

2008-E-13

**South Korea's FTAs:
Moving from an Emulative to a Competitive Strategy**

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June, 2008

Paper presented at the International Symposium "Competitive Regionalism," Ibuka International Conference Hall, Waseda University, Tokyo, Japan. May 30 to 31, 2008.

I. Introduction

East Asian countries' interest in free trade agreements (FTAs) has surged at the turn of the new millennium.¹ In particular, the rise of South Korea's FTA initiative has been remarkable in its speed and scope. Over the past decade, South Korea has successfully concluded FTAs with Chile (2003), Singapore (2004), the European Free Trade Association (EFTA, 2005), the Association of Southeast Asian Nations (ASEAN, 2006), and the U.S. (2007). South Korea has also been negotiating FTAs with Japan, Canada, Mexico, India, and the European Union (EU). In addition, feasibility studies are under way with Australia, China, South Africa, Russia, the Gulf Cooperation Council (GCC), and MERCOSUR.

The rise of South Korea's FTA initiative marks a significant departure from its traditional focus on global multilateralism. Within South Korea's policy circles, a new consensus has emerged that a preferential approach to trade liberalization is not only complementary to the country's multilateral strategy, but also crucial to its economic survival in a world of competitive export market. The Kim Dae-jung's rise to the presidency in 1998 turned the new policy idea into action, as manifested by the South Korea's first FTA with Chile in 2003. With the inauguration of President Roh Moo-hyun in 2003, the proactive role of the Office of the Minister for Trade (OMT) further expanded the FTA policy to include both small and large economies ranging from Singapore to the U.S.

From an institutional point of view, South Korea's embrace of FTAs has been shaped by a top-down political initiative rather than a bottom-up demand from various

¹ See Pempel 2005, Aggarwal and Urata 2006, and Solís and Katada 2007.

interest groups and the general public. In the immediate aftermath of Asian financial crisis, South Korea's protectionist veto players such as labor unions and farmers' organizations were temporarily disorganized due to President Kim's neoliberal reform and the International Monetary Fund (IMF) austerity program.² Amidst sweeping socio-economic restructuring, Kim's decision to pursue preferential trade liberalization through FTAs went unchallenged, if not unnoticed, by traditional protectionist interests, as illustrated by the fact that it was not until 2003 that a heated debate started over the ratification of South Korea-Chile FTA.³

The recent dispute over the South Korea-U.S. FTA (KORUS FTA) indicates that social cleavages in South Korea may be much wider and deeper than previously conceived. Shifting interest group demands notwithstanding, South Korea's FTA strategy has evolved primarily through a top-down policy mechanism that can be characterized as "embedded autonomy."⁴ Under President Kim, strong executive power and public support for neoliberal restructuring allowed the introduction of new FTA

² A veto player is a person or group who can effectively block the passage of a piece of legislation. For a more detailed discussion about the effect of veto players on policymaking in general, see Tsebelis 1995 and Cox and McCubbins 2001.

³ Park and Koo 2007.

⁴ Peter Evans originally used the term "embedded autonomy" to demonstrate that successful developmental states in East Asia tend to be immersed in a dense network of ties that bind them to groups or classes that can become allies in the pursuit of societal goals. According to him, embeddedness provides sources of intelligence and channels of implementation that enhance the competence of the state. In his logic, therefore, the idea of the state as midwife comes to the fore: States foster industry by changing social structures, by assisting in the emergence of new social groups and interests. Evans points out the impressive institutional constructions that went with embedded autonomy in Korea in contrast to the often inconsistent state efforts by Brazil and India to generate local entrepreneurial groups in the 1960s and 1970s (Evans 1995).

initiative. Under President Roh, the OMT steadily institutionalized the idea and practice of promoting economic reform and strategic partnership through FTAs, while other government agencies providing generous side-payments to those who lose out due to more economic openness.

This paper investigates the following questions: (1) Have the prior decisions of other countries to negotiate FTAs affected South Korea's decision to pursue FTAs?; (2) how has South Korea's FTA policymaking process evolved over the decade in terms of its partner selection, timing, and scope of agreements?; and (3) to what extent do FTA outcomes conform to the expectations of the emulation and competition hypotheses, as developed by Solís and Katada?

The remainder of this paper is structured as follows. Section II reviews existing explanations that pertain to South Korea's dramatic turn to FTA initiative. Section III shows how and to what extent President Kim's leadership shaped the launch of South Korea's FTA policy, as South Korea felt lagging behind as its peer countries in East Asia were negotiating FTAs and the WTO was deadlocked. Section IV unravels the role played by the presidential leadership and the OMT in moving South Korea's FTA initiative from an emulative and passive to a competitive and proactive strategy. Section V summarizes the main findings and draws policy implications.

II. South Korea's trade policy and conventional explanations

Since its dramatic economic take-off in the 1970s, South Korea has benefited from export-oriented industrialization under the auspices of the multilateral trading regime of the GATT/WTO. Since its accession to the GATT in 1967, South Korea's active

promotion of the export sector has allowed the once reclusive country in Northeast Asia to aggressively participate in the global market. As a trade-dependent country, South Korea's full integration into the world trading system was not a matter of choice, but of survival. Until recently, together with Japan and China, South Korea remained one of the very few WTO member countries which did not enter into any regional trading agreements as defined under Article 24 of the GATT/WTO.⁵

However, in the wake of the Asian financial crisis of 1997-98, the illusion of its unstoppable economic growth was severely shattered.⁶ Furthermore, as the 1999 WTO Ministerial Meeting in Seattle failed to launch a new round of trade talks, South Korea came to recognize that the mediocre performance of the WTO and increasing competition in its traditional export markets could hurt export-dependent South Korea. The financial crisis and the debacle in Seattle thus served as a wake-up call to South Korea, making it realize the importance of supplementary mechanisms at the sub-multilateral level to safeguard its economic security.⁷

As shown in Table 1, South Korea's FTA track record has been remarkable. Since the signing of the South Korea-Chile FTA in 2003, South Korea has concluded bilateral and minilateral FTAs with Singapore, the EFTA, ASEAN, and the U.S.. These five FTAs together would likely cover about 27 percent of South Korea's total trade, if fully implemented. South Korea has also been negotiating FTAs with Japan, Canada,

⁵ Koo 2006, pp. 142-143.

⁶ Under the IMF-mandated austerity program, the real GDP growth rate plummeted from 5.0 percent in 1997 to minus 5.8 percent in 1998, while real consumption and investment fell by 8.2 percent and 21.1 percent, respectively, during the same period. After the exchange rate readjustment, South Korea's per-capita income fell from \$10,037 to \$6,823 (Pyo 1999, p. 12).

⁷ Cheong 1999; Sohn 2001.

Mexico, India, and the EU. In addition, a number of feasibility studies are currently under way with China, Australia, Russia, South Africa, the GCC, and MERCOSUR. If these prospective FTAs were concluded successfully, they would likely cover up to 67 percent of South Korea's total trade.

Table 1. South Korea's current and prospective FTAs

Partners	Year Signed*	Bilateral trade**	FDI Volume	Issue Scope				
				Investment	Services	Environment	Labor	Economic Cooperation
Chile	2003	0.63%	TBC	Yes	Yes	Yes	No	No
Singapore	2004	2.33%	TBC	Yes	Yes	No	No	Yes
EFTA	2005	0.78%	TBC	Yes	Yes	No	No	No
ASEAN	2006	9.7%	TBC	Yes	No	No	No	Yes
U.S.	2007	13.2%	TBC	Yes	Yes	Yes	Yes	No
Japan	negotiation	13.3%	TBC					
Canada	negotiation	1.11%	TBC					
EU	negotiation	12.8%	TBC					
Mexico	negotiation	0.78%	TBC					
India	negotiation	1.23%	TBC					
China	study	18.40%	TBC					
South Africa	study	0.42%	TBC					
Russia	study	1.54%	TBC					
Australia	study	2.52%	TBC					
MERCOSUR	study	1.4%	TBC					

* Updated as of May 2008.

** % scores indicate the value of bilateral trade as a portion of South Korea's total trade (export + import) as of 2005 and 2006 (Source: IMF, *The Direction of Trade Statistics*).

The existing literature on South Korea's FTA strategy—and East Asian FTAs more broadly—has largely focused on one of the following questions: (1) What has motivated South Korea's rush toward FTAs, departing from its traditional focus on multilateralism?; (2) What are the characteristics of South Korea's FTA strategy in terms of its partner selection, timing, and scope of agreements?; (3) How has South Korea's FTA policymaking process evolved within the domestic political dynamics?

As noted by many economists, South Korea has made the policy shift toward FTAs primarily because FTAs are likely to generate substantial economic gains.⁸ The so-called gravity model offers a popular economic explanation that links geographic distance and economic size to the choice of FTA partners. In order to reduce the costs related to geographic distance and to maximize the benefits from economic size, the gravity model suggests that neighboring countries form FTAs with each other, thus creating a natural trading bloc.⁹ From this perspective, the formation of natural trading blocs will improve economic welfare, whereas the formation of unnatural trade blocs between distant and/or small economies will have marginal welfare effects, if any.

Despite its explanatory utility, the gravity model explanation runs into a problem in accounting for South Korea's selection of FTA partners. For instance, the South Korea-Chile FTA is a typical case of an unnatural trading bloc, not only because the ocean separates the two countries, but also because Chile's economy is relatively small, and thus the bilateral trade volume between South Korea and Chile will remain insignificant, if not negligible.¹⁰ Instead, South Korea would most likely benefit handsomely if it removed existing trade and investment barriers by establishing FTAs with Japan and China.¹¹ Nevertheless, South Korea's FTA negotiation with Japan has been stalemated since November 2004, while a prospective FTA with China is still low priority for South Korea owing to its concern about China's cheap agricultural and

⁸ Cheong 1999, 2001, 2005; Cheong and Lee 2000; Choi and Schott 2001; Sohn 2001; Sohn and Yoon 2001; Chung 2003; SERI 2003; Nam 2004.

⁹ Frankel, Stein, and Wei 1997; Krugman 1991.

¹⁰ Koo 2006, p. 144.

¹¹ Sohn and Yoon 2001.

industrial products. In sharp contrast, South Korea has been more active in pursuing cross-regional FTAs with distant economies, both small and large.¹²

From a non-economic perspective, the structural changes in the post-Cold War and post-Asian financial crisis period contributed to cognitive changes and the diffusion of new policy ideas.¹³ More specifically, the proliferation of East Asian FTAs is closely associated with the decline of U.S. economic hegemony in the region. During the Cold War period, trade liberalization was provided for most East Asian countries mainly through the GATT under the auspices of American hegemony. To the extent that the GATT required membership, the provision of trade liberalization was a multilateral club good. But it contained a strong public good characteristic, since East Asian countries were allowed to pay less to get more out of the system. Yet in the aftermath of regional financial turmoil, East Asian countries' new appetite for FTAs reflects a convergence of interests in securing bilateral and minilateral club goods. The "trade triangle" that had linked Japanese and overseas Chinese capital, developing East Asian manufacturing capacities, and U.S. market was in trouble. With traditional mechanisms within the GATT/WTO and America's global economic leadership offering no salient solutions, these countries quickly turned toward FTAs to secure preferential access and create a more diversified export market.¹⁴

Against these backgrounds, many have characterized South Korea's turn toward FTAs as being neoliberal in its policy orientation. As will be discussed below, some radicals in South Korea have even dubbed the economic liberalization result from FTAs

¹² Park and Koo 2007.

¹³ Acharya 2007; Higgott 2007; Ye 2007.

¹⁴ Aggarwal and Koo 2008.

“the second IMF-imposed liberalization,” allegedly at the expense of economically disadvantaged groups and people such as farmers and blue-collar workers.

Despite their theoretical and empirical merits, few existing studies have focused on the emulative and competitive aspects of South Korea’s policy shift toward FTAs. Having that in mind, the following sections attempt to unravel South Korea’s emulative and competitive motives in FTA policymaking process. In a competitive world, the success of early movers is likely to accelerate the spread of new policy ideas.¹⁵ The rapid diffusion of FTAs in East Asia—particularly the 2001 Japan-Singapore FTA and the 2003 ASEAN-China framework FTA—has affected South Korea’s embrace of FTAs in various ways.

In a similar vein, the voluntary nature of countries’ decision to enter FTAs can be attributed to their fear of exclusion. According to this logic, a country’s fear of exclusion from an FTA—especially with a country that has “go-it-alone-power”—motivates the former to voluntarily choose to form an FTA with the latter, even if the former prefers the *status quo*.¹⁶ The KORUS FTA illustrates that the fear of exclusion in the U.S. market played a significant catalyst role in launching KORUS FTA negotiations. South Korea decided to start negotiations with the U.S. despite serious concerns about potentially lopsided negotiations due to the dominant position of the U.S. in the global economy. Furthermore, South Korea’s decision to pursue a KORUS FTA goes beyond the logic of policy diffusion and fear of exclusion. South Korea has not made it a secret that it wishes

¹⁵ Baldwin 1997; Ikenberry 1990.

¹⁶ Gruber 2000.

to use a successful accord with the U.S. as diplomatic and economic leverage in regional affairs, particularly in its relations with China and Japan.¹⁷

III. Emulating Peers under Kim

In November 1998, the South Korean government's Inter-Ministerial Trade Policy Coordination Committee formally announced that the country would start an FTA negotiation with Chile, while conducting feasibility studies with other prospective FTA partners such as the U.S., Japan, New Zealand, and Thailand. Shortly after the announcement, the Kim government formed a special task force on a South Korea-Chile FTA, which consisted of five working groups, covering market access, trade rules, services, intellectual property, and legal procedures.¹⁸

As many observers have noted, the economic crisis shocked South Korea out of traditional policy patterns and practices. The economic shock temporarily disorganized interest groups that used to veto policy reform, while generating pressure for politicians to change the failed policies.¹⁹ Although some farmers' groups and labor unions remained militant, their political influence eroded significantly, as both their absolute and relative shares in the economy continued to decline.²⁰ In sharp contrast, competitive

¹⁷ Aggarwal and Koo 2005b.

¹⁸ Chung 2003, p. 74; Sohn 2001, p. 7.

¹⁹ Mo 1999, p. 53.

²⁰ The share of agriculture, forestry and fisheries in South Korea's total employment decreased continuously from 17.9 percent in 1990 to 8.1 percent in 2004. The three sectors' share in South Korea's GDP was less than 4 percent in 2003 (The Ministry of Finance and Economy of Korea 2005).

manufacturing sectors began to show their support for the government's FTA policy.²¹

In the advent of South Korea's near economic collapse, the abundant political capital given to President Kim allowed him to implement sweeping economic reforms, including recapitalizing banks, setting up a public asset-management company to buy up bad loans, overseeing banking reforms, and forcing chaebols to purge the debt from their balance sheets by selling entire divisions or going out of business altogether. He also actively promoted several promising industries, such as information technology and biotechnology, through various forms of incentives including grants, bank loans on preferential terms, and the like. Reform efforts thus strengthened the mechanisms for resource allocation through market mechanism and significantly altered the legal and institutional settings to improve governance.²²

The resultant higher factor mobility generated unintended conditions in favor of trade liberalization through FTAs. The IMF conditionalities and President Kim's corporate restructuring program did create more efficient capital and labor markets, namely more flexible resource allocation based on market signals rather than government directives. Such a development significantly weakened the voice of non-competitive sectors and factors.²³

²¹ A survey conducted by the Federation of Korean Industries (2001) on member entrepreneurs' attitudes toward FTA showed that 87 percent of the 53 respondents recognized the positive economic effects of FTAs. 94.3 percent of the respondents had concerns about the case where South Korea is left alone while other Asia-Pacific countries are busy negotiating FTA deals with a number of South Korea's trading partners.

²² OECD 2003.

²³ An OECD survey (2003) notes that flexible factor markets were an important aspect of recovering high growth in South Korea with rapid structural change in the aftermath of the financial crisis. Indeed the financial crisis produced dramatic socio-economic changes. The

On the one hand, FTAs held strong appeal because it was possible to exclude some politically sensitive sectors from preferential arrangements or to minimize market concessions, thus leaving domestic veto players contained. On the other hand, the Kim government's FTA policy reflected its sense of urgency in the advent of rising competition with its advanced trading partners such as Japan as well as developing ones such as China and ASEAN in the regional and global export market.²⁴ With the WTO's new trade round stalemated, South Korea desperately needed to expand its trade to new markets by bilateral and minilateral means.²⁵

Most notably, President Kim was also drawn to bilateral and minilateral FTAs in pursuit of his ambitious initiative to make South Korea a regional transportation hub and international business center.²⁶ He undertook a dramatic policy shift as part of his ambitious vision and strategic goals for regional cooperation. At the first ASEAN Plus Three (APT) summit meeting in Kuala Lumpur in December 1997, he made public South Korea's aspiration to become a hub country of East Asia by playing a balancer role

South Korean economy experienced huge layoffs as well as wild fluctuations in capital flows until the economy rebounded in 1999. The once-rigid South Korean labor market became more flexible, as indicated by the growing proportion of temporary and daily workers and the emergence of a dualistic labor market. The proportion of non-regular workers increased from 42.5 percent of total employees in 2000 to 52 percent in 2002.

²⁴ Bank of Korea 2001.

²⁵ Koo 2006, p. 148.

²⁶ Aside from his vision for regional institutions such as EAVG and APT, President Kim announced in his 2002 New Year's message to the nation that his government would shortly launch the Northeast Asian Business Hub State Initiative, while permanently pursuing financial and corporate reforms in a market friendly manner (*The Chosun Ilbo*, January 14, 2002).

between regional powers.²⁷ During the 1999 APT summit, he also proposed the establishment of an expert panel, the East Asia Vision Group (EAVG), as the first step to forge a regional cooperation mechanism and to develop the APT into a more permanent regional institution.²⁸

As long as China and Japan both were eager for regionalism, President Kim could play the role of visionary for an East Asian community by serving as a bridge between the two enduring rivals.²⁹ Aside from relatively warm Sino-Japanese relations at the turn of the new millennium, Kim Dae-jung's Sunshine Policy that culminated in the June 2000 inter-Korean summit created a great deal of diplomatic and moral capital for South Korea to actively address the delicate issues of peace and stability in the region.³⁰

²⁷ The APT proposal was first discussed in the mid-1990s in preparation of the inaugural ASEAN-Europe Meeting (ASEM). European countries could coordinate their participation relatively easily through the European Union (EU), but East Asian counterparts lacked such an institutional arrangement. ASEAN thus asked Japan, South Korea, and China to participate in a preliminary ministerial meeting, which took place in 1995. The ministerial meeting was later supplemented by a summit meeting in Kuala Lumpur on the occasion of the annual ASEAN leaders' meeting in December 1997. After a second leaders' meeting a year later, the group agreed to make the dialogue an annual affair. Since 1999, the scope of the dialogue has expanded to include separate ministerial meetings under the rubric of APT rather than simply as preparation sessions for the ASEM meeting. For more details, see Stubbs 2002.

²⁸ The EAVG also studied a joint surveillance mechanism for short-term capital movements and an early financial warning system. The group later proposed the establishment of an East Asian Monetary Fund and a regional exchange rate coordination mechanism, with the long-term goal of creating a common currency area. Other recommendations included upgrading the annual APT meetings to an East Asian Summit (EAS) and establishment of the East Asian Free Trade Area (Moon 2005).

²⁹ Rozman 2006.

³⁰ In February 1998, President Kim announced that he would pursue what he called the "Sunshine Policy" with North Korea in hopes of encouraging greater discussion and cooperation with

The adoption of FTAs under Kim's presidency as a new policy tool, and the implementation of sweeping economic reforms, thus supports the emulation hypothesis that countries will copy the FTA policies of their socio-cultural peers or of leading nations. To some extent, the embrace of an FTA track under Kim also supports a related hypothesis that FTA policies that disseminate through emulation should be omnidirectional in that the Kim government became interested in negotiating as many FTAs as possible with little concern about sequencing.

To summarize, the economic crisis at the end of the 1990s contributed to the rise of reform-minded Kim Dae-jung and the downfall of many domestic veto holders that had plagued South Korea's economic policy in general and trade policy in specific. These included not only formal institutions such as government bureaucracy and political parties but also societal groups such as labor unions, farmers' associations, and NGOs. Yet, it should be noted that the Kim government's FTA policy remained inherently emulative and passive to the extent that it aimed at minimizing potential costs, rather than maximizing benefits, of FTAs.

IV. Competing with Peers under Roh

The new policy ideas under Kim greatly inspired his successor, President Roh Moo-hyun. Upon its inauguration in February 2003, the Roh government launched an ambitious initiative aimed at creating a peaceful and prosperous Northeast Asia. He created the

Pyongyang, as inspired by the old Aesop's fable about the sun getting more results than the fierce wind. In December 2000, the Norwegian Nobel Committee, in recognition of his "extraordinary and lifelong works for democracy and human rights in South Korea and East Asia in general, and for peace and reconciliation with North Korea in particular," awarded him the Nobel Peace Prize.

Presidential Committee on Northeast Asian Business Hub in order to carry out the initiative including the creation of financial and logistic hubs and the promotion of cooperation in the areas of business, energy, and transportation. At the same time, President Roh launched the “Northeast Asian Cooperation Initiative for Peace and Prosperity,” designed to carry out his long-term vision for creating a new regional order based on mutual trust and cooperation.³¹

From the outset, however, President Roh’s agenda encountered unfriendly regional geopolitics as a result of the outbreak of the September 11 terrorist attacks in the U.S. in 2001. In addition, the simultaneous political leadership changes in the U.S., China, Japan, and South Korea put unpredictable pressure on East Asian regionalism.³² None of the great powers surrounding the Korean Peninsula thus seemed supportive of President Roh’s wish, which lacked the same degree of diplomatic and moral attraction as his predecessor Kim had once enjoyed. Each great power kept alive an interest in regionalism, but sought to gain advantage over its rival, thereby leaving very little room for Roh to maneuver.³³

As noted previously, South Korea’s FTA strategy emerged initially as a fraction of President Kim’s broader economic and strategic agenda. Under his presidency, the FTA policy was largely designed as an emulative and defensive strategy to cope with the

³¹ Presidential Committee on Northeast Asian Cooperation 2004.

³² The U.S. President George W. Bush and the Japanese Prime Minister Junichiro Koizumi entered office in 2001. Hu Jintao and Roh Moo-hyun were elected presidents of the People’s Republic of China and the Republic of Korea, respectively, in 2003. All these leaders were characterized as defiant and dogmatic—rather than pragmatic—in their foreign policy orientation, thus often causing diplomatic spats with one another.

³³ Rozman 2006.

rise of regionalism in other parts of the world. Not surprisingly, the linkage between FTAs and domestic reforms was not clearly defined or deliberately minimized. Yet with its ambitious regionalist vision in trouble, the Roh government realized that bilateral and minilateral FTAs might provide more effective mechanism for realizing its strategic and economic goals.

In many respects, the policy shift toward FTAs under President Kim did mark a dramatic departure from South Korea's traditional trade policy. Yet, it was not until President Roh entered office in 2003 that the roadmap for FTAs and detailed action plans for its multi-track FTA strategy were completed.³⁴ In contrast to its rather peripheral status in President Kim's economic and strategic agenda, the FTA policy now became a core element of President Roh's economic policy reform and regionalist vision. From an institutional point of view, the empowerment of the OMT demonstrated the renewed enthusiasm and commitment under Roh, as the once beleaguered institution took firm roots within the government with its mission and mandate to initiate and negotiate FTAs.³⁵ OMT's central position was further highlighted by the appointment of its third Trade Minister, Kim Hyun-chong, in July 2004 (until August 2007) as well as the promotion of its first Trade Minister, Han Duk-soo, to the Minister of Finance and

³⁴ Lee 2006, p 5; MOFAT 2006.

³⁵ As a result of the 1998 government organization reforms that were intended to consolidate institutional support for President Kim's reform agenda, the OMT was formed under the Ministry of Foreign Affairs and Trade (MOFAT) with a mission to comprehensively establish and conduct foreign policies on trade, trade negotiations, and foreign economic affairs. Although its institutional legitimacy was shaky at first, the OMT slowly but steadily set in motion the changes in bureaucratic balance of power, and thus began to play a leadership role in foreign trade affairs (Koo 2006).

Economy (March 2005 – July 2006) and later to the Prime Minister (April 2007 – February 2008).³⁶

The KORUS FTA is a good example of South Korea's proactive FTA strategy and the role of the OMT. In February 2006, the Roh government made a surprise move to cut South Korea's annual screen quota in favor of the U.S.³⁷ In addition, it lifted the ban on U.S. beef (the response to an incident of mad cow disease in the U.S.), proposed modifications to its pharmaceutical pricing system, and revised an automobile remissions regulation to provide a grace period for imported vehicles, thereby paving the way for KORUS FTA negotiations.³⁸ After eight formal negotiating rounds since June 2006, the two governments successfully concluded a landmark agreement on April 1, 2007.

By any measure, the negotiation process was not an easy one and the two governments expect an even tougher legislative ratification process. From one perspective, the current debate in South Korea about the KORUS FTA indicates that social cleavages may be much wider and deeper than previously thought. South Korea's protectionist interests, which have slowly been recovering from the upheavals caused by the financial crisis, have now been galvanized by their coalition of convenience with anti-

³⁶ For the critics of neoliberal economic policy as well as hardcore Korean nationalists, Trade Minister Kim is a bad choice not only because he advocates neoliberal economic policies, but also because he grew up in the U.S. and was trained as a U.S. lawyer, which allegedly undermines his nationalist credential.

³⁷ South Korea's screen quota system was designed to stem a flood of Hollywood blockbusters. South Korea cut the quota from the current 146 days or 40 percent reserved for domestic films to 73 days or 20 percent starting July 1, 2006 ("Screen Quota Cut Clears Way for Trade Deal with the US," *The Chosun Ilbo*, 26 January 2006. [Online, cited May 18, 2008]. Available from <<http://english.chosun.com/w21data/html/news/200601/200601260013.html>>).

³⁸ United States Trade Representative 2006, pp. 393-417.

capital labor unions and anti-American NGOs, whereas pro-liberalization business lobbies are not actively mustering enough political support for the government.³⁹

Indeed, South Korea's uncompetitive sectors felt more victimized by KORUS FTA negotiations and, more broadly, by their allegedly neoliberal economic orientation. For those skeptics, therefore, the government's effort to restructure the economy by inviting external pressure—i.e. FTAs—would only worsen the issue of economic polarization in South Korea, rather than providing an opportunity to upgrade its economy to a more advanced level.⁴⁰ Some South Korean radicals have dubbed the cross-Pacific deal as “the second IMF-imposed liberalization.” This indicates that the explicit linkage of FTA policy to neoliberal reforms galvanized once dormant protectionist veto players.

Amid shifting interest group demands, however, South Korea's FTA strategy maintains its top-down momentum that is centered on presidential leadership and government institutions. Under President Kim, strong executive power and public support for neoliberal restructuring allowed the introduction of new FTA initiative. Under President Roh, the OMT took over the driver's seat from the president who

³⁹ In March 2006, for instance, a coalition was formed bringing together some 300 anti-KORUS FTA groups, thus becoming the largest coalition ever on a single policy issue during the Roh administration. Its core membership consisted of farmers and film industry people, who would most likely suffer from a successful KORUS FTA. At the same time, this ad-hoc coalition included a number of anti-American and leftist organizations such as the Korean Federation of Trade Unions, the Korean Teachers and Education Workers Union, and the Korean Federation of University Student Councils. In May 2006, many of these radical groups also organized violent protests against the relocation of the U.S. Forces Headquarters in South Korea from Seoul to Pyongtaek, a small city south of Seoul, leading to charges that the anti-KORUS FTA protests turned into an anti-American movement.

⁴⁰ Lee 2006, p. 6.

suffered low popularity even among his once-loyal supporters.⁴¹

As a champion of neoliberal economic ideas, the OMT is relatively insulated from the pressure from special interest groups, which in turn prevents this government agency from obtaining sufficient public support for FTAs.⁴² Nevertheless, the abolition of the Foreign Economic Council under the Presidential Committee for National Economy in early 2006 after its operation as a monitoring body for the previous two years expanded the OMT's institutional authority. In addition, a presidential committee to facilitate a KORUS FTA and to win over its opponents was set up in August 2006 under the leadership of the former OMT minister and the former Minister of Finance and Economy Han Duk-soo, who successfully shielded the OMT from its critics.⁴³ Above all, President

⁴¹ The OMT's neoliberal policy orientation has been further highlighted by the appointment of its third trade minister, Kim Hyun-chong, in July 2004 as well as the promotion of its first trade minister Han Duk-soo (1998-2004) to deputy prime minister and minister of finance and economy. The OMT's authority has been expanded as indicated by the abolition of the Foreign Economic Council under the Presidential Committee for National Economy in early 2006 after its operation as a monitoring body for the past two years. In addition, a presidential committee to facilitate a KORUS FTA and to win over its opponents was set up in August 2006 under the leadership of the former OMT minister and the former deputy prime minister Han Duk-soo, who is most likely to shield the OMT from its critics.

⁴² Of course, this does not mean that the OMT operates in political vacuum. Aside from its critics and public opinion, the OMT closely consults various private business councils as well as the National Economic Advisory Council under the President's Office as well. Yet in contrast to its counterpart ministries in the government such as the Ministry of Finance and Economy (MOFE), the Ministry of Commerce, Industry, and Energy (MOCIE), and the Ministry of Agriculture and Forestry (MOAF), the OMT rarely consults small firms and individual farmers directly, while putting much more emphasis on the feedback from big business and industry associations such as the Federation of Korean Industries, the Korea International Trade Association, and the Korea Federation of Small and Medium Business (Lee 2006, p. 7).

⁴³ *The Chosun Ilbo*, July 24, 2006.

Roh's trust in the OMT and Trade Minister Kim remained firm and steadfast despite criticism.

Roh's endorsement of the OMT and KORUS FTA negotiations reflected his own sense of urgency. More often than not, President Roh stated that "China is surging. South Korea is trapped between China and Japan, and thus needs to address this undesirable situation sooner rather than later. One of the most effective ways to realize this goal is to improve our country's competitive edge against China and Japan in the U.S. market through a KORUS FTA."⁴⁴ In a press conference on August 9, 2006, he reaffirmed his commitment to FTAs and urged his people to embrace the tide of globalization wholeheartedly, instead of trying to dodge what liberals of today's world see as an unstoppable and inevitable phenomenon. In addition, he rejected the Japan's flying geese model-based economic development strategy as having outlived its utility for South Korea, and instead proposed that South Korea find its economic future in service industries, departing from its traditional focus on manufacturing industries.⁴⁵

For South Korea, the KORUS FTA is the largest FTA ever, as the U.S. is South Korea's third-largest trading partner. Many studies predict that the KORUS FTA would most likely benefit South Korea's export industries such as automobiles and electronics, albeit at the expense of its less competitive agricultural and service sectors.⁴⁶ Indeed, the KORUS FTA has the potential to alter the dynamics of U.S.-South Korean economic relations. At the same time, it may greatly contribute to bolstering diplomatic and

⁴⁴ A presidential speech delivered to the Korea Chamber of Commerce and Industry, March 28, 2006 ([Online, cited May 18, 2008]. Available from http://news.naver.com/news/read.php?mode=LOD&office_id=023&article_id=0000178504).

⁴⁵ *Yonhap News*, August 9, 2006.

⁴⁶ Schott and Choi 2001; Sohn 2001.

security relations between the two traditional allies in a region where the balance of power is shifting due to the rise of China and the nuclear adventurism of North Korea.⁴⁷

Furthemore, the KORUS FTA has the potential to alter the dynamics of East Asian economic relations. With respect to spillover effects, many in Japan and China have already expressed concern that the U.S.-South Korean accord could put their countries at a competitive disadvantage in the U.S. and South Korea market. Such recognition might motivate both Tokyo and Beijing to seek an FTA with Seoul and Washington.⁴⁸ South Korea-Japan FTA negotiations have been stalled since November 2004. Meanwhile, the feasibility of a South Korea-China FTA has been studied by private/semi-private research institutions in both countries. The opinion about a South Korea-China FTA is divided in South Korea. From one perspective, a bilateral FTA with China will enhance South Korea's economic presence with its largest trading partner. From other perspective, potential adverse effects on agricultural and some low-end

⁴⁷ Many policy experts in Seoul share this view. For instance, Yoon Young-kwan, who served as the first Minister of Foreign Affairs and Trade of the Roh administration stresses that an FTA with the U.S. is a useful mean to promote South Korea's role as an economic hub country in East Asia. He argued that a KORUS FTA would be compatible with South Korea's globalization strategy that began in the early 1990s under President Kim Young-sam. For Yoon, it was important for South Korea to improve its competitive edge in high value-added service industries. He also emphasized that cementing economic ties with the U.S. is strategically important because South Korea's future lies in how to coordinate with the U.S. to ensure the peaceful resolution of the current North Korean nuclear crisis (A speech delivered to a conference organized by the Association of Junior High and High School Teachers, Jeju Island, July 24, 2006).

⁴⁸ "Chinese Premier Hopes for FTA with Korea 'Soon'," *Chosun Ilbo*, 6 April 2007. [Online, cited May 18, 2008]. Available from

<<http://english.chosun.com/w21data/html/news/200704/200704060013.html>>.

manufacturing sectors would be much greater than those of prospective FTAs with the U.S. and Japan.

These developments under Roh strongly supports the competition hypothesis that countries will counteract the FTA policies of their competitors in terms of market shares and regional leadership and that business and economic bureaucrats concerned with trade and investment diversion and/or politicians and foreign affairs officials focused on the foreign policy implications of FTAs should be the main agents behind the country's trade policy shift.

To summarize, in contrast to the emulative and reactive approach taken by the Kim government, the multitrack FTA initiative of Roh government has adopted a proactive and competitive stance, both domestically and internationally. Most notably, the OMT has institutionalized the idea of pursuing economic reforms and cementing strategic partnerships through FTAs. Its neoliberal leanings notwithstanding, it should be noted that Roh's FTA strategy has in fact built upon South Korea's longstanding embedded liberal tradition. As held widely, South Korea's developmental state has provided minimum safeguards for uncompetitive sectors and rural areas through multi-layered formal and informal trade barriers, although they were largely exploited in favor of competitive, export-oriented sectors and urban areas.⁴⁹ The Roh administration chose to combine generous side payments with its market opening commitments in order to cushion its citizens from the vagaries of the international economy in return for public

⁴⁹ For more discussions about South Korea's developmental state, see Amsden 1989 and Woo-Cumings 1999.

support for openness.⁵⁰ As summarized in Table 2, the success of its proactive negotiations has been achieved by embedded liberalism consisting of generous compensation packages to support those who suffer damages from FTAs.

Table 2. Major side payments under President Roh Moo-hyun

⁵⁰ For instance, the ratification of the Korea-Chile FTA in February 2004 was followed by the passage of a special law designed to make up for the potential financial damages of farming and fishing industries due to FTAs. Despite criticism for the government's excessive financial commitment to declining sectors, over \$80 billion of public and private funds have been earmarked for farming and fishing rescue programs over a 10-year period (MOFAT 2004). Other examples include a series of side payment pledges in the form of government subsidies and grant-in-aid during the KORUS FTA negotiations. In March 2006, the Roh government pledged to provide the Korean movie industry with a government fund amounting to \$400 million instead of cutting South Korea's annual screen quota in favor of the U.S. ("su-ku-rin-quo-ta hu-sok dae-chaek sil-hyo geo-dul-kka (Will the post-screen quota measures be effective?)," *The Chosun Ilbo*, January 27, 2006. [Online, cited May 18, 2008]. Available from <http://spn.chosun.com/site/data/html_dir/2006/01/27/2006012770343.html>). The Roh government also committed itself to provide cash allowances for seven years to compensate for up to 85 percent of income losses of farmers and fishermen once the KORUS FTA goes into effect. Aside from this, Korean farmers and fishermen will receive government subsidies for five years if they go out of business due to the KORUS FTA. Furthermore, to boost investment in agriculture, the Korean government will encourage the creation of private agricultural investment funds, and agriculture-related companies will be allowed to bring in CEOs from outside the industry. The government will also offer low-interest loans to businesses that lose more than 25 percent of their sales due to the KORUS FTA, while they are eligible for receiving subsidies of up to 75 percent of their payroll for one year if they switch into other industries or relocate their employees. The government will also provide cash incentives of up to \$600 a month to companies that hire farmers and fishermen who have been dislocated from their work ("Government to Pay Farmers, Fishermen for FTA Losses," [Online, cited May 18, 2008]. *The Chosun Ilbo*, May 18, 2008. Available from <<http://english.chosun.com/w21data/html/news/200706/200706290022.html>>).

	Target groups	Size of side payments	In return for
Ratification stage of the Korea-Chile FTA (2004)	Agricultural and fishery industries	over \$80 billion of public and private funds over a 10-year period.	partial opening of agricultural and fishery markets
Negotiation stage of the KORUS FTA (2006-07)	Movie industry	\$400 million government fund	cutting of annual screen quota in favor of the U.S.
	Agricultural and fishery industries	cash allowances for seven years	to compensate for up to 85 percent of income losses
		government subsidies for five years	if they go out of business
	Manufacturing and service industries	low-interest loans	if they lose more than 25 percent of their sales
		subsidies of up to 75 percent of their payroll for one year	if they switch into other industries or relocate their employees
		cash incentives of up to \$600 a month to companies	if they hire farmers and fishermen who have been dislocated from their work.

V. Conclusion

This paper investigated South Korea's embrace of FTAs that has evolved from an emulative to a competitive strategy in the post-Asian financial crisis period. Within South Korea's policy circles, the traditional view that FTAs are a stumbling block for strengthening global multilateralism has been replaced by a more favorable view that they could be a building block. This cognitive shift began to take place during the Kim Dae-jung administration and took firm roots within the Roh Moo-hyun administration, particularly within the OMT. With a growing confidence in negotiating and implementing FTAs, South Korea's FTA policy has become proactive rather than being simply reactive in its goal and action.

South Korea's dramatic embrace of FTA policy has largely been shaped by a top-down political momentum rather than a bottom-up societal demand. Most notably, the economic crisis at the end of the 1990s contributed to the rise of reform-minded Kim Dae-jung and the downfall of many domestic veto holders. In pursuit of his diplomatic and economic vision, President Kim was drawn to bilateral and minilateral FTAs, which held strong appeal because some politically sensitive sectors could be excluded from trade liberalization. As a result, South Korea's trade strategy successfully shifted its focus from global multilateralism to regional/cross-regional bilateralism and minilateralism. Nevertheless, the Kim government's approach was basically designed to minimize the potential costs of FTAs rather than to maximize the gains from them. It also lacked a clear linkage between FTAs and other reform policies, thus leaving the FTA policy inherently emulative and passive.

President Kim's grand regionalist vision and neoliberal economic reforms inspired President Roh Moo-hyun. Yet President Roh did not have the luxury of the popular support and diplomatic capacity that President Kim had once enjoyed. More recently, South Korea's protectionist interests seem to have become regvanized by their coalition with labor unions and leftist NGOs, whereas proliberalization business lobbies fall short of providing equivalent political support to the government. Nonetheless, the FTA initiative has become a core element of the Roh government's economic policy reforms. Among others, the enlarged role of OMT has steadily institutionalized the idea and practice of promoting economic reform and strategic partnership through FTAs.

The motivations of the political leadership as well as the new bureaucratic balance of power have played a significant role in South Korea's rush toward FTAs. Although

South Korea's pursuit of FTAs does not necessarily mean that it has completely abandoned the multilateral trading system, the policy departure is increasingly becoming obvious and significant. To conclude, the South Korean case strongly supports the emulative and competitive hypotheses.

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GIARI Working Paper Vol. 2008-E-13,

June.30 2008

Published by Waseda University Global COE Program

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Nishi-waseda, Shinjuku-ku, Tokyo 169-0051 Japan

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Webpage: <http://www.waseda-giari.jp>

Printed in Japan by International Academic Printing Co.Ltd