Korea’s FTA Policy
- Focusing its FTA with Japan and US -

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Graduate School of International Studies,
Sogang University
Korea as Japan’s Economic Partner
“Geese flying development pattern”
GDP (unit: bil. U$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Korea</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>8.8</td>
<td>206.8</td>
</tr>
<tr>
<td>2005</td>
<td>4,664</td>
<td>801.2</td>
</tr>
</tbody>
</table>

Source: OECD, World bank, Bank of Korea
Export

(unit: mil. U$)

1970

2005

Korea

Japan

835

18,941

284,419

594,890
Korea’s Trade Balance (unit: bil. US$)

Source: Korea International Trade Association
Korea’s Trade Balance with its Major partners (1995-2005)

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>China</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>15,557</td>
<td>6,272</td>
<td>9,285</td>
</tr>
<tr>
<td>1996</td>
<td>15,682</td>
<td>8,497</td>
<td>6,985</td>
</tr>
<tr>
<td>1997</td>
<td>13,136</td>
<td>11,635</td>
<td>1,502</td>
</tr>
<tr>
<td>1998</td>
<td>8,280</td>
<td>8,456</td>
<td>3,824</td>
</tr>
<tr>
<td>1999</td>
<td>11,362</td>
<td>10,128</td>
<td>1,234</td>
</tr>
<tr>
<td>2000</td>
<td>14,713</td>
<td>19,037</td>
<td>4,323</td>
</tr>
<tr>
<td>2001</td>
<td>24,443</td>
<td>24,376</td>
<td>9,668</td>
</tr>
<tr>
<td>2002</td>
<td>20,178</td>
<td>13,201</td>
<td>7,077</td>
</tr>
<tr>
<td>2003</td>
<td>14,067</td>
<td>23,267</td>
<td>9,699</td>
</tr>
<tr>
<td>2004</td>
<td>22,935</td>
<td>20,875</td>
<td>12,060</td>
</tr>
<tr>
<td>2005</td>
<td>24,443</td>
<td>24,376</td>
<td>9,668</td>
</tr>
</tbody>
</table>

Source: Korea International Trade Association

Unit: mil. US$
## Export Market (2005, unit: US$ billion)

### Korea

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Export (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>China</td>
<td>61.9</td>
</tr>
<tr>
<td>2.</td>
<td>US</td>
<td>41.3</td>
</tr>
<tr>
<td>3.</td>
<td>Japan</td>
<td>24.0</td>
</tr>
<tr>
<td>4.</td>
<td>Hong Kong</td>
<td>15.5</td>
</tr>
<tr>
<td>5.</td>
<td>Taiwan</td>
<td>10.9</td>
</tr>
<tr>
<td>6.</td>
<td>Germany</td>
<td>10.3</td>
</tr>
<tr>
<td>7.</td>
<td>Singapore</td>
<td>7.4</td>
</tr>
<tr>
<td>8.</td>
<td>United Kingdom</td>
<td>5.3</td>
</tr>
</tbody>
</table>

### Japan

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Export (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>US</td>
<td>136</td>
</tr>
<tr>
<td>2.</td>
<td>China</td>
<td>80.0</td>
</tr>
<tr>
<td>3.</td>
<td>Korea</td>
<td>46.7</td>
</tr>
<tr>
<td>4.</td>
<td>Hong Kong</td>
<td>36.0</td>
</tr>
<tr>
<td>5.</td>
<td>Thailand</td>
<td>22.6</td>
</tr>
<tr>
<td>6.</td>
<td>Germany</td>
<td>18.7</td>
</tr>
<tr>
<td>7.</td>
<td>Singapore</td>
<td>15.2</td>
</tr>
<tr>
<td>8.</td>
<td>United Kingdom</td>
<td>12.6</td>
</tr>
</tbody>
</table>

Source: Korea International Trade Association
FDI into Korea by origin (2005, stock)

- **US**: $35,127 mil., 29.8%
- **China**: $1,768 mil., 1.5%
- **Japan**: $17,737 mil., 15.1%
- **EU**: $36,595 mil., 31.1%
- **Others**: $26,459 mil., 22.5%

Source: Ministry of Commerce, Industry and Energy
Korea’s FTA Policy
<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Under Nego.</th>
<th>Signed</th>
<th>Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>K-Chile FTA</td>
<td></td>
<td>Feb. 2003</td>
<td>Apr. 2004</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Goods)</td>
</tr>
<tr>
<td>5</td>
<td>K-Japan FTA</td>
<td>Dec. 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>K-Canada FTA</td>
<td>Jul. 2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>K-India FTA</td>
<td>Mar. 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>K-China FTA</td>
<td>Under study(2005)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>K-EU FTA</td>
<td>Under study</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Importance of trade with country's FTA partners

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of FTA</th>
<th>Number of FTA countries</th>
<th>Trade with FTA partners (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>5</td>
<td>14</td>
<td>10.4%</td>
</tr>
<tr>
<td>Korea</td>
<td>4</td>
<td>16</td>
<td>0%</td>
</tr>
<tr>
<td>Japan</td>
<td>3</td>
<td>3</td>
<td>2.4%</td>
</tr>
<tr>
<td>U.S</td>
<td>12</td>
<td>16</td>
<td>33.2%</td>
</tr>
<tr>
<td>Mexico</td>
<td>16</td>
<td>43</td>
<td>86.3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>10</td>
<td>19</td>
<td>43.9%</td>
</tr>
</tbody>
</table>
The Japan-Korea FTA

why is it at standstill?
History


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

3rd stage  Standstill since Dec. 2004
- 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

**Korean government** ➔ Korean government ➔ domestic groups

**Japanese government** ➔ domestic groups ➔ domestic groups

Domestic politics of JK FTA
Two Level Game in JK FTA

Level II game

- Congress
- Interest groups

Level I game

Japanese gov.

Korean gov.

Level II game

- Congress
- Interest groups

Hard domestic politics

Failure of concession making Game (No win-set)

Political & Historical Issues
“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**

- **Homogeneous**
  * Peace treaty between North – South Korea
  - not so difficult

- **Heterogeneous**
  - **Winners** - exporting industries
  - **Losers** - import-competing industries (declining industries)
  - difficult

**Level II game (domestic politics)**

- **Clear distinction between winner groups and loser groups** in Japan and Korea
very heterogeneous

Korea

Loser

• Employees in parts & components
  (1.1 mil., 46% of the whole manufacturing employment)

• SME(中小企業)
  (33,282 firms, 30% of the whole manufacturing)

Winner

• Farmers

Japan

heterogeneous

• Farmers

• Manufacturing
2. Reaction of domestic interest groups

- Symmetry of political reaction: not so difficult

  - Losers and winners: same political reaction

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

NAFTA

- Union
- NGOs
- Political reaction
- US
- Political support
- Business -endorse group
Asymmetry

- **Losers**
  - strong political reaction
  - labor unions
  - SME

- **Winners**
  - free-riding

Difficult

Korea

Japan

Korea-Chile FTA

- Farmers’ association
- Political reaction
- Korean government
- Free-riding
- Big business
3. Political issues

- **Not political issues** → **easy**
  - Korea – Singapore
  - 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

<table>
<thead>
<tr>
<th>Type of integration</th>
<th>Quality of FTA</th>
<th>Effect</th>
<th>Feasibility</th>
<th>WTO-consistency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep integration</td>
<td>High-level FTA</td>
<td>High</td>
<td>Low</td>
<td>Consistent</td>
</tr>
<tr>
<td></td>
<td>Mid-level FTA</td>
<td>Average</td>
<td>Average</td>
<td>Consistent</td>
</tr>
<tr>
<td>Shallow integration</td>
<td>Low-level FTA</td>
<td>Low</td>
<td>High</td>
<td>Non-consistent</td>
</tr>
</tbody>
</table>
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 → 中华经济圈

Greater Chinese Economic Zone

- 400 mil. Oversea Chinese
- 10% population → 60% economic power
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 Counties on the waiting list
- US FTAs with 29 Countries

<table>
<thead>
<tr>
<th>Effective</th>
<th>Peru, Singapore, Oman, NAFTA, Morocco, Jordan, Israel, the Dominican Republic, Chile, Bahrain, Australia, Central and South America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua,)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under negotiation</td>
<td>Korea, UAE, Thailand, Panama, Malaysia, Columbia, Ecuador, Republic of South Africa, FTAA</td>
</tr>
</tbody>
</table>
US FTA Policy

1. Economic Cooperation
   - NAFTA
   - US-Australia FTA

2. Alliance (Security)

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
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 II game (political reaction of interest groups)
- When Japanese and Korean government’s win-sets overlap → FTA agreement
Win-set Game

2004.12

日本 win-set(50% 農産品) 韓國 win-set(50% 工産品)

日本 win-set(100% 農産品) 韓國 win-set(100% 工産品)

Japan max
100% 工産品
0% 農産品

Korea max
0% 工産品
100% 農産品

日本利益極大化 協商案

Agree

韓國利益極大化 協商案
Thank you
Good luck!