

LIDIJA ELLIOTT, M.A.*

St. Mary College

Nagoya, Japan

УДК 327(5):330.1

Прегледни рад

Примљен: 12.02.2014

Одобрен: 23.03.2014

POLITICAL-ECONOMIC MOTIVES BEHIND SOUTH KOREA'S AND JAPAN'S FTA NEGOTIATIONS

Summary: The FTA issue has a profound strategic significance for both Japan and South Korea in this period of radical changes in the international environment. I'm speaking about reform of global supremacy, the rise of China, the decline of the United States, and other changes especially in Asia-Pacific region. FTA between Japan and South Korea is from strategic importance as can contribute not only to economy of these two countries but also to peace and stability in Asia-Pacific region and the world.

Key words: economy, FTA agreement, advantages, negotiations, political environment, business, strategy, government

Rapid moves towards Free Trade Agreements

FTA or „A free trade agreement is an undertaking by signatory parties (e.g. countries) to remove the barriers of trade between them „which is important as it increases free movement of people, goods and capital.¹ Using major traditional International Relation Theory to explain FTA; the neo-realists cannot see change as every country protects its own interests while liberalists believe there can be change and improvement, interest and freedom of private capital is a base and believe in benevolent intentions. The important element of neo-liberal conception is that indigenous character and intentions of actors define their international behaviour, while neo-realists think

* lidijaelliott@yahoo.co.uk

¹ Dent, C.M. (2008) „East Asian Regionalism”, London: Routledge, pg. 184

that the behaviour of actors is defined by anarchic international system and in particular, through the balance of material capabilities. Constructivist theory reflects mutual human understanding, partnership-agreement and Wendt's argue that” ‘Anarchy is what states make of it’.² Values, 'ideas', culture are important. Marxist viewpoint would be that all economic-(FTA) activities depend on capital movement.

„Reform-minded”³ President Kim Dae-jung and Prime Minister Keizo Obuchi signed „The Korea and Japan joint statement” in October, 1998, Tokyo. The JKFTA negotiations stopped in 2004. Korea-Japan negotiations were opened again between President Roh Moo-hyun and Prime Minister Shinzo Abe in 2006.

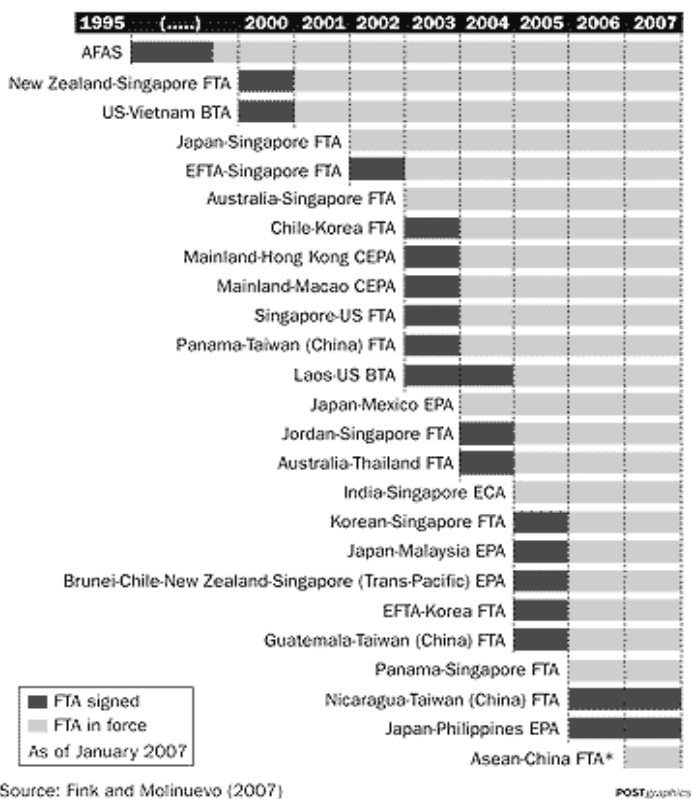


Figure 1: Free Trade Agreement (FTA) in the World Source: Fink and Molinuevo (2007), World Bank, p.2.

² Wendt, A. (1992) „Anarchy is what States Make of it: The Social Construction of Power Politics” *International Organization*, pg. 395

³ Rhee, H.Y. (1998) „The Economic Crisis of South Korea and Its Political Impact” *International Journal of Korean Studies*, pg. 143

There is a historic problem between Korea and Japan and „the legacy of the history overshadows Japan and the dual Korea situation” - the short range disadvantage for the Korean side and the power game between Japan and China for supremacy.⁴ A recent dispute is about South-Korean’s Dok-do/Takeshima Island. Ghosts of militarism can influence restoring of regional security and economic rivalry with China. Also, in August 2010 China passed Japan to become the second-largest economy in the world...⁵ China has registered an average annual economic growth rate of nearly 10%, although with some fluctuations, from the early 1990’s up to the present. On the other hand, the Japan’s economy has fallen into a prolonged period of stagnation following the bursting of the bubble in the early 1990s and has yet to fully recover from it. The difference in economic situation between Japan and China has brought major differences not only in their foreign policy but also in their influence in Asia. To put it shortly, China is getting a proactive regional policy on the strength of its rapid economic expansion and widening its non-economic influence in East Asian region and the world as well.

However despite this difference in direction regarding Japan and China, Japan at the moment, not only has an economy more than three times as large as China’s but also still has an advantages over China in areas of importance in economic activities such as technology and human resources. Adding to this, most importantly, there is also the overhanging influence of the USA presence in the region, economically, politically and militarily.

East Asian regional cooperation also became more vigorous in the wake of the Asian crisis. Hence, positive moves emerged to conclude bilateral FTAs or FTAs among three or more countries in the region. One of the factors that encouraged countries in the East-Asia region to pursue FTAs, as well, was their proactive response to the Asian crisis and to seek economic growth through the encouragement of trade by mutually opening their markets. Another important aspect was the speedy increase of FTAs in other regions of the world. In Europe for example, the European Union (EU) has been growing, while in North America, the North American Free Trade Agreement (NAFTA) has been established. In view of the fact that these regional arrangements or FTAs with preferential treatment of participating countries tend to limit export opportunities for non-members, non-member states have been motivated to form their own FTAs in response.

⁴Sekiguchi, S. (1993) „Korean Peninsula Issues and U.S.-Japan-South Korea Relations”, ed. by Gong, G, Sato, Ok.Tae. The Centre for Strategic and International Studies Washington, D.C, pg. 80

⁵Hout, T.M, Ghemawat, P. (2010) „China Vs the World: Whose Technology is It” *Harvard Business Review*, pg.95

Therefore, JKFTA is politically driven to improve a Japan-Korea relation which is important for integration of East-Asia and „...the new dynamics of rivalry between Japan and China are now playing a critical part in shaping the newfound rush to preferential arrangements.”⁶ JKFTA would provide fast-substantial economic-integration and lowered trade-barriers. It was forecasted to have negative effects in the short term for Korea but positive effects for both countries' economy in the long term due to efficiency, enlargement of industry, streamlining and allocation of resources. Korea's economy, economic development, business ideas is the closest to Japan.

With JKFTA Japan is hoping to energize its economy:

„...The Japanese government recognized FTAs as an option for achieving trade liberalization... expect FTAs to play a role promoting Japan's economic growth through providing business opportunities for Japanese firms in FTA member countries and promoting domestic policy reforms such as agricultural reform in Japan, which are necessary for achieving sustainable economic growth. Another reason is the expectation that FTAs can play effective roles for the promotion of economic integration in East Asia, in order to contribute to economic growth, and political and social stability, which in turn would have positive impacts on Japan.”⁷

JKFTA would bring not only greater market access but deeper, wider economic-integration, better export, full and easier market access in technologically lower-end products like leather etc. in Korea, for Japan would bring the same but in more sophisticated trades such as metal, machinery etc. It would increase Japanese imports to Korea and worsen bilateral trade:

„In this world of harsh competition for trade expansion through further liberalization, Korea needs to know how to better use the dynamism and expand the potential benefits of such competitive liberalization for trade promotion and for deregulation as well as the reform process on the home front.”⁸

Major manufacturing industries as machinery, electronics, and chemicals will be under strong pressure for structural adjustment, but the textile industry is expected to increase exports to Japan, while electronic and non-metallic product industry would be barely affected.

⁶Aggarwal,V.K. and Koo,M.G. (2005)“Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia” *The Pacific Review*, pg.205

⁷Urata, S.E. (2007), "Japan's 2005 FTA Strategy and Free Trade Area of Asia-Pacific ". In Morrison, C.E. & Pedrosa, E. (eds), *An APEC Trade Agenda? The Political Economy of A Free Trade Area of the Asia-Pacific*, pg. 100

⁸Chulki, J. (2003) „The Competitive Liberalization of World Trade and Korea's Foreign Trade policy”, *Global Economic Review*, pg.2

Political-economic reasons for JKFTA is advancement of economic unity of the East-Asian region („...,asian financial crises in 1997 and America's financial crisis”)⁹ including China, which has tremendous potentials and can become the biggest market in the world in the next 20 years. The cooperation would contribute to overcoming the historical legacy, which is huge stepping stone in their relationship.

Aims of Korean President in the JKFTA Negotiations

When, than President Kim Dae-jung visited Japan in 1997, he wanted to see improved and deepened relationship between two countries and strengthened bilateral relations. He managed to hold talks which were difficult to have in the past.

The President is one of the most influential figures in JKFTA and should provide leadership of country, improve relationship, negotiate JKFTA setting aside historical issues; relies on the assistance from Foreign Minister and ministry officials.

In the JKFTA, the President focus is on tariff policy and opening the market, especially agriculture. The President should bear in mind South-Korea's long-awaited national economic recovery is foremost on his and the electorate's mind. „In this era of competitive liberalization of world trade, Korea should not be left behind in this process”.¹⁰ As the open-door policy as economic approach, the President should have more rational approach and global outlook. The Korean President and government should find the way to maximize Korean interests and to present it to Japanese side in a brief, objective way instead of insisting on measures which are beyond Japanese government and that make the situation worse. It is in country's interest to bring economic prosperity and political stability to people of South Korea. Dent states that, „Traditionally, the government had pursued a protectionist trade policy that was also closely linked with export-enhancing industrial policies.”¹¹ Therefore it is important that Korean President and government provide an environment in which Korean business can participate in the adjustment of labour division structure and the value chains of Japanese industries.

⁹ Cheong, I. and Cho, J. (2009) „Domestic and Foreign JKFTA Conditions and Negotiation Outlook”, *The Asia-Pacific Research*, pg. 168

¹⁰Chulki, J. (2003) „The Competitive Liberalization of World Trade and Korea's Foreign Trade Policy” *Global Economic Review*, pg.1

¹¹Dent, C.M. (2002) "South Korea: the FEP of a Deconstructing Developmental State". In *The Foreign Economic Policies of Singapore, South Korea and Taiwan*, pg. 159

The coalition the Korean President tried to establish with other organisations and effects

In our role-play, JKFTA-negotiations started from labour-issues, as „One more important characteristic of East Asian FTAs we should consider is the relatively stronger intra-regional division of labor.¹² We agreed on visa issues, language training for Koreans, equal treatment for Koreans in Japan, Japanese workers would respect Korean domestic working rules and regulations. Free movement of labour is important to maintain the production vitality. It is important to establish good relations with MOFAT (Ministry of Foreign Affairs and Trade); its responsibility is international-negotiations, trade and implementation of negotiations. Industry sector is important as it is going to be under a pressure for structural adjustment. Keeping good connection with both country industry sectors is important for the Korean side, as to find industry needs, the best solutions for dismantling trade barriers and establishes temporary support-nets for weaker industries. For example, Korea should promote localizing parts and intermediate materials, which are highly dependent on imports from Japan, and to achieve this, joint research-development is needed and private sector needs to be strengthened and improved.

The Korean government should do its best in negotiating an advantageous agreement. For the manufacturing industry, Japan is in a better position because of low tariff rates. Tariff reduction for key industries should be gradual as agreed in role-play, complemented with investment and technology transfer from Japan. Korean-side communicates well with large chaebol (family-controlled) corporations but not with one who oppose to JKFTA policy, which should be improved. Korea should set clear goals, improve the ability of domestic negotiations and promote a national Public Relation strategy to draw national support for JKFTA.

Concluding remarks

Summa summarum „...Both Japan and ROK are in a transitional period since the late 1990s, present assumptions may no longer hold due to uncertainties and changes in the future, including the ageing society in Japan and the integration of North and South Korea”.¹³ The benefit of JKFTA would be to

¹²Park. S and Park. I. (2009) „Free Trade Agreements versus Customs Union: An Examination of East Asia” *Asian Economic Papers*” pg. 129

¹³Fukagawa. Y. (1999) „Asian Nies in the Region’s Economic Recovery and the Options for South Korea: The Potentials for Japan-Korea FTA”, *The Pacific Review* pg. 100

stimulate growth. Growth occurs due to changes in factors as income that is changing with the increase in trade. Increase in income stimulates an increase in investment etc. Also from the Asian regionalism point of view, it would be more advantageous for Japan and South Korea to first work on an FTA and then seek another FTA that will include China. It can be said that political environment for JKFTA is better now than in the past.

Literature:

1. Aggarwal, V.K. and Koo, M.G. (2005) "Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia" *The Pacific Review*, Vol. 18 (2) pp. 189–216
- Chulki. J. (2003) „The Competitive Liberalization of World Trade and Korea’s Foreign Trade policy”, *Global Economic Review*, Vol. 32 (2), pp. 1-19
2. Dent, C.M. (2008), „East Asian Regionalism, Routledge”, London
3. Dent, C.M. (2002), "South Korea: the FEP of a Deconstructing Developmental State". In *The Foreign Economic Policies of Singapore, South Korea and Taiwan*, Edward Elgar Publishing Limited, Glos, pp.132-207
4. Cheong, I. and Cho, J. (2009) „Domestic and Foreign JKFTA Conditions and Negotiation outlook”, *The Asia-Pacific Research*, Vol. 16 (1), pp.159-178
5. Corbett, J. (2008), ‘Services Trade Liberalisation in the ASEAN Economic Community and Beyond’, in Soesastro, H. (ed.), *Deepening Economic Integration- The ASEAN Economic Community and Beyond-*, ERIA Research Project Report 2007-1-2, Chiba:
8. IDE-JETRO, pp.101-120.
9. Available at: http://www.unescap.org/tid/projects/tradeservice_s2.pdf
10. Fukagawa. Y. (1999) „Asian Nies in the Region’s Economic Recovery and the Options for South Korea: The Potentials for Japan-Korea FTA”, *The Pacific Review*, Vol. 28 (4), pp. 79-101
11. Fink, C and M Molinuevo (2007). „East Asia in Free Trade Agreements in Services: Roaring Tigers or Timid Pandas?” in *Trade Issues in East Asia: Liberalization of Trade in Services*, Washington, D.C.: East Asia and Pacific Region Poverty Reduction and Economic Management, World Bank.
12. Hout. T.M. and Ghemawat. P. (2010) „China Vs the World: Whose Technology is It” *Harvard Business Review*, Vol. 88 (12), pp 94-103
13. Ju, C. (2003) „The Competitive Liberalization of World Trade and Korea’s Foreign Trade Policy” *Global Economic Review*, Vol.32 (2), pp. 1-18
14. Park. S and Park. I. (2009) „Free Trade Agreements versus Customs Union: An Examination of East Asia” *Asian Economic Papers*”, Vol. 8(2), pp.119-139

15. Sekiguchi, S. 1993. "Korean Peninsula Issues and U.S.-Japan-South Korea Relations", ed. By Gong, G, Sato, Ok.Tae. The Center for Strategic and International Studies Washington, D.C. Vol. 2, pp.71-115
16. Rhee, H.Y. (1998) "The Economic Crisis of South Korea and Its Political Impact", International Journal of Korean Studies, Vol. 2(1), pp. 129-146
17. Urata, S.E. (2007), "Japan's FTA Strategy and Free Trade Area of Asia-Pacific ". In Morrison, C.E. and Pedrosa, E. (eds), *An APEC Trade Agenda? The Political Economy of A Free Trade Area of the Asia-Pacific*, ISEAS, Singapore, pp. 99-127
18. Wendt. A. (1992) „Anarchy is what States Make of it: The Social Construction of Power Politics „, *International Organization*, Vol.46 (2), pp. 391-425.

Политичко-економски мотиви ФТА преговора Јужне Кореје и Јапана

Сажетак: ФТА питање има велики стратешки значај и за Јапан и за Јужну Кореју у овом периоду радикалних промена у међународном окружењу. Ја говорим о реформи глобалној надмоћи, успону Кине, паду Сједињених Држава и других промена, посебно у азијско-пацифичком региону. ФТА између Јапана и Јужне Кореје су од стратешког значаја јер могу допринети не само економији ове две земље, него и мир и стабилност у азијско-пацифичком региону и свету.

Кључне речи: економија, ФТА споразум, предности, преговори, политичко окружење, пословна стратегија, влада