

FTA Policies of CJK and Prospects of CJK FTA: Korean Perspective

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1. Introduction

Fever of contracting Free Trade Agreements (FTAs) around world has been hot over the last 15 years. WTO reports that there are now 211 Regional Trade Agreements (RTAs) around the world by the middle of September 2006, and there will be about 300 RTAs considering RTAs under negotiation. This is a remarkable development when we take note of the fact that there were only 27 RTAs by the end of 1990. It seems that FTA competition round is underway around the world these years. There are different views whether this worldwide phenomenon turns out to be beneficial or harmful to more open and freer economic environment of the world. However, the consequence of FTAs seems to make policymakers and general people rethink and realize the benefit of lower trade barriers.

Northeast Asian region had been remote from this trend of FTA-making in 1990s when 162 RTAs were formed. It is only after Asian financial crisis that Northeast Asian countries began to realize the importance of regional economic cooperation and take FTA as an important agenda in their trade policies. In this paper, FTA policies of three countries in Northeast Asia (Korea, Japan, China) are reviewed and compared. In addition, we discuss whether CJK(China-Japan-Korea) FTA is plausible in the near future.

Table 1. Status of RTAs

year	55-60	61-70	71-80	81-90	91-95	91-95	01-06(Sep.)
new	3	3	11	10	35	42	107
cumulative	3	6	17	27	60	102	211

note: September 15, 2006 as reported to GATT/WTO. source: WTO

2. FTA Policy of Korea

Despite of worldwide trend of forming FTAs between countries, Korea turned its eyes to FTAs only after Asian financial crisis in 1997. Korea's trade policy had been focused on

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multilateralism rather than regionalism before 1998. IMF crisis provided momentum to promote regionalism in Korea as one of the means to propel economic reform after the crisis.

Korea signed four FTAs with Chile, Singapore, EFTA, and ASEAN(goods trade) so far, and five negotiations are underway with ASEAN(services and investment), Mexico, Canada, India, and US. Negotiation with Japan has been suspended after disagreement over the coverage in agricultural products in November 2004. Korean government recently announced that it will begin negotiation with EU in 2007. In the initial stage, Korea pursued FTAs with countries of low economic significance. This was to minimize the possible negative influence to national economy.

Two major reasons can be suggested for the change of trade policy in Korea. First, Korea started FTA negotiations to minimize damage to its trade as regionalism spread around the world after the launch of EU in 1992 and NAFTA in 1994. Korea wanted to avoid remaining as an outsider in worldwide trend of regionalism. It adopted the FTA policy to maintain its market on the one hand and move into new market on the other. The second goal of FTA policy was to strengthen economic competitiveness and improve national economic system through market opening and

Table 2. Status of Korean FTAs

Status	Counterpart	Negotiation status	
Signed	Korea- Chile	- began: 1999. 9 - signed: 2002. 10 - duration: 3years and 1 mo.	- effective: 2004. 4
	Korea-Singapore	- began: 2003.10 - signed: 2004.11 - duration: 1 years and 1 mo.	- effective: 2006. 3
	Korea-EFTA	- began: 2004. 12 - signed: 2005. 7 - duration: 8 mos .	- effective: 2006.7
Under Negotiation	Korea- Japan	- began: 2003. 10	- suspended:2004.11 after 6 th negotiation
	Korea-ASEAN	- began: 2004. 11 - signed(goods trade): 2006. 4	- further negotiation underway
	Korea-Mexico	- began:: 2005. 9	- SECA
	Korea-Canada	- began: 2005. 7	
	Korea-India	- began: 2006. 2	-CEPA
Joint study	Korea-USA	- began: 2006. 2	- 5 th negotiation completed
	Korea-MERCOUSUR	- agreed for joint study: 2004. 11	
	Korea-EU	- will begin negotiation: 2007	
Under review	Korea-China	- Joint study: 2004. 11-	
	China-Korea-Japan	- Joint study: 2003. 1~	- Proposed by China(2002.11)
Under review	EAFTA		- suggested by EAVG(2000)

Data: Ministry of Foreign Affairs and Trade website (<http://fta.go.kr>)

liberalization. Korea intended to utilize FTAs in promoting qualitative growth of Korean economy and leaping into an advanced economy².

Korea has four strategies in pursuing FTAs with other countries. First, it pursues simultaneous FTA negotiations with interested counterpart countries. This is to overcome the delay in FTA competitions over the last 15 years and thereby to minimize the cost bore by Korean companies and eventually by Korean economy. Second, Korea seeks comprehensive FTA in terms of coverage and content. Its agenda includes services, investment, government procurement, IPR, technical standard besides goods trade, to attain higher level of FTAs which would make up for multilateral liberalization and help domestic economic reform. Third, Korean government takes national consensus building and transparent process as important factors to consider as it promotes FTAs. Fourth, Korean will drive FTAs with large economies such as EU, ASEAN, and Japan. It will also promote FTAs with newly rising economies such as MERCOSUR and India³.

3. FTA Policy of Japan

Japan also didn't pay much attention to the worldwide trend of FTAs before Asian crisis. Japanese government officials took multilateral liberalization process more seriously and disregarded the shifting trend to regionalism. Difficulties of WTO negotiations and rising number of FTAs around the world led Japan to rethink its trade policy in favor of FTA.

Japan concluded FTA with Singapore in November 2002 for the first time, and signed FTAs with Malaysia, Mexico, Philippines, and Chile subsequently. FTA negotiations with Indonesia, Brunei, ASEAN, GCC, and Thailand are under progress. Joint studies with Vietnam and India have been completed and those with China-Korea, Australia, and Switzerland are still progressing⁴.

The characteristics of Japanese FTAs are threefold. First, Japan chose ASEAN nations as priority in picking FTA counterparts at the early stage of FTA negotiations. Japan signed FTAs with three ASEAN member countries individually, and is and will be negotiating with four ASEAN countries.⁵ Japan has continuously expanded its investment to Southeast Asia

² Yanghee Kim and Joonho Chung, *Critical Review of Korean FTA Policies and New Directions*, Views and Prospects, June 2006. p. 213.

³ Ministry of foreign Affairs and Trade website (<http://fta.go.kr>)

⁴ Yanghee Kim, *Prospects of Japanese FTA Policies*, Change of Northeast Asian Economic Order and Korea-US FTA, conference proceedings.

⁵ Remaining ASEAN member countries are Cambodia, Myanmar, and Laos, three of lesser developed member nations of ASEAN.

since 1980s and has mutually complementary production structure with ASEAN countries. FTAs with ASEAN countries will maximize economic benefit of Japan based on this economic relationship. On the other hand, this policy also intends to restrain rising Chinese influence to this region. Second, level of market opening in manufacturing sector is high, while that in agriculture and fishery are relatively low. Japan allows high level of market opening in manufacturing sector and medium level in agriculture and fishery. Political influence of Agricultural sector is still high in Japan and farmers have been a major obstacle in Japanese trade liberalization drive. Third, Japan utilizes FTA policy as a mean of not only trade policy but

Table 3. Status of Japanese FTAs

	counterpart	status
signed	Japan-Singapore	effective: 2002.11.30
	Japan-Malaysia	effective: 2006. 7.13
	Japan-Mexico	effective: 2005. 4.1
	Japan- Philippines	began: 2004. 2. signed: 2006. 9.9
	Japan-Chile	began: 2006. 2. signed: 2006. 10
Under Negotiation	Japan-Indonesia	Began: 2005. 7.
	Japan-Brunei	Began: 2006. 2.
	Japan-ASEAN	Began:2005. 4.
	Japan-GCC	Began: 2006. 9.
	Japan-Korea	Began:2003. 10 Suspended: 2004. 11
	Japan-Thailand	Began: 2004. 2 Mostly Agreed: 2005. 8 Suspended due to political turmoil in Thailand
Joint study	Japan-Vietnam	Completed: 2006. 4 Began: 2007.1.
	Japan-India	Completed: 2006. 5.
	Japan-Australia	Began: 2005. 11
	Japan-Switzerland	Began: 2005. 10
	China-Japan-Korea	Began: 2003. 1~
Proposed	ASEAN+3	
	ASEAN+3+3	
	Canada, Taiwan, EFTA, MERCOSUR, Israel, South Africa	

Source: Yanghee Kim, *Prospects of Japanese FTA Policies*, Change of Northeast Asian Economic Order and Korea-US FTA, conference proceedings, p 89.

also regional diplomatic policy. Japan seeks to make a favorable international political environment in pursuing its goals in international community. In particular, Japan intends to take a leading position in East Asian Economic community, competing with China.

Japanese FTA policy shows non-economic factors are more important in Japanese FTA policy decision making. Maximization of economic benefits from the formation of FTAs is not the priority of Japan. Rather, minimization of domestic conflict and adjustment costs seem to be more important in Japan's FTA policy decision making. Curbing China's rise in Southeast Asia seems to be another important policy goal for Japan as is shown by FTAs with seven major ASEAN countries. Japan's choice for FTA counterpart shows its interest is overwhelmingly on developing countries, rather than developed countries.

4. FTA Policy of China

China pushed its FTA with other countries after it became a member of WTO in 2000. Chinese government realized FTA is a useful instrument for both economic benefits and international politics. China signed FTAs with Chile, Pakistan, and ASEAN so far, and is negotiating with Australia, New Zealand, GCC, Iceland, and Singapore. China is undertaking joint studies with Korea-Japan, India, South Africa, and Brazil. It also agreed to pursue FTA among SCO members by 2020. Chinese counterpart includes wider range of countries around the world. This shows China is using FTA as a worldwide mean of international politics. It seems that one of the Chinese goals for FTAs is to build its position as a leading nation in world politics⁶.

Roadmap presented by DRC of State Council and Ministry of Commerce in 2005 indicates major goals of FTA policy of China. First, China plans to play a leading role in building East Asian Economic Integration body. By accelerating FTA with ASEAN and deepening CEPA with Hong Kong and Macao, China wants to develop China-oriented economic cooperation structure in the region. Second, promotion of Northeast Asian FTA will benefit the development of Northeast Asian region of China. The benefit of CJK FTA is clear for China in this sense. Third, by promoting FTA with Russia, Australia, Middle East, Middle Asia, Africa, and South America, China plans to secure stable supply of resource and energy. Since China is experiencing shortage of energy due to its uncontrollable growth, energy security is Chinese major national agenda. FTAs with GCC and Russia reflect this side of strategies. Fourth, China wants to expand its market around the world by forming FTAs. Chinese competitiveness in cheap manufacturing goods and agricultural products would allow its international market to

⁶ Jangyu Lee and InKoo Lee (2006), Chinese Strategies of FTAs and implications, KIEP Policy report, p.9.

Table 4. Status of Chinese FTAs

Status	Counterpart	Negotiation status	
Signed	China-ASEAN	- began: 2002. 4 - signed: 2004. 11	- effective: 2005
	China-Chile	- began: 2005. 1 - signed: 2005. 11	- effective: 2006. 7
	China-Pakistan	- began: 2005. 4 - signed: 2006. 11	- effective: 2007
	China-Hong Kong	- signed: 2003. 6	- effective: 2004. 1
	China-Macao		
Under Negotiation	China-Australia	- began: 2003. 10	
	China-New Zealand	- began: 2004. 12	
	China-GCC	- began: 2005. 4	
	China-Singapore	- began: 2006. 10	
Joint study	China-Iceland	- completed joint study - will start negotiation in 2007	
	China-India		
	China-South Africa		
	China-Brazil		
	Korea-China	- Joint study: 2004. 11-	
China-Japan-Korea	- Joint study: 2003. 1~	- Proposed by China (2002.11)	

Source: Chinese Ministry of commerce website

expand as a result of FTA. From the perspective of world politics, China seems to plan to build a road to a major hegemony against US using FTA policy. The diversity of FTA counterparts around the world indicates importance of non-economic factors in Chinese FTA policy making.

5. Comparison of FTA Policies of CJK

Three countries reveal different characteristics in their FTA policies. In selecting counterpart of FTAs, China and Japan tend to pick developing countries while Korea tends to choose advanced countries. These kinds of country choice pattern reflect different goals of three countries. Korea as a middle power in the world tends to emphasize economic benefit while China and Japan as major powers in the world tend to focus relatively more on non-economic values.

This relates to the next characteristic of FTA policies of three countries. China and Japan seem to pursue regional hegemony in East Asia through FTA policies. Both countries took ASEAN member countries as important FTA counterparts and put higher priority in ASEAN in their FTA negotiations. ASEAN was the first FTA counterpart to China and China-ASEAN FTA was signed at November 2004. Japan, on the other hand, put emphasis on individual FTAs with ASEAN member countries and signed FTAs with seven major ASEAN members. In case of China, building base for a world hegemonic nation competing with US seems to be a hidden goal of FTA policies. On the other hand, Korea's interest is more on economic benefit. Korea took

FTA initiative as a way to advance our economic system and revive from economic crisis.

In terms of area of interest, China considers energy and resource security as one of the prime goals of FTAs around the world. Japan prefers lower level of market opening in agriculture and fishery, while allowing high market opening in manufacturing sector. Korea, meanwhile, pursues comprehensive FTA including services, investment, government procurement, IPR, and so on.

6. Prospects of CJK FTA

It is very encouraging for the regional integration in Northeast Asia that three countries take FTA policies seriously. The race for more FTAs in the region will make policymakers and general people in three countries more open-minded towards trade liberalization and regional economic integration in Northeast Asia. However, road to CJK FTA is not clear given various kinds of economic and political obstacles. China, Japan, and Korea have undertaken joint study on CJK FTA since 2003 initiated by the Chinese proposal in 2002. This joint study is not developing into a higher level of action by the three governments.

Analysis of economic effects of bilateral and trilateral FTAs between three countries shows positive gains in terms of GDP in all cases (Table 5)⁷. The country omitted in bilateral FTAs has negative gain in all bilateral exercises. CJK FTA produces mutually beneficial GDP gains for three countries.

Table 5. The effects of bilateral FTAs between China, Japan, Korea and CJK FTA on national GDP

(Unit: %)

	China-Japan FTA		China-Korea FTA		Japan-Korea FTA		CJK FTA	
	TL	TL&CA	TL	TL&CA	TL	TL&CA	TL	TL&CA
China	0.27	1.11	0.12	0.45	-0.01	-0.03	0.34	1.29
Japan	0.05	0.12	-0.00	-0.04	0.01	0.04	0.06	0.13
Korea	-0.05	-0.26	0.76	1.76	0.22	0.92	0.94	2.45

Note: 1) TL and CA stand for trade liberalization and capital accumulation respectively.

Source: KIEP, Economic Effects of CJK FTA, 2003. 11,

Discussions for bilateral FTAs between CJK have not produced any concrete outcome so far, either. Korea and Japan started their negotiation in December 2003, but have stopped negotiation since November 2004. Major obstacle was the opening of the agricultural and fishery market. Korea criticized Japan for passive attitude in agricultural and fishery market opening, and Japan criticized Korea for not making enough efforts to improve investment environment. After new Prime Minister Abe took up his office, chance of reopening negotiation

⁷ KIEP (2003), Economic Effects of CJK FTA , p. 96.

looks high. Korea and Japan agreed to hold an economic council where Vice Economic Minister from each country attends. As long as Japan comes up with more constructive proposal regarding agricultural and fishery sector, it is highly probable that Korea-Japan FTA will be realized in the near future. However, the fear for Korea is that Korea-Japan FTA might deepen bipolarization of manufacturing industry and weaken the competitiveness of strategic industry in Korea.

Korea and China agreed to start a joint study between government research institutes in November 2004.⁸ The joint study will be leveled up as a tripartite one in 2007, where business, academia, government representatives attend the meeting. China is very active in pushing Korea-China FTA. China will assume a leading role in regional integration in East Asia once it concludes FTA with Korea. In the struggle for leadership in East Asia against Japan, FTA with Korea will put China in a dominant position in this race. However, Korea could face serious threat by Korea-China FTA. Imports of cheap Chinese manufacturing goods and agricultural and fishery products will encroach Korean domestic market, thereby weakening domestic industrial base and reducing trade surplus.

From the Korean perspective, economic benefits from bilateral FTAs and trilateral FTA are not clear or not big enough while the expected cost of market adjustment is high, especially more in cases of Korea-China FTA and CJK FTA. Japan's hesitation towards CJK FTA also put another hurdle. Japan fears its economy is overwhelmed by China after the formation of CJK FTA. Besides, China is a political rival and an imaginary enemy in this region. It's very difficult for the two giants to come together in an FTA.

CJK FTA looks like a long term vision for the region. The plausible channel towards CJK FTA could be through multiples of ASEAN+1's: ASEAN+Korea, ASEAN+Japan, and ASEAN+China. As the structure of ASEAN+1's is strengthened and deepened, East Asian FTA embracing three ASEAN+1's could set a stage for FTA between three Northeast Asian countries.

For the moment, consideration of CJK investment agreement as was announced recently by Economic Ministers from three countries will provide a useful starting point for deepened economic cooperation between three countries in the future.

⁸ KIEP in Korea and DRC in China led the joint study.