

The Outline of a Northeast Asian FTA and Korea's Choice

*Kim Young-so**

I. Introduction

A Korea-China-Japan Trilateral Summit was held in Fukuoka, Japan on December 13, 2008. This meeting was held against a backdrop of growing global urgency exemplified by the Summit on Financial Markets and the World Economy (hereinafter referred to as the “G20 Summit”) convened in Washington D.C. on November 15, 2008 as part of efforts to search for measures to mitigate the global financial crisis that began in the United States in 2008, and took a serious turn for the worse from September 2008 onwards. Nevertheless, the trilateral summit between Korea, China, and Japan was a historic event in that it marked the first time that such a meeting between the three countries was convened as a stand-alone meeting rather than on the margin of other summits. The holding of this meeting has been regarded as further evidence of the necessity for mutual cooperation between the three Northeast Asian countries.

The degree of dependence on foreign trade (ratio of trade volume to overall economic scale) has routinely been employed as an index with which to measure a country's foreign dependence, or

* Ambassador, Advisor for International Relations to Gangwon Province

to emphasize the importance of trade. According to this index, Korea has exhibited a dependence on foreign trade that has reached as high as 70% in recent years. This is excessively high when compared with the United States and Japan, whose ratios have hovered at around 30%. IN 2008, however, there is a strong possibility of a drop in the overall size of the Korean economy as a result of the rapid decrease of the value of the Korean won to the U.S. dollar and on the contrary, there was a considerable increase in trade volume. This in turn would result in the dependence on foreign trade exceeding the 70% level. A ratio of over 100% may in fact be recorded within a few years. The purpose of this numerical presentation is not simply to point out that Korea's trade dependence is excessively high; rather, the focus needs to be on the fact that the ratio and importance of trade within the Korean economy have never been sufficiently emphasized.

The importance of foreign trade within the Korean economy has now clearly been revealed. Moreover, financial matters constituted the main item on the agenda of the first Korea-China-Japan Trilateral Summit. Viewed from this standpoint, the time has come to hold more extensive discussions on a possible Korea-China-Japan FTA (Free Trade Agreement) at the governmental level.

Can the three Northeast Asian countries in fact overcome historical and cultural circumstances, as well as industrial and economic differences, and actualize a giant FTA like the EU or NAFTA? What measures can be taken to actualize such a deal? If any difficulties do arise during the actualization process, how should they be resolved? To this end, the drawing up of countermeasures becomes essential. What role can Korea, which pursues trade liberalization through the reaching of FTAs with mega economic blocs, play in establishing FTA networks amongst the three countries in Northeast Asia, East Asia, and even the Pacific Rim countries such as the United States?

A survey of entrepreneurs from Korea, China, and Japan

published at the end of 2008 (the survey was jointly conducted by the Maeil Business Newspaper, China Business, and Nihon Keizai Shimbun from late November to mid December, 2008) found that 72% of the three countries' entrepreneurs agreed to the reaching of a trilateral FTA. The results of this survey can be regarded as having provided the inspiration for this essay.

II. The Current State of FTA

1. The Launch of the WTO and the Emergence and Expansion of FTAs

The early 1990s saw the cloak known as GATT (General Agreement on Tariffs and Trade) that had covered international trade for almost 50 years be discarded in favor of the proverbial new suit that was the WTO (World Trade Organization). However, in an instance of what can only be described as irony, this period was also one in which mega-trading blocs such as NAFTA (North American Free Trade Agreement) and the EU (European Union) were formed. Strictly speaking, this latter phenomenon can be described as the emergence of a new form of regionalism which confronted the GATT system.

Concerned by what was going on, the WTO responded by making efforts to carry out its original mission, namely that of bringing about multilateral trade negotiations via the so-called New Round that pursued shortly after its inception in 1995. In the end, an event to celebrate the golden jubilee of the Multilateral Trading System was held in 1998 at the pan-WTO level to promote the importance of the multilateral trading system. Viewed from the surface, the event was a success, bringing together President Clinton of the United States, the leading country within NAFTA, and the leaders of Germany, France, and England, the leading countries

within the EU. Moreover, the participation of noteworthy individuals such as Fidel Castro of Cuba and President Mandela of South Africa also grabbed headlines.

However, despite stringent efforts on the part of the WTO, the process of putting together the New Round proceeded at a snail's pace. What's more, despite the necessity and importance attached to the DDA (Doha Development Agenda) negotiations which finally opened after several years of hard bargaining on all sides at the time of this writing in early 2009, few concrete results have been obtained from this "development" round that has supposedly been named to cater to the developing countries. The outlines of a possible break-through on the DDA remain unclear. Meanwhile, FTAs have spread like mushrooms amongst advanced and developing countries alike.

Facilitated in great part by the United States decision to drop its long-standing policy of objecting to regionalism in the late 1980s in favor of a pro-regionalism approach, the phenomenon of FTAs, which for the most part involved European and South & Central American nations in the past, has since the mid-1990s spread across the globe. The spread of bilateral FTAs was accompanied by the emergence of mega-trading blocs such as the EU in Europe and NAFTA in North America. Thereafter, the U.S.-led FTAA (Free Trade Area of the Americas) was also attempted. Many countries that have traditionally emphasized the need to strengthen multilateralism while pointing out the pitfalls and dangers of regionalism, such as Japan, India, Australia, and New Zealand, have come to not only perceive FTAs as a key element of their trade policies, but have in fact actively pursued the implementation of such agreements. In this regard, East Asian countries such as Japan, China, Singapore, and Thailand have belatedly engaged in a competition to open as many FTA negotiations as possible.

Accordingly, in excess of 200 RTAs (regional trade agreements) were reported to the WTO as of 2008. Over 110 of these agreements

were reached after the inauguration of the WTO in 1995; moreover, the frequency of such concords has increased significantly in the 2000s. There are many reasons for this marked increase in FTAs that has taken place amidst the slow progression of multilateral trade negotiations. Above all, however, this increase has been based on the belief that FTAs will help to increase trade amongst countries by facilitating opening and trade liberalization, and contribute to improving productivity by heightening competition between members.

In their book *“International Organizations”*, Margaret P. Karns and Karen A. Mingst identified the following reasons for the emergence of mega-economic blocs such as NAFTA (the U.S.-Canada FTA developed into NAFTA) in the late 1980s, and the EU formed in 1992, agreements which subsequently served as the catalyst for the spread of FTAs throughout the world: (1) global economic changes, (2) the transformation of the Soviet Union and Eastern Europe, (3) uncertainty over the outcome of the UR (Uruguay Round) of world trade negotiations, (4) the European Union's deepening and enlargement, (5) fear that a set of trade blocs was emerging, (6) new attitudes toward international cooperation based on the perception that regionalism also has become a means to forestall state's isolation and marginalization in the post-Cold War globalization era.

Notwithstanding the ongoing changes in the international trade regime, Korea does not need to make a choice between multilateral trade and FTAs. Foreign trade continues to be of the utmost importance for Korea, and as such, the country must now decide to promote the form of trade liberalization, either through the WTO or FTAs, which is more advantageous to it in terms of the export of Korean products. In this regard, Korea's furious attempt to implement FTAs since 2007, by which point 15 years had already passed since the emergence of FTAs as a phenomenon within global trade, has all the characteristics of a country trying to make up for lost time.

2. Trend of Regionalism within Mega Economic Blocs

(1) Overview

One can divide the world into many regional combinations when the latter is broken down into large and small regions. However, in this essay, the trend of regionalism is chiefly analyzed in the three mega-economic blocs: Europe, America, and East Asia. To this end, the 1958 Treaty of Rome regarded as the founding treaty of the EU formed in the 1990s should be perceived as a model for a common market. On the other hand, NAFTA, which was also founded in the 1990s, can be considered as a model for a free trade area.

Karns and Mingst identified two overarching waves where the regionalism that prevailed in the half a century that followed the end of World War II is concerned. (1) The old or first wave accompanied the initial stages of European integration in the 1960s. Countries in several other parts of the world tried, often unsuccessfully, to emulate Europe by initiating regional economic integration schemes. Interest in regionalism and integration waned as relatively few economic gains were realized and as the economic crises of the 1970s led many countries to adopt protectionist policies.

The second wave of regionalism began in the late 1980s, accompanying the European moves toward the single internal market and European Union in 1992 and the new regionalism in North America with the Canada-U.S. Free Trade Agreement and its later conversion to NAFTA.

This essay will focus on the second wave mentioned above in terms of regionalism.

(2) European Bloc: The EU

The 2004 KIEP (Korea Institute for International Economic

Policy) position paper entitled, “*The Benefits and Costs of FTAs*”, argued that European integration was the result of European countries’ attempts to restore the standing of a Western Europe whose status had been relatively diminished as a result of its uncomfortable position between the two superpowers, namely the United States and the Soviet Union, in the aftermath of World War II, and of the desire to bring about a permanent peace in Europe.

Important measures in terms of the deepening of European integration include the launch of the single market on January 1, 1993, inauguration of the EU on November 1, 1993, and the official launch of the euro on January 1, 1999.

Meanwhile, the number of member nations increased from six at the time of the inauguration of the ECC (European Economic Community) in 1958 to 15 following three rounds of expansion (1995, 2004, and 2007) after the end of the Cold War. The grouping took on the trappings of super-regionalism following the ascension of the countries of Eastern Europe, which brought the total number of members to 27 as of 2009.

The expansion of the EU brought about as a result of the ascension of these countries, which occurred despite the general differences and gap between the countries of Western Europe and those of Central and Eastern Europe, serves as a counterweight to the viewpoint that the different characteristics of Korea, China, and Japan need not become an obstacle to the integration of Northeast Asia.

(3) North American Region: NAFTA

According to the above-mentioned “*The Benefits and Costs of FTAs*”, the United States started to take steps to draw up the NAFTA agreement that would include Mexico immediately after the signing of the CUSFTA (Canada-U.S. Free Trade Agreement) in 1989. The factors in the background of NAFTA included: (1) the change in

U.S. trade policy spurred by the elongation of the UR (Uruguay Round) negotiations towards one that combined the pursuit of multilateral trade negotiations as well as regionalism, (2) the reforms carried out in Mexico, and the changes in the economic environment occasioned by the reforms, (3) the change in the international economic order and reduced role of the United States within, (4) the U.S. attempts to restore its weakening industrial competitiveness, bring about economic recovery, and mitigate its chronic trade deficit, (5) the United State's positive evaluation of its bilateral trade agreement with Canada, CUSFTA.

Canada's participation was motivated by: (1) the decision, based on the concern that trade negotiations at the North American level would revolve around the United States if the latter were allowed to conclude a separate FTA with Mexico, to play a leading role in the reorganization of the North American market, (2) the desire to make further inroads into the U.S. market via the supplementing of CUSFTA, (3) the desire to enter the Mexican market.

On the other hand, Mexican participation was motivated by (1) the need to modify its economic development strategy in order to overcome the political and economic instability, (2) the changes in U.S. trade policy and the trend of regionalism in other regions, (3) the change in international politics and economic structure as part of adjustments to the globalization phenomenon.

There have been positive and negative evaluations of the advantages of NAFTA where Mexico, which has the smallest economy of the three parties to the agreement and is not an advanced country, is concerned. In terms of negative views, Nobel Laureate for Economics, Joseph E. Stiglitz argued in his *"Making Globalization Work"* that not only has NAFTA failed to bring about the rapid economic growth which Mexico had initially expected, but it has in fact led to the expansion of income inequality with the United States. As such, so this argument goes, NAFTA has only heightened Mexico's dependence on the United States.

In addition, an article published in the *International Herald Tribune* on December 31, 2008 entitled, “U.S. woes and NAFTA pull down Mexico” U.S. recession and NAFTA links add up to trouble for Mexico” reported that Mexico’s excessive dependence on the U.S. economy had in fact increased its vulnerability. As such, attention should be paid to the growing emphasis on the negative aspects of this agreement within Mexico, as well as to the Obama Administration’s attempts to modify NAFTA.

(4) East Asian Region

As mentioned above, while Europe and America, in particular North America, have established the EU and NAFTA, Asia has yet to achieve any tangible results in this regards. While the recognition of the diversity and gaps that exist within Asia as a whole have resulted in narrowing down the scope of such an agreement to the East Asian or even Northeast Asian level, such discussions have remained at the initial stages. However, China has, based on a sense of commonality, implemented economic cooperation with countries in Southeast Asia where the influence of Chinese culture is strong. To this end, the existence of a Chinese economic sphere that exists separately from the Asian, East Asian, and Northeast Asian levels cannot be ignored.

Factors such as the interdependence and complementarity that exists between the three Northeast Asian countries, the ratio of the Korean economy made up by trade, and the position of neutrality which Korea has adopted in Northeast Asia, to say nothing of the inherent weaknesses of the WTO system (in that much time is needed to bring multilateral trade negotiations to fruition) and the furthering of the regionalism phenomenon in Europe and North America, have rendered it necessary for the three countries to commence serious in-depth discussions on a trilateral FTA which could help to bring about a true balance of interests in the region.

III. Feasibility of a NEAFTA

1. Korea-China-Japan and Regionalism

(1) Challenges and Obstacles to Trilateral Cooperation

Various unique factors have been suggested to explain why the outlook for effective trilateral regional cooperation in Northeast Asia remains grim when compared to that achieved by mega-economic blocs such as the EU and NAFTA.

For example, in their work *“International Organizations”*, Karns and Mingst suggested that the rather belated and limited state of regionalism in Asia stemmed from (1)the persistence of Cold War divisions of the Korean peninsula and communist states in the region (China, Vietnam, and North Korea), (2)the diversity of cultures and levels of development, (3)an absence of experience of cooperation, (4)low levels of interdependence, (5)the absence of the idea that Asia-Pacific might constitute a region, (6)a strong attachment to state sovereignty that is rooted in the colonial experience and the fact that independence was gained after World War II, as well as the existence of new form of dependency, and an inherent suspicion of the influence of strong powers; in particular a wariness that, given the pre-World War II legacy of Japanese imperialism, regional cooperation may be a cover for a new form of Japanese domination.

Ironically, while relatively active discussions on an East Asian FTA have been held, talks on a Korea-China-Japan trilateral FTA, which is considered to be a key to and a pre-stage of East Asian FTA, have remained at the initial stages. In this regard, the leeway for discussions is wider at the East Asian level, which also encompasses the ASEAN nations. On the contrary, the limited nature of the framework for Korea-China-Japan trilateral negotiations is evidenced by the fact that the Korea-China-Japan Trilateral

Summit held in Fukuoka in December 2008 was the very first of its kind.

(2) Conditions for a Successful NEAFTA

Up until ten years ago, the region to which the nations of Korea, China, and Japan belong was the only one that had yet to jump aboard the global regionalism bandwagon. Since then, each of these countries has concluded or engaged in the negotiation of FTAs with numerous intraregional countries.

However, these efforts have been focused on the reaching of bilateral FTAs, with little attention paid to the actual integration of the three Northeast Asian markets. Many experts have raised the need to mitigate obstacles to market integration in Northeast Asia. Such obstacles include nationalism, the instability surrounding the security environment, the absence of a resolution of historical issues, and the competition between China and Japan for regional hegemony. Moreover, the development of a shared consensus of the economic benefits of such an agreement has also been singled out as a primordial task.

The inability or unwillingness of any specific country to assume the leadership position in terms of the reaching of a Korea-China-Japan trilateral FTA, as well as the limited nature of intergovernmental official discussions held to date on the subject, have created uncertainty in terms of the implementation method, approach, form, and objectives of such an agreement.

Therefore, the reaching of a political consensus should be given top priority in terms of the conclusion of a NEAFTA. Given the numbers of countries involved and the relative similarities in terms of each nation's economic scales, NAFTA could very well serve as a model for a KOR-China-Japan trilateral FTA. There is a need to focus on the process that led up to this agreement, and on the impact which this concord has had.

(3) Korea-China-Japan Trade Relations

While Japan boasts a trade surplus vis-à-vis Korea, the latter has secured a surplus in its trade with China. Meanwhile, China has maintained a trade surplus where Japan is concerned. In this regard, Japan's trade surplus vis-à-vis Korea and that of Korea vis-à-vis China are viewed as being of a structural nature, and as having contributed to the formation of a division of labor structure between the three countries that is based on capital and intermediate goods.

All three Northeast Asian countries enjoy trade surpluses with the United States and the EU. In this regard, China and Japan have maintained rather large trade surpluses vis-à-vis the United States. In other words, the growth of Northeast Asia has in many ways been dependent on the advanced countries economic markets. The economic boom enjoyed by the United States since the 1990s has been identified as one of the important factors that has made this situation possible. Meanwhile, some scholars have raised the need to prepare countermeasures for the expected contraction of the U.S. and European markets in the aftermath of the economic crisis that began in 2008, and the anticipated decrease in the dependence on these markets. Be that as it may, the excessive dependence on foreign markets has been identified as one of the important elements that have led to the pursuit of a Northeast Asian trilateral FTA.

Meanwhile, the emergence of China has resulted in Korea and Japan lowering their dependence on advanced economies such as the United States and the EU for direct exports. The rise of China as a new market has in fact resulted in creating a triangular trade structure that also involves the United States and the EU.

2. Feasibility of a NEAFTA

(1) The Current State of Discussions on NEAFTA

Examples of the successful implementation of economic integration include the EU as well as NAFTA. These countries have the following in common: geographical proximity, close historical relationship, and well entrenched market economies.

Given that regionalism is influenced by various factors, such as economic interdependence, geographical proximity, cultural homogeneity, and a history of relations, there is no reason to believe that the three countries of Northeast Asia would be unable to implement an FTA. In addition, the fact that Northeast Asia already constitutes, along with the EU and NAFTA, one of the three largest economic blocs in the world, only serves to further increase the necessity of reaching a NEAFTA and reaping the economic benefits stemming from the formation of a mega-market in the region.

In terms of trade and investment, Northeast Asian economic cooperation has also shown a great progress over the past 10-15 years. However, the institutionalization of trade and investment has proven to be relatively slower. Although discussions on Northeast Asian economic cooperation have been carried out, actual efforts to bring it about have remained elusive. The first step that needs to be taken is the implementation of a Northeast Asian FTA or what we can refer to as a Northeast Asian FTA plus.

Professor Emeritus Kim Se-won of Seoul National University has claimed that East Asian market integration will require the establishment of a multilateral cooperation structure, such as an East Asian economic cooperation organization. Professor Kim has also maintained that the reaching of a Korea, China, and Japan FTA will require the foundation of a framework for trilateral cooperation in the form of a body responsible for Korea-China-Japan economic cooperation. The establishment of such an economic cooperative organization can as such be identified as a core task to be addressed during future Korea-China-Japan trilateral summits.

In this regard, the then Prime Minister of China Zhu Rongji suggested the need to review the possibility of a trilateral FTA

during the Korea-China-Japan Summit held in Phnom Penh, Cambodia in November 2002. Joint research projects on the economic effects of a trilateral FTA involving the three countries' national research institutes have been carried out since 2003. Here, it is important to ensure that the results of these projects are reflected in the wider discussions on this subject.

(2) The Significance and Necessity of a KOR-China-Japan FTA

The establishment of an FTA between the three countries in Northeast Asia will contribute to (1)the region catching up to the global trend towards regionalism, (2)the emergence of a regional trade agreement capable of functioning as a new engine for growth as the region becomes another mega-economic bloc, (3)the eradication of competitive regionalism and move towards a wider regionalism geared towards the greater good (a bilateral FTA featuring excessively complicated aspects has a tendency to not only have a domino effect in terms of other FTAs, but also to be accompanied by disproportionate adjustment costs occasioned by the so-called spaghetti bowl effect), and (4)the improvement of the regional security environment (contributes to the improvement of the security environment by creating common economic and political interests amongst the three countries through a heightening of economic interdependence and improved cooperation). (5)Meanwhile, in terms of the three countries' policy toward the Korean peninsula and their relationship with North Korea, the establishment of a cooperation framework through a trilateral FTA could also be regarded as contributing to the improvement of the effect of inter-Korean economic cooperation.

(3) Three Countries' Stances on a Korea-China-Japan FTA

While China adopted an aggressive stance towards the conclusion of a Korea-China-Japan FTA during the Korea-China-Japan Summit held in Phnom Penh, Cambodia in November 2002, Korea and Japan displayed positions that can best be respectively described as neutral and passive. Similar stances were adopted during the Korea-China-Japan summit held in Bali, Indonesia in October 2003. China suggested that discussions on a Korea-China-Japan FTA be taken up at the government level.

However, Japan refused this suggestion outright. As the matter had not been reviewed domestically, Korea also refused to support China's suggestion. China's actions appear to have been motivated by political factors such as the growing concern over the progression of a Korea-Japan FTA. Furthermore, its aggressive promotion of a trilateral FTA was also spurred on by the desire not to be alienated from the global trend towards regional economic integration. Meanwhile, although Japan's position was motivated by its distrust of China, which it views as a competitor, it on the surface focused on the discrepancies in terms of China's political system and its underdeveloped economic structure.

China's stance with regards to a possible Korea-China-Japan FTA was made clear by a Chinese participant during a regularly-held symposium involving the three countries convened in May 2008, "Frankly speaking, Korea and China should establish an FTA first. While there are no obstacles to the reaching of such an agreement between Korea and China, many barriers exist between Korea and Japan. For their part, discussions between Japan and China have not progressed much, and many negative aspects need to be overcome." For its part, Japan adopted the position that a Korea-Japan FTA should be reached first. One is left to believe that Korea is now being courted by both China and Japan.

In fact, East Asian cooperation has been promoted by Japan

since the 1960s, and was a steady topic of discussion during the late 1970s. However, the increased role played by China since the 1990s has resulted in Japan adopting a more passive position towards this matter. A look at Japan's agenda with regards to the implementation of FTAs shows that its current plans are to implement a China-Japan FTA, which constitutes the last phase of its plan, sometime after 2015. Moreover, no real progress towards an FTA has been made during the China-Japan dialogue.

Unlike the lukewarm viewpoints or positions adopted at the governmental level, entrepreneurs from the three countries have actively expressed their desire for a Korea-China-Japan FTA. A survey of entrepreneurs from Korea, China, and Japan (130 from Korea, 136 from Japan, and 128 from China) conducted from late November to mid December, 2008, or at the time of the Korea-China-Japan Trilateral Summit held in Fukuoka, by media outlets in the three countries (The Maeil Business Newspaper, China Business, and Nihon Keizai Shimbun, respectively) found that 71.8% of the participants (actively support 42.9%, generally agree 28.9%) expressed their support for a trilateral FTA.

Korean entrepreneurs exhibited a particularly high level of support for a trilateral FTA, with 80% of respondents coming out in favor (essential 41%, necessary 37.7%). Meanwhile, 63.3% of Chinese entrepreneurs and 61% of Japanese entrepreneurs (essential 25%, necessary 36%) expressed their support for a trilateral FTA. In terms of the time period in which a trilateral FTA should be put in place, the majority of the participants expressed the belief that the implementation of such an agreement would be difficult to achieve in the immediate future. While 11.4% believed that such an agreement could be reached by the end of 2009, 36.8% opted for 2011, and another 16% for 2013. As such, the majority of respondents expected a trilateral FTA to be possible within 3-5 years.

However, this mindset can be regarded as being out of synch with that of the three countries' governments, and the timeline as

unexpectedly hasty.

A more realistic approach may be that employed in conjunction with the establishment of the EU and NAFTA, and in particular the latter, of concluding Korea-Japan FTA and Korea-China FTA (or vice versa) beforehand, and then expanding such arrangements into a Korea-China-Japan FTA. Korea would have no reason to object to such a process.

IV. Korea's Roles and Options

1. Korea's Long-term Options

As mentioned above, contrary to the viewpoint put forward by entrepreneurs from the three countries, a trilateral FTA in Northeast Asia should be perceived as a long-term based task. This is because before such an agreement can happen, marked improvements in the general relationship between China and Japan have to occur; moreover, Japan cannot ignore the U.S. factor.

Under these circumstances, Korea can play the role of an intermediary or catalyst responsible for moving up the timeframe for the reaching of a trilateral FTA. In particular, Korea and Japan need to pursue both a Korea-U.S.-Japan FTA and a Korea-China-Japan FTA (which could be implemented either simultaneously or in a sequential manner). Such an arrangement would not only help to ease the concerns of the United States and China, but also help to improve the overall atmosphere between China and Japan. Despite a natural period of caution on both sides, the potential synergy effect of these two agreements could easily create international conditions that are conducive to the moving up of the schedule for such concords.

An FTA has already been inked between the United States and Korea, and all that remains is to secure mutual approval from both

countries. Moreover, FTA negotiations have already started between Korea and Japan (however, these talks have now been suspended for more than 4 years). Furthermore, as the joint research between Korea and China on such an agreement has now reached the final stages, Korea effectively finds itself in a position to play the role of a hub for both trilateral FTAs mentioned above.

Therefore, putting aside the question of order for the moment, it is my belief that Korea's future vision may be one that is based on the reaching of bilateral FTAs (Korea-U.S., Korea-Japan, and Korea-China) with the world's three largest economic powers in the midterm range, and trilateral FTAs (Korea-U.S.-Japan FTA, and Korea-China-Japan FTA) over the long range (The fact that a Korea-EU FTA is currently in the final stages of negotiations can be taken to mean that Korea will eventually have completed FTAs with mega-economic blocs).

The Korean government has paid relatively less attention to the FTAs with China and Japan and concentrated on the United States and EU since the FTA negotiations with Japan were suspended at the end of 2004. This decision was motivated not only by domestic factors, but also by very tangible limitations in terms of the ability to simultaneously implement negotiations with the four mega-economic powers or blocs. The expected ratification of the Korea-U.S. FTA and wrapping up of negotiations for a Korea-EU FTA will in all likelihood result in Korea having more space to seek other FTAs from the second half of 2009 onwards. From that point on, Korea will have to concentrate on FTAs within the East Asian region.

The expected drop in consumption in the United States occasioned by the global economic crisis may result in making it difficult to meet export targets in that particular country (the same applies in the case of Europe). FTA agreements with Japan and China may be reached quickly if Korea places as much emphasis on such negotiations as it did on those with the United States (of course, the implementation of such agreements could be facilitated

by the domestic measures in the name of “Trade Promotion Authority” in the United States). Korea should hasten FTA negotiations with China and Japan for the simple reason that the size of the trade sector of these two countries is as significant as that of the United States.

The sheer size of the economies of these three countries makes it imperative that Korea conduct in-depth studies on the ripple effect which such FTAs would have on every Korean industry, especially agriculture, and prepare the necessary countermeasures. A complementary relationship may in fact exist between certain Korean, Chinese, and Japanese industries. However, the possibility of the collapse of Korean agriculture as a result of the “Tsunami phenomenon” involving Chinese agricultural products flooding the Korean market and of the full opening of the rice market after 2014 makes it imperative upon Korea to steadily establish the proper countermeasures in the case of agriculture.

2. Use of Both FTAs as a Safety Valve for the Korean Peninsula

FTAs are a trade mechanism designed to promote the balance of interests between countries. However, in the case of the Korean peninsula where the interests of four major powers overlap, FTAs involve much more than economic considerations. Although the concerned parties may argue that an FTA is purely about economic issues during the negotiation process, who in their right mind would actually believe that political factors did not come into play during the Korea-U.S. FTA negotiations? Korea's keen concern for the U.S. viewpoint with regards to a Korea-China-Japan trilateral FTA stems from political considerations. Moreover, the attention paid to the order in which FTAs are concluded with Japan and China is also motivated by political considerations. Japan and China's negative

perception of a Japan-China FTA is also rooted in political factors. The expression “focus on the economy” is also inevitably laden with “political considerations.” Ironically, however, domestic opposition is less severe and the ratification of such agreements becomes easier when little emphasis is placed on the political importance of such concords. Thus, even though political considerations come into play when negotiating an FTA, great caution should be exercised to ensure that such processes are not politicized. Korea should as such negotiate and conclude FTAs with strong economic powers that revolve around the economic aspects of such agreements, and then use such concords in a political manner.

To this end, it is necessary for Korea to establish and actively make use of an institutional framework for cooperation with the surrounding powers that might even encompass responsibility for the management of the general situation on the Korean peninsula in the future. There is no way of ensuring that relations between the United States and China, as well as between China and Japan, will proceed in accordance with the scenarios laid out by the Korean government. Nevertheless, the current crisis situation on the Korean peninsula alone is enough to ensure that both trilateral FTAs should be actively pursued.

V. Conclusion: Korea's Role

Korea's standing as a middle power both from a geographic and economic development standpoint in Northeast Asia has led to calls for it to play the role of an intermediary between China and Japan. Korea's playing of an intermediary role is required not only for co-prosperity in Northeast Asia, but also for peace and stability on the Korean peninsula.

The Korean government played a big part in ensuring that the FTA related agenda was first introduced at the ASEAN+3 level.

Furthermore, the Korean government was also at the forefront of the calls for the establishment of a temporary group tasked with developing detailed and effective proposals for the actualization of the implementation of East Asian Economic Cooperation during the ASEAN+3 Summit held in 2000, calls which eventually led to the formation of the East Asia Vision Group (EAVG) and East Asia Study Group (EASG).

Engaged in a competition to expand their influence in East Asia, China and Japan find themselves hard-pressed to assume the leadership role when it comes to establishing a trilateral FTA in Northeast Asia. While a Korea-China-Japan Trilateral FTA can only become feasible once FTA negotiations between China and Japan have been carried out, the two countries have to date remained lukewarm to such a possibility. For this reason, Korea is better suited to serve as a coordinator or intermediary than China or Japan.

The implementation of a Korea-China-Japan Trilateral FTA may in the end wind up being delayed by the lukewarm attitudes of China and Japan, and this despite Korea's aggressive pursuit of such an agreement. However, Korea's conclusion of bilateral FTAs with Japan and China, which should be perceived as a first step towards the desired end, can be expected to provide an opportunity to speed up discussions on the establishment of a Korea-China-Japan Trilateral FTA. (April 2009 Issue)

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