

# What Makes a **Deadlock** of KJFTA Economic or Political reason?

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# Research Topic & Questions

A study on **the causes** of deadlock of Korea-Japan FTA  
Research on the overall assessment (**Economic & Political**) of KJFTA

- Types of obstacles for KJFTA
- International constraints surrounding KJFTA
- Domestic constraints: economic & political aspect
  - Japanese side
  - Inherent problem of “iron triangle”
- Relevance to KCJ FTA ?
- Political or FTA policy Implications
- Future of economic integration in EA

# Structure

1. Introduction
2. Background of KJFTA
  - Current progress & past discontinuation
  - Each govt's national strategy
3. Existing analyses on KJFTA
  - Theories of IPE
  - Economic benefits and losses
4. Determinants to the achievement of KJFTA
  - Constraints on international political & economic environments
  - Japan's domestic constraints for KJFTA
5. Connection points of domestic obstacles and FTA Politics
  - Japanese domestic political tasks – “iron triangle”
6. Conclusion
  - Economic or Political reason?
  - Future economic integration in EA

# Hypothesis

- Independent variable = Economic incentives regardless of political barriers
- Dependent variable = Achievement of FTAs
- Control variables = Different characteristics of political system in three countries, exceptional domestic and international incidents
- Hypothesis



# Background

## ● Current progress of KJFTA

June.25, 2012	3 <sup>rd</sup> round of 「Manager-Level Consultation on the Korea-Japan FTA」(Tokyo, Japan)
May. 29~30, 2012	2 <sup>nd</sup> round of 「Manager-Level Consultation on the Korea-Japan FTA」(Seoul, Korea)
Apr. 25~26, 2012	1 <sup>st</sup> round of 「Manager-Level Consultation on the Korea-Japan FTA」(Tokyo, Japan)
May. 9, 2011	2 <sup>nd</sup> round of「Director-General-Level Consultation on the Korea-Japan FTA」(Seoul, Korea)
Sep. 16, 2010	1 <sup>st</sup> round of「Director-General-Level Consultation on the Korea-Japan FTA」(Tokyo, Japan)
Dec, 21. 2009	4 <sup>th</sup> round of Working Level Consultations (Seoul, Korea)
Jul.1, 2009	3 <sup>rd</sup> round of Working Level Consultations (Tokyo, Japan)
Dec.4, 2008	2 <sup>nd</sup> round of Working Level Consultations (Seoul, Korea)
Jun.25, 2008	1 <sup>st</sup> round of Working level consultations to consider and create a favorable environment for the resumption of the Korea-Japan FTA negotiations (hereinafter Working Level Consultations), (Tokyo, Japan)
Nov.1~3, 2004	6 <sup>th</sup> round of the Korea-Japan FTA negotiations (Tokyo, Japan)
Aug.23~25, 2004	5 <sup>th</sup> round of the Korea-Japan FTA negotiations (Kyungju, Korea)
Jun.23~25, 2004	4 <sup>th</sup> round of the Korea-Japan FTA negotiations (Tokyo, Japan)
Apr.26~28, 2004	3 <sup>rd</sup> round of the Korea-Japan FTA negotiations (Seoul, Korea)
Feb.23~25, 2004	2 <sup>nd</sup> round of the Korea-Japan FTA negotiations (Tokyo, Japan)
Dec.22, 2003	1 <sup>st</sup> round of the Korea-Japan FTA negotiations (Seoul, Korea)
Oct.20, 2003	Korea-Japan agree to launch the Korea-Japan FTA negotiations
Jul. 2002~Oct. 2003	Joint Study Group meetings
Mar, 2002	Korea-Japan agree to launch the Joint Study Group for the Korea-Japan FTA
Dec.1998~Apr. 2000	Study group meetings
Nov. 1998	Korea and Japan agree to launch the 21 <sup>st</sup> century Korea-Japan Economic Relations Study Group

### Discontinuation

1) 2005 – 2008

2) 2012 – Now

# Background

- **Past discontinuations**

1. 2005 – 2008

- 2005: “Takeshima Day” established by Shimane prefecture (Japan)

- PM Koizumi’s visits to Yasukuni Shrine since 2001

- No mutual visits between Japan and Korea since June 2005

2. 2012 – Until now

- PM Abe’s multiple visits to Yasukuni Shrine since 2013

# Summary of Determinants

	<b>Domestic</b>	<b>International</b>
<b>Political</b>	<p>“Iron triangle” (LDP, bureaucrats, interest groups) Negative public opinion</p>	<p>Negative relationship of Japan and Korea (Diplomatic &amp; Political)</p>
<b>Economic</b>	<p>Less beneficiary actors (industry) Agriculture, fisheries, textile, ...etc</p>	<p>KC FTA KCJ FTA TPP Economic Rivalry</p>

# Existing Literatures

## ● IPE & FTA politics

1. Robert Keohane and Helen Milner (1996)

- *“Since economics and politics are so closely linked, domestic politics in countries around the world show signs of the impact of the world economy.”*

2. Helen Milner (1992)

- *“Domestic politics tells us how preferences are aggregated and national interests constructed.”*

3. Helen Milner and Peter Rosendorff (1996)

- *“The role of interest groups in the domestic political process and in international negotiations in an environment characterized by uncertainty.”*



# Existing Analysis

## ● Economic benefits & losses

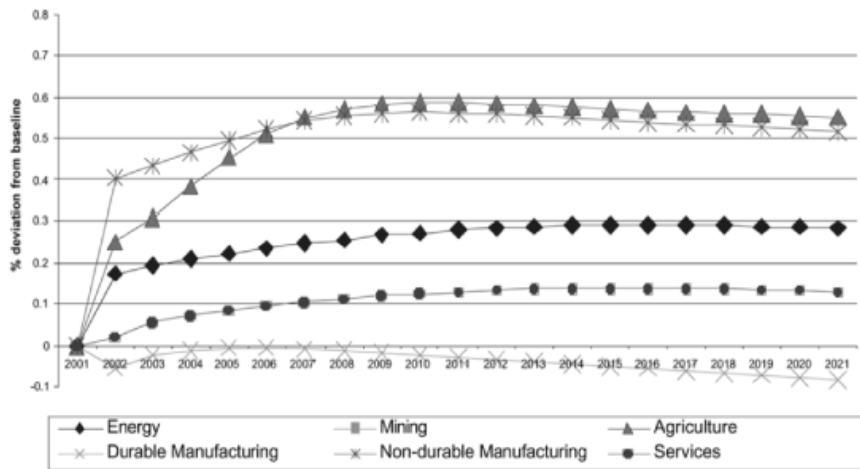


Figure 4. Sectoral effects in Korea of a Korea-Japan FTA

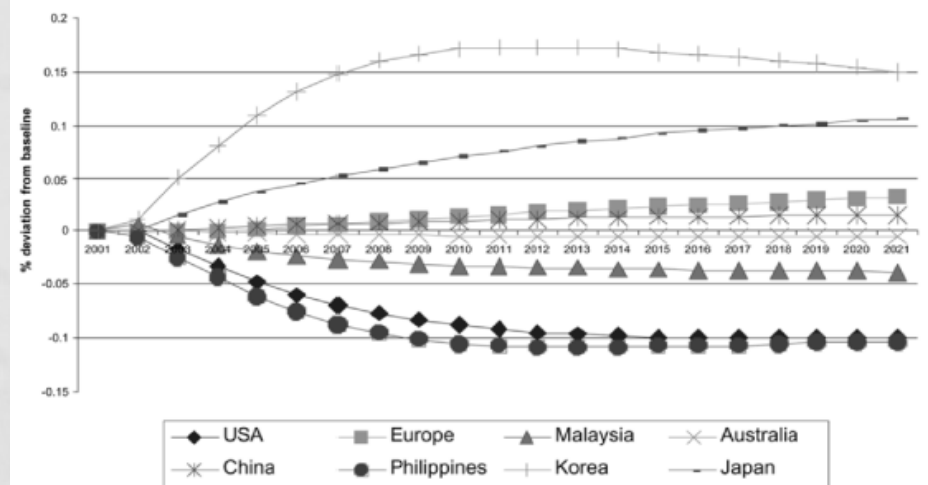


Figure 5. Global GDP effects of a Korea-Japan FTA

- Small contraction → production in all other sectors finally expands because of higher income → higher demand for all products → stimulate investment → higher capital stock (Mckibbin, Lee, and Cheong, 2004)
- Japan: increase in real GDP – 0.1%, but both will benefit in any way

# Existing Analysis

- Economic benefits & losses

Table 4-1: Macroeconomic Effects (Short-Run)

	Real GDP (%)	Equivalent variance (Million US dollars)	Terms of trade (%)	Trade balance (Million US dollars)
Japan	-0.01	963	0.26	-961
ROK	0.29	1811	0.31	-982
China	-0.01	-340	-0.12	22
ANIES	0.00	-176	-0.05	62
ASEAN	-0.01	-308	-0.09	40
NAFTA	0.00	-469	-0.04	696
EU	0.00	-230	-0.01	467
ROW	0.00	-677	-0.04	656

Table 4-2: Macroeconomic Effects (Long-Run)

	Real GDP (%)	Equivalent variance (Million US dollars)	Terms of trade (%)	Trade balance (Million US dollars)
Japan	0.02	2945	0.23	-277
ROK	1.09	3972	0.06	-301
China	-0.05	-735	-0.10	-23
ANIES	-0.06	-397	-0.04	58
ASEAN	-0.10	-687	-0.06	3
NAFTA	-0.02	-2213	-0.03	316
EU	-0.02	-1560	-0.01	62
ROW	-0.03	-1659	-0.02	162

- Not much change in real GDP in short run (Korea – 0.29%), Korea – 1.09% and Japan – 0.02% increase in the long run (Nakajima, 2002)
- Positive impression in terms of equivalent variance

# Existing Analysis

## ● Economic benefits & losses

Figure 4. < Effects of a Korea-Japan FTA on Production by Industries > (Unit: % changes)

	Static Effects	Dynamic Effects	Total
Agriculture	0.15	-0.21	-0.06
Food Processing	1.05	0.19	1.24
Forestry	0.02	0.15	0.17
Fisheries	0.24	-0.01	0.23
Mineral Resource	-0.30	-0.34	-0.64
Non-ferrous Metals	-0.93	0.67	-0.26
Beverages & Tobacco	-2.38	0.91	-1.47
Textiles	0.69	-3.26	-2.57
Apparel	8.75	-4.16	4.59
Leather Goods	9.56	-7.20	2.36
Wood & Pulp	-0.30	0.71	0.41
Paper & Printing	-0.49	0.13	-0.36
Chemical Industry	-0.79	2.68	1.89
Steel Industry	-1.80	6.91	5.11
Metal Goods	-1.14	4.99	3.85
Automobiles	0.68	6.63	7.31
Other Transport Equipment	-1.31	14.67	13.36
Electric & Electronic Industry	-0.65	6.90	6.25
Other Equipment	-1.65	8.23	6.58
Other Manufacturing	-1.86	-3.98	-5.84

Note: Estimates are changes of quantity.

- Production expansion for Korea's major industries & production contraction for its primary industries (Cheong, 2000)
- Significant gains : transport equipment, machinery, electric and electronic and steel industries with annual growth rates of 5-13%
- primary industries : the effects will be minimal (slight increase of 0.2% for forestry and fisheries / small decline

# Determinants

- **International circumstances** (Munataka, 2005)
- Historical issues with neighboring countries
- Diplomatic deadlock (halt of Korea-Japan Summit)
- Multiple ongoing economic relations (TPP, AIIB, RCEP, KCJ-FTA, etc)
- Complex relations among economic rivalries

# Determinants

## ● Japan's domestic constraints

### 1. Conflicting issue on agriculture sector

- Both Korea and Japanese agriculture's advantage is quite low  
→ sensitive issue (But, Japan > Korea)
- Japan: more difficulties because of economic effects (1.5% of GDP & 3.9% employment) & political importance (history of protecting its agricultural sector)
- The highest average tariff & higher-level of Korea's agricultural exports  
→ No consensus on necessity of agriculture sector liberalization

# Determinants

- **Japan's domestic constraints**

2. Japan's FTA policymaking process: continuity of "*iron triangle*"

**(1) LDP** – the Principal-Agent model & Particularism  
(Okimoto, 1989)

**(2) Bureaucrats** – Diffused coordination & Vertical alliance  
of sub-governments (Ito, 2005)

**(3) Interest groups** – the Pork-Barrel Politics (Calder, 1988)

# Domestic Constraints

- **Japan's domestic political tasks & Agri. issues**  
-relationship of the LDP, bureaucrats and interest groups-
- **Compensation politics** – LDP's traditional “carrot and the stick” strategy (Calder, 1988)

Table 4. < Japanese General Election since 2003 >

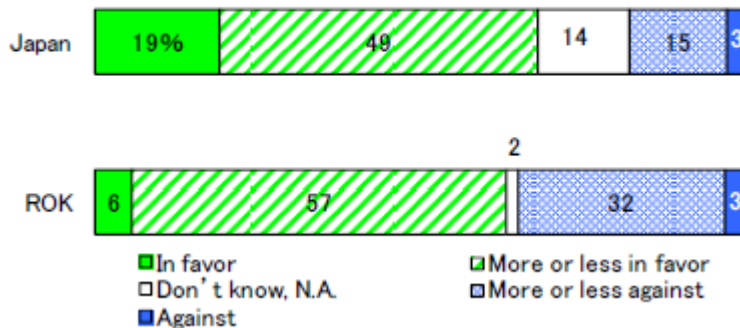
Japanese General Election	2003	2005	2009	2012
<b>Leader</b>	Junichiro Koizumi	Junichiro Koizumi	Yukio Hatoyama	Shinzo Abe
<b>Party</b>	Liberal Democratic	Liberal Democratic	Democratic	Liberal Democratic
<b>Seats won</b>	237	296	308	294
<b>Popular vote</b>	43.85%	47.77%	47.43%	43.01%



# Public Opinion

- 2010 NHK-KBS Survey
- Face to face interview (Respondents: Japan: 1,473, Korea: 1,000)

Figure 52. Pros and Cons of Japan-Korea FTA (overall)



## <Pros and Cons of Japan-Korea (Korea-Japan) FTA>

Question 16: There is discussion of a plan for a free trade agreement (FTA) between Japan and Korea (between Korea and Japan) that will eliminate tariffs and trade restrictions in order to allow free movement of labor and goods between the two countries. What do you think about the plan to sign such an FTA agreement?

	2010	
	Japan	Korea
1. In favor	19.4	5.9
2. More or less in favor	48.7	57.4
3. More or less against	15.1	31.9
4. Against	2.8	3.1
5. Don't know. N.A.	14.1	1.7

- Those in favor of the plan: Japan– 68%, Korea -63%
- The proportion was slightly greater for Japan (majority)



# Conclusion & Implications

- FTA is controlled by the combined situations of economic and political issues surrounding domestic and int'l environments.
- The achievement of FTA is more controlled by **domestic political** reasons, rather than **economic** factors.
- The case of KJFTA has been experiencing more **domestic difficulties**.
- Japan's domestic FTA politics on policymaking process can be represented by the “**iron triangle**” interactions of the LDP, bureaucrats, and interest groups
- The key of future KJFTA largely depends on how to solve the **domestic tasks** in Japan.
- The KJFTA will lead a much more solid relationship, not controlled by diplomatic or historical issues.
- The strongest push force comes from **political initiatives** by national leaders with political incentives.

# Future Solutions

- See the issue of KJFTA with the idea of separation of politics and economic issues, not controlled by domestic conflicts and political struggles every time
- Useful tool to improve the bilateral relations
- Political initiative by national leaders – to make domestic consensus & support policy / pushing forces
- Good stimulus for the progress of KCJFTA
- Better political environments leading a higher-level of cooperation in the long-term

**Thank you** 😊