

Institutional Balancing and the Politics of Mega-FTAs in East Asia

ABSTRACT

The dynamics of institutional balancing is the predominant factor prompting East Asian countries to move to mega-FTAs. Rather than seeking mega-FTAs purely on the basis of economic benefits, these countries, particularly major powers, have attempted to form mega-FTAs to counter the target state's vision of the regional architecture.

KEYWORDS: mega-FTAs, Trans-Pacific Partnership, Regional Comprehensive Economic Partnership, institutional balancing, East Asia, middle power

INTRODUCTION

In the first part of the new millennium, East Asia began to show a greater interest in institutionalizing economic integration by pushing for bilateral free trade agreements (FTAs). After its accession to the World Trade Organization in 2001, China turned to East Asia in order to promote institutionalized cooperation, for reasons both economic and strategic. In the face of Chinese initiative, Japan endeavored to fortify its regional leadership, although it was often ambivalent about whether and how to involve the United States. ASEAN, with its long history of building up regional institutions and self-confidence measures, has always attempted to position itself as the central locomotive for institutionalizing East Asia. In all of these processes, bilateral FTAs emerged as a means to institutionalize regional cooperation in East Asia.¹

Meanwhile, East Asian countries entered into the second stage of FTAs, starting in 2010 to multilateralize the bilateral FTAs. US and Japanese

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I. T. J. Pempel, "The Race to Connect East Asia: An Unending Steeplechase," *Asian Economic Policy Review* 1, no. 2 (2006), pp. 239–254.

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participation in Trans-Pacific Partnership (TPP) negotiations and the launch of long-awaited Regional Comprehensive Economic Partnership (RCEP) negotiations in May 2013 testifies to the drastic change. The emergence of mega-FTAs signifies that the East Asian regional order is moving into a new territory of institution building.

In this article I explore how and why the majority of East Asian countries have chosen mega-FTAs as a means to institutionalize the region, departing from the era of bilateral FTAs. It is often pointed out that a variety of economic factors—the limited economic benefits of bilateral FTAs, noodle-bowl effects, and the widespread presence of transnational production networks—helped East Asian countries push for mega-FTAs.² While I do not dismiss this observation, I argue that the dynamics of institutional balancing is the predominant factor prompting East Asian countries to move to mega-FTAs.

Using the logic of institutional balancing has two analytical advantages in explaining East Asian countries' institution-building behaviors. First, exclusive focus on economic factors does not allow us to explain why East Asian countries have preferred different institutional platforms although they have common interests in maximizing economic gains. It is well known that China and Japan offered competing and potentially contradictory visions of a regional institutional framework for mega-FTAs in the early 2000s: ASEAN+3 versus ASEAN+6.³ By employing the logic of institutional balancing, I demonstrate how East Asian countries utilize mega-FTAs to engage in seemingly contradictory behaviors: institutionalized cooperation, and balancing against the target state. On the one hand, East Asian countries are interested in institutionalized cooperation in order to realize common interests at the regional level such as trade liberalization and the provision of financial liquidity.⁴ On the other hand, they also take advantage of regional

2. Richard Baldwin, "21st Century Regionalism: Filling the Gap between 21st Century Trade and 20th Century Trade Rules," Policy Insight no. 56, Center for Economic Policy Research (2011). Drawing on "spaghetti bowl," "noodle bowl" was coined to specifically refer to problems associated with overlapping FTAs in Asia. For a comprehensive discussion see Masahiro Kawai and Ganeshan Wignaraja, "The Asian 'Noodle Bowl': Is It Serious for Business?" Working Paper no. 136, Asian Development Bank, 2009.

3. Takashi Terada, "Forming an East Asian Community: A Site for Japan-China Power Struggles," *Japanese Studies* 26, no. 1 (2006), pp. 5–17.

4. T. J. Pempel, "Soft Balancing, Hedging, and Institutional Darwinism: The Economic-Security Nexus and East Asian Regionalism," *Journal of East Asian Studies* 10 (2010), pp. 209–238.

institutions as a means of balancing, which created a dynamic of competition for institution building in the region.⁵ The logic of institutional balancing can better explain East Asian countries' seemingly contradictory behaviors by explicating the dual dynamic of cooperation and competition.

Second, the logic of institutional balancing also helps us explain policy divergence among East Asian countries. East Asian countries are thus far unable to merge regional institutions into a single core institution that could be the institutional basis for regional cooperation. The coexistence of multiple institutions provides East Asian countries with opportunities to engage in substantially differentiated behaviors when building institutions.⁶ In the case of mega-FTAs, while some East Asian countries, such as Japan and Singapore, have overlapping membership in both mega-FTAs, other countries, including the US, China, and South Korea, have thus far joined only one of them. The dynamics of inter- and intra-institutional balancing can explain why East Asian countries in the 2010s have diverged from each other in terms of institutional choice.

THEORETICAL REVIEW

A number of studies have attempted to highlight the unique nature of institution building in East Asia. First, the widespread presence of informal networks was identified as a primary feature in East Asian international politics. Observing the growth of economic integration spearheaded by a production network since the mid-1980s, a group of scholars argued that East Asia had developed delicate networks of cooperation and placed less emphasis on the institutionalization of regional economic integration. Network-based informal economic integration is seen as a functional equivalent to institutionalization of regional cooperation.⁷ Japan, then the largest economy in the

5. Miles Kahler, "Regional Economic Institutions and East Asian Security," in *The Nexus of Economics, Security, and International Relations in East Asia*, ed. Avery Goldstein and Edward D. Mansfield, pp. 66–95 (Stanford, CA: Stanford University Press, 2012).

6. Evelyn Goh, *The Struggle for Order: Hegemony, Hierarchy, and Transition in Post-Cold War East Asia* (Oxford: Oxford University Press, 2013).

7. Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance* (Cambridge: Cambridge University Press, 1996); Mitchell Bernard and John Ravenhill, "Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia," *World Politics* 47, no. 2 (1995), pp. 171–209; *Network Power: Japan and Asia*, ed. Peter Katzenstein and Takashi Shiraishi (Ithaca, NY: Cornell University Press, 1997); Michael Borrus, Dieter Ernst, and Stephan Haggard (eds.), *International Production Networks in Asia: Rivalry or*

region, preferred this type of economic integration. Still suffering from the lingering effects of its wartime historical legacy, Japan thought that it was better to wield its network power, exercising “leadership from behind” in East Asia, rather than taking the initiative in formal integration.⁸ In this view, East Asian countries’ growing interest in bilateral FTAs was not likely to lead to the formation of a highly institutionalized and closed trading bloc there.

Second, Vinod K. Aggarwal and Mingyo Koo rebut this argument to systematically delineate East Asia’s evolutionary path to greater institutionalization, suggesting that it is time for East Asia to go “beyond network power.”⁹ Concurring with this, Christopher Dent suggests the possibility of lattice regionalism, in which East Asia would take a “bilateral to plurilateral and regional” path to institutionalization. In his view, bilateral FTAs will ultimately develop into region-wide FTAs even without a regional “nerve center,” because interlocking and overlapping FTAs will inevitably generate high transaction costs.¹⁰

A third view argues that East Asian countries have incorporated diplomatic and security considerations into institution building in the region.¹¹ East Asian countries worked to create and expand institutions in order to sustain economic interdependence, thereby making security uncertainties and concerns less threatening.¹² In this vein, mega-FTAs can be understood as an East Asian initiative to create an integrative regional institutional framework.

Riches? (New York: Routledge, 2000); Frederic C. Deyo, Richard F. Doner, and Eric Hershberg, “Network Governance, Flexibility, and Development amid Crisis,” in *Economic Governance and the Challenge of Flexibility in East Asia*, ed. Frederic C. Deyo, Richard F. Doner, and Eric Hershberg, 217–227 (Oxford: Rowman and Littlefield, 2001); Daijin Peng, “Invisible Linkages: A Regional Perspective of East Asian Political Economy,” *International Studies Quarterly* 46 (2002), pp. 423–447.

8. Richard Doner, “Japan in East Asia: Institutions and Regional Leadership,” in Katzenstein and Shiraishi, *Network Power*, pp. 197–233.

9. Vinod K. Aggarwal and Mingyo Koo, “Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia,” *Pacific Review* 18, no. 2 (2005), pp. 189–216.

10. Christopher M. Dent, “Networking the Region? The Emergence and Impact of Asia-Pacific Bilateral Free Trade Agreement Projects,” *Pacific Review* 16, no. 1 (2003), pp. 1–28.

11. Michael Wesley, “The Strategic Effects of Preferential Trade Agreements,” *Australian Journal of International Affairs* 62, no. 2, pp. 214–228; Mike M. Mochizuki, “Political-Security Competition and the FTA Movement: Motivations and Consequences,” in *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, ed. Mireya Solis, Barbara Stallings, and Saori N. Katada, pp. 54–73 (New York: Palgrave, 2009).

12. T. J. Pempel, “Regional Institutions and the Economy-Security Nexus,” in *The Economy-Security Nexus in Northeast Asia*, ed. T. J. Pempel, pp. 146–163 (London: Routledge, 2013), at 148.

The fourth set of explanations points to a competitive dynamic in FTAs. The “domino effect” theory argues that East Asian countries are forced to competitively embark on FTA negotiations for fear of being left out, because an FTA with one state places a great deal of pressure on competing countries to expedite their own.¹³ Having been sluggish in promoting FTAs until the mid-1990s, East Asian countries thereafter simultaneously embarked on signing as many as possible. However, in concluding their accords, East Asian countries did not pay due attention to the systemic effects that crisscrossing FTAs would generate in the region. Because these countries are tightly woven together through global value chains, bilateral FTAs that simply focused on lowering tariff barriers did not produce the expected outcomes.¹⁴ Many of these countries then attempted to multilateralize the bilateral FTAs to remedy this problem and maximize economic effects. The TPP and the RCEP emerged as promising candidates to this end.

Fifth and finally, a domino effect is not driven by economic interests alone. The common traits shared by East Asian countries (e.g. the tendency to sign FTAs with minor economic partners, the limited coverage of FTAs, and weak evidence of an active business lobby) all indicate that political and strategic domino effects are also at work in the proliferation of FTAs in East Asia.¹⁵ For whatever reasons, studies on the fifth factor commonly point out that East Asian countries have searched for a number of regional institutions that could deal effectively with regional issues, rather than sticking with one particular institutional arrangement. Disjointed institutions with no systematic linkages with each other continued to proliferate.¹⁶ The competitive nature of institution building resulted in overlapping and contradictory FTAs, creating spaghetti bowl effects.¹⁷

13. Richard Baldwin, “A Domino Theory of Regionalism,” NBER Working Paper no. W4465, September 1993; Solis, Stallings, and Katada, *Competitive Regionalism*.

14. Baldwin, “21st Century Regionalism.”

15. John Ravenhill, “The ‘New East Asian Regionalism’: A Political Domino Effect,” *Review of International Political Economy* 17, no. 2 (2010), pp. 178–209.

16. Pempel, “Soft Balancing.”

17. For Bhagwati’s insight on the spaghetti bowl effect, see Jagdish Bhagwati, “U.S. Trade Policy: The Infatuation with Free Trade Areas,” in *The Dangerous Drift to Preferential Trade Agreements*, ed. Jagdish N. Bhagwati and Anne O. Krueger (Washington, DC: AEI Press, 1995); Jagdish Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade* (Oxford: Oxford University Press, 2008). For noodle bowl effects in East Asia, see Kawai and Wignaraja, “The Asian ‘Noodle Bowl’.”

By and large, East Asian institutions have evolved in decentralized, contradictory, and ad hoc ways rather than deepening and solidifying regionalism.¹⁸ The observers highlight this feature of East Asian regionalism by dubbing it “thin gruel” (continuing the food metaphor),¹⁹ “soft regionalism,”²⁰ or the “informal nature of regionalism.”²¹ In reality, unable thus far to develop a core regional institution as the basis for regional integration and cooperation, East Asia has tended to join multiple institutions with overlapping memberships.²² Furthermore, regional institutions have evolved in individual issue areas without systematic linkages. For example, there does not exist a single regional institution that encompasses both security and economy,²³ although such an institution would likely substantially decrease internal competition.

While the conventional wisdom sketched out above captures certain aspects of institution building in East Asia, it cannot explain the dual dynamics of cooperation and competition those countries have demonstrated in their rush to mega-FTAs. Furthermore, because it generally focuses on the systemic consequences of institution building, those approaches lack microfoundations explaining individual countries’ motivations and their underlying behaviors.

THE DYNAMICS OF INSTITUTIONAL BALANCING AND MEGA-FTAS IN EAST ASIA

To fill this gap, I employ the logic of institutional balancing to explain how and why East Asian countries are motivated to take advantage of institutions

18. Pempel, “Soft Balancing.”

19. Aaron L. Friedberg, “Ripe for Rivalry: Prospects for Peace in a Multipolar Asia,” *International Security* 18, no. 3 (1993), p. 22.

20. Jeffrey A. Frankel and Miles Kahler, “Introduction,” in *Regionalism and Rivalry: Japan and the United States in the Pacific Asia*, ed. Jeffrey A. Frankel and Miles Kahler, (Chicago, IL: University of Chicago Press, 1994), p. 4; Suisheng Zhao, “Soft versus Structured Regionalism: Organizational Forms of Cooperation in Asia-Pacific,” *Journal of East Asian Affairs* 12, no. 1 (1998), pp. 96–134.

21. Peter Katzenstein, “Introduction: Asian Regionalism in Comparative Perspective,” in Katzenstein and Shiraishi, *Network Power*, pp. 12–22.

22. Peter Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca, NY: Cornell University Press, 2005).

23. In “Regional Institutions and the Economy-Security Nexus” T. J. Pempel argues that there is a profound discrepancy in terms of the driving force of the formation of regional institutions in security versus economic areas. While security institutions are created to deal with regionally endogenous factors, economic institutions are formed in response to concerns about the external forces of globalization.

as a means for both cooperation and balancing. In contrast to existing studies that primarily focus on institutional dynamics at the regional level, I attempt to explain state motivations and behaviors underpinning institutional evolution in East Asia. Individual states' strategies tend to take precedence over the collective identities and values of the East Asian community, making this research strategy valid.

I concur with existing scholarship that highlights East Asian countries' soft balancing as one of the emerging features of East Asian regionalism.²⁴ On the one hand, any excessive balancing of great powers runs the risk of antagonizing them, turning potential threats into real threats. Moreover, the rapid increase in economic interdependence among East Asian countries also implies that preemptive and outright balancing may be counterproductive: such behavior is likely to deprive great powers of economic benefits. On the other hand, outright bandwagoning, which seeks alignment with the sources of threat, is also problematic because it can potentially involve the risk of entrapment.²⁵

The majority of East Asian countries tend to prefer soft balancing to hard balancing or outright bandwagoning. Soft balancing behaviors include limited arms buildup, ad hoc cooperative exercises, and collaboration in regional or international institutions. Instead of examining East Asian countries' soft balancing behaviors in a holistic way, I focus on one particular type of soft balancing: institutional balancing. A focus on institutional balancing makes sense because while major powers in East Asia such as China and Japan pursue a soft balancing strategy in a broad sense—China's charm offensive and Japan's idea of the East Asian Community²⁶—they also actively attempt to create, join, and expand regional institutions.²⁷

Kai He provides a useful guide to explain how East Asian countries are involved in institutional balancing. He argues that whether a country chooses

24. For concise discussions of soft balancing, see Stephen G. Brooks and William C. Wohlforth, "Hard Times for Soft Balancing," *International Security* 30, no. 1 (2005), pp. 72–108; Robert Pape, "Soft Balancing against the United States," *International Security* 30, no. 1 (2005), pp. 7–45; T. V. Paul, "Soft Balancing in the Age of U.S. Primacy," *International Security* 30, no. 1 (2005), pp. 46–71.

25. Kuik Cheng-Chwee, "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China," *Contemporary Southeast Asia* 30, no. 2 (2008), pp. 159–185.

26. Joshua Kurlantzick, *Charm Offensive: How China's Soft Power Is Transforming the World* (New Haven, CT: Yale University Press, 2007); Yul Sohn, "Japan's New Regionalism: China Shock, Values, and the East Asian Community," *Asian Survey* 50, no. 3 (2010), pp. 479–519.

27. David Shambaugh, *Power Shift: China and Asia's New Dynamics* (Berkeley: University of California Press, 2005).

inclusive or exclusive institutional balancing depends on the distribution of power and the degree of economic interdependence.²⁸ While he aptly examines East Asian countries' institutional balancing behaviors that have developed since the 1997–98 Asian financial crisis, he rules out the possibility that a state's institutional balancing behavior can change without invoking changes in power distribution and degree of economic interdependence. His explanation does not provide the causal logic that systematically links independent variables to dependent variables.

In order to address this analytical pitfall, I offer a more nuanced dynamic of institutional balancing: inter-institutional balancing and intra-institutional balancing. "Inter-institutional balancing" refers to a state's behavior to seek to create separate or overlapping institutions to balance against a target state. The main thrust is to coopt second- and third-tier countries to balance against the target state. States involved in this behavior compete to attract more countries to their side while avoiding joining the institutions created or dominated by the target state. The membership of these institutions may vary, as institutions are either mutually exclusive or overlapping. A state engages in inter-institutional balancing in order to (re)design the regional institutional architecture at the expense of the target state. The plethora of regional institutions without functional linkages with each other in East Asia vindicates the notion that great powers in East Asia are actively involved in this type of institutional balancing.

In the case of FTAs, the pattern of inter-institutional balancing initially emerged in FTAs of the ASEAN+1 type. China and Japan, together with South Korea, concluded an FTA with ASEAN. Although the expected economic gains are greater from an East Asian FTA, both China and Japan preferred an FTA with ASEAN. The ASEAN+1 type of FTA emerged as a dominant institutional feature in East Asia, creating institutional overlap. The TPP and the RCEP are more recent examples of inter-institutional balancing. On November 12, 2011, on the eve of the APEC summit, Japanese Prime Minister Noda Yoshihiko announced that Japan would join the TPP negotiations, which aim for "high-quality" trade liberalization.²⁹ Recognizing

28. Inclusive balancing is a state behavior to bind the target states within the institution; exclusive balancing is a state behavior to exclude target states from an institution. Kai He, "Institutional Balancing and International Relations Theory: Economic Interdependence and Balance of Power Strategies in Southeast Asia," *European Journal of International Relations* 14 (2008), pp. 489–518.

29. Sano Shuntaro, "TPP: The Arguments For and Against," *Japan Journal*, February 2012.

the move as Japan's attempt to encircle China by strengthening bilateral cooperation with the US and other East Asian countries,³⁰ China decided to launch RCEP negotiations instead of joining the TPP.

"Intra-institutional balancing" refers to the strategy in which states cooperate to create an institution when the demand for public goods is high. However, although states cooperate to create such an institution to provide the public good, once it is created they seek cooperative as well as balancing behaviors *within* the institution to secure greater influence. This type of institutional balancing is dominant in finance, where East Asian countries successfully collaborated to create the Chiang Mai Initiative (CMI) and the Chiang Mai Initiative Multilateralization (CMIM). China and Japan, arch-rivals in East Asian regionalism, agreed to create the CMI because regional states found it necessary to strengthen the regional financial safety nets in order to effectively cope with any future crises. In the face of mounting pressure from the global financial crisis, China and Japan continued to collaborate to transform the CMI into the CMIM.³¹ However, it is noteworthy that while China and Japan cooperated in creating the CMIM, they competed intensely over voting rights in it. Cooperation and conflicts coexist within an institution under the dynamics of intra-institutional balancing.

East Asia's move to mega-FTAs shows that East Asian countries seek to engage in inter-institutional balancing as they incorporate security and political factors in promoting FTAs in the swiftly shifting regional economic and security environments.³² It is true that East Asia has successfully deepened economic integration among its states. Between 1990 and 2012, intra-regional trade among the ASEAN+3 nations increased from US\$ 562 billion to US\$ 4.436 trillion, constituting 38% of the region's total trade.³³ The crucial question is whether and how much the scopes of economic integration and regional institutions will correspond to each other.

30. "China Criticizes U.S. Agenda for APEC Summit," *Wall Street Journal*, November 7, 2011.

31. On the development of the CMI into the CMIM, see Chalongsoph Sussangkarn, *The Chiang Mai Initiative Multilateralization: Origin, Development, and Outlook*, Working Paper no. 23, Asian Development Bank Institute, July 2010.

32. Richard Feinberg, "The Political Economy of United States' Free Trade Arrangements," *World Economy* 26, no. 7 (2003), pp. 1019–1040; John Ravenhill, "The Move to Preferential Trade on the Western Pacific Rim: Some Initial Conclusions," *Australian Journal of International Affairs* 62, no. 2 (2008), pp. 129–150.

33. Shintaro Hamanaka, "Is Trade in Asia Really Integrating?" Working Paper Series on Regional Economic Integration, No. 91, Asian Development Bank, 2012.

The scope of economic integration will likely reflect the political bargaining of East Asia. Because asymmetric interdependence with China is a reality for many East Asian countries, its rise signals both economic opportunity and significant risks in coming years. This is why many East Asian countries envisage regional institutions (i.e. mega-FTAs) with different memberships. Economic integration and regionalism are not purely economic phenomena. They are also political constructs.³⁴ East Asian countries rushed to mega-FTAs not just to evade negative economic impacts arising from an economic domino effect, but also to reflect economic, political, and security considerations in a comprehensive way.³⁵ An overemphasis on economic factors would fail to shed light on the institutional balancing behaviors East Asian countries are actively engaged in.

Incorporation of political and strategic factors into policymaking is one of the driving forces of mega-FTAs, calling for a close investigation of how individual East Asian countries attempt to implement inter-institutional balancing strategies. It is particularly worth exploring how and why East Asian countries execute inter-institutional balancing behavior when negotiating mega-FTAs. Rather than seeking mega-FTAs purely for their economic benefits, East Asian countries, particularly major powers, have attempted to form mega-FTAs to counter the target state's vision of the regional architecture.

The dual dynamics of competition and cooperation demonstrated in institutional balancing have unfolded in the context of the changing regional landscape, spurred on by the rise of China and the relatively weaker (yet continued) presence of the US. The rise of China pushed the US and Japan to take strategic considerations into account in re-establishing their relationship with other East Asian countries. The US and Japan countered China by re-crafting their preferred regional order. Both countries attempted to recalibrate the regional order to systematically incorporate their interests so that they would not have to project military power. In this regard, the TPP serves as an institutional platform where the US and Japan collaborate to redesign the regional order.

34. Katzenstein, *A World of Regions*, p. 9.

35. East Asian countries actively incorporated security considerations in bilateral FTAs as well. East Asian countries' tendency to sign with minor economic partners, the limited coverage of FTAs, and weak evidence of an active business lobby suggest that the proliferation of FTAs in East Asia is driven not only by pure economic interests but also by political and strategic domino effects (Ravenhill, "New East Asian Regionalism").

THE EVOLVING DYNAMICS OF INSTITUTIONAL BALANCING

In this section, I explore how and why the main focus of inter-institutional balancing has changed from a game between China and Japan to a game between the US and China, creating a competitive dynamic between the TPP and the RCEP.

US–Japan Cooperation and Changes in Institutional Balancing

The changing dynamics of inter-institutional balancing in East Asia strengthened with the ongoing dual power transition.³⁶ East Asia experienced a power shift at the global level as the rise of China and the relative decline of the US came to the fore with the outbreak of the global financial crisis. The impact of the dual transition has also manifested at the regional level. The rise of China contrasts sharply with the image of Japan suffering from two decades of recession.

In the face of a rising China, the US attempted to redesign the regional architecture in order to prolong American hegemonic leadership. It is against this backdrop that the Obama administration announced its rebalancing policy in the Asia-Pacific.³⁷ Making clear that the US is an Asia-Pacific power,³⁸ the Obama government attempted to tighten the traditional alliances with key countries in the region, such as South Korea, Japan, and Australia. The US administration also envisioned a redesign of the regional architecture in a manner that could systematically incorporate US interests.³⁹

Initially, the rebalancing policy was formulated to address East Asian countries' concerns that the US strategic and military commitment there was in decline because the US was trapped in wars in Iraq and Afghanistan. However, the initial expectation of government policymakers and East Asia

36. For the impact of dual power transition in East Asia and the changing dynamics among the US, China, and Japan, see Seungjoo Lee, "Triangular Dynamics of the U.S.-China-Japan Relations and South Korea's Strategic Responses: The Cases of the TPP and the RCEP," *American Studies* 31, no. 2 (2013), pp. 93–122 (in Korean).

37. Tan Seng Chye, "Changing Global Landscape and Enhanced US Engagement with Asia: Challenges and Emerging Trends," *Asia-Pacific Review* 19, no. 10 (2012), pp. 108–129.

38. Remarks by President Obama to the Australian Parliament, Parliament House, Canberra, November 2011, <<http://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>>.

39. For a concise overview of the rebalancing policy, see David J. Berteau and Michael J. Green, "Assessing the Asia-Pacific Rebalance," Center for Strategic and International Studies, 2009.

experts that the US would substantially increase its military commitments there quickly evaporated because the worsening situation in the Middle East hindered any immediate US redeployment to the Asia-Pacific.

Under the circumstances, the Obama government modified the rebalancing policy to strengthen US institutional engagement in Asia by comprehensively redesigning the existing institutional arrangements.⁴⁰ The US reformulated the rebalancing policy to include both economic and strategic implications. It stressed that it was of paramount importance to connect the Pacific and the Indian Oceans while strengthening existing bilateral and multilateral cooperation.⁴¹ Then-Secretary of State Hillary Clinton also emphasized the economic and institutional aspects of the rebalancing strategy by arguing that open Asian markets would offer the US unprecedented opportunities for investment, trade, and technology, and that the recovery of the US economy hinged on exports to the Asian economies. In this regard the Obama government reformulated the rebalancing policy to combine diplomatic, military, and economic strategies that would help the US remain engaged in Asia.⁴² Of the six key paths for the rebalance, three—deepening partnership with emerging powers, empowering regional institutions, and helping build a regional economic architecture that can share prosperity—are economic and institutional responses.⁴³ Therefore, US institutional engagement in Asia emerged as the core of US rebalancing policy, culminating in US participation in the East Asia Summit in 2011 and the push for the TPP.⁴⁴

The Obama administration in particular placed the highest priority on the TPP in order to implement economic and institutional engagement.⁴⁵ First, it is vital for the US to deepen its economic partnership with Asia, which accounts for about 40% of global GDP and is one of the fastest-growing

40. Scott Miller and Paul Nadeau, "Commentary: TPP Is More than a Trade Agreement," Center for Strategic and International Studies, January 31, 2014.

41. Ryo Sahashi, "Is Japan Making the Most of the US Pivot?" East Asia Forum, November 6, 2012, <<http://www.eastasiaforum.org/2012/11/06/is-japan-making-the-most-of-the-us-piv>>.

42. Kurt Campbell, *The Pivot: The Future of American Statecraft in Asia* (Twelve, 2016).

43. Hillary Clinton, "America's Pacific Century," *Foreign Policy*, October 2011.

44. For discussions of the linkage between the rebalancing policy and the TPP, see Lee, "Triangular Dynamics."

45. Ann Capling and John Ravenhill, "The TPP: Multilateralizing Regionalism or the Securitization of Trade Policy?" in *The Trans-Pacific Partnership: A Quest for a Twenty-first Century Trade*, ed. C. L. Lim, Deborah Kay Elms, and Patrick Low (Cambridge: Cambridge University Press, 2012), pp. 279–298.

economies in the world. The Obama administration underscored tapping the American economy into the Asia-Pacific region (with its high economic vitality) and actively promoting regional economic integration.⁴⁶

President Obama also urged East Asian countries to take part in TPP negotiations. In a speech delivered in Tokyo in 2009, he strongly urged Japan to participate.⁴⁷ His government's drive for the TPP was widely considered to be an attempt to create a newly emerging regional order in the Asia-Pacific that would help the US check China's growing influence. In this regard, the US push for the TPP was obviously an institutional balancing act, one tantamount to "setting the contours of China's rise."⁴⁸

Second, in terms of institutional engagement, the Obama government viewed the TPP not just as trade liberalization but as a way to create new rules and governance in the Asia-Pacific.⁴⁹ It has promoted the TPP to redesign the regional economic architecture. Although Washington made it clear that China would be welcome to join the TPP negotiations, Beijing was hardly in a position to accommodate critical issues such as regulations on state-owned enterprises, as well as labor and environmental standards.

The TPP signifies a "trade pivot" to Asia, reaffirming the Obama government's commitment to the region.⁵⁰ In order to preempt the emergence of a China-centric economic order there, the Obama government creatively reformulated the rebalancing policy to promote the accord as an institutional channel that would substantially help the US enhance economic partnerships and institutional ties directly with East Asian countries.⁵¹ The strategic importance of the TPP has grown stronger as China's foreign policy in East Asia became more aggressive. On April 2015, in his speech at the McCain Institute at the University of Arizona, US Defense Secretary Ashton Carter proclaimed, "Passing TPP is as important to me as another aircraft carrier."⁵²

46. United States Trade Representative, "The President's 2010 Trade Policy Agenda," <<https://ustr.gov>>.

47. Remarks by President Barack Obama at Suntory Hall, Tokyo, November 14, 2009, <www.whitehouse.gov>.

48. Campbell, *The Pivot*, pp. 13.

49. Ambassador Michael Froman, United States Trade Representative, Remarks Made at the Council on Foreign Relations, "The Strategic Logic of Trade," June 16, 2014, <<https://ustr.gov>>.

50. Mark Manyin et. al., "Pivot to the Pacific? The Obama Administration's 'Rebalancing' toward Asia," Congressional Research Service, 7-5700, March 28, 2012.

51. Lee, "Triangular Dynamics."

52. Helene Cooper, "U.S. Defense Secretary Supports Trade Deal with Asia," *New York Times*, April 6, 2015.

Meanwhile, the US also sought to coordinate its policy stances with Japan. The TPP expanded from the Trans-Pacific Strategic Economic Partnership signed by Brunei, Chile, New Zealand, and Singapore in 2005, as the US government agreed to enter into negotiations with them in January 2008. Until 2009, Japan approached the TPP mainly from the perspective of economic costs and benefits. In 2011, Prime Minister Aso Taro announced the ambitious Asia Growth Initiative,⁵³ aiming to link the revival of the Japanese economy and the sustainable growth of Asian countries. Aso noted that the TPP could connect the Japanese economy to the robust growth potential of Asian economies and help Japanese companies rebuild their supply chains in East Asia.⁵⁴ Because Japanese companies have built widespread production networks in East Asia, mega-FTAs could substantially facilitate intra-industry trade within the production networks.⁵⁵ Echoing Aso's policy stance, the subsequent Prime Minister Kan Naoto of the Democratic Party of Japan called the TPP the third opening of Japan, following the first one during the Meiji era (1868–1912) and the second one after the end of World War Two.⁵⁶ The Japanese government considered the TPP essential in creating a virtuous circle of simultaneous economic growth in Japan and other Asian countries.

In November 2011, the Noda government officially announced the intention to join the TPP negotiations. However, the domestic political situation still posed a daunting challenge to the Japanese government in negotiating with major trading partners such as the US, EU, and China. The Noda government faced furious opposition, not just from potential losers such as the agricultural and medical sectors, but also from the ruling Democratic Party of Japan. Fearing that massive flood of cheap imported products would devastate the agricultural sector, Japanese farmers have consistently wielded political clout asking for protection of the agricultural sector.⁵⁷ Japanese doctors also strongly opposed the TPP on the grounds that it would disrupt

53. Taro Aso, *Japan's Future Development Strategy and Growth Initiative towards Doubling the Size of Asia's Economy* (speech at the Japan National Press Club), April 9, 2009, <http://www.kantei.go.jp/foreign/asospeech/2009/04/09speech_e.html>.

54. Cabinet Secretariat, "Estimates of Economic Partnership Agreements," October 27, 2010.

55. Cabinet Secretariat, "Consultation with the TPP Member Countries on Japan's Participation in the TPP Negotiations," July 2012.

56. Naoto Kan, "New Year's Speech," 2011, <<http://www.kantei.go.jp/jp/kan/statement/201101/01nontou.html>> (in Japanese).

57. "TPP Commitment Hinged on Interests," *Japan Times*, November 19, 2011.

Japan's universal health care system.⁵⁸ More than 100 Diet members from the ruling DPJ and opposition parties rallied to pass a resolution opposing TPP negotiations.⁵⁹

With the domestic political environment surrounding the TPP deteriorating, the newly inaugurated Abe Shinzo government of the Liberal Democratic Party attempted to add strategic implications to the TPP. In March 2013, the Abe cabinet resonated with the Obama government's rebalancing strategy, officially announcing that Japan was joining the TPP negotiations before it was too late, in order to create an institutional basis for new trade rules in the region.⁶⁰ The Abe government's decision to join sent a clear signal of support for a US-led trade and economic architecture for the region, because the TPP's high standards would greatly help the US not just level the trade-rules playing field but also establish the regional order of the twenty-first century.

Entering into the TPP is consistent with the Japanese vision of the East Asian regional order in the context of the rise of China. At the regional level, the Japanese government has responded to the rise in two ways. The prime objective of Japan's strategic posture in dealing with the issue is to expand the geographic scope of regional integration and cooperation. It is well known that Japan has long preferred ASEAN+6 to ASEAN+3 as a basic framework for regional order.⁶¹ Concerned that China would wield excessive dominance in East Asia if the new regional order is based upon the ASEAN+3 framework, Japan has consistently sought to deepen economic integration within the framework of ASEAN+6. Japan has tried to attract countries with shared values of democracy and capitalism, such as Australia, New Zealand, and India.

In addition, Japan has attempted to take advantage of US influence to hold China in check. Japan, together with India, was an active supporter of the inclusion of the US and Russia in the East Asia Summit in 2011. In this

58. Japanese Medical and Dental Practitioners for Improvement of Medical Care, "We Oppose Participation in TPP, Which Would Render Japan's Public Health Care System Dysfunctional," <<https://hodanren.doc-net.or.jp/tpp/130624tpp-e.html>>.

59. "More than 100 Lawmakers Oppose Japan's Participation in TPP," *Japan Today*, October 22, 2011, <<http://www.japantoday.com/category/politics/view/more-than-100-lawmakers-oppose-japans-participation-in-tpp>>.

60. Press Conference by Prime Minister Shinzo Abe, March 15, 2013, <<http://japan.kantei.go.jp>>.

61. Takashi Terada, "The Origins of ASEAN+6 and Japan's Initiative: China's Rise and the Agent-Structure Analysis," *Pacific Review* 23, no. 1 (2010), pp. 71–92.

regard, the US and Japan shared a common interest in an institutional means to cope with the rise of China. Both countries perceived the TPP as a useful tool to check China's mounting influence because it is intended to deepen economic integration among countries in the Asia-Pacific. The Abe government has seen promoting the TPP as vital so that it can serve as an important institutional channel that could help the US engage in Asia.

Of course, the Abe government took into account economic considerations in its shift to the TPP, in order to maximize the economic effects of "Abenomics." Unlike the first two arrows of Abenomics, focusing on fiscal stimulus and monetary easing, the third arrow touches upon various structural reform measures to which strong political opposition is unavoidable. The Abe government attempted to utilize the TPP to lock in structural reforms, for example, using progress on the accord to revitalize the domestic economy by expanding trade and investment.⁶² In this sense, the Abe government successfully strengthened US–Japan relations by making meaningful progress on the TPP.

On October 5, 2015, 12 participating countries, representing 40% of the world economy, finally concluded TPP negotiations, two years after Abe formally announced Japan's participation. The negotiation process demonstrates how much strategic consideration the US and Japan attached to the TPP. Both governments showed a great deal of flexibility on the way to the conclusion of the TPP. Their negotiations were at a stalemate until the beginning of 2015. The ministerial meetings in Tokyo between the US and Japan in April served as an important opportunity to close the gaps on most issues. The prospect for compromise became more viable as Japan decided to lower tariffs on US beef from the current 38.5% to around 10% in the next 10 years. Both countries completed negotiations in Atlanta when Japan agreed to lower the tariff to 27.5% once the TPP comes into force and eventually to 9% within 16 years over several stages. On rice, one of the most heated issues, Japan agreed to raise tariff rate quotas on imports of US rice from the current 50,000 tons to 70,000 tons annually within 13 years. In return, the US agreed to abolish the current 2.5% tariff on Japanese cars and 25% on Japanese trucks within 30 years and to raise tariff rate quotas on

62. Government of Japan, "Abenomics Is Progressing: Towards the Reinvigorating of the Japanese Economy," February 2016, <http://www.japan.go.jp/_userdata/abenomics/201602/160229_abenomics.pdf>.

imported Japanese beef from the current 3,000 tons to 6,000 tons within 15 years.⁶³

In the negotiation process, the US and Japan reached agreement by showing flexibility while still maintaining the original purpose of the TPP as a high-quality twenty-first-century FTA. In addition, the process showed that both could strike a deal while tightly incorporating strategic considerations.⁶⁴ At the White House announcement in October 2015 immediately after the conclusion of TPP negotiations, Obama said, “We can’t let countries like China write the rules of the global economy. We should write those rules. . . . It strengthens our strategic relationships with our partners and allies in a region that will be vital to the 21st century.”⁶⁵ Such a statement clearly illustrates that economy and security are linked in the TPP. Abe’s view resonated with Obama’s remarks; the prime minister said that “we are now seeing the long-awaited start of a new Asia-Pacific century” and that “Japan and the US, countries that share the values of freedom, democracy, fundamental human rights and the rule of law, will work on creating an ‘ocean of liberty and prosperity’ in the Asia-Pacific region.”⁶⁶

China’s Institutional Balancing Strategy

It is indeed obvious that Abe’s decision to join the TPP negotiations was a game changer.⁶⁷ The move produced somewhat unexpected systemic consequences in East Asia, in the sense that it changed the major focus of rivalry from China vs. Japan to the US vs. China. Aroused by the concerted efforts of

63. “Japan Considers Making New Offer on U.S. Rice in Atlanta TPP Talks,” *Japan Times*, September 29, 2015, <<http://www.japantimes.co.jp/news/2015/09/29/business/japan-considers-making-new-offer-u-s-rice-atlanta-tpp-talks/>>.

64. For discussions of economy–security linkage in the TPP, see Seungjoo Lee, “The Political Economy of Renegotiating the Regional Architecture in East Asia: The Triple Dynamics of Multilayering, Complexity, and Divergence,” *Ewha Journal of Social Science* 31, no. 2 (2015), pp. 37–72 (in Korean).

65. “Statements by the President on the Trans-Pacific Partnership,” White House, Office of the Press Secretary, <<https://www.whitehouse.gov/the-press-office/2015/10/05/statement-president-trans-pacific-partnership>>.

66. Press Conference by Prime Minister Shinzo Abe, October 6, 2015, <http://japan.kantei.go.jp/97_abe/statement/201510/1213579_9930.html>.

67. Mireya Solis, “Opinion: Japan’s Big Bet on the Trans-Pacific Partnership: The TPP Nations Should Reciprocate,” *Brookings*, March 25, 2013, <<http://www.brookings.edu/research/opinions/2013/03/25-transpacific-partnership-solis>>.

the US and Japan, China believed that the TPP could have dire strategic implications, going beyond narrow economic interests. Beijing responded in various ways. First, in November 2012, when Japan announced its participation, the Chinese government unwaveringly criticized the US and Japan, arguing that the TPP essentially reflected the US goal of reducing Chinese influence in the region through containment.⁶⁸

Second, the Chinese government solidified its relationship with neighboring countries, as demonstrated in President Xi Jinping's speech in October 2013. Stressing that "friendship is the consistent principle of China's diplomacy with its neighbors," Xi argued that "the basic tenet of diplomacy with neighbors is to treat them as friends and partners, to make them feel safe and to help them develop."⁶⁹

Third, the Chinese government stressed that East Asian countries should first seek the "unification of regional economies," focusing on economic integration. It further argued that the RCEP would not just contribute to trade liberalization but also serve as an important step toward the unification of regional economies.⁷⁰ The Chinese government also highlighted that the RCEP was more open and flexible than the TPP in terms of negotiation style. By the same token, then-Premier Wen Jiabao asserted that whereas each country should be able to take a path commensurate with its level of development, China would support ASEAN to actively embark on the RCEP negotiations.⁷¹ By arguing that the TPP does not correspond to the unification of regional economies, the Chinese government tried to offer an alternative institutional arrangement that could attract other East Asian countries. Officials tried to pinpoint the differences between the RCEP and the TPP. In contrast to the TPP's aiming for a high-standards FTA without exception, the RCEP is less ambitious in terms of trade liberalization and regulatory harmonization. The RCEP shows a great deal of flexibility by providing

68. For various Chinese views of US trade policy, see Guoyou Song and Jin Yuan Wen, "China's Free Trade Agreement Strategies," *Washington Quarterly* 35, no. 4 (2012), pp. 107–119.

69. Mu Xuequan, "Xi Jinping: China to Further Friendly Relations with Neighboring Countries," *China Daily*, October 16, 2013, <http://news.xinhuanet.com/english/china/2013-10/26/c_125601680.htm>.

70. Tang Danlu, "China Continues to Be Important Engine for Regional, Global Economies: Wen," *China News*, November 20, 2012, <http://news.xinhuanet.com/english/china/2012-11/20/c_131987384.htm>.

71. *Ibid.*

“special and differential treatment” for the least developed countries in East Asia.⁷²

More importantly, recognizing that it needed to directly respond to the US push for the TPP, the Chinese government played an institutional balancing game more actively. It launched a series of diplomatic drives, such as the Conference on Interaction and Confidence-Building Measures in Asia (CICA) and the Asia Infrastructure Investment Bank (AIIB), to tighten security and economic relationship with neighbors.⁷³

In the area of trade, the Chinese approach to FTAs has become more multifaceted and flexible. First of all, the Chinese government sped up bilateral FTA negotiations, together with mega-FTAs. China as a global economic power has made consistent efforts to expand its economic ties with countries such as New Zealand (2008), Singapore (2008), and Peru (2009), and negotiated new FTAs with the Gulf Cooperation Council (2005), Australia (2005), Iceland (2008), Norway (2008), and Costa Rica (2009).⁷⁴ China also embarked on a bilateral FTA with South Korea in 2012, and completed the negotiation in March 2015.⁷⁵ After completing bilateral FTAs with certain neighbors, China shifted focus to negotiations on a Korea–China FTA, a Korea–China–Japan FTA, and the RCEP.

China’s institutional balancing also unfolded at the APEC summit in 2014, when the government floated the notion of a path toward a Free Trade Area of the Asia-Pacific (FTAAP). From the perspective of the US, it appeared that China was promoting the FTAAP to hijack the TPP and challenge US attempts to play a leading role in designing the regional order. Worried that discussions of the FTAAP might hurt TPP negotiations, the Obama government responded negatively to China’s proposal.⁷⁶

China also strategically picked up an ASEAN-led initiative to counter the US-led TPP. The RCEP reemerged as an institutional alternative for China to offer other East Asian countries. China could successfully garner ASEAN

72. “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership,” August 30, 2012, <http://www.meti.go.jp/policy/trade_policy/east_asia/dl/RCEP_GP_EN.pdf>.

73. Zachary Keck, “China’s Growing Hegemonic Bent,” *The Diplomat*, June 26, 2014.

74. China FTA Network, “Homepage,” <<http://fta.mofcom.gov.cn/english/>>.

75. China FTA Network, “China-Korea FTA,” <<http://fta.mofcom.gov.cn/topic/enkorea.shtml>>.

76. Shannon Tiezzi, “US Pressures China to Kill Asia-Pacific Free Trade Agreement Talks,” *The Diplomat*, November 8, 2014.

countries' support by making it clear that it would respect ASEAN centrality in negotiating the RCEP.⁷⁷ The RCEP stands in stark contrast to the TPP in terms of membership and standards. While the accord is based on the ASEAN+6 framework, the Chinese government utilized the RCEP to form an Asia-only FTA that could exclude the US.

While speeding up bilateral and trilateral FTA negotiations with neighboring countries, China flexibly embraced the ASEAN+6 format as an institutional platform for regional economic integration and cooperation. It was a drastic turnaround, given that the RCEP was based on ASEAN+6, which had long been preferred by Japan for that purpose. China showed a great deal of flexibility in creating a regional economic architecture, as demonstrated by the cases of the RCEP, the CICA, and the AIIB, that would exclude the US from the process.

The shift in Chinese policy to push for the RCEP demonstrates changes in the Chinese approach to regional economic order.⁷⁸ Thinking that the TPP was contradictory to its own vision of regional order, the Chinese government began to seek an alternative institution. Rather than adhering to its preferred ASEAN+3 framework, it accommodated the ASEAN+6 framework, which sent a clear signal that China could accommodate any regional order that precluded a US role.

To make such a policy shift, the Chinese government also undertook a strategic move saying it would respect ASEAN's pivotal role in launching the RCEP. For ASEAN, the RCEP offered a good opportunity to restore ASEAN centrality, since it takes the form of "ASEAN+3+3." In the past, ASEAN played a bridging role in regional cooperation by consolidating its internal unity. However, this teetered on the verge of a breakdown with the launch of the TPP. Departing from ASEAN's long-standing principle of joining FTA negotiations as a unit,⁷⁹ Singapore, Malaysia, and Brunei joined the TPP negotiations. Moreover, as negotiations of the Korea–China–Japan trilateral FTA sped up without involving ASEAN, there was concern that ASEAN centrality would weaken in the second stage of FTAs in East Asia.

In the process of launching the RCEP, China flexibly and strategically played an institutional balancing game that involved the complex dynamics

77. "China's Support for ASEAN's Centrality Lauded," *China Daily*, September 21, 2012.

78. Lee, "Triangular Dynamics."

79. Peter A. Petri and Michael G. Plummer, "ASEAN Centrality and the ASEAN-US Economic Relationship," Policy Studies, no. 69, East-West Center, Honolulu, 2014.

of competition and cooperation among East Asian countries. Before the launch of the RCEP, China and Japan could not settle their dissenting views on the scope of regional cooperation. However, the rapid progress of the TPP encouraged China to modify its vision for a prospective regional order. The launch of the RCEP suggests that China embraced, at least to some extent, the interests of Japan by way of ASEAN leadership. Rather than pressing ASEAN countries to take sides, China accommodated the RCEP to secure a better position in its competition with the US.⁸⁰ In the face of the conclusion of the TPP, Beijing facilitated RCEP negotiations. In March 2016, Premier Li Keqiang encouraged participating countries to finish negotiations before the end of the year.⁸¹ In reality, some meaningful progress was made when all participating countries agreed to complete modalities for goods designed to increase tariff elimination from 65% to 80% in 10 years after the RCEP goes into effect.⁸²

China's inter-institutional balancing strategy aiming to counter the TPP with alternative institutions such as the RCEP, the China–Korea FTA, and the China–Japan–Korea FTA is more feasible than seeking to check and balance the US from within the TPP. The inter-institutional balancing strategy should help China secure a better position in designing the regional order, allowing it to take the initiative in creating and developing various institutions. In contrast, an intra-institutional balancing strategy is inherently less effective because China will be unable to fundamentally change the already agreed-upon provisions and rules among the 12 TPP countries, ranging from intellectual property, state-owned enterprises, financial markets, and government procurement to labor and environmental standards.⁸³

CONCLUSION

In this analysis I have examined the underlying forces that prompted major countries in East Asia to shift to mega-FTAs from the perspective of

80. Yifan Hu, *China's Strategy to Surf the New Wave of Preferential Trade Agreements*, unpublished manuscript, December 2013.

81. Janne Soukas, "China Wants to Conclude RCEP Trade Talks This Year," *GB Times*, March 24, 2016, <<http://gbtimes.com/business/china-wants-conclude-rcep-trade-talks-year>>.

82. Mergawati Zulfakar, "RCEP Negotiators under Pressure Strike Free Trade Deal," *Asian News Network*, April 21, 2016, <<http://www.asianews.network/content/rcep-negotiators-under-pressure-strike-free-trade-deal-14928>>.

83. In a similar vein, Hu (*China's Strategy*) makes a distinction between outside and inside strategy.

institutional balancing. I also explored how and why East Asian countries' interests converged and diverged in pushing for mega-FTAs. The political dynamics of mega-FTAs demonstrate that East Asian countries engage in an institutional balancing game to design a new regional order. Both the US and China attempted to take advantage of mega-FTAs as a means to secure an advantageous position in creating this new order. The TPP and the RCEP reflect US and Chinese strategic thinking, respectively, on how to construct this new geopolitical architecture.

East Asia's shift to mega-FTAs also stems from the political dynamics between China and Japan, although it is also heavily influenced by Sino-US competition. The US rebalancing policy to Asia and Japanese participation in the TPP brought about somewhat contradictory effects. On the one hand, the competitive dynamic between the US and China has strengthened, as both countries engage in inter-institutional balancing games to create the regional order they each prefer. On the other hand, the changes created dual dynamics of cooperation and competition between China and Japan. By embracing the RCEP, China has begun to show an inclusive posture to accommodate ASEAN+6, the long-standing Japanese preference, as an institutional platform for redesigning the regional architecture. As its participation in both the TPP and the RCEP demonstrates, Japan is attempting to engage in inter- and intra-institutional balancing, simultaneously.

Institutional balancing behavior is not limited to great powers. Changes in China's policy were made possible because ASEAN, not Japan, took the initiative in promoting the RCEP. Stalled talks on a region-wide FTA could be resuscitated because neither China nor Japan took the initiative. By repackaging the existing discussions of regional integration as the RCEP, ASEAN could consequently mediate the rivalry between China and Japan.⁸⁴ By paying deference to the centrality of ASEAN, China did not have to tangle with Japan and could sidestep the long-standing dissent over the primary institutional platform of regional cooperation. This suggests that small or middle powers may turn to regional institutions to mediate the potentially conflicting interests of great powers in East Asia.⁸⁵

84. Goh, *Struggle for Order*.

85. Paul Bowles, "Asia's Post-Crisis Regionalism: Bringing the State Back In, Keeping the (United) States Out," *Review of International Political Economy* 9, no. 2 (2002), pp. 244–270.