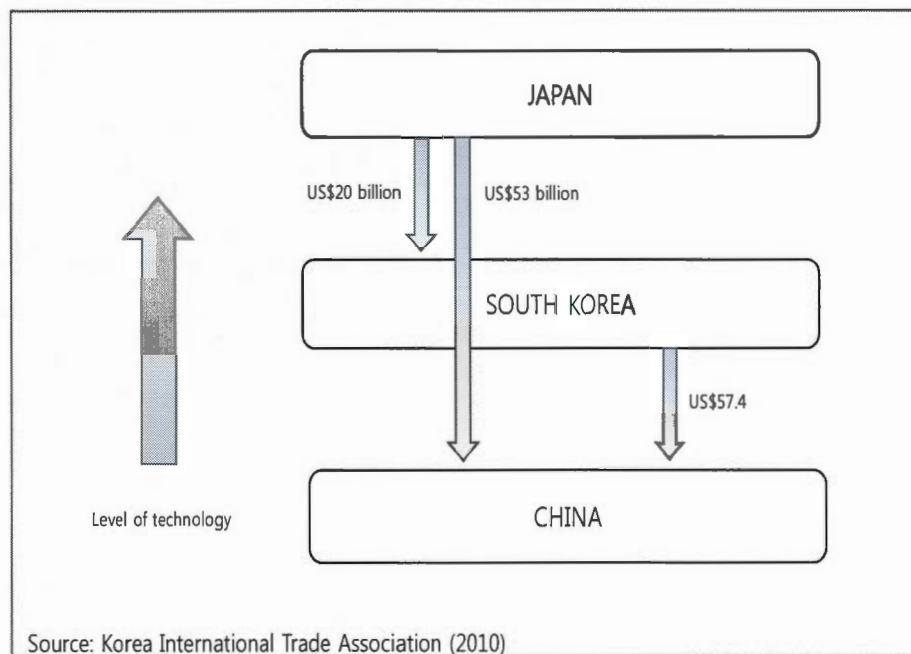
• Source: *World Economy Update*, (April 2011) Korea Institute for International Economic Policy (KIEP); METI White Paper on International Economy and Trade (2012), Ministry of Economy, Trade and Investment of Japan

The existing trilateral trade structure is based on the vertical form of specialized production, which characterizes the trade pattern in the region. Both Japan and South Korea's exports to China show a high ratio of parts and semi-finished products in electronics and machinery industries. Narrowing the scope to the bilateral relation between Japan and South Korea, however, increasing exports from South Korea entail commensurate increase of imports from Japan. The correlation between Korea's exports to other countries and imports from Japan that stood at 0.952 during the period of 1990 and 2007,¹⁵³ signifying that Korea's export depends largely on imports of parts and materials that require high-level technology from Japan.

¹⁵³Eun Kyung Jeon, "Comparative Analysis on the Trade Structure and Industrial Policies of Korea-China-Japan: With a Focus on Parts and Materials Industries," *NARS Report on Current Issues* 115 (2011), p. 8.

Figure 4.2 shows that all of the three states need one another as crucial trade partners. The current vertically specialized trade structure will contribute only to perpetuate their trade relations as long as it continues.

Figure 4.2 Parts and Materials Trades among China, Japan and South Korea

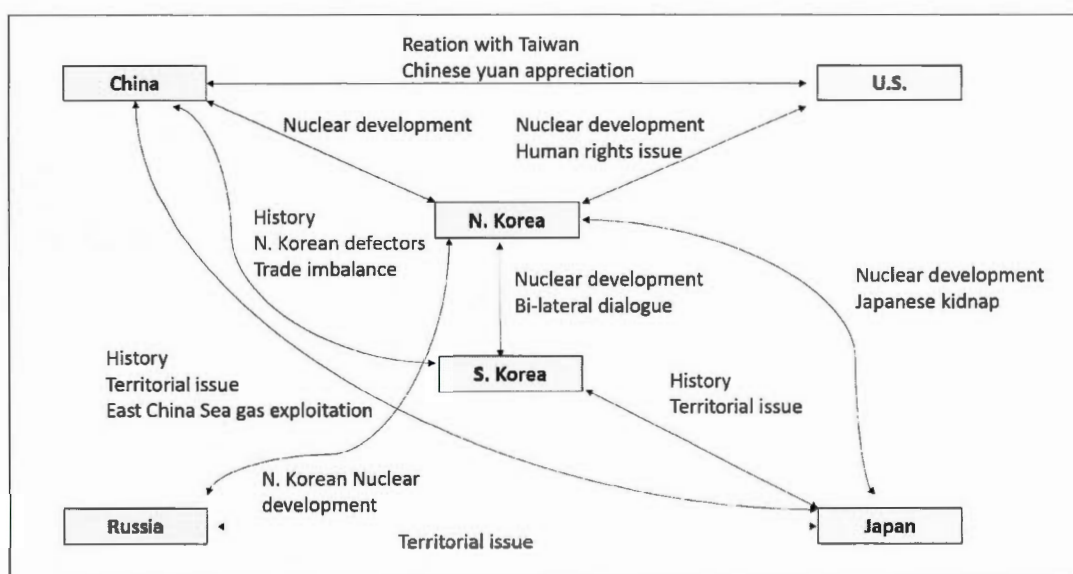


4.3.2 Effects on the political front

Geographically adjacent, China, Japan and South Korea have maintained tense relations both politically and militarily particularly since the turn of the 20th century. (Figure 4.3) Current conflicts among them, either bilateral or common for all of them, have been the underlying cause of the slow development of regionalism in East Asia. The prospect of a peaceful resolution of the ongoing issues is not optimistic at least for the moment, because it happens too often that a single dispute over the territorial

or historic issue results in the stoppage of efforts to promote exchanges in the private and commercial sectors. Animosities against one another are often mobilized intentionally by governments and press, usually leading to a delay or cancellation of ongoing efforts to promote friendly relations.

Figure 4.3 Conflict Factors in Northeast Asia



Source: Office of Prime Minister, Korea

Political conflicts and resulting animosities in the region are sure to negatively affect the development of CJK FTA talks. At the same time, however, we can think reversely by focusing on the impacts of the ongoing talks over CJK FTA on the political relations of the three states. In other words, the booming FTAs in East Asia, particularly the one among China, Japan and South Korea, cannot be discussed out of a political context. As delineated in Chapter II, both China and Japan have extended their respective FTA networks in East Asia as part of their rivalry over leadership in the region. On the part of South Korea also, economic interdependency is not the sole factor that drives the efforts for expanding FTA networks, as its policy has to weigh

“balance”¹⁵⁴ in the political context of China-US rivalry in East Asia. As bilateral or trilateral FTAs among China, Japan and South Korea inevitably entail political consideration, it becomes necessary that CJK FTA has to be understood from the perspective of cooperation in political and security areas,¹⁵⁵ and how it will change the political landscape in the region.

Looking at the relation between China and Japan, the two regional powers have maintained official diplomatic relations since the normalization of diplomacy in 1972. Despite the growing exchanges and developments in economic and cultural sectors, their political relations have gone through difficulties leading them to conflicts and distrust. The bilateral relation involves territorial disputes over the “*Diaoyu Dao*” (“*Senkaku* Islands” as called in Japan) and their differing perceptions of the history among others. China’s concerns over Japan’s efforts to contain China through the US-Japan military alliance have ceaselessly triggered conflicts between China and Japan, both of which rival over the hegemonic power in East Asia.

As for the bilateral relation between South Korea and Japan, the history of colonization of Korea by the Japanese military is still an unresolved issue. The two sides normalized their diplomatic relations in 1965 with an active support of the US and put an end to the existing hostilities against each other. Throughout the Cold War era, both Japan and South Korea served as the bridgehead of the “free world” in Northeast Asia under the leadership of the US against communism in mainland China and the Soviet Union. The period of confrontation with communist China and the Soviet Union made both Japan and South Korea work together leaving the

¹⁵⁴Jae-Kyung Park, “China-U.S. Relations in East Asia: Strategic Rivalry and Korea’s Choice,” in *A Report of the CSIS Korea Chair* (Washington, DC, U.S.: Center for Strategic and International Studies, April 2013), pp. 10-14.

¹⁵⁵Kim, “Significance of China-Japan-Korea FTA in the Economic and Security Sectors and Its Impact on Building a Peace Structure in Northeast Asia”, p. 54.

antagonistic relations behind. The cooperative relation lasted, however, only to the end of the Cold War period. As the imminent threats from the communist bloc dwindled, the past began to haunt their relation again and weakened the bilateral relation during the mid-1990s. However, their economic and political relations have already been closely interlocked in the face of burgeoning economic regionalism and growing competition across East Asia. These changes made South Korea and Japan strengthen their formerly automatic but lukewarm cooperation in political and military areas, and form a relation that was more bilateral and more regional than before.

China and South Korea maintained an antagonistic relation without a diplomatic tie after the foundation of the People's Republic of China in 1949. China pursued in full swing a modernization policy in the late 1970s under the leadership of Deng Xiaoping. Later in 1992, the two states formed a diplomatic relation. While South Korea gave up its diplomatic tie with Taiwan for the One China policy of the Chinese government, China held on to its Two Koreas policy, admitting both North and South Korea in the political context. In other words, the Chinese government has been keen not to harm its traditional relationship with North Korea while developing a new relation with the South. China's policy toward the Korean peninsula has been to enhance regional stability and strengthen its influence in the region in three different aspects: managing its relations with North Korea, the approaches to South Korea, and encouraging a North-South dialogue.¹⁵⁶ The Two Koreas policy, or the separate approach toward politics and economy, began to sag after the North Korean nuclear issue began. Traditional advocate for North Korea, China began to show signs of changing policies toward the North during the times of disputes over the nuclear issue. China limited its oil export to the North at the second nuclear crisis in 2003, and

¹⁵⁶Jia Hao and Zhuang Qubing, "China's Policy toward the Korean Peninsula," *Asian Survey* XXXII, no. 12 (1992), p. 1142.

during the two subsequent occasions of nuclear tests in 2006 and 2009.¹⁵⁷ China even reduced its oil supply to a substantial level for a while after the third nuclear test in February 13, 2013 in North Korea. China has generally opposed sanctions against North Korea, but with the disputes over the third test, it relented and backed U.N. sanctions¹⁵⁸ showing signs of changes in its alliance with North Korea.

As shown above, there still exist a number of unresolved volatile issues that prevent the three states from making closer cooperation. These issues will inevitably be addressed in one way or another in the course of discussions over CJK FTA considering the necessity of a stability in political relations for a continued economic cooperation. In fact, there have been signs of positive effects emerging from economic cooperation which initiated discussions over political issues. (Table 4.3) The series of agenda of the annual Trilateral Summit Meetings were mostly about economic issues in the beginning but began to slowly extended to include more political ones as the meetings continued. Therefore, the commencement of negotiation over the CJK FTA can be seen as a facilitating factor in favor of development into improved relations among countries.

Although the discussion over FTA among the three states was initiated earlier in 2009, the formal negotiation took place four years later in 2013 followed by two other rounds of meeting in the same year. At the initial stage of negotiation, the three participants to the negotiation already revealed gaps in their positions toward the trilateral agreement. For China the agreement would be a tool to guard it against the possibility of Korea-Japan FTA and could be used as counterbalance against TPP led

¹⁵⁷Kwang Soo Kim, "China Put Pressure on Oil Supply after the Third Nuclear Test in North Korea (Translated)," *Hankook Ilbo*, 20 April, 2013.

¹⁵⁸Shaun Waterman, "China Stops Oil Exports to North Korea, Possibly as Punishment for Nuclear Test," *Washington Times*, 22 March, 2013.

by the US. Japan also wants to use the agreement as a counterbalance against China's effort to increase its influence in East Asia, while it aims to increase its market in the region. On the part of South Korea, in its competition with Taiwan over the Chinese market, it hopes to use the agreement as a conduit toward ASEAN+3 and, also, alleviate the impacts from the ECFA between China and Taiwan. With all the different hopes and expectations, CJK FTA is likely to strengthen, if not perpetuate, the already formed production network in East Asia, a vertical structure where Japan and South Korea produce capital-intensive products for exports to China and other ASEAN countries. On the political front, the prospect is not so bright due to a number of conflict factors that exist in Northeast Asia. Such political conflicts and resulting animosities in the region will negatively affect the advancement of talks over the trilateral agreement. However, as the annual Trilateral Summit Meetings have already showed, the meeting agenda of the trilateral meeting have gradually evolved to include sensitive issues, showing signs of positive outlook in search of efforts to relent the tensions.

Table 4.3 Trilateral Summit Meeting Agenda (2008-2012)

Date/Place	Agenda	Major Achievements
1st Meeting Dec. 13, 2008 Fukuoka, Japan	<ul style="list-style-type: none"> · Trilateral cooperation and future development · Policies on the international financial and economic issues · Regional and international issues · Northeast Asian political environment · Climate Change, etc. 	<ul style="list-style-type: none"> · Trilateral Summit Meeting annualized · Agreements on trilateral cooperation
2 nd Meeting Oct. 10, 2009 Beijing, China	<ul style="list-style-type: none"> · Trilateral cooperation and future development · Regional and international issues · North Korean nuclear issue 	<ul style="list-style-type: none"> · Joint Statement on the Tenth Anniversary of Trilateral Cooperation · Joint Statement on Sustainable Development · Agreement on joint study over trilateral FTA
3rd Meeting May 29, 2010 Jeju, S. Korea	<ul style="list-style-type: none"> · Trilateral cooperation and future development · Regional and international issues · G20, climate change, Nuclear Security Summit, non-proliferation, Co-policies in times of financial crisis 	<ul style="list-style-type: none"> · Memorandum of Understanding over Trilateral Cooperation Secretariat (TCS) · Trilateral Cooperation VISION 2020
4th Meeting May 21, 2011 Tokyo, Japan	<ul style="list-style-type: none"> · Trilateral cooperation and future development · Regional and international issues · North Korean nuclear issue · Cooperation between China and Japan at the Nuclear Security Summit in 2012 	<ul style="list-style-type: none"> · Summit Declaration · Agreements on cooperation on nuclear safety, disaster, sustainable growth through recyclable energy efficiency · Commencement of TCS
5th Meeting May 12, 2012 Beijing, China	<ul style="list-style-type: none"> · Trilateral cooperation and future development · Regional and international issues · North Korean nuclear issue · Sustained development · Increase social, human and cultural exchange 	<ul style="list-style-type: none"> · Investment Protection Agreement · Agreement on commencement of CJK FTA in 2012

(note) The 6th meeting was scheduled in April 2013 but was postponed due to the deteriorating relations triggered again by the disputes over territories and history issues.

CHAPTER V

ROLE OF CJK FTA IN NORTHEAST ASIAN REGIONAL INTEGRATION

Northeast Asia is a region where political disputes and competition of military build-up continue. Efforts for self-help are important especially amid the concerns over North Korea's nuclear arms, which make the already conflicting relations more complex among the related parties, including the US. Economic co-prosperity and continued development, on the other hand, have played the role of binding them together. In a close-knit structure of production network, the states in the region have needed one another to continue their own growth in the globalizing economy. However, such economic cooperation has often been subject to abrupt turns caused by political issues and there is not an official, institutional framework in place to keep their individual interests in line with the common goal of co-prosperity. Lack of such framework poses a problem as the three states are devoid of the channels for communication in which their respective interests can be coordinated to form common interests. This chapter will address the role of CJK FTA in its contribution to the regional integration, from the perspective of a formation of an institutional framework in the region, alleviation of conflict structure and, finally, formation of regional identity and common interests.

5.1 Establishment of an institutional framework for communication

The growing volume of intra-regional economic activities in Northeast Asia have contributed significantly in the region in terms of binding the three states together for a common goal of economic prosperity. However, it is also true that they lack in the

sense of community that can make their co-efforts jump to a higher level to cooperate in political and security areas. The facilitating factor for regional integration has no doubt been initiated by economic benefits but it is also required that psychological elements in socio-cultural area have to follow.¹⁵⁹ In fact, there have been efforts to institutionalize cooperative relations in these areas at the private level since the turn of 21st century. (Table 5.1)

Table 5.1 Cooperation at the Private and Provincial Level

Area	Organization	Agenda/Activity
Business	CJK Business Summit (since 2009)	Coordinated response against financial crisis Cooperation over CJK FTA Cooperation over high-tech sectors (energy, environment, etc.)
Society	Group of Thirty (since 2006)	Private policy forum to discuss desirable direction of Northeast Asia's future development participated by celebrities in such areas as journalism and politics
Culture	Cultural Exchange Forum (since 2009)	Exchange of cultural activities among the three states
Sports	Sports Exchange (since 1993)	
	A3 Champions' Cup (2001~2008)	
Local Authorities	Provincial Governments Exchange Conference (since 1999)	Cooperation at the level of local authorities including individual cities, provincial governments

¹⁵⁹Ahn and Park, "A Politico-Economic Approach to Northeast Asian Regional Cooperation: Search for a New Model and Korea's Strategies", pp. 99-102.

Since the ASEAN+3 summit meeting in 1999, there have been a number of tangible outcomes as a result of cooperation. At a higher political level, the three states created a formal institutional form of cooperation under the name of the Trilateral Summit Meeting in 2008. Together with the Trilateral Summit Meetings, there were eighteen ministerial level conferences, over fifty cooperation channels at the government level, and over one hundred on-going cooperation projects. Also, a new organization came into being in September 2011 to govern common issues among them operating under the title of Trilateral Cooperation Secretariat (TCS). The birth of the TCS was the result of the third trilateral summit meeting in May 2010 held in Jeju, South Korea, to seek a more systematic approach toward cooperation. (Table 5.2) The TCS began its operation with its office located in Seoul and funded by the pool of subsidy from each of the three governments.

The goal of the TCS is to materialize the vision of a co-prosperity and peace in Northeast Asia. What matters is that, despite the lofty goal of the TCS and its contribution to the trilateral relations, the organization functions just as the channel for communication with limited responsibilities. It has yet to address the critical or conflicting issues that have bothered the member states to date, revealing its limitation on the roles it carries out.

Table 5.2 Responsibilities of the Trilateral Cooperation Secretariat

Sections	Responsibilities
Political Affairs	<ul style="list-style-type: none"> · Summit Meeting · Foreign Minister's Meeting · Regional and International Issues · Security / Disaster Management · Environmental Protection
Economic Affairs	<ul style="list-style-type: none"> · Trade and Investment · Transport and Logistics · Customs · Public Relations · Finance · Science and Technology / Energy · Standards Cooperation · Consumers · Sustainable Development (Circular Economy, Health and Welfare, Agriculture and Water Resource)
Society and Culture Affairs	<ul style="list-style-type: none"> · Culture / Tourism · Education / Youth Exchanges / Sports · Personnel Administration · Exchange among Research Institutes · Media / Press and Public Relations
Administration & Management	<ul style="list-style-type: none"> · Administrative Support · Budget and Accounting / Human Resources · Premises and Facilities

* Source: <http://www.tcs-asia.org>

The lack of psychological sense of community has made the economic relations among the three states susceptible to the influence of constant disputes over social and political issues. The stoppage of currency swap between South Korea and Japan was the case in point, implying that economic cooperation in Northeast Asia is not solid enough to make progress on its own. The Chiang Mai Initiative (CMI), which began in the wake of the Asian financial crisis in 1997, led to an agreement between

South Korea and Japan on a USD 70 billion swap in case of emergency in 2011.¹⁶⁰ However, the traditional territorial disputes between the two countries hampered the swap agreement, which had started in a cooperative atmosphere. The Japanese government decided to reduce the swap volume to USD 13 billion in April 2010 and, later in July 2013, it lowered the limit further to USD 10 billion. Considering the size of 10 billion dollars was obligatory under the CMI, a voluntary swap volume between South Korea and Japan equaled to zero. On the contrary, South Korea and China agreed to extend the limit of their bilateral swap and the duration at the summit talk in June 2013. The already existing 360 billion *yuan* (approximately USD 60 billion) with two year duration was extended to another five years and the limit was set flexible to go up when necessary. China currently maintains 400 billion *yuan* swap agreement with Hong Kong. If the South Korea-China swap volume increases, South Korea will be the largest partner for China in swap agreement.

Episodes that slow down the pace of economic cooperation as a result of political impacts include the export ban on the rare earth material imposed by the Chinese government. The territorial disputes between China and Japan in 2010 over the *DiaoyuDao* (“*Senkaku* Islands”) resulted in an intentional slowdown of the export procedure for rare earth materials, critical elements for electronic industries, with Japan being the primary target. The decision by the Chinese government on reducing the export quota was taken to the WTO later, but drove a critical impact on electronic industries of major exporters, among which Japan was the hardest hit. Although the case was later taken to the WTO, the episode left another cause of distrusts between the two sides.

¹⁶⁰ The size of swap between South Korea and Japan reached USD 70 billion in 2011, with additional won-yen currency swap agreement equivalent to USD 30 billion between central banks and another USD 30 billion between the Korean central bank and the Ministry of Finance of Japan in 2011.

Another example reflecting political influence over economic arena in Northeast Asia can be found in the inter-Korean relation.¹⁶¹ The recent development with regard to the *Gaesong* Manufacturing Complex, a joint production area between the two Koreas, is a case in point. The *Gaesong* Manufacturing Complex gathered the attention from many because it signified not just a symbolic gesture of cooperation but opened a possibility of a *détente* in the peninsula. It meant more than a manufacturing site because the joint efforts to boost economy were expected to develop to reduce military tensions and deter the risk of a war. The value of the Complex was priceless for not just South Korea but other neighboring states such as China, Japan, the US and Russia, especially at a time of critical issues of North Korea's nuclear development. The problem was that operating the Complex was completely at the mercy of the political influence, meaning that it could stop running at any moment. The Complex was virtually closed in May 2013, as part of the protests from North Korea against the external pressure to stop nuclear developments. The closure of the Complex dealt with a severe blow to both, with harsher hit on the North Korean economy than the South. As of 2010, the trade volume of the Complex accounted for 75.5% of the total volume that is combined of both commercial and non-commercial trade sectors.¹⁶² Economic logic could not lead the logic of politics as shown by this case. Although the closure of the Complex was ended in six months, the precedence left suspicion over future developments. What matters here is that reduced support from the South deepened North Korea's dependence on China,

¹⁶¹ One of the deterring factors against cooperation in Northeast Asia is the existence of North Korea. As long as China, Japan and South Korea have different security interests in relation to North Korea, any talks over political or security issues among the three have to be significantly limited. China is practically the sole trade partner dealing with 88.3% of North Korea's total external trades while Japan does not have a diplomatic tie with North Korea. South Korea has economic relations with North Korea by operating a joint complex, which is limited to a designated area. In this situation, North Korea's inconsistent foreign policies often prevent the neighboring countries from working together with foreseeable policies.

¹⁶² Trades between the two Koreas are broken down to two categories: commercial and non-commercial. Among them, the volume generated by the *Gaesong* Complex was recorded at USD 1.4 billion or 75.5% as of the end of 2011 (Ministry of Unification of Korea).

which is highly likely to solidify the confrontational structure in Northeast Asia, as represented by the China-North Korea and the US-Japan-South Korea alliances. Therefore, with the existence of strong political logic governing the peninsula, the stability of the CJK FTA may be at the mercy of abrupt changes in one way or another, depending on the political environment. The Chinese government has shown a sign that it is detaching itself from its relations with North Korea, however, their bilateral relations can retrigger the tensions with South Korea, Japan and the US any time. A hopeful sign emerged with the resumption of the *Gaesong* Complex in September 2013 as both the South and North Korean governments agreed to set aside the operation of the industrial complex from political vicissitudes. It has yet to be seen if the agreement will continue to be respected, but it offers us a symbolic and meaningful development of the relation between the two in an environment where economic issue continues to gain weight. The same can be expected in implementing the trilateral agreement among China, Japan and South Korea by having it detached from political impacts as much as possible.

5.2 Alleviation of conflict structure

5.2.1 Control over excessive nationalism

Taking a look at the process of policy making, the norms, institutions and cultural features of domestic and international environment affect the identities of policy makers, and these identities shape their interests, which affect policies, and then again the environment structure.¹⁶³ The process of establishing state identities is made through internal identification and external differentiation. To maintain and

¹⁶³Peter J. Katzenstein and Social Science Research Council (U.S.). Committee on International Peace & Security., *The Culture of National Security : Norms and Identity in World Politics, New Directions in World Politics* (New York: Columbia University Press, 1996).

strengthen state identities, governments sometimes reproduce external threats intentionally. Likewise, to counter external threats it becomes necessary to form state identities in the process of identification. The emergence of nationalism in the three countries surely cast a cloud over the past efforts to build trust in the region. The nationalism in Northeast Asia as we witness today has its roots in the relatively recent historic experiences. China holds enmity against its defeat during the first Sino-Japanese War (1894-1895) and hardship under Japanese imperialism thereafter. Korea went through the period of colonialism that left deep psychological scars. China and South Korea in their bilateral relation have maritime disputes over the *Jeodo* ("Suyanjiao" as named in China) and huge gaps in understanding of their respective histories.¹⁶⁴

Taking the example of Germany and France, they have been through a number of wars for the past 150 years including the Franco-German War (1870-71) and the two World Wars thereafter. Understanding the bilateral cooperation between the two states in building the European Union could be a meaningful tool to apply to the Northeast Asian region, where sufficient talks and understanding over the history have yet to come. In Europe, the combination of Germany's economic power and France's political strengths could form the central pillar for the foundation of the European Union. Both of them created an order where other countries including the UK could join.¹⁶⁵ The practice of encouraging nationalism for political purposes will continue unless there are shared goals to understand one another. If China and Japan, the two regional powers, can rely less on nationalism and build trusts between them, there will follow a series of multi-level cooperative programs in the region including South Korea. The Trilateral Cooperation Secretariat (TCS) that began operation in

¹⁶⁴ China has claimed that part of historic heritage of *Goguryeo*, an ancient Korean kingdom located across present day Northeast China and North Korea, belonged to ancient China.

¹⁶⁵ Hyung Keun Han, "A Study on Regional Integration in East Asia: A Review through Rational Choice Conditions" *The 21st Century Political Science Association* 11, no. 1 (2001), pp. 229-230.

2011 was the first step toward that direction. CJK FTA, which is the ultimate goal of TCS, can be another step forward to induce cooperation on the economic sector together with a positive role to alleviate nationalism.

5.2.2 Strengthening regional security cooperation

The significance of CJK FTA is that it is not simply an economic issue but can affect the peaceful development in Northeast Asia, together with a positive influence on the troubled area, i.e., the Korean peninsula.¹⁶⁶ If CJK FTA firms its ground as a linchpin among the three member states, it will create a single market based on trilateral cooperation that can effectively control the situation involving inter-Korean relations.¹⁶⁷ However, Northeast Asia has held on to the state-centrism to an extent where state interest overpowers the interests at regional level.¹⁶⁸ The states in the region are not ready to yield their sovereignty to a common goal. The reason is that these countries went through wars and the experience of colonization without having the opportunities to put in place international norms and institutional frames to rule their external relations. China in the 21st century has been in pursuit of diplomatic and military power based on its outstanding economic growth. Japan has also sought to grow its power to a level commensurate to its economic strength in the world. These two major powers have stepped into a rivalry over leadership in Northeast Asia that resulted in the instability in the region. North Korea's nuclear issue poses another threat against the stability of regional cooperation. Although the six-party talks

¹⁶⁶Jung Bong Kim, "Northeast Asian Economic Community and Its Political Impact on North Korea and the Neighboring Countries," in *The 9th Experts Policy Forum* (Seoul: The Northeast Asian Community Studies Institute, 2011), p. 20.

¹⁶⁷*Ibid.*, p. 26.

¹⁶⁸Chi, "Regional Identities and Nationalism in the Shaping of Northeast Asia Communities", p. 139.

dealing with the North Korean issue have been in place, the gap of understanding based on diverse national interests is still wide among the six states.¹⁶⁹

In Northeast Asia, there is not a sufficient institutional mechanism and procedure to systemize peaceful efforts. One can find the traits of pre-modern era of the 19th century together with the confrontation during the Cold War period and the post-modern and multi-dimensional order of the 21st century. Therefore, it will not be easy to form a single regional cooperative entity in the near future. It will be a long-term prospect to approach this issue. The trilateral FTA may increase the opportunities for the social actors within the region to engage in business and encourage human and cultural exchanges. More importantly, the newly created cooperative environment may work to reduce tensions over the inter-Korean relation with commensurate alleviation of tensions between China and Japan. In that regard, CJK FTA can offer a stable environment for the three states to cooperate by performing a role which is wider than multiple bilateral economic agreements among them.

5.2.3 Preventive role against polarization of East Asia

The power dynamics among ASEAN, China, Japan and the US have created the complex network of FTA in East Asia. The on-going discussions over CJK FTA will add another variable into the already complicated development of economic integration within the region. Specifically, it will affect negotiations on other issues than economy and the balance between integration and polarization¹⁷⁰ in Asia.

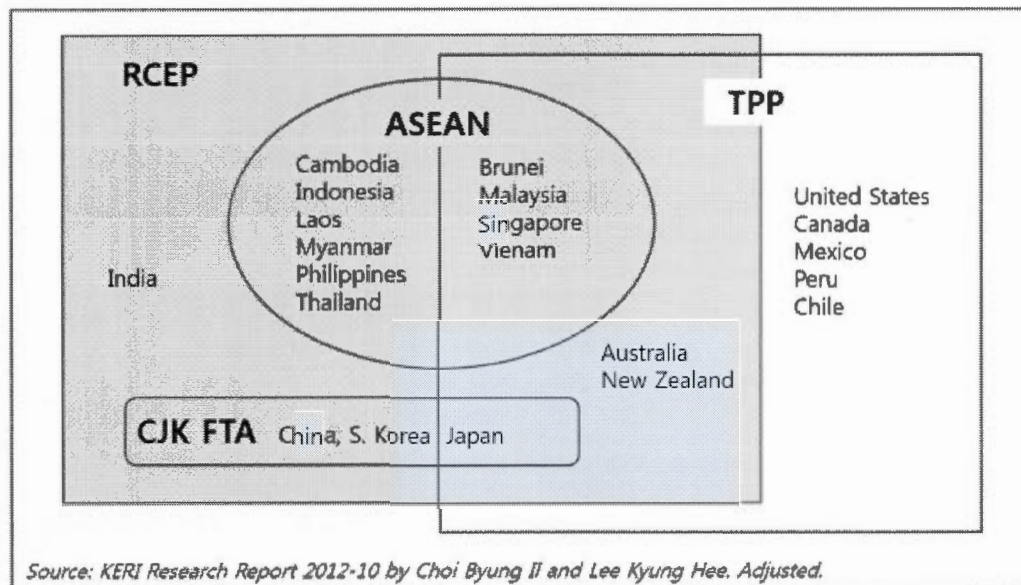
¹⁶⁹The six-party talks began in August 2003 to work out the North Korean nuclear development issue among the six states composed of the two Koreas, China, Japan, the US and Russia. There were five subsequent talks held since then, with the last meeting held in September 2007.

¹⁷⁰Gilbert Rozman, "CJK Economic Trilateralism: The Prospects and Perils of a New FTA," *Joint US-Korea Academic Studies* 24 (2013), p. 130.

Western Europe could form a sense of community to create an economic community to prevent wars after the two World Wars. At the time of creation of a community, the regional member states in Europe showed little income gap and shared the value of Christianity, which was a crucial factor for regional identity. The US also provided strong supports for the European integration in the face of possible threats from the Soviet Union. Situation differs greatly in East Asia, with wide gaps in income, different polities, cultures and the tense relations among the major powers.

The increased number of participants and various bilateral and multilateral agreements have made it even harder to make the regional identity of East Asia. The sixth ASEAN+3 meeting in November 2002 gave birth to the East Asia Summit (EAS), of which the first meeting took place in 2005. Shortly after its foundation, three other nations, India, Australia and New Zealand, joined the group with active supports of Japan out of concern of China's influence. In 2011, Russia and the US joined the group, turning the EAS into a meeting where not just Oceanic but Eurasian and North American nations participate.

Figure 5.1 FTA Network in East Asia



After the U.S. Congress passed a bill on a free trade agreement with South Korea in 2011, Japan hurried itself to the formation of the TPP.¹⁷¹ Development of TPP is an issue that poses a serious challenge against China, considering its efforts to defend its interests in East Asia in relation to Japan and the US. Advancement of negotiations over TPP and CJK FTA made ASEAN accelerate the pace of negotiation on RCEP.¹⁷² The turnout of events in a chain reaction is the product of the aforementioned tangled and tense relations among the US, China and Japan. Along with the diverse discussion on collaboration, the identity of East Asia has been watered down and the influence of ASEAN+3 sagged. Nevertheless, as long as ASEAN's effort to concentrate cooperative relation within East Asia, supported by China, the process of integration is likely to follow the two general directions: RCEP and TPP.¹⁷³ Considering the absolute economic dominance of China, Japan and South

¹⁷¹Fukuda, "Japanese Businesses Fear Impact of U.S-South Korea FTA."

¹⁷²"Information on RCEP," (Ministry of Foreign Affairs of Korea, November 19, 2011).

¹⁷³Choi and Lee, "Korea's FTA Strategy from the Perspective of the Formation of RCEP", p. 10.

Korea in East Asia, and the existing confrontation between China and Japan with respect to TPP, the three Northeast Asian states are sure to play a central role in the process of either integration or polarization of East Asia. As long as China continues its growth, the intra-regional trades will keep growing in the region and further strengthen the trilateral relations as well. However, with the influence of the US in the region, the structure of regional cooperation will not be limited to East Asia but will include more comprehensive geographic region. Therefore, the important variable in the process of economic integration in East Asia is whether the Northeast Asian states will maintain balanced relations with the US and cooperate one another. Any further aggravation of the bilateral relations between the US and China, and also between China and Japan, will drive negative impacts against the efforts for economic integration. The CJK FTA is thus a product of complex diplomatic efforts whereby the political and economic interests of these individual states can be harmonized. Although the CJK FTA cannot resolve current disputes immediately, the efforts to institutionalize economic cooperation and adjust interests among the related parties can produce positive effects to coordinate their interests and common policies.

5.3 Formation of identity and interests

For constructivists, the preference of actors is not only given exogenously but also created endogenously. State actors learn new norms and values through continuous socialization.¹⁷⁴ They then constitute new identity and interests and change their own preferences accordingly. It is thus ideal ones such as ideas, norms or identity that are important in the process of regional integration. Intra-regional trades in Northeast Asia increased continuously to reach 21% of their total trades as of 2011. Growing economic interdependency alone, however, does not necessarily lead to

¹⁷⁴Wendt, "Anarchy Is What States Make of It: The Social Construction of Power Politics", pp. 394-395.

regionalism.¹⁷⁵ To make the growing economic interdependence develop further to contribute to the regional integration, there must be a balanced development on the part of social and political areas as well as economic cooperation.¹⁷⁶ Creation of an institutional framework to develop more systematic cooperation becomes important in that regard. The lack of a framework to institutionalize cooperation signifies that the Northeast Asian states have yet to come up with common values to share as a regional community.

Each of the three states have their own interests in their pursuit of cooperation with one another.¹⁷⁷ For example, China hopes to construct political trust relationship in East Asia under its leadership and a more stable relationship with the US. Likewise, Japan hopes to maintain a more open form of cooperative relations that are not limited to East Asia. South Korea hopes to increase economic benefits while maintaining a balance among major powers including China, Japan and the US. The problem is that the three states have yet to bring these individual interests to a regional level, due to the state-centrism that prevent them from forming a regional consensus.¹⁷⁸ In addition, the disputes over territories and past history are the negative factors that hinder cooperation among them. Such disputes are sometimes mobilized and expressed in the form of nationalism. Therefore, it may not be feasible in the near future for them to create a common value at regional level. It should be noted, however, that all of the three states share the value of economic development in a stable environment. China's changed policy toward North Korea's nuclear development shows that it will not sacrifice regional security for its alliance with

¹⁷⁵Hosohiro, "Regionalization and Regionalism in East Asia", p. 13.

¹⁷⁶Ahn and Park, "A Politico-Economic Approach to Northeast Asian Regional Cooperation: Search for a New Model and Korea's Strategies", pp. 99-102.

¹⁷⁷Yong Sun Ha, Ryosei Kokubun, and Xing Qu, "Toward a New Era of Peace and Common Prosperity in Northeast Asia" (Seoul, S. Korea, December 2011), pp. 2-10.

¹⁷⁸Chi, "Regional Identities and Nationalism in the Shaping of Northeast Asia Communities", p. 140.

North Korea. The same goes for Japan and South Korea, both of which are intent to maintain economic growth. The three states have already formed a production network whereby Japan and South Korea produce capital-intensive parts and semi-finished products for exports to China and the ASEAN region. (Figure 4-2) The CJK FTA can be regarded as an effort to institutionalize the ongoing economic interdependence among them. With the high dependence on trade and competitive manufacturing capabilities, the trilateral FTA will provide more opportunities for them to work together while fostering competition in Northeast Asia.

Equally important as economic interdependence, a balanced cooperation at the level of political and social area has to follow. Despite the disputes over territories and history, the three states have maintained continuous exchanges in the private sector. (Table 5.1) The foundation of the Trilateral Cooperation Secretariat (TCS) provides a positive development toward creating an institutional framework whereby the three states can work more officially over their common issues. Although they have just commenced to institutionalize their efforts for cooperation, it is likely to take a while before they develop their cooperation beyond the "regional grouping" backed by each state's political willingness.¹⁷⁹ It is because most East Asian states are not ready to accept the idea of regional cooperation that could limit their sovereignty.¹⁸⁰ As CJK FTA represents not just economic issues but political positions of each member states, further interactions within the trilateral cooperative framework are likely to affect the formation and coordination of interests and preferences among the state actors before they evolve to create common interests at regional level.

¹⁷⁹Fawcett, "Exploring Regional Domains: A Comparative History of Regionalism", pp. 442-445.

¹⁸⁰He, "East Asian Ideas of Regionalism: A Normative Critique", p. 119.

As shown above, a series of talks over CJK FTA have already laid a ground for creating a channel of communication in which respective interests of the three states can be coordinated. The Trilateral Cooperation Secretariat was the first to be cited as an example to that effect. Creation of such organization is to materialize the vision of co-prosperity in Northeast Asia, although it still requires further efforts to produce concrete results. Advancement of negotiation over trilateral agreement along the path of intensifying economic integration will inevitably touch upon such sensitive issues as nationalism, rivalry over power between China and Japan, and inter-Korean conflicts. Although CJK FTA may not resolve existing disputes immediately, the efforts to institutionalize economic cooperation can lead to positive effects to coordinate the interests and common policies of the member states if the three states move forward at current pace.

CONCLUSION

Northeast Asia is where the legacy of the Cold War era still vividly exists. There are constant competitions over military build-up among the states in the region. The size of military, the number of warplanes, armored vehicles and aircraft carriers are frequently compared. Missile launches are proudly announced and counter launches follow. At the same time, economic relations among them have been in constant growth, raising importance of this region in the global economy. Northeast Asia is a region where fragmented politics coexist with integrating economies, which belongs to the "Modern Sphere" where democracy or market economy is in a state of imperfection according to Tanaka's description. Regionalism in Northeast Asia began to draw attention only after the Asian financial crisis in 1997, after realizing the necessity to protect themselves within the region in times of emergency. Japan and South Korea, formerly strong advocates of multilateralism in international trades, began to pursue actively regional agreements since then. The rush toward exclusive trade agreements took place throughout East Asia to an extent of creating the "spaghetti bowl effect".

Compared with the deepening relations of interdependency, however, the pace of integration in the region has been quite slow. Rather, constant disputes over territorial issues, subsequent threats toward one another, and rivalry over power have not ceased to continue. During the East Asia Summit held in Phnom Penh in November 2012, an official commencement of CJK FTA talks was declared. However, it was the trade ministers of the three states that made the declaration without the presence of the heads of respective states. The territorial disputes among them that preceded the meeting prevented the leaders from making the declaration. The shaky commencement of CJK FTA as such symbolizes the difficulties lying ahead in the path of concluding the eventual agreement despite the pressing necessity. Liberalists

may explain the insufficient level of intra-regional economic cooperation by pointing to inactive supranational interest groups or political incapability of the member states. Neo-realists may explain the reason with the existence of insecurity, insufficient formation of security community, competition over hegemonic powers between China and Japan, lack of leadership, existence of US's interests and so forth. Some may bring to our attention the heterogeneous characteristics of each state and the gap of understanding of history, which explain the slow pace of the Northeast Asian regionalism. Added to the current problematic issues, there came a heated debate over the territorial disputes. These developments are often intensified by nationalism, which is at times mobilized intentionally by respective governments. In general, there are economic factors that accelerate cooperation on one hand and political factors that frequently bring all the cooperative efforts to a halt on the other in Northeast Asia.

Despite the unrelenting tensions in the realm of political relations, this study deals with the possibility of regional integration, building on the progress of economic interdependence achieved so far. Some tangible outcomes include the annual summit talks, which started in 2008 as part of the ASEAN + 3 meeting, and the creation of the Trilateral Cooperation Secretariat, which addresses the pending issues related to the three states. The most salient achievement, however, is the initiation of an official negotiation over the trilateral free trade agreement participated by the three governments. This negotiation carries significance because it will position itself as the first major institutionalization of a trilateral economic cooperation in the region.

All socio-political environment can be characterized by the "logic of consequence" and the "logic of appropriateness."¹⁸¹ With the logic of consequence, a behavior is the result of rational calculation, while with the logic of appropriateness it is the

¹⁸¹James G. March and Johan P. Olsen, *Rediscovering Institutions : The Organizational Basis of Politics* (New York etc.: The Free press, 1989), pp.24-26.

consequence of rules and identities. The former lays focus on how to maximize interests while the latter emphasizes how to behave in a specific situation. Following the logic of constructivism, Northeast Asia may not immediately alter the current international structure of conflicts, or anarchical situation, but the possibility is open to change such situation via joint-efforts of the regional states into a more cooperative and friendlier one. Compared with the realist and liberalist approaches, constructivism can be classified as the logic of consequence, viewing international relations as formation of intersubjectivity among social actors. Current international order in Northeast Asia is formed by the late 20th century international orders, especially post-Cold War period. Nevertheless, it is likely that the increasing interdependency in economic area will alter current individual state's identity politics that presupposes division and exclusion. As we have already witnessed, concrete form of cooperation began to emerge as shown by such cases as the Trilateral Cooperation Secretariat and the Trilateral Summit Meetings. A successful launch of the CJK FTA will, therefore, mark the first step toward the formation of common interests and collective identity for the three member states. What remains ahead is to guard it against the negative impacts from the political front and keep it going to produce results. What is important is how the interactions among the three states can push them toward a relation of "friends" from current "competitor" relation, and create a sense of regional community. In that regard, the CJK FTA is expected to form an institutional framework for creating a sense of regional community and collective identity in Northeast Asia.

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