

**Domestic Politics of FTAs and Negotiation Strategy**  
**for Economic Integration in East Asia:**  
**The Korean Perspective**

Presented by

Professor Se Young Ahn

The Graduate School of International Studies

Sogang University, Korea

Email : syahn@sogang.ac.kr

Tel: Seoul 82-2-705-8955

Mobile 82-11-714-5146

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## **ABSTRACT**

In East Asia, one of the world's three major economic poles, economic integration is not proceeding so actively as in EU and NAFTA.

The steps toward East Asia Economic Integration have been under constant discussion during the annual China-Japan-Korea summits since 1999, but 'the Big Three' of East Asia, China, Japan, and Korea have not yet been able to launch inter-governmental negotiation for China-Japan-Korea FTA .

Recent Korean experience - Korea's FTA negotiations with Chile, Japan, and US - convinces us that the real obstacles of the CJK FTA are not the political, cultural, economic and historical barriers existing in East Asia, but the domestic constraints, namely domestic politics, stemming from the fierce political reaction of 'the losers' in market opening.

In light of this, this paper aims to analyze the domestic politics of the CJK FTA and suggest the new negotiation strategy (Mid-FTA) implications for effective economic integration in East Asia.

## 1. Introduction

In East Asia, which is one of the world's three major economic poles, making up 20% of the world economy, economic integration fails to proceed at a pace equivalent to that of the EU and NAFTA.

However, the rapidly changing global economy is forcing 'the Big Three : China, Japan, and Korea (hereafter referred to as 'the Big Three') to come to discuss economic integration in East Asia. The Asian financial crisis in 1997 in particular forced the Big Three to acknowledge the necessity of mutual cooperation in East Asia. Furthermore, China's entry into the WTO, increasing intra-regional trade and investment in Asia, and recent progress of regionalism in America and Europe, are **combined** to enhance the necessity of economic integration in East Asia.

Steps toward East Asian economic integration have constantly been discussed at the annual China-Japan-Korea summits since 1999, but 'the Big Three' have not been able to launch inter-governmental negotiations for China-Japan-Korea FTA (hereafter 'CJK FTA') yet.

There are a number of reasons for such inactivity in the **otherwise active** economic integration process in East Asia including tragic history, territorial disputes, history textbooks issues, differences in economic development policies and economic scale.<sup>1</sup>

As R. Strauss, who negotiated the Tokyo Round, mentioned, "*As an US ambassador of STR<sup>2</sup>, I spent as much time in negotiation with domestic constituents (labor union, industry etc.) and the US congress as I did negotiate with our trading partners.*", the real obstacles of the CJK FTA are not the geopolitical, cultural, economic and historical barriers existing in East Asia, but the domestic constraints, namely domestic politics, stemming from the fierce political reaction of 'the losers' in market opening.

The recent Korean experience - Korea's FTA negotiations with Chile, Japan, and US – reinforces this argument. As Korea experienced with the Korea-Chile FTA, the most significant constraint in the FTA negotiation is not international negotiation between two governments, but domestic negotiation with various domestic constituencies such as farmers' association, national assembly, NGOs, labor unions etc. The Korean and the Chilean governments signed the FTA in February, 2003. But this

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<sup>1</sup> Both Japan and Korea achieved remarkable economic development through multilateralism and free trade led by the USA. However, unlike those two countries, China retained a closed economic system and was not an integral part of world economy up until the end of 1980s.

<sup>2</sup> Special Trade Representative

Korea-Chile FTA failed to be ratified by the Korean National Assembly three times due to tremendous political reactions from organized farmers.

In the same regard, the Japan-Korea FTA negotiation has been at a deadlock since December 2004. The Korean and the Japanese government underwent six rounds of negotiations for almost over a year, but the two parties failed to reach an agreement because of political reactions in both countries; farmers in Japan and organized labor unions in Korea.

This paper aims to analyze the domestic politics of FTA and negotiation strategy for the CJK FTA from a Korean perspective. After examining the recent development of FTA policies in China, Japan and Korea, this paper provides a Korean perspective of the domestic politics of the CJK FTA. Finally, it highlights the importance of the Mid-level FTA as the new agenda of FTA negotiation strategy in building the CJK FTA.

## **2. Overview on FTA Policies in China, Japan, and Korea**

Even though the Big Three in East Asia are late-movers in the proliferation of FTAs in the world, currently they are actively pursuing FTAs in a defensive effort to counter the regionalism prevailing in the North America and EU.

Japan, China, and Korea are trying to promote the CJK FTA, while each of them is pursuing its own FTAs with its major trading partners. This kind of Big Three's recent FTA policies can be summarized as follows.

When it comes to the China's FTA policy, its priority is given to the so-called 'a Moving towards Southeast Asia (ASEAN) Policy'. In reality, the regional economy of ASEAN countries is under significant influence of overseas Chinese, around 40 million overseas Chinese representing about 10% of the total population in this region, holds two-thirds of this region's economic power. To consolidate this existing Chinese economic presence, China is moving very fast towards this region.

China concluded a CEPA (Closer Economic Partnership Arrangement) with Hong Kong (effective from January, 2004) and Macau (effective from January, 2004). Chinese also signed an FTA negotiation with Pakistan (December 2005), and Chile (November 2005). Chinese Prime Minister Zhu Longzhi proposed the idea of China-ASEAN FTA at the Singapore China-ASEAN summit in November 2000. Two years later, in November 2002, the China-ASEAN Basic Agreement was signed at the China-ASEAN summit in Cambodia.

Two parties agreed to start a tariff reduction for the trade of manufactured goods in July 2005, and to **eventually** reduce it to 0% for most items by 2010 with 'ASEAN 6,' and by 2015 for 'ASEAN 4' (Cambodia, Laos, Myanmar and Vietnam).<sup>1</sup> In addition, there are currently inter-governmental negotiations with a number of countries including Australia and New Zealand, and joint-research with Korea, Singapore, India and Iceland.

*Table 1* FTAs in East Asia : China, Japan, and Korea

[INSERT]

If China successfully lines up its FTA with ASEAN countries as scheduled, it is highly likely to form a Greater Chinese Economic Zone (GCEZ) **that would place** not only Hong Kong, Chinese Taiwan, but also ten Southeast Asian countries under the umbrella of the Chinese Economy. This strong Chinese presence in the ASEAN market will, **in turn** be able to give China consolidated bargaining power over Korea and Japan **if it sits together** at the FTA negotiation table.

Japan and Korea, along with the US, being very sensitive to the formation of the GCEZ, are trying to conclude FTAs with ASEAN countries in an effort not to be excluded from the vast ASEAN market. In this regard, the regional priority of Japan's FTA is **placed on** East-Asian countries.<sup>3</sup> Japan's FTA policy has taken a dual approach; one is to negotiate with ASEAN for the Japan-ASEAN FTA and the other is to look at concluding FTAs with individual ASEAN countries such as Singapore, Philippines and Malaysia.<sup>4</sup> Japan signed its first FTA (EPA: Economic Partner Agreement) with Singapore in 2002 and then with Mexico, **the** Philippines, and Thailand in 2005.

Currently, inter-governmental negotiations with ASEAN and Malaysia are underway with Japan. **Japan has undertaken** joint-research with China. Japan is planning to conclude an FTA with 'the ASEAN 6' by 2012 and with 'the ASEAN 4' by 2017.

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<sup>3</sup> Urata, S. (2004) 'Toward the establishment of FTA in East Asia: The Japanese view', Waseda University, April.

<sup>4</sup> For the following two reasons, Japan has taken a dual approach to the FTA with ASEAN: (1) Because of the Asian economic crisis of 1997, Japan's perception on economic interdependency between Japanese and ASEAN has changed; it has realized that its economic prosperity is very closely interrelated with that of other Asian economies (Park 1997). And (2) The rapid emergence of ASEAN; ASEAN is gaining in importance as a major export market for Japanese products since 1990s. Together with Japan, ASEAN represents around 600million people and a GDP of almost USD 5 billion (Park 2003).

When it comes to Korea's FTA policy, the most remarkable and, in some sense surprising breakthrough is the opening of official negotiations between Korea and the US. Of course, even if it is a late-mover in signing FTAs. Korea has been moving steadily towards economic integration with Chile (2004), Singapore<sup>5</sup> and EFTA (European Free Trade Association)<sup>6</sup>. Currently Korea is negotiating FTAs with ASEAN<sup>7</sup>, Canada, Mexico and India. In addition, joint research with a number of countries, including China and MERCOSUR, is currently underway with one set to start in the fall of 2006 with the EU.

Considering the basic policy agenda of the President Roh's administration to make Korea the 'Economic Center in East Asia' by creating the CJK FTA<sup>8</sup>, it was hardly expected that the Roh's government would suggest FTA negotiation with the US.

What is **even** more surprising is that the US has accepted to open official negotiations with the Korean government in spite of tiresome pending issues on the Korean peninsula such as North Korea's nuclear threat, human right and missile issues. Both governments agreed to hold seven rounds of negotiation by March 2007 and are moving very fast towards the US-Korea FTA.

The most persistent and dominant issue affecting this US-Korea FTA is why the US decided to choose Korea as its negotiation partner, in spite of the long waiting list of twenty five countries which includes Japan and Italy. There are several explanations to this question such as to enhance market access to the tenth largest economy and in collusion with efforts to reinforce the loosened US-Korea military alliance.

But a more important and complicated motive can be found in the US's efforts to challenge the rapidly emerging GCEZ. It would not be in the best interest of any superpower to observe ASEAN countries becoming a part of the enormous GCEZ umbrella led by China.

In this regard, the recent US FTA policies which target the emergence of the GCEZ, can be explained by its "encirclement policy. Its basic idea is to encircle the Chinese economy by forming FTAs in two directions; first, from South East and secondly **from** North East.

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<sup>5</sup> Signed in August, 2005 and effective in March, 2006

<sup>6</sup> Signed in December, 2005

<sup>7</sup> Agreed on trade in goods (April, 2006)

<sup>8</sup> There are two specific policies for this goal by the Korean government: to become the logistical and financial hub of East Asia and conclude the CJK FTA. In the early stages of the Noh's government, political leaders were very ambitious for this policy agenda, however, the Noh's government has turned out to be rather ineffective in pursuing its policy agenda. There has been no remarkable progress in this area; no progress, of the Korea-Japan FTA since 2004, no opening of negotiation in Korea-China FTAs.

First, the encirclement policy from South East; US is consolidating its economic tie s with Singapore, Thailand, Malaysia , and Australia through FTAs.

Secondly, when it comes to the encirclement policy from North East, only two countries are **staying away** from the process of stepping into the umbrella of the GCEZ: Japan and Korea. Japan, being the second largest economic superpower, is highly unlikely to step **into** the Chinese umbrella. Moreover, the Japanese economy is excessively competitive and large to be a FTA partner with the US.

But Korea is a different story: its future choice is not yet as definite as Japan. Its FTA policy choice between China and two market-oriented countries(Japan and/or US) will critically affect the economic geopolitical landscape in East Asia in this century.

In this sense, Korea seems to have a casting vote in balancing the economic powers between the emerging GCEZ and the two market-oriented super economic powers in this region. This is the reason why the US is making an effort to tighten its economic tie with Korea through FTA as an effort to discourage Korea from stepping into the Chinese umbrella.

As a result of the Big Three's efforts **moving** towards FTA, the, proportion of trade with FTA partners **to** total trade of these three countries is increasing significantly.

For China, intra-FTA trade was estimated to have increased from 10.4% in 2003 to 19.6% in 2005, whereas for Japan the increase was from 2.4% to 2.9% and for Korea, from 0% to 3.3%.

*Table 2* Importance of Intra-FTA trade

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However, these ratios are still much lower level compared to the US (35.3%), Mexico (88%) and also Singapore (60.1%) that has eight FTAs with 19 countries.

### **3. Theoretical Background of Domestic Politics of FTA**

Contrary to the experiences of EU and NAFTA, the economic integration in East Asia contains much more controversial and complicated **nature of** international constraints.

When EEC (European Economic Community) was launched in 1957, European countries - Germany, France, Italy, the Benelux three countries - had a similarity in their economic scales and levels of economic development. Such a similarity is hard to be found among the three East Asian countries; Japan is the world's second largest economy, while China is ranked the world's sixth economy. Korea's GDP is one-seventh that of Japan, and less than half of China's. .

Table3 Major economic indicators of China, Japan and Korea

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After the World War II, Japan placed not only Korea but also many Southeast Asian countries under its economic sphere with the so-called 'Goose Flying' development pattern. However, as China has been integrating towards the global economic system since its opening up to the outside world since 1980s, the relationship between the China and Japan has converted ever since and invisible rivalry to gain hegemony in the region is rising to the surface. The trouble for Japan is that all the long-term trends argue in favor of China taking a leadership role in Asia. China, with its double-digit growth, seems all but certain to overtake Japan toward the end of the next decade (Business Week 2005).

Finally, the North Korean issues on its nuclear and missile test could deter the economic integration of this region, as a standstill in its dialog is politically dividing the Big Three governments

As pointed out above, differences in economic scale and level of economic development, hegemony game between Japan and China, North Korea's nuclear issues are all the major external constraints of CJK FTA. But at the same time, there still is a certain matter that must be taken into consideration in discussing the CJK FTA and it is the 'domestic politics of FTA'.

In this sense, Putnam (1988) argues that FTA negotiation is one type of two-level game. It is convenient to divide analytically FTA negotiation into two stages; On one hand, Level I game is to bargain with foreign trade partners, and to lead to a tentative

agreement. Diplomacy **plays a role in this level.** On the other hand Level II game is to negotiate domestically with various groups of constituencies **'Domestic politics' plays a role in this level.**

The domestic politics in level II game, namely to persuade domestic constituencies to ratify the tentative agreement of level I game depend on the four following determinants in the Putnam model:

- 1) Nature of negotiation issues
- 2) Reaction of domestic constituencies
- 3) Politicization of the issues
- 4) Political leadership.

First, the nature of negotiation issue is related to the interests of constituencies; **which are either** heterogeneous or homogeneous.

When the interests of constituencies are relatively homogeneous, it is not so difficult for governments to conduct domestic politics (Level II game). For example, if both South and North Korean governments agree to have a peace treaty, the interests of constituencies are very homogeneous (everybody **would** welcomes it). So it is very easy for a government to ratify the peace treaty (Lyu 2004).

On the contrary, if the interests of constituencies are heterogeneous, the domestic politics (Level II game) become very complicated and **difficult process to deal with, because there is a clear divergence between the losers and winner groups.** When **people say that interests are clearly** 'heterogeneous' in FTA, this means that the declining, import-competing industries ("losers") will be seriously affected (injured) by opening of the market, whereas the internationally competitive industries ("winners") would be able to **benefit from greater access** to its partners' market

Second, the political reaction of domestic constituencies **could be** either symmetry or asymmetry. When the political reaction of domestic constituencies is symmetry, that is where all eligible constituencies will **relatively equally** participate in the level II game (losers and winners will show very similar political reaction), domestic politics are not so difficult for a government. This is because the government will be able to politically be supported by the winners even if the losers fiercely react politically against market opening,.

In the case of FTA, the political reaction is likely to be very asymmetry (Putnam 1988 and AHN 2003). In general, the overall cost of FTA is very highly concentrated in the losers, while the benefits are **relatively thinly** distributed to a much large number of people (winners), such as the consumers. For this reason, losers tend to show strong political reaction, whereas winners tend to **remain silent and yet trying to 'free-ride' on the benefits** of FTA by handling off their political concerns.

**Let's take an example** of Korea-Chile FTA. Korean grape cultivators and farmers' associations fiercely reacted by arguing that the import Chilean grapes would destroy their agricultural business. However, the winners (Korea electronic and automotive industries) did not participate actively in the Level II game process **without** politically supporting government. In this regard, they can be labeled as **free-riders** in FTA.

Third, the politicization of the issues. The domestic politics in the level II game varies with the politicization of the issues. This is because politicization often activates politicians and groups who are less worried about the cost of negotiation issues (Wilson 1975). Especially marginal groups like consumers groups and NGOs that do not belong to either winners or losers are persuaded to exercise political influence by allying with the losing groups. This will consequently worsen the level II game.

Finally, political leadership which largely influences domestic politics. The government is **vulnerably or weakly positioned to deal with** the political reaction of the losers, particularly, when facing a upcoming election. In such case, it will to be very difficult to expect strong political leadership in level II game. The political leadership mentioned here means the president's political leadership to persuade the losers and legislature on the process of domestic ratification.

#### **4. Empirical Survey on the CJK FTA: A Korean perspective**

To examine the overall attitude toward the CJK FTA, we selected stratified samples ranging from 20-50 individuals as organizations from each of 14 different groups in Korea. This survey was carried out in 2003 by visiting, telephone, mail and e-mail, and

460 valid responses among all the questionnaires replied were used for the analysis. The survey was carried out with people of 14 different job categories and their distribution by category is as below <Table 4>.

*Table 4* Distribution of Respondents by Job Categories

[INSERT]

Regarding the question of 'Who will make the biggest loss after the conclusion of the CJK FTA?' 81% of all respondents answered farmers (refer Table5). Then workers and small and medium sized firms were followed with 10% and 9% of responses respectively. On the other hand, regarding the question of 'How the CJK FTA will affect the respondent personally?', NGOs and labor union leaders reacted most negatively. Precisely, 87% and 84% of NGOs and labor union leaders replied that the CJK FTA will have negative effects on them. The other interesting point is the response of organized farmers. Only 30% of respondents from organized farmers replied its negative impacts. In contrast, 50% of big business managements and 80% of people involved in steel, shipbuilding and automobile industries replied it as positive.

It can be described that the CJK FTA negotiation is highly asymmetric. Therefore there will be both losing groups (labor union, agricultural sector, NGOs) and winning groups (big business managements, steel, shipbuilding and automobile industries) .

*Table 5* Analysis of Losing groups by the CJK FTA

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*Table 6* Level of Personal Efforts for (or against) the CJK FTA

[INSERT]

Reactions from the winners and losers by the CJK FTA are likely to be highly asymmetric. 80% of labor union leaders and 67% of NGOs replied that they will give much effort to against the CJK FTA. On the other hand, only 8% of CEOs of large

enterprises and 13% of directors of small firm, those who are expected winning groups of FTA, replied to exert much effort for the successful conclusion of the CJK FTA. In addition, only 20% of Federation of Korean Industries and Korea International Trade Association members representing those expected winning groups promised for maximum efforts for its success <Table 6>.

As it is shown on <Figure1>, regarding question of 'who will be the biggest losing group by CJK FTA?', most(81%) replied farmers. In fact, effects of CJK FTA are highly complicated, therefore it is very difficult to judge their impact on Korea's agricultural sector. Contrary to the conventional wisdom prevailing among Korean people, in case of Korea-Japan FTA Korean agriculture can expect significant increase for the exports of chestnuts, green vegetables, flowers, pork, as Japan is single most important export market for Korean agricultural sector which takes 40% of its exports.

*Figure 1* Losing Groups by the CJK FTA

[INSERT]

Despite that, **there is a wide spread misperception of “the CJK FTA as something to benefit Korean big business (conglomerates) and to sacrifice farmers** among Korean people, **It was in large part** due to the fact that Korea's first FTA partner was Chile. During the process of FTA negotiation with Chile, which is a major fruits exporter of grapes, Korean farmers associations strongly protested politically. This was the main reason why ordinary Korean people have such misperception on FTA as a sacrifice for rural sector. This will be one of major **hurdles** for the realization of CJK FTA for Korean side. In Korea, any governmental policy that may cause disadvantage for small and medium sized firms, labor union and farmer, those considered as socially weak, is to be escalated as excessively sensitive political issues.

Regarding question on necessary elements for pursuing the CJK FTA, only 6% answered efforts of relevant government agencies like Ministry of Foreign Affairs and Trade, while 34% replied political leadership<Figure2>.

Figure2 Elements necessary to persuading CJK FTA

[INSERT]

The political leadership mentioned here means president's political leadership to persuade opposing constituencies, by all means. As a matter of fact, the president is highly unlikely to exercise his political leadership, because he/she is very sensitive to the political backlash in election coming from farmers, NGOs, and labor unions.

### 5. New Negotiation Strategy for the CJK FTA: **The Mid-level FTA as an Ice-breaker**

The results of the empirical survey indicate that serious conflict and political reaction from the losers are expected to occur at the level two game of the CJK FTA. Organized farmers, labors, NGOs, and small business are expected to express very strong political reaction against the CJK FTA in Korea. When the CJK FTA negotiation begins, the negotiators from the three countries will strive to exclude the so-called 'sensitive items' from the CJK FTA in order to smoothen their political burden.

For example, Japanese negotiators will **try to** categorize as many agricultural items as possible as sensitive items, whereas the Chinese will do **so** for steel and petrochemical items. This kind of win-set game (Putnam 1988) will eventually drive the CJK FTA negotiation into **a** deadlock. The reason is very simple: the conflict of trade interests **that divide** the three countries in the negotiation table.

Its prime example is the Japan-Korea FTA that **has been** at a standstill since winter 2004. The two governments failed to **reach a** compromise, **because of** this kind of **conflict** of trade interests. **Some of the sensitive items like agricultural items** that Japan wants to exclude from the JK FTA are, on contrary, the most important items that Korea wants to **include** to increase its export to Japan.

**In this regard**, it is worth introducing **the** three categories of FTA as follows;

- **The** High-level FTA
- The Mid-level FTA
- The Low-level FTA

High-level FTA represents deep economic integration of three Asian countries with

maximum effect. **In fact**, most of the governments involved in FTA negotiation tend to **have officially announced** that they are pursuing this kind of high quality of FTA. This deep integration is also highly recommendable in theoretical argument. However, as we **have** analyzed in this paper, if the Big Three pursue this high-level FTA, they will not be able to stand against fierce political reactions coming from losers.

In this sense, the negotiation strategy aiming at the high-level FTA in East Asia is not likely to be so feasible (**as it sounds in theory**). Considering this kind of strong political reaction, the low-level FTA seems to be a good alternative. As a matter of fact, if negotiators from the Big Three finally agree to compromise their trade interests by excluding **most of** sensitive items from the CJK FTA, they **would** be **better** able to conclude **the** so-called 'low-level FTA'. In reality, this is the most feasible **form of** the FTA that Japan, China and Korea can have in **the** not-too-distant time.

But, this low-level FTA will definitively violate the GATT/WTO. The GATT XXIV-8 insisted that the exceptionality of regional trade agreement from 'The Principle of the Most Favored Nation' dictated in GATT Article 1 should be recognized, but, in return, duties and other restrictive regulations of commerce must be eliminated **on** the 'substantially all the trade' between its signatories. As **the Big Three are** the member countries of WTO, the CJK FTA must include 'substantially all the trade' among the three countries.

In this regard, the most persistent question raised for this dilemma is how to reconcile the **principle of the** GATT XXIV-8 and the win-set game (The Big Three countries' efforts to **maximize the exclusion** of their sensitive items from the CJK FTA). The feasible solution that this paper proposes is to have "the Mid-level FTA". The idea of the Mid-level FTA is to allow the three countries to exclude 'significant items' from the CJK FTA as long as this 'significant exception' is not against the GATT/WTO **bottom line**, particularly the GATT XXIV-8.<sup>9</sup> Under this Mid-level FTA, a good part of sensitive

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<sup>9</sup> The GATT XXIV-8

For the purposes of this Agreement:

(a) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that (i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and (ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;

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items for the three countries will be excluded from the CJK FTA. It is evident that this Mid-level FTA will ignite fierce argument among scholars and trade experts in the three countries. Their argument will be focused only on the very narrow effects of the CJK FTA. This Mid-level FTA **would** be able to nullify a large part of the CJK FTA by excluding so many sensitive items, which **would, otherwise,** be able to increase the CJK trade in the future.

In discussing the CJK FTA, it is crucial to remember that there are inevitable 'trade-offs' **that must be chosen** between its feasibility and economic-political effect. The gist of this situation is that the outcomes of the CJK FTA in terms of economic and political effects are so significant that the three countries are far better off by concluding the Mid-level FTA as soon as possible rather than consuming excess time pursuing the High-level FTA for deep integration. Considering the enormous and entrenched **nature of** constraints and barriers pointed out in this article, the high-level FTA in the East Asian Big Three is an ideal model that **might exist** only in the intellectual sphere of scholars and trade experts. The fact that the process was very lengthy prior to the final incarnation of EU in 1992 should not be dismissed. Such a lengthy process of gradual integration **was the way that Europe underwent for its integration of the EEC(1958)-ECM-EC-EU, which took approximately four decades.**

## 6. Conclusion

By all means, the CJK FTA is an imperative step for Big Three **to** pursue in order to achieve the economic integration in East Asia.

However, as mentioned above, the East Asian Big Three countries have a long way to go. Unlike the EU or NAFTA, there are numerous barriers **that exist in their** economic, political, cultural and historical aspects. This study, particularly points out that the most significant barriers to the creation of CJK FTA will not be the external constraints mentioned just before, but domestic constraint, namely domestic politics. In accordance with the results derived from this study in Korea, the determinants of Putnam's domestic politics run counter to the smooth creation of the CJK FTA: heterogeneous FTA effect in various domestic constituencies, asymmetric political

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(b)A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

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reaction of domestic constituencies, politicization of FTA issues and weak political leadership.

This paper recommended the 'Mid-level FTA' as the second-best option for the CJK FTA. Considering the trade-off between the feasibility of CJK FTA and its economic effects as well as its symbolic effect, it is desirable to conclude **the** Mid-level FTA as soon as possible than not having CJK FTA at all.

In reality, all of three countries have **their respective** weak terrains like the issues of agriculture market opening, small and medium sized firms, and possible negative consequence such as massive unemployment caused by high-level FTA. It means no county **would be able to** persevere fierce political reactions coming from the losers in case of the high-level FTA .

This policy recommendation of the Mid-level FTA is more urgent for Japan and Korea than for China, because domestic conflicts will be more visible in former two countries than in latter. Japan's long-term ruling Liberal Democratic Party (LDP) has its traditional political basis in rural areas. There are numerous **the so-called** 'Agrarian Congressmen' in Japanese Diet members, and they are resisting any market opening which may harm their electorates. Also, the **Korean** administration of President Roh Moo-Hyeon is reluctant to adopt any policy agenda which may harm labor, particularly farmers who are considered socially weak,

It must be noted that this new negotiation strategy of the Mid-level FTA is not incompatible with comprehensive FTA. The mid-level FTA is basically related to the political sensibility of negotiated items, whereas the comprehensive FTA is related to the horizontal coverage of FTA in the bilateral trade. The comprehensive CJK FTA includes a wide range of issues **encompassing** not only goods and service liberalization but also other various issues such as non-tariff barriers, intellectual-property-rights, antidumping, counter-veiling duty, competition, government procurement, Investment, labor and environment issues, e-Commerce, energy cooperation, industrial cooperation(transfer of technology, strategic alliance, etc), education, and cultural cooperation.<sup>2</sup>

The basic concept of the mid-level FTA is to exclude politically sensitive items from bilateral deal. Consequently, there is no close correlation between the level of FTA and level of coverage in bilateral trade. In many cases, the mid-level of FTA could be interpreted as comprehensive FTA even if it excludes numerous sensitive **items**.

As pointed out, the CJK FTA must be negotiated within the framework of the WTO jurisprudence. However, the exact concept and meaning of 'substantially all the trade'

have not been clearly defined among WTO member countries. Some countries want to interpret the meaning of 'substantially all the trade' in a broader sense, whereas the other countries want to confine its meaning within a very strict boundary. Hence, **the concept regarding the Mid-level FTA is required to be studied to add its precision and definition.**

For **the** Korean FTA policy perspective; if Korea pursues new negotiation strategy which aims to establish mid-level FTA, such action **would** act as an ice-breaker for the economic integration in the Asia Pacific region. The followings are its possible scenarios of what could take place within the region.

If Korea concludes **the** mid-level FTA with the U.S., the Korea-U.S. FTA **would** be **a** milestone for the China-Korea FTA and Japan-Korea FTA in the near future. It would be China who moves **first** toward Korea to have FTA. It is because the U.S.-Korea FTA will negatively affect China through the trade diversion effect.<sup>10</sup> And then Korea will be reopening dialogue with Japan , and **this will ultimately be leading to the development** of the China-Korea FTA and the Japan-Korea FTA into the CJK-FTA.

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<sup>10</sup> It is expected that substantial Chinese agricultural exports to Korea will be diverted into US exports using the US-Korea FTA as leverage to conclude the Korea-China FTA first, then Korea-Japan FTA, and ultimately develops those two into Japan-China FTA.

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Table 1 FTAs in East Asia : China, Japan, and Korea

country	In action (signed)	Under negotiation	Under study
China	Hong Kong(2003) Macao(2003) ASEAN(2005)	New Zealand Pakistan Australia Chile	India Korea
Korea	Chile(2004) Singapore(2005) EFTA(2005)	Japan ASEAN India Canada Mexico U.S	China MERCOSUR
Japan	Singapoer(2002) Mexico(2005.4 in action) Philippines(2004.11 signed) Thailand(2005.9 signed)	Indonesia Malaysia Korea ASEAN	Taiwan Australia Chile Indonesia

Table2 Importance of trade with country's FTA partners

	number of FTA	number of FTA countries	Trade with FTA partners(%)	
			2003 December	2005 December
China	3	12	10.4%	19.6%
Korea	3	6	0%	3.3%
Japan	3	3	2.4%	2.9%
U.S	12	16	33.2%	35.3%
Mexico	10	43	86.3%	88.0%
Singapore	8	19	43.9%	60.1%

\* Number of Countries : EU(25), EFTA(4), AFTA(10)

Table 3 Major economic indicators of China, Japan, and Korea

	China	Japan	Korea
GDP(billion U\$)	16,494	46,690	6,801
Population(million)	1,300	150	48
Per capita income(U\$)	1,100	38,120	14,162
Trade(billion U\$)	1,154	1,020	478

source: [www.kita.net](http://www.kita.net), [www.nso.go.kr](http://www.nso.go.kr)

Table4 Dispersion of Respondents in Job Categories

Job	Number of respondents	Ratio
1. farmers' associations	30	7%
2. big business management	26	6%
3. small business management	32	7%
4. labor union leaders	25	5%
5. college students	51	11%
6. NGOs	30	7%
7. textile, garments, etc	52	11%
8. steel, shipbuilding, automotives	57	12%
9. government officials(international affairs)	30	7%
10. government officials(agricultures)	30	7%
11. big business associations(foreign trade associations, federation of Korean industries)	17	4%
12. small business associations	18	4%
13. housewives	25	5%
14. journalists	37	8%
Total	460	100%



Table 5 Analysis of Losing Groups by the CJK FTA

Groups	Farmers	Labors	Small businesses	Big businesses	Consumer	Total
Farmers' associations	25	1	4	0	0	30
	83%	3%	13%	0%	0%	100%
Big Business Management	23	1	1	1	0	26
	88%	4%	4%	4%	0%	100%
Small Business Management	27	2	3	0	0	32
	84%	6%	9%	0%	0%	100%
Labor union leaders	15	10	0	0	0	25
	60%	40%	0%	0%	0%	100%
College Students	41	7	3	0	0	51
	80%	14%	6%	0%	0%	100%
NGOs	18	12	0	0	0	30
	60%	40%	0%	0%	0%	100%
Textile, garments, etc	45	1	6	0	0	52
	87%	2%	12%	0%	0%	100%
Steel, shipbuilding, automotives	49	5	3	0	0	57
	86%	9%	5%	0%	0%	100%
Government officials (international affairs)	26	1	3	0	0	30
	87%	3%	10%	0%	0%	100%
Government officials(agricultures)	24	1	5	0	0	30
	80%	3%	17%	0%	0%	100%
Big business associations (Federation of Korean Industries)	15	0	2	0	0	17
	88%	0%	12%	0%	0%	100%
Small business associations	13	3	2	0	0	18
	72%	17%	11%	0%	0%	100%
Housewives	19	2	3	0	1	25
	76%	8%	12%	0%	4%	100%
Journalists	32	0	5	0	0	37
	86%	0%	14%	0%	0%	100%

Total	372	46	40	1	1	460
	81%	10%	9%	0%	0%	100%

Table6 Level of Personal Efforts for (or against) the CJK FTA

	Maximum Effort	Certain Level of Efforts	Modest Level of Efforts	Only having interests	No Efforts	Total
Farmers' associations	2	13	4	11	0	30
	7%	43%	13%	37%	0%	100%
Big Business Management	2	5	8	11	0	26
	8%	19%	31%	42%	0%	100%
Small Business Management	4	11	6	10	1	32
	13%	34%	19%	31%	3%	100%
Labor union leaders	20	2	0	2	1	25
	80%	8%	0%	8%	4%	100%
College students	11	14	7	18	1	51
	22%	27%	14%	35%	2%	100%
NGOs	20	5	3	2	0	30
	67%	17%	10%	7%	0%	100%
Textile, garments, etc	3	10	11	26	2	52
	6%	19%	21%	50%	4%	100%
Steel, shipbuilding, automotives	6	24	20	7	0	57
	11%	42%	35%	12%	0%	100%
Governments Officials(International Affairs)	4	14	6	5	1	30
	13%	47%	20%	17%	3%	100%
Government Officials(agricultural, fishery)	0	17	9	4	0	30
	0%	57%	30%	13%	0%	100%
Big business associations	4	9	1	3	0	17
	24%	53%	6%	18%	0%	100%
Small Business	3	5	5	5	0	18

Associations	17%	28%	28%	28%	0%	100%
Housewives	2	8	3	12	0	25
	8%	32%	12%	48%	0%	100%
Journalists	6	23	4	4	0	37
	16%	62%	11%	11%	0%	100%
Total	87	160	87	120	6	460
	19%	35%	19%	26%	1%	100%

Figure1 Losing Groups by the CJK FTA

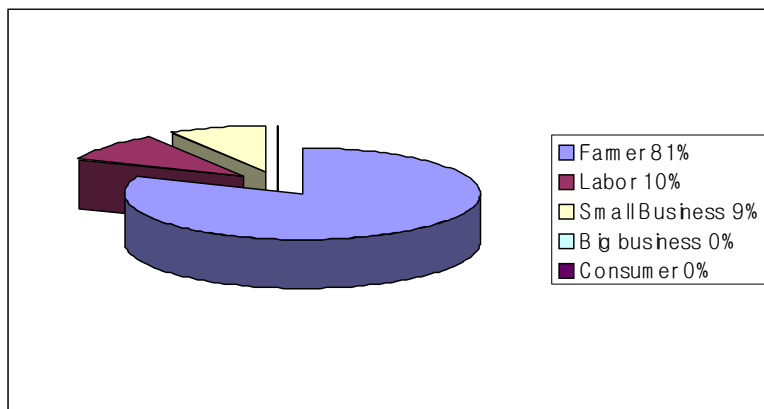


Figure2 Elements necessary to persuading CJK FTA

