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## THE POLITICAL ECONOMY OF REGIONAL FREE TRADE AGREEMENTS IN EAST ASIA: MORE POLITICAL THAN ECONOMIC

*This article argues that the political factor is as important, if not more so, as the economic in the establishment of Free Trade Agreements (FTAs) in East Asia. The text divided into 3 parts. The first shows the correlation, or the lack of it, between trade interdependence and FTAs in East Asia. The second is the discussion on the relationship between economics and politics in regional integration, while the third examines political and strategic factors that influence ASEAN and the Northeast Asian nations towards the ASEAN FTAs.*

*Keywords:* free trade agreements, interdependence, ASEAN, China, Japan, Korea.

Кім Хен Цзун, Лі По Пін

## ПОЛІТЕКОНОМІЯ РЕГІОНАЛЬНИХ УГОД ПРО ВІЛЬНУ ТОРГІВЛЮ У СХІДНІЙ АЗІЇ: СПІВВІДНОШЕННЯ ПОЛІТИЧНИХ ТА ЕКОНОМІЧНИХ ОБҐРУНТУВАНЬ

*У статті стверджується, що політичний фактор так само важливий (якщо не більше), як і економічний, при підписанні угод про вільну торгівлю (УВТ) у Східній Азії. Дослідження поділено на 3 частини. У першій показано кореляцію або її відсутність між процесами торгівлі та угодами про вільну торгівлю у Східній Азії. У другій обговорено залежність між економікою і політикою в області регіональної інтеграції, а третя розглядає політичні та стратегічні фактори, які призводять до підписання УВТ у країнах Північно-Східної Азії і АСЕАН.*

*Ключові слова:* угоди про вільну торгівлю, взаємозалежність, АСЕАН, Китай, Японія, Корея.

*Табл. 4. Літ. 14.*

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## ПОЛИТЭКОНОМИЯ РЕГИОНАЛЬНЫХ СОГЛАШЕНИЙ О СВОБОДНОЙ ТОРГОВЛЕ В ВОСТОЧНОЙ АЗИИ: СООТНОШЕНИЕ ПОЛИТИЧЕСКИХ И ЭКОНОМИЧЕСКИХ ОБОСНОВАНИЙ

*В статье утверждается, что политический фактор так же важен (если не более), как и экономический, при подписании соглашений о свободной торговле (ССТ) в Восточной Азии. Исследование поделено на 3 части. В первой показана корреляция или ее отсутствие между процессами торговли и соглашениями о свободной торговле в Восточной Азии. Во второй обсуждена зависимость между экономикой и политикой в области региональной интеграции, а третья рассматривает политические и стратегические факторы, которые приводят к подписанию ССТ в странах Северо-Восточной Азии и АСЕАН.*

*Ключевые слова:* соглашения о свободной торговле, взаимозависимость, АСЕАН, Китай, Япония, Корея.

As a result of the end of the Cold War, a slow progress of multilateral trade talks and proliferation of regional free trade agreements in the world, there has been a trend towards the establishment of free trade agreements (FTAs) in the East Asian

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region. The often stated rationale behind such agreements is economic. It is claimed that the trend towards economic integration necessitated some agreement among the integrating countries to facilitate economic relations and indeed to further economic integration. Yet if one were to examine the FTAs of the last decade by countries in the East Asian region (Table 1), one finds that as far as 13 countries of the Association of Southeast Asian Nations (ASEAN) plus 3 countries or APT (China, Japan, South Korea and ASEAN) are concerned there are only 3 regional FTAs. These are ASEAN and China, ASEAN and Japan, and ASEAN and South Korea, all ASEAN Plus One arrangements. The rest are bilateral agreements involving individual countries of ASEAN with China or Japan or South Korea or some other country. Noticeably missing are any FTAs of the 3 countries of Northeast Asia together, and that between ASEAN and these 3 together, when there is tangible evidence of economic interdependence.

**Table 1. Major FTAs Concluded in East Asia**

FTAs	Concluded Year
Singapore-New Zealand	2001
Singapore-Japan	2002
Singapore-Australia	2003
ASEAN-China	2005
Thailand-Australia	2005
Singapore-India	2005
Singapore-S. Korea	2006
Malaysia-Japan	2006
ASEAN-S. Korea	2006
Thailand- Japan	2007
Philippines-Japan	2008
ASEAN- Japan	2008
Indonesia-Japan	2008
Brunei-Japan	2008
Singapore-China	2009
Vietnam-Japan	2009

This article argues that FTAs, or lack thereof, in East Asia (defined from here as constituting the APT countries) are as much a result, if not more, of political considerations as of economic ones. It will be divided into 3 parts. The first shows that economic interdependence does not necessarily lead to the establishment of FTAs and conversely such establishment can result from little economic integration. A discussion of the general relationship between politics and economics in FTAs constitutes the second part while a lengthy third part considers first, the regional FTAs from an ASEAN perspective. Then it will examine the political and strategic factors behind the decision of the Northeast Asian nations to establish FTAs with ASEAN, focusing on bilateralism, regional rivalries, the negotiating process involving China, and the influence of East Asian regionalism. A conclusion will end the article.

#### **Economic Interdependence and FTAs**

If one were to examine the trade statistics of the 3 countries of Northeast Asia (Table 2), one finds that as a percentage of their total trade, trade among the 3 shows a steady increase except for 2008 which dipped slightly from 2005. And the percentages of increase are quite large ranging from 10.2% in 1980 to 21.5% in 2008.

Similarly, if one looks at Table 3 trade between ASEAN and the 3 Northeast Asian countries is increasing, jumping from about 120 bln. USD in 1998 to about 482 bln. USD in 2008. And in terms of ASEAN dependence on Northeast Asian as a percentage of total ASEAN trade, they jumped from 20.6 in 1998 to 28.1 in 2008. Yet, as stated earlier, no FTA exists between the 3 Northeast Asian countries themselves and the 3 together with ASEAN.

**Table 2. Trade Relations in East Asia**

	Trade with ASEAN						Intra-NEA Trade (China, Japan, ROK)	
	China		Japan		ROK		Value (Million US\$)	Share (%)
	Value (Million US\$)	Share in Total China's trade (%)	Value (Million US\$)	Share in Total Japan's trade (%)	Value (Million US\$)	Share in Total ROK's trade (%)		
1980	1,849.0	4.9	34,521	12.7	2,614.3	6.6	35,701.3	10.2
1985	3,931.8	5.6	21,465.2	7.0	4,216.9	6.9	63,798.9	14.5
1990	6,875.9	5.9	62,307.4	11.9	10,147.2	7.1	96,190.9	12.3
1995	18,403.4	6.5	123,152.4	15.8	26,449.2	9.9	247,127.6	18.6
2000	39,522.0	8.3	128,057.0	14.9	38,308.5	11.5	337,890.4	20.3
2005	130,495.5	9.2	148,662.7	13.4	53,495.9	9.8	729,069.6	23.7
2008	231,155.4	9.0	210,658.0	13.6	90,200.3	10.5	1,068,170.2	21.5

Source: Calculated from Directions of Trade, IMF, 1980,1985,1990,1995,2000,2005,2008.

**Table 3. ASEAN Trade Dependence on Northeast Asian Countries (China, Japan, and South Korea), Various Years, US\$ mln.**

	1998	2000	2003	2006	2007	2008
China	20,414	32,316	59,637	139,961	171,118	192,672
Japan	81,410	116,191	113,401	161,781	173,062	211,916
S. Korea	17,080	29,635	33,548	55,942	61,184	75,480
Total Value of Trade with Northeast Asian Countries	120,902	180,142	208,589	359,690	407,371	482,076
ASEAN Dependence on NE Asian Trade as a Percentage of Total ASEAN Trade (%) - (Calculated)	20.6	23.5	25.1	25.5	25.1	28.1

Source: ASEAN Secretariat (2010), ASEAN Community in Figures, 2009, pp. 14-15.

**Table 4. ASEAN Trade with selected partner countries (China, Japan, and South Korea), mln. USD (%)**

	1998	2000	2003	2006	2007	2008
ASEAN's trade with China	20,414 (3.5%)	32,316 (4.3%)	59,637 (7.2%)	139,961 (10.0%)	171,118 (10.8%)	192,672 (11.3%)
ASEAN's trade with Japan	81,410 (14.1%)	116,191 (15.3%)	113,401 (13.8%)	161,781 (11.5%)	173,062 (10.7%)	211,916 (12.4%)
ASEAN's trade with S. Korea	17,080 (3.0%)	29,635 (3.9%)	33,548 (4.1%)	55,942 (4.0%)	61,184 (3.8%)	75,480 (4.4%)

\*Those in bracket constitute the percentage of the total ASEAN trade

Source: ASEAN Secretariat (2010), ASEAN Community in Figures, 2009, pp. 14-15.

Conversely, if one looks at the statistics of trade between the individual country of Northeast Asia and ASEAN (Table 4), particularly involving ASEAN and Japan and ASEAN and South Korea, one finds little evidence of increasing trade integration of significance, especially in the last decade. In fact, in Japanese case, ASEAN-Japanese trade as % of the total ASEAN trade has seen a steady decline since 2000

only picking up slightly in 2008. Similarly, this bilateral trade as a percentage of total Japanese trade is declining since 1995 (Table 2). So with South Korean case the percentage of the bilateral trade of the total ASEAN trade has not increased much since 1998. The percentages are rather small, 3 in 1998 and 4.4 in 2008. As a percentage of this bilateral trade of total Korean trade (Table 2), the percentages are slightly higher. But there is no clear trend of percentage increases since 2000. Yet there are Japan-ASEAN FTA and Korea-ASEAN FTA. The statistics for China constitute an exception where CHINA-ASEAN trade as a percentage of the total ASEAN trade (Table 4) and of total Chinese trade (Table 2) shows an increase. But as it will be explained later, the political factor rather than economic one was the reason for the China-ASEAN Free Trade Agreement, as with other agreements or lack thereof.

### **Political Factors as “Supply” for Regional Economic Integration**

One way of looking at the relationship between economics and politics in regional economic integration is to consider politics as the “supply” side while economic interdependence and the desire of business for liberalization in the related sectors can be considered the “demand” side (Mattli, 1999). One aspect of this economic integration, FTAs, does not automatically come about from the “demand” for it as the “supply” has to be there as FTAs invariably involve a winner and loser situation. Hence, the ability of political elites to persuade losers to accept FTAs for larger goods is crucial to the success of any FTA. And it is no easy task as political obstacles can be so great that sometimes no attempt is made even if the “demand” is there. In East Asian regional FTAs, two conditions have to be met for them to be established. First, there should be in the extant regional group, ASEAN, a minimum of asymmetry between ASEAN and the Plus Three or the Northeast Asian states. Second, the Plus Three states should have a low degree of political dispute and antagonism.

As things stand in East Asia, neither condition is very evident. First, there is the asymmetry between the Southeast Asian region and the Northeast Asia. The latter has much more economic and political power compared to the former. Unless the more powerful party finds reason to be generous, negotiations in general between a more powerful party and a lesser one would favour the former because the negotiating strengths are unequal (Arnold, 2006). Thus, ASEAN would not want an FTA with all 3 Northeast Asian countries together as ASEAN could be dominated by them. As to the second condition, the Northeast Asian countries, particularly China and Japan, have yet to overcome the political distrust in between them. China and also Korea still believe that Japan has not come to terms with its aggression against them in the past century while Japan suspects both to be using the history issue for domestic political reasons and to extract concessions from Japan. And recently, Japan has grown fearful of China's military build up and its tougher attitude to maritime disputes between them. Moreover, Japan and China are to some extent contesting for influence in Asia (Dent, 2010; Terada, 2010). Under such circumstances, it will be difficult to create a trilateral Northeast Asian FTAs, let alone an APT FTA. This is not to say such FTAs are impossible to achieve. Recently the 3 Northeast Asian countries have initiated talks on establishing an FTA between them. They can only succeed if political mistrust between them is reduced.

Yet the “demand” for some regional FTA will not go away, given the longstanding bilateral economic interdependence, further reinforced by a regional production

network, in East Asia. This “demand” greatly increased with the economic crisis in 1997–98, which made the Southeast Asian countries see the need for greater cooperation with the Northeast Asia especially Japan and China (Hund, 2003; Webber, 2001). The Southeast Asian countries realized that enhanced cooperation was crucial not only for tackling, but more importantly for recovery from the crisis. Some tangible achievement in cooperation to meet future currency attacks of the 1997 type came in the form of the Chiang Mai Initiative (CMI). This CMI was a result of the deliberations of the APT and consisted of the pooling of financial resources by the APT countries which can be used to aid any APT country whose currency may be under attack. But recovery necessitated steady economic growth through increasing exports and foreign investments inflows. And this necessitated some agreement in the trade sector to facilitate this.

What agreements have been achieved in this regard? In essence, there have so far, as stated earlier, been only two kinds, ASEAN Plus One and bilateral FTAs between individual Northeast Asian countries and individual ASEAN states. Such agreements however were not the products of purely economic calculations but also the result of political and strategic concerns among the related parties, in particular, the concerns related to rivalry between China, Japan and South Korea. And the regional FTAs have one distinguishing feature, engagement with ASEAN despite the shallow economic integration and the small size of the ASEAN economy as compared to the Asian giants like China and Japan. The primary reason is political as the ASEAN FTAs with the Plus three will show. These 3 cases showed how the preference of the Plus Three countries, specifically Japan and China, for bilateralism and their inability to form wider East Asian regional FTAs led them to establish ASEAN Plus One arrangement. China led the way and the other two followed. We begin however first with the ASEAN perspective

#### **Political and Strategic Factors behind the Regional FTAs**

##### ***The ASEAN perspective***

From the ASEAN perspective, it would not want an FTA with all 3 Northeast Asian countries together as ASEAN could be dominated by them. This is not to say ASEAN has set its face against any participation in a grouping with only ASEAN and the other 3 as members. There is the APT where the Plus Three are the 3 Northeast Asian countries. But the APT is largely an informal process where the Plus Three have agreed to ASEAN taking the central role and the practice of the “ASEAN Way”, which means decision-making by consultations and consensus. Thus, this centrality and the “ASEAN Way” ensure ASEAN will not be dominated by the Plus Three. An FTA will be more than informal. It could lead to substantive economic decisions that could affect the “ASEAN Way” where ASEAN might lose out. An East Asian FTA could also give momentum to an East Asian community that might involve a wider membership than that which constitutes the APT. This will make it even more difficult to maintain ASEAN centrality in such a community as compared to an ASEAN Plus One where it is easier to negotiate with one than three combined even if the one could be a giant like China or Japan, especially when the one feels it politically expedient to do so. The example is China ASEAN FTA (CAFTA) where China was so keen to cultivate ASEAN politically that it agreed to a flexible timeframe for less developed ASEAN members and the early harvest programme. ASEAN or rather

China may have found it difficult to offer such concessions if such needed agreement from Korea and Japan in an APT grouping. Also, ASEAN, or more correctly, individual ASEAN states could flex their muscles when negotiating with a weaker country like South Korea, in an ASEAN Plus One arrangement, as happened when Thailand pulled out of the Korean FTA unless Korea agreed to the liberalization of the rice market, though it gave in later. This could not have been possible if ASEAN had to face a Plus Three situation where, given the combined refusal of Japan and China, Thailand, or any other individual ASEAN country, could not have taken such a hard stand.

#### *The Perspective of the Plus Three Countries*

There are 4 reasons one can put forward to show why FTAs with ASEAN are influenced by political and strategic factors. One is that the ASEAN FTAs is a departure from the bilateralism policy which favours the Plus three countries. The second, the timing of the offer by Japan and South Korea so soon after Chinese offer suggests something of a hurried nature that was meant to counter Chinese offer. Third, the manner in which one of the three, China, managed the negotiations with ASEAN suggests political expediency was an important factor. And finally, the FTAs were related to the regional aims of the 3 Northeast Asian countries. Such regional aims were as political as they were economic in nature. China wanted a regional East Asian grouping it could hold sway. Japan was for the one where Chinese dominance could be balanced by other powers, and Korea saw itself as providing visionary ideas for this regionalism.

#### *Bilateralism*

In general, major economic powers prefer to deal bilaterally with smaller powers as smaller economies are usually in a weaker position. This is particularly true of the cases of the two powers, Japan and China. The unequal negotiation powers between the parties often result in favourable outcomes for the stronger. Take Japan for example. None of the bilateral Japanese deals with the Southeast Asian states provided trade liberalization of Japanese rice market as it will severely affect uncompetitive but politically influential Japanese rice farmers. With the Economic Partnership Agreement (EPA) with Vietnam, one of the major rice exporting economies in the region together with Thailand, Japan excluded rice and rice-related products, such as rice paper and rice cake, from any commitment to lower tariffs. Rice was similarly excluded in the deal with Thailand. At the same time Japan has gained tariff concessions for its competitive industries as in the case of Malaysia where Japan, without the inclusion of major crops, has achieved reduction of tariff for the automobile industry which Malaysia is strongly protectionist of. A similar deal has been done with Thailand. Thus bilaterally, Japan could avoid or minimize the collective resistance in negotiating with ASEAN as a group. Yet, Japan went ahead with a Japan-ASEAN FTA where ASEAN as a collective group has a much stronger hand than as individual state, thus suggesting that there was a logic that went beyond the economic realm to the political.

China had always preferred to deal bilaterally, not multilaterally with the ASEAN states as it is not only so much stronger than individual ASEAN states but also because a multilateralist approach could invite outside interference with its domestic process. But as China grew stronger, it found the world apprehensive of its

ascendancy. It realized that if it were to convince the world of its peaceful rise, it has to gain the goodwill of its neighbours such as ASEAN (Johnston, 2003; Shambaugh, 2004; Stubbs, 2008). It soon realized that it can contain such interference by taking a regional approach (Kuik, 2005) like an ASEAN plus One or ASEAN plus Three. To convince ASEAN of its good intention as ASEAN was wary of Chinese competition for FDI from multinationals and competitiveness in goods, China had to offer something attractive. It realized then it could not make any impressive offer in the financial realm as Japan, a competitor with China for influence in Southeast Asia, still had, despite the economic stagnation, strong financial influence in Southeast Asia (Grimes, 2011). This was demonstrated by the Miyazawa Plan Japan offered to Asian economies stricken by the financial crisis in 1997, which gave Japan and indirectly America greater room for manoeuvre in Southeast Asia. China, then lacking the immense financial power it possessed today, could only better Japan in trade, given its massive trade volume with the rest of the world. As Southeast Asia attempt to recover from the crisis through increasing exports and through inward FDI, China realized a Chinese FTA with ASEAN, with the offer of its huge market, could meaningfully address these two sectors. Like the Japanese case, the logic here is as much political as economic.

Another reason for China's regional approach to ASEAN was probably the advances Japan had already made in bilateral agreements with many ASEAN states. This gave Japan an advantage in the competition for the resources that China needed for its economic development and could complicate the Chinese attempt at balancing, if not ridding, the presence of US and Japan in the region (Wang, 2005). If China concentrates only on negotiations with individual states in the region, it may take too long to catch up with Japan and the others.

### *Timing*

The timing of the FTAs with ASEAN by Japan and South Korea suggests that the FTAs was more political than economic in that they followed very quickly after the China-ASEAN FTA. Thus Japan which had been dragging its feet about an ASEAN FTA very quickly signed a CPA with ASEAN after Chinese offer of an FTA with ASEAN. Korea hitherto had been focusing its foreign policy on Northeast Asia, but certain developments on the ASEAN front Korea could not ignore. On the political and security levels, China had signed the Treaty of Amity and Cooperation (TAC) in 2002. Subsequently, Korea signed the TAC and the Joint Declaration on Comprehensive Cooperation partnership in 2004, and the ASEAN-South Korea Plan of Action in the following year. More significant however is the economic relationship where the conclusion of an FTA with ASEAN in 2006 was in great part a response to Chinese and Japanese offers of FTAs to ASEAN. This was so because there was economically little urgency for an FTA with ASEAN given that Korea was engaged in trade negotiations with more important trade partners such as the US and the EU. Fear of losing the initiative if it did not respond to Chinese and Japanese moves towards FTA with ASEAN, and not primarily economic interest, was the reason for the Korean offer to ASEAN. Such a motivation is expressed continuously in government statements and in media coverage regarding the progress of the ASEAN FTA. South Korea, which proposed the FTA with ASEAN in 2003, has set a target for a successful conclusion by 2008 earlier than those with China and Japan!

*Negotiating process – more political than economic in Chinese case*

As to CAFTA, political aspects are very evident. First, the process was rather short and smooth, the Framework Agreement on Comprehensive Economic Cooperation being signed in November 2002. This is unlike ASEAN negotiations on FTAs with others, such as India and the US, which take a long time and have yet to be concluded. This is so in part due to the growing consensus among ASEAN members on the necessity for an FTA with China. But more importantly, China, because it will be the first country ASEAN will sign an FTA with and anxious to allay ASEAN suspicions of Chinese intentions, was very forthcoming on important issues. The Chinese did not make offers based on a strict adherence to reciprocity, something quite common in a normal FTA as they realized that Chinese economy, especially manufacturing, was more competitive than complementary with ASEAN, especially ASEAN 5 (Wong and Chan, 2003). Also, in order to offset possible negative effects from the FTA, the early harvest program was launched as a segment of the framework agreement in 2002. The early harvest program allows for the elimination of tariffs on selected imported items from 6 members of ASEAN beginning from 2004. It was an attractive offer to ASEAN to begin the FTA negotiation with China as it provides the elimination of tariff on 600 agricultural products from ASEAN. It, however, did not include sensitive items such as rice and palm oil which are major export items of ASEAN members like Thailand and Vietnam for the former, and Malaysia and Indonesia for the latter. And finally, it allows for a flexible timetable for the newer members of ASEAN, such as the mainland Southeast Asian countries which are not yet ready to liberalize their economies.

Second, the FTA was exclusive and hence in this context, political in purpose. The FTA was designed to prevent an additional third party joining the agreement. This does not make much economic sense as the economic welfare brought about by trade creation can be increased with more participants in the FTA.

Third, the FTA did not completely take into account China's economic interests. As a result, China hinted that it is willing to improve the quality of FTA by allowing for bilateral deals with individual ASEAN member states. Bilateralism still remains strong with the Chinese and had been a major axis of Chinese foreign policy. (Haacke, 2005, p.124). Through the amendment of the agreement, one or more individual ASEAN member states may also conduct negotiations and enter into a bilateral or plural acceleration arrangement with China to accelerate their tariff reduction and/or elimination. The amendment implies that China's traditional bilateralism has not vanished in the process of regionalism. Allowing for such bilateralism could diminish ASEAN unity. Under the new framework, one or more ASEAN members which perceive the collective implementation and negotiation of the FTA had worked against their national interests, they may ask for separate negotiations. Such requests are considered matters of technicality rather than suggesting breaches of agreement. It would mean the collectiveness of ASEAN would be transferred to the simple web of bilateralism.

*FTAs and Asian Regionalism*

For China, the FTA with ASEAN was an important step to the realization of Chinese strategic stance on East Asian regionalism, a stance that favoured the APT as the core of any East Asian community. This can be seen in the tug of war over the for-



mation of the East Asia Summit (EAS) from 2004 to 2005. China, together with Malaysia, wanted to transform the APT into EAS so as indirectly to keep out the United States, as the US could act as a check on Chinese predominance. This intent to exclude the US became clear when China was unsuccessful in the transformation and the EAS took on a separate form, a 16 member EAS, which the Chinese did not prefer. For instance, on the eve of the inaugural meeting of this 16 member EAS, the Chinese Foreign Minister proposed that its preferred organization, the existing APT, and not the new 16-member EAS should control the formation of any Asian community-building exercise (The Jakarta Post, 22 December 2005). Such an Asian community meant China could control the membership and exclude the US. The EAS could have an open membership, if it likes to include the US. But such a grouping would be too big to develop a sense of regional community.

Japan, even before the FTA with ASEAN, has proposed the creation of an East Asian Community during a commemorative summit with ASEAN leaders in Tokyo in 2003, just 3 months after ASEAN agreed to the ASEAN Community, one pillar of which is an ASEAN Economic Community (AEC). The community Japan envisaged includes Australian, New Zealand, and India, an ASEAN+6. What is more, Japan, in April 2006 proposed an FTA or Comprehensive Economic Partnership in East Asia (CEPEA) for this community, and for Asia Pacific Economic Cooperation (APEC) on the Asia-Pacific level. Despite Japan's proposal, ASEAN's response was not in favor for the rapid expansion of the grouping. ASEAN's members were wary about losing their centrality in such large groupings. ASEAN was largely not confident with the rapid development of FTAs that included extra members beyond ASEAN plus One scheme. It would mean that ASEAN then still gives priority on ASEAN as a collective unit in dealing with regional grouping at an extended scope. To counter the increasing political weight of China, Japan proposed a co-chair system with ASEAN chair for EAS of which the idea probably came from the experience of co-chairing ASEAN-Japan Summit in Tokyo in 2003. However, the proposal was rejected by ASEAN members in 2005, since it was perceived as an attempt to undermine the leading role of ASEAN.

South Korea had been badly hit by the Asian financial crisis of 1997. This had made it more concerned to recover through financial cooperation with East Asian countries, more specifically through the APT which had pooled financial resources that could be utilized by stricken countries to stabilize their currencies or ward off future attacks. Consequently, then the president Kim Dae Jung put forward a vision of East Asian regionalism that began with the establishment of an East Asian Vision Group and an East Asian Study Group. Even though an ASEAN Korean FTA was not very much in their mind, the Koreans nevertheless saw that a Korea-ASEAN FTA was an important step to the achievement of East Asian regionalism.

### **Conclusion**

Despite a prevailing belief that economic interdependence leads to the establishment of regional free trade agreements, the East Asian experience shows that politics also play a role, if not a more important one. The statistics of East Asia show no significant correlation between trade interdependence and regional free trade agreements. If economic interdependence constitutes the "demand" side and politics the "supply" side, the "supply" was not there.

The free trade agreements that exist were mostly bilateral, that between an individual Northeast Asian state and an individual ASEAN state, as reflecting that bilateralism was the best means for the stronger Northeast Asian state to achieve its economic aims. Yet the Northeast Asian states saw fit to establish a regional FTA with ASEAN when it was not certain they would get the best economic deal. The reason is political. China, needing to demonstrate to the world that its rise will be peaceful, saw an FTA with ASEAN as a necessary step towards this. Japan and Korea, not wishing to be left out, followed. Finally, the ASEAN FTAs were also related to the visions of East Asian regionalism of the three.

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