

Whither Regional Bloc Formation?

Intra-Regional Trade Imbalances Among China, Japan, and South Korea

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Outline

- 1 Motivation
 - The Question: Is East Asia Ripe for an Economic Bloc?
- 2 Trilateral Initiatives
 - Trilateral Investment and Free Trade Initiatives
- 3 Intra-Regional Trade Dynamics
 - Bilateral Trade Imbalances
- 4 Case Studies: Trade Disputes
 - Disputes at All Bilateral Levels
 - Disputes taken to the International Level (WTO)
- 5 Bilateral Imbalances Impacting Trilateral Initiatives
 - Trade Imbalances Call for Rebalancing
 - Security and Economic Nexus

Dissertation Work

The Dissertation Project

China, Japan, and South Korea's Encounter with the U.S. Trade Deficit Challenge, 1973-2013: Bilateral Trade Imbalances, Protectionism, and Currency Wars

- Fieldwork: Ministry of Finance and the University of Tokyo, Japan (2010-11)/ Peking University, China (2011-12)/ Seoul, South Korea/ Additional Work in Washington, D.C., United States (2012-13)

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The Main Question

The Formation of an East Asian Economic Bloc

- Is it feasible? Yes and No - Why?
- Financial Crises (AFC, GFC, Eurozone Crisis) as Critical Junctures.
- The Shift of the Global Economic Order
- Political Disputes Impeding Economic Trilateral Initiatives

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Finding the Answer

Trilateral Initiatives In Jeopardy

- Trilateral Initiatives in Trade, Finance, and Investment
- Regional Financial Cooperation: CMIM, AMRO, CGIF
- Discourse on Optimum Currency Area and RMB Internationalization
- The Nexus of Security and Economics
- Recent Agreements and Policy Actions Taken

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The Trilateral Investment Treaty

Changes and Uncertainties

- Signed by China, Japan, South Korea on May 13, 2012
- Pending Legislature Procedures

What the Treaty Entails

- Investments and Investors
- Denial of Benefits
- Intellectual Property Rights (IPR)
- Transfer of Capital, Prudential Measures, Temporary Safeguards
- Disputes and Settlement of Disputes - ICSID and UNCITRAL
- Arbitration Forum and Entry into Force

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The Trilateral Free Trade Agreement

Negotiations Desirable but in Stalemate

- Joint Study Committee since 2003
- Pending Launch of Negotiations (Possibly in 2013)

What the FTA Entails

- Geographic Proximity Benefits
- Removal of Tariffs
- NTBs (Non-Tariff Barriers)
- Services
- Inward and Outward Investment
- Rules of Origin
- China, Japan, Korea with Different Initiatives

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Japan-South Korea Bilateral Trade Imbalances

- Historical Deficits on the South Korean side
- Japan's Long-Term Deflation and Decrease in Imports
- South Korea Losing in Competition with other Asian Exporters
- Similar Industrial Structures Toward Exports, Technological Gaps
- Japan's NTBs
- Japan-South Korea FTA in the Back Burner (South Korea pushes for FTA with China)

China-Japan Bilateral Trade Imbalances

- Deficits with China due to Import Surges of Low-Cost Commodities from China
- The Great Tohoku Earthquake and the Fukushima Accident in 2011
- Japan's Record-Breaking Trade Deficits in 2012
- Territorial Disputes More Detrimental than Natural Disasters

China-South Korea Bilateral Trade Imbalances

- Accumulating Trade Imbalances on the Chinese Side since 1993
- Rapid Growth of the Chinese Economy, South Korean Investment in China
- Import Surges into China from South Korea
- Trade in Vertical Industries
- Low Performance of Chinese goods in the Korean Market
- China's Exports to South Korea More Labor-Intensive Than Capital-Intensive
- Potential Change of the Tides

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Bilateral Disputes Outside the WTO

- Antidumping Investigations by All Three States
- Manufactured Goods, Agriculture (i.e., Newspaper, Garlic, Pepper)
- Japan (30 of 48) and South Korea (29 out of 48) as China's Primary Targets (2008)
- Reciprocal Actions by both Japan and South Korea
- Challenges: Domestic Legislatures and China's Non-Market Economy Status (China's 15-Year Transitional Period)

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Bilateral Disputes Inside the WTO

- [DS323] Japan — Import Quotas on Dried Laver and Seasoned Laver (Complainant: Korea) (2004)
- [DS336] Japan — Countervailing Duties on Dynamic Random Access Memories from Korea (Complainant: Korea) (2006)
- [DS433] China — Measures Related to the Exportation of Rare Earths, Tungsten and Molybdenum (Complainant: Japan) (2012)
- [DS454] China — Measures Imposing Anti-Dumping Duties on High- Performance Stainless Steel Seamless Tubes (“HP-SSST”) from Japan (Complainant: Japan) (2012)

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The Call for Rebalancing

- Trilateral Initiatives as an Effort to Rebalance
- Trade Frictions and Disputes Normal but Method of Settlement Matters
- Consensus and Policy Outcome Difficult due to Underlying Bilateral Interests

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The Case for East Asia

- East Asia Still Suffers from Political Will Superseding Economic Rationale
- The Mismatch of Legal Mechanisms Also a Problem
- Cooperation Schemes will Fall Into Place Based on Political Consensus

Summary

- Whether East Asia is Ripe for a Economic Bloc Remains Unclear
- Bilateral Trade Imbalances as the Driving Forces behind Trilateral Initiatives
- Trade Disputes at the Bilateral and International Levels Reflect the Impact of Imbalances on Policy Making
- Outlook
 - Will the New Leaderships in All Three Countries Matter?
 - How will the U.S.-China-Japan Contest within the Region Unfold?