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CJK Economic Trilateralism: The Prospects and Perils of a New FTA
The South Korean Perspective

Chang Jae Lee
During the early days of Northeast Asian economic cooperation immediately following the end of the Cold War, the China-Japan-Korea FTA (CJK FTA) was considered impossible, not even mentioned as a long-term goal. The Northeast Asian economic community was eventually forwarded as a vision, but without defining what it would be. Even as economic integration proceeded to the point that an FTA of this sort made increasing sense, it was considered difficult to achieve due mainly to non-economic factors such as historical legacies and political rivalries.

Functional economic integration has proceeded quite smoothly among the three countries as trade interdependency has skyrocketed over the past two decades. At the same time, the basic framework continued to develop, providing support for economic integration among the three countries. The most significant was the beginning of regular meetings among the leaders of the three countries since their first gathering in Manila in November 1999 under the framework of the ASEAN+3 summit. Independent trilateral summits have been taking place regularly since December 2008.

It was the trilateral leaders’ meeting that launched the Trilateral Joint Research, which conducted the study on the CJK FTA for 2003-2009, and decisions were made at the independent trilateral summits to upgrade it to the Official Tripartite Joint Study for the CJK FTA and later to launch the CJK FTA negotiations. The year 2012 was significant because the three countries officially announced the start of the negotiation process after long preparation. Yet, this was also a time of deteriorating political relations among the three due to territorial disputes. At the end of 2012, there were changes of political leadership in all of these countries, leaving it up to the new leaders to finalize the process of forming the CJK FTA.

After examining the economic status of the three countries and their economic ties, this paper reviews a decade of preparation for the CJK FTA before analyzing positive factors for the CJK FTA as well as elements of risk that could hinder its realization. In doing so, the South Korean perspective is highlighted.

**ECONOMIC STATUS OF CHINA, JAPAN AND SOUTH KOREA AND THEIR ECONOMIC TIES**

China, Japan and South Korea account for about one-fifth of the world’s economy. In 1992-2011, the share of the three economies has slightly increased from 19.2 percent to 20.5 percent. The respective shares of the three have changed a lot. China’s economy soared from 2.0 percent to 10.5 percent, while Japan’s decreased from 15.8 percent to 8.4 percent. The share of South Korea’s economy rose from 1.4 to 1.6 percent. During the same period, their share of the world’s exports and imports have substantially grown from 13.4 percent to 18.4 percent and from 10.2 percent to 16.9 percent, respectively. China’s share of both jumped enormously, South Korea’s also expanded, while Japan’s share shrank markedly. Now all three are major trading nations. In 2011, the shares of China, Japan and South Korea in world exports and imports were 10.7 percent, 4.6 percent and 3.2 percent; and 9.5 percent, 4.6 percent and 2.8 percent, respectively.

As for their share of the world’s inward and outward investments (in terms of stock), these were much lower than those related to trade; amounting to only 5.2 percent and 7.1 percent,
respectively, in 2011. The respective shares of China, Japan and South Korea represented 3.5 percent, 1.1 percent and 0.6 percent; and 1.7 percent, 4.6 percent and 0.8 percent, respectively. In addition, the three countries had 44.4 percent of the world’s total foreign reserves in 2011, the shares of China, Japan and South Korea being 29.8, 11.7, and 2.8 percent, respectively.

**ECONOMIC TIES OF CHINA, JAPAN, AND SOUTH KOREA**

The three countries have become major trading partners for each other, even though their intraregional trade dependency levels, main trading partners, as well as export and import patterns vary. In the 1990s, the United States was Korea’s most important export destination. However, in the 2000s, its share has continued to shrink, while China has become its predominant export destination. For 1992-2011, Northeast Asia’s share in Korea’s exports increased from 18.4 percent to 30.9 percent. China’s share soared from 3.4 to 23.9 percent, while Japan’s share diminished from 15.0 to 7.1 percent. Korea’s export volume to China surpassed that to Japan in 2001, and China has been Korea’s most important export destination since 2003. As for Korea’s imports, Northeast Asia has continued to occupy the dominant place. In the 1990s, Japan used to be the major regional import source, while China has become Korea’s largest import source since 2007. For 1992-2011, China’s share in Korea’s imports rose from 4.5 to 16.5 percent, while Japan’s share decreased from 23.5 to 13.0 percent.

**Table 1. Economic Status of China, Japan and Korea in the World**

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Korea</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population1</td>
<td>(Million)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>43.7</td>
<td>48.7</td>
</tr>
<tr>
<td>GDP2</td>
<td>(US$ Billion)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>338.2</td>
<td>1,166.2</td>
</tr>
<tr>
<td>Export3</td>
<td>(US$ Billion)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>77.3</td>
<td>562.5</td>
</tr>
<tr>
<td>Import4</td>
<td>(US$ Billion)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>83.0</td>
<td>524.4</td>
</tr>
<tr>
<td>Inward FDI4</td>
<td>(US$ Billion)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.9</td>
<td>131.7</td>
</tr>
<tr>
<td>Outward FDI4</td>
<td>(US$ Billion)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.4</td>
<td>261.9</td>
</tr>
<tr>
<td>Foreign Reserve4</td>
<td>(US$ Billion)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>17.1</td>
<td>304.3</td>
</tr>
</tbody>
</table>

Note: 1) Figures in parentheses are shares in the world (%); 2) FDIs are in terms of stock; 3) Foreign reserves include foreign currencies and gold.

The United States had been Japan’s major export partner for a long time, but China took over this spot in 2009. For 1992-2011, China’s share increased from 3.5 to 19.6 percent, while that of South Korea rose from 5.2 to 8.0 percent, meaning that the share of Northeast Asia in Japan’s exports grew markedly from 8.7 to 27.6 percent. With regard to imports, China has also become Japan’s most important partner since 2002, replacing the United States. For 1992-2001, its share rose from 7.3 to 21.5 percent, while that of South Korea fell slightly from 5.0 to 4.7 percent, raising the overall share of Northeast Asia from 12.3 to 26.2 percent.

In contrast to South Korea and Japan, for whom Northeast Asia has become the most important export destination, the United States and the European Union have become China’s most important partners. For 1992-2011, the share of Japan in China’s exports decreased from 13.7 to 7.7 percent, while that of South Korea increased from 2.8 percent to 4.4 percent; the share of Northeast Asia in China’s exports diminished from 16.5 percent to 12.1 percent. However, it has continued to be China’s most important import partner, even though its share has diminished since 1999. Northeast Asia’s share in China’s imports increased from 19.9 to 30.9 percent in 1992-1997/8 before going down to 20.4 percent in 2011. Japan’s share shrank from 16.7 percent to 11.2 percent, while South Korea’s rose from 3.2 to 9.3 percent.
As of 2011, Korea’s intraregional export and import dependency levels were the highest among the three at 30.9 percent and 29.5 percent, respectively, while China’s intraregional export and import dependency were the lowest – 12.1 percent and 20.4 percent, respectively. For 1992-2011, Japan’s intraregional export and import dependency recorded the most significant growth, increasing from 8.7 to 27.6 percent and from 12.3 to 26.2 percent, respectively.

The share of intraregional trade among China, Japan, and South Korea has largely increased over the past twenty years. It grew in 1990 to 2004 from 12.3 to 24.1 percent before shrinking to 21.3 percent in 2011. However, as shown in Figure 4, it remains much lower than the shares of the EU and NAFTA and slightly lower than that of ASEAN.

**A DECADE OF PREPARATION FOR THE CJK FTA**

**Trilateral Joint Research**

In November 1999, the leaders of China, Japan and South Korea at their first summit during ASEAN+3 agreed on joint research to enhance economic cooperation among the three
countries. The Development Research Center (DRC) of the State Council of the PRC, the National Institute for Research Advancement (NIRA) of Japan, and the Korea Institute for International Economic Policy (KIEP) began Trilateral Joint Research in November 2000, and they have conducted joint research on the CJK FTA since 2003. The Japanese government was initially reluctant before accepting the more qualified topic, “Economic Effects of a Possible FTA between China, Japan and Korea.” Although the joint research was supposed to last about three years, it actually took seven because the governments were not ready to upgrade it to the Official Tripartite Joint Study; however, at the same time, they did not want to stop it either for fear that it could weaken the momentum of the Trilateral FTA.

At the beginning of the Trilateral Joint Research, government officials and business representatives used to participate only in the international symposium where the results of each year’s trilateral joint research were discussed. However, business representatives of the three countries began to join the planning and mid-term workshops in 2006, and government officials also began to participate in those workshops as observers in 2007. Each year, the
three institutions presented policy recommendations based on their joint research to the leaders during the trilateral summit. In 2009, the Trilateral Joint Research recommended upgrading the joint research on the CJK FTA to discussions among government officials. Over seven years, the three institutions conducted several CGE model simulations on macro-economic effects of the CJK FTA, also studying sectoral implications in the major manufacturing industries, agriculture, fisheries, as well as major service sectors. In addition, rules of origin and sensitive sectors were also examined.

The Joint Study Committee for FTA Among China, Japan and Korea

In December 2008, the first Trilateral Summit independent of ASEAN+3 was held in Fukuoka, Japan. The leaders agreed to launch an Official Tripartite Joint Study for a CJK FTA at the second Trilateral Summit in Beijing in October 2009. Accordingly, the first Joint Study Committee (JSC) for a CJK FTA took place in Seoul in May 2010, and the Joint Study was concluded at the seventh meeting, which was held in Pyeongchang, South Korea in December 2011. The JSC examined the coverage of the possible CJK FTA without prejudice to the future positions of the three countries in possible trilateral FTA negotiations, identifying the following issues: trade in goods, trade in services, and investment. Other issues may include, but not be limited to: technical barriers to trade, sanitary and phytosanitary measures, intellectual property rights, transparency, competition policy, dispute settlement mechanism, industrial cooperation, consumer safety, e-commerce, energy and mineral resources, fisheries, food, government procurement, and the environment.

The JSC also agreed on four guiding principles for the CJK FTA negotiations: First, the CJK FTA should pursue a comprehensive and high-level FTA; second, the CJK FTA should be consistent with WTO rules; third, the CJK FTA should strive for balanced results and achieve a win-win-win situation on the basis of reciprocity and mutual benefit; and fourth, the negotiations should be conducted in a constructive and positive manner, with due consideration to the sensitive sectors in each country. The JSC also added that it shares the view that strong political will would be needed during the entire process for a CJK FTA.
The outcome of the Joint Study was reported to the Economic and Trade Ministers’ Meeting and the Fifth Trilateral Summit in Beijing in May 2012. The leaders welcomed the conclusion and recommendations, and agreed that the trilateral FTA negotiation would be launched in 2012 and that the three countries should immediately start preparations, including domestic procedures and working level consultations. Then, the trade ministers of the three countries met in Phnom Penh on 20 November 2012 at the 21st ASEAN summit and related summits, and announced the launch of the CJK FTA negotiations, deciding that the first round of the trilateral FTA negotiations would be held in early 2013.

**South Korea’s Role**

South Korea has assumed an important role in preparations for the CJK FTA. First, the Trilateral Joint Research was proposed by Kim Dae-jung during the first gathering of leaders in November 1999. Second, while the CJK FTA was mistakenly regarded as China’s proposal, in reality, since China was the host of the Trilateral Joint Research in 2002, it was Zhu Rongji’s role to raise the issue during the Trilateral Summit Meeting based on the research teams’ report, but it was the Korean team that originally proposed the CJK FTA as the new topic. Third, with respect to the Official Tripartite Joint Study, apart from hosting the first and last meeting, the Korean side tried to play an intermediary role between China and Japan during the meetings.

Admittedly, the South Korean government was not very active in promoting the CJK FTA in the mid-2000s when the Trilateral Joint Research was underway because it was more preoccupied with FTAs with the United States and the EU. It was China that was the most active in advancing the CJK FTA, while the Japanese government was the most cautious in the process for realizing the CJK FTA.

**Supporting Factors for the CJK FTA**

**Many FTAs Concluded by the Three Countries**

It was at the turn of the century that Japan became the first Northeast Asian country that concluded an FTA. Then, South Korea and China jumped on the FTA bandwagon, and all three countries concluded many bilateral and multilateral FTAs within a short period of time. In addition, there are many ongoing FTA negotiations and FTAs under consideration. Japan concluded economic partnership agreements (EPAs) with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, the Philippines, Switzerland, Vietnam, India, and Peru. Japan is engaged in FTA negotiations with Korea, Australia and the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE), Canada, Mongolia, Colombia, and the start of negotiations was also announced for the CJK FTA and RCEP (Regional Comprehensive Economic Partnership). China concluded FTAs with ASEAN, Pakistan, Chile, New Zealand, Singapore, Peru, and Costa Rica, and concluded a Closer Economic Partnership Arrangement (CEPA) with both Hong Kong and Macao. China is currently negotiating FTAs with the GCC, Australia, Iceland, Norway, SACU (Southern African Customs Union), Korea, and the start of negotiations was also announced for the CJK FTA and RCEP. As for South Korea, eight FTAs with forty-five countries are in effect, namely FTAs with Chile, Singapore, the EFTA, ASEAN, India, the EU, Peru, and the United States. It also concluded FTAs with Turkey and Colombia, and is in the midst of FTA negotiations with Canada, Indonesia, China, Vietnam, and the start of negotiations was also announced for the CJK FTA and RCEP.
Despite the fact that the three countries have pursued active FTA policies, there is no FTA among Northeast Asian countries. In fact, Korea-Japan FTA negotiations started in December 2003 and have been stalled since November 2004. Currently only Director-General-level consultations on a Korea-Japan FTA are under way. As for the Korea-China FTA, after the official tripartite joint study on a Korea-China FTA, which was conducted from March 2007 to May 2010, four rounds of negotiations were held in 2012. South Korea and China have pursued relatively active FTA policies and seem to be natural partners with which to form a regional trade agreement. To become a global FTA hub, South Korea has to form some type of FTA with China and Japan, be it trilateral, two bilaterals, or a de facto FTA with the RCEP or a combination of these.14

**High Trade Dependency**

As noted above, South Korea’s dependency on intraregional trade has been high, and Japan’s, which was relatively low in the early 1990s, has risen quite rapidly over the past twenty years, reaching 26.9 percent in 2011, below Korea’s 30.2 percent. South Korea’s current trade volume with FTA partners accounts for about 35 percent of its trade, and if the CJK FTA were added, it would climb to about 65 percent.15

In recent years, China has been most positive for the CJK FTA, while Japan seems to have been relatively reluctant. However, given their intraregional trade dependency, it would be rational for both South Korea and Japan to be more active in realizing the CJK FTA.16

**Strong Manufacturing Sectors**

In 2010, China, Japan, and South Korea represented more than 25 percent of the world’s total manufacturing exports in textiles and clothing (38.3), electronic machinery (33.9), non-electric machinery (29.5), other manufacturing (28.7), transportation equipment (26.4) and leather, rubber, and shoes (25.6).

Among products (HS 6-digit) whose total exports exceed $1 billion, China, Japan, and South Korea represented more than half of the world’s exports for the 147 products in the HS
6-digit category in 2010. Furthermore, Table 3 shows that the three trade mainly intermediate goods among them. An FTA among three competitive manufacturing countries who trade mainly intermediate goods with each other would contribute to raising further the competitiveness of their manufacturing sector by deepening competition among firms and lowering production costs.

There is no comprehensive survey of the views of South Korean manufacturing firms on the CJK FTA. According to the survey conducted by the Institute for International Trade, 68.1 percent of them supported the Korea-Japan FTA, while 58.8 percent supported the Korea-China FTA.17

### Weak Service Sectors

Unlike the manufacturing sector, the three countries lag behind in the service sectors. In 2011, China, Japan and South Korea were the fourth, sixth and fifteenth largest commercial service exporting countries, respectively, while they ranked the third, fifth and thirteenth, respectively, in commercial service import in the world. As shown in Table 4, they represented 10 percent of the world’s service exports and 12.7 percent of the world’s service imports, which were much lower than their shares in the world’s exports and imports in goods.

<table>
<thead>
<tr>
<th>Table 2. Shares of CJK in the World’s Manufacturing Exports (Unit: %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Wood, paper, furniture</td>
</tr>
<tr>
<td>Textiles, clothing</td>
</tr>
<tr>
<td>Leather, rubber, shoes</td>
</tr>
<tr>
<td>Metals</td>
</tr>
<tr>
<td>Chemicals</td>
</tr>
<tr>
<td>Transportation equipment</td>
</tr>
<tr>
<td>Non-electric machinery</td>
</tr>
<tr>
<td>Electronic machinery</td>
</tr>
<tr>
<td>Mineral products</td>
</tr>
<tr>
<td>Petrochemicals</td>
</tr>
<tr>
<td>Other manufacturing</td>
</tr>
</tbody>
</table>

Source: UNCOMTRADE Database
A CJK FTA could be used for the three countries to raise the competitiveness of their service sectors by further liberalizing them. In this regard, South Korea, having concluded FTAs with both the United States and the EU, seems well positioned to push forward the liberalization of service sectors during the CJK FTA negotiations.

### Region-wide FTA Sought in East Asia

Since the East Asian Vision Group proposed the establishment of the EAFTA (East Asia Free Trade Area) in November 2001, the discussion of a region-wide FTA has continued among academics and government officials. Following the recommendations of the study by the Joint Expert Group on the EAFTA and the Tract Two study on the CEPEA...
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(Comprehensive Economic Partnership in East Asia), working groups were formed among government officials to prepare the region-wide FTA in East Asia. In November 2012, leaders of the sixteen ASEAN+6 countries agreed on the launch of the RCEP (Regional Comprehensive Economic Partnership). ASEAN has already formed FTAs with six dialogue partners and several FTAs have been concluded among the dialogue partners. So, in order to achieve a region-wide FTA, an FTA(s) regardless of type, including a CJK FTA, would be needed among the three countries. A CJK FTA as well as a region-wide FTA in East Asia could also contribute importantly to economic integration in the Asia Pacific.

Global Financial Crisis and European Fiscal Crisis

Considering the economic difficulties of the EU and the United States in the wake of the global financial crisis and the European fiscal crisis, China, Japan, and South Korea cannot continue to depend heavily on those markets, especially for final goods. Larger Northeast Asian and East Asian markets would be needed. In addition, in order to revive the world economy, East Asia is expected to become the engine of economic growth once more. A CJK FTA and RCEP could help by increasing the volume of intraregional trade and by also enlarging the market for non-regional countries.

Trilateral Summit

The trilateral summits have played an important role during the preparation for the CJK FTA. They could be crucial for the negotiations because the leaders will meet regularly to discuss important issues related to their countries, and the CJK FTA is likely to be one of the most important.

RISK FACTORS TO THE CJK FTA

Domestic Politics Related to Sensitive Sectors

As with other FTAs, a CJK FTA is likely to face strong opposition from the sensitive sectors in each country, particularly in South Korea and Japan. The geographic proximity among the three countries could further intensify the sensitivity for industries like agriculture and fisheries. For Korea, most sensitive sectors would be related to trade in goods, and the sensitive sectors vis-à-vis China would be quite different from those vis-à-vis Japan. For China, agriculture, fisheries, and some manufacturing sectors would be sensitive for South Korea. Since China has definite price competitiveness over South Korea in most agricultural and fishery products, there would be strong domestic political pressure from those engaged in these sectors. Rice, beans, barley, red beans, mung beans and sesame, red pepper, garlic, and onions are likely to be sensitive agricultural products. With regard to manufacturing, even though the level of South Korea’s average tariff rates is not that high, those engaged in SMEs, especially in textiles, are likely to resist trade liberalization with China.

As for Japan, since its average tariff rates are much lower than those of South Korea and many of its manufacturing sectors are considered more competitive, South Korea’s manufacturing sector, in general, is likely to be reluctant. In particular, the auto and machinery industries could be regarded as sensitive.
According to the aforementioned survey by South Korea’s Institute for International Trade, 26.8 percent of manufacturing firms were opposed to the Korea-Japan FTA, and the opposition was particularly strong in machinery, steel, and textiles; while 36.8 percent of manufacturing firms were opposed to the Korea-China FTA, and the opposition was particularly strong in daily necessities and steel.

### Domestic Politics Related to Past History and Nationalism

Along with sensitive sectors in each country, Kim Soung-chul regards insufficient mutual trust, disputes over territory, natural resources, past history, and strong nationalism as main obstacles to regional cooperation. Recent territorial disputes, which seem to have surfaced in part to serve domestic politics, have aggravated the situation and become the most serious risk factor that could hinder the realization of the CJK FTA.
In fact, the CJK FTA has been considered impossible or premature given that the three countries have not overcome past history. It may be unrealistic for the three countries to start the CJK FTA negotiations in 2013 even after ten years of preparations, as they are still struggling to surmount historical legacies. Or, maybe it is time to start the process of overcoming past history by reversing the way of thinking: the Trilateral FTA could actually serve as the first step toward reducing regional tension and overcoming past history. Although the European economic integration experience cannot be copied exactly in Northeast Asia, the three countries could learn the lesson that the main motivation for the initial economic integration was to avoid another war in Europe.

In this regard, South Korea has a natural role to play. First, the most visible rivalry being between China and Japan, South Korea could serve as an intermediary. Second, given the divided Korean Peninsula and North Korea being the center of regional security tensions, South Korea could benefit the most from easing tensions in Northeast Asia. Therefore, it should be more active in advancing the CJK FTA.

### Table 6. South Korea’s Tariff Rates Vis-à-Vis Japan (Average for 2007-2009)

<table>
<thead>
<tr>
<th>Exports to Japan</th>
<th>Imports from Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td><strong>Tariff rate</strong></td>
</tr>
<tr>
<td><strong>Amount (US$million)</strong></td>
<td>Share (%)</td>
</tr>
<tr>
<td>Textiles</td>
<td>601</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>1,302</td>
</tr>
<tr>
<td>Precision chemicals</td>
<td>1,035</td>
</tr>
<tr>
<td>Steel</td>
<td>3,134</td>
</tr>
<tr>
<td>Non-ferrous metal</td>
<td>737</td>
</tr>
<tr>
<td>Machinery</td>
<td>2,262</td>
</tr>
<tr>
<td>Automobiles</td>
<td>25</td>
</tr>
<tr>
<td>Auto parts</td>
<td>440</td>
</tr>
<tr>
<td>Electronics</td>
<td>6,528</td>
</tr>
<tr>
<td>Daily necessities</td>
<td>1,292</td>
</tr>
<tr>
<td>Others</td>
<td>4,388</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21,745</td>
</tr>
</tbody>
</table>

Other FTAs

Lastly, the CJK FTA could face competition from other FTAs. Korea-China negotiations have already been underway since May 2012 with four rounds held, while Korea-Japan FTA negotiations have been suspended since November 2004, and nine working level meetings were held for 2008-2011 to reopen the negotiations. The launch of the Korea-China FTA could have influenced the Japanese position vis-à-vis the CJK FTA in a positive way and could also be a positive factor in the resumption of the Korea-Japan FTA. However, if the Korea-China negotiations advance too far before launching the CJK FTA and the two countries want to adopt the same modality for the CJK FTA, it may be difficult for Japan to accept. So, some coordination in terms of modalities would be needed between the Korea-China FTA and the CJK FTA. However, if the CJK FTA negotiations face serious difficulties, South Korea could be tempted to go for the two bilateral FTAs instead.

Another risk factor is the RCEP, if the CJK FTA negotiations fail to advance whereas the RCEP negotiations go smoothly; a de facto CJK FTA could be realized within the RCEP before the de jure CJK FTA. In order to avoid this scenario, the three countries should speed up the CJK FTA negotiation process. In doing so, they could also assume a leadership role in the process of forming the RCEP.\(^{20}\)

The last risk factor could be the TPP. If Japan prefers to join it over the CJK FTA, the latter could be delayed. The CJK FTA is still likely to be achieved because all three countries, Japan in particular, will support the RCEP. Additionally, Japan’s domestic political pressure related to the TPP would also be strong. For South Korea, having concluded the FTAs with the United States and most of the participating countries, the additional benefits as well as costs would not be that great.

Prospects for the CJK FTA and Other FTAs from the Korean Perspective

Since South Korea has mainly dealt with bilateral FTAs including plurilateral FTAs such as the Korea-ASEAN FTA, Korea-EU FTA and Korea-EFTA; the Koreans are not familiar with the CJK FTA, not to mention the RCEP or TPP. So, there is no clear view from the political parties on the CJK FTA. It appears that even the Korean government does not have yet a detailed strategy for these FTAs. Instead, both the government and the public are focused on the ongoing Korea-China FTA.

According to the only available survey on the CJK FTA done by the Korea’s Importers’ Association on October 4-8, 2012, 87 percent of Korea’s importers supported the CJK FTA. Certainly, this survey does not reflect the view of the general public. Nevertheless, it is true that no strong opposition was raised against the CJK FTA. Rather, there is vociferous opposition to the Korea-China FTA from the agricultural sector, and some academics and business people expressed concern about the negative effects of the Korea-China FTA on Korea’s agriculture and SMEs. At public hearings for the CJK FTA in Seoul on October 24, 2012, agricultural activists disturbed the meeting, but they voiced opposition mainly to the Korea-China FTA.

With regard to the Korea-China FTA, public opinion seems quite ambivalent. According to a survey by the Korean Chamber of Commerce made public on November 11, 2012; 71.3
percent of firms were positive about the Korea-China FTA, while 28.7 percent were against it. But at the same time, 84.8 percent of firms said that the government should put priority on minimizing the damage from the Korea-China FTA. Thus, the Korea-China FTA is likely to be concluded, but it may take time and its level of liberalization may not be that high.

With regard to the CJK FTA, although many studies have been done in South Korea by academics, few studies seem to be relevant at this stage where the CJK FTA negotiations are about to take place and the Korea-China FTA negotiations are underway. As for the road map to the CJK FTA, various scenarios have been suggested. My view has also evolved in time: in the early 2000s, it seemed to me that the most realistic scenario was to start from the Korea-Japan FTA followed by the Korea-China FTA, then the CJK FTA; in 2005, I argued that the most realistic way to reach the CJK FTA would be via the two bilateral FTAs, namely, the Korea-Japan FTA and the Korea-China FTA; and in 2011, I expressed preference for a direct path to the CJK FTA, even though talks for the Korea-China FTA were likely to begin first. Other scholars proposed similar ideas: Park Sung-hoon suggested the “NAFTA way” approach, i.e., starting from the Korea-China FTA to reach the CJK FTA, whereas Park Bun-soon thought that it would be desirable to pursue the CJK FTA directly instead of the Korea-China FTA and the Korea-Japan FTA.

Now, four rounds of Korea-China FTA negotiations have already been held, while the restart of the Korea-Japan FTA negotiations has yet to be announced. In addition, the Korean government is fully committed to starting the negotiations of the CJK FTA and the RCEP. So, as far as the CJK FTA is concerned, it has to pursue both the indirect way via the Korea-China FTA and also a direct path to the trilateral FTA.

As for RCEP, since it is still lesser known to the public than the CJK FTA, most Korean academics and government officials seem to think that the priority should be given to the CJK FTA rather than the RCEP; even though the target year for the conclusion of the RCEP negotiations is 2015, while no time table was set for the CJK FTA. Given that all three countries are involved in the RCEP, the CJK FTA and the RCEP are closely linked to each other. A delay in the CJK FTA could postpone the RCEP, but at the same time, since the RCEP could not be realized without a de facto FTA among the three countries, the RCEP could also facilitate the CJK FTA.

As for the TPP, South Korea is currently not overly interested. First, as mentioned above, Korea has already concluded or is negotiating FTAs with the participating countries. Second, the Korea-China FTA talks are under way, and the CJK FTA and RCEP negotiations are about to start. Thus, at this moment, the order of priority for South Korea is likely to be the Korea-China FTA, the CJK FTA, the RCEP and the TPP. However, it is difficult to predict the order of conclusion of these FTAs as well as the Korea-Japan FTA, for there are simply too many variables.

**CONCLUSION**

Although the CJK FTA was considered by many unthinkable, pursuit of it has continued. As a result, the three countries finally agreed to launch negotiations. The trilateral summits have been instrumental in advancing the process, supported by deepening economic ties, especially the rise of intraregional trade. However, recent instances of territorial disputes remind us that
the road ahead could be quite bumpy due to non-economic factors. In addition, as in other FTAs, each country has sensitive sectors, and the geographic proximity of the three countries could further aggravate the situation for industries such as agriculture and fisheries. On top of that, the CJK FTA could compete with other bilateral FTAs or ongoing regional FTAs such as the RCEP and TPP.

Nevertheless, it seems to me that the positive factors for the CJK FTA are more powerful than its risks. All three countries have already concluded many FTAs respectively, and their intraregional trade dependency is quite high, for South Korea and Japan in particular. Moreover, they have many similarities such as having strong manufacturing sectors and less competitive service sectors, so that a CJK FTA could be used to further improve their competitiveness in manufacturing while making their service sectors more competitive.

The CJK FTA would also contribute to the formation of the RCEP. In fact, the global financial crisis and the European fiscal crisis provide an additional rationale for the CJK FTA and RCEP, because the enlarged regional market would be needed given the economic difficulties facing the United States and the EU. Difficult issues linked to history and political tension, usually cited as the main obstacles to the CJK FTA, could turn positive by reversing the usual way of thinking: the CJK FTA could be used as a means to overcome them.

Lastly, South Korea has played an important role in the process of preparation of the CJK FTA, and there are many solid reasons why it is likely to assume a substantial role during the CJK FTA negotiations. Its intraregional dependency is the highest among the three countries, so the CJK FTA would be of particular importance. Being a divided country, South Korea would gain the most from the reduction of tension in the region. Finally, South Korea’s accumulated experience in forming FTAs with major countries such as the United States, the EU, and ASEAN could be used to achieve the FTA with its two closest trade partners.

ENDNOTES

1. Since 2009, the Institute of Developing Economies (IDE-JETRO) has been the representative institution for Japan.
2. In the first two years, they conducted a joint study on trade facilitation and investment issues.
3. The upgrade of the Trilateral Joint Research on a CJK FTA was facilitated by the decision made at the ASEAN+3 Economic Ministers’ Consultation in Bangkok in August 2009 that working groups of government officials will be formed to prepare a region-wide FTA in East Asia, following the recommendations of the Joint Expert Group for the EAFTA Phase II Study and the Track Two Joint Study for the CEPEA.
4. The other meetings were held in Tokyo (second), Weihai, China (third), Jeju, Korea (fourth), Kitakyushu, Japan (fifth) and Changchun, China (sixth).
9. As for the historic meeting, it was initiated by Kim Dae-jung following Obuchi Keizo’s suggestion.
10. However, it was reported that the Japanese side argued for the immediate start of CJK FTA negotiations during the Economic and Trade Ministers’ Meeting in May 2012.

11. Additionally, FTAs with the EU and Turkey are under preparation, according to the official website, the CJK FTA and the RCEP are also listed in this category. http://www.mofa.go.jp/policy/economy/fta/index.html (January 9, 2013).

12. In addition, FTAs with India and Switzerland are under consideration; according to the official website, the China-Korea FTA and the CJK FTA are also listed in this category. http://fta.mofcom.gov.cn/enarticle/enrelease/201301/11454_1.html (January 9, 2013).

13. In addition, many FTAs are under preparation including FTAs with Japan, Mexico, the GCC, Australia, New Zealand (preparations in progress for reopening negotiations), MERCOSUR, Israel, Central American countries (Panama, Costa Rica, Guatemala, Honduras, El Salvador) and Malaysia. It is interesting to note that unlike the Japanese official website where the Japan-Korea FTA is listed in the category of FTAs under negotiation, according to the Korean official FTA website, the Korea-Japan FTA is listed in the category of FTAs under preparation for reopening negotiations. http://www.fta.go.kr/new/index.asp (January 9, 2013).

14. This point will be further dealt with in Section 6.

15. Bark Taeho, “Korea’s FTA Policy, KORUS FTA and East Asian Economic Integration,” presentation at Peterson Institute for International Economics on May 16, 2012. Based on the UNCTAD COMTRADE Database, South Korea’s exports to and imports from FTA partners represented 36.5 and 31.5 percent of its totals in 2011.

16. South Korea’s growing trade dependency on China could be regarded as a geopolitical concern.


20. Park Sung-hoon also argues that the CJK FTA should precede the RCEP so that the three countries could play an important role in the process of forming the RCEP. Park, Sung-hoon, “The Korean Perspective for East Asian Economic Integration,” in Chun Hong-tack and Park Myung-ho, eds., Integration Strategy for East Asia (II): Focusing Korea, China and Japan (Seoul: KDI, 2011) (in Korean).


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