



Korea's FTA Policy

- Focusing its FTA with Japan and US -

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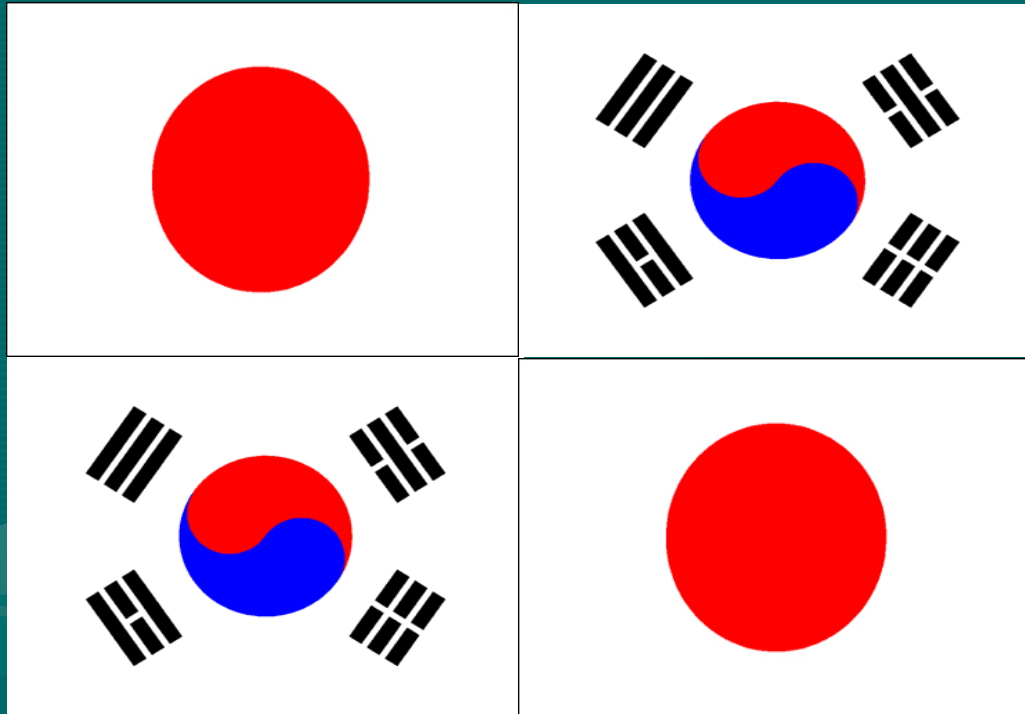
DEAN,

Graduate School of International Studies,

Sogang University

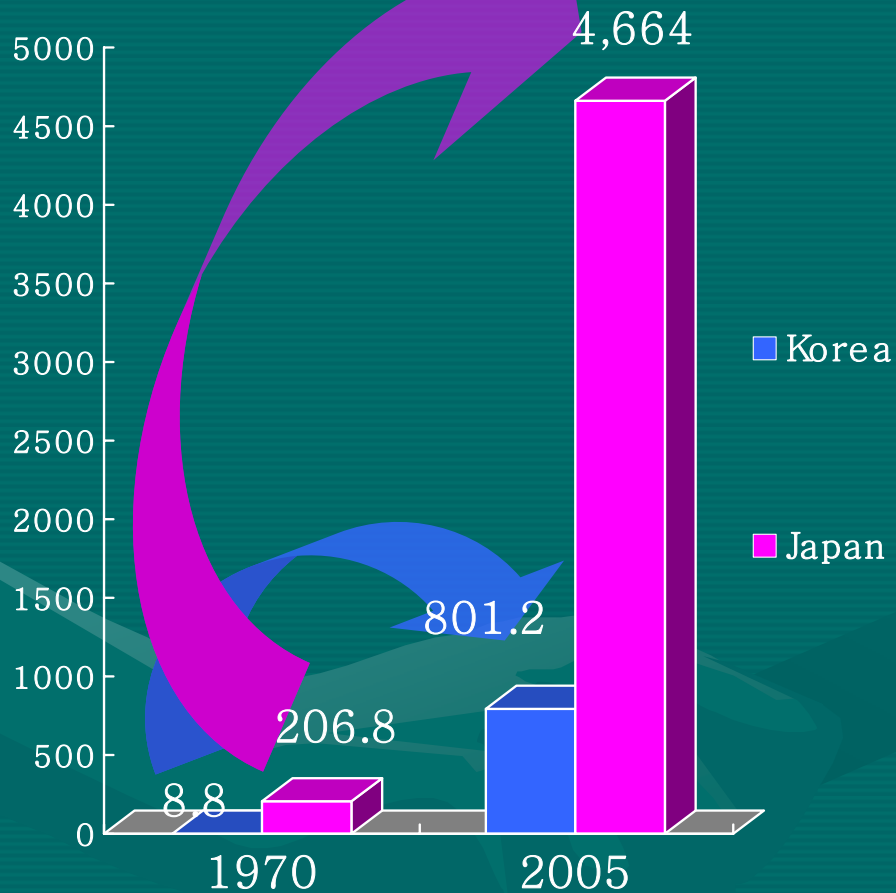
Korea as Japan's Economic Partner

“Geese flying development pattern”



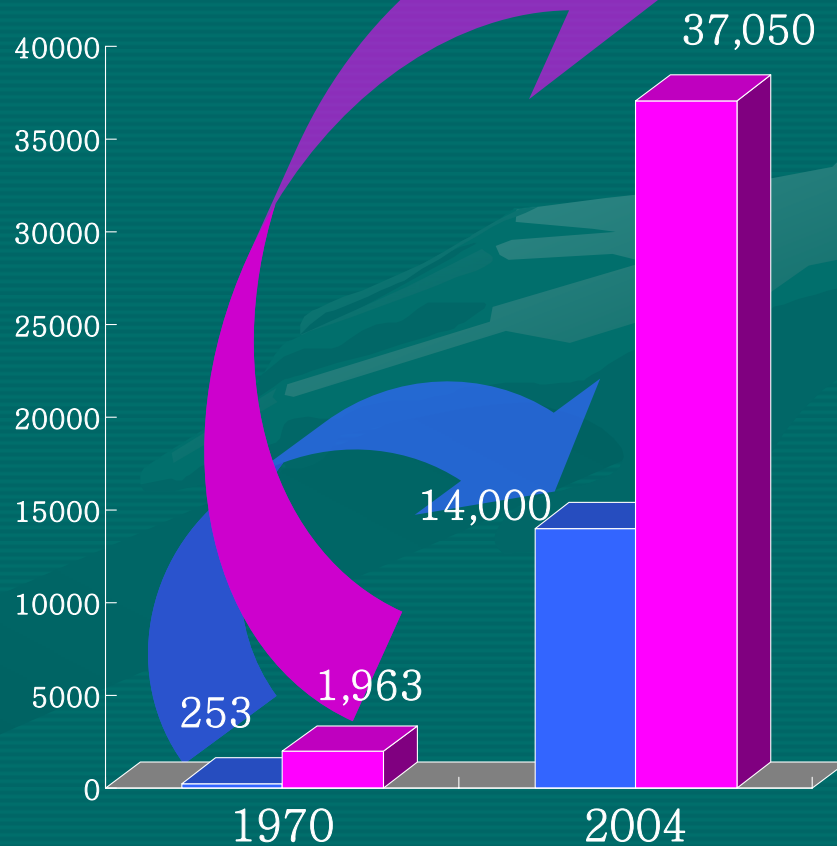
GDP

(unit: bil.U\$)



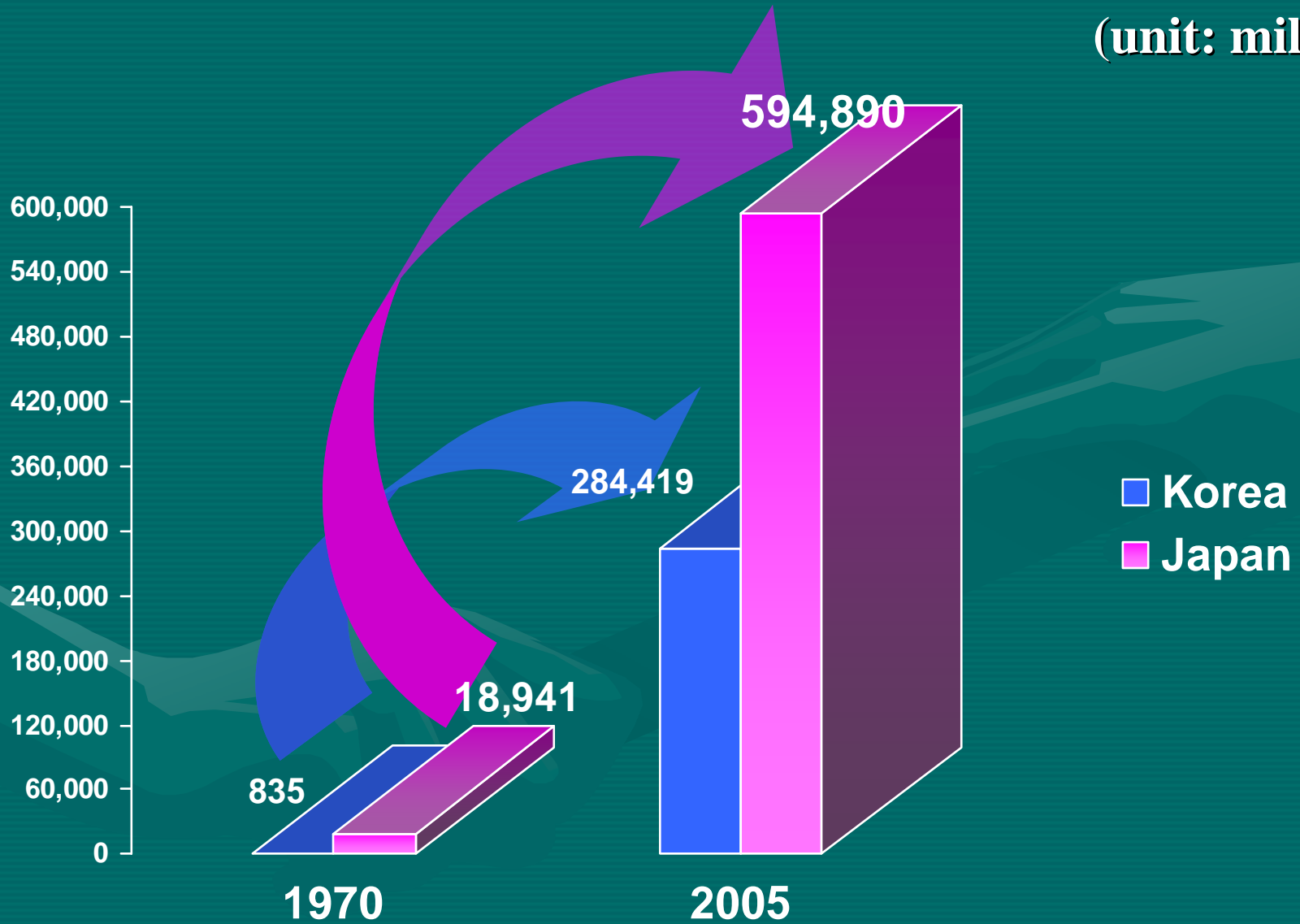
Income per Capita

(unit: U\$)

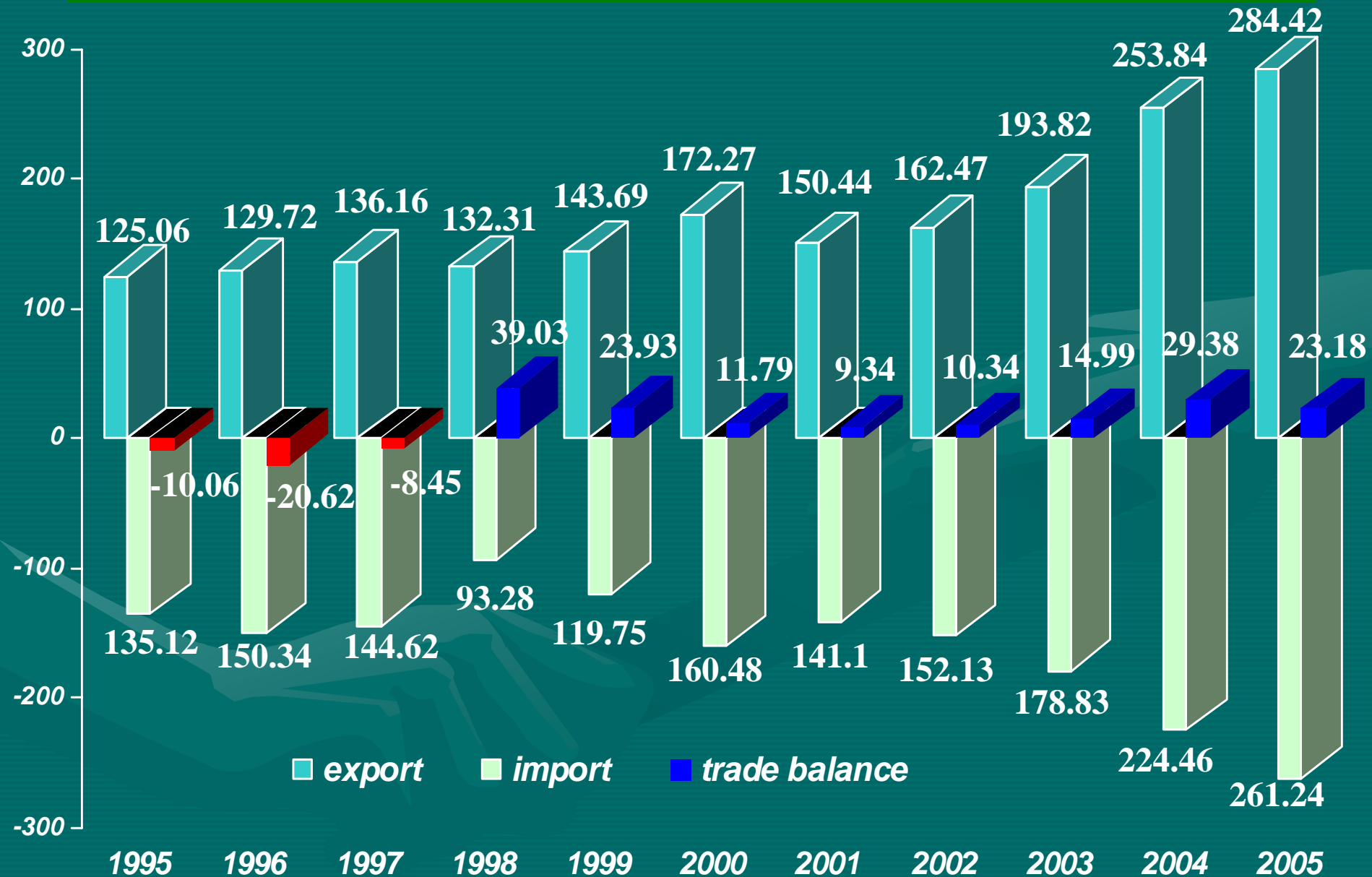


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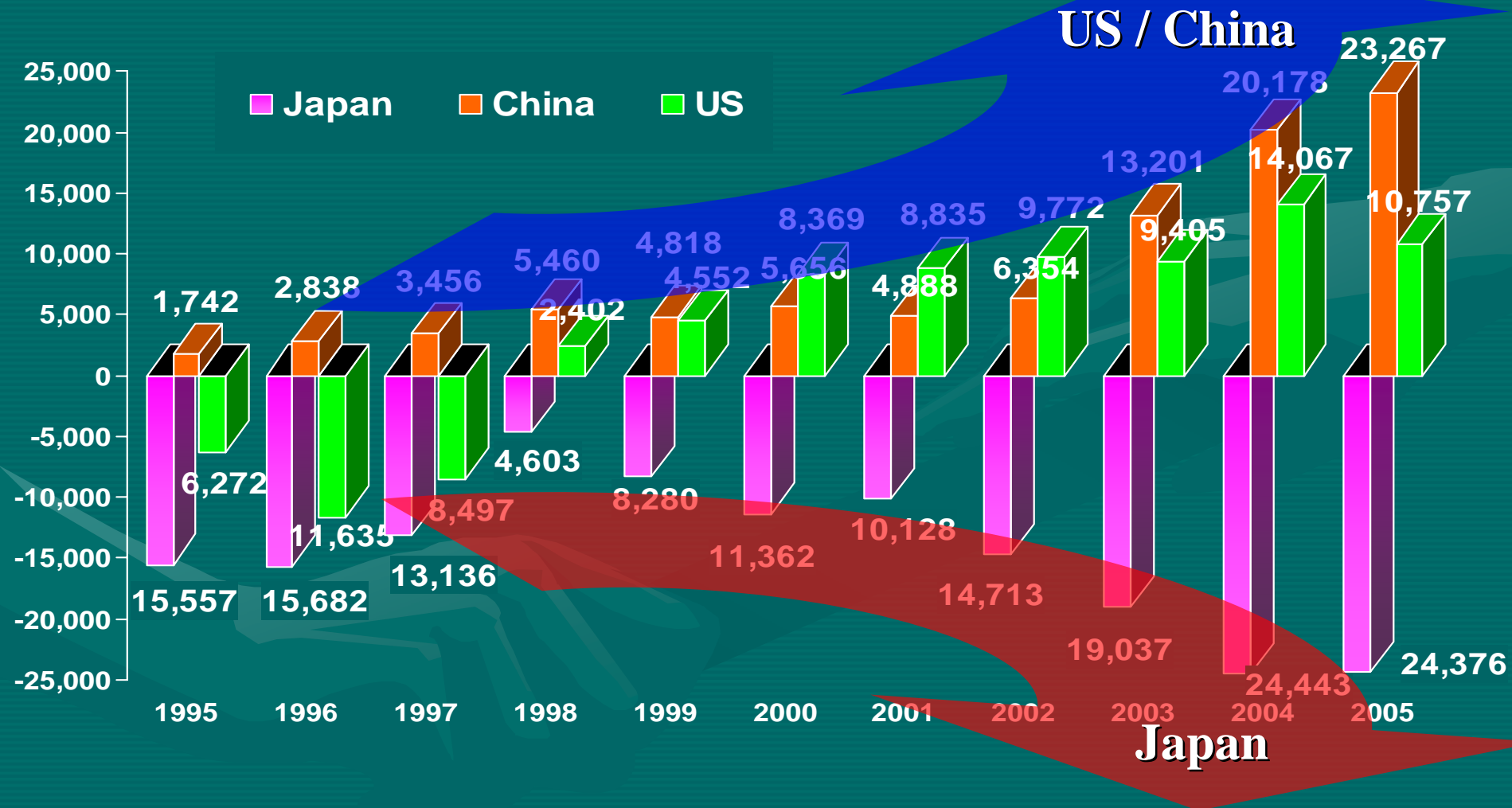
(unit: mil. U\$)



Korea's Trade Balance (unit: bil. U\$)



Korea's Trade Balance with its Major partners (1995-2005) unit: mil. US\$



Source : Korea International Trade Association

Export Market (2005, unit: US\$ billion)

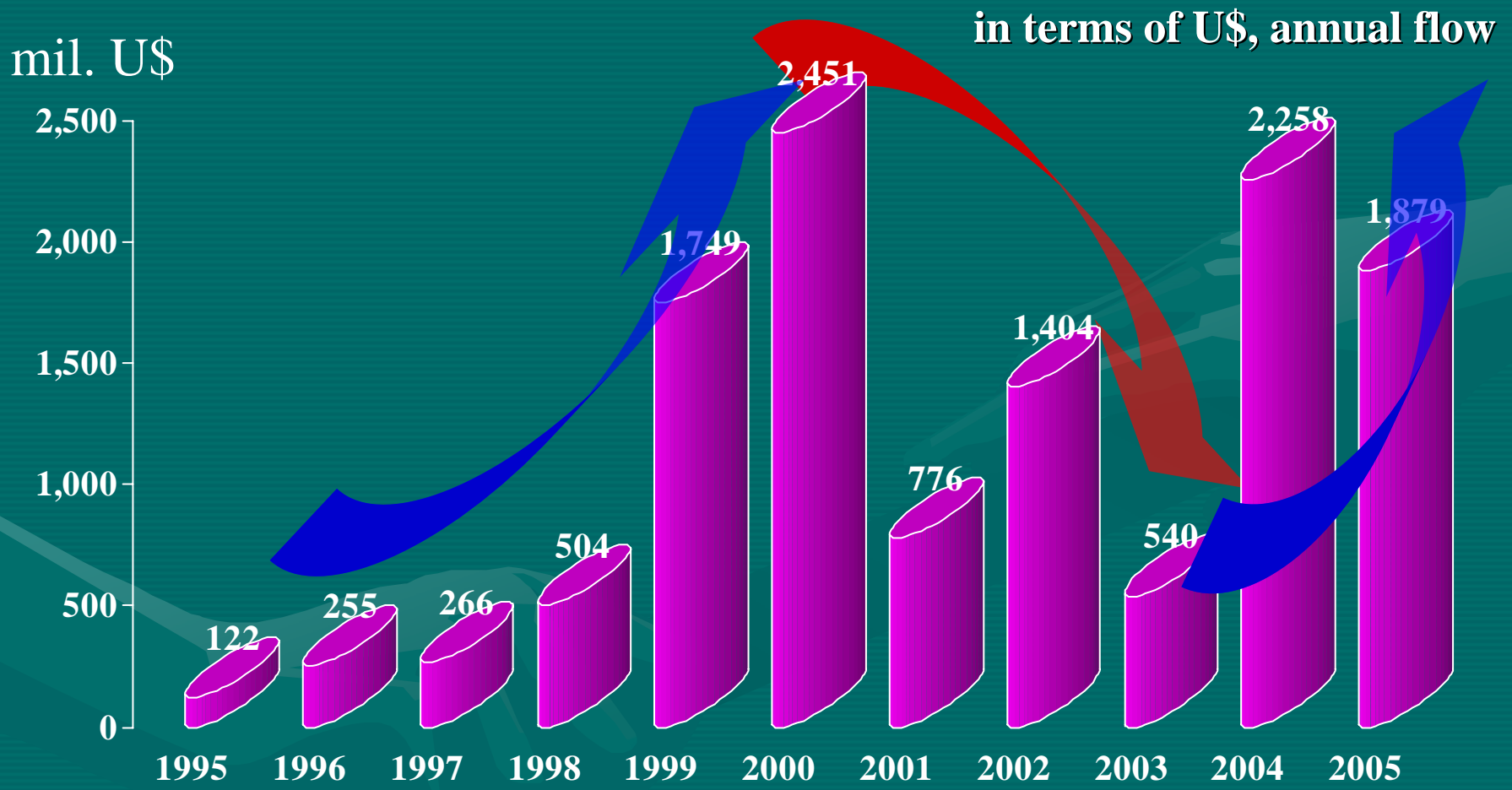
Korea

1.	China	61.9
2.	US	41.3
3.	Japan	24.0
4.	Hong Kong	15.5
5.	Taiwan	10.9
6.	Germany	10.3
7.	Singapore	7.4
8.	United Kingdom	5.3

Japan

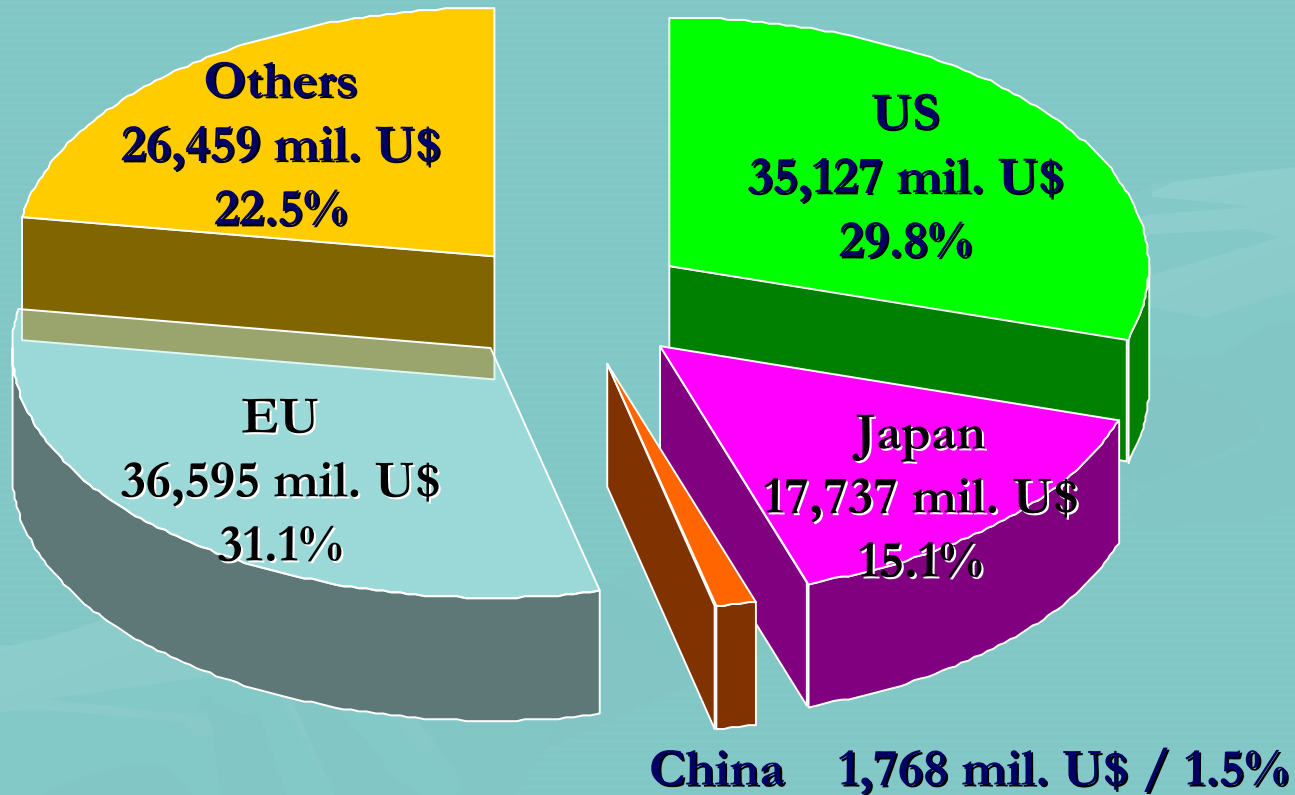
1.	US	136
2.	China	80.0
3.	Korea	46.7
4.	Hong Kong	36.0
5.	Thailand	22.6
6.	Germany	18.7
7.	Singapore	15.2
8.	United Kingdom	12.6

Japan's FDI into Korea(1995-2005)



Source : Ministry of Commerce, Industry and Energy

FDI into Korea by origin (2005, stock)



Korea's FTA Policy

		Under Nego.	Signed	Effective
1.	K-Chile FTA		Feb. 2003	Apr. 2004
2.	K-Singapore FTA		Aug. 2005	Mar. 2006
3.	K-EFTA FTA		Dec. 2005	Jul. 2006
4.	K-ASEAN FTA		Dec. 2005	Jul. 2006 (Goods)
5.	K-Japan FTA	Dec. 2004		
6.	K-US FTA	Jun. 2006		
7.	K-Canada FTA	Jul. 2005		
8.	K-India FTA	Mar. 2006		
9.	K-China FTA	Under study(2005)		
10	K-EU FTA	Under study ※		

Importance of trade with country's FTA partners

	number of FTA	number of FTA countries	trade with FTA partners(%)	
			2003. Dec.	2005. Dec.
China	5	14	10.4%	19.6%
Korea	4	16	0%	3.3%
Japan	3	3	2.4%	2.9%
U.S	12	16	33.2%	35.3%
Mexico	16	43	86.3%	88.0%
Singapore	10	19	43.9%	60.1%



The Japan-Korea FTA
why is it at standstill?

History

1st stage

Joint-research (1998-2003)

2nd stage

Negotiation (Oct. 2003 – Dec. 2004)

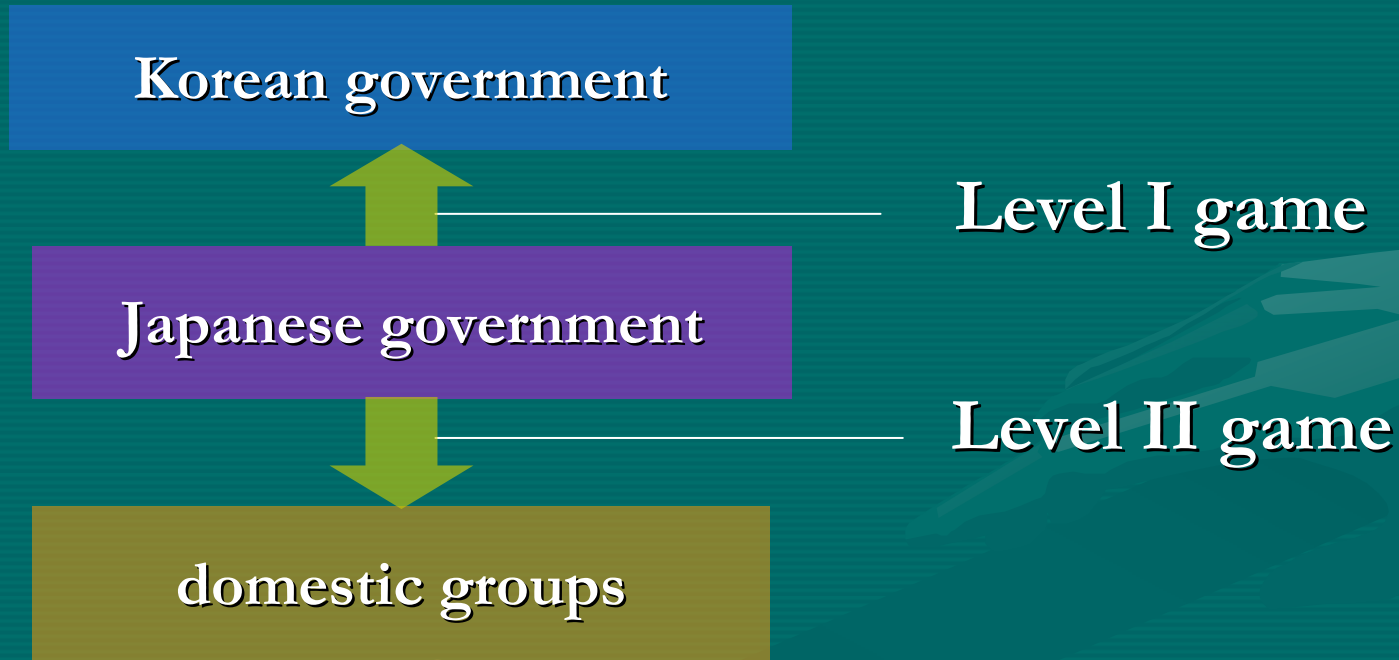
- APEC Summit (Oct. 2003)
 - Open government to government negotiation
 - Conclude by 2005
- Six rounds of negotiation

3rd stage

Standstill since Dec. 2004

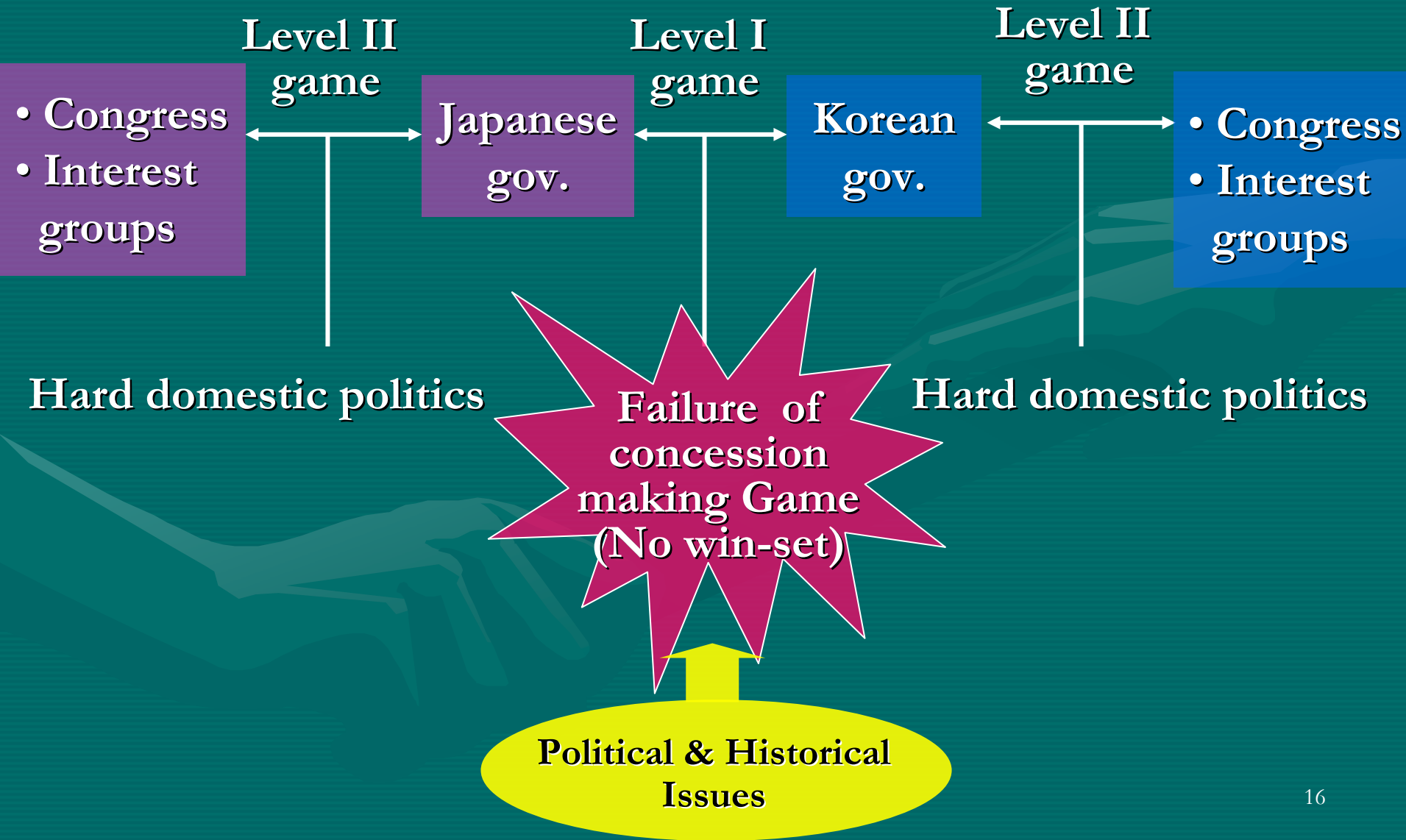
Domestic politics of JK FTA

- Putnam's "Two-level game" -



- **Level I game** is to bargain with foreign trade partners, leading to a tentative agreement. → **Diplomacy**
- **Level II game** is to negotiate domestically with various interest groups. To persuade domestic constituencies to ratify the tentative agreement → **Domestic politics**

Two Level Game in JK FTA



R. Strauss

- STR, Tokyo Round -

“ As an US ambassador of STR, I spent as much time in negotiation with domestic constituents(Labor Union, Industry etc.) and the US congress as I did negotiating with our trading partners. ”

Four determinants of domestic politics

- **Nature of negotiation issues**
- **Reaction of domestic interest groups**
- **Politicization**
- **Political leadership**

1. Nature of negotiation issues

Interests of
Interest groups

Level II game
(domestic politics)

- **Homogeneous**

- * Peace treaty between
North – South Korea

not so difficult

- **Heterogeneous**

- Winners - exporting industries

- Losers - import-competing industries
(declining industries)

difficult

- ❖ Clear distinction between winner groups and loser groups in Japan and Korea

Korea

Japan

very heterogeneous

heterogeneous

Loser

- Employees in parts & components
(1.1 mil. , 46% of the whole manufacturing employment)
- SME(中小企業)
(33,282firms, 30 % of the whole manufacturing)

- Farmers

Winner

- Farmers

- Manufacturing

2. Reaction of domestic interest groups

▪ Symmetry of political reaction



not so difficult

- Losers and winners : same political reaction

NAFTA

**Union
NGOs**

Political
reaction

US

Political
support

**Business
-endorse
group**

- More political donation to pro NAFTA politicians than con-NAFTA



Asymmetry



difficult

Korea

Japan

- Losers strong political reaction
labor unions
SME

- strong political reaction
farmers

- Winners free-riding

- free-riding

Korea-Chile FTA

Farmers' association

Political reaction

Korean government

Free-riding

Big business



3. Political issues

- **Not political issues** → **easy**
 - Korea – Singapore
 - Korea – AEAN
 - Korea - EFTA
- **Political issues** → **difficult**
 - Indifferent NGOs
 - Politicians
- * **The JK FTA will become excessively delicate political issues because it is expected to injure the interest of socially weak group like**
 - Japan : farmers
 - Korea : small business, labor unions

4. Political leadership

❖ It seems that politicians, who have to also count the votes of farmers and labor unions, will not exercise strong political leadership

- Japan : Prime Minister

- Korea : President

- Clinton's political leadership in the ratification of NAFTA

New Agenda

- Mid-level FTA as an Ice-breaker -

- 1. Mid FTA as Second Best**
- 2. New Geo-political landscape
in East Asia**
- 3. US-Korea FTA**

1. Mid-level FTA as Second-Best

Economic effect, feasibility and WTO-consistency

Type of integration	Quality of FTA	<u>Effect</u>	<u>Feasibility</u>	<u>WTO-consistency</u>
Deep integration	High-level FTA	High	Low	Consistent
↑ ↓	Mid-level FTA	Average	Average	Consistent
Shallow integration	Low-level FTA	Low	High	Non-consistent

❖ WTO's “**substantially** all the trade”(GATT XXIV-8)

- Low level FTA : not accepted by WTO

❖ Two FTA policy options

- Option I

- **High level FTA** in long perspectives

aiming at its maximum effect

- Option II

- **Mid-level FTA** in near future

with its low effect

Mid-level FTA as Second-Best

- ❖ **‘Significantly’** exclude the sensitive items from the JK FTA
 - as long as this ‘significant’ exception is not against the WTO

Mid-level FTAs

❖ US-Australia FTA

- Exception : Sugar, dairy products (partly)

❖ EU-Mexico (Chile) FTA

- Tariff elimination of 58% Agricultural products

❖ Singapore-India FTA

- 51% of two Countries bilateral trade

❖ China-ASEAN FTA

- Exception (Agricultural products) : Cambodia 30 items, Vietnam 15 items

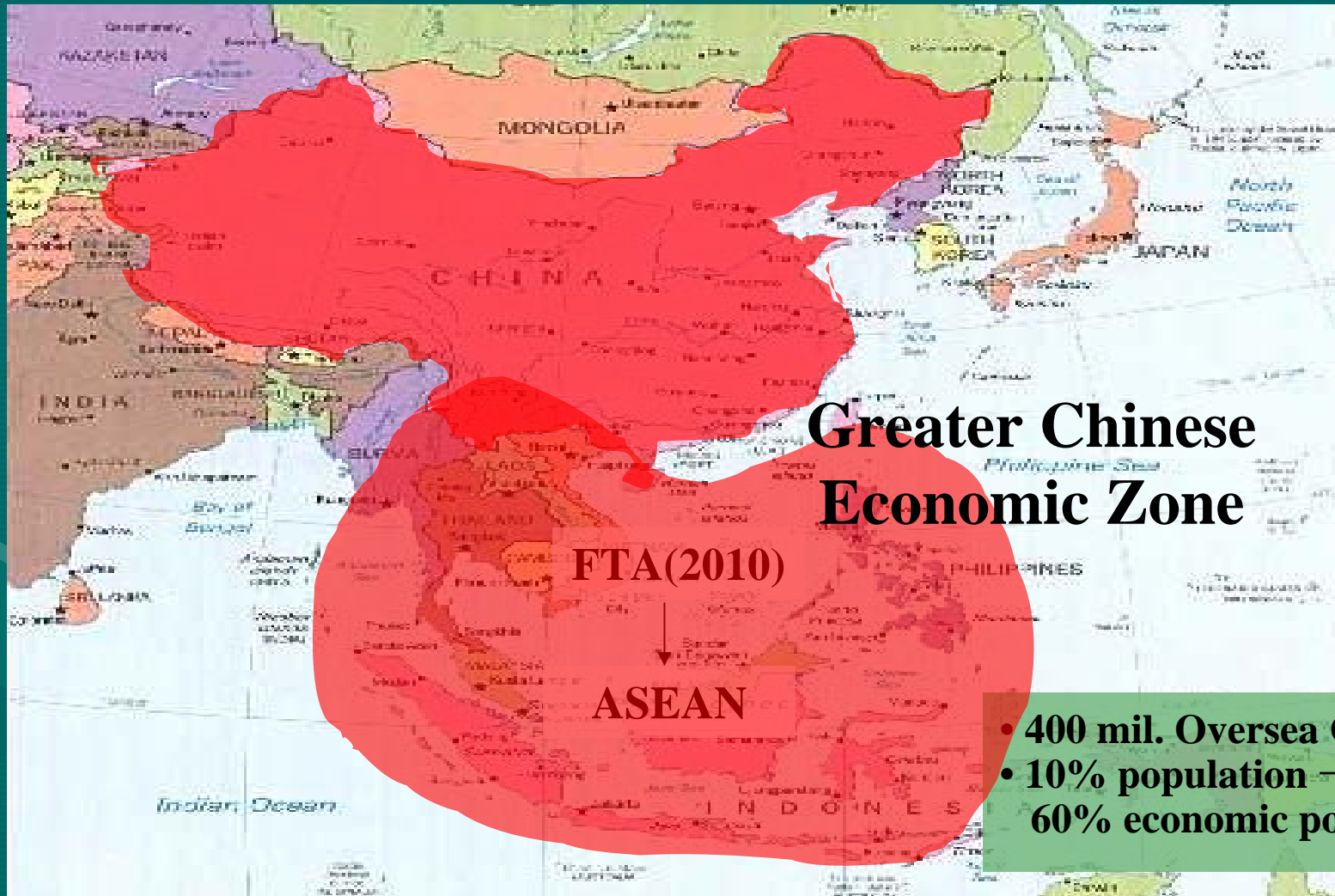
2. New Geopolitical landscape in East Asia

**- Emergence of
the Greater Chinese Economic
Zone-**

中華經濟圈

China's FTA Policy

南方政策 → 中華經濟圈



3. The US-Korea FTA





- ❖ 1st round of Negotiation : 5th June (US)
- ❖ 2nd round of Negotiation : 10th July (Seoul)
- ❖ 5 rounds of Negotiation by March, 2007
 - US Trade Promotion Authority : July, 2007

Why US chose Korea?

- ❖ 25 Countries on the waiting list
- ❖ US FTAs with 29 Countries

Effective	Peru , Singapore, Oman, NAFTA, Morocco, Jordan, Israel, the Dominican Republic, Chile, Bahrain, Australia, Central and South America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua,)
Under negotiation	Korea, UAE, Thailand, Panama, Malaysia, Columbia, Ecuador, Republic of South Africa, FTAA

US FTA Policy

1. Economic Cooperation

- NAFTA
- US-Australia FTA

2. Alliance (Security)

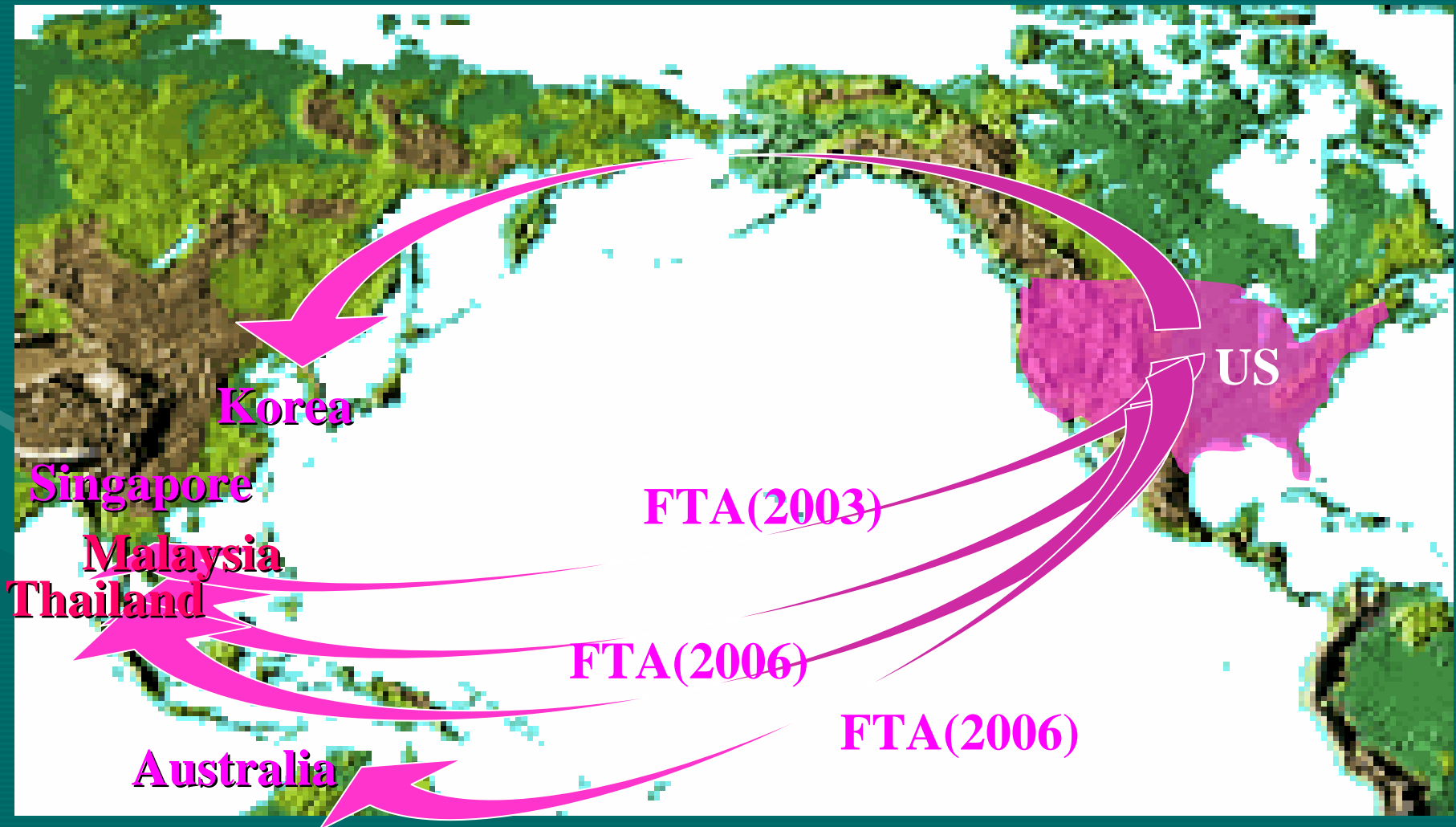
- US-Israel FTA (1984)
- US-Jordan FTA (2002)

3. Economic Cooperation + Alliance

- US-Korea FTA

US Encirclement Policy

- East Asian Summit (EAS)
 - ASEAN + JKC + Australia + New Zealand + India



Hot issues

Korea

- ❖ Service
 - Finance, Law, Education, Health
- ❖ Agriculture
 - rice & beef
- ❖ Manufacturing
 - automotive tax system

US

- ❖ Gaesung complex
- ❖ Trade Remedy Measure
 - AD
- ❖ Visa, migration
 - Mutual recognition of license (nurse, teachers)

Anti-KORUS FTA in US



“FTA 반대” 워싱턴 원정시위 한미 자유무역협정(FTA) 협상을 반대하는 원정시위대가 4일 마 워싱턴 백악관 주변 도로에서 영문으로 ‘FTA가 노동권을 파괴한다’ ‘미군 철수’ 등이 적힌 피켓과 현수막을 채 누워 시위를 벌이고 있다. 워싱턴=연합뉴스

Cautious Forecast

❖ Domestic Politics In Korea

- Political issues

❖ Political leadership in Korea and US

- Korea : Very fierce political reaction
- US : US congress

❖ Very hard and thrilling concession-making game.

Win-set game for Mid-level JK FTA

More realistic negotiation strategy based on
hard domestic politics in both Countries

⇒ Win-set game for Mid-level FTA

Basic Role of win-set

- ❖ Size of Japanese(Korean) government's win-set is decided by level Π game (political reaction of interest groups)
- ❖ When Japanese and Korean government's win-sets overlap \rightarrow FTA agreement

Win-set Game

2004.12

2004.12

日本 win-set(50% 農產品)

韓國 win-set(50% 工產品)

日本 win-set(100% 農產品)

韓國 win-set(100% 工產品)

Japan max

日本 win-set(70% 農產品)

韓國 win-set(70% 工產品)

Korea max

100% 工產品
0% 農產品

0% 工產品
100% 農產品

Agree

日本 利益極大化 協商案

韓國 利益極大化 協商案

Thank you
Good luck!