

The London School of Economics and Political Science

A Step Toward East Asian Regionalism?

Comparing the Negotiation Approaches of South Korea and Japan
in Their Preferential Trade Agreements with ASEAN

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Declaration

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Abstract

In the early 2000s, Korea and Japan competitively initiated their preferential trade agreements (PTAs) with the Association of Southeast Asian Nations (ASEAN) in response to the unexpected progress of the China–ASEAN Free Trade Agreement (FTA) negotiations. In contrast with China, Korea and Japan initially preferred to negotiate PTAs with individual Southeast Asian countries, rather than with ASEAN. In 2003, however, Korea redirected its strategy and began the Korea–ASEAN FTA. Japan continued to emphasise a bilateral approach to negotiations but sought harmonisation of the individual PTAs through the ASEAN–Japan Comprehensive Economic Partnership. Sharing common international political and economic challenges, why did Korea and Japan take diverging negotiation paths? This research investigates the factors that shaped Korea and Japan’s respective negotiation methods with ASEAN by focusing on the interplay of domestic interests, institutions and ideas.

The research findings suggest that Korea and Japan initially preferred bilateral PTAs because of their efficiency and to minimise the backlash of the agricultural sector. Japan had a greater incentive to promote bilateral strategy than Korea, not only to counter China’s move, but also to utilise its diplomatic leverages against ASEAN. The direct causes of the two countries’ divergence, however, came from ideas and institutions. The influence of ideas became evident when Korea’s and Japan’s initial emphasis on the East Asia-based PTAs began to head toward the different directions. Japan was path-dependent of its initial step-by-step strategy focused in East Asia. In contrast, Korea accommodated the new ideas that aimed at cross-regional PTAs, making the Korea-ASEAN FTA a stepping stone for cross-regional PTAs rather than East Asia-based PTAs. Institutional factors account for the supply side of PTA decision-making processes by demonstrating how the intra-democracy variations, combined by bureaucracy discretion, empowered relevant decision-makers, which led to the reversal of negotiation progresses between Korea and Japan.

The empirical research findings significantly contribute to the international political economy literature by testing the applicability of the domestic level analysis. They provide an alternative perspective to the existing debate on the compatibility of bilateralism and regionalism in East Asia and thus to the political economy of trade policy in the region. The findings also shed light on the country-specific factors shaping the economic regionalism of East Asia.

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List of Abbreviations

AANZFTA	ASEAN–Australia–New Zealand FTA
AFTA	ASEAN Free Trade Area
AIFTA	ASEAN–India FTA
AJCEP	ASEAN–Japan Comprehensive Economic Partnership
APEC	Asia–Pacific Economic Cooperation
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia–Europe Meeting
CEP	Comprehensive Economic Partnership
CGE	Computable General Equilibrium
CAFTA	China–ASEAN FTA
CEPEA	Comprehensive Economic Partnership in East Asia
CLMV	Cambodia, Laos, Myanmar and Vietnam

CSFTA	China–Singapore FTA
CSIS	Center for Strategic and International Studies
DPRK	Democratic People’s Republic of Korea
EAEG	East Asian Economic Grouping
EAFTA	East Asia Free Trade Area
EFTA	European Free Trade Agreement
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FKI	The Federation of Korean Industries
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia–Pacific
GATT	General Agreement on Tariffs and Trade
HS	Harmonized System
IMF	International Monetary Fund
IR	International Relations
IPE	International Political Economy
JA–Zenchu	Central Union of Agricultural Groups
JBEP	Japan–Brunei EPA
JIEPA	Japan–Indonesia EPA
JMEPA	Japan–Malaysia EPA
JPEPA	Japan–Philippines EPA
JSEPA	Japan–Singapore EPA
JTEPA	Japan–Thailand EPA

JVEPA	Japan–Vietnam EPA
KAFF	Korean Advanced Farmers Federation
KAFTA	Korea–ASEAN FTA
Keidanren	Japan Business Federation
KIEP	Korea Institute for International Economic Policy
KIFTA	Korea–Indonesia FTA
KITA	Korea International Trade Association
KPL	Korean Peasants League
KSFTA	Korea–Singapore FTA
KTFTA	Korea–Thailand FTA
KVFTA	Korea–Vietnam FTA
LDP	Liberal Democratic Party
LSE	London School of Economics and Political Science
LVC	Local Value Content
MAFF	Ministry of Agriculture, Forestry and Fisheries (Japan)
MERCOSUR	Southern Common Market
METI	Ministry of Economy, Trade and Industry (Japan, after 2002)
MFN	Most Favoured Nation
MITI	Ministry of International Trade and Industry (Japan, before 2002)
MOF	Ministry of Finance (Japan)
MOFA (Japan)	Ministry of Foreign Affairs (Japan)
MOFA (Korea)	Ministry of Foreign Affairs (Korea, from 2013)
MOFAT	Ministry of Foreign Affairs and Trade (Korea, 1998–2012)
MAFRA	Ministry of Agriculture, Food and Rural Affairs

MOTIE	Ministry of Trade, Industry and Energy (Korea, since 2013)
NAFTA	North American Free Trade Agreement
ODA	Official Development Aid
OECD	Organisation for Economic Co-operation and Development
PCGI	Presidential Committee on Government Innovation
PTA	Preferential Trade Agreement
RCEP	Regional Comprehensive Economic Partnership
RIETI	Research Institute of Economy, Trade and Industry
RoO	Rules of Origin
RTA	Regional Trade Agreement
RVC	Regional Value Content
SECA	Strategic Economic Complementation Agreement
SPS	Sanitary and Phytosanitary Measures
TPP	Trans–Pacific Partnership
US	United States
USTR	United States Trade Representative
QVC	Qualified Value Content
WTO	World Trade Organization
ZOPFAN	Zone of Peace, Freedom, and Neutrality

Chapter 1 Introduction

1.1 Introduction

This thesis investigates the factors that shaped the different negotiation approaches taken by the Republic of Korea (hereafter Korea) and Japan in their preferential trade agreements (PTAs)¹ with the Association of Southeast Asian Nations (ASEAN).² In the early 2000s, Korea and Japan competitively initiated their respective PTAs with ASEAN in response to the unexpected progress of the China–ASEAN Free Trade Agreement (FTA; CAFTA) negotiations. In contrast with the People’s Republic of China (hereafter China), both Korea and Japan initially preferred to negotiate PTAs with individual Southeast Asian countries, rather than with ASEAN as a regional entity. As the negotiations progressed, however, the two countries’ preferences quickly diverged. Korea changed its original strategy and pursued the region-based Korea–ASEAN FTA (KAFTA). In contrast, Japan continued to prioritise bilateral economic partnership agreements (EPAs) while concurrently promoting harmonisation of the individual EPAs through the ASEAN–Japan Comprehensive Economic Partnership (AJCEP).³ Why did Korea and Japan choose different negotiation strategies in light of China’s move?

¹ The thesis uses the term PTA to indicate trade agreements with at least two parties, which give preferential access to the participating parties involved in the agreement. The term indicates both bilateral and regional trade agreements with different labels such as regional trade agreements (RTAs), free trade agreements (FTAs) and economic partnership agreements (EPAs).

² ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam.

³ This thesis examines the ASEAN+1 FTAs from the perspective of Korean and Japanese domestic politics. Therefore, in regard to nomenclature, it initially refers to their PTAs by preferentially citing country names in the titles of agreements. For example, KAFTA was used instead of ASEAN–Korea FTA (AKFTA), and Japan–ASEAN Comprehensive Economic Partnership (JACEP) was used instead of AJCEP. As this research progressed, however, the author came to learn that Japan officially uses the term AJCEP instead of JACEP. According to an official in the Ministry of Economy, Industry and Trade (METI) (personal communication), Japan did not mind emphasising ASEAN in labeling the agreement. In contrast to most of Japan’s other bilateral EPAs, which placed its name first, Japan did not seek the same practice with regard to AJCEP. Japan believed that ASEAN centrality should be maintained as China emerged as a new actor in the competition for regional leadership (former Korean Ministry of Foreign Affairs (MOFA) official, personal communication), and Japan considered ASEAN not as its competitor but as a regional partner for co-operation (METI official, personal communication).

Existing studies on ASEAN+1 PTAs, elaborated in Chapter 2, suggest that competition in negotiating these agreements throughout the 2000s was mainly due to international factors. The motivations have been seen as primarily stemming from political rivalry and economic calculations. The key analytical focus of these studies was on the behaviour of states; thus, the emergence of ASEAN+1 PTAs has been interpreted as a result of structural change in the international environment. With regard to negotiation approaches taken in existing ASEAN+1 PTAs, only a handful of research studies have attempted to examine motivations at the domestic level and most have concentrated narrowly on Japan. Thus, existing studies fall short in explaining why Korea and Japan chose different negotiation strategies in their PTA negotiations with ASEAN, even though the two countries shared common international political and economic challenges.

To resolve this rather puzzling divergence, this thesis adopts a domestic-level analysis of international political economy (IPE) to examine trade negotiations in Korea and Japan. Framing the approach in terms of Korea and Japan, this thesis contends that the underlying intentions and preferences shaping their negotiation pathways were the products of a combination of domestic factors, namely, interests, ideas and institutions. Furthermore, it demonstrates how each of these factors determined the two countries' decision-making processes in the different stages of negotiations, which in the end comprised their overall strategies. The thesis emphasises the examination of processes, rather than results, in tracing the development of negotiations and understanding how logic, subjectivity and political structures connect.

A plethora of research has examined the expected outcomes of PTAs, usually either *before* the PTA negotiations begin or *after* the agreements come into effect. It is rare for attention to be given to the middle ground—the decision-making processes—in trade policy and IPE literature. PTAs are about politics and human conduct, as well as economic gains. Economists generally acknowledge that the more open a PTA is—meaning, higher liberalisation with the greatest number of partners—the greater the gain is for those who engage in it. For trade negotiators, however, gaining or succeeding in PTA negotiations has nearly the opposite meaning as that ascribed by economists. When negotiators refer to a successful PTA, they speak of gaining concessions from their counterparts; as strange as it may sound, they strive to preserve existing domestic trade barriers in the sensitive sectors as much as they can. To fully understand PTAs, it is therefore essential to think of the processes and practices

involved—and what it means to achieve a successful negotiation—by examining the interactions between various domestic stakeholders.

The contribution of this thesis goes beyond providing domestic-level explanations for the negotiation strategies taken by Korea and Japan in regard to PTAs. The research also informs policymakers and helps to enhance their understanding of their counterpart's strategy. Policymakers experience numerous uncertainties and lack full knowledge before coming to their decisions. For example, it is surprising to find that the Korean government did not fully appreciate the reasons behind Japan's approach to negotiating separate bilateral FTAs with ASEAN countries. Although the Korean government's report for the KAFTA vaguely states, "It is considered that there could be domestic factors behind Japan's path" (MOFAT and Korea Institute for International Economic Policy [KIEP] 2007, 16), it offered no further reasons to account for the two countries' differing approaches in dealing with ASEAN. Similarly, the Japanese government was unsure of the benefits of the different negotiation strategies. As Atsuyuki Oike, then-Director for the First International Economic Affairs Division, Economic Affairs Bureau at MOFA (Japan), recalls, "At the time, we did not have enough information to compare the efficacy of these policies" (2007, 19). As these examples illustrate, uncertainty often arises from a lack of information rather than the ambiguity of a situation, and the involved parties may be led to agree on a suboptimal arrangement. This study provides information that can help fill the gap between theories and the practical world.

Moreover, understanding the negotiation progress of the ASEAN+1 PTAs provides a road map for the countries seeking FTAs with Korea, Japan or ASEAN. The ASEAN+1 PTAs' adoption of the ASEAN Free Trade Area (AFTA) rules and structure illustrates this point. When China initiated its FTA negotiations with ASEAN in 2002, China agreed to adopt the AFTA's system of target setting, in which tariff lines and tariff elimination schedules were delicately differentiated between more developed and less developed ASEAN nations. Similar approaches were followed by Korea and Japan in their negotiations with ASEAN, with only slight modifications (Chin 2010). Even though AFTA's overall economic influence and performance has been subject to debate, it has served as an important building block in the formation of ASEAN+1 PTAs. In line with the AFTA, ASEAN+1 PTAs can also be expected to provide a model for future regional agreements.

Finally, this thesis is also about instances when bilateralism is preferred over regionalism, and, conversely, when regionalism comes before bilateralism. It explores whether

bilateralism and regionalism are compatible with each other in today's world of burgeoning PTAs. The underlying assumption of these inquiries begins from the thesis's normative position that bilateralism and regionalism should be inclusive and mutually reinforcing, which will eventually facilitate trade even among non-members of PTAs.

This view is in accordance with the General Agreement on Tariffs and Trade (GATT) statement in Article XXIV⁴ of 1994. The article recommends that bilateralism and regionalism should be promoted in the interest of removing substantially all barriers to trade sectors, so that the trade barriers applicable to non-members are not greater than before the agreement was established (Chand 2006, 87–88). Even though PTAs and regional trade agreements (RTAs) are considered the second-best option to multilateral agreements, they can better incorporate the member countries by locking in commitments that go beyond the obligations of the existing World Trade Organization (WTO) framework—so long as these agreements are carefully scrutinised, negotiated and well implemented. Thus, this thesis contributes to the current bilateralism and regionalism debate on East Asian regionalism.

The rest of this introductory chapter is organised into three sections. The following section provides background on Korea's and Japan's PTAs with ASEAN in the context of the emergence of ASEAN+1 level PTAs and East Asian regionalism. The third section elaborates on the research question by specifying the hypotheses to be investigated throughout the research and illustrates the research methods to be used. It also explains and justifies the

⁴ See for example, paragraph 4 of GATT Article XXIV, which states the purpose of a customs union or an FTA:

“The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.”

Paragraph 8 (b) further provides the definition of an FTA:

“A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.”

The full text of GATT Article XXIV can be found at http://www.wto.org/english/res_e/booksp_e/analytic_index_e/gatt1994_09_e.htm

author's case selection of Korea's and Japan's PTAs with ASEAN. Finally, the chapter ends with a summary of the thesis's overall structure.

1.2 Background: Bilateralism and Regionalism in East Asia

1.2.1 The Rise of PTAs in East Asia and the Emergence of ASEAN+1 PTAs. Since the Asian financial crisis of 1997–1998, various types of PTAs have been negotiated at both the bilateral and regional levels. The economic crisis led to state actors actively engaging in these initiatives to complement the conventional market-driven integration across the region undertaken by private businesses. PTAs differ from East Asia's conventional market-driven economic integration in that they are institution-driven arrangements that give preferential treatment to the parties and feature a top-down decision-making process through government policies (Urata 2006, 1; Dent 2008, 7). PTAs have been negotiated, implemented and signed at different levels of economic integration and under different labels, including FTAs, EPAs, comprehensive economic partnerships (CEPs) and new age economic partnerships. The number of PTAs has increased dramatically since the financial crisis. In 2000, in Asia, including ASEAN, India, Korea, China, Hong Kong, Japan and Republic of China (hereafter Taiwan), only three PTAs had been concluded. By 2009, this number had risen to 54, while another 78 were either proposed or under negotiation (Kawai and Wignaraja 2009, 144).

One of the leading efforts to enhance regional co-operation has been to create an integrated PTA for the wider East Asian region⁵. This plan would simplify and reduce the

⁵ Two broad types of regionalisms are defined in today's Asia: one that is based in East Asia, and the other, based in the Asia-Pacific region (He 2016). As Dent (2016, 3-8) notes, however, the definitions of East Asia and Asia-Pacific can be artificial and may vary depending on the different political and economic contexts. To quote Dent (2016: 3),

“For example, from a ‘map’ perspective it would seem that the Russian Far East should be included in the region but invariably it is not considered part of the East Asia regional community. This may be because it is a peripheral subnational region within an essentially Eurocentric country, Russia, and also because of its at best marginal engagement in East Asia's regional economic dynamic and integrational processes. The latter point is also relevant to explaining why Mongolia is so often overlooked as a constituent East Asian nation in regional groupings and regional organisation membership.”

This study refers to the regionalism based in East Asia as the one that includes Northeast Asia and Southeast Asia. More specifically, Northeast Asia indicates China, Korea and Japan. Southeast

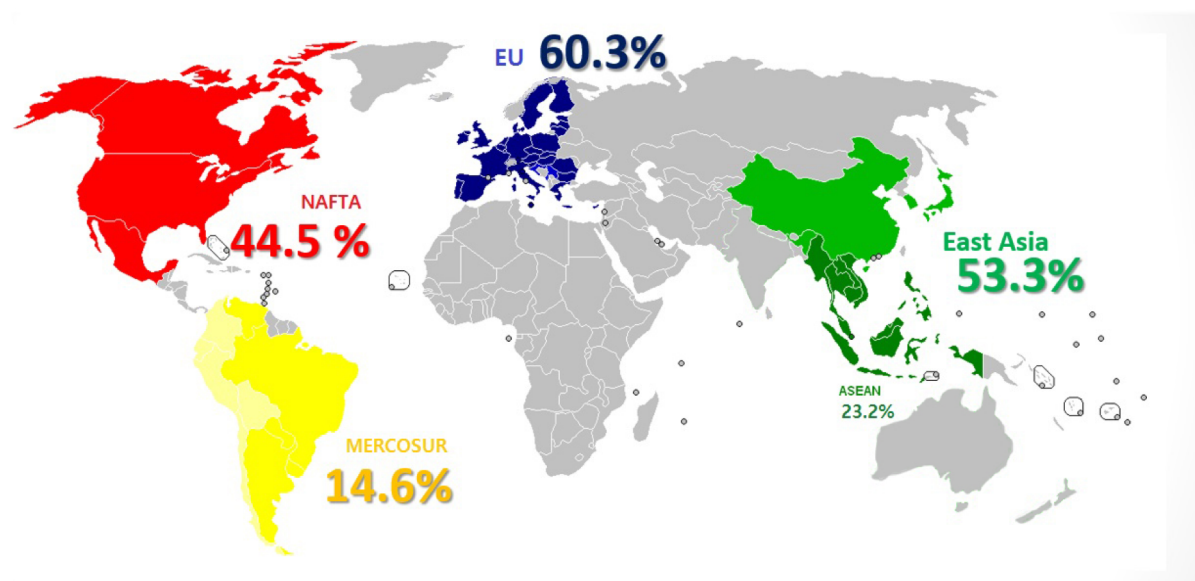
inefficiencies of the complicated and overlapping bilateral trade agreements, a problem widely known as the “spaghetti bowl syndrome” (also called the “noodle bowl syndrome”, referring to the trade situation in Asian countries). In addition, as one of the leading endeavours to accommodate concrete economic integration, the ASEAN Plus Three (APT) forum was formed at the second ASEAN informal summit in December 1997; APT comprises the ASEAN nations plus China, Korea and Japan (Ravenhill 2008a). However, APT meetings have not resulted in the establishment of PTAs among the ASEAN, China, Korea, and Japan; the East Asia Free Trade Area (EAFTA) was first proposed by China in 2004, but it was never materialised. Other proposed RTA scenarios also are yet to be realised; for example, Japan proposed in 2006 an RTA at the ASEAN+6 level (APT plus Australia, New Zealand and India, also known as the Comprehensive Economic Partnership in East Asia [CEPEA]). This stimulated the United States (hereafter US) to propose the Free Trade Area of the Asia–Pacific (FTAAP) in the same year, which would have been a broader RTA extending to the economies of the Asia–Pacific region.

Despite growing intra-regional networks of trade and investment through private businesses, East Asia still lacks an economic agreement that ties together the region, and so suffers from an “organizational gap” (Calder and Ye 2004). By 2004, intra-regional trade in East Asia reached 1.95 trillion USD, accounting for 53.3% of East Asia’s total trade (see Figure 1.1). That amount is less than the intra-regional trade share in the European Union (hereafter EU), which in 2004 was 3.42 trillion USD or 60.3%. However, the intra-regional trade share in East Asia is considerable in comparison to the North American Free Trade Agreement (NAFTA) (1.27 trillion USD or 44.5%), ASEAN (USD 198 billion; 23.2%) and the Southern Common Market (MERCOSUR) (26 billion USD or 14.6%) (International Monetary Fund [IMF] 2004).

Asia refers to ASEAN countries.

The Asia-Pacific region broadly indicates the East Asian countries, India, Australia, New Zealand, the United States, and other pacific rim countries.

Figure 1.1. Intra-regional trade map, 2004.



Source: Map by author. Data from IMF (2004).

Currently, the most comprehensive form of East Asian regional PTA remains at the ASEAN+1 level (see Table 1.1 for summary). The three Northeast Asian countries—China, Korea and Japan—signed agreements for trade in goods with ASEAN in 2004, 2006 and 2008, respectively. In addition, in 2009, the ASEAN–Australia–New Zealand FTA (AANZFTA) and the ASEAN–India FTA (AIFTA) were signed. Other agreements also came into effect in the first decade of the new century: CAFTA in 2005, KAFTA in 2007, AJCEP in 2008, and AIFTA and AANZFTA in 2010. Agreements for trade in services and investment were signed later in 2007 and 2009 for both CAFTA and KAFTA, respectively. Under AJCEP, the framework agreement includes both trade in services and investment chapters, but as of 2017, the provisions are still under negotiation. ASEAN and India have concluded negotiations in these two areas of trade but have yet to sign the agreement. As for AANZFTA, agreements were signed in 2009 for trade in goods, services and investment.

Table 1.1 Timetable of the Five ASEAN+1 PTAs

FTA/CEP	Trade in Goods		Trade in Services		Investment		Realisation (Trade in Goods)
	Signed	In Effect	Signed	In Effect	Signed	In Effect	
CAFTA	2004	2005	2007	2008	2009	2010	2018
KAFTA	2006	2007	2007	2009	2009	2009	2016
AJCEP	2008	2008	Negotiation in progress				2018
AIFTA	2009	2010	Concluded but not signed				2016
AANZFTA	2009	2010	2009	2010	2009	2010	2015

Source: MITI, Malaysia (n.d.).

The differences in the five ASEAN+1 PTAs' timetables for trade in goods, services and investment come from the differences in chosen negotiation methods. As shown in Table 1.2, China, Korea and India took the sequential approach of negotiation with ASEAN, where different issues of trade are addressed regardless of success or failure in negotiating other sectors of trade. Japan and Australia–New Zealand preferred to adopt the single-undertaking negotiation approach, seeking to fully commit the negotiating parties to engage in the liberalization of all sectors of trade. In contrast to AANZFTA, however, which produced an agreement for trade in goods, services and investment in 2009, Japan has not been able to achieve full coverage at once, as it aimed to do with the single-undertaking approach of negotiation.⁶ Japan also stands apart from the negotiation approaches of China, Korea, Japan, Australia–New Zealand and India with regard to ASEAN. That is, Japan negotiated bilateral EPAs with individual ASEAN members, while concurrently promoting the region-based AJCEP.

⁶ As Chapter 4 explains, this was due to Japan's lack of diplomatic leverage with ASEAN as a group, as opposed to its relatively strong leverage with the individual ASEAN countries.

Table 1.2 Negotiation Methods Taken under ASEAN+1 PTAs

PTAs	CAFTA	KAFTA	AJCEP	AANZFTA	AIFTA
Inclusion of Trade Issues	Sequential	Sequential	Single-Undertaking	Single-Undertaking	Sequential
Negotiation Approaches to ASEAN	Group	Group	Bilateral & Group	Group	Group

1.2.2 The Competitive Nature of PTAs with ASEAN on the Part of China, Japan and Korea. Table 1.3 demonstrates the competitive nature of China's, Japan's and Korea's proposals for PTAs with ASEAN between 1999 and 2015. The prelude to this East Asian competition was an agreement by Japan and Singapore to launch an EPA in October 2000. Korea and Thailand had initiated a joint study group on a bilateral FTA after the Asian financial crisis, which could have presented an economic or a political threat to other Northeast Asian competitors, but it never led to the launch of formal negotiations.

To counter Japan's move, China also began to believe that it needed to expand its influence within the Southeast Asia region. China thus proposed ASEAN as the forum for the creation of CAFTA at the ASEAN+3 Summit in November 2000. Yet Korea and Japan did not perceive that China's proposal as a political or an economic threat; they thought there was little chance this FTA would materialise. The real trigger for Northeast Asian competition for ASEAN+1 agreements occurred when China formally signed a framework agreement with ASEAN in November 2001.⁷

⁷ See Chapter 2 for further details on this event.

Table 1.3 Timeline of China's, Korea's and Japan's PTA Negotiations with ASEAN

Date	Korea	Japan	China
Nov. 1999	Korea–Thailand FTA (KTFTA) joint study begins		
Oct. 2000		Japan–Singapore EPA (JSEPA) launched	
Nov. 2000			Formal Proposal for CAFTA at ASEAN+3 summit
Jan. 2001		JSEPA negotiations	
Mar. 2001	KTFTA joint study ends		
Nov. 2001	ASEAN's first proposal for KAFTA		CAFTA framework agreed
Jan. 2002		Prime Minister Koizumi's vision for AJCEP framework in Singapore	
May 2002			First round negotiations of CAFTA
Mar. 2002		Initiation of AJCEP expert group	
Oct. 2002	ASEAN's second proposal for KAFTA Korea–Singapore FTA (KSFTA) announcement		
Nov. 2002		JSEPA in effect	Framework agreement signed
Oct. 2003	KAFTA expert group announced	AJCEP framework signed	
Jan 2004		Japan–Malaysia EPA (JMEPA) negotiations	

Feb. 2004		Japan–Thailand EPA (JTEPA), Japan–Philippines EPA (JPEPA) negotiations	
Mar. 2004	KAFTA formal proposal; initiation of joint study group		
Nov. 2004			Second round negotiations
Feb. 2005	First round negotiations of KAFTA		
Apr. 2005		First round negotiations of AJCEP	
July 2005		Japan–Indonesia EPA (JIEPA) negotiations	Trade in goods in effect
Dec. 2005	KAFTA Trade in goods concluded		
Apr. 2006	KAFTA Trade in goods implemented		
June 2006	KAFTA Trade in services commenced	Japan–Brunei EPA (JBEPa) negotiations	
July 2006		JMEPA in effect	
Aug. 2006			China–Singapore FTA (CSFTA) negotiations
Jan. 2007			Trade in services signed
Mar. 2007		AJCEP deadline missed	
June 2007	KAFTA Trade in goods in effect (Thai exception)		
July 2007		Japan–Vietnam EPA (JVEPA) negotiations	Trade in services in effect
Nov. 2007		JTEPA in effect	
Apr. 2008		AJCEP signed	
July 2008		JIEPA in effect JBEPa in effect	
Dec. 2008		AJCEP in effect	

		JPEPA in effect	
Jan. 2009			CSFTA in effect
May 2009	KAFTA Trade in services in effect (except for Thailand, Indonesia and Laos)		
Aug. 2009			Agreement on investment signed
Sept. 2009	KAFTA Agreement on investment in effect (Vietnam in November)		
Oct. 2009		JVEPA in effect	
Jan. 2010	Target date for trade in goods		Target date in effect for ASEAN+6
Mar. 2012	Korea–Indonesia FTA (KIFTA) negotiations		
Aug. 2012	Korea–Vietnam FTA (KVFTA) negotiations		
Jan. 2015			Target date for all ASEAN nations
Dec. 2015	KVFTA in effect		

Source: Author's compilation from respective governments' websites.

Korea and Japan feared losing their economic or political influence within ASEAN if CAFTA materialised. Japan was already negotiating an EPA with Singapore, set to go into effect in November 2002, so it decided to promote further bilateral EPAs separately with each ASEAN member. However, Japanese Prime Minister Junichiro Koizumi announced in January 2002, during his tour of Southeast Asia, that Japan would promote the region-based AJCEP as well. In response to China's and Japan's move toward ASEAN, Korea also announced an FTA with Singapore at the ASEAN+3 Summit in October 2002. Like Japan, Korea was reserved about approaching the entire ASEAN for an FTA, even though ASEAN had been proposing one with Korea since 2001.

Domestic politics debated the pros and cons of the different approaches to negotiation, and Korea's and Japan's strategies soon diverged. In October 2003, Korea announced a change

to the region-based approach of a KAFTA. Japan, in contrast, continued to promote both AJCEP and bilateral EPAs. The framework agreement for AJCEP was signed in October 2003. Japan's EPA negotiations with Malaysia, Thailand and the Philippines began at the beginning of 2004 and progressed in parallel. Negotiations for the KAFTA agreement for trade in goods concluded by the end of 2005. Following ratification, KAFTA entered into force in June 2007, with the exception of Thailand. Korea negotiated additional bilateral FTAs with Indonesia and Vietnam beginning in 2012, although only KVFTA has concluded to date.

Overall, Japan's negotiations concluded later than those of Korea. The JMEPA came into effect in July 2006, but the AJCEP deadline was missed due to delays in the negotiation process. By the end of 2007, JTEPA also went into force. The year 2008 saw the effective dates for JIEPA, JBEPa and AJCEP. Japan's last bilateral EPA, JVEPA, came into force in October 2009.

1.3 Research Design

1.3.1 Hypothesis. The main hypothesis of this thesis posits that:

Domestic factors, rather than systemic factors, account for the different negotiation approaches taken by Korea and Japan in their PTAs with ASEAN. Korea's and Japan's preferences vary at the different stages of negotiations, depending on the relative influence of domestic interests, ideas and institutions.

The dependent variable is Korea's and Japan's negotiation approaches, which can be further specified as the choice between the region-based approach and the bilateral approach. The independent variables are the three domestic variables, namely, interests, ideas and institutions. Today's international relations (IR) scholars commonly recognise that all three variables play important roles in determining the decisions of policymakers. Thus, the key analytical focus of the thesis is on identifying the relative importance of each independent variable under a specified context, as the suppliers of and the demanders for trade policies.

First, on the demand side, there are the domestic actors who wish to reflect their political and economic interests in the process of trade policymaking. Because the redistribution effects of PTAs are greater than those of any other foreign policies, private sectors tend to be more involved in the decision-making processes. In the cases of Korea and

Japan, agricultural groups predominantly led the argument for protectionist trade policies due to their relatively weak comparative advantage in comparison with the ASEAN side. By contrast, both countries' manufacturing industries have held strong comparative advantage against ASEAN. Industrial groups in Korea and Japan, therefore, have been at the forefront of promoting liberalising PTAs. At another level, Korea's and Japan's governments have held goals distinctive from the private sectors. While seeking to balance the interests of various societal groups, they have had broader national and international goals, seeking welfare maximisation as a nation. In selecting a PTA negotiation approach with ASEAN, they considered a range of political and economic goals, such as realising trade gains, achieving negotiation efficiency, utilising diplomatic leverage and accomplishing foreign policy objectives.

Second, while the interest-based factors help identify the causes that are upfront and static, ideational factors are more useful in determining the origins of PTAs' policies in the long term and under flexible situations. In particular, their roles stand out when policymakers face uncertainty due to the unavailability of information in international negotiations. If ideas are not valid variables, domestic actors' political and economic interests alone should act to determine Korea's and Japan's negotiation approaches. Furthermore, changes in their decisions may only occur under circumstances when their initial interest-based calculations are proven wrong or under conditions of structural change in the international political economy. In this context, the divergence between Korea's and Japan's negotiation preferences provide side-by-side comparative cases to examine whether their changes or *status quo* in ideas determined their preferences. Defining ideas as policy paradigms, the thesis traces their roles in a temporal context. It examines why the two countries' divergence did not occur immediately after the Asian financial crisis, which could have been the critical juncture. As Chapter 3 specifies, the antecedent conditions help identify how the background of Korea's and Japan's PTAs determined what viable range of policy options policymakers had when confronted by the crisis. Their policy trajectories, then, couple with the reinforcements, so that the two countries' respective PTA experiences lead to path-dependency or path-creation of ideas.

Third, institutions explain the supply side of trade policy. They act as filters, determining whose ideas and interests matter most and how they influence Korea's and Japan's PTA negotiation preferences. Different institutional structures empower domestic actors with contesting ideas and interests to varying degrees, which ultimately produce the dissimilar

outcomes in the decision-making processes. To determine the distribution of decision-making power across the different institutions, the thesis focuses on Korea's and Japan's executive–legislative–bureaucratic relationship. It examines how the balance of power between the executive and the legislative branches influence centralisation or decentralisation in the PTA strategies of Korea and Japan. Inclusion of bureaucracy allows for Korea's and Japan's strong bureaucracy tradition and discretion to be taken into account in the respective country's decision-making processes. A region-based PTA should be perceived as less costly under a centralised institution than a decentralised institution, due to the shorter time it takes to draw domestic consensus compensates for the inefficiencies involved in a multi-party negotiation.

1.3.2 Research Method. No studies to date have strategically framed the motivations underlying East Asian countries' choices between bilateralism and regionalism. The reason is that negotiation processes for PTAs have been under-highlighted and have limited data available. There are currently five PTAs at the ASEAN+1 level, but only Japan took a negotiation approach different from the other four PTAs. Therefore, existing studies have focused only on Japan.⁸ Studying Japan alone, however, does not provide information as to whether the country's strategy was determined exogenously or endogenously. For this reason, this research adopts the comparative case study method to examine the counter-intuitive scenario demonstrated in the case of Korea, which better helps illuminate the domestic factors behind Korea's and Japan's choices of PTA negotiation approaches with ASEAN.

As with many comparative case studies, conducting interviews was necessary to gather primary data for the research. Fieldwork was carried out from 2014 to 2017, with 36 interviews conducted in London, Seoul, Sejong and Tokyo. The interviewees included government officials, scholars, researchers in government policy institutions, and individuals representing private businesses or interest groups.

The interviews were conducted in a semi-structured way with open-ended questions to stir discussion on topics about which interviewees had specialised experience or knowledge. To ensure consideration of all variables, including alternative explanations, the interview questions were not confined to domestic factors. Rather, the questions started from a broader level, such as “What were the factors that shaped Japanese/Korean negotiation strategy in the

⁸ See Chapter 2 for a detailed discussion of Japan's motivation for PTAs with ASEAN.

beginning?” The open-ended questions allowed the interviewees to freely address the international and domestic causes behind their respective governments’ decisions. The discussions then narrowed to specific topics, depending on the interviewee’s position and experience. For example, to the Japanese negotiators, the author asked the questions such as “Did Japan consider promoting broader regional economic integration through the bilateral EPAs and AJCEP?” and “How were Japan’s negotiation approaches with ASEAN influenced by Japan’s previous trade negotiation experiences?”

Also, the questions were directed to account for externalities, such as “What were the responses from ASEAN? Did they prefer the region-based approach, or the bilateral approach of negotiations?” Moreover, the questions addressed both short-term and long-term dimensions of Korea’s and Japan’s PTA negotiations. For example, the author did not only ask about the micro factors that the interviewees considered were essential in shaping their respective PTAs, but also asked how they assessed these PTAs, both before and after the negotiations. They helped the author to explain the changes in the two countries’ motivations by examining how domestic actors reacted to and accommodated new stimuli.

The type and duration of contact for the interviews depended on the individual interviewee’s circumstances. This included in-depth interviews (30–90 minutes) and shorter face-to-face personal conversations (5–30 minutes). Phone and email interviews were also conducted. Some interviewees did not mind disclosing their identities within the thesis, but many—particularly current government officials—requested anonymity.

A significant portion of the interviews for the Korean case took place in Seoul between March and September 2015, when the author was a visiting fellow at the Korea University Asiatic Research Center. From September 2015 to September 2016, the author conducted interviews for the Japanese case in Tokyo while affiliated with the Graduate School of Asia Pacific Studies at Waseda University, as part of an exchange program offered by the author’s home institution (London School of Economics [LSE]). The author’s affiliation with these institutions in Korea and Japan made it conducive to reach the interviewees: these institutions offered the author their research networks and lent credibility to the author to convince potential interviewees to participate.

In terms of approaching the interviewees, the author conducted interviews in Korean with Korean government officials first. The author’s background as a native Korean with prior work experience at the FTA Negotiation Bureau of the Ministry of Foreign Affairs and Trade

(MOFAT) made it relatively easy to reach them. The initial interview experiences led to an expansion of the interview contact list through the snowballing effect. After contacting the Korean individuals or groups relevant for this research, the experience was then leveraged to carry out interviews on the Japanese side. Although the author acquired advanced-level Japanese skills at LSE for the purpose of this research, the author's spoken language skills were insufficient to conduct smooth interviews in the specialised area of trade. Thus, a majority of interviews were conducted in English. Most interviewees in fact preferred to communicate directly in English, rather than using an interpreter, though there were cases in which an interpreter's help was required.

The author's priority in interviews was to trace the individuals directly involved in Korea's and Japan's PTA negotiations with ASEAN. Direct participation in these negotiations was critical in determining who was involved in the domestic decision-making processes, how the processes functioned and what determined their preferences—all of which ultimately shaped Korea's and Japan's negotiation approaches with ASEAN. In addition, their accounts were essential in elucidating the major momentums of the negotiation processes.

Interviewed individuals included a former minister for trade, the head director of the KAFTA negotiations, MOFA (Korea)⁹ officials responsible for Korea's bilateral FTAs, directors of Japan's bilateral EPAs, the director of AJCEP, scholars who participated in government meetings to provide policy advice for Korea's and Japan's FTAs with ASEAN, and the general manager of the Korean Advanced Farmers Federation (KAFF). In particular, most key decision makers and influential policy advisors in the two countries were reached through the interviews. Such interviews were particularly relevant for this research because Korea's and Japan's decision-making procedures were very much of a closed process. To quote a MOFA (Korea) official, "It is usually the government and the related bureaucracies that hold the discretion and the authority on whether they should reflect the discussions held with businesses or interest groups" (personal communication). Even though the degrees to which the reflections were made differed due to the government structures,¹⁰ both the Korean and the

⁹ Korea's MOFAT was restructured into MOFA in 2013 with the inauguration of the Geunhye Park Administration. MOFAT and MOFA are used interchangeably throughout the thesis, depending on when the negotiations or interviews were conducted. To differentiate MOFA in Korea from MOFA in Japan, the thesis indicates in parentheses the country to which the author is referring.

¹⁰ The decision-making processes within Korea and Japan are discussed in further detail in Chapter 6, which accounts for the empowerment of domestic actors in PTAs based on Korea's and

Japanese governments made decisions based on the accumulated demands from and consultations with the private sectors, rather than having these sectors directly involved in the decision-making processes.

However, the author also encountered several limitations as the interviews progressed. First, Korea's and Japan's PTA negotiations occurred between 10 and 17 years ago. Most government officials have retired or reached higher bureaucratic ranks, making them difficult to contact. Even though the author was fortunate to communicate with many key figures, it was still impossible to trace all the important personnel involved in the negotiations. Second, many interviewees candidly stated that their memories had faded. They could explain the broader strategies or significant events and motivations, but these were limited in detail. Third, it was much more difficult to trace the individuals belonging to businesses or private interest groups who were involved in Korea's and Japan's negotiations with ASEAN. Unlike with government documents, interest groups' statements did not specify the names of the individuals involved; thus, it was a great challenge to track them down. As General Manager Min Su Han of KAFF said, "No one from back in the early 2000s is working here anymore, except for me; it was simply a long time ago" (personal communication). Today's civic and private interest groups in Korea and Japan have undergone significant structural transformations; these changes, together with the movement of personnel, meant it was rare for individuals involved in the negotiations to have remained in their posts.

To overcome these limitations, additional interviews were conducted with current government officials, scholars, researchers, businesses and interest groups in the related fields.¹¹ These additional interviews and personal discussions were helpful in gaining general insight into the overall PTA trends in Korea and Japan, how the societal groups interact with the government, how today's domestic actors perceive past events and the general preferences

Japan's institutional structures.

¹¹ In addition to conducting the interviews, the author participated in the FTA Practitioner Programme hosted by Seoul National University in 2015. The programme provided an opportunity to participate in lectures taught by 13 experts in trade, including formal officials, legal experts, researchers, consultants and scholars, and to discuss the various trade issues with 42 participants who came from different areas of trade across Korea, including businesses, research institutes, interest groups and government. In Japan, the author participated in various PTA-related seminars to engage in discussion with scholars, businesses and government officials with expertise in Japanese trade. At Waseda University, the author did coursework on Japan's PTA policy, which was promoted in liaison with METI.

of the involved domestic actors. Additional data were acquired to make better sense of the negotiators' accounts within the historical context of the negotiations and to account for the relative lack of resources about the private sectors' preferences in Korea's and Japan's PTAs with ASEAN. The author retrieved the announcements of societal groups from their respective web archives. These resources included announcements made by the Federation of Korean Industries (FKI), Japan Business Federation (Keidanren), KAFF, Korea Peasants League (KPL) and Central Union of Agricultural Groups (JA–Zenchu) in Japan.

The thesis also used primary data such as unpublished reports and records from the archives of negotiating parties, written in English, Korean and Japanese. In the case of Korea, most records of trade negotiations are preserved at the FTA website (www.fta.go.kr), managed by the Korean government. In the case of Japan, records are divided mainly among four ministries: MOFA (Japan); METI; Ministry of Agriculture, Forestry, and Fisheries (MAFF); and Ministry of Finance (MOF). The thesis also incorporated statistics available from the public sectors, such as the ASEAN Secretariat and the governments and research institutes of Korea, Japan and ASEAN.

Secondary data sources also were incorporated, such as published reports, newspaper articles, accounts in other media and any other reliable sources of information available in English, Korean and Japanese. To compensate for the difficulty in reaching former negotiators, the author relied on news media that conducted interviews with government officials from the early 2000s. Archival data were collected from the National Assembly Library of Korea and the National Diet Library of Japan, which gave the author access to old newspaper articles and journal articles published in Korean or Japanese and otherwise unavailable to the public.

Following the data collection, this research adopted the process-tracing method to connect evidence found from primary and secondary resources. Process tracing provided a useful tool to

uncover what stimuli the actors attend to; the decision process that makes use of these stimuli to arrive at decisions; the actual behaviour that then occurs; the effect of various institutional arrangements on attention, processing, and behaviour; and the effect of other variables of interest on attention, processing, and behaviour. (George and McKeown 1985, 35)

In other words, it offered techniques to uncover the historical connections among specific events and helped the author make sense of the disconnected evidence.

1.3.3 Case Selection: Korea and Japan. The previous section elaborated on the use of the comparative case study method in this thesis. Does this mean that Korea's and Japan's cases are in fact comparable? This section justifies the selection of these case studies by: 1) eliminating other ASEAN+1 PTA candidates and 2) assessing the economic and political background of Korea and Japan.

First, it is useful to narrow the candidate cases by examining the background of the ASEAN+1 PTAs. AANZFTA and AIFTA can be ruled out relatively easily from an examination of the time frame in which the negotiations began, the mutual importance of ASEAN to its five partners and the geographical definitions of East Asia adopted by this study. For ASEAN too, the three Northeast Asian countries were its major trading partners, although Japan's share of ASEAN's total trade at 15.3% in 2000 was incomparable to that of Korea or China (see Table 1.4). China and Korea were newly emerging as ASEAN's major trade partners, taking up 4.3% and 3.9% of ASEAN's total trade, respectively, in 2000. Japan's political and economic leverage, thus, would have been much greater than that of either Korea or China. To include these differences, Chapter 3 takes the political and economic leverage as one of the major factors shaping Korea's and Japan's negotiation preference between bilateralism and regionalism.

Next, China's FTA with ASEAN is further ruled out due to the limited scope of the thesis and China's relative dissimilarity to Japan and Korea. Since the signing of the CAFTA framework agreement in 2001, China has been Japan's major rival in competing for regional leadership. The differences between Japan's and China's international backgrounds, however, make it more difficult to trace the domestic determinants of a country's negotiation preference between bilateralism and regionalism.

As Chapter 2 illustrates, the major differences between China's and Japan's negotiation approaches are clearly identified by international factors. Politically, China in the early 2000s was a newly rising power in East Asia, whereas Japan had been an established regional power. Thus, China's major motivation with CAFTA was more political than economic. Economically, CAFTA differs from AJCEP because it is an agreement between two developing parties, so designated under the GATT's Enabling Clause (Higashi 2008). Japan is not applicable to this exception, so it was obliged to engage in the PTAs with greater liberalisation. Furthermore, China and ASEAN have horizontal economic structures, as low labour cost and

abundant natural resources and agricultural products characterise their economies. In contrast, Japan and Korea have vertical economic structures with ASEAN, and their PTAs with ASEAN in their nature are North–South agreements. Thus, Korea and Japan provide more comparable cases to investigate how domestic factors can be separated from international factors.

Korea’s and Japan’s PTAs, including those with ASEAN, began and developed under similar international backgrounds. They were both under pressure to engage in bilateral and regional trade due to the Asian financial crisis of 1997–1998, the slow progress of the WTO in fostering trade relationships and the need to catch up with other countries that were advancing with PTAs (see Chapter 2 for detail). They also shared similar values as members of the Organisation for Economic Co-operation and Development (OECD) (Munakata 2001, 14).

Table 1.4 ASEAN's Exports to and Imports from China, Korea, Japan, Australia–New Zealand and India 2000, in billion USD

	Exports	Imports	Total	Share to ASEAN
China	127.9	152.5	32.3	4.3%
Korea	54.5	65.6	29.6	3.9%
Japan	145.2	128.1	116.2	15.3%
Australia– NZ	41.8	25.9	19.78	2.6%
India	42.8	25.7	9.6	1.3%

Source: ASEAN Secretariat (2013). Data recompiled by author.

For this reason, scholars, media and trade negotiators have compared the two countries’ progress in negotiating PTAs. Often, these analysts have viewed Korea and Japan to be in competition for PTAs.¹² For example, when Korea signed FTAs with the US and the EU,

¹² For example, see Choi and Oh (2011), Yoshimatsu (2012), and J. Kim (2013). J. Kim (2013) provides a case of how Korea’s FTA progress with the US, EU and China heightened the urgent need for Japan to promote Trans-Pacific Partnership (TPP):

The South Korean government concluded its FTA negotiation with the United States in 2007, signed with the EU in 2010, and declared the start of its FTA negotiation with China. Given this situation, it is apparent that South Korea is actively promoting its FTAs with the United States, EU, and China, the three main export markets for Japan. To the Japanese government, already fearful of its being left out of the FTA competition in East Asia, South Korea’s recent push toward FTAs heightened the sense of crisis about Japan’s economic and diplomatic

Japanese commentators and the media engaged in heated debate, calling for fast PTA negotiation with larger economies.¹³ When Japan signed the Trans–Pacific Partnership (TPP), the Korean media and members of the public criticised the Korean government for lagging behind Japan.¹⁴ In the author’s interviews with trade negotiators and scholars in Korea and Japan, the interviewees often stated that because they are neighbouring countries with similar economic structures, they have naturally compared each other’s PTA progress while pursuing their own. Korea’s and Japan’s PTAs with ASEAN were no exception. Because both Korea and Japan began their PTAs after China’s move towards ASEAN, the two countries considered each other’s negotiation progress as a reference in their own negotiations (Chin 2010).

In terms of their economic structures, Korea and Japan are both export-oriented economies. In trade with ASEAN, both countries have vertical trade relationships, with overlapping strengths in manufacturing sectors, such as machinery, electronic devices, transportation equipment and similar products. Their imports from ASEAN mainly consist of natural resources or products derived from those resources, such as crude oil, wood, chemicals, coal, and agricultural and fishery products.

Even though Japan’s trade dependency is relatively low compared to Korea’s, trade has always been important for Japan (Ministry of Internal Affairs and communication of Japanese official, personal communication). As Chapter 4 illustrates, in 2002, 18.9% of Japan’s gross domestic product (GDP) depended on trade, whereas ASEAN’s share of trade took up 14%, or 1.22 trillion USD.¹⁵ Korea depended far more on trade than Japan; in 2002, 51.7% of its GDP relied on trade. In 2002, ASEAN was Korea’s fifth-largest trading partner, taking up 11% of Korea’s total trades, or 35 billion USD. The figures suggest that to Japan and Korea, ASEAN was an important trade partner that could not have been overlooked despite the variation in the two countries’ trade dependency. Furthermore, even though Korea depended more on trade

disadvantage. It is worth noting that at the first conference of the EPA project team, Yoshio Hachio, the former minister of METI, touched upon “South Korea” and expressed his worries about Japan’s falling behind Korea, saying that Japan was facing a turning point in dealing with the TPP substantially because the US Congress ratified the KORUS FTA. (5)

¹³ For example, see KITA (2009), Hwang (2007) and Hornung (2011).

¹⁴ For example, see Y. Kim (2015) and J. Lee (2015).

¹⁵ On 10 August 2017, 134 trillion JPY converted into 1.22 trillion USD, based on an exchange rate of USD/JPY=110.08, as obtained from XE currency converter (<http://www.xe.com>).

than Japan, the absolute trade volume between Japan and ASEAN was approximately four times greater than between Korea and ASEAN.

Finally, Korea and Japan are particularly interesting cases because they are currently the only instances of bilateral agreements that involve the same multiple partners. Neither had prior experience negotiating with multiple partners, nor did they have examples to learn from other than CAFTA. Prior to their PTAs with ASEAN, Korea–Chile FTA and Japan–Mexico FTA were the only cases in which the two countries experienced substantial opposition from the agricultural sector. Their similarities in the lack of precedent suggests that the two countries' decisions are more likely to depend on domestic factors rather than external factors.

1.3.4 The Externalities: Responses of ASEAN. The thesis's primary interest rests on how the domestic variables in Korea and Japan interact. However, foreign economic policies, particularly PTAs, are not shaped unilaterally. They are an outcome of processes involving mediation among the member parties to arrive at mutual terms involving conditions and benefits. Therefore, they are inevitably affected by counterparties' domestic circumstances and their willingness to participate in negotiations. The nature of ASEAN, which requires co-operation among multiple parties, also added another complication to the FTA negotiations. In this thesis, these factors caused by the ASEAN side are considered to be externalities.

As one example, the ASEAN side's varying domestic conditions could have become a barrier to Korea's and Japan's trade negotiations. Chapter 4 demonstrates that Japan chose the bilateral approach of negotiations because it aimed to achieve high-quality trade agreements with individual ASEAN members. While Japan had political and economic leverage against the individual ASEAN members to achieve generous concessions in its agricultural sector, this leverage did not apply in all aspects of trade. For example, Japan considered that liberalisation in government procurement was necessary to meet the standards of its EPAs. Thus, Japan was to include chapters on government procurement in its agreements with Singapore, Thailand, Indonesia and the Philippines. However, the same could not be applied with Malaysia (see Table 6.1 in Chapter 6). Malaysia's *bumiputra* policy, a race-based affirmative action formulation that gives preference to ethnic Malays over ethnic Chinese or Indian citizens, was strongly present in government procurement and some service sectors at the time of JMEPA negotiations. Even though the Malaysian negotiators considered the EPA necessary to lock in domestic reform, the government procurement was considered almost like a sanctuary area

within Malaysian domestic politics, and it could not even be brought up at the negotiation table (METI official, personal communication).

In addition, ASEAN is a group of nations that vary significantly in their developmental statuses. A condition accepted by one member of ASEAN, thus, may be more difficult to extend to another. To accommodate the variation, the ASEAN Charter (ASEAN Secretariat 2008) establishes that those ASEAN members that are ready to participate in an economic commitment may proceed, while those that are not ready may flexibly participate at a later time. This is specified in the Charter's Chapter VII on Decision-Making Article 21, which stipulates that "in the implementation of economic commitments, a formula for flexible participation, including the ASEAN Minus X formula, may be applied where there is a consensus to do so." Because of this policy, KAFTA could proceed without Thailand when the agreement regarding trade in goods was signed in 2016 (see Chapter 4). Similarly, most ASEAN+1 PTAs make exceptions for Cambodia, Laos, Malaysia and Vietnam (CLMV),¹⁶ considering their developmental state, and grant them greater flexibility in tariff reductions and the reduction schedules.

Finally, a collective action problem that exists within ASEAN poses another externality for Korea's and Japan's decision-making processes. Since its establishment, ASEAN has pursued the "ASEAN way" of regional co-operation, which emphasises values such as informal consensus making through minimal institutionalism and non-interference with the internal affairs of other sovereign member nations. The inefficiency attached to such flexibility, according to Yoshimatsu (2006, 123–130), should ideally be compensated by peer pressure. Instead, implementation of the AFTA was challenged due to attempts by Malaysia, Singapore and the Philippines to defect from the agreement. Even as Singapore and Thailand came to be the leaders co-ordinating the interest of ASEAN as a group, they showed ambivalence by actively promoting bilateral FTAs with non-members to remain competitive in the global market.

Similarly, Corning (2009, 652) suggests that the Philippines and Thailand, in seeking bilateralism with Japan, worried that if AJCEP negotiations were concluded, other ASEAN members may free ride on their privileges with regard to Japan. The difference between AFTA

¹⁶ Cambodia, Laos, Myanmar and Vietnam are often grouped together as the CLMV countries for their relatively late development statuses in ASEAN.

and ASEAN+1 agreements, however, is that ASEAN+1 agreements require all ASEAN members to co-operate with one voice against a non-member country. Hence, Yoshimatsu (2006, 115) demonstrates that “although ASEAN countries have not intended to establish a supranational body to resolve collective action problems, they have gradually developed feasible enforcement mechanisms by intensifying the centralized nature of regional organization.” Yoshimatsu (2008, 155) confirms that ASEAN did not welcome Japan’s bilateral approach, as the group approach would raise ASEAN’s bargaining power against a large economy such as Japan.¹⁷

These externalities will be discussed as the research progresses in the following chapters. However, it should be emphasised here that the focus of this study is the domestic politics of Korea and Japan; thus, it is beyond the scope of this research to discuss domestic politics in ASEAN in detail. ASEAN perspectives will be incorporated when necessary, but only to resolve the gap that cannot be explained by Korea’s and Japan’s domestic politics alone.

1.4 Structure of the Thesis

This introductory chapter began by providing a comprehensive overview of the East Asian regionalisms and plans for this research. The rest of the thesis is organised as follows.

In Chapter 2, an extensive literature review is conducted on East Asian regionalism, compatibility between bilateralism and regionalism in East Asia, and Korea’s and Japan’s FTAs with ASEAN. It demonstrates that existing studies attribute the absence of regional economic institutions and the emergence of the ASEAN+1 PTAs primarily to international factors. When it comes to the scholarly debate on whether bilateralism and regionalism are compatible with one another, most scholars present pessimistic perspectives. This chapter finds this view is based on results rather than processes of East Asian trade agreements. Furthermore, domestic approaches toward IPE have only recently emerged in the literature of East Asian FTAs. Hence, the study of Korea’s and Japan’s negotiation processes fills a gap in the existing literature and adds a new perspective to the existing bilateralism versus regionalism debate.

¹⁷ Despite ASEAN’s reaction, Japan was supportive of both bilateral EPAs and AJCEP, as Chapter 4 will illustrate. As a matter of fact, Japan has been a strong supporter of ASEAN unity.

Chapter 3 builds a theoretical foundation on which the thesis's empirical evidence will be tested. The chapter first examines the strengths and weaknesses of systemic IPE theories. While acknowledging that theories such as neo-liberal institutionalism and neo-realism account for the broader changes of Korea's and Japan's trade policies, they are limited in explaining similar but unequal responses of the two countries toward international pressures. To explain this endogeneity, the chapter further explores the theoretical basis presented by domestic IPE approaches. Adopting an analytical framework based on the three I's, it hypothesises that a combination of factors, namely, domestic interests, ideas and institutions, have led to the divergence of Korea's and Japan's PTA negotiation approaches with ASEAN. Sub-hypotheses on each of the three I's are also established.

Chapter 4 presents the first empirical chapter that investigates the influence of domestic interests on Korea's and Japan's PTA negotiations with ASEAN. The chapter begins by providing a brief comparative background on how Korea's and Japan's interests changed throughout the post-war period. Then, based on the analytical framework presented in Chapter 3, the author examines Korea's and Japan's private interests and government interests. In the private sectors, agricultural interest groups and industrial groups present conflicting interests for profit-driven reasons. At the government level, Korea and Japan calculate the costs and benefits of a bilateral versus regional approach to negotiation based on different political and economic motivations. They include achieving negotiation efficiency, enlarging market access, using diplomatic leverage and strengthening political ties. The findings of the chapter suggest that the two countries' governments displayed notable differences in their interests, particularly in using diplomatic leverage and strengthening political ties, but both initially chose to promote bilateral approaches of PTA negotiations with ASEAN.

Chapter 5 then provides ideas-based explanations for why the negotiation strategy in Korea suddenly changed from the bilateral approach to a region-based approach, whereas Japan's strategy remained consistent. The chapter examines the changes in ideas about bilateralism and regionalism by defining the long-term and short-term momentums in the two countries' historical trajectories in trade since the 1990s. In the long term, the chapter demonstrates how the domestic actors in the two countries arrived at different perceptions regarding East Asian identity and the importance of the WTO-based multilateral regime. In the short term, it illustrates how Korea's earlier FTA experiences with Chile and Japan's earlier FTA experiences with Singapore and Mexico shaped their diverging perception about PTAs in

response to domestic opposition. Through an examination of these developments, the chapter contends that Japan's emphasis on East Asian identity, which originated from its attachment to WTO-based rules and positive experience in gaining mutual acceptance around the agricultural sector, led it to continue its existing strategy. In contrast, Korea was less attached to the idea of East Asian identity or achieving more through PTAs than required by WTO standards. It also sought ways to negotiate more efficiently in the face of strong domestic opposition. Thus, under the path-breaking leadership of a new trade minister, Korea quickly shifted its bilateral strategy to the region-based KAFTA.

Chapter 6 presents the final empirical chapter on the institutional dimensions of Korea's and Japan's FTA policies. It questions why Korea's and Japan's negotiation progresses were reversed, even though Korea changed its initial negotiation approach to the region-based strategy that was considered relatively inefficient. Also, only a few individuals changed policy direction in Korea. In Japan, the decision-making process involved numerous key players, which thus tended to be decentralised and improvised. It argues that the differences in the two countries' institutional structures account for these variations, distributing varying degrees of power to the decision makers. To demonstrate this point, institutional backgrounds of Korea and Japan are examined, focusing on the development of their respective PTA institutions from the late 1990s to the early 2000s. It demonstrates how the differences in the executive and legislative branches of the two countries and the internal relationships of their respective bureaucracies resulted in a divergence from the institutionalisation of the PTA strategies, as illustrated by their PTA strategies with ASEAN.

Finally, Chapter 7 concludes the thesis. It revisits the three I's analytical framework to examine when and how domestic interests, ideas and institutions interacted with and influenced Korea's and Japan's negotiation approaches with ASEAN. It then explains how the empirical findings of this research provide an alternative perspective for the bilateralism versus regionalism debate. At a more practical level, it also provides implications for policy makers on negotiation approaches taken in PTAs. The chapter ends by addressing the limitations of the thesis and recommending future research directions.

Chapter 2 Literature Review

2.1 Introduction

When GATT was established in 1947, it set a strong base for non-discrimination for all its members. Article I contains an unconditional most favoured nation (MFN) obligation for all contracting parties (WTO n.d.).¹⁸ However, GATT also left a room for flexibility under Article XXIV, which stipulates that customs union and FTA—agreements that are discriminatory by their nature—are allowed under specified circumstances. Article XXIV states that the exception is permitted, provided that “substantially all the trade” is liberalised “within a reasonable length of time”, and that duties and other regulations are “on the whole” not higher or restrictive than for the parties in the PTA (WTO, n.d.).¹⁹ This room for flexibility allowed the creation of the European Economic Community in 1957 and the European Free Trade Agreement (EFTA) in 1960. Mirroring the footsteps of the European initiatives, there were a number of proposals for PTAs in the 1960s. Bhagwati (1992, 538–539) defined this phenomenon as First Regionalism.²⁰

The regionalism revived in the 1980s when the US and European countries redirected their attention to PTAs. The US began FTAs with Israel, Canada, Mexico and, further,

¹⁸ GATT Article I paragraph 1 states that:

“With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III,* any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.”

See the full text of this Article from the WTO website:

https://www.wto.org/english/res_e/booksp_e/gatt_ai_e/art1_e.pdf

¹⁹ See the full text of GATT Article XXIV from the WTO website:

https://www.wto.org/english/tratop_e/region_e/regatt_e.htm

²⁰ Bhagwati (1992) believed First Regionalism failed because the US was indifferent about PTAs and developing countries’ bureaucracies tended to go far ahead of the actual market flow.

NAFTA. The European Economic Area agreement was signed in 1991 to promote integration between the EU and EFTA. To Bhagwati (1992), the main driver of Second Regionalism was attributable to the US's commitment to engage in PTAs. Baldwin (1993) argued that the revival of regionalism could be explained by what he labelled as the domino theory of regionalism, suggesting that exclusion from one economic bloc leads non-member economies to promote other PTAs—as a result, bilateralism proliferates.

As the number of PTAs increased globally, debates surrounding the phenomenon also intensified. These were framed around Bhagwati's (1992, 543) question, “[w]ill regionalism lead to nondiscriminatory multilateral free trade for all, through continued expansion of the regional blocs until universal free trade is reached, or will it fragment the world economy?” The question asks, in essence, whether the proliferation of bilateralism and regionalism is a building block or a stumbling block to multilateralism.²¹

While the new wave of PTAs flourished in the West, East Asia continued to adhere to WTO-based multilateralism throughout most of the 1990s. It was after the 1997–1998 Asian financial crisis that the East Asian countries began to seek PTAs. Despite a decade of delay in the proliferation of bilateralism, the Bhagwati dilemma has taken centre stage in debate in East Asia, without exception.

Therefore, the first part of this chapter examines the emergence of bilateralism and regionalism in East Asia and how each evolved. It reviews the literature that explains why East Asia's regionalism began later than that of the EU and the US, and what was the rationale for the emergence of PTAs in the region. It also addresses competing scholarly views on whether the different levels of “lateralisms”—bilateralism, regionalism and multilateralism—have been compatible in East Asia, including the ASEAN+1 PTAs.

The second part of this chapter focuses on Korea's and Japan's PTA negotiations with ASEAN. It reviews the literature on the political and economic factors that drive these FTAs. Finding these factors to be focused more on results than processes, the chapter investigates studies conducted on the negotiation processes of KAFTA and AJCEP. It then assesses the contributions and limitations of existing explanations. Finally, this chapter concludes by locating the thesis within the literature of East Asian regionalism and recapping the contribution of the thesis to the existing body of literature.

²¹ See Schott (2004) for an overview of the debate between FTA advocates and critics.

2.2 The Development of East Asian Regionalism

When did the concept of East Asian regionalism first emerge and how did it develop over the years? Baogang He (2017) traced back the origin of East Asian regionalism as early as the 1900s. East Asia cultivated a sense of Pan-Asianism to “preserve the traditional cultures of Asia in response to Western imperialism in the early twentieth century” (He 2017, 26–27). From this common experience, East Asian countries developed an “Asian-value”, or a cultural foundation and regional identity, based on nationalist and statist thinking that differentiated the region from the West. For example, Japan distinguished East Asians from “white raced” Westerners by emphasising the commonality between Japan, Korea and China for being “yellow raced” (He 2017, 28–29). Japan’s approach of race-based thinking was criticised by Chinese elites, who considered it a tool for Japanese imperialism. The Chinese activist Li Dazho proposed in 1919 that “[a]ll suppressed nations in Asia should gain independence and exercise self-determination first, then form an Asian union. Finally, together with Europe and America, they would achieve a world federation to enhance human happiness” (He 2017, 29–30).

Thus, it could be said that a sense of community existed in East Asia, although it did not develop as any kind of economic or political co-operative initiative to address the region’s common goals. In the postmodern period, the establishment of ASEAN in 1967 marks the first regional co-operative effort in East Asia. It was followed by some of the major regional co-operation efforts, such as the creation of the Asia-Pacific Economic Cooperation (APEC) in 1989, which expanded the idea of East Asian regionalism to include the Pacific Rim countries (He 2017). In trade, AFTA was signed in 1992 as the first FTA in the region.

Despite these initiatives, East Asian regionalism had been widely perceived as under-institutionalised compared to regional institutions established in North America and Europe. Notwithstanding the high level of economic interdependence and geographical propinquity, East Asia has lacked a structure that can enforce co-operative measures (Calder and Ye 2004; Friedberg 1993; Calder and Fukuyama 2008; Ravenhill 2008b). As Calder and Ye (2004, 191) put it, there exists a distinctive “organization gap” in East Asian regionalism. The origin of this gap dates back to the 1950s, when a hub-and-spoke form of alliance developed between the US and Asia after the advent of the San Francisco System; the US offered its

Asian allies access to its market in return for bilateral security agreements and encouraged them to join multilateral institutions rather than forming exclusively Asian regional institutions (Beeson 2003; Calder 2004; Aggarwal and Koo 2008, 289–290; Terada 2009).

Throughout the 1990s, the rapid increase of economic transaction in East Asia was seen to be dominantly market-driven, witnessing the intensification of intra-regional production networks and investment (Promfret 2010). Such a market-driven process of regional integration has often been referred to as *regionalisation* to distinguish the phenomenon from *regionalism*, a term used to indicate institution-driven regional integration initiatives (Langhammer 1995; Dent 2006; Urata 2006; Promfret 2010). Dent (2006, 206) defined regionalisation as arising from “micro-level processes that stem from a regional concentration of private or civil sector activities, such as intensifying international trade between firms within a particular regional zone”.

Proposals for East Asia regional initiatives continued to be strongly opposed by the US throughout the 1990s. Its most representative example is Malaysian Prime Minister Mahathir Mohamad’s proposal for the East Asian Economic Grouping (EAEG) in 1990. Thus, the first tide of debate between bilateralism and regionalism concerned whether the US’s allies could move away from this hub-and-spoke relationship and form their own region-based institution. As Brown (1993) demonstrated, during this time Japan’s opinion leaders and elites in business, politics and academics were clearly divided into two groups: bilateralists and regionalists.

The regionalists were stimulated by the rise of regional economic groupings in North America and Europe and argued that Japan should similarly take the initiative in Asia to foster economic and political ties within the region. They viewed the US–Japan security relationship as having faded with the end of the Cold War and American power as on the decline due to societal and economic instabilities. The bilateralists, in contrast, argued that Japan should maintain its bilateral relationship with the US to keep the region’s security in order. They considered the end of Cold War to mean greater insecurity for Asia, as militarism was reviving around the world, and Japan should continue the Yoshida Doctrine²² by refraining from involvement in sensitive issues of international politics (Brown 1993, 554).

²² Hughes (2015) provides a concise definition of Yoshida Doctrine:

‘Yoshida Doctrine’ (*Yoshida Rosen*), forged in the aftermath of total defeat in the Pacific War, has long emphasised for Japan the need for a pragmatic and low-profile foreign policy, a

The Asian financial crisis was a direct trigger for change in East Asian regionalism. IMF's strict bailout conditions made the East Asian countries discontent toward the existing system, and regional initiatives for trade and finance began to appear in various forms of co-operation. East Asia growingly perceived APEC and ASEAN as forums to load off the heavy reliance on the US (Krauss and Naoi 2011, 52). Increasing intra-regional trade and foreign direct investment (FDI) competition posed by NAFTA and the EU, as well as the inefficiency demonstrated in the GATT Uruguay Round negotiations, added to the mounting discontent over the organisation gap (Manger 2005; Solís and Katada 2007). Furthermore, the growth of the Chinese market began to supply a new source of opportunities for trade and investment based on East Asia (Schott 2004, 6). Dent (2005, 293) added that the shift to bilateralism partially related to the shifting trade policy paradigm from mercantilism to liberalism. Trade policies in East Asia's newly developed countries, once based on economic nationalism and mercantilism, were increasingly open to neo-liberal norms.

Post-crisis East Asia has witnessed regional economic co-operation at the institutional level, and its most outstanding feature has been regional and bilateral trade agreements. Japan's proposed Asian Monetary Fund in September 1997 was one of the first attempts to initiate regionalism under its leadership; however, it was soon discouraged by fierce oppositions from the US and IMF (Terada 2003, 265). Three months later, the first APT Summit meeting took place. APT went on to provide a forum for ASEAN countries to co-operate on economic and security issues. For example, in 2000 it established the Chiang Mai Initiative to prepare the region for future currency crisis by arranging its own currency swap for member states. In addition, PTAs also began to emerge in the region to strengthen intra- and extra-regional economic networks.

These regional initiatives triggered IR scholars to speculate on the prospect of an East Asian exclusive economic pact. For example, Acharya (1997) presented an optimistic view on the expansion of "the ASEAN way" into the "Asia-Pacific way" from a constructivist's perspective: the institution building in the region was a process of identity building based on

highly constrained defence posture, reliance but not over-dependence on the US-Japan security treaty and the expedient rebuilding of economic and diplomatic ties with East Asian neighbours. (2)

See Chapter 4 for details on the Yoshida Doctrine and Japan's foreign economic policy.

four key ideas of ASEAN: co-operative security, open regionalism, soft regionalism and flexible consensus. By giving the examples of APEC and the ASEAN Regional Forum (ARF), Acharya argued that “the ASEAN way” provided an identity to the region beyond material interests, facilitating socialisation between policymakers.

Others pictured East Asian regionalism based on ASEAN+3. Stubbs (2002) considered that ASEAN+3 has the potential to become a predominant regional institution in East Asia, as APEC and ASEAN suffer from internal division. That is, APEC is divided between the Anglo–American economies that value binding and comprehensive trade liberalisation, while the less developed Asian economies prefer trade facilitation and economic and technical co-operation. ASEAN suffers a similar problem: it is divided between the original members and the new members, meaning, the newly democratising governments and the authoritarian governments. It has also questioned to what extent ASEAN values, such as non-interference and flexibility, should be applied in promoting the co-operation within ASEAN. In the meantime, Stubbs argues that ASEAN+3 stands a better chance, because East Asian countries share common post-war history, cultural traits, a distinctive set of institutions that pursue export-oriented industrial development, the East Asian form of capitalism, and increased intra-regional FDI and trade. Moreover, the Asian financial crisis strengthened the region’s sense of community by adding a shared experience, demonstrating the ineffectiveness of APEC and ASEAN, and causing a sense of common resentment toward IMF and the US.

Terada (2003, 265) also acknowledged the Asian financial crisis’s role in promoting the East Asian identity, and he stressed the role of Japan in taking the initiative for this approach (267–270). However, he is less optimistic than Stubbs (2002) in viewing ASEAN+3’s potential to act as a full-fledged regional community. It has a significant implication for East Asia’s acquisition of its own identity but is still premature to draw consensus among the member countries on the different levels of issues. Considering its informal nature, ASEAN feels uneasy about the possibility of losing the driver’s seat in promoting regionalism, and non-member countries such as the US and Australia may voice their opposition. Beeson (2003) showed greater pessimism than the aforementioned scholars, but for similar reasons: intra-regional tensions and informality stands in ASEAN+3’s integration, and the US’s influence would constrain further development of East Asia’s regionalism.

2.3 The New Bilateralism Versus Regionalism Debate

A decade ago, scholars like Hund (2003) and MacIntyre and Naughton (2005) were pessimistic about the full realisation of the ASEAN+1 PTAs. Hund (2003, 396–397) showed scepticism toward AJCEP and CAFTA, as they would only add more complication to the existing AFTA, which had been exhibiting an inefficient progress of development. In addition, MacIntyre and Naughton (2005, 98) argued that the ASEAN-based frameworks tended to be consensus-based rather than rule-based; the absence of the US to co-ordinate the disagreement among the East Asian countries meant these frameworks would be difficult to be achieved.

Even as different predictions for future regionalisms emerged in the early 2000s, the ASEAN+1 level FTAs continued to progress in competition with one another. Thus, the debate shifted away from whether East Asia had the capability to form its own regional economic initiative free from American influence and towards the compatibility of newly emerging bilateral agreements with a more integrative RTA. The second tide of debate between bilateralism and regionalism, therefore, questioned whether bilateral agreements were compatible with regionalism.

To address this debate, it is useful to frame the questions embedded in the phrasing “compatibility between bilateralism and regionalism”. According to Renard (2016, 22), “bilateralism substitutes, complements or competes with regionalism and/or multilateralism”. In this context, this debate generates three possible scenarios:

The first scenario implies that bilateralism comes in when regionalism and multilateralism have proved ineffective or inexistent. The sequencing neutralizes compatibility concerns. The second scenario implies that bilateralism is compatible with and mutually reinforcing with regionalism/multilateralism. The third scenario implies that bilateralism is incompatible with and mutually undermining with regionalism/multilateralism. (Renard 2016, 22)

Existing studies generally agree that bilateralism and regionalism mutually influence one another, falling into either the second or third scenario. When it comes to the compatibility between ASEAN+1 PTAs and bilateral FTAs with individual ASEAN

members, however, scholars are more pessimistic. For example, Corning (2009) argued that AJCEP is limited in harmonising Japan's bilateral EPAs with ASEAN, mainly regarding *WTO-plus issues* and rules of origin (RoO). AJCEP does not include issues such as government procurement and labour mobility or other specific issues that are addressed in bilateral deals. Moreover, exporters and importers are given the flexibility to choose RoO that benefit them the most. Thus, Corning (2009) argued, it is difficult to claim that AJCEP harmonises Japan's bilateral EPAs, even though AJCEP does have some elements, such as product-specific rules, that are more liberalising than its bilateral EPAs. Dent (2010, 213) also demonstrated the cases in which numerous FTAs were stalled by other agreements. Korea's bilateral FTA with Thailand is one such case in which bilateral FTA was superseded by the regional KAFTA.

With regard to the debate of bilateralism and regionalism at the broader level, which envisages a more integrative form of East Asian or Asia-Pacific regionalism, the literature consistently presents a negative perspective. Dent (2005; 2006; 2008; 2010; 2013) has been a leading critic in this debate. He has been pessimistic about the possibility of existing PTAs leading to a more comprehensive form of regional co-operation because of the diversity that exists within the region, including technical differences, political and economic differences, ideational differences, and rivalry between regional FTA projects (Dent 2010). Dent (2010, 211) has defined the ASEAN+1 PTAs as a form of "quasi-regional arrangements", as they are agreements between a single country and a regional group. According to Dent (2010), however, the approaches taken in these FTAs suffer from a significant gap. For example, Japan's approach to FTAs is more suited to developed economies, whereas China's approach in CAFTA demanded a much simpler framework while giving many concessions to ASEAN in the agricultural and forestry sectors through the Early Harvest Program—terms that Japan and Korea would have difficulty accommodating (Dent 2005). Dent (2008) has suggested that the proliferation of bilateral agreements deepens the "lattice bilateralism", meaning, the complicatedness attached to the tangled bilateral agreements within the region hinder the region's economic integration and exacerbate competition between the countries.

Baldwin (2008), despite his popular theory advocating FTAs as building blocks to regionalism and multilateralism, also showed scepticism when it comes to the discussion of East Asian regionalism. He viewed East Asian regionalism as fragile for three reasons. First, East Asia's industrial competitiveness highly depends on the supply chain network. However,

the East Asian market is prone to small country conflicts arising from their political, economic and cultural diversity, which could threaten the stability of this structure. Second, ASEAN and Chinese tariff-reduction are not bound by WTO discipline, which implies these countries can nullify their agreements at any time without compromising existing multilateral rules. Third, current co-operation efforts in East Asia lack management. For example, the ASEAN+1 level FTAs are important elements of East Asian regionalism, but they are discriminatory, which makes the region highly vulnerable to the precedents of other regions, which leads to exclusion and competition rather than inclusion and expansion of regionalism.

However, Baldwin (2006, 1–2) also argued that ASEAN+3 provides the best institutional framework to manage the tangled web of East Asian PTAs to ease the “noodle bowl” syndrome, as it would be time-saving to rely on an existing institution. That is, ASEAN+3 has built certain credibility in the region while avoiding sensitive diplomatic issues. ASEAN+3 also does not represent a particular regional or non-regional power or threaten non-members, and when necessary, it would be easy to include new members. Furthermore, ASEAN+3 includes the nations that place emphasis on intra-regional trade. However, Baldwin also suggested that in order for ASEAN+3 to develop into a regional economic institution, it would need to solve its management issue by devising its own secretariat that is equipped with high quality experts.

The technical analyses of AFTA, ASEAN+1 PTAs and Japan’s bilateral EPAs also find these agreements lack consistency and vary significantly in their commitments. Thus, harmonising these agreements will consume much effort; although it could also mean that further liberalisation from the harmonisation can be expected. Fukunaga and Kuno (2012) analysed tariff structures of the ASEAN+1 PTAs and demonstrate that further tariff elimination is needed, particularly for the less developed economies of ASEAN, such as Cambodia, Indonesia, Laos and Myanmar, whose liberalisation in tariff lines are still below the 90% threshold, which is the minimum figure generally agreed by WTO member countries to meet the requirements of GATT Article XXIV.

When it comes to RoO, Medalla (2011) finds that Japan’s bilateral EPAs and AJCEP have common general rules. The major difference between the two arises from AJCEP’s use of regional value content (RVC) and Japan’s bilateral EPAs’ use of qualified value content

(QVC) or local value content (LVC).²³ Japan's bilateral EPAs have less restrictive RoO, but with more exceptions, particularly in the textile and garment sectors. Therefore, Japan's exporters have the tendency to prefer using bilateral EPAs over AJCEP. Because firms are responsible for figuring out the best RoO and complying with them, the different RoO intensify the noodle bowl syndrome.

Medalla (2011) further found there exists significant commonality among the four ASEAN+1 PTAs.²⁴ Although they have differences in specific restrictions, 64% of all tariff lines by the six digit Harmonized System (HS) codes of the five FTAs have at least one RoO in common, 14.8% with four FTAs, and 15.9% with three FTAs. Only 0.4%, or 23 tariff lines, did not have HS codes that are in common. These figures indicate that 90% of RoO are shared by three or more FTAs. Medalla (2011) also found that CAFTA had the most restrictive and different RoO among the five ASEAN+1 PTAs, while AANZFTA had the least restrictive. For regional economic integration to take place, Medalla suggested that the costs of complying with RoO should be further reduced and the different RoO should be harmonised with the most liberal ones used.

In services, Ishido (2011) demonstrated that commitments in the ASEAN+1 PTAs (except for AJCEP which has not negotiated services) are closely correlated but vary significantly in the liberalisation of sensitive sectors. Moreover, the ASEAN+1 PTAs are less liberalising in general, compared to Japan's bilateral EPAs' commitment in Mode 3 (commercial presence) and Mode 4 (movement of natural persons) of the services agreements. Thus, he suggests that East Asian regionalism with regards to services should begin by engaging in more liberalising bilateral agreements for spillover effects. With regard to FDIs, Thangavelu and Lim (2011) examined CAFTA and KAFTA, and their findings suggest that FDI policies in manufacturing sectors are much more liberalising than in services.

To the author's knowledge, the effects of non-tariff barriers or regulatory measures in ASEAN+1 PTAs have not been studied in the existing literature due to the difficulty in

²³ See Medalla and Rosellon (2012, 6) for the advantages and disadvantages of using different RoO.

²⁴ Medalla (2011) excluded the ASEAN-India FTA, because it was being negotiated at the time of her research.

finding reliable data (Cheong 2005, 145). However, the ASEAN+1 PTAs have been known to have very weak non-tariff and regulatory barriers in common (Sally 2013).

As negotiations for the Regional Comprehensive Economic Partnership (RCEP) started in 2012, Fukunaga and Isono (2013) argued that ASEAN+1 PTAs are stumbling blocks rather than building blocks to such a partnership. Their level of liberalisation in both goods and services is limited, and their complicated RoO would cause the “noodle bowl” syndrome. Basu Das, Sen and Srivastava (2016, 253) also saw the five ASEAN+1 PTAs’ lack coherence in “negotiating framework, coverage issues, deadlines and depth of commitments”. Corning (2011) alternatively suggested that competition for the promotion of bilateral FTAs between Korea, Japan and China help the region to overcome cultural diversity and political disputes, which in turn will drive East Asian regionalism. Thus, he argued that Korea’s cross-regional FTAs with the US and the EU are more realistic drivers to East Asian regionalism than the proposals for ASEAN+3 or ASEAN+6 FTAs, which would push China and Japan to promote FTAs with Korea.

2.4 Driving Factors of the KAFTA and AJCEP Negotiations

Previous studies find there are political and economic motivations behind KAFTA and AJCEP. In the political dimension, realist scholars explain that it was the Sino–Japanese rivalry and the need to balance growing regional economic powers in North America and Europe that triggered Japan and Korea to launch these PTAs. In the economic dimension, other scholars find that trade creation and diversion effects called for the two PTAs, which would not only create absolute economic gains for the involved parties but also compensate for the loss caused in Korea and Japan by CAFTA. The following section details the rationales of these scholars.

2.4.1 Intra-regional and Cross-regional Power Competition. Scholars have repeatedly emphasised the close connection between power politics and East Asian economic regionalism, which Pempel (2013, 1) referred to as an “economic–security nexus”. The ASEAN+1 agreements have been influenced by political factors as much as economic factors (Ravenhill 2008b, 96), which can be observed intra-regionally and cross-regionally. Intra-regionally, the Sino–Japanese competition has been identified as the main factor driving the

ASEAN-based PTAs. Cross-regionally, scholars show evidences of the East Asian countries' concern over the growing regional powers in other parts of the world, particularly in North America and Europe.

In the background of the Sino–Japan rivalry are the economic-driven changes that occurred since the 1990s. After transitioning to a market-oriented economic policy, China rapidly emerged as a major player in the international market and sought to participate in various international organisations, including its 2001 accession into the WTO (MacIntyre and Naughton 2005, 93). In contrast, Japan experienced a prolonged economic recession, which persisted throughout the 2000s. During this time, Japan became increasingly conscious of China's growth and increasing influence in the region—and the world.

Otsuji and Shinoda (2014, 147) noted that Japan's PTA movement toward JSEPA initially directed China's attention towards ASEAN. However, China's first proposal of CAFTA in 2000 still came as a surprise to Korea and Japan (Aoki 2004, 13), because China's approach had been perceived as unrealistic at the time (Corning 2011, 264). Since then, China gradually gained recognition as strategic and diplomatic, as it desired to take the leadership role in building East Asian regionalism by constraining American power and regional powers, such as Japan, and promoting closer security ties with ASEAN (Hughes 2006, 129; Yoshimatsu 2008, 127–146; MacIntyre and Naughton 2005, 96; Ravenhill 2008b, 81). Therefore, Japan perceived China's trade policy move toward ASEAN as a threat (Terada 2009; Corning 2009; Corning 2011; Aoki 2004, 13; Dreyer 2006; Yoshimatsu 2008).

As ASEAN had never been recognised as a PTA partner until China's proposal (Terada 2008, 13–14), Japan's response to establish a new economic agreement with ASEAN was considered reactive to the Chinese policies.²⁵ According to Lim (2005, 141) Japan was “losing its polish” on the economic front. The country had concluded only one PTA in 2002 with Singapore, a country with an economy that lacks significant agricultural interests and that has a tariff rate close to zero. JSEPA provided a small share in trade for Japan and negligible impact on the overall Japanese economy.

²⁵ See Drysdale (1986) and Calder (1988) for further detail on Japan as a reactive/reactionary state. The description was first used in the late 1980s to depict Japanese foreign economic policy that is highly dependent on US pressure or “American satellite syndrome” (Drysdale 1990, 30). Today, the description is used to criticise Japanese policies that are heavily influenced by the policies of other states.

Drawing from realist-oriented concepts, Yoshimatsu (2008, 149) argued that Japan showed power *balancing* behaviour against China by *aligning* with ASEAN. The political will of the Liberal Democratic Party (LDP) drove Japan's commitment to ASEAN, as the party's politicians feared that Japan's regional leverage would decline. This concern outweighed the strong opposition within the party, which had long maintained close relations with the agricultural sector (Yoshimatsu 2008, 153).

As a result of the power play between China and Japan, ASEAN came to be located as a natural economic and political medium for connecting the two powers (Lim 2005). Accompanied by pursuit of its own interest in the two countries, ASEAN came to take the driver's seat—albeit its limited capacity to be a regional power—in promoting the ASEAN+1 framework (Terada 2008, 13; Dent 2008, 211).

In the midst of the Sino–Japanese rivalry, Korea's move toward KAFTA also had strategic implications (Lee 2006, 185). Korea aimed to form a horizontal relationship with ASEAN, rather than compete within Northeast Asia where China and Japan have greater political and economic leverage in absolute terms. In other words, Y. Lee (2006) argued that Korea pursued a strategy that would mediate the two competing powers by playing the balancer's role, which was similar to the tactics of ASEAN.

Cross-regional competition is little discussed in the literature compared to intra-regional rivalry. It has often been taken for granted that East Asia should attempt to build its own regional pact, given the on-going co-operation in the EU and NAFTA, and to create a tripolar trading system in the global economy (Sohn 2004, 500). However, some scholars give evidences that there were apparent intra-regional and domestic concerns about rising regional pacts in these two economies. For example, Malaysian Prime Minister Mahatir reaffirmed his vision of ASEAN+3 and the creation of ASEAN-based RTAs during Japanese Prime Minister Koizumi's visit in January 2002 as a “necessary balance” to the EU and NAFTA (Hund 2003, 387). Ravenhill (2008b, 82–83) showed that Japan was perturbed by the progress made through NAFTA in the late 1990s. Witnessing the aggressive expansion of European and North American countries and their businesses enjoying preferential access through regional arrangements, the Ministry of International Trade and Industry (MITI)²⁶

²⁶ MITI was renamed the Ministry of Economy, Trade and Industry (METI) in 2000.

was concerned that Japanese companies would be disadvantaged unless the country negotiated new regional arrangements that included “WTO plus” issues.

In short, the growing regionalism in Europe and North America was no doubt a critical factor consolidating East Asian leaders to form their own regional forum. However, Katzenstien (2000) suggested a softer perspective of what may be considered a tripolar trading system. He viewed the concept of “open regionalism” and the East Asian approach to regionalism as not discriminating against the regions outside the bloc, thereby embracing the US and Europe and leading to a more “plural world” rather than a “tripolar world”.

2.4.2 Economic Factors: Trade Creation and Trade Diversion Effects. From a purely economic perspective, it was natural that the ASEAN+1 PTAs or broader RTAs should be promoted. As Langhammer (1995, 175) observes, the trades with ASEAN countries rose faster with non-member countries, such as Korea or Taiwan, than among the member countries from 1980 to 1992. Existing studies find that Korea and Japan benefit from the ASEAN+1 agreements through trade creation effect, while at the same time avoiding the trade diversion caused by CAFTA.

A useful departure point evaluating the trade creation effect of the ASEAN+1 agreements is to examine existing studies on the gravity model of trades²⁷ and the computable general equilibrium (CGE) model.²⁸ Studies using these models generally

²⁷ See Sohn (2005) for further detail on the gravity model of trades and its implication for Korea’s trade patterns. He explained that:

[the] gravity model becomes in great fashion as it deals with the bilateral trade flows. The gravity model is so-named in that it copies the equation of gravity theory in Newtonian physics: bilateral trade volume (physical gravitational force) increases with the product of economic sizes (physical masses) and decreases with geographical distance (physical distance). The gravity equation fitted data [of international trade] remarkably well. It was the empirical success that made economists search for the theoretical foundations of the gravity model. The gravity equation, thereafter 1980s, was derived theoretically as a reduced form from various international trade models... the gravity equation appears to be consistent with a large class of trade models. (Sohn 2005, 2–3)

Moreover, he argues that the gravity model is apt to explain Korea’s bilateral trade patterns, given Korea’s economic nature. It is a small country with scarce natural resources but it is also a major exporter and producer. Therefore, having a comparative advantage in different industries makes Korea’s trade more dependent on inter-industry trade, as noted by the Heckscher–Ohlin model, rather than on intra-industry trade that is dependent on economies of scale.

²⁸ The CGE model in trade analysis uses economic data to conduct simulations on how changes in trade policies impact an economy. See Ando and Urata (2006, 2–4) for a detailed

confirm that the creation of PTAs improves economic welfare of all participating members in East Asia. For instance, Amin (2009), using the CGE model, showed that inter-industry and intra-industry trade creation effect can be achieved through AFTA, and argues that trade policies for economic growth should be further promoted. Tang and Wang (2006) also found a strong trade creation effect for ASEAN and CAFTA. Estrada et al. (2011) demonstrated that all three ASEAN+1 PTAs benefit the parties involved. They further showed that CAFTA is expected to bring greater economic gain for ASEAN than KAFTA or AJCEP.

Another general finding from the existing studies using the gravity model and the CGE model is that broader PTAs bring higher economic gains to their members (Ando and Urata 2006; Estrada et al. 2011, 17; Gilbert et al. 2004; Kawai and Wignaraja 2008). Ando and Urata (2006) compared the different combination of ASEAN, ASEAN+1, ASEAN+2 and ASEAN+3 FTAs through the CGE model, and they demonstrated that ASEAN+3 FTA yields the best outcome for regional economies at a macro level. Estrada et al. (2011) found that, while the ASEAN+1 agreements benefit East Asia and are easier to reach, ASEAN+3 FTA (consisting of the ASEAN nations plus China, Korea and Japan) is more ideal for regional welfare. Gilbert et al. (2004) demonstrated that the ASEAN+3 FTA would produce higher gains than a China–Korea–Japan FTA, and they suggested a broader PTA would bring larger benefits to the region. Similarly, Kawai and Wignaraja (2008) showed that greater economic gains can be achieved through ASEAN+6 FTA than ASEAN+3 FTA. Congruent with these findings, economic interdependence has been intensifying in East Asia; the need to promote an integrated PTA has been emphasised repeatedly (Ahn, Baldwin and Cheong 2005; Cho and Park 2011).

Meanwhile, a more direct cause that led Korea and Japan's negotiations was the potential trade diversion effect triggered by CAFTA. In other words, Korea and Japan feared that removal of trade barriers between China and ASEAN would disadvantage their industries. Perhaps the most renowned explanation for the trade diversion driven PTAs or RTAs is Baldwin (1993)'s domino theory of regionalism. In answering the question "Why are countries eager to open markets regionally but reluctant to do so multilaterally?", Baldwin suggests that an "idiosyncratic shock" can trigger states to join a regional pact, which causes

discussion of general properties of the CGE model and how the model is used to explain the application of PTAs in East Asia.

regionalism to “spread like wildfire”. This is an alternative to the existing explanations, such as the shortcomings of multilateralism and the US’s redirection of its preference from multilateralism to regionalism. The creation or enlargement of a regional bloc reduces non-member firms’ profits, which influences a previously indifferent country to join the pact.

Baldwin (2006; 2008) later applies his theory to examine East Asian regionalism. He argues that the idiosyncratic shock in the East Asian case was CAFTA, which placed Korean and Japanese firms at a competitive disadvantage. The trade diversion effect caused by AFTA had relatively little impact on Korea and Japan since their export to ASEAN only accounted for 13% and 17%, respectively, of their total share of exports. However, the enforcement of CAFTA was estimated to discriminate against Korean and Japanese firms up to 43% and 36%, respectively, of their total exports in 2003 (Baldwin 2006, 32). Thus, Baldwin (2008, 451) defined the period since 2000 as the phase of *real regionalism*, and he argued that the series of bilateral pacts were triggered like a domino by “China’s FTA démarche toward ASEAN”, resulting in the current “noodle bowl” syndrome.

Korea’s and Japan’s apprehension, caused by Chinese-driven trade diversion and other expected negative economic effects, has been noted in several other empirical studies (Pempel and Urata 2006; Terada 2009; Yoshimatsu 2008; Y. Lee 2006). Terada (2009) showed Japan’s concern toward China taking the leadership role in the region, as Chinese-led regionalism would undermine liberalisation in services and intellectual property rights. Pempel and Urata (2006, 91), examining the macroeconomic benefits of FTAs, also argued that Japan’s change of trade strategy from multilateralism to bilateralism is inevitable considering the costs of exclusion from the market.

Similarly, Korea, as a latecomer in the ASEAN+1 trade talks, quickly preceded its negotiations and showed deeper commitment than China or Japan in recognising that Southeast Asia is an important market for Korean businesses (Yoshimatsu 2008, 112–113). By way of illustration, Yoshimatsu (2008) showed that, in comparison with China, Korea simultaneously promoted the Agreement on Trade in Goods and Dispute Settlement Mechanism, which took an additional two years to conclude. This allowed for MFN treatment for all ASEAN members, including non-WTO members, and undertook economic co-operation projects in 19 areas—including customs procedures, trade and investment promotion, and small and medium enterprises—to provide substantive incentives to ASEAN. These quick and decisive moves aimed at gaining the first-mover advantage in the ASEAN

market in the presence of the economic competition posed by China and Japan (Y. Lee 2006, 173).

2.5 The KAFTA and AJCEP Negotiations

Even as the literature on East Asian PTAs highlights the role of domestic politics, the paucity of attention given to understanding the different negotiation methods and processes is rather astounding. As Devereaux, Laurence and Watkins (2006, 17) noted, the literature on international trade heavily focuses on the causes, contents and effects of trade policies, rather than the negotiation processes in which “[i]nternational trade rules emerge from, are clarified by, and are implemented”. They emphasise the importance of processes, as:

Trade rules result from the actions of a host of interested parties – domestic, national and supranational – competing and cooperating to shape agreements by using such tactics as forum shopping, coalition building, agenda setting, and grassroots organizing. And signing an agreement is by no means the end of the story – many details and ambiguities often remain to be negotiated and sometimes renegotiated during implementation. The processes by which agreements are enforced involve further strategic efforts to influence outcomes. (Devereaux et al. 2006, 17)

Similarly, the importance of trade negotiation processes has often been undermined when it comes to the negotiation approaches taken in the ASEAN+1 PTAs. Existing studies have noted the peculiarity of the Japanese bilateral negotiation approach taken towards ASEAN, in contrast to the region-based approaches taken by China or Korea. However, these studies either focused solely on Japan or made comparison only with China.

To begin with, Corning (2009) studied the period from 2003 to 2007 and elaborated that Japan’s slow negotiation process with ASEAN was due to its domestic politics and the individual ASEAN countries concerned that AJCEP would compromise their bilateral deals with Japan. With regards to domestic politics, MOFA (Japan) and METI had different preferences in their approaches to ASEAN: MOFA (Japan) preferred bilateral deals with individual members of ASEAN, while METI advocated for a multilateral approach due to its close relationship with the businesses.

However, MOFA (Japan) gained the upper hand, as bilateral agreements were easier to reach and there was no urgency in pursuing METI's multilateral agenda. It was only after mid-2007, when KAFTA came into effect, that Japan, reinforced by concerns of the rise of China, seriously considered approaching ASEAN as a group. In response to the concerns raised by ASEAN, Japan suggested they allow exporters to choose whichever agreement benefited them the most, raising Corning's (2009, 652) concern that it would be detrimental in realising "a single agreement with harmonized commitments".

Choi (2005) hypothesised that the success of a North-South economic integration agreement depends on the assertiveness of the developing party and the bargaining leverage of the developed party. The more the developing party wants to reach an agreement and the stronger the negotiating power of the counterpart developed party is, the more likely an FTA will successfully be negotiated. The developing party may pursue an FTA to improve its market access, investment environment and foreign credit rating, as well as to facilitate and stabilise liberal economic reforms. In contrast, the developed party finds the development gap with the counterpart country burdensome and faces opposition from the domestic labour-intensive industries and traditional manufacturers threatened by the inflow of cheap labour-intensive goods produced with minimum regulations.

Therefore, the developed party will find more incentive to negotiate an FTA with the developing country when it has greater leverage to derive a more favourable outcome; for example, it would call for greater liberalisation in industries where it holds a comparative advantage, such as services, high-end technology and knowledge-based industries, and more restrictions on environment and labour standards. Using the cases of AJCEP and Japan's EPAs with individual ASEAN countries, Choi finds that Japan chose bilateral agreements for the Philippines, Thailand and Malaysia, because it had the greater negotiating power to derive more favourable terms. In contrast, AJCEP was limited in depth, due to the diversity within ASEAN and Japan's limited leveraging power against the ASEAN as a region.

Terada (2008, 12) added evidence to answer the question of Japan's bilateral approach to ASEAN. For example, a MOFA (Japan) official's perspective provides that Japan already had a close relationship with the ASEAN countries for decades through investment and official development aid (ODA). He argued further that Singapore's diplomatic efforts and ASEAN member's stronger preference to have Japan as its trade partner, rather than China or Korea, made Japan continue with its bilateralism. There also

existed an expectation within Japan that because there is no common external tariff (or Customs Union) established with AFTA, its bilateral FTAs with the ASEAN members would eventually be consolidated into AJCEP. Dent (2010, 235) highlighted that Japan, unlike China and Korea, chose the “parallel bilateralism approach” as opposed to the “group-level method”, as it allowed Japan to negotiate more sophisticated deals with ASEAN, while granting it with greater bargaining leverage.

Higashi (2008, 15–18) demonstrated the difference between China and Japan in their negotiation methods. One main difference arises from the fact that CAFTA is a pact between developing nations, while AJCEP is a pact between a developed and developing countries. In other words, CAFTA is notified under the Enabling Clause,²⁹ and therefore China and ASEAN have no obligation for full trade liberalisation. Moreover, Japan and China differed in their negotiation approaches. Japan adopted the single-undertaking approach and exchanged a request–offer list with ASEAN,³⁰ while China and ASEAN agreed on modalities first and proceeded to negotiations by dividing the tracks for normal goods, sensitive goods and highly sensitive goods.

To elaborate, Japan’s request–offer list meant that each party listed the products they wished to see reduced in tariff and exchanged them, and the negotiation continued until all the listed products had been discussed. Japan’s single-undertaking approach also aimed to address goods, services, investment, co-operation and intellectual property rights

²⁹ The WTO (n.d.) legal text states that the Enabling Clause allows “derogations to the most-favored nation (non-discrimination) treatment in favor of developing countries”. In particular, paragraph 2(c) states that

Regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with criteria or conditions which may be prescribed by the CONTRACTING PARTIES, for the mutual reduction or elimination of non-tariff measures, on products imported from one another

permits preferential arrangements among developing countries in goods trade. It has continued to apply as part of GATT 1994 under the WTO.” Full text available at:

http://www.wto.org/english/docs_e/legal_e/enabling1979_e.htm

Even though China and ASEAN have no obligation for full trade liberalisation under the Enabling Clause, these governments have shown “fairly comprehensive product coverage” that will be achieved within the interim period (10 years) granted under the WTO (Lim 2011, 44–45).

³⁰ In contrary to Higashi’s explanation, Chapter 4 demonstrates that Japan used modality approach of negotiation in AJCEP, like China’s and Korea’s FTAs with ASEAN.

simultaneously, which would lead to a more comprehensive agreement. Japan's bilateral agreements with Thailand and Malaysia illustrate how it overcame the inefficiency caused from its negotiation methods; Japan used economic co-operation as a negotiation tool to derive Thailand and Malaysia's consent on liberalisation of the agricultural sector. Higashi argues that Japan chose to work on the bilateral agreement with individual members of ASEAN first rather than approaching ASEAN as a group, because Japan considered that it would be more difficult to bring in the new members of ASEAN.

Rather than taking the single-undertaking approach, China and ASEAN began with the sectors that were easier to agree on and proceeded to more sensitive sectors at a slower pace. China and ASEAN removed tariffs on non-processed agricultural products first in 2004 by adopting Early Harvest Program, and then they agreed to progress to services and investment agreements in the later stages of negotiations. The target year for tariff removal for products differed depending on their sensitivity; each party had certain amount of flexibility on deciding which goods should be considered sensitive. For normal track goods, the tariff was to be removed by 2010. For sensitive track goods, the tariff was to be reduced to 20% by 2012 and 0–5% by 2018. Tariff on highly sensitive products were to be reduced to half by 2015. Instead of exchanging a request–offer list, as in the case of AJCEP, China and ASEAN agreed on modalities³¹ first, which included issues like how much share tariff-free goods should take in the total trades among the two parties.

All of the above studies provide a good departure point to answering the initial question set out in this research. However, the existing explanations are limited in explaining Japan's and Korea's negotiation approaches for three reasons. First, these studies do not

³¹ In trades, modalities mean specific formulas or measures to achieve tariff cuts. According to the WTO (n.d.):

“[m]odalities are ways or methods of doing something. Here, the ultimate objective is for member governments to cut tariffs and subsidies and to make these binding commitments in the WTO. The modalities will tell them how to do it, but first the modalities have to be agreed. With 153 members and thousands of products, the simplest way to do this is to agree on formulas for making the cuts. These formulas are at the heart of the modalities. Once they have been agreed, governments can apply the formulas to their tariffs and subsidies to set new ceiling commitments.”

See further information on the WTO website, available at:
http://www.wto.org/english/tratop_e/dda_e/modalities_e.htm

explain why Japan and Korea initially opted for the bilateral approach in negotiations with ASEAN in response to the signing of CAFTA, but soon diverged. One reason could be that these studies were conducted while AJCEP was still in the process of negotiation. As Higashi (2008, 28) noted, the ASEAN+1 agreements were not concluded at the time the study was being conducted, therefore is limited in including other areas than trade in goods.

Moreover, Japan gave stronger support to the region-based AJCEP in the later stages of its PTA negotiations with ASEAN, and the factors that influenced these changes are worthy of further scrutiny. If, for instance, Japan's diplomatic leverage against individual ASEAN countries—a strategy also preferred by large economies such as the US (Dent 2010, 234–235)—was the prime motivation for Japan's initial preference for the bilateral method of negotiations, then why was it inefficient compared to the region-based method chosen by Korea? Can it be said that the approach taken by Japan was strategically well intended as some existing studies describe? In addition, some scholars like Ravenhill (2008b, 96) express a different perspective of the effectiveness of Japan's negotiation approach, stating that “China may have secured a temporary advantage over Japan through its offer of a PTA (to ASEAN), but Japan's decision to launch its own negotiation with ASEAN as a whole and with individual ASEAN states has come a considerable way toward nullifying this advantage.” Both KAFTA and AJCEP having been concluded and in effect at this point, the examination of Korea and Japan's negotiation approach allows one to reassess the effectiveness of each negotiation approach from vantage point of the present circumstances.

Second, even as the existing literature provides crucial evidences to the factors that have influenced Japan's trade strategy, it also raises new important questions. For example, Corning's (2009) domestic politics explanation focuses on the conflict between ministries, which increases the puzzle of the mechanisms and rationale underpinning Japan's approach to ASEAN, as Prime Minister Koizumi's political influence was considerably strong to nullify the discord between METI and MOFA at the time. Yoshimatsu (2012, 200–201) demonstrated that sectionalism is one of the most distinctive features of Japanese bureaucracy that is not only confined to the case of AJCEP. Despite this domestic factor, however, Prime Minister Koizumi's power was strong enough at the time of AJCEP negotiations to pursue a strategy in the best interest of the administration's agenda. At a meeting of the Council on Economic and Fiscal Policy in December 2004, Prime Minister Koizumi stated, “it is often argued in the business circles that a minister of state for FTAs should be set up. In reality,

there will be no change even if such a minister would be established. Accordingly, I myself would like to assume the role of the minister (Yoshimatsu 2012, 201).” Therefore, Yoshimatsu (2012) argued that it was only after 2007 that FTA policies were negatively influenced by political instability, as the three successive LDP cabinets after Koizumi were unable to exercise coherent trade strategies.

So why did the Japanese government choose individual PTAs with ASEAN? To this question, Terada (2008) and Choi (2005) set forth a starting point contemplating Japan’s diverging negotiation path. Japan’s existing economic ties and relatively strong negotiating power might have been an essential element in shaping its preference for bilateral ties with ASEAN. If so, then under what conditions was the bilateral approach perceived more favourable than the region-based approach? Why is it not always the case that North–South PTAs eventually adopt the same negotiation methods, as in the cases of Korea’s and Japan’s PTAs with ASEAN? In addition, why did it take four years for the Japanese government to change its policy direction, despite constant complaints from ASEAN and METI? How did Japan solve the collective action problem or the free rider problem posed by ASEAN? Even as these studies examine Japan’s domestic politics, they do not clarify to what extent Japan’s strategies were intended.

Lastly, no studies to the best of the author’s knowledge have been conducted on the negotiation choice of Korea or a comparison of Korea’s and Japan’s negotiation methods. Most existing research on Korea’s FTAs heavily focus on the country’s more contentious FTAs, including those with the US, EU and China, and less with ASEAN. The imbalance in the research has left KAFTA much less scrutinised compared to AJCEP. For example, Kim, Cho, Jung, and M. Kim (2009, 175–176) assessed the progress of KAFTA after two years in effect, and they contended that further research is needed on whether Korea need to sign additional bilateral agreement with individual members of ASEAN.

KAFTA and AJCEP are still the most comprehensive form of economic agreement in East Asia, and together with CAFTA they tie up North and South in the absence of economic regional institution in the region. Having witnessed China’s region-based initiative toward ASEAN, why did the two countries opt for different negotiation strategies? The question is particularly interesting as Korea’s and Japan’s negotiation approaches with ASEAN are the only existing cases of bilateral agreements that involve the same multiple partners for both countries, in which neither had preceding experience dealing with multiple partners.

Furthermore, they hold similar economic interest toward ASEAN and both negotiations were promoted under strong administrations—President Roh (Korea) and Prime Minister Koizumi (Japan)—who were active supporters of bilateralism and regionalism. These similarities further spark the question on why Korea and Japan diverged in their negotiation tactics.

2.6 Conclusion

This chapter examined the literature on the East Asian regionalism to provide background information on the development of regional co-operation in East Asia in general and to explore the ASEAN+1 PTAs with a focus on KAFTA and AJCEP. The literature at the global level lacks consensus on the compatibility between bilateralism and regionalism, but generally agrees the two approaches are incompatible, at least in the cases examined in East Asia. Existing studies place their analytical focus on the outcomes of ASEAN+1 PTAs. They consider bilateralism and regionalism in East Asia as incompatible, not only because of the existing regional problems, but also because of the complications that bilateralism will cause. For starters, the East Asian countries have diverse political, economic and cultural backgrounds; there are on-going regional political disputes. The studies argue that an increasing number of bilateral agreements in East Asia is likely to hinder regional economic integration. It becomes increasingly difficult to harmonise the different rules used in numerous PTAs. These PTAs are likely to exclude rather than include non-members, which will drive competition among the East Asian states.

As to the causes of the ASEAN+1 PTAs, studies find the direct cause that set off the KAFTA and AJCEP negotiations from China's proposal to ASEAN in 2000. Japan's prime concern was maintaining its competitiveness in the region, both as a regional leader and economic power, while Korea was concerned the trade diversion caused by closer China/Japan–ASEAN relations would disadvantage its industries. More indirect, yet important, drivers of the ASEAN+1 PTAs in the security and economic dimensions include increasing awareness of growing regional economic powers, such as the EU and NAFTA, and the trade creation and diversion effects. For these reasons, it was in the best interest of Korea and Japan to quickly carry out PTA negotiations with ASEAN. Yet others have added that opposition from the agricultural groups and the problem of collective action within

ASEAN made the ASEAN+1 trade negotiations no less challenging than Korea and Japan's previous PTAs.

Meanwhile, this chapter also found that not enough attention has been paid to the decision-making processes in the East Asian PTAs, including the ASEAN+1 level PTAs. First, existing studies have given ample attention to potential regionalisms, rather than existing PTAs, with the ASEAN+1 PTAs as the notable case. More needs to be learned from the existing ASEAN+1 level PTAs, as they are the most comprehensive form of economic regionalism in East Asia that could help build more a comprehensive regionalism in the future. More attention needs to be paid to the negotiation processes involved in the ASEAN+1 PTAs; currently, attention tend to heavily focus on analysing the negotiation outcomes.

Second, mainstream literature on the ASEAN+1 PTAs has searched for answers in international economic and political factors. While these explanations provide partial answers to the causes of the competitive emergence of KAFTA and AJCEP, they do not answer why Korea and Japan opted for different negotiation approaches given their similar international surroundings. The lack of scrutiny on the negotiation processes of these PTAs suggest that more scholarly attention on domestic factors is needed to make a fair assessment on whether the ASEAN+1 PTAs can be building blocks or stumbling blocks to East Asian regionalism. For example, questions such as "Under what conditions did Korea and Japan adopt or change a certain trade negotiation method?" or "Can understanding the mechanisms in which the ASEAN+1 PTA negotiations work help resolve the organizational gap and noodle bowl syndrome in East Asia?" are particularly interesting, given that Korea and Japan share a similar political economic environment.

The remainder of this thesis fills in the gap in the literature by addressing the domestic factors involved in Korea's and Japan's PTA negotiations. In contrast with the existing findings, this research will demonstrate that bilateralism and regionalism can be compatible, in the modest context of Korea and Japan, by focusing on the decision-making processes of Korea and Japan. The next chapter will introduce an analytical framework based on the domestic politics of IPE in order to further analyse the decision-making processes in Korea and Japan's PTA negotiations.

Chapter 3 An Analytical Framework

3.1 Introduction

The existing literature suggests that various economic and political factors shaped the broad trade policy directions of Korea and Japan toward ASEAN, as demonstrated in Chapter 2. In particular, the literature suggests that CAFTA directly triggered KAFTA and AJCEP, posing an economic and a political threat to Korea and Japan. Given this external condition, the diverging negotiation approaches suggest there are further underlying motivations that altered each government's preference. To investigate these motivations, this chapter develops an analytical framework based on the domestic approaches of IPE by examining the interests, institution and ideas, also referred to as the "three I's".

This chapter begins by examining IPE theories and political economy of trade policies. After examining the strengths and shortcomings of the systemic IPE theories, which focus on international factors that influence a government's policy direction, it demonstrates how the domestic-level approach of IPE can provide an analytical framework to better understand the research question set out in this thesis. Korea and Japan were surrounded by similar international threats and opportunities when they began their respective negotiations; thus, their diverging policy decisions are more likely due to variations in domestic factors. Defining the domestic-level analysis as a decision-making process that involves interaction between the three I's, this chapter elaborates on these variables as the key determinants of the KAFTA and AJCEP negotiations.

Next, a list of testable hypotheses is derived from the analytical framework developed in the previous section. Expected motivations on the choice of Korea's and Japan's negotiation methods are specified according to these hypotheses. The two governments' decisions may not have been the most optimal or the most strategic had they known all the possible outcomes of their negotiation approaches, but their choices are reasonably explicable on the grounds of a number, or possibly all, of political economic interests and their interaction with ideas and institutions presented in this chapter.

3.2 Systemic IPE Theories

In the realm of trade policies, the IPE approach can better provide theoretical foundations for the multifaceted nature of the PTAs than any other single discipline. It serves as a useful analytical instrument to explore economic and political motivations and consequences of the PTAs, the impact of economic policies on the international political relations, and inversely, the influence of politically motivated policies on the international economy. Moreover, the IPE approach connects and advances our understanding in normative and positive aspects of trade policies (Rodrik 1993).

Korea's and Japan's trade negotiations with ASEAN also concern various political and economic motivations in which IPE can provide a useful analytical tool to understand the two countries' strategies. For example, in the negotiation processes of KAFTA and AJCEP, which actors were more relevant under the constraints posed by each institution? What were the political, diplomatic and economic motivations of those actors involved in the decision-making processes? What are the implications of these negotiations for East Asian regionalism in general? The study of IPE best addresses these questions by providing theoretical grounds for the selection of independent variables, evaluating the value of PTAs from the perspective of the different actors in society, and making possible a structured comparison of Korea and Japan.

IR and IPE scholars have traditionally viewed international affairs from outside to inside, focusing on the effect of external forces on domestic policy-making. From this view, states' preferences are shaped by exogenous (international) factors. For example, neo-realists, or structural realists, argue that the international system is anarchic by nature, and its structure is characterised by the distribution of capabilities among rational unitary states (Waltz 1979). Under this systematic nature, states consider survival as their primary goal. In his influential book *Man, The State, and War*, Waltz (1959) established the three "images of analysis": individuals, states and the international system. Waltz especially underscores the third image—the international system—as the root cause of the inter-state conflict.

Among neo-realist scholars, hegemonic stability theory scholars argue that international economic stability is associated with the role of a single dominant hegemonic state (Kindleberger 1973; Gilpin 1975). For Gilpin (1981), a hegemon controls and dominates the international system by providing collective good to the international economy for

security motivations. The costs for providing stability in the international economic system can be offset as the hegemonic state can benefit sufficiently from the arrangement (Griffiths 2005, 361). When the hegemon is no longer capable of providing public good, the stability of the international economy is put at risk. For example, the rise of bilateralism and regionalism in East Asia should be attributed to the decline of American hegemony (Mansfield 1998), as the US is increasingly perceived as incapable of maintaining an efficient international economic system. Moreover, the effort to build a regional trade area in East Asia would merely reflect the power-maximising behaviour of states, because East Asia does not have its own regional bloc, despite its economic prosperity, as compared to the EU or NAFTA (Dent 2008, 30). Similar logic applies to the ASEAN+1 PTAs. Korea's and Japan's move toward ASEAN can be understood as a way of balancing power in the region, as China's geopolitical aspirations were perceived as the main motivation behind CAFTA. The fragmented PTAs at the ASEAN+1 level reflect the instability in the region in the absence of a dominant regional hegemon.

Since the end of the Second World War, military power could no longer be considered the only means of determining a state's capability. On top of the changing international environment, economic turmoil in the 1970s gave rise to a new stream of scholars, referred to as *neo-liberal institutionalists*. These scholars argue that it is through international organisations that the anarchic nature of the international system and the subsequent market failures can be overcome.

Criticising the realist approach of understanding IR, Keohane and Nye (1977) reassessed the state-centric analysis approach by bringing in the notion of "complex interdependence". They emphasised the emergence of transnational actors and the multiple channels in which these actors interact on a number of issues; they argue that military power has become less important for states as security is no longer the primary issue in IR. A case in point is the growing role of ASEAN as a regional institution in Southeast Asia. ASEAN acts not only as a forum for economic co-operation, but also for addressing comprehensive regional issues ranging from security and environment to cultural exchanges, where various transnational actors, such as multinational corporations and non-governmental organisations (NGOs), are closely involved.

In a similar vein, East Asian states' co-operative behaviour with ASEAN regional trade agreements, such as ASEAN+1 PTAs, reveal these states are increasingly

interdependent on each other, and their economies can collectively benefit from establishing common rules and standards for trades. Moreover, even as these PTAs proliferate, they are bound to the rules of GATT and the WTO. That is, the neo-liberal institutionalists would argue that the East Asian states pursue bilateral trade agreements that comply with the GATT Article XXIV, so that states outside the agreement are not disadvantaged, and the PTAs complement the weaknesses of multilateralism by acting as building blocks.

In short, systemic IPE theories, such as neo-realism and neo-liberal institutionalism, explain the rise of bilateralism in East Asia in the context of IR and the changes that occur in the external environment. Structural realists presume that states have autonomy that is free from domestic pressure. States are characterised as power-driven actors and thus do not take the differences that exist across their regime types, cultural differences or political leadership (Mearsheimer 2016, 52). Neo-liberal institutionalists, on the other hand, do not evaluate the mechanisms in which domestic factors influence government policies either.

These approaches can only provide analytical guidance on the broad orientation of Korea's and Japan's trade policies, while the causes of their diverging negotiation methods remain unaccounted for. If such influence is significant in the cases of KAFTA and AJCEP, then why did Korea adopt the region-based negotiation approach as China had done, while Japan pursued a contrasting negotiation method that could be less efficient in bringing together ASEAN as a region? In other words, the systemic approaches of IPE are limited in explaining Korea's and Japan's different strategies, even if they provide broader explanation to their incentives in negotiating PTAs with ASEAN.

As Katzenstein (1976, 1–3) postulated, domestic factors should be systemically included in foreign economic analysis, for “the different international effects will lead to similar but not necessarily harmonious policy responses of advanced industrial states”. Likewise, the diverging negotiation methods between KAFTA and AJCEP are more contingent on the interests and behaviours of domestic actors, which at the same time are constrained by institutional differences and the interaction between these actors, rather than the power imbalances and regional hegemonic instability caused by China. The following section therefore will examine the domestic approaches of IR and IPE and the three domestic independent variables—interests, institutions and ideas.

3.3 The Domestic-level Analysis and the Three I's Approach

The political economy approach at the domestic-level analyses interactions between actors in decision-making processes in the context of domestic politics. Studies taking this approach argue that the discrepancy between economists' wisdom of free trade and actual protectionist policies is primarily determined endogenously (Baccini 2014). The approach emerged as a new means to analyse the changes of focus in the international relations since the 1970s, when economic issues were increasingly gaining importance in the international relations.³² One of the leading scholars to take this approach in analysing foreign economic policies was Peter Katzenstein (1976, 2), who contended that the changes in international economic relations can be better understood if their studies are "accompanied by a corresponding shift from foreign to domestic political analysis." In contrast with the systemic IPE approaches that contend that external conditions shape a country's economic policies, the domestic approach argues that variances in domestic variables shape foreign policy given the changes in the international environment.

The domestic approach, however, does not completely rule out exogenous conditions as neutral and insignificant factors. In fact, domestic interests may vary depending on how agents interpret these conditions. The approach, therefore, is not confined solely to the domestic factors, but rather, explains a state's behaviour "inside-out" or "outside-in" (Cohen 1990; Risse 2017). According to Cohen (1990, 268), the levels of analysis this approach examines are inclusive of Waltz's first image and second image. The first image, *cognitive level* of analysis, scrutinises "the base of consensual knowledge or "economic culture" that legitimises policy-making at the unit level; and the second image, the *unit level* of analysis, focuses on "the strategic interactions among all domestic actors, inside or outside the government, with actual or potential influence on a state's foreign actions." In acknowledgement of the interaction between domestic and international factors, scholars have framed their causal mechanism into formal models (Shelling 1960; Walton and McKersie 1965; Putnam 1988; Mayer 1992; Milner and Rosendorff 1996). In IR, Putnam (1988)'s famous "logic of two-level games" has had a substantial influence in the

³² See Putnam (1988, 430-433) for a comprehensive summary of early development of the domestic-level approaches in IR and IPE throughout the 1970s.

development of the ways in which domestic factors can be identified, shaping diplomacy (see, for example, Iida 1993 and Mo 1995).

Regarding which domestic determinants shape foreign economic policies, economists and political scientists frequently paid attention to interests, institutions and ideas. In particular, the role of societal interests is most well established in the literature. The research that emphasise societal interests typically focused on making sense of how and why interest groups pressure politicians to promote protectionist policies, leading a state go against the free trade (see for example, Olson 1971; Ikenberry lake and Mastanduno 1988; Nelson 1988; Hiscox 1999; Grossman and Helpman 1995; Milner and Rosendorff 1996; Eckhardt 2015). Others turned their attention to the less common cases in which interest groups, namely exporters, push politicians toward liberalising trade policies (Dür 2007; Dür 2010; Baccini and Dür 2012). In these studies, however, the role of policymakers or domestic institutions had often been simplified or minimised (Mansfield and Busch 1995, 727; Dür 2010, 4).

By contrast, the statist approaches in foreign economic policies has focused on the influence of national interest, institutions or policy makers' ideas. The research that examined national interest considered the policymakers as the main actors promoting aggregate welfare gain in a society (Katzenstein 1978; Krasner 1987; Domhoff 1990). According to Ikenberry, Lake, and Mastanduno (1988, 10), the approach configures "the state as an actor, and focuses directly on politicians and administrators in the executive as independent participants in the policy process." Hence, central decision-makers are assumed to have a set of goals that focuses on the general utility of a community, which can be distinguished from the preferences of any particular interest groups (Krasner 1978, 10-12).

Another strand of statist literature has emphasised the role of institutions. They explored how the variations among democracies affect trade policies, which include the topics such as electoral systems, executive-legislative relations, veto points and partisanship (see for example, Rogowski 1987; Irwin 1994; Lohmann and O'Halloran 1994; Simmons 1994; Verdier 1994; Keech and Pak 1995; Mansfield and Busch 1995; Hénisz 2000; Milner and Judkins 2004; De Bièvre and Dür 2005; Dutt and Mitra 2005; Milner and Kubota 2005; O'Reilly 2005; Hénisz and Mansfield 2006; Ehrlich 2007; Allee and Elsig 2017). Studies focusing on the broader dimensions of institutions examined how the variations in regime type affect trade policies; they tested whether democracies are more likely to promote liberal trade practices (see for example, Bliss and Russett 1998; Morrow, Siverson, and Tabares

1998; Mansfield, Milner, and Rosendorff 2000; Frye and Mansfield 2004; Milner and Kubota 2005; Henisz and Mansfield 2006). More recent studies have focused on the influence of institutions on the different types of PTAs. For example, Mansfield, Milner and Pevehouse (2008) argued that leaders in democracies have greater incentive to join regional integration agreements that aim to achieve greater integration, but a rise in the number of veto players make its realisation more difficult.

Finally, a relatively smaller body of literature has focused on the role of domestic ideas in trade policies (Goldstein 1988, 1989, 1993; Baldwin 1989; Krueger 1997; Morrison 2012, 2016). The influence of ideas has been emphasised in the cases where information is incomplete, thus, the causal relationship between trade policy and its outcome is vague (Dür 2010, 10). In particular, their role drew attention in explaining why protectionist policies prevail despite the economists' consistent consensus on the benefits of free trade (Baldwin 1989; Krueger 1997). Scholars diverge on how ideas can be conceptualised—some focused on the influence of state identity while others have focused on policy makers' ideas. Yet, they have been consistent in their constructivist foundations (Kaarbo 2003, 159).

In sum, the attention drawn to the three I's is not novel. However, earlier theoretical and empirical study on these factors has been disjointed and each factor has taken isolated development paths. In recognition of this disconnect, more recent literature has focused on integrating the three I's by taking a bird's-eye view (Kopstein and Lichbach 2006; Schonhardt-Bailey 2006). These scholars highlighted the relative importance of the three variables shaping preference for a public policy, and they identified the conditions in which each of these variables matter the most. They emphasised that a narrow perspective focusing on a single variable would inevitably face the problem of omitted variable bias, which would undermine the holistic implication of causal linkages between the dependent variable and various other independent variables.

More recently, political scientists have adopted the three I's approach to explain the motivations of states' cross-border activities from a domestic-level analysis. In particular, they have focused on the three I's as an interdisciplinary foundation to compare cross-country variations that cannot be explained by external factors alone (Battala 2010; Aggarwal and Lee 2011; Balkir, Bolukbasi and Ertugal 2013). It has become commonly acknowledged that interests, institutions and ideas all matter to some extent; thus, today's IR scholars tend to

focus more on reframing the approach to identify how much the three I's matter in a specific context.

A number of scholars began to pay attention to Japan's and Korea's domestic politics in trade policies since the mid-2000s. Among the studies on Japan, one of the earliest scholars to take a domestic level of analysis was Yoshimatsu (2005), who identified Japan Business Federation (Keidanren) as one of the major players in Japan's trade policy-making by acting as a pressure group, information provider and interest co-ordinator. Solís and Katada (2010) further scrutinised the role of interest groups. They examined business groups and agricultural groups as independent variables shaping Japan's PTAs, focusing on the EPAs with Mexico and Korea. Later studies on Japan's domestic politics examined the interaction between interest groups and government sectors. For example, Yoshimatsu (2007) examined how Japan's inter-bureaucracy conflict, Central Union of Agricultural Cooperatives (JA-Zenchu) and Keidanren together shaped Japan's FTA policies up to the mid-2000s. J. Kim (2008) also explained how inter-bureaucracy conflict impeded Japan's FTA policies, particularly by exploring JSEPA.

Mulgan (2008) focused on the influence of PTAs on the domestic politics, and argued that PTAs, rather than WTO negotiations, have greater impact on both the domestic interest groups and the Japanese government; the PTAs have much more direct and concentrated impact on domestic actors in both economic and strategic ways. Solís (2010) proposed a demand–supply model of Japan's FTA policy-making, which analysed the influence of the international business sector's lobbying and the domestic institutions on the FTA policy-making processes. Solís (2010) utilised two models: the preferential trading game that reflects lobbying incentives and the logic of principal–agent relations that explains the centralisation in trade policy-making. Krauss and Naoi (2011) considered that the presence of an influential bureaucracy, namely METI, explained Japan's shift to regionalism in the 1990s. From the late 1990s, as they explained, institutional changes, such as Japan's electoral reforms and the prime minister's increased role, caused division within and between interest groups and political parties.

Studies on Korea, or those that compare Korea and Japan, have focused more on the institutional dimensions in PTA policy-making. Rhyu (2011) examined the interactive relationship between the domestic ideas, institutions and the existence of hegemony. Analysing Korea's FTAs with Japan and the US, Rhyu (2011) concluded that successful

progress of FTA negotiations depends on the strength of institutions and the presence of an external hegemony.³³ Park and Moon (2006) provided an institutional framework that scrutinises the government, political parties, and interest groups as the key stakeholders in Korea's FTA policy-making. They identified and defined the roles of domestic actors through the examination of Korea's FTAs with Chile and the US.

Choi and Oh (2011) suggested that the ministry level fragmentation explains the liberalisation in the Korean and Japanese agricultural sectors. Yoshimatsu (2012) demonstrated that it was the individual leadership of the chief executives that caused divergence in Korea's and Japan's PTA progresses. Fujisue (2013) adopted the core-executive model to show that the political system distinguished the qualities of PTAs in Korea and Japan. Similar to Fujisue's perspective, Solís (2013), in her policy paper, contended that Korea should participate in TPP to keep up its proactive PTA strategy, which is built on the strong executive leadership and top-down decision-making.

3.4 An Analytical Framework: Interests, Ideas and Institutions

In parallel with recent scholarly work, this section develops an analytical framework using domestic interests, ideas and institutions as explanatory variables determining Korea's and Japan's trade policy-making with ASEAN. The approach is designed to account for the variety of factors involved in trade negotiations and to examine how preferences are shaped through the three variables. First, *interests*, including those of interest groups and government, are examined based on the rationalist approach. Interest groups demand specific trade negotiation approaches for profit-driven reasons; conversely, a government favours a certain type of negotiation approach to achieve aggregate political and economic goals. Then,

³³ For example, Rhyu (2011) argued that the Korea-Japan FTA was stalled even though it was supported by strong political ideas, because of the weak institutions and the lack of Japan's hegemonic leadership. According to Rhyu (2011, 79-80), the executive branch of the government was pressured by objections from automobile and electronic conglomerates and nationalistic conflicts that included "Japanese Prime Minister visiting the Yasukuni Shrine, conflicting materials in history textbooks, and the issues of to whom Dokdo Island really belongs." However, he found more fundamental cause for the delay in the negotiations from that Japan's lack of willingness to act as a hegemon. In contrast, strong political ideas for the Korea-US FTA was accompanied by strong institutions and the US's strong leadership as a hegemonic power, making the difference in the negotiation result.

the section on *ideas* explains when and why interests change by examining how domestic actors with competing ideas on bilateralism and regionalism shape their preferences through the process of persuasion. The *institutions* section explains the supply side of the trade policies in the context of Korea and Japan. Institutional structures distribute decision-making power across domestic actors, but the structure continues to evolve through the demand of the domestic actors' interests and ideas.

3.4.1 Interests. Political and economic interests are necessary conditions for preference formation in trade policy. However, the opposite statement does not hold true. As Schonhardt-Bailey (2006, 23) noted, “interests are simply one of the essential raw ingredients from which preferences are formed”. Interests in the political economy literature concentrate around actors' material gains and losses. Balkir, Bolukbasi and Ertugal (2013, 128) summarised the various definitions of coalitions of domestic interests in the political economy literature, including:

- Functional interests (employers and trade unions);
- Class-based coalitions (upper classes, middle classes, working classes);
- Factor-based coalitions (abundant-factor coalition vs scarce-factor coalition);
- Producers' groups or sectoral interests (including those engaged in industrial, financial, domestically oriented and export-competitive sectors);
- Workers (high-skilled vs low-skilled or white-collar vs blue-collar);
- Political parties (with given ideological positions for whatever reason);
- Policymakers (bureaucrats vs politicians); and
- Diverse (and often competing) interests within bureaucracies (such as treasury officials vs central bankers).

In other instances, domestic interests are examined on two perspectives—those of the interest groups and a state or political leader (Milner 1999; Schonhardt-Bailey 2006). PTAs and regionalisms are institution-driven initiatives, as opposed to East Asia's conventional market-driven trade and regionalisation (Urata 2006; Dent 2008). Overall the political and economic gains of a state are as important as the interests of private interest groups.

In line with this perspective of domestic interests, this section assumes there are two types of interests in a society: the revenue-seeking private interests and the social-welfare maximising government.³⁴ This simplified analytical approach is based on the rationalist

³⁴ This section focuses on the domestic actors that relate directly to trade gains and losses

assumption that individuals or groups act strategically to maximise their utilities given their fixed preferences. For the private interests, maximising utilities imply attaining the most profit from the concession gained through the PTAs. In contrast, the government, or more precisely, the executive branch of the government, pursues strategies that achieve national political and economic goals to ensure society at the aggregate level benefits from PTAs.

The following sections examine in detail the rationale for the various private interests and government interests regarding Korea's and Japan's choices for regional and bilateral approaches of negotiations. For the export-competing sectors, market accessibility and practical utility of PTAs should be the most important criterion in determining their preference. For the sensitive sectors of the economy, political implications of PTAs, size of the counterpart's market and the relative competitive position of producers in the relevant sectors should matter most. On the other hand, the government, assuming it is a social welfare maximiser, weighs the bilateral approach and the multilateral approach in pursuit of numerous economic and political motivations. These factors include: (a) trade gains, (b) negotiation efficiency, (c) diplomatic leverage effects and (d) foreign policy objectives.

3.4.1.1 Private Interests. Private interests have been at the heart of the trade policies literature to explain the global surge of PTAs (Milner 1999). In particular, economists found states' protectionist measures puzzling as they go against the economists' general belief that free trade improves the overall welfare of a society. Searching for answers, scholars paid attention to the demand side of the trade policies and examined the logics that can explain the behaviour of the societal groups in support or opposition of a PTA. These logics mainly revolve around the factor-based Stolper–Samuelson theory and the sector-based Ricardo–Viner theory. These trade models vary in detail and make different assumptions, which commonly suggests that trade will disadvantage the import-competitive side and benefit the export-competitive side, reallocating income across the society.

Because of the redistribution effects of PTAs, private sectors are more likely to engage in the PTA decision-making processes than in any other foreign policies. As Mancur Olson's (1971) famous collective action theory suggests, smaller groups have more incentive

from choosing a certain negotiation approach. Details on how these actors exercise power in the decision-making processes, in addition to how political parties and bureaucracies are involved in these processes, will be discussed further in Section 3.3.3 (on institutions).

to take collective action during these processes, due to the relatively low organising costs and higher returns from the successful outcome. The higher the political costs from the opposition of the interest groups, the government is more likely to opt for an PTA with enhanced protection for those sectors, despite its trade diversion effects (Grossman and Helpman 1995). Yet, interests in the export-competing side may still mobilise and dominate the import-competing side when the proliferation of PTAs by foreign countries threatens the domestic exporter's interests (Dür 2007; Baccini and Dür 2012).

Examining the conflicting domestic private interests, this section pays attention to Korea's and Japan's trade in goods. Their early negotiation approaches highly focused on tariffs in goods, particularly with regard to AJCEP and KAFTA. The first reason is relatively straight-forward; the negotiation approaches in the two countries were mainly determined due to the issues in goods. Korea and Japan were inexperienced in PTAs, therefore, their early agreements tended to be conservative; both focused on tariff reduction and tried to carve out sensitive issues as much as possible. Even as the KAFTA and AJCEP progressed, their negotiations centred around trade in goods, although Japan's bilateral EPAs addressed services, investment and new issues of trade. Korea's negotiation for services and investment did not start until early 2007. AJCEP only has had the provisions for goods negotiated to date, despite Japan's initial claim to take the single undertaking approach of negotiation.

The then-chief delegate of the ASEAN+1 PTAs, David Chin (2010, 228), explained that the ASEAN side preferred to proceed in the sectors that were easier to negotiate, considering the nature of the negotiations that involved states with high development gap. With the exception of Singapore, ASEAN in general expected Korea and Japan to make greater concessions in negotiations because of their differences in stages of development. Therefore, a thorough examination in private interests involved in trade in goods will provide sufficient evidences to make an overall assessment of the comparative negotiation developments in Korea and Japan.

Furthermore, major private interests involved in Korea and Japan's respective PTA negotiations with ASEAN clustered around the trade in goods and who would be the winners and the losers of free trade. For Korea and Japan, these were the export-competitive industrial sector and the import-competitive agricultural and fishery sector (Park and Moon 2006; Yoshimatsu 2006). A rather simple industrial sector vis-à-vis agricultural sector comparison in Korea and Japan is possible, because the two countries shared very similar economic

backgrounds in the early 2000s: both countries held a comparative advantage with ASEAN in the industrial sector, while their agricultural and fishery sectors were relatively vulnerable to competition due to the cheaper imports from the ASEAN market. In Japan, Keidanren represented the industrial sector's interests, while JA-Zenchu represented the farmers' interests. In Korea, FKI represented the interests of the manufacturing sector, while KPL and KAFF represented the farmers' interests.

The agricultural groups in Korea and Japan have demonstrated strong opposition to PTAs, whether in the form of bilateral, plurilateral or multilateral agreement. Since Korea and Japan began actively engaging in PTAs in the late 1990s, the agricultural interest groups demonstrated strong opposition to bilateral liberalisations, much resembling the protest confronted at the time of liberalising the agricultural sector in multilateral negotiations. While agricultural groups may not have a preference for negotiation approaches because they do not want trade liberalisation in the first place, the strength of their opposition may vary depending on a PTA's political significance, the counterpart's market size and the relative competitiveness of the agricultural sector.

For example, opposition from the agricultural groups tended to be stronger in Korea's and Japan's earlier PTAs, which had greater political implications on domestic society. Korea–Chile FTA and Japan–Mexico EPA demonstrate that due to inexperience in PTAs, opposition from the agricultural groups was fiercer relative to the agricultural market's exposure, as compared to subsequent PTA negotiations (Parcan 2011, 39–40; Solís and Katada 2007b, 295). Korea's FTA with Singapore confronted little opposition from the agricultural sector because of Singapore's negligible influence in their agricultural markets; whereas for Japan, agricultural interests and MAFF opposed JSEPA despite its irrelevance in the agricultural sector, as they worried it would trigger more PTAs (see Chapters 4 and 5). In other cases, agricultural groups mobilised to stand against trade liberalisation with big market and/or influential competitive advantage in the agricultural sector. For Korea, such FTAs included Korea–US FTA and Korea–China FTA; whereas for Japan, EPA negotiations with Thailand were the case in point (Higashi 2008).

In the meantime, private actors in the export-competing side generally are more likely to favour a region-based negotiation approach in PTAs. Their preferences also would depend on how much market access can be gained through a PTA and how much it costs to utilise a PTA in practice. First, an RTA provides access to a wider market than a bilateral PTA. The

exporting industries can take the advantage of regional trading blocs by achieving large returns of scale and cross-border production networks (Chase 2003). An RTA also discriminates against outsiders, providing greater incentive for those exporting industries within the bloc in expanding the sales market (Chase 2004). One such incentive would be gaining first mover advantages. By entering the new market faster than their competitors, exporting industries can attain privileges, such as securing brand image, distribution channel and local customers.

Second, an RTA tends to be less costly to utilise than criss-crossing bilateral PTAs. For one, an RTA is expected to have less complicated RoO than several bilateral PTAs, which gives incentives for those in small and medium-sized enterprises (SMEs) in the export-competing sector. According to Brenton (2011, 164), complicated RoO restrict market access relative to what is required simply to prevent trade deflection. For example, Cheong and Cho (2009a) found that Korean SMEs in export-competitive sectors consider PTAs necessary; however, SMEs often find that the utilisation of PTAs in practice is costly due to complicated RoO. For this reason, SMEs show the tendency to become indifferent to future PTAs.

In contrast with SMEs, however, lobby groups from large domestic companies may have mixed preferences for RoO depending on the type of the industry, because they have greater capacity to absorb the costs associated with complicated RoO. In another example, Chase (2008) suggested that industries that profit from economies of scale prefer more restrictive RoO to prevent competitors from entering their market, but multinational firms seek the opposite to permit foreign sourcing (Chase 2008). For Japan, the use of cumulative RoO was a major rationale for promoting AJCEP, in which multinational manufacturing industries, such as electronic appliance and automobiles, would benefit from the reduced costs of production while strengthening their regional production networks (Yamazaki 2008).

In sum, the sensitive sectors would oppose any form of PTA that would expose them to greater competition. The degree of opposition, however, would vary depending on the PTA partner's market size and the expected influence of trade liberalisation on the vulnerable sectors. In contrast, the export-competing industries would generally demonstrate greater support for region-based PTAs over bilateral PTAs. Their support for the negotiation approach may vary depending on the types and priorities of the industries in their perceived importance of gaining market access and the practical utility of such agreements.

3.4.1.2 Governments' Interests. This section examines the goals of the government with respect to PTAs. Concerns of the government are distinguished from those of the interest groups, as it desires to “promote various national and international goals,” such as promoting foreign policy goals or promoting equitable distribution of income (Baldwin 1989, 126-130). Ikenberry, Lake, and Manstanduno (1988) provide the key features of this state-centric explanation:

Its primary emphasis is on the goal-oriented behavior of politicians and civil servants as they respond to internal and external constraints in an effort to manipulate policy outcomes in accordance with their preferences. An underlying presumption is that these preferences are partially, if not wholly, distinct from the parochial concerns of either societal groups or particular government institutions and are tied to conceptions of the “national interest” or the maximization of some social welfare function.” (10)

These interests are also both political and economic, which in turn shapes a country's PTA negotiation preferences.

(a) *Trade gains.* The rationalist approaches assume that a government, or an executive branch of government, is a utility maximiser who balances different interests to maximise the aggregate welfare of society. Apart from assuaging the diverse actors' interests such as that of interest groups and politicians, a government will seek a certain negotiation strategy to achieve national goals to the extent that the price of doing so does not exceed the costs to pacify the oppositions directly involved in the PTA negotiations.

Since the early 1990s, the business environment in Southeast Asia changed dramatically and became an attractive relocation site for foreign multinationals. As the regional market expanded at a rapid pace, Southeast Asian countries began to further facilitate trade liberalisation as a regional entity through ASEAN, easing restrictions for FDI and adopting investment-friendly trade policies. Low wages were another attraction for foreign industries looking to expand (Athukorala 2008, 482). Consequently, businesses from Korea and Japan, which aimed to achieve economies of scale and production and procurement networks, began to see ASEAN as an important destination for investment (Legewie and Meyer-Ohle 2000, 561–562).

Therefore, it became vital for Korea and Japan to pursue economic policies that gives their businesses pre-emptive entry into the ASEAN market faster than competing countries

through PTAs. Even if its home industries fail to achieve first mover advantages, these governments still have incentive to promote such policies, as second movers can still profit. For example, in the relatively bigger economies of ASEAN, including Thailand, Malaysia and Singapore, foreign industries can enjoy second mover advantage by selecting the site of relocation where the first movers have established industrial locus, so that they can learn from earlier experiences and use the agglomeration advantages (Athukorala 2010, 9).

Once the local production and procurement market is established, connecting such markets and securing the network can further reduce the costs involved in economic transactions. At the government-level, one way of achieving such objective is to connect the markets that are part of the greater supply chain network. Chapter 4 demonstrates that Japan's use of cumulative RoO in AJCEP can be seen as an effort to reduce the costs attached to the noodle bowl syndrome, removing trade diversion effect, and thus improving the overall market access to the region.

(b) Negotiation efficiency. Assuming the end goal is the same, a government should prefer the negotiation method that will allow it to achieve its goals most efficiently in a limited timeframe. A government should have an incentive to prefer bilateral negotiations over regional negotiations, if it yields a higher quality agreement through an easier, faster and simpler process of negotiation and implementation. In addition, it may consider the regional approach less convenient than bilateral negotiations if, as the case of Korea and Japan with ASEAN demonstrates, the counterparties' political and economic circumstances vary significantly. It is more difficult to reach an agreement that is mutually beneficial for all, if the negotiation involves numerous parties that have different motivations.

At another level in discussing efficiency of negotiation style, there is an issue of making a decision between the single-undertaking approach and the sequential approach. Sequential approaches to negotiation allow the involved parties to negotiate the agreement separately for goods, services, and investment. Thus, this approach is more timely and efficient, and it gives flexibility to both negotiating parties. A major shortcoming of this approach is that a PTA is likely to end up less than comprehensive, if any involved party decides to change their mind. In contrast, PTAs taking the single-undertaking approach usually end up being more high quality in their contents. For this reason, the sequential

approach of negotiation is rarely used in bilateral trade agreements in which it is easier to negotiate complex issues than in regional agreements.

The definition of efficiency becomes more complicated when taking each country's negotiation capacity into account. Negotiation capacity here refers to a country's previous experience with PTA negotiations and resources (e.g. human resources and budget) available to develop a negotiation at practical level. The more experience a negotiating party has, the more likely it is to use its previous PTAs as a template to learn and negotiate the new PTA at a similarly acceptable level and to a more progressive extent. Without such experience, a country may have its options open but without certainty.

As Korea, Japan and ASEAN were all novices with PTAs during the late 1990s and early 2000s, their previous experiences would have had negligible effect on their choice of negotiation styles. Therefore, it is more likely that they have been influenced by practical limitations posed by the resources available for the negotiations given the policy priority. As beginners of the PTAs, all of the three parties were not fully equipped to progress PTA negotiations at their desired levels. These limitations suggest that bilateral approach and sequential approach of negotiations would be seen as more efficient over the regional approach and single-undertaking approach of negotiations.

When facing practical constraints, negotiating parties may also consider the different combinations of negotiation methods. For instance, the inefficiency of the region-based approach could be reconciled by the sequential approach of negotiations—an approach chosen in KAFTA. In contrast, Japan may have chosen a relatively inefficient single undertaking approach in AJCEP but sought to complement the inefficiency through the bilateral trade agreements.

(c) Diplomatic leverage effects. Powerful players are more likely to prefer the bilateral approach to the regional approach of negotiations, if they believe they can enjoy greater leverage and discretion in shaping the rules for trade that is beneficial to their own. The US's utilisation of asymmetric power in its FTA negotiations is a familiar example; as Robert Zoellick (2002), a former USTR, states, the US is promoting FTAs as a part of “building-block approach to free trade”, by “using the leverage of the American economy's size and attractiveness to stimulate competition for openness”. Because the US's power is driven both by its economic size and military capacity, its diplomatic leverages for

competitive liberation have proven to be very effective, particularly in North–South trade relations (Ryan-Collins 2009, 2–8). The rationale is that a powerful player provides assistance to a weak player and makes up the costs of assistance by the benefits of PTAs that favour the powerful player.

The power imbalances can create leverage for the powerful player through two mechanisms. First, they set precedent with one country with a certain level of standard and use this case as an example to pressure other small countries. Second, this agreement between the powerful and the weak causes a trade diversion effect for other weak countries, generating “a chain of reaction in which those left behind are increasingly pressured to follow” (Ryan-Collins 2009, 3). Hence the powerful player has a higher chance of deriving a favourable agreement through bilateral negotiations, which will also generate a broader influence in the region through the domino effect.

Korea’s and Japan’s influence over ASEAN may be distinguished by their differing degrees economic/military capability and trade dependency. First, Korea’s and Japan’s varying economic and military power have different implications for ASEAN countries. Japan is a major power in the region that can effectively counter and balance the rise of China and a major donor country that has contributed a significant amount of aid to Southeast Asia since the late 1980s. On the other hand, Korea is perceived more as an economic partner, rather than a regional power, that needs surveillance. Second, the two countries have significant differences in their trade dependency. According to the World Bank (n.d.), Korea’s and Japan’s merchandise trade as a share of GDP was 89.8% and 28.4%, respectively, during 2004–2008,³⁵ despite the fact that ASEAN is a major trade partner to both. As Japan has a much bigger domestic market and depends less on trade in comparison, Korea and Japan may still place different priorities on the Southeast Asian market for their economic influences. These differences suggest that the greater a country’s economic and military power and the less it depends on trade, it is more likely that it will take the advantage of its strengths to derive greater concession from its counterpart country through bilateral negotiations. In contrast, the incentives of a bilateral agreement compared to a plurilateral

³⁵ Merchandise trade (per cent of GDP) for other years is available at the World Bank: <http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS>.

agreement diminish if a country has a high trade dependency and is a relatively weak economic and military power.

The weak players may still find the incentive to engage in FTAs, albeit the concessions made are more often unilateral than bilateral, as they lock in domestic policy reform, make the reversal of such commitments costlier and guarantee market access to a large market. As a matter of fact, the new wave of regionalism since the late 1980s has been marked by increasing one-sided agreements and unilateral reforms where liberalisation is achieved primarily by small countries, as big countries or economies only make modest concessions (Ethier 1998, 1151). For example, Mexico's asymmetrical concession with the US in the NAFTA negotiation clearly aimed at securing domestic reforms by tying the reform measures to international treaty (Whalley 1998, 71–72). Most Scandinavian countries made significant concessions in their agricultural sectors by applying for EU membership (Ethier 1998, 1151). In similar ways, Aremu (2010) suggests that the asymmetrical economic relationship between the relatively weaker ASEAN countries and the stronger Korea/Japan may have a positive effect on foreign policy behaviour between these countries. That is, the more the weaker side depends on the stronger side, which is measured by economic indicators such as the proportion of FDI, foreign aid and trade dependence, the more often the two parties will engage in diplomatic events.

When it comes down to negotiation techniques, the single undertaking approach has been preferred by the stronger party, most notably the US and Japan, to ensure that the counterparty, which are usually developing countries, commits to negotiating all the items at the table. The items of discussion can range from traditional trade issues, including goods, services and investment, to the WTO+ issues. The arrangement made under the single undertaking approach then makes it difficult for the involved parties to bypass the requirement for high standards with comprehensiveness. While most bilateral FTAs take the form of single undertaking approach because it is easier to negotiate, plurilateral agreements tend to take varying forms of negotiation approaches. In the case of the ASEAN+1 PTAs, AJCEP and AANZFTA have been negotiated under the single undertaking approach, while the rest have opted for the sequential approach of negotiations.

(d) Foreign policy objectives. Tracing back to the Kantian peace hypothesis, liberal-leaning scholars have long argued that economic interdependence strengthens political ties

between states. As such, states have frequently used economic ties to achieve foreign policy objectives. For example, the US enacted the US–Israeli FTA in 1985 and continued to strengthen economic ties with the Middle East for political purposes. The terrorist attacks of 11 September 2001 were a central momentum for the US to push for these initiatives. After the terrorism, the 9/11 Commission (Kean and Hamilton 2004, 378–379) reported that

Economic and political liberties tend to be linked. Commerce, especially international commerce, requires ongoing cooperation and compromise, the exchange of ideas across cultures, and the peaceful resolution of differences through negotiation or the rule of law.

Hence, the US began working toward a Middle East Free Trade Area to promote the rules-based global trading system in Muslim countries and counter terrorism.

Likewise, Korea's and Japan's negotiation choices with ASEAN may depend on their respective foreign policy objectives and ASEAN's strategic importance in achieving them. Japan regards as China having political reasons for approaching ASEAN through CAFTA. That is, China reached ASEAN to take the leadership role in building East Asian economic regionalism (Hughes 2005). In this respect, Japan's choice of bilateral negotiation approaches is likely to be associated with effectively countering the rise of China through the establishment of alternative regional trade rules.

As Dent suggested (2010, 231), Japan and China have demonstrated contrasting PTA models. China adopts the “developing country” FTA model, which is simpler, less comprehensive and similar to that of ASEAN. In the meantime, Japan adopts the “developed country” PTA model, closer to that of the US, which reflects the interests of transnational companies and demands for regulatory measures. Japan's rationale for such differences could be explained if it aims to establish different regional rules and norms through in-depth relationships with each ASEAN member. ASEAN had experience with regional PTAs, namely AFTA and CAFTA, but lacked experience in more specific, comprehensive and in-depth bilateral PTAs, except for Singapore. Thus, ASEAN members' bilateral experience with Japan would provide ASEAN states with models for their future bilateral PTAs, which would eventually become the standard for East Asia's PTAs and regional economic institutions.

Japan also has security incentives to promote bilateral PTAs and provide country-specific economic and development assistance to individual ASEAN members. For example, Japan promoted closer economic relationship with Southeast Asia to secure its influence in the Malacca Strait, South China Sea and East China Sea (Aizawa 2014, 6–7).³⁶ Countries such as the Philippines and Vietnam, which claim the rights to the South China Sea, shared overlapping interests for securing such economic relations with Japan as a counterbalancing strategy against China. Because China's power and capacity to claim the rights to the South China Sea is far greater than the individual ASEAN countries, bilateral economic relationships were used as means to align with major powers against China. In contrast, Cambodia faces the difficulty of being forced to take sides with either China or Japan.³⁷

In comparison with Japan, Korea's political interests are rather unitary than mutually intersecting with ASEAN. Because Korea does not have any significant historical collision or war vestiges with the ASEAN countries, the Korean government perceives ASEAN as an important alliance within the region, and its promotion of close economic ties with ASEAN can back up its political stance (Choi 2014). "Sandwiched" between Japan and China, however, Korea has sought niche diplomacy as a middle power rather than to seize a leadership position in East Asia (Zhang 2016). Thus, Korea's main foreign policy objectives with ASEAN do not concern counterbalancing China like Japan. Moreover, Korea focuses on gaining support of the ASEAN countries on disputes, such as those concerning the North Korean nuclear threats and the naming of the marginal sea bordered by Korea and Japan (Choi 2014).³⁸

3.4.2 Ideas.

The critics of rational choice approaches contend that analysing interests alone cannot account for the changing preferences of the actors and the behaviours that are not purely out of

³⁶ Japan's strategic importance of the maritime dispute between China and the Southeast Asian countries also closely linked with its economic benefits: 95% of Japan's energy supply and 40% of its trade passes through the South China Sea (Aizawa 2014, 6).

³⁷ In fact, the Philippines and Vietnam exchanged talks for EPA negotiations with Japan as early as 2002 and 2005, respectively, while Cambodia was one of the last to issue the notification needed for AJCEP to enter into force and has yet to sign a bilateral FTA with Japan.

³⁸ Korea claims the name of the sea as the East Sea, whereas Japan labels it the Sea of Japan.

self-interest. The rational approaches presume that actors know exactly what they want and how it will benefit their interests. Thus, they are limited in explaining the changes occurring in trade policies because it undermines the interaction and the shared beliefs created between the domestic actors; ideas and beliefs supply the availability of viable policy options (Goldstein 1993). Domestic actors' interests are often shaped by a variety of non-material factors, including experience, beliefs, identities, culture or norms.³⁹ These ideas can be differentiated from the rationalist approach of viewing interests, "if acquiring a new idea means changing one's conception of self-interest rather than just reordering one's preferences, and if different agents can hold different mental models regardless of the similarities of their structural positions" (Blyth 2003, 697). As Wendt (1995, 73–74) argues, "social structures exist only in process", implicating that historically and socially constructed experience creates a lens through which we see the world. In this context, the idea-based approaches complement rather than contradict the rationalist explanations by giving account to how decisions become what they are, instead of considering the changes as given factors (Nye 2007, 7–8).

To provide an analytical framework in understanding why Korea's and Japan's preferences for their initial negotiation approach diverged, this section first defines ideas as policy paradigms. It then builds a framework on how the influence of ideas can be captured through the comparative case studies by expanding on the role of ideas in both continuity and change. Last, this section identifies the conditions in which policymakers make the different path selections through identification of the antecedent conditions and the reinforcements.

Ideas as Policy Paradigms. For the purpose of the thesis, ideas are conceptualised as *policy frames*, defined as policymakers' "normative or cognitive beliefs that are located in the foreground of policy debates" (Kangas, Niemelä and Varjonen 2014, 74).⁴⁰ The scholarship focusing on policy paradigms or policy frames highlight the process of policy learning and

³⁹ Ideas also take many different forms, including frames, myth, collective memories, stories and scripts (Schmidt 2010, 3). Others categorise the different kinds of ideas, such as world-views, principled beliefs and causal beliefs (Goldstein and Keohane 1993, 7–8; Campbell 2002, 21).

⁴⁰ For literature that emphasises policymakers' ideas and strategies, see Goldstein (1988); Hall (1989); Hall (1993); Goldstein and Keohane (1993); McNamara (1998); Campbell (2002); Blyth (2002); Béland (2009); Abdelal, Blyth and Parsons (2010); and Morrison (2012, 2016).

formation, which influences the development of government policies (Hall 1993; Berman 1998; McNamara 1998; Blyth 2002; Béland 2009; Schmidt 2010; Berman 2013). Ideas emerge from “policymakers’ experiences with their environment and interactions with other actors” (McNamara 1998, 5). During this process, they play the role of defining crisis and shaping preferences and identities (Morrison 2016, 182).

Focusing on key decision-makers’ beliefs and strategies, rather than ideas of individuals that form bottom-up micro decision-making processes, also help make a better understanding of the path selection during or after *critical junctures*, as “the researcher is more likely to capture the dynamics that in most cases influence the selection of one institutional solution over others that were available during the critical juncture” (Capoccia 2015, 150). During the *critical juncture*, defined as a “common exogenous shock” or the “moments of social and political fluidity”, policymakers are given greater liberty to shape new policy paradigms (Capoccia 2015, 150–156). They are “freer and more influential in steering institutional development than during settled times” (Capoccia 2015, 156). In other words, the policy-making processes are not only about responding to external pressures or societal actors, but also about decision-makers’ having to cope with uncertainty (Hecló 1976, as cited in Berman 2013, 219).

Capturing the Role of Ideas. Today’s literature commonly acknowledges that ideas do matter in shaping public policies. Yet, how much they matter in shaping public policies is still debatable, mostly due to the difficulty associated with measuring and quantifying the influence of ideas (Mehta 2011). For the same reason, the role of ideas has often been highlighted in situations where it can be decisively identified under specific political circumstances (Béland 2009, 702), particularly when actors face complex and uncertain situations with multiple equilibriums (Béland 2010, 148). A sudden change in public policy, then, can best be captured by the idea-based perspective, in which various political and economic costs and benefits have been identified.

The comparative case studies method offers a useful tool to capture the influence of ideas, as it provides a counterfactual leverage on what would have happened without particular ideas (Parsons 2002, 49–50). In these regards, Korea’s and Japan’s sudden divergence of PTA negotiation strategies with ASEAN, after their initial decision to opt for the bilateral approach of negotiations, provide an apt ground to test whether ideas played a significant role in their

decision-making processes. The two cases allow an observer to capture what caused the sudden change of the perceived interests, as it is relatively easier to capture not only what happens when ideas take place, but also that ideas still matter when the policy remains consistent. The comparison of Korea's and Japan's development of bilateralism and regionalism, therefore, allows an observer to trace both the changes and the *status quo* in their preferences to evaluate the impact of ideas.

To further specify the analytical tool to capture the influence of ideas in Korea's and Japan's trade policies, ideas are juxtaposed as path-creating versus path-dependent factors. As Cox (2004) argues, ideas can influence public policies even if there is no change on the surface over time. Likewise, the historical institutionalist approach has been adopted to explain continuity in policies through the logic of path dependence, rather than to explain the changes in policies (Schmidt 2010, 2). Certain ideas that are highly valued among members of a society causes conventional models to persist, leading to the path dependency of ideas. When a policy based on certain ideas is highly valued within a society, changes to the policy may occur but they will be confined within the boundaries of existing ideas as scholars and policymakers will continue to refer back to them (Cox 2004, 216).

By contrast, old ideas can be replaced by new ideas if actors' perceptions change entirely. In this case, a new policy breaks the inertia of the existing values promoted by the old policy. Most existing studies focus on the path-creating role of ideas to demonstrate that interests are subject to change (Goldstein 1993; Berman 1998; Blyth 2002; Blyth 2003; Morrison 2016). In this case, the idea diffusion processes then become not only about when and which ideas matter most, but also about whose ideas are more influential to shift the policy paradigm (Acharya 2004). When policymakers with innovative ideas suggest a new policy paradigm, it often leads to "a battle of ideas" (Parsons 2002, 57), in which different values "compete with other norms and perceptions of interest" between various domestic actors (Finnemore and Sikkink 1998, 897). However, it is not always the case that new ideas are successful (Parsons 2002, 57), as they "survive implementation into policy only if they are politically salient" (McNamara 1998, 5). The greater the key decision-makers' power and authority, the more likely their ideas lead to a shift in policy paradigm. As Hall (1993) states,

[i]ssues of authority are likely to be central to the process of paradigm change. Faced with conflicting opinions from the experts, politicians will have to decide whom to regard as authoritative, especially on matters of technical complexity, and the policy

community will engage in a contest for authority over the issues at hand. In other words, the movement from one paradigm to another is likely to be preceded by significant shifts in the locus of authority over policy. (280)

In either case, once ideas live through the contestation process, they gradually become internalised within society, and they “acquire a taken-for-granted quality and are no longer a matter of broad public debate” (Finnmore and Sikkink 1998, 895). Furthermore, the learning process takes place as policy legacies echo in the evaluation of later decisions (Mehta 2011). Ideas and norms may also readapt and localise depending on the different societal and regional characteristics, which subsequently affect the policy-making trends (Acharya 2004).

Examination of Temporal Processes: Antecedent Conditions and Reinforcements.

After the Asian financial crisis, both Korea and Japan quickly adopted the idea of bilateralism and regionalism. During this period, decision-makers were given greater flexibility and power to shape the new policy directions with PTAs. However, the crisis did not lead to an immediate divergence of ideas between the two countries. Policymakers in Korea and Japan were still conservative, focusing on the co-operation at the East Asian level, even as they adopted PTAs. Then, a noticeable gap in Korea’s and Japan’s preference for regionalism and cross-regionalism emerged since the early to mid-2000s. What could have possibly triggered the differences in the two countries?

Examining policymakers’ ideas in the development of temporal processes is helpful for discovering the dynamics of policymaking processes that occurred over substantial stretches of time (Pierson 2004). As Pierson (2004, 2) emphasises, “placing politics in time can greatly enrich both the explanations we offer for social outcomes of interest, and the very outcomes that we identify as worth explaining”. Understanding temporal contexts allows one to distinguish the conditions that determine the different policymaking processes and underscore the importance of examining historical development that leads to certain policy outcomes (Pierson 2004, 2). Examining these two factors in the temporal processes is particularly useful to examine the cases of Korea and Japan, because the two countries’ choices did not diverge immediately after the critical juncture. Rather than demonstrating an immediate path departure, the two countries’ divergence exhibited a lag.

During the temporal processes, key decision-makers’ consideration of “past policies and the way they assimilate new information” helped resolve the puzzle of how “state actors’

interpretation of both past and present events, as well as their selective screening of information, exerted a crucial impact over political outcome” (Berman 2013, 219–220). If ideas are significant components that shape Korea’s and Japan’s trade negotiation methods with ASEAN, they might as well be able to provide explanations for how such methods are chosen at the outset and why they might change (or not change) when international circumstances remain equal. Upon reflection of these policy development mechanisms that encompass policymakers’ response to both past and present events, two factors can be identified in determining the path-dependency or path-creation of ideas: (1) antecedent conditions and (2) reinforcements.

First, *antecedent conditions* are factors or conditions that existed prior to a critical juncture. They help provide predictive elements in explaining a range of viable economic policies after a critical juncture. According to Capoccia (2015), the antecedent conditions need to be considered in explaining a path selection because:

It is the analyst’s task to reconstruct the context of the critical juncture and, through the study of historical sources, establish who were the key decision makers, what choices were available to them – historically available, not simply hypothetically possible – how close actors came to selecting an alternative option, and what likely consequences the choice of an alternative option would have had for the institutional outcome of interest. (159)

To determine whether they play a causal role with the critical juncture and the subsequent policy outcomes, Slater and Simmons (2010, 889) suggest that antecedent conditions should “combine in a causal sequence with factors operating during the juncture to produce a divergent outcome”. Their definition of antecedent conditions differs from other types of antecedent conditions that either seek direct causal mechanisms through rival hypotheses or justify case selection through background similarities,⁴¹ as the causal process

⁴¹ According to Slater and Simmons (2010), there are three alternative logical types of antecedent conditions:

First, antecedent conditions may have nothing to do with a causal process. For those seeking to uncover historical causation, attention to such descriptive context sacrifices parsimony without any gain in explanatory leverage. A second possibility is that factors preceding a critical juncture may be directly responsible for the outcome of interest. Antecedent conditions should always be entertained as rival hypotheses, especially if we

between the antecedents and policy outcome is “indirect and combinatory” (Slater and Simmons 2010, 889). To identify what types of antecedent conditions need to be examined, a critical juncture should first be defined and then a question of “how similar or different were the antecedent conditions of the cases to be examined” should be addressed (Slater and Simmons 2010, 911).

To explore the antecedent conditions in the instant case studies, the shift (or *status quo*) of ideas to the existing preference is traced back to Korea’s and Japan’s trading environments before the Asian Financial Crisis. Chapter 5 addresses how policymakers in the two countries viewed multilateralism, bilateralism and regionalism in a broader context through the examination of long-term policymaking processes. Korea and Japan both underwent a transition period from multilateralism to bilateralism and regionalism throughout the 1990s, which consequently shaped their ideas about PTAs and regional co-operation. As Chapter 5 demonstrates, both countries were firm supporters of the WTO-based multilateralism, as the hub-and-spoke relationship with the US prevented East Asia from developing its own regional institution. With the increasing perception that American power was on the decline (Brown 1993) and the breakout of the Asian financial crisis, the calls for PTAs emerged. However, the strength of values and ideas Korea and Japan placed on multilateralism and PTAs varied, although they did not cause a direct divergence in the two countries’ PTA strategies, owing to the two countries’ different antecedent conditions that preceded the critical juncture.

Next, *reinforcement* is defined as experience(s) with one or more events after a critical juncture, which relates back with the antecedent conditions to generate either path-dependence or path-creation of an idea. As Pierson (2004) conceptualises, path dependence is about understanding a self-reinforcing process:

Path dependence refers to dynamic processes involving positive feedback, which generate multiple possible outcomes depending on the particular sequence in which events unfold. Arthur, David, and others have argued that the crucial feature of a

have theoretical priors that they might be causally significant. In a third scenario, antecedent conditions represent background similarities. Comparative scholars often spend considerable time explicating these antecedents to justify a paired comparison research design. These ultimately serve as control variables, not causal variables. Antecedent cross-case similarities cannot logically be responsible for cross-case divergence. (889)

historical process that generates path dependence is *positive feedback* (or self-reinforcement). (20–21)

Pierson (2000, 2004) examines the role of positive reinforcements, as a powerful inertia that sources the path-dependency of ideas. As each positive experience builds up, step by step and over time, towards a certain policy trajectory, the higher the costs of alternative path become, making it more difficult to reverse the path (Pierson 2000; David 2000; Hacker 2002; Pierson 2004). A reinforcement can also be derived from a negative experience through the same logic. A series of negative experiences would decrease the value of existing ideas. In other words, they would gradually lower the existing ideational barriers, making it conducive for new ideas to enter and eventually change the policy paradigm.

When Korea and Japan initiated their PTAs after the Asian financial crisis, their experiences in the earliest PTAs acted as reinforcements of their initial perception of bilateralism and regionalism. They became more direct causes of changes (or *status quo*) in the two countries' preferences about bilateralism and regionalism. As Chapter 5 illustrates, Korea's and Japan's first-hand experiences in PTAs—whether or not successful—stirred new internal debate among the policymakers in the face of uncertainty; the various domestic responses could not have been fully calculated by economic and political costs and benefits through research or joint studies because these PTA negotiations were a human construct that involved a process of persuasion and consensus-making.

3.4.3 Institutions. An institution is composed of the system that provides rules and agents who execute those rules (North 1989). Thus, it acts as a bridge that connects and corresponds to the interests and ideas of the domestic agents. Because the link is interactive, the function of the institution is not limited to the allocation of decision-making power but continues to evolve in response to the shift in societal demands. Since the late 1990s, the institutions of Korea and Japan have continued to evolve to equip and build new structures that can accommodate the departure from multilateralism to bilateralism and regionalism. As Katzenstein (1976) argues, the comparison of the institutionalisation of two industrialised countries with similar political and economic motivation should provide a key to their dissimilar foreign economic policies.

Up to the mid-1990s, market-driven forces had characterised economic co-operation in East Asia, where transactions between economic entities took place first, followed by the

institutional arrangement to support the growth of economic exchanges (Langhammer 1995). In contrast, post-crisis East Asia has witnessed regional economic initiatives taken at the institutional level, the most outstanding feature being regional and bilateral trade agreements (Urata 2006, 19). Due to the institutional nature of the PTAs of East Asia, the structure in which decision makers process various outlying domestic interests and ideas have become critical variables for consideration in determining the policy orientation of a government.

However, previous studies discussing the effects of domestic institutions on trade policy in Korea and Japan have not reached a consensus yet. For instance, Choi and Oh (2011) argued that the fragmentation of jurisdiction over trade at the ministry level explains the different degrees of liberalisation in the agricultural sectors in the two countries. Yoshimatsu (2012) added that it is the individual preference and leadership of the chief executives that caused divergence at the ministry-level in Korea and Japan by 2010. This was despite the fact that Prime Minister Koizumi's executive power was strong enough to carry out the PTA policies, but they were not his personal priorities. Therefore, Yoshimatsu argued that it was individual leadership that ultimately led Japan to lag behind Korea in its PTA policies. However, Choi and Oh's and Yoshimatsu's focus on micro factors fall short in explaining the fundamental causes of how inter-ministry conflict or a leader's policies arise in one country and not in another.

In contrast, Fujisue (2013) assessed that it is the political system that distinguishes the overall PTA qualities and length of negotiation of Korea and Japan. Adopting the core executive model, he argued that the cause of centralisation in trade policy should be highlighted from a broader perspective by examining how the core executives are composed under the different political systems. As Fujisue posited, the most rudimental difference in the institutional structures of Korea and Japan is marked by their political systems. Korea and Japan are both democratic countries with developed economies, but one has a presidential system with executive dominance, whereas the other has a parliamentary system where party and bureaucracy have significant power in shaping foreign policies. Despite the significance of intra-democracy variations shaping foreign economic policies, scholarly interest in this area is under-researched in East Asia, particularly when it comes to the study of checks and balances between the executive and legislative branches of governments.

This section goes a step further than Fujisue (2013)'s work and focuses on how intra-democracy variation influences the centralisation of policy-making authority in regard to

Korea's and Japan's PTAs with ASEAN in the early 2000s. PTAs have direct economic distributional consequence across domestic industries, unlike most other foreign policies that attract relatively little domestic attention. As a result, the legislative branch of the government is engaged in the decision-making processes more often than other foreign policies that assume a strong role of the executive branch for the sake of national unity, flexibility and efficiency (Raunio and Wagner 2014). Therefore, an examination of how the balance of power between the executive and the legislative branches influences the institutionalisation of PTAs provides useful guidelines to trace the causes of centralisation or decentralisation in the PTA strategies of Korea and Japan.

The dynamic systems model of administrative politics developed by Krause (1996) provides a useful point of departure for examining how the executive–legislative relationship influences the degree of centralisation in the trade policies of Korea and Japan. The model examines the institutional dynamics between the two principals—the executive and legislative branches—and the agency—the bureaucracy. Krause eases the assumptions of conventional principal–agent literature, which has been built on top-down institutional designs by criticising the oversimplification of the causal relationship between principal and agent (Krause 1996; Meier and O'Toole 2006). The dynamic systems model predicts four possible outcomes: bureaucratic influence, bureaucratic autonomy, political influence and mutual influence. From the examination of the US Securities and Exchange Commission, Krause finds that political principals and agents mutually influence each other; thus, the influence of bureaucracy should not be forsaken in explaining the executive–legislative relationship.

Relaxing the hierarchical analogy provides a convenient tool for comparing the institutional differences of Korea and Japan because the existing literature either dismisses the influence of executive–legislative relations or the discretion of bureaucracy in the decision-making of PTAs. For example, in Japan the turf battles between bureaucracies have been the centre of discussion when it comes to fragmentation in making PTA policy (Corning 2009; Yoshimatsu 2011). In spite of the fact that political leadership is closely associated with Japanese bureaucracy, the two have often been understood separately from each other (Pempel 1992). In contrast, Korean bureaucracy has been understood as an administrative

tool instead of a group of discretionary agents, or it has been implied in the FTA policy-making processes due to the strong presence of the executive branch (Hwang 1996).⁴²

To fill the gap in the literature, Krause's two-by-two model of principal-agent interaction is revised, as his model is apt to explain the principal-agent dynamics under a single government. Hence, the revised model compares the variations that exist across the different types of democracy by addressing the power relationship between the executive and the legislative branches and how the relative degree of decision-making power interacts with the discretion of bureaucracy. Directions in which the presence of bureaucratic discretion influences the centralisation of the executive branch are included to explain when an administrative agent strengthens or weakens political influence of the principal.

To fit these variations into the new framework, several assumptions are made about executive-legislative relations and conceptualise the nature of bureaucracy. Regarding the principals, it is premised, as it has been widely accepted by existing scholarship, that in democracies a strong executive branch is associated with the top-down co-ordination of foreign policies such that it benefits the aggregate welfare of the economy (Baldwin 1985; Milner and Rosendorf 1997). As Table 3.2 illustrates, the executive branch's subject of interest is in advancing the aggregate welfare because its constituency is the entire nation. Thus, the scope of trade tends to be more internationalist and liberalising. As an individual holds greater decision-making power, foreign policies are more flexible and responsive to change. The executive branch's unilateral control also allows consistency over public administrations and in co-ordinating and managing bureaucracies (Moe and Wilson 1994). Therefore, when it comes to the length of negotiations, the stages of negotiation, until the signing, should take a shorter period of time. In contrast, the ratification process can become prolonged by involving more actors in the decision-making process and by involving the legislature for the approval of PTAs (Fujisue 2013, 10).⁴³

The opposite is assumed when the legislative branch holds strong control over foreign economic policies. Legislators represent smaller constituencies and are more susceptible to pressures from parochial interests. Hence, they tend to be supportive of more protectionist

⁴² See for example, Yu (2006) and Yoshimatsu (2012).

⁴³ The process in which PTAs take place is generally divided into study period, negotiation, reaching an agreement, signing, ratifying and entering the agreement into force.

policies. Due to the variety of interests they represent, their strong presence may become a source of delay in PTA negotiations. However, the ratification process should be shortened as a consensus is drawn during the negotiation processes (Fujisue 2013, 10).

Table 3.1 Executive–Legislative Characteristics in Shaping Foreign Economic Policies

	Executive	Legislative
Goals of interest	Aggregate welfare	Constituency groups
Areas of interest	International	Parochial
FTA preference	Liberal	Protectionist
Response to change	Flexible and responsive	Possible delays
Administrative co-ordination	Integrated	Fragmented

Next, bureaucracy has the capability to influence its principals, rather than being a simple agent for processing administrative orders.⁴⁴ Similar to what Mosher (1982, 113–120) defines as the “professional state”, which draws attention to the professional elites in public service, the bureaucracy in Korea and Japan is composed of a highly selective group of elites. Each individual has an educated background that often includes professional knowledge, but the bureaucracy as a group also has its own tradition, culture and goals derived from cumulative experience.

However, the dominance of bureaucracy can contradict the interests of the general public by “moving the weight toward the partial, the corporate, the professional perspective” (Mosher 1982, 23). Because each ministry has its own independent goals, aside from a unified national goal, the interests of the different ministries may clash if given equal administrative power over a common policy. Information asymmetry created by professional

⁴⁴ Bureaucracy is often presumed to be an administrative tool, and the chief executive is expected to manage bureaucracies objectively and efficiently for broader national interest (Freidrich 1950; Sundquist 1981). Moreover, competition between bureaucratic agencies mainly involved winning budgets rather than politically sensitive issues, due to the fact that bureaucrats are civil servants who do not have to compete for seats as politicians do (Peters 2001, 226).

experience can also imbue bureaucracies with the power of their own (Krause 1996). For instance, in Japan the bureaucratic discretion in policy-making has often been considered so significant that it is seen as an obstacle to promoting coherent strategies under the executive leadership. Former Prime Minister Yasuhiro Nakasone (1995, 5) notes that Japan’s political system heavily entrusts “unelected bureaucrats” rather than “elected politicians”.

Taking these characteristics into account, the new two-by-two model is illustrated in Figure 3.1. The figure depicts the degree of centralisation in the institutionalisation process of the decision making on PTAs, demonstrated by the executive–legislative relations and influence of bureaucracy.

Figure 3.1 The Two-by-two Model of Degree of Centralisation in FTA Institutions

		<u>Executive–Legislative Relations</u>	
		Executive	Legislative
<u>Influence of Bureaucracy</u>	Insignificant	(1) Strong centralisation	(2) Political influence
	Significant	(3) Mutual adaptation with centralised tendencies	(4) Political influence and bureaucracy goals

The first and the second cases demonstrate situations where bureaucracy is considered a simple administrative tool without particular discretion or expertise. Under these

circumstances, a government with a relatively strong executive branch, as illustrated by the first case, will readily centralise the institutionalisation of PTAs and experience little competition among bureaucratic agencies. The chief executive's responsibility is limited to its classic role of managing bureaucracies objectively and efficiently for advancing broader national interests through trade agreements (Friedrich 1950; Sundquist 1981). In the second case, the behaviour of bureaucracies is shaped significantly by the preferences of politicians in the legislative branch. The typical legislative role is expected, "creating and perfecting the decentralized system" by responding to its constituencies (McCubbins and Schwartz 1984, 166). Legislators are more likely to intervene in the institutionalisation process by using a variety of *ex ante* and *ex post* controls, reflecting the clashing interests of the winners and losers of trade (McCubbins and Schwartz 1984); thus, decentralised and fragmented bottom-up decision-making is expected.

The third and fourth cases describe situations in which bureaucratic discretion significantly affects the preferences of political principals, and vice versa. In the third case, the executive branch holds greater decision-making power. Thus, it should demonstrate relatively concentrated activities of bureaucracies. The executive branch has overarching power to shape the PTA policy framework, but the decisions regarding the scope and the degree of liberalisation is reliant on the expertise of agents. The fourth case occurs when the legislators and bureaucracy agents mutually influence one another under a system with a weak executive branch. In the absence of an executive branch to co-ordinate conflicting interests, fragmentation is expected—similar to the second case. The degree of fragmentation varies depending on how legislators reflect domestic interests and to what degree the bureaucracies will reconcile the interests with their own goals, while also giving consideration to the unified national goal. However, it is generally expected that the influence of bureaucracy will be stronger under the weak executive branch (Nicholson-Crotty and Miller 2012). Furthermore, if the ideal of the executive branch is far from that of the legislators, then bureaucratic agents are more likely to play the role of legislative allies (Warren 2010).

3.5 Hypotheses

In the introductory chapter, the thesis laid out the main hypotheses to be examined. To investigate further *how the domestic factors, rather than systemic factors, account for the different negotiation approaches taken by Korea and Japan in their PTAs with ASEAN*, this section expands the sub-hypotheses on each of the domestic factors, namely, interests, ideas and institutions.

Table 3.2 summarises the sub-hypotheses on domestic interests. Regarding domestic interests, the sub-hypothesis establishes that *a bilateral negotiation approach is more likely if: (a) sensitive sectors of the economy have more to lose from a liberalized market, (b) a government's interest in a PTA involves achieving negotiation efficiency, (c) a government has more political and economic leverage against the negotiation counterpart and (d) a government has country-specific foreign policy objectives*. Import substitution industries are expected to oppose any free trade in principle. However, these industries should oppose less in a bilateral PTA, as it would have much smaller political and economic significance compared to a regional PTA. In Korea and Japan, the agricultural sector belongs to these industries. Hence, strong opposition from the respective agricultural groups is likely to lead these countries to prefer a bilateral negotiation approach with individual Southeast Asian countries, rather than with ASEAN as a regional entity. Furthermore, the Korean and Japanese governments are likely to emphasise the promotion of bilateral trade agreements with individual ASEAN members if there is much to gain from speedy and efficient in-depth PTAs given the limited resources; if they can utilise asymmetric power through their pre-extant relationships with individual Southeast Asian countries; or if they aim to establish in-depth political relationships with individual ASEAN members.

By contrast, *a regional negotiation approach is more likely if: (a) export competitive industries have more to gain from increased market access and reduced costs attached to utilising PTAs, (b) a government's interest in a PTA involves achieving greater trade gains for the overall economy, (c) a government has less diplomatic leverage against the negotiation counterpart and (d) a government's foreign policy objectives are aimed at a targeted region*. Export-oriented industries in Korea and Japan are clustered around manufacturing. They are expected to support a region-based PTA with ASEAN over bilateral PTAs to achieve greater market access in the Southeast Asian market and to reduce practical costs attached to the noodle-bowl problem. In addition, the Korean or Japanese government will likely to emphasise a region-based PTA with ASEAN when there is much to gain through pre-emptive entry into

the ASEAN market faster than their competing countries and connecting the production network within the region. If they do not have diplomatic leverage over an individual country to negotiate favourable terms of trade, then they might as well prefer a region-based PTA that yields greater overall gains. In this respect, the Korean government is more likely to prefer a region-based PTA with ASEAN than Japan. Lastly, a region-based PTA is more likely if Korea or Japan treats ASEAN as a region, rather than as individual countries, to achieve their foreign policy objectives.

Table 3.2 Domestic Interests and Their Preference for PTA Negotiation Methods

Domestic Interests	Negotiation Approaches	
	Regional Negotiation	Bilateral Negotiation
Private Interests	<ul style="list-style-type: none"> Export competitive sectors benefit from the enlarged market access (large returns to scale, cross-border production networks, first-mover advantages) and cost-efficient RTA. 	<ul style="list-style-type: none"> Sensitive sectors do not welcome PTAs of any kind. Opposition may be less for a bilateral PTA, depending on: (a) its political significance, (b) counterpart's market size and (c) the competitiveness of the relevant industries. Export competitive sectors: the industries that profit from economies of scale may exceptionally benefit from the tangled web of bilateral PTAs, as they heighten market entry costs for potential competitors.
Government's Interests	<ul style="list-style-type: none"> Trade gains Foreign policy objectives targeted at a region 	<ul style="list-style-type: none"> Negotiation efficiency Diplomatic leverage effects Foreign policy objectives for a specified country

Even though the interest-based hypotheses account for Korea's and Japan's differences in the costs and benefits of their negotiation strategy choices, both countries still opted for the bilateral negotiation approach in the beginning. Thus, the interest-based explanations do not explicate what triggered the sudden divergence between the two countries in 2003. Thus, the sub-hypothesis on ideas tests whether ideas have influence over PTA negotiation approaches and, if so, under what conditions. The sub-hypothesis establishes that *path-creation (or path-dependency) in ideas for PTA negotiation approaches depend on (a) antecedent conditions and (b) reinforcements*. In other words, it tests whether the negotiation preferences are determined not solely by a pure cost-benefit calculus, but also by the precluding context before a critical juncture and the reinforcement mechanism that feeds back to the policymaker's ideas.

Neither Korean nor Japanese negotiators were experienced in PTAs. Facing uncertainty in the ambiguity of PTA negotiations, policymakers had a range of viable policy options, which were susceptible to change through the emergence of new ideas. The comparison of Korea and Japan's context of critical juncture (antecedent conditions) and their early FTA experiences (reinforcements) helps distinguish whether the ideas were valid variables. For Korea, it is expected that the less constraining antecedent conditions and the negative reinforcements enabled domestic actors with new ideas to persuade those with existing ideas, bringing substantial change to Korea's negotiation preferences. For Japan, it is expected that existing ideas on bilateralism and regionalism continued to be highly valued. Even when new ideas emerge, changes should occur within the boundaries of existing values, leaving Japan's core negotiation preferences remained unchanged.

The Sub-hypothesis on institutions aim to account for the remaining puzzle of how the decision-making power is distributed across domestic actors, thus enabling the domestic actors with different interests and ideas. It focuses on Korea's and Japan's executive-legislative-bureaucratic relationship, in that:

A strong executive branch of the government is associated with a greater degree of centralisation and liberalisation in trade policy-making, making a region-based PTA negotiation approach a less costly option. The existence of strong bureaucratic discretion strengthens such tendencies.

Conversely, a weak executive branch of the government is associated with decentralisation and protectionism in trade policy-making, making a region-based PTA negotiation approach a

costlier option. The existence of strong bureaucratic discretion further intensifies fragmentation in PTA decision-making processes.

In a country-specific context, Korea's presidential system gives greater discretion to the executive side and to the smaller number of decision makers. Therefore, the fast decision-making process should compensate for some negotiation efficiencies lost in the region-based KAFTA. By contrast, Japan's parliamentary system gives greater decision-making power to the legislative branch compared to Korea. The decentralised institution, which involves a greater number of veto players, makes the region-based AJCEP costlier than bilateral EPAs. The country's traditionally strong bureaucracy is expected to drive these tendencies further.

3.6 Conclusion

Policy-making processes and outcomes are shaped by close interaction between individuals and groups within a society, which are contingent on the design of political institution and norms and the changes in the international system. IPE theories provide explanations from the varying perspectives by highlighting importance of the diverse actors involved at the different levels of analysis. Hence, the first part of this chapter has examined systemic IPE theories, namely, neo-realism and neo-liberal institutionalism. This chapter has argued that systemic IPE theories provide explanations to exogenous forces that drive Korea's and Japan's policy orientations, but they cannot give analytical guidance to the detailed decision-making processes involved in cases such as KAFTA and AJCEP. Korea's and Japan's choices for specific negotiation methods and their subsequent divergence in policy outcomes can be better understood by taking the domestic factors into account.

Therefore, the rest of this chapter has introduced an analytical framework based on the domestic-level analysis. It elaborated on the roles of domestic interests, institutions and ideas in shaping a government's preference formation process. The framework has put a special emphasis on the relationship between these three I's and their relative importance under the different circumstances. In particular, it has demonstrated that a government's negotiation approach is shaped by the complex interaction of various economic and political interests, but ideas and institutions are more decisive factors in explaining the changes of Korea's and Japan's preferences.

Applying the analytical framework from this chapter, the following chapters will conduct an empirical analysis of the domestic interests, ideas and institutions in Korea and Japan. They will test whether the hypotheses established in this section hold valid in the context of the two countries.

Chapter 4 Domestic Interests of Japan and Korea

4.1 Introduction

The previous chapter built an analytical framework, based on the domestic approaches of IPE, to provide a causal mechanism of how domestic interests, ideas and institutions are expected to influence Korea's and Japan's PTA negotiation approaches with ASEAN. Based on the analytical framework, this first empirical chapter investigates the influence of domestic interests. Specifically, it examines private and government interests involved in shaping Korea's and Japan's preferences for their respective PTA negotiation approaches at the different stages of their decision-making processes. Through the empirical investigation, this chapter aims to test the sub-hypotheses established in Chapter 3. That is, Korea and Japan both pursued bilateral PTAs initially because of their negotiation efficiency and to minimise the opposition of their respective agricultural sectors. In addition to these two factors, the Japanese government was further motivated to promote the bilateral approach, because of its foreign policy objectives and diplomatic leverages against ASEAN.

This chapter begins with an overview of the development of Japan's and Korea's political and economic interests with ASEAN since the post-war period. Then, applying the analytical framework from Chapter 3, it examines Japan's private and governmental interests in the ASEAN market. The following section investigates Korea's private and government's interests. Then, the hypotheses are tested on the cases of Korea and Japan. The final section concludes this chapter by comparing the two countries.

4.2 An Overview: Relations with ASEAN Before the Formal Trade Negotiations

This section examines Japan's and Korea's broader political and economic relationship with ASEAN, from the end of World War II to the early 2000s, which set the backdrop for their respective PTAs. Japan established formal relations with ASEAN over 20 years earlier than Korea. Thus, Japan's security and economic relations, as well as cultural and human exchanges, were much more in-depth than those of Korea's. Despite these significant differences, ASEAN had become an important trade partner to Japan and Korea through the initiatives driven both by the market and the government. Furthermore, by the

early 2000s, Korea and Japan had established a vertical economic relationship with Southeast Asia. Hence, it was logical that the two countries began to consider the feasibility of PTAs with other Southeast Asian countries when the tide of bilateralism emerged in East Asia.

4.2.1 Japan

(a) Post-war Japan–ASEAN relations and the Fukuda Doctrine. Since the end of World War II, the non-Communist part of Southeast Asia has become one of Japan’s most important economic partners for reasons of its geographical proximity, its abundance in natural resources, and its ability to serve as an export and FDI destination. On the surface, at least, Japan’s purpose in Southeast Asia had been limited to the economic realm because its Prime Minister Shigeru Yoshida’s foreign policy concentrated on reconstructing the war-torn economy while relying on the US for security.⁴⁵ Japan’s relationship with Southeast Asia in its early days, however, had been reserved due to the anti-Japanese sentiment that stemmed from the colonial memories and the threat of a rapidly expanding Japanese economy throughout the 1960s. The Southeast Asian countries nicknamed Japan during this period as an “economic animal” (Susumu 2013, 126).

The massive influx of Japanese capital in the region culminated in anti-Japanese demonstrations in the early 1970s in the Philippines, Malaysia, Thailand, Singapore and Indonesia. Led by university students, anti-Japanese sentiments proliferated in campaigns boycotting Japanese goods and demonstrations protesting the domination of Japanese businesses in the local market.⁴⁶ These moves reached a peak when Prime Minister Kakuei Tanaka visited Indonesia in January 1974. Later to be known as the “Malari Incident”, violent demonstrations resulted in 300 civilian casualties and the burning of Japanese vehicles and buildings (Solahuddin 2009). Although these anti-Japanese movements, in part, were tied to the demand of Southeast Asian people to reform their governments, Japanese businesses, as well as Japan as a nation, were explicitly not welcome in the region.

⁴⁵ The Yoshida Doctrine stood as the central pillar of Japanese foreign policy until the late 1970s.

⁴⁶ A representative anti-Japanese movement is the National Student Centre of Thailand’s boycott against Japanese goods in October 1972.

Because Japan and ASEAN had become important economic partners, it was in the interest of both parties to reduce these conflicts. Their efforts could be seen through the numerous dialogues exchanged between Japan and ASEAN during this time,⁴⁷ including the establishment of the Japan–ASEAN forum on synthetic rubber in 1973⁴⁸ and Japan’s promise to continue to increase ODA in Southeast Asia (MOFA (Japan) 2015). Against this backdrop, a major turning point came when the US decided to withdraw from Vietnam in 1975. When the US retreated from the region, it hoped that Japan would assume a more proactive role in security issues. It was also to Japan’s benefit to expand its role in Southeast Asia for natural resources, particularly due to the instability of oil prices after the 1973 crisis (Hayashi 2006, 33–34).

Domestically, the Fukuda administration, which came into office in 1976, played an important role in redirecting Japan’s policy toward ASEAN. As opposed to Prime Minister Tanaka, who attributed the anti-sentiment to local problems in Southeast Asian countries, Prime Minister Fukuda, who was a rival of Tanaka within LDP (Sun 2012), believed that Japan should be more actively involved in regional security issues, while continuing to reject the role of military power. Moreover, he emphasised that Japan and ASEAN should cooperate on the goals beyond material ones and connect “heart-to-heart” as “equal partners”. These new policy orientations were addressed in Prime Minister Fukuda’s concluding speech from his summit meetings with the ASEAN member countries in Manila on 18 August 1977:

It is not enough for our relationship to be based solely on mutual material and economic benefit. Our material and economic relations should be animated by heartfelt commitments to assisting and complementing each other as fellow Asians. This is the message I have carried everywhere on this tour, speaking repeatedly of the need to communicate with each other with our hearts as well as our heads, the need in other words for what I call “heart-to-heart” understanding among the peoples of Japan and Southeast Asia. You, fellow Asians, will understand what I mean. For it is in our

⁴⁷ For details, see Susumu (2013) and Busser (2000, 270–272).

⁴⁸ The forum aimed to reduce the dissatisfaction of Southeast Asian nations and region-wide anti-Japanese sentiment, as the global price of Southeast Asia’s natural rubber continued to decline due to increased Japanese production of synthetic rubber (Sudo 2015, 49). The rubber forum was later incorporated into the Japan–ASEAN Forum, which included a variety of other economic issues (Sudo 1988, 512) in 1977 under the Fukuda administration.

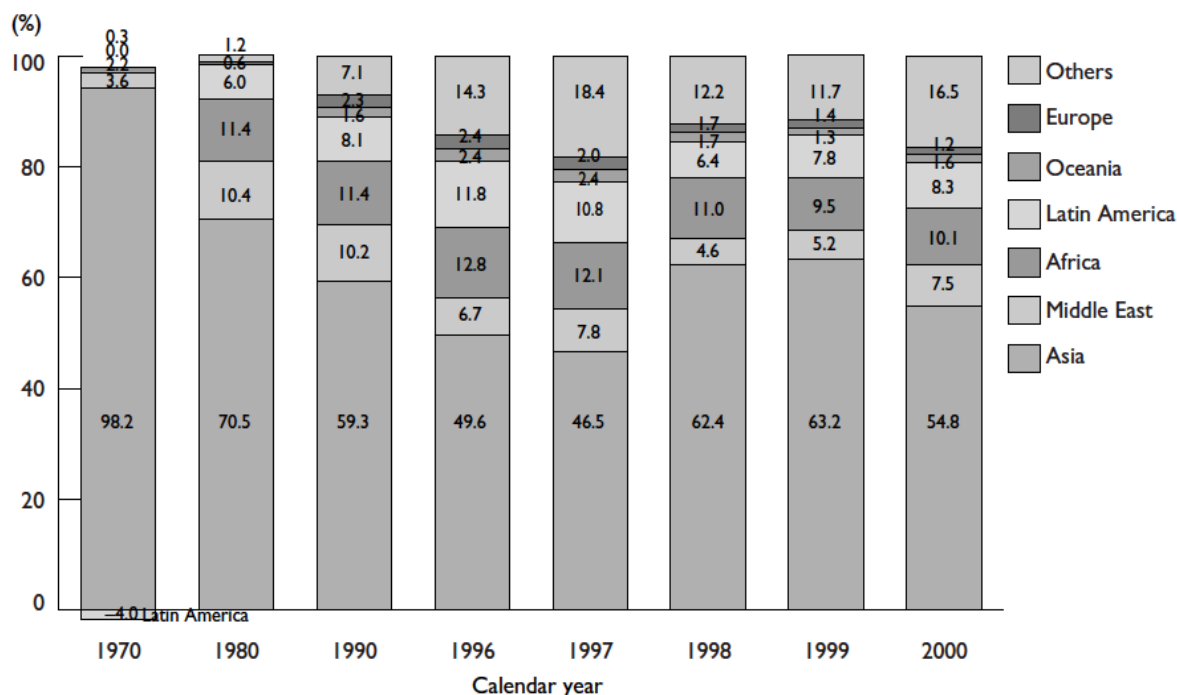
Asian tradition, and it is in our Asian hearts, always to seek beyond mere physical satisfaction for the richness of spiritual fulfilment. (University of Tokyo 1977)

The policy goals addressed in this speech became known as the Fukuda Doctrine, which extended Japan–ASEAN relations to the political and cultural dimensions. It was a milestone that led Japan to approach ASEAN as a multilateral partner, rather than from the traditional bilateral relations with the individual Southeast Asian countries (Sudo 2015, 5). Japan–ASEAN informal relations were soon elevated to full dialogue partners in March 1977.

After the Fukuda Doctrine, Japan became, by far, ASEAN’s largest donor; half of Japan’s ODA was directed to the ASEAN countries, which aimed to reduce the two parties’ development gap and build an “enduring cooperative relationship” (University of Tokyo 1977). Because Japan’s early economic assistance to Southeast Asia had mostly been in the form of war reparations, rather than aid from a developed to developing nations, the Fukuda Doctrine was an impetus for Japan’s assistance program for development purposes.⁴⁹ Therefore, the ASEAN Cultural Fund was established in 1978, and it was announced in the same year that ODA would double every three to five years (Masujima 2008, 5–6). To the ASEAN countries, ODA was mainly bilateral and took three forms: grant assistance, technical co-operation and Yen loans (MOFA [Japan] 2001, 53). These were mostly concentrated in Asia, reflecting the importance of ODA as a diplomatic tool in the region to secure not only peace and stability in the region through economic development but also food supplies and natural resources after the oil crisis (Tamaki 2013, 272; see Figure 4.1).

⁴⁹ Japan began to provide assistance to the Philippines, South Vietnam and Indonesia as early as the 1950s, as agreed by the San Francisco Peace Treaty of 1952. Japan agreed to provide financial assistance to Thailand, Laos, Cambodia, Singapore and Malaysia as “quasi-reparations”. Having lost 42% of its national wealth during World War II, however, Japan was also an aid recipient throughout the 1950s and the early 1960s, receiving economic assistance from the US, World Bank and IMF. By the mid-1960s, Japan had become a donor country as its economy rapidly rose close to the level of a developed nation, providing assistance separate from war reparations (Takagi 1995, 5–15).

Figure 4.1 Trends in Japan’s bilateral ODA by region.



Source: MOFA (Japan) ODA White Paper (2001).

(b) *Expansion of Japan’s political role and emphasis on regionalism beyond the ASEAN+1 level.* Throughout the 1980s and 1990s, the Fukuda Doctrine remained at the centre of Japan’s policy toward ASEAN. Japan continued to emphasise its greater take on Southeast Asia’s security in addition to the traditional economic co-operation. ODAs continued to be used as political and diplomatic tools to contain Cambodia and Vietnam (Takagi 1995, 30).

Appreciation of the Japanese yen since the Plaza Accord of 1985 was a direct boost to trade and FDI between Japan and ASEAN (Akrananee and Prasert 2003, 65–66). Prime Minister Nobuo Takeshita’s announcement of the New Partnership for Peace and Prosperity in 1987 stressed the growing economic interdependence and co-operation between Japan and ASEAN, particularly in the private sectors (MOFA (Japan) 2006a). Even though Japan faced a persistent economic downturn since the 1990s, the trade between Japan and ASEAN continued to grow until the Asian financial crisis (see Figure 4.2). While refraining from taking a proactive role in regional leadership, Japan initiated on taking the greater leadership role in Asia through supporting ASEAN’s integration through the discussion of economic

issues at the ASEAN Economic Ministers–Minister of International Trade and Industry meeting in 2002. MITI⁵⁰ held a series of seminars on AFTA and provided policy advice to ASEAN to further support development of ASEAN and to enhance confidence between ASEAN and Japan’s investors (Munakata 2001, 4).

The total export to ASEAN in 1995 reached US\$82 billion (Research Institute of Economy, Trade and Industry (RIETI) 2015.), where ASEAN was the second-largest export destination for Japan, following America’s US\$113 billion (The Observatory of Economic Complexity n.d.). Throughout the 1990s and early 2000s, Japan’s major exports consisted of general machinery, electrical machinery, and transportation equipment. Meanwhile, imports from ASEAN mainly consisted of natural resources and primary goods, such as oil, coal, wood, pulp and food products (Sato 2013, 3). Japan and ASEAN’s vertically divided economic structures created incentives for both parties to actively engage in trade (Kwon and Kim 2004).

Figure 4.2 Japan’s merchandise trade with ASEAN, 1980–2000.



Source: Author’s compilation of data available at REITI (2015).

⁵⁰MITI was reformed and renamed to METI in 2002.

As the two parties become ever more engaged with one another, Prime Minister Ryutaro Hashimoto once again emphasised the need to make bilateral and multilateral diplomatic, economic and cultural arrangements between Japan and ASEAN while in Singapore in January 1997; this announcement was labelled the Hashimoto Doctrine (MOFA (Japan) 2006a). This doctrine fizzled by the 1997 Asian financial crisis, which alerted Japan that its leadership role in the region was on the decline and needed reinforcing (Jain 2002). Hence, the first Japan–ASEAN Summit was held in December of that year to reiterate the importance of the two parties’ relations in the face of economic instability in the region (MOFA [Japan] 1997). The crisis also created a momentum that reminded East Asian countries how interdependent their economies had become, which led to the establishment of the APT Framework in 1999. To further assist the ASEAN countries financially, Japan also established the Japan–ASEAN Solidarity Fund in 1999 and the Japan–ASEAN General Exchange Fund in 2000 to help Southeast Asia recover from the crisis (MOFA [Japan] 2006). Japan’s Southeast Asian policy was moving beyond Japan–ASEAN relations to include a wider East Asian perspective.

4.2.2 Korea

(a) Establishment of the official Korea–ASEAN relations. Korea and the ASEAN members have long maintained a political distance before their establishment of a sectoral dialogue in 1989. Korea has made repeated efforts to build a standing consultative structure with ASEAN since the late 1970s, but the ASEAN side has been reluctant to establish formal relations with Korea for political and economic reasons. For ASEAN, Korea was still a developing country, recovering from the Korean War and in sustained tension with the communist DPRK; Korea was, therefore, a country with more risk than potential (Seo 2012, 288).

Having suffered from ideological cleavages since the end of World War II, the Southeast Asian countries came to value political neutrality. This regional consensus resurfaced in the Kuala Lumpur Declaration in 1971, where the ASEAN states agreed to create a Zone of Peace, Freedom and Neutrality (ZOPFAN). The goal of ZOPFAN was to promote lasting peace in the region by preventing the interference of external powers and by promoting co-operation among the member countries (Alagappa 1991, 270). Although the

member states had differences on how ZOPFAN should be substantiated, its central goal survived the 1970s and 1980s, shaping ASEAN's co-operative strategy to promote peace. In this context, it was logical that ASEAN was reluctant to take sides either with the communist DPRK or the democratic Korea.

Moreover, ASEAN had no record of establishing official relations with any developing country since its inception in 1967. Throughout the 1980s, its official dialogue partners were limited to developed countries that included Australia (1974), New Zealand (1975), Canada, the US, Japan and the EU (1977). The main goal of the establishment of these relations was to develop a co-operative financial aid structure with the developed countries as donors and ASEAN as beneficiary (Seo 2012, 279). The establishment of a sectoral dialogue partnership in November 1989 was an exceptional case for ASEAN, which was possibly due to Korea's improving international reputation and its growing importance for the ASEAN economy in the late 1980s.

When Korea's economy had a growth spurt throughout the 1970s and 1980s, its market structure and economic policy also underwent a transformation, bringing a significant change to the Korea–ASEAN trade relationship. In the beginning of Korea's economic development stage, represented by the growth of light industries such as textiles, wigs, shoes and plywood in the 1960s, Korea's growth engine was based on low-wage labour. The main export destinations of these labour-intensive goods were developed countries. In the 1970s, the Korean government began to subsidise heavy chemical industries based on the economic capacity built in the 1960s, which required more technology and capital relative to the low-wage labour. For this reason, Korea and ASEAN's trade relationship changed from horizontal to vertical, which created incentives for both parties to expand their trades: Korea could export capital-abundant goods and ASEAN could export labour-intensive goods (Won 1996, 15).

By the late 1980s, Korea–ASEAN trade relations had improved to a significant extent. Korea's total export to ASEAN doubled from US\$2.02 billion to US\$4.04 billion between 1987 and 1989. Its total imports from ASEAN showed similar trends, increasing from US\$2.8 billion in 1987 to US\$4.19 billion in 1989 (Korea International Trade Association (KITA n.d.).

The success of the Seoul Olympics in 1988 also improved Korea's international recognition. Until then, it had been hardly recognised by the world, or it had been viewed as

one of the poorest countries in the world because of the Korean War. The Olympics was an opportunity to draw the world's attention to Korea's rapid economic growth—referred to as the “Miracle on the Han River” (*Yonhap News Agency* 1990).

The establishment of the sectoral dialogue was a positive sign for Korea that its future relations with ASEAN could be advanced; economic factors such as its improved economy and changing trade structure with ASEAN were the main triggers for this political change. Korea's initiation of an official dialogue with ASEAN was expected to further boost trade between the two parties. The dialogue, however, was limited to economic terms that included trade, investment and tourism. The two parties were still carefully weighing possible risks and benefits before establishing a full-fledged dialogue that included diplomacy in economic and political terms.

(b) Korea's expansion of co-operation since the 1990s. Diplomatic relations between Korea and ASEAN rapidly took off with its establishment of the sectoral dialogue in 1989. The two parties' political and economic relations improved at a fast pace, leading to the establishment of a full dialogue partnership at the 24th ASEAN Ministerial Meeting in July 1991 in Kuala Lumpur. Korea became ASEAN's seventh official full dialogue partner. It was very timely that the Cold War was ending, and Korea and DPRK jointly entered the United Nations in September of the same year, easing the political tension that ASEAN feared when it first officially approached Korea. Newly added agendas to the full dialogue partnership, in addition to trade, investment and tourism, were information technology, human resource development and development co-operation. Korea and ASEAN's co-operation agenda expanded to include security when the ASEAN Regional Forum (ARF)⁵¹ was held for the first time in 1994 (Seo 2012, 289–290).

This period also demonstrated a remarkable rise in trade between Korea and ASEAN countries; trade increased at an annual average of 22% from 1990 to 1996, as compared to an

⁵¹ ARF is an Asia–Pacific regional dialogue that promotes peace and security through confidence building and preventive diplomacy. The inaugural meeting was held on 25 July 1994, in Bangkok. Its objectives are:

1. to foster constructive dialogue and consultation on political and security issues of common interest and concern; and
2. to make significant contributions to efforts towards confidence-building and preventive diplomacy in the Asia-Pacific region (ARF n.d.)

annual average of 13% with the rest of the world. By 1995, Korea's total export to ASEAN exceeded that to Japan, reaching \$17.9 billion, next to the US's \$24 billion, making ASEAN Korea's second-most significant trade partner (see Figure 4.3 for Korea's merchandise trade with ASEAN). Korea's major export included electronic devices, machineries, steel, ships and synthetic fibres. Its major imports were mainly natural resources or products derived from those resources, which included crude oil, petroleum products, coal, copper, wood and fine chemicals. Electronic parts also took up more than 10% of Korea's total import from ASEAN (KITA n.d.).

Korea–ASEAN relations further broadened and deepened when the Korea–ASEAN partnership was elevated to the summit level in 1997 in Kuala Lumpur. Throughout the five annual summits from 1997 to 2001, the Korea–ASEAN relationship followed in the footsteps of ASEAN's previous official dialogue partners, as important political and economic allies and, at the same time, as donor and beneficiary. The Korean side emphasised co-operation in the areas of trade, investment and information technology, while also promising to expand development assistance to the ASEAN countries. In the meantime, the ASEAN side agreed to support the two Koreas' peaceful relations and settlement and requested Korea expansion of the aid and support for the development of the Mekong River (MOFA (Korea), 2013).

The establishment of official relations between Korea and ASEAN, in sum, mainly focused on economic and cultural exchanges, and the closer ties between the two parties have stimulated economic growth to a significant extent during a decade's time. Aside from the economic co-operation, the development aid has been a means to not only narrow the development gap between Korea and ASEAN countries, but also gain ASEAN's political support on promoting peace between the two Koreas

Figure 4.3 Korea's merchandise trade with the ASEAN, 1987–2000.



Source: Author's compilation of data available at KITA Statistics (n.d.).

4.3 Emergence of PTAs: Japan's and Korea's Interests since the 2000s

When China proposed an FTA to ASEAN in 2000, the ASEAN side did not welcome the offer because it worried that its agricultural market would be heavily damaged. Japan and Korea further speculated that CAFTA would be difficult to accomplish because of varied development within the ASEAN countries and China's motivation for the FTA, which ASEAN perceived to be more political than economic; China took the initiative in creating a regional economic bloc for East Asia in order to take the leadership role in it. Because the CAFTA negotiation processes were kept strictly confidential to outsiders, it was difficult for the outsiders to access information on its progress (Cheong and Oh 2004).

On 4 November 2002, China signed the basic framework for the establishment of CAFTA at the APT Summit in Phnom Penh. Japan responded the next day by initiating talks with ASEAN to create AJCEP. Overwhelmed by the actions of China and Japan, the Korean government also officially announced the initiation of a joint study group with Singapore for KSFTA, rather than discussing the possibility of KAFTA.

This section examines the involvement of Japan's and Korea's private and government interests in their choices of negotiation approaches. As Chapter 3 established, private interests in the export-competing sectors are expected to consider market accessibility and the practical costs of utilising PTAs as the most important criteria in evaluating a negotiation approach. Sensitive sectors of the economy are expected to oppose PTAs initially, but the strength of opposition is expected to depend on the political implications of the PTA, the counterparty's market size and the degree of exposure of these sectors. Korea's and Japan's government interests include political and economic objectives in approaching the ASEAN market. Assuming that governments aim to maximise national welfare at the aggregate level through a negotiation approach, they would consider factors such as trade gains, negotiation efficiency, diplomatic leverages and foreign policy objectives.

4.3.1 Japan's Interest in the ASEAN Market

4.3.1.1 Private interests

(a) *Keidanren (Japan Business Federation)*. Until the mid to late-1990s, Keidanren,⁵² had been a strong supporter of the WTO's rule-based multilateralism. It shared the view with the Japanese government that, in order to avoid trade wars, multilateral trading system should be at the centre of international economic system. It considered that regional economic pacts, such as NAFTA and the EU, would discriminate against other regions and countries, and, therefore, it argued that these pacts should be strictly monitored by the GATT Article 24 (Keidanren 1998).

The negative view about bilateralism and regionalism gradually shifted in the face of concern of trade discrimination caused by NAFTA and the EU. Mexico's PTA proposal to

⁵² Keidanren is also known as Nippon Keidanren. It was restructured and relabelled when Keidanren (Japan Federation of Economic Organizations, established 1946) and Nikkeiren (Japan Federation of Employers' Associations, established 1948) merged in 2002. Among the 1,485 members of the organisation, 1,329 are companies, 109 are nationwide industrial associations and 47 are regional economic organisations. According to Nippon Keidanren, its mission is "to draw upon the vitality of corporations, individuals and local communities to support corporate activities which contribute to the self-sustaining development of the Japanese economy and improvement in the quality of life for the Japanese people" (Keidanren 2015).

Japan in 1998 provided a direct cause for a change to Keidanren's official position. Keidanren (2001) argued that Japan–Mexico EPA is necessary, not to be left out in the competition and to gain a better access to the global market. Since then, Keidanren became a supporter of the “multi-tiered” trade policy, which pursued a diverse form of trade liberalisation (Keidanren 2003). Keidanren has been at the forefront of Japanese PTA policy-making, urging the government to adopt liberal economic policies and adapt to the changing global environment. Keidanren participated in the government's decision-making process through lobbying, providing policy proposals, participating in the government's EPA study groups and maintaining its business connection with its international partners (Yoshimatsu 2005).

In addition, the launch of AJCEP and Japan's bilateral EPAs with individual ASEAN members were seen at the time as crucial for Keidanren, due to the domestic and international economic environments. Domestically, Japan had suffered from the prolonged economic recession for more than a decade. Internationally, the realisation of CAFTA put strong pressure on Japanese companies that China may soon dominate the ASEAN market. For these reasons, Keidanren considered that Japan should promote a trade agreement with ASEAN. In achieving the goal, Keidanren strongly suggested Japan should adopt “a dual-track approach, which simultaneously pursues bilateral negotiations with individual countries and with ASEAN as a whole”, for both diplomatic and economic-driven reasons, which would be ultimately associated with fostering a favourable trade and investment environment in the region for Japan (Keidanren 2002).

The regional approach was still seen as more beneficial than the bilateral approach, as it would be more profitable for Japanese businesses. As Keidanren (2002; 2003) repeatedly stated, AJCEP could be a stepping-stone for the establishment of a wider regional economic pact, such as ASEAN+3 FTA, which would further include economic co-operation with China and Korea. Keidanren expected this would give Japanese businesses greater advantages in the regional market through the deregulation of “flow of people, goods, capital, and services, resulting in lower costs” (Keidanren 17 September 2002) and advancing economic competitiveness (Keidanren 2003). The region-based approach would also allow Japan to bring together ASEAN's diversity through a comprehensive coverage over a variety of issues covering not only trades, but also investment agreements, ODAs, training and education, which would be important in providing a stable and facilitating business environment. Keidanren also was concerned about Japan's increasing dependence on China's low-cost labour. Thus, it

argued that AJCEP would balance out Japan's heavy reliance on China, through increased business transaction with ASEAN. Finally, Keidanren considered that AJCEP could help facilitate domestic reform in Japan's agricultural sector and its relatively uncompetitive manufacturing industries (Keidanren 2002; *Japan Nogyo Shimbun* 2003c).

Even though Keidanren considered that AJCEP should be comprehensive and in-depth agreement, it also understood realistic constraints with the regional approach; due to the diversity existing within ASEAN, it would be difficult to accommodate all of Keidanren's demands. Thus, it argued that both bilateral and regional approaches of negotiation should be pursued together, which would create synergy effects (Keidanren 2002). To achieve these goals, Keidanren suggested that JSEPA should be used as a reference to and a building block for an early implementation of AJCEP (Keidanren 2002; Keidanren 2003). Keidanren considered that Japan had the leverage to conclude the bilateral EPAs with relative ease, due to the 40 years of economic relationship that it had developed with Southeast Asian countries. For example, after participating in the Joint Working Group for Japan–Thailand EPA, Keidanren (2003) stated that Thailand was “determined to make a special effort to overcome the barriers to bilateral economic partnership between Thailand and Japan, among its other negotiation partners”. Hence, it contended that

taking advantage of this situation and the progress achieved since May 2002 in the preliminary consultations and the working group sessions for the establishment of economic partnership between the two countries, Japan should find a constructive way to establish JTEP Agreement and enter into negotiations as soon as possible. (Keidanren 2003)

(b) *The Central Union of Agricultural Co-operatives (JA-Zenchu)*.⁵³ Since the Uruguay Round of negotiations held under GATT from 1986 to 1994, JA-Zenchu proactively

⁵³ JA-Zenchu (n.d.) introduces the organisation as follows:

“JA-Zenchu is an apex body of Japan's agricultural co-operative movement, representing the interests of Japanese farmers and their agricultural co-operative organizations (JA Group).

The basic objective of JA-Zenchu is to contribute to the sound development of activities of the JA Group through formulating the common guideline and programs of their activities as well as through promoting implementations of these programs by the member organizations

engaged in shaping Japan's trade policies to protect the interests of farmers. The GDP share of agricultural sector, which was as high as 5.14% in 1970, had fallen to 1.98% by 1991 (The Global Economy n.d.). Even as the share of the agricultural sector in the Japanese economy continued to shrink, JA-Zenchu exerted strong political influence on Japan's trade policies through the agricultural tribes within LDP and MAFF.

JA-Zenchu maintained a sceptical view of the PTAs with Southeast Asian countries since Prime Minister Koizumi's announcement of the proposal for economic partnership with ASEAN in 2002. However, the agricultural groups had also come to reconcile with the government on the need for PTAs since the Japan–Mexico EPA,⁵⁴ as long as (1) issues regarding agricultural sector are clearly addressed in the PTA negotiations, (2) product-specific concerns are considered and mediated with related sectors in prior to the PTA negotiations and (3) Japan's low self-sufficiency rate and food safety for the Japanese people are carefully addressed (*Nihon Nogyo Shimbun* 2002b). As JA-Zenchu President Isami Miyata stated in his meeting with former Prime Minister Hashimoto, "We recognize the necessity of FTAs to Japan's economy, and therefore we are not opposing them" (*Nihon Nogyo Shimbun* 2003b).

Thus, JA-Zenchu's criticism was confined to the agricultural sector, rather than opposing all PTAs with ASEAN. Together with MAFF and LDP politicians who supported the agricultural sector, JA-Zenchu criticised the prime minister and business groups for their support for extensive trade liberalisation. They contended that the economic partnership should exclude the elements of free trade, as a massive amount of agricultural import from ASEAN would have critical influence on Japanese farmers (*Nihon Nogyo Shimbun* 2002a).

To be more strategic in claiming the farmers' interests, JA-Zenchu established evaluation criteria on government's trade initiatives. On one level, it insisted that JSEPA should be the model for subsequent EPAs with Thailand, Malaysia and Philippines (*Nihon Nogyo Shimbun* 2003a). JSEPA did not liberalise agricultural sector any further than it already had been under the WTO, and 90% of Singapore's agricultural products were excluded from tariff elimination, including JSEPA's most contentious goldfish and cut flowers (Ravenhill 2008b,

of the JA Group in this country."

⁵⁴ See Chapter 5 for discussion on how agricultural groups came to reconcile with the government after the Japan–Mexico EPA.

92). Thus, JA-Zenchu expected that the approach could be applied to Japan's PTAs with ASEAN by using JSEPA as precedent and leverage.

At another level, JA-Zenchu appealed to the ASEAN side by insisting that the PTAs should promote the "co-existence of Asia". A strategy was to gain sympathy from the ASEAN side by deploying its representatives to Thailand and the Philippines. JA-Zenchu considered that both Japan and ASEAN (particularly Thailand) are family-based farmers whose lives centre around rice production; sharing this common ground, Japan and ASEAN should seek to promote diversity in farming and exclude sensitive products. More importantly, however, JA-Zenchu sought to gain a tariff concession from ASEAN by offering ASEAN members support to reduce poverty in rural areas (*Nihon Nogyo Shimbun* 2004a; 2004b).

Despite these efforts, JA-Zenchu struggled with Thailand's strong demand for tariff elimination in rice, sugar, starch and poultry (*Nihon Nogyo Shimbun* 2004d), which were considered "sacred agricultural products" in Japan for their exceptionally high level of protection. As the worry heightened, JA-Zenchu members decided to visit Thailand and the Philippines in April 2004; this was the first time that the group attempted to directly talk with the counterparty to derive better terms in Japan's PTA negotiations. In their meeting with Thai Prime Minister Thaksin Shinawatra and government officials, the members of JA-Zenchu emphasised their willingness to exchange their support for Thailand's poverty elimination in rural areas, if Thailand was willing to take a step back (*Nihon Nogyo Shimbun* 2004c; 2005). Despite the offers JA-Zenchu provided, however, Thailand was unwilling to compromise until Japan offered to make further concessions at the broader level.⁵⁵

In most other negotiations with ASEAN, the agricultural sector did not pose a serious threat to JA-Zenchu. For example, the Philippines, in the beginning, demanded tariff elimination in sugar, banana, chicken and tuna, which was expected to conflict with Japan's agricultural sector. These products were soon excluded, however, due to President Gloria Arroyo's demand for the early conclusion of EPA negotiations (*Yomiuri Shimbun* 2004). Malaysia's case also caused less concern, as stringent sanitary and phytosanitary measures

⁵⁵ See the next subsection (4.3.1.2) for details on how the Japanese government responded to Thailand's demand.

(SPS) ruled out the possibility of importing tropical fruits, such as mangos and papayas, to Japan for years to come (*Yomiuri Shimbun* 2005).

4.3.1.2 Government's interests

(a) *EPA with Singapore and Thailand, and the backdrops of AJCEP, 1999–2002.* The joint study between Japan and Singapore to create an EPA formally began in December 1999. Singapore was the third country to propose a PTA to Japan, following Mexico and Korea. In October 2000, Singapore's Prime Minister Goh Chok Tong and Japan's Prime Minister Yoshiro Mori formally agreed to JSEPA. As CAFTA was unforeseen, Japan's primary goal for JSEPA was to test the effects of PTAs rather than to use it as a stepping-stone for a wider regional framework, such as the ASEAN+1 PTAs. In fact, JSEPA was a trigger of CAFTA, which caused China to propose CAFTA in November 2000 (*Yomiuri Shimbun* 2001a).

Singapore was an excellent strategic starting point to convince those who opposed PTAs within MOFA (Japan) (Makio Miyagawa, former Director of Regional Division, MOFA (Japan), personal communication; Munakata 2001). JSEPA would pose no significant harm to the Japanese economy because the tariff rates between the two economies were already low enough to satisfy the standards of the WTO (Aoki 2004, 5). In addition, compared to the PTAs with Korea and Mexico, JSEPA could progress without much domestic backlash; the Japanese and Singaporean market had already been open to a significant extent even before the PTAs, and JSEPA would have had a negligible impact on Japan's sensitive agricultural sector. Moreover, Japan could experiment with its new approach toward the PTAs with Singapore by going beyond the traditional reduction in tariffs to include the free movement between people, capital and information with less risk (Munakata 2001, 23–25).

Thailand was the second among the Southeast Asian countries to propose EPA to Japan. Thailand's Prime Minister Thaksin proposed the Japan–Thai Economic Partnership Framework in the following year, November 2001, when he visited Japan to meet with Prime Minister Koizumi. The two leaders discussed finance, investment, trade, information technology, and security issues that included the United Nations peacekeeping in Afghanistan and Thailand's concern for Japan's re-militarisation. However, Thailand's main interest with Japan was maintaining and further promoting Japan's economic assistance to and investment

in Thailand by securing a formal trade agreement. In 2002, Japan had been Thailand's biggest investor, taking up 38 billion Baht (approximately US\$ 1.14 billion), or 39% of Thailand's total investment (JTEPA Task Force Team 2003).

Thailand's proposal was in part a response to Singapore's fast move toward Japan. As Prime Minister Thaksin stated during this visit,

Japan already has this type of arrangement [EPA] with Singapore. So, why not with Thailand? Japan and Thailand will probably be able to start FTA discussions on products on which the two nations have no conflicting interests, setting aside more sensitive areas such as farm products (*Yomiuri Shimbun* 2001b).

In addition to the economic arrangement, Prime Minister Thaksin further asked for Japan's assistance to control drug trafficking in Thailand, Myanmar, Laos and China:

The activity that probably is most needed to help Myanmar (where most drugs are produced by minority groups) is the development of substitute crops to create income-to substitute for the income from drugs. We would like to invite Japan to come in to help them, find markets (for substitute crops) and find new jobs for those people. (*Yomiuri Shimbun* 2001b)

In January 2002, JSEPA was signed during Prime Minister Koizumi's tour of the five big economies of Southeast Asia. Japan added motivations to JSEPA and JTEPA; they would be integral stepping-stones to AJCEP. The change in Japan's position was unexpected, as when Thailand's Prime Minister Thaksin visited Tokyo just two months before in November 2001 and suggested a bilateral FTA, as well as the region-based AJCEP, Prime Minister Koizumi only agreed to pursue a joint study only for the bilateral deal and avoided giving an answer to the latter (*The Japan Times* 2002). The change was a reaction to the Chinese proposal for the Early Harvest Program for the realisation of CAFTA that was suggested at the end of 2001. CAFTA, proposed in 2000, seemed difficult to realise due to ASEAN's strong opposition; its only success was the establishment of the expert group meetings. It was during this time that Japan realistically considered the need to approach ASEAN as a region, which was impelled

by the concern that its share of the market would soon be taken over by Chinese competitors (*Yomiuri Shimbun* 2001a).

When officially signing JSEPA, Prime Minister Koizumi emphasised a sincere and open partnership between Japan and ASEAN countries. He emphasised the need for “acting together—advancing together” in the face of the global challenges, such as the terrorist attacks on 9/11 and the Asian financial crisis, and proposed future co-operation between Japan and ASEAN. The creation of AJCEP was one of the major initiatives to achieve these goals. Koizumi suggested that Japan and ASEAN should create a regional trade area that went beyond the traditional trade issues to include more comprehensive agendas. Further, he envisaged AJCEP to eventually become a building block for East Asian regionalism within the ASEAN+6 framework:

I would like to propose an Initiative for Japan–ASEAN Comprehensive Economic Partnership. Of course, we will cooperate in the new round of multilateral trade negotiations under the WTO. At the same time, we must strengthen broad ranged economic partnership by stretching further than trade and investment--to such areas as science and technology, human resource development and tourism. The Japan–Singapore Economic Agreement for a New Age Partnership, which was signed yesterday, is an example of such economic partnership. I would like to see us generate concrete proposals for endorsement at the Japan–ASEAN Summit Meeting [...]

An important challenge is strengthening economic partnership in the region. The Initiative for Japan–ASEAN Comprehensive Economic Partnership that I mentioned earlier will be an important platform for this purpose. I expect that the ASEAN–China Free Trade Area and moves toward economic partnership between ASEAN and Australia and New Zealand will make similar contributions. (Koizumi, 2002)

(b) Bilateral EPAs and MOFA’s (Japan) Interests. After Prime Minister Koizumi’s announcement of AJCEP in January 2002, an internal debate began to emerge between MOFA (Japan) and METI over what negotiation approach Japan should take with ASEAN. MOFA contended that the individual EPAs were Japan’s priority; METI argued that AJCEP would be economically more effective. Unable to reach an agreement, it was suggested at the vice-ministerial level meeting held in the Japan–ASEAN Forum, in April 2002, that in the process

of considering the realisation of AJCEP, any ASEAN member country could bilaterally negotiate an economic partnership with Japan (JTEPA Task Force Report, 2003).

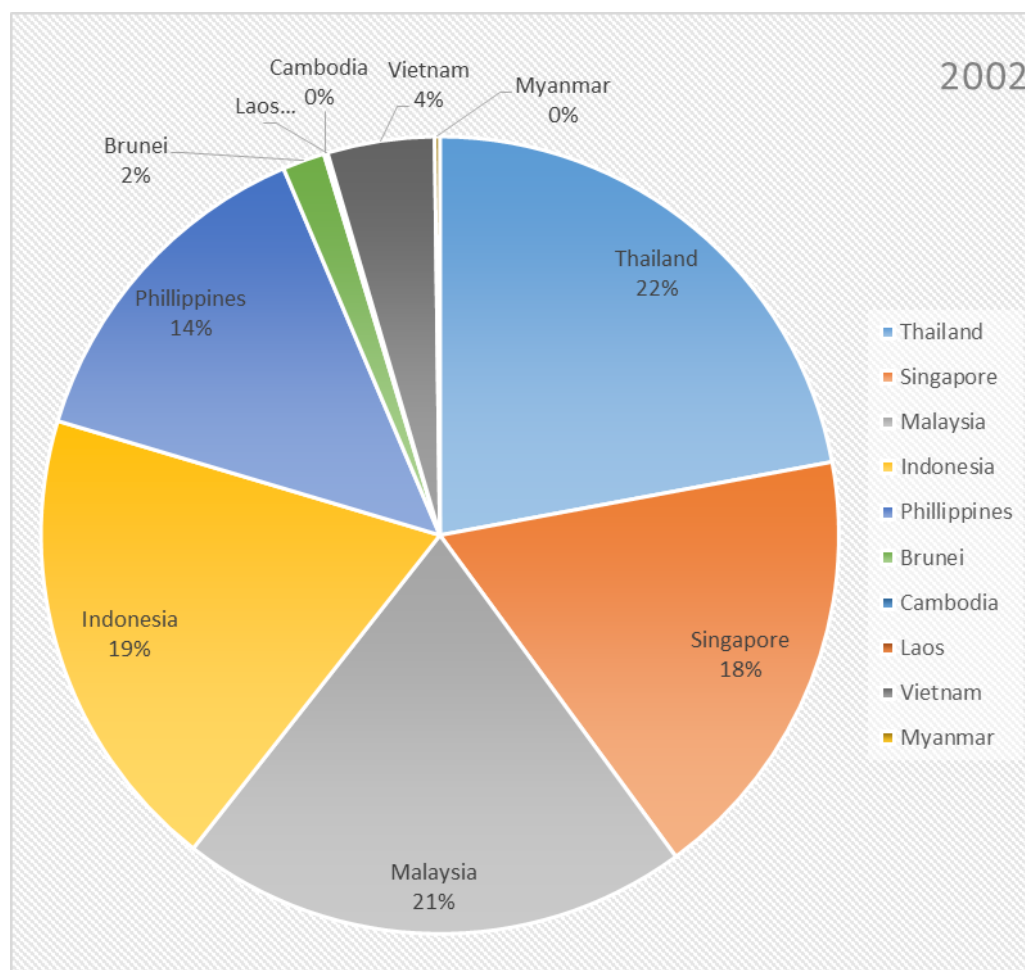
MOFA and METI's debate continued until the fall of 2002, when the two ministries finally reached a mutual understanding that both approaches could be useful. The MOFA and METI negotiators recalled that, although there were differences between the two ministries, they considered these differences as minor; it was soon agreed that both approaches of negotiation could be useful (METI official, personal communication; METI official, personal communication; Makio Miyagawa, former Director of Regional Division, MOFA (Japan), personal communication). The final decision for adopting the two-track negotiations was officially announced at the Japan–ASEAN Summit Meeting held in Phnom Penh in November 2002 (Oike 2007).

Externally, however, MOFA's position seemingly gained the upper hand because Japan already was considering additional EPA proposals from the Philippines and Malaysia; President Gloria Arroyo of the Philippines and Prime Minister Tun Mahathir of Malaysia additionally proposed EPAs to Japan in May 2002 and December 2002, respectively. JSEPA and JTEPA expedited the Philippines's and Malaysia's proposals, as Japan had established a significant economic influence in the countries by 2002. For example, Japan was the second largest trade partner to the Philippines (1.87 trillion yen), the largest investor with a share of 37% and a provider of 41.8 billion yen in ODA in 2002 (JPEPA Joint Coordinating Team 2003). During the same period, Japan was third largest export destination (US\$10.4 billion) and the largest source of import (US\$14.2 billion) for Malaysia. Japan was also Malaysia's second largest investor, in which the value of investment amounted to US\$339 million in 2003 (Japan–Malaysia Economic Partnership Joint Study Group 2003).

For Japan, there was also a great incentive in promoting closer economic ties with the ASEAN countries. Despite inter-ministry discord in the specific negotiation approach toward ASEAN, all ministries agreed that Japan should reach out to countries or regions in proximity to it and that have a significant economic relationship with it. Hence, the Philippines and Malaysia were two of the most realistic partners to contact (METI Official, personal communication). Even though only 18.9% of Japan's GDP depended on trade in 2002, ASEAN was a significant trade partner with 14% of the share, or 134 trillion yen, of the total trade. Among ASEAN countries, Thailand and Malaysia were most significant in terms of their trade

shares with Japan, recording 22% and 21%, respectively; Indonesia, Singapore and Philippines followed, taking up 19%, 18% and 14%, respectively (see Figure 4.4).

Figure 4.4 Composition of ASEAN’s trade share in Japan, by country, 2002



Source: Author’s compilation of data from KITA (n.d.).

The bilateral approach was more beneficial than AJCEP in four aspects. First, there was the negotiation efficiency. Japan considered that the bilateral EPAs would take less time and human resources, but they would yield higher quality agreements than the region-based AJCEP. MOFA considered that due to the diversity of ASEAN countries, the bilateral approach of negotiations with those who were ready would conclude more quickly. Compared to AJCEP, which would involve all the negotiators from Japan and ASEAN countries, the bilateral EPAs would consume less human resources (MOFA (Japan) official, personal communication). The scope and depth of agreement would be a higher quality than what can be earned through the

region-based AJCEP because the bilateral approach can take into account the differences among the ASEAN members. As the bilateral agreements with ASEAN+5 (Singapore, Thailand, Malaysia, Indonesia, the Philippines) countries would cover most of the trades with ASEAN, comprehensive and in-depth agreements were seen as more beneficial. MOFA viewed that EPAs with relatively underdeveloped ASEAN members would limit their quality (Tsuyoshi2002).

In defence of the argument that these individual approaches harm the ASEAN unity, MOFA contended that promoting peace and security by strengthening economic ties with Southeast Asia is important for Japan, thus, Japan will actively assist the four relatively underdeveloped countries—CLMV— in terms of the ASEAN integration initiatives and the trade-related capability development so that they would be prepared for a more advanced quality of FTA/EPAs in the future (MOFA (Japan) n.d.).

Second, Japan's pre-established political and economic relations with the individual ASEAN members were considered to grant Japan greater diplomatic leverage. As Section 4.2.1 demonstrates, Japan was ASEAN's largest FDI investor and ODA donor. Thus, Japan considered that it had a special relationship with ASEAN. Even though Japan did not realise how much the leverage would be effective at the time of the negotiations, the negotiation results proved it to be influential. The Japanese negotiators recalled that they gained more concession than they had originally expected, which was contributed to Japan's relatively strong diplomatic leverage with individual ASEAN members (METI official, personal communication).

An example is illustrated by Japan's EPA negotiations with Thailand. When JTEPA negotiations began in February 2004, Japan and Thailand faced a conflict because of the Japanese agricultural sector, particularly with regards to rice, chicken, sugar and starch. Japan strongly maintained that tariff cuts could not be made, especially with rice. Faced by Japan's adamant position over rice, Prime Minister Thaksin agreed that rice would be excluded from tariff elimination in October 2004. Thailand feared that the negotiation would not proceed without accepting Japan's demands, and it also recognised there would be very little demand for Thai's long-grain rice because Japanese's staple rice consumption was based on glutinous short-grain rice (Higashi 2008, 17; METI official, personal communication); the Thai government's decision, however, was a great disappointment to Thai export-competitive sectors (Peamsilpakulchorn 2006, 84).

Third, there was Japan's ability to make its agreement with Singapore as a reference point and to induce competition among the ASEAN members. MOFA's official position, according to Makio Miyagawa (personal communication), then-Director of Regional Division, MOFA (Japan), was that:

Japan already has an advanced and comprehensive EPA with Singapore, Japan will first conclude bilateral EPA frameworks with major ASEAN countries (Thailand, the Philippines, Malaysia, Indonesia), namely, those that have shown active interest towards Japan. Then, based on these bilateral EPAs, Japan will quickly proceed to connect these EPAs. Depending on the progress of these EPAs, Japan will expand them to include all members of ASEAN as fast as possible.

Because the agreement with Singapore was relatively in-depth, this was a good model to apply to the relatively less developed ASEAN members (Makio Miyagawa, former Director of Regional Division, MOFA (Japan), personal communication; Munakata 2001). Based on JSEPA, Japan then accepted proposals from individual ASEAN members to promote "parallel" negotiations. This approach with Thailand, Malaysia, the Philippines and Korea was pursued under the rationale that Japan would be able to promote a balanced reaction to each as negotiations progressed. From the ASEAN counterparty's perspective, this approach was perceived as beneficial because it was easier to attain information on the negotiation progress of a fellow ASEAN member (Watanabe and MOFA (Japan) Economic Bureau EPA Negotiation Team 2007, 87; Terada 2003, 2008).

The parallel approach, however, exacerbated competition among ASEAN members. This, in turn, strengthened Japan's negotiation leverage to enhance negotiation efficiency while minimising liberalisation in its sensitive sectors. To quote former vice minister of METI, Osamu Watanabe,

[w]e can give examples of negotiations with other countries [to persuade the counterparty) or ask for the counterparty's understanding regarding the delays in the negotiations as we are occupied (promoting many EPAs at the same time] — in this respect, promoting two or more EPAs together is beneficial [for Japan]. (*Nihon Nogyo Shimibun* 2003d)

Negotiators also considered that simultaneous negotiations are excellent bargaining tools, particularly with Thailand. As then-negotiator also pointed out, “we suffer from the lack of human resources,⁵⁶ but we can use the approach to keep Thailand in check — it is better than confronting Thailand alone” (*Nihon Nogyo Shimbun* 2003d).

To Japan’s progress, ASEAN countries not involved in Japan’s EPAs in 2002, including Vietnam and Myanmar, criticised that a mixture of bilateral and region-based negotiations confused and distracted ASEAN integration. Japan’s progress with these EPAs, however, caused the ASEAN side to propose further EPAs (Tsuyoshi 2002). The intra-ASEAN competition provoked Indonesia, Brunei and Vietnam to negotiate EPAs with Japan. Brunei and Vietnam, in particular, were to be covered under AJCEP due to their small economic influence. However, the two parties did not wish to be excluded from the intra-regional political competition, welcoming the introduction of bilateral EPAs (METI official, personal communication; Prime Minister of Japan and His Cabinet, 2005a, 2005b; MOFA (Japan) 2006b).

MOFA’s final rationale involved foreign policy objectives, namely, counterbalancing China. China joined the WTO in 2001. The next step for China was to establish friendly relations with ASEAN, emphasising its peaceful rise. China considered ASEAN as a political tool to strengthen its diplomatic connection with Southeast Asia (Shujiro Urata, personal communication; Sheng 2003). Encountering Chinese officials, Japanese negotiators came to perceive that having a PTA with ASEAN itself, rather than having a high-quality agreement like Japan, was China’s ultimate goal (METI official, personal communication). Hence, China’s move toward ASEAN threatened Japan’s regional economic leadership (Oike 2007, 15).

In response to China’s growing presence in the politics of regional trade, MOFA (Japan) officials believed that Japan should establish its own model of EPA. According to the former Director for MOFA (Japan) EPA Negotiation Team, Atsuyuki Oike (2002, 34–35), the Japanese style of bilateral EPAs were considered a useful tool to set the precedent to counter

⁵⁶ Promoting all of the EPAs, together with AJCEP, at once meant that Japan had to suffer from the limited amount of human resources available at the time. For example, during the early 2000s, there were only about 30 people within METI’s Economic Policy Division; it was gradually supplemented upwards of 50 people by July 2004 (METI official, personal communication).

CAFTA. As there was only one ASEAN+1 FTA with China before AJCEP, the negotiation methods of the ASEAN+1 PTAs had not been established. Furthermore, as CAFTA is an agreement between developing nations, it is neither comprehensive enough to include services and investment sectors nor is it high quality and advanced enough to remove barriers to trade substantially. Japan believed the bilateral EPAs would strengthen its political relations with the ASEAN countries, which would reinforce its leadership role in the region by spreading the kind of governance where advanced and comprehensive market liberalisation is valued. The labels “EPA” was part of Japan’s effort to differentiate its initiative from the conventional FTA and emphasise, in addition to the traditional trade issues, the creation of a partnership in sciences, technology, education, finance and more (Makio Miyagawa, former Director of Regional Division, MOFA (Japan), personal communication).

As Director Oike (2007) summarises, Japanese EPAs premised: (1) comprehensiveness (not just about goods, but includes services and investment), (2) Japan as the hub of the supply chain network in ASEAN and (3) Japan’s assistance in raising the developing status of ASEAN. Through these, Japan established its EPA style, not only as an economic tool, but also as a political tool as a symbol of leadership differentiated from China. Japanese officials recalled this approach was, as a matter of fact, an effective way of establishing Japan’s EPA as a *de facto* standard in East Asia and outcompeting the Chinese move. Many ASEAN members’ first bilateral EPA partner was Japan, which provided them with the learning experience for the ASEAN countries, particularly for Malaysia and the Philippines, whose first EPA partner was Japan, which shaped their subsequent EPAs (METI official, personal communication).

Having those concerns in mind, Japan’s bilateral EPAs were conducted through the request-and-offer approach of negotiation.⁵⁷ The request-and-offer approach is commonly used by Japan and many other countries in their bilateral negotiations, especially among developed countries, where each party exchanges its expectations in the proposed tariff

⁵⁷ Existing studies (e.g. Egashira 2014, 45; Higashi 2008, 17–18) tend to consider Japan’s negotiation approach toward ASEAN as different than China’s one, by arguing that Japan used the request-and-offer list of negotiation bilaterally with ASEAN nations while China used the modality approach. They compare CAFTA and Japan’s bilateral EPAs without examining the negotiation approach used in AJCEP. However, the use of request-and-offer is common in bilateral negotiations, including Korea’s bilateral FTAs. Like China and Korea, the modality approach of negotiation was used in the case of AJCEP.

reduction scheme which includes the products that each party would like to see liberalisation in. Unlike the modality approach of negotiations that is designed to give more flexibility to the developing countries, the agreement would only be signed after all agendas for tariff reduction are discussed.

(c) METI's rationale for the region-based AJCEP and the negotiation hurdles. METI initially emphasised preference for the region-based approach of negotiation. This was in consideration of the interests of Japanese businesses operating in Southeast Asian countries, as METI worked closely with the industrial sectors (Yoshimatsu 2007, 85–86). METI was concerned that bilateral EPAs might divide the region, “which may create an unstable business environment for the Japanese companies” (Tsuyoshi 2002). Because Japan had already established a significant amount of economic presence in the region, its strategic priority was given to sustaining a long and enduring relationship with ASEAN counterparties (METI official, personal communication; MOFA (Japan) 2002a); METI's preference for AJCEP reflected practical and economic considerations, as compared to MOFA's emphasis on political and strategic motivations.

The use of cumulative RoO was expected to generate positive regional economic development in two ways. First, the application of the accumulation rule would benefit sectors that have developed an intensive production network in a region. This was especially important for Japan, as it had already developed a significant amount of supply network by the 2000s. The increase of bilateral EPAs would increase the burden for businesses, due to the spaghetti bowl effect—i.e. the cost attached to the use of complicated RoO. AJCEP was expected to merge some of these complications of Japan's bilateral EPAs by allowing an accumulation of values of parts and components produced in AJCEP member countries.

Second, the cumulative RoO would allow Japanese companies to strategically reallocate their resources and further intensify their development of supply chains in ASEAN. METI officials were concerned that bilateral EPAs would cause trade diversion of parts processed in the Japan–ASEAN region. Through AJCEP, all 10 ASEAN countries would be bound under one agreement, even for the countries that are difficult to reach bilaterally but are significant producers of parts and components. Hence, the AJCEP negotiations emphasised harmonising RoO in parts and components with the existing EPAs (METI official, personal communication) For example, Japan's industries, such as textiles and apparel, moved to

ASEAN after the realisation of AJCEP, as they would be subject to zero tariff compared to the MFN rate applied in the third economies. More importantly, industries that established supply chains in the region, such as producers of flat panel display TV, benefited by moving their supply chains to ASEAN (Yamazaki 2008).

Despite the importance of AJCEP, Japan and ASEAN's negotiations were prolonged over their choice of negotiation method. The delay was primarily attributable to Japan's relative lack of leverage with ASEAN as a region compared to the bilateral EPAs. For example, Japan did not wish to opt for the modality approach of negotiations,⁵⁸ which is a type of negotiation framework used in AFTA, CAFTA and KAFTA. Japan did not wish to settle with a framework, because its aim was to bring together all individual EPAs it had negotiated or had been negotiating under the AJCEP framework. ASEAN strongly opposed Japan's approach, arguing that a deal reached by one member could not be equally extended to another as their economies vary (Chin 2011, 229).

ASEAN's insistence on the modality approach of negotiations was also associated with the intra-ASEAN rivalry and the variance in their development statuses. More developed ASEAN members did not wish others to free-ride on their hard-earned concession from Japan (Corning 2009, 652). In contrast, less developed members argued that they were not ready to accept the liberalisation scope and depth agreed in Japan's bilateral EPAs. Moreover, the bilateral EPAs would further divide the development gap between the more developed ASEAN countries and the less developed ASEAN countries (*Yomiuri Shimbun* 2002b). The common understanding among the ASEAN members was a drive in raising ASEAN's collective voice, making AJCEP difficult to be agreed at the level that Japan had initially demanded. The longer the negotiation progress was delayed, the stronger Japan was pressured by the progress of KAFTA and CAFTA.

Therefore, Japan came to concede some of the aims it had initially pursued for AJCEP. A common understanding was reached that a modality framework should be used, and AJCEP was signed in April 2008. However, Japan requested that it not be formally included the

⁵⁸ Under the modality framework, tariff lines would be divided into the Normal Track and the Sensitive Track. Usually, in bilateral PTAs, involved parties agree to the terms of conditions before signing an agreement. In contrast, the modality approach is an "Agreement First, Negotiation Later" approach, meaning the parties first sign the PTA by agreeing on the basic terms on what percentage of goods are included in the Normal Track and the Sensitive Track; specific tariff schedules are not decided at this stage. Then, individual countries reconvene at the working-level negotiations to decide on the number of tariff lines and the degree of tariff reduction.

Framework Agreement, so that room for adjustment could be assured in the progress of harmonising its bilateral EPAs. The ASEAN side also accepted Japan's request, because it expected Japan would be flexible in giving concession to ASEAN (Chin 2011, 230).

4.3.2 Korea's Interest in the ASEAN Market

4.3.2.1 Korea's Commercial Interest

(a) *The Federation of Korean Industries (FKI)*.⁵⁹ Because Korea holds a comparative advantage in the manufacturing sector over most of its trade partners, FKI had been a strong proponent of PTAs.⁶⁰ In particular, KAFTA was one of the PTAs⁶¹ in which Korean businesses perceived that they would enjoy greater market access through comparative advantage in developing countries (Choi 2006, 7–8). The proactive approach of FKI has been noted since the early stages of the FTAs. For example, after the conclusion of KSFTA in 2004, the FKI contended that since the economic impact of KSFTA was negligible, the Korean government should put in the effort to quickly initiate the KAFTA negotiations (FKI 2004).

FKI has recognised Japan as its biggest competitor for a number of reasons. The Korea–Japan FTA was being negotiated at the time, and because the two countries' economic interest overlap, FKI was concerned that the Korean government did not have enough negotiation capacity compared to Japan to derive a win–win game for both parties. Having that concern in mind, KAFTA also came to be compared with the content of negotiations with Japan. Hence, FKI's position was that the region-based KAFTA be pursued, but the government should make sure that the content does not fall behind those of Japan's bilateral EPAs.

During the negotiation process, FKI (2005) presented a survey outcome to demand deeper liberalisation through KAFTA. The industries varied in their preference of tariff reduction timeline and applying the RoO. In terms of tariff reduction timeline, the companies

⁵⁹ The FKI was established in 1963 to represent the interests of the Korean industrial sector. Among its 619 members, 96 are industrial associations and 519 are individual companies (FKI, 2016).

⁶⁰ An exception was the Korea–Japan FTA negotiations. FKI opposed this FTA because it expected to face fierce competition from the imports of the counterparty.

⁶¹ Others examples included China and India.

that belong to light industries, such as wood pulp and textile, preferred the longer timeline. When it came to the RoO, most industries accepted the sole standard of RoO used in AFTA, or the 40% cumulative RoO, with exception for the steel and chemical industries. The steel and chemical industries thus demanded for additional standards of RoO, so that their goods would not be disadvantaged even if their goods change forms in the process of production. Conglomerates also showed less acceptance of this one standard of RoO (57%), as compared to medium-sized companies (88.9%) and SMEs (68.6%). One reason is that the conglomerates have different production lines across different industries, and they have the resources to manage complex RoO; therefore, the economic gains from applying more suitable RoO to a certain product would outweigh the costs for understanding and applying the RoO.

Despite such variations in preferences, 71.1% of industries agreed to accept the negotiation scheme that the government suggested, as compared to only 38.7% agreeing to accept the Korea–Japan FTA.⁶² The auto and steel industries were particularly concerned that their products would be categorised as sensitive items by the ASEAN side, so that the competitiveness of their prices would drop in comparison to China and Japan. They submitted an additional proposal to the government requesting that their industries see early reduction in tariffs and that the tariff reduction be at a higher rate than Japan’s individual EPAs with Thailand, Malaysia and Indonesia (FKI, Korea Iron and Steel Association and Korea

⁶² According to former FKI officer (personal communication), FKI’s major role is to intermediate the differences between large businesses and SMEs, and to make sure the opinions of under-represented are heard to the government. Consistently, FKI (n.d.) suggests that:

“FKI, as mentioned in the objective of the organization, is dedicated to improving the welfare of the Korean economy. Because the membership body is composed of representatives from the major corporations, it would seem that FKI works on behalf of the enterprises the members come from, to a certain extent. However, that is only under the premises of unity with the national economy and does not necessarily work for the interest of the corporations. FKI has led the development of various social welfare activities in industrial complexes in the cities of Ulsan, Kuro, Masan, Changwon and Yochon. It established the Korea Long-term Credit Bank, the Federation of Korean Medical Insurance Societies, the Korea Invention & Patent Association, the Korea Energy Management Corp., and the Federation of Korean Information Industry. It has also taken a leading role in the growth of the Korean economy. Moreover, FKI has been cooperating closely with 30 international organizations and foreign economic organizations to strengthen foreign economic ties and national competitiveness, and to increase Korea’s exports. Thus, we have contributed to the stabilization of the Korean economy. FKI will strive to provide policy recommendations in the future to bring forth further development of the Korean economy.”

Automobile Manufacturers Association 2006). FKI's position was that KAFTA would clearly give the Korean firms access to the new market and that early conclusion of the negotiations was necessary to avoid the disadvantage expected from CAFTA and AJCEP. CAFTA and Japan's EPAs' degree of liberalisation was used to push the Korean government to conclude more comprehensive FTAs.

Moreover, FKI argued that KAFTA would be a cornerstone for FDI in the ASEAN countries, as (a) KAFTA would be a gateway to access the Chinese market with lower barriers in the absence of Korea–China FTA, and (b) some ASEAN markets, such as Vietnam, provide cheaper labour than China (FKI, 2005).

(b) Korea Advanced Farmers Federation (KAFF) and Korea Peasants League (KPL). Going through rapid industrialisation, accompanied by urbanisation and globalisation, the agricultural sector had long been cast aside from policy priority. Its competitiveness only continued to decline as more people migrated to cities and the cost of labour continued to rise. Agricultural interest groups began to emerge in the late 1980s, but mostly in the 1990s. They included groups such as Korean Women Peasants Association, KAFF, Korea Dairy and Beef Farmers Association, Korean Women Advanced Farmers Federation, Korea Catholic Farmers Movement and KPL. In particular, KAFF and KPL had been in the forefront of aggregating farmers' voices to protect the agricultural sector from trade liberalisation through PTAs and the WTO.

When it comes to the specific policy goals regarding the protection of agricultural sector, however, KAFF and KPL have had contrasting perspectives. KPL fundamentally opposed any trade liberalisation in principle, whether through multilateral or bilateral negotiations. KPL contended that the government used these agreements as a tool to lock itself from accepting the demands of the agricultural sector. The government has often used GATT Article XXIV (WTO n.d.), which stipulates that

A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce are eliminated *on substantially all the trade* between the constituent territories in products originating in such territories,

to convince farmers there was no precedent in excluding agricultural sector. To quote KPL's Policy Director Hyung-dae Park (personal communication),

FTAs exist under the WTO system. Thus, when the agricultural sector suffers loss (from FTAs), government actions are constrained (to help the farmers) by the rules of the WTO. It means that the more we negotiate these agreements, the more Korea's policy boundaries become smaller. This is why we argue that FTAs and the WTO are the cause of misery for Korean farmers.

KPL further contended that international trade politics demonstrated protectionist measures still being pursued in many FTAs promoted by other countries. Some examples included NAFTA's exclusion of the culture industry, JSEPA's exclusion of the agricultural industry, as well as Japan's effort to exclude the agriculture sector in the on-going negotiation with Thailand. The self-sufficiency rate of agricultural product was another rationale for maintaining the protectionist approach. KPL argued that in comparison with the US (133.5%), the UK (99.6%) and France (194.5%), Korea's self-sufficiency rate was 29.4% in 1999. This would mean that in the case of regional or global crisis, the shortage of domestic food supply would be critical to Korea's security (KPL 2003).

KAFF's basic position was that Korea's trade liberalisation through the WTO and FTAs was inevitable, considering the country's high dependence on trade. KAFF argued that even if the FTAs are necessary to survive in the global economy, exceptions should and could be made with regard to the agricultural sector. KAFF demanded that the agricultural sector be protected as much as possible; in the case of trade liberalisation, proper compensation should be made (Minsu Han, General Manager of KAFF, personal communication). In the early 2000s, KAFF's position also did not fundamentally differ from KPL. Even though KAFF had accepted the need for FTAs, it fiercely opposed the liberalisation of the agricultural sector through the WTO and FTAs.

The opposition especially heightened when the president of KAFF, Kyeong-hae Lee, took his life in Cancun, Mexico, during the WTO conference in September 2003. Lee, in his final testament to the WTO Secretariat, appealed that:

Our fears became reality in the marketplace. We soon realized that all our efforts could never meet the low prices of imported food. Similarly, we became aware that our farm size (1.3 ha on average) is a mere one-hundredth of the average size in the large exporting countries. Imported products were flooding the market everywhere, and we had to run from crop to crop in search of new niche markets. But almost always, we met the same friends who were producing the same crops. (K. Lee, 2003)

The incident generated anger among KAFF and other agricultural groups, which led to a series of rallies in late 2003 and into 2004. They fiercely protested the US's pressure for liberalisation in rice under the WTO system and the ratification of Korea–Chile FTA.

Thus, when the Korean government announced an FTA with Singapore in 2002, and again, announced KAFTA in 2004, it worried there would be strong opposition from the agricultural groups. Contrary to this expectation, KAFTA was not a concern of KPL and KAFF. First, KPL and KAFF's attention was diverted to Korea's FTA with Chile and soon after with the initiation of Korea–US FTA. They considered it necessary to draw as much attention from the farmers and the public to assert greater influence on the government. Because of the lack of an official channel between interest groups and government, the agricultural groups tended to pursue violent methods of resistance (Choi 2006, 10). KPL and KAFF utilised press conferences, held educational seminars to public, or convinced politicians in the National Assembly; however, demonstrations continued to be the farmers' primary method to exercise influence. Because the methods by which agricultural groups influenced government was limited, KPL and KAFF devoted most of its energy to drawing public attention to Korea's most politically contentious FTAs.

Second, the ASEAN agreement was perceived to be much shallower in its content, as it is an FTA with a group of nations in which many are still developing. KAFF and KPL considered that the degree of liberalisation should not be deep enough to cause significant damage to Korea's agricultural sector. Third, even in the cases where Thailand's rice could have been a problem, Korean farmers were not sensitive to this issue. The main rice Thailand produced differed from Korea's staple rice (Minsu Han, General Manager of KAFF, personal communication; Hyung-dae Park, Policy Director of KPL, personal communication).

Instead of opposing KAFTA, agricultural groups demanded that the existing tariff rates in sensitive sectors be preserved as much as possible. The demand from the agricultural groups became particularly active as the KAFTA negotiations progressed throughout 2005. In particular, the sixth round of negotiations between Korea and ASEAN's economic ministers, held on 29 September 2005 in Laos, called the farmers to direct their attention to the terms negotiated in KAFTA.

The agricultural groups' concerns were twofold. First, the Korean government aimed to conclude KAFTA with a greater degree of liberalisation compared to CAFTA or AJCEP, aiming to leave only 5–7% of all goods under tariff protection. They argued that beef, pork, chicken and tropical fruits posed particular threats to the Korean agricultural industry (KPL 2005a; KAFF 2005a). Second, they criticised the way the government led the KAFTA negotiations, claiming they were not democratic; no information was disclosed to the public and farmers had no paths to deliver their opinions. They insisted that the government open an official channel for the sensitive sectors of the economy to participate in its decision-making process (KPL 2005a; KPL 2005b; KAFF 2005a).

After the sixth round of negotiation, the agricultural group's demands became more specific. As KAFF (2005b) stated:

The negotiation was preliminarily agreed with much deeper level of liberalization than it had been in the original offer list. By 2010, tariff of 90% of all goods will be eliminated [...] What is even more serious, is that 233 products in the Highly Sensitive List were reduced by 36% to 150 products (based on HS-6-digits), and 84 products in the Exclusion List was reduced down by 52%, to 40 products. [...] Currently, 77 products included in the Highly Sensitive List have high tariff rates that exceed 100%. These high tariff products must be excluded from the list. The Ministry of Agriculture, Food, and Rural Affairs (MAFRA) in the beginning of the negotiations said to make 62 products as exceptions. But in the 6th negotiation, this list has been narrowed down to 40 products; thus, it has become more difficult to include agricultural goods. Also, fruits (e.g. apple and pear), meat (e.g. pork, chicken, and beef), and rice have been excluded, but other grains have been included in the highly sensitive list — their tariffs will be reduced by 20%–50% by 2015, which is a serious problem.

KPL and KAFF did not want any FTAs. The agricultural sector had an indirect way of influencing Korea's negotiation approach, making the government carefully consider the costs and benefits of the bilateral approach versus the group-based approach toward ASEAN. However, the agricultural sector did not have a specific preference with regard to bilateral or regional trade negotiations with ASEAN, so long as the agricultural sector was protected.

4.3.2.3 Government's interests

(a) Before the formal negotiations, 2001–2004. ASEAN had proposed an FTA to Korea in November 2001, but the latter was reluctant to initiate (Park and Lee 2006, 86). It was not until China and Japan consecutively approached ASEAN that the Korean government officially began to consider KAFTA. Upon receiving a positive analysis result from the Korea Institute for International Economic Policy (KIEP) of the economic impact of KAFTA, there was discussion within MOFAT on the negotiation approach it should take with ASEAN. MOFAT had recognised that China and Japan took two different approaches but without clear information as to why (J. Kim 2002). At this point, the Korean government had strategically weighed the costs and benefits of signing bilateral negotiations versus multilateral negotiations with ASEAN.

In the beginning, the internal discussions converged toward the bilateral approach for its efficiency and feasibility. In his special interview to Financial News (J. Kim 2002), then Trade Minister Doo-yeon Hwang stated that a multilateral FTA with ASEAN would be more difficult to reach because of the complexities attached to the involvement of multiple negotiation partners—thus, following Japan's footsteps, it would be more realistic to pursue FTAs with accessible partners first. MOFAT considered that Korea was inexperienced compared to China and Japan, which had built deep historical bonds with the ASEAN. For example, China had a thorough knowledge of the market through ethnic Chinese businessmen in Southeast Asia. Japan had made massive investments in the region since the end of World War II. By contrast, Korea's investment was limited to light industries, such as sewing and shoemaking.

Because the agricultural sector's structural reform at the time was the most sensitive issue in Korea due to the Korea–Chile FTA, the Korean government was extremely cautious even about mentioning the possibility of an FTA with ASEAN. Prime Minister Seok-Su Kim

was interviewed at the summit and said, “We expect that we will face strong domestic opposition if the FTA talks began, because import of agricultural products from the ASEAN will increase dramatically with the FTA” (*Yonhap News Agency* 2002a). He further emphasised that

Korea is not ready for an FTA with ASEAN, and a thorough discussion and consent from the agricultural and fishery sector is needed because they make up very important parts of the Korean economy. The KAFTA needs further study by setting long-term goals. (Hong 2002).

For these reasons, Korea chose Singapore as its second FTA partner, following its first FTA with Chile, at the economic ministers’ meeting held in November 2002. The FTA with Singapore seemed easier than an FTA with ASEAN, as it would little impact the domestic agricultural market and would take a shorter time to conclude. To Korea’s second decline of ASEAN’s proposal, Singapore and Thailand criticised that Korea was not as enthusiastic about ASEAN as compared to its active approach with Chile (Bae 2002; Hong 2002). However, Korea continued to insist on further analysis of how it and the ASEAN economies could mutually complement one another before beginning the region-based negotiations. As then-Trade Minister Hwang said after the ministers’ meeting

We already have informal agreement from Singapore to further proceed with our FTA negotiations. We do not expect this negotiation will require complicated procedure, since Singapore has an economic structure where the agricultural sector is minor. The FTA with the entire ASEAN, however, still needs further examination and study. (*Yonhap News Agency* 2002b)

Because of Korea’s lukewarm response, the ministers of foreign affairs from the ASEAN side continued to make direct requests for KAFTA to then Korea’s Minister of Foreign Affairs Young-kwan Yoon (H. Kim 2006, 22).

The next year at the APT Summit held in October 2003 in Bali, Korea’s negotiation approach shifted to the region-based approach, which only a year before claimed to need long-

term consideration of KAFTA. Giving an account as to why the Korean government had been indefinite about KAFTA, President Roh explained,

opening up the agricultural market is no threat to China. The Japanese agricultural sector's structural reforms are almost at the end stage. In contrast, our FTA progress with ASEAN had been slow because our structural reform in the agricultural sector is incomplete. (Cho and Ko 2003)

President Roh considered that Korea had its absolute advantage in industrial competitiveness, which outweighed any potential loss in the agricultural market. The opinions that the region-based approach of negotiation was more beneficial for both Korea and ASEAN were continuously emphasised and confirmed by the five rounds of joint studies conducted throughout March to August in 2004 (Seo 2004; MOFAT and KIEP 2007, 10).

Securing the first mover advantages in the Southeast Asian market and gaining enlarged market access was expected to improve the overall national economy. In 2002, 51.7% of Korea's GDP⁶³ depended on trade, where the share of the export and import was 26.7% and 25%, respectively (KITA n.d.). Among just over half of the GDP, ASEAN took up 11% of the total trade, which amounted to US\$35,156 million out of US\$3,145,960 million. ASEAN was Korea's fifth largest trading partner, after the US, China, Japan and the EU. So far as ASEAN, Indonesia, Singapore and Malaysia were Korea's most important partners, followed by the Philippines, Thailand, Vietnam and Brunei. Next were Myanmar, Cambodia and Laos (see Figure 4.5).

Compared with Japan and China, however, Korea's market share in ASEAN was still far behind (see Figure 4.6, ASEAN Secretariat 2013; Seo 2004). That is, Japan continued to take up a significant market share of over 15%, while the Chinese market share sharply increased from 4.3% in 2000 to 9.1% in 2002 (ASEAN Secretariat 2013). Moreover, China's market share in ASEAN was expected to increase further after CAFTA went into effect in July 2005.

⁶³ Trade dependency rate was calculated using nominal GDP, where it was US\$608,900 million, export was US\$162,471 million, and import US\$152,126 million.

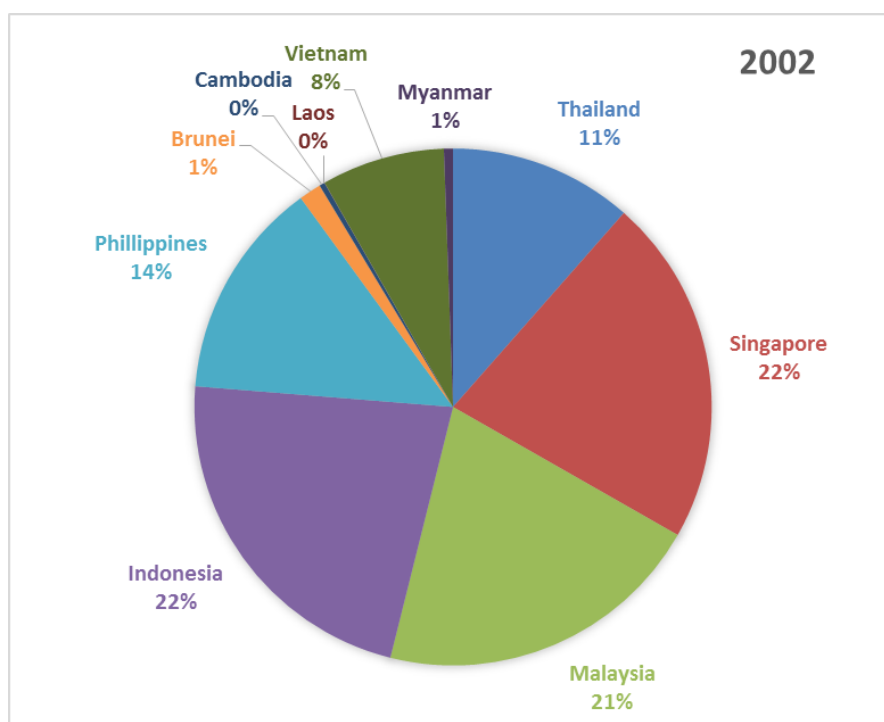
With the rapid economic growth of ASEAN, the market was increasingly highlighted by its consumption capacity. ASEAN's growth rate recorded an average of 8% since the early 2000s (KITA n.d.), indicating that it would be a potential export destination for a new consumption market. In addition, ASEAN was being recognised as an alternative relocation spot for the companies seeking a cheaper labour force in the face of rising labour costs in China. To quote the Director at East Asia Negotiation Division, Young-mu Kim, interviewed by *YTN Radio* in 2014,

if an emerging market as is compared to a pie, the negotiators considered that the first-mover advantages are important in terms of taking the larger piece of pie faster than its competitors.

This meant that expanding Korea's presence in the region became an urgent task for the Korean government.

Furthermore, the Korean negotiators began to consider that, unlike Japan, Korea had less incentive to negotiate bilateral FTAs with individual ASEAN members. Even though the bilateral approach of negotiations would be more efficient, as in the case of KSFTA, further negotiations with other bilateral FTAs were beginning to be perceived more difficult. ASEAN members were not interested in engaging in bilateral FTAs with Korea. According to the chief delegate of KAFTA, Hansu Kim (personal communication), Malaysia was the only country in ASEAN at the time that showed an interest in negotiating a bilateral FTA with Korea. A counterpart's willingness reflected how politically and economically attractive a country is to its partner. In this respect, Korea did not hold political and economic leverage against individual ASEAN countries in the early 2000s.

Figure 4.5 Composition of ASEAN’s trade share in Korea, by country, 2002



Source: Author’s compilation of data from KITA (2015).

Figure 4.6 Share of ASEAN trade with dialogue partners

Trade Partners	Share of ASEAN Trade (%)		
	1993	2000	2011
Intra ASEAN	19.2	22.0	25.0
China	2.1	4.3	11.7
Japan	20.2	15.3	11.4
Korea	3.1	3.9	5.2
EU-27	14.7	13.5	9.8
USA	17.6	19.8	21.4
Others	23.1	21.2	15.5
Total	100	100	100

Source: ASEAN Secretariat (2013).

(b) *Negotiations at work: The modality approach, 2005*. In recognition of Korea's relatively disadvantaged position in the ASEAN market and the country's higher development status, Korea suggested a deal that may seem imbalanced to its side.

At the working-level negotiations, the different domestic circumstances of individual countries would be considered through bilateral negotiations, where the specifics of a tariff concession plan and the specifics of the sensitive goods would be listed and established. When these tasks were finished, Korea and ASEAN would come together at the negotiation table once again and tune up the final deals both bilaterally and multilaterally (Hyun 2005). Hence, the modality framework was signed without a tariff schedule and Annex on RoO on 9 December 2005 (MOFAT, 2005) in Kuala Lumpur.

The modality approach was opted for its flexibility in tariff liberalisation between multiple parties that varied in developing status. In the Normal Track, over 90% of all goods, which amounted to 5,224 items (by HS 6 digit), targeted at complete elimination of tariff from the minimum deadline of 1 January 2010 to the maximum 1 January 2020. The Normal Track schedule of tariff reduction was divided into three categories: (a) Korea and ASEAN+6, (b) Vietnam and (c) the CLM countries (see Table 4.1). Unlike in the precedent set in the CAFTA where there were only two categories—(a) China and ASEAN+6, and (b) CLMV countries—the KAFTA agreement was differentiated in two ways.

Table 4.1 Schedule of Tariff Reduction, Korea and ASEAN

Category		(a) Korea		ASEAN+6		(b) Vietnam		(c) CLM	
Normal Track (over 90%)		Immediately	70%	2007	50%	2013	50%	2015	50%
		2008	95%	2009	90%	2015	90%	2017	90%
		2010	100%	2010	95%	2016	95%	2018	95%
				2012	100%	2018	100%	2020	100%
Sensitive Track (10% or less)	Sensitive List	Tariff line: 6~7% Import value: 7%				Tariff line: 10% Import value: 25%		Tariff line: 6~7%	
	Highly Sensitive List	Tariff line: Up to 200 items (HS6) or 3% of Tariff line and import value				Tariff line: Up to 200 items (HS6) or 3% of Tariff line			

Source: Korea Customs and Trade Development Institute 2016; Korea-ASEAN FTA Agreement in Trade in Goods, Annex 1 & 2 (<http://fta.go.kr>).

First, the concession Korea offered was seen as much more generous than what China offered to ASEAN. Then-chief delegate of the ASEAN side, Chin (2011), recalled that in the process of such modality-based negotiations, Korea was the first case in which the ASEAN side began to consider that its more developed dialogue partner should concede more by taking the development gap into account, even to the relatively more developed ASEAN+6. For example, even though Korea and ASEAN+6 were grouped together in the modality, different target dates were set for tariff reduction. Upon KAFTA's entry into force on 1 June 2007, Korea agreed to eliminate at least 70% of its tariff lines to zero. By 1 January 2010, tariffs of all items in the Normal Track would be eliminated. In contrast, ASEAN+6 agreed to eliminate at least 50% of the tariff lines by 2007 to the tariff rates at 0–5%. After two further stages of liberalisation in 2009 and 2010, all tariff elimination would be completed no later than 1 January 2012 (Chin 2011, 225–228; Korea Customs and Trade Development Institute 2016). For the Korean side, the early target date, despite its steep reduction of tariffs, was seen as necessary to catch up with CAFTA's tariff elimination deadline, which was set as 1 January 2010.

Second, among the CLMV countries, Vietnam was treated as an exception. Because Vietnam had much a higher trade share with Korea and was more developed than Laos Malaysia and Cambodia, Korea contended that higher standards should be met (MOFAT and KIEP 2007). Having agreed on such modalities throughout the negotiations held in 2005, the Framework Agreement and an Agreement on Dispute Settlement Mechanism were signed on 13 December that year at the 9th Korea–ASEAN Summit.

Throughout 2006, the working-level negotiation continued. Korea divided tariff lines using HS 10 digits, based on the modality agreed. Out of 11,261 goods, 10,403 goods (93.2%) were categorised in the Normal Track, where the tariff of 7,312 products (65.5%) were eliminated with KAFTA's entry into force. Of the remaining goods, 481 goods (4.3%) were categorised in the Sensitive List, 279 goods (2.5%) were categorised in the Highly Sensitive List (see Table 4.2) and 98 goods (0.9%) were excluded from liberalisation. The exclusion list comprised agricultural products, including rice, beef, pork, chicken and pepper, with exception for Thailand (Korea Customs and Trade Development Institute, 2016). In contrast, for Korea the main triggers that sped up the negotiations were its concern about the export competitive industries, such as those in fibre, machinery and electronics, and its fear

of ASEAN market domination by China and Japan if CAFTA and AJCEP went into effect faster than KAFTA (Jeong 2002).

Table 4.2 Schedule of Tariff Reduction for Sensitive Track, Korea and ASEAN

Category		Korea & ASEAN+6	Vietnam	CLM
Sensitive List		2012: reduced to 20% 2016: reduced to 0–5%	2017: reduced to 20% 2021: reduced to 0–5%	2020: reduced to 20% 2024: reduced to 0–5%
Highly Sensitive List	Group A	2016: 50% tariff cap	2021: 50% tariff cap	2024: 50% tariff cap
	Group B	2016: reduction by 20%	2021: reduction by 20%	2024: reduction by 20%
	Group C	2016: reduction by 50%	2021: reduction by 50%	2024: reduction by 50%
	Group D	Subject to tariff quotas	Subject to tariff quotas	Subject to tariff quotas
	Group E	Exempt	Exempt	Exempt

Source: Korea Customs and Trade Development Institute 2016; Korea-ASEAN FTA Agreement in Trade in Goods, Annex 1 & 2 (<http://fta.go.kr>).

(c) *Negotiation at a turning point? Changes in Korea's leverage.* Even after the region-based approach of negotiation was selected, the difficulty with negotiation persisted due to Korea's weak negotiation leverage in bilateral negotiations specifying the tariff lines to be liberalised at the working-level. In an interview with *KBSi Radio* in 2012, chief delegate of KAFTA, Hansu Kim, claimed that because ASEAN did not have an executive body, such as the European Commission, that would act in one during the negotiations, the process of 10 ASEAN members arriving at consensus took much longer than compared to Korea's negotiations with the EU. In this respect, KAFTA was a collection of bilateral agreements, rather than a single unified arrangement, as was the case with the Korea–EU FTA.

The delay at the working-level negotiation with Thailand demonstrated Korea's relative lack of leverage compared to Thailand's favourable approach to the JTEPA. Even after the Framework Agreement was signed and the rest of ASEAN reached an Agreement on Trade in Goods with Korea, Thailand opted out of this pact in opposition to Korea excluding agricultural

products, including rice, chicken and tropical fruits, from the tariff liberalisation. For this reason, KAFTA entered into force on 1 June 2007 without Thailand.

However, the internal pressure within Bangkok that being excluded from the pact would eventually disadvantage its position with its regional trades brought it to the negotiation table again. The two parties struggled to find a common ground through the four additional bilateral negotiations on trade in goods held from April to October 2007 and also the two Trade Ministers' meetings held in September and November that year. It was only in the fifth round of Korea–Thailand Trade in goods negotiations, held on 18 December 2007, that the two parties finally reached an agreement (MOFAT FTA Negotiation Team 2007). In comparison with JTEPA or KAFTA, which excluded rice from tariff reduction, Thailand's rice had been grouped under the highly sensitive list, category D. As the Korea–Thailand tariff reduction schedule specifies, tariff is zero within the allocated quota,⁶⁴ but 52% tariff is imposed to any exceeding amount (MOFA (Korea) n.d.).

So when and how did Korea's region-based negotiation approach begin to shift back to the bilateral approach? It was only later in 2012 that Korea started to negotiate further bilateral FTAs with ASEAN countries. According to then-Trade Minister Taeho Bark (personal communication), it was Vietnam and Indonesia that first proactively suggested additional bilateral FTAs with Korea, while countries such as the Philippines and Thailand were still reluctant. In explaining Korea's negotiation strategy with ASEAN, Trade Minister Bark (personal communication) stated,

It is easy to conceive that Korea is pursuing bilateral FTAs with the individual ASEAN members to complement the limitations of the region-based KAFTA. However, Korea's strategy is to further strengthen KAFTA as a group, not through bilateral agreements.

Korea has been focusing on strengthening KAFTA by revising the Agreement on Trade in Goods, particularly to enhance its utilisation and implementation. In this process, Annex 3 on RoO was revised in 2014 and 2015.

⁶⁴ Each year's quota can be found at <http://www.dft.go.th>.

In the backdrop of further negotiation between the two Southeast Asian partners was the increased economic exchange after KAFTA. Indonesia and Vietnam's economic significance to Korea among ASEAN countries ranked second and third place, respectively, just after Singapore. By 2012, their total trades recorded US\$29.6 billion and US\$21.7 billion, up from US\$13.7 billion and US\$4.9 billion, respectively, in 2006 (see Figure 4.7). In particular, Korea's trades with Vietnam increased by more than eightfold since 2002, during which its trade share among ASEAN countries increased from 8% to 16% (see Figures 4.5 and 4.8). Korea's trade share ranked fourth after China, Japan and the US in 2012 (Vietnam Customs, 2012: 58), and its FDI share was the largest with a strong presence of Samsung and LG Electronics. However, Korea's establishment of a supply chain was still limited to Vietnam and Indonesia (MOFA (Korea) official, personal communication).

Other than these direct economic factors, Vietnam and Indonesia also highly evaluated Korea's economic miracle as a development model. Moreover, over 10% of Korea's foreign residents were Vietnamese in 2010 (Statistics Korea 2010), meaning that further economic commitment in bilateral FTA was expected to promote closer diplomatic ties between Korea and Vietnam. Combined with these, the Korean Wave's popularity in these countries formed a favourable perspective toward Korea and the Korean negotiators in general (Taeho Bark, former Minister for Trade, personal communication; South China Morning Post 2012, 2018; Vietnam Net 2017).

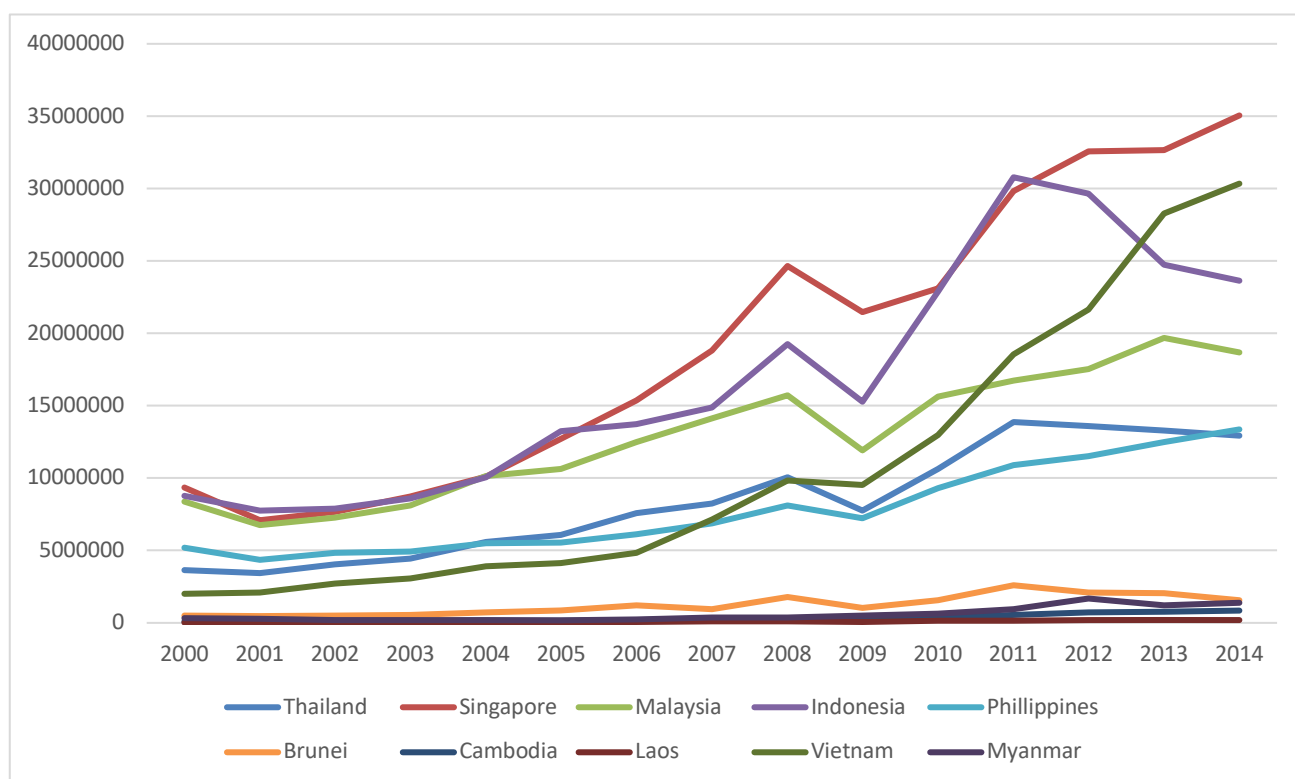
Even though KIFTA negotiations had stalled since 2014,⁶⁵ KVFTA was officially signed on 5 May 2015 and went into effect on 20 December that year. Korea and Vietnam aimed toward two different goals through this FTA. Vietnam's primary goal was to expand its agricultural export to Korea, especially with tropical fruits that do not overlap with Korea's agricultural interests. Korea was interested in strengthening its supply chain and expanding its consumption market. Even so, Korea saw this FTA more as a diplomatic tool. Vietnam was a stepping-stone for wider regionalism, such as TPP. Politically, Korea's establishing a closer relation with Vietnam had a significant political implication, "sort of like marking its territory

⁶⁵ The Korean side requested strengthened protection for Korean businesses in Indonesia, and the Indonesian side requested that Korea increase FDI to Indonesia, but the two parties failed to reach a consensus (MOTIE 2014). In general, however, the new administration since 2013 had been quite conservative in trade policy; thus, the negotiation with Indonesia was not expected to progress in the near future (MOFA (Korea) official, personal communication).

within the ASEAN countries”, in competing with China and Japan (MOFA official, personal communication). Because it was an FTA that the Vietnamese strongly demanded and Korea had little to lose from it, the Korean negotiators could be more generous in giving concessions to Vietnam. Despite the concession made in the agricultural sector, the Korean negotiators remembered the KVFTA as a relative easy negotiation, having established the first mover advantages in Vietnam through the KAFTA (Taeho Bark, personal communication; MOFA official, personal communication).

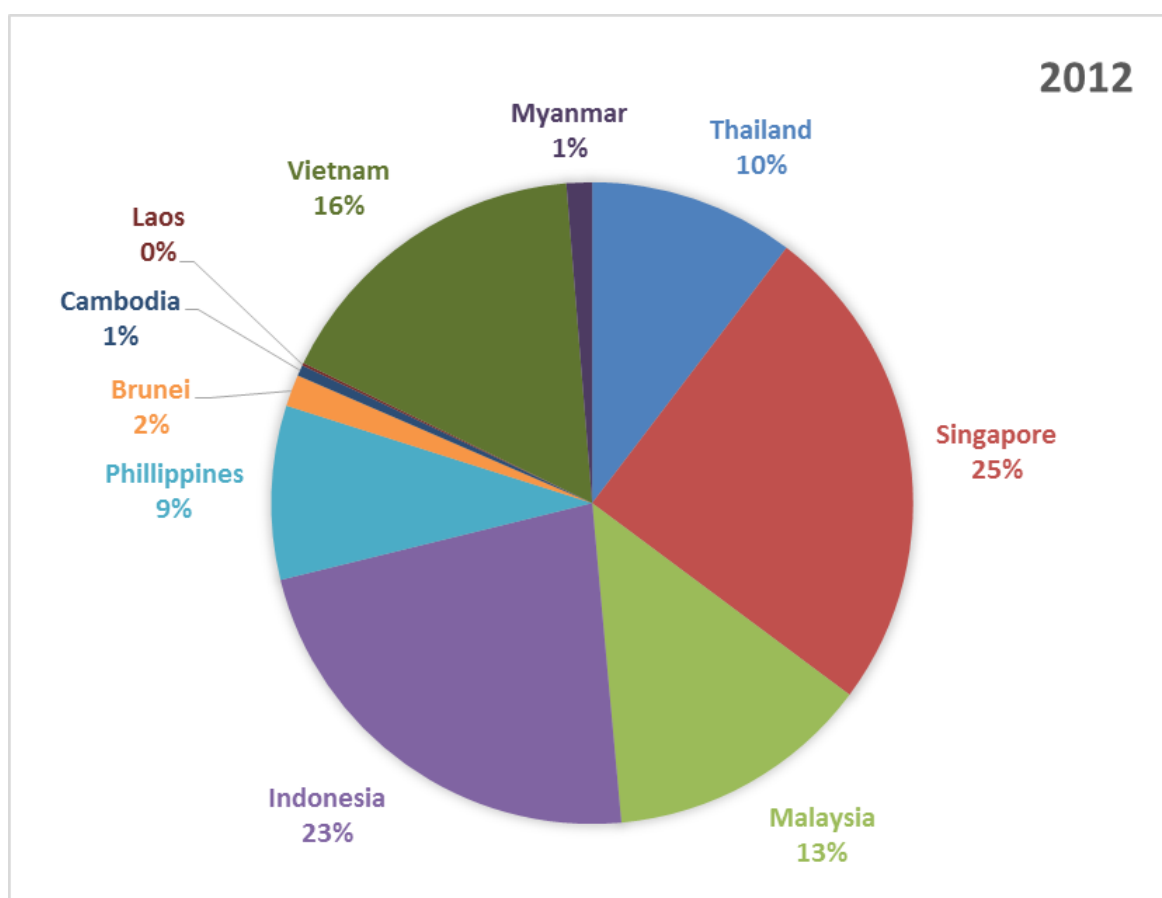
Furthermore, the KTFTA study group was repropose in 2013 to complement the limitations of KAFTA. According to Trade Minister Boonsong Teriyapirom (Cho 2013) “ASEAN agreed an FTA with Korea, but Thailand has enjoyed relatively little benefit from this agreement compared to other ASEAN neighbours. Thailand wanted a direct FTA with Korea from the first place”. The main issues of this agreement would involve the agricultural imports from Thailand and exports of the manufacturing sector, like automobiles and electronic goods. However, this agreement has not come to fruition.

Figure 4.7 Korea–ASEAN Trades, 2000–2014.



Source: Author's compilation of data available at KITA (n.d.).

Figure 4.8 Composition of ASEAN's Trade Share in Korea, by country, 2012.



Source: Author's compilation of data available at KITA (n.d.).

4.4 Testing the Hypotheses

The empirical findings of this chapter partially confirm the hypotheses established in Chapter 3. That is, Korea and Japan both pursued bilateral PTAs in the beginning, because of their negotiation efficiency and to minimise the opposition of their agricultural sectors. When it comes down to the details, however, the two countries demonstrated minor variations in shaping their motivations. The findings confirm the hypothesis that the Japanese government was further motivated to promote a bilateral approach, because of its foreign policy objectives and diplomatic leverages against ASEAN. It was unexpected, however, that neither the Korean nor the Japanese government was able to calculate its respective diplomatic leverage against ASEAN. As a result, neither country could utilise this factor as a strategic bargaining tool to derive a more favourable negotiation outcome.

The private sectors in Japan and Korea were mainly concerned about economic gains and losses through the different approaches of negotiations. As Figures 4.9 and 4.10 summarise, Japan and Korea's export competitive industries both preferred the region-based approach of negotiations with ASEAN. In the face of the trilateral competition among Korea, China and Japan, to gain a better market access to ASEAN than each other, industrial groups in both countries strongly demanded that KAFTA and AJCEP be pursued as fast as possible. However, FKI and Keidanren differed in their preference toward the bilateral deals. FKI demanded that the content of KAFTA be comprehensive and in-depth so that it countered both CAFTA and Japan's bilateral EPAs. In contrast, Keidanren argued that even though the region-based PTAs were more beneficial, bilateral EPAs could complement the region-based approach and thus both should be pursued. Keidanren was more cautious about maintaining and strengthening existing relationships the Japanese businesses had accomplished in individual ASEAN countries.

Korea's and Japan's agricultural sectors also had overlapping interests with ASEAN. As expected by hypotheses, the agricultural sector did not want any trade liberalisation to take place in the first place. However, they also recognised the need for FTAs as long as their governments protected their agricultural interests. The two countries' agricultural groups demonstrated differences in their preferences when it came to the details. In the case of Korea, KPL's and KAFF's interests were diverted to FTAs that had greater impact on Korea's agricultural sector than the FTA with ASEAN. They considered that the liberalisation through the FTA would be limited, considering the high development gap among the ASEAN countries. In Japan, JA-Zenchu showed preference for bilateral EPAs over AJCEP. The bilateral approaches were preferred, because JA-Zenchu considered that Japan would have greater leverage in deriving concessions from individual ASEAN counterparties by providing other forms of assistance to ASEAN.

The governments of Japan and Korea additionally considered the aggregate interests of society overall. Japan's government's interests were represented by the contrasting priorities of METI and MOFA (Japan). As the two ministries agreed that both bilateral and regional negotiation approaches could complement each other, Japan decided to pursue two-track strategy.

Figure 4.9 Japan’s domestic interests and their preferred negotiation approaches

Domestic Interests	Negotiation Approaches	
	Region-based Negotiation	Bilateral Negotiation
Private Interests	<ul style="list-style-type: none"> Keidanren: preference to AJCEP, but also supported bilateral EPAs. AJCEP was expected to give greater market access and secure existing supply chain network in Southeast Asia. 	<ul style="list-style-type: none"> JA-Zenchu: Little opposition to JSEPA. Preferred bilateral EPAs over AJCEP.
Government’s Interests	<p>METI:</p> <ul style="list-style-type: none"> Japan’s overall economy could gain from securing its existing supply chain and strengthening its competitiveness within Southeast Asia region through further investment. AJCEP negotiation was delayed due to the relative weakness of Japan’s leverage against ASEAN as a group compared to that of its individual EPAs 	<p>MOFA:</p> <ul style="list-style-type: none"> Bilateral negotiations, such as JSEPA, would be more efficient than the region-based AJCEP; bilateral EPAs would be of higher quality, but would take less effort and time to conclude. Japan’s existing relationship with individual ASEAN members was expected to give Japan greater negotiation leverage. Promotion of parallel EPAs, using JSEPA, was expected to increase Japan’s leverage by facilitating competition among the ASEAN counterparties. Japan could achieve foreign policy objective of countering the Chinese influence through the establishment of its EPA models.

Figure 4. 10 Korea’s domestic interests and their preferred negotiation approaches

Domestic Interests	Negotiation Approaches	
	Region-based Negotiation	Bilateral Negotiation
Private interests	<ul style="list-style-type: none"> • KFI: Gained first mover advantages in the ASEAN market over Chinese and Japanese competitors. • KPL & KAFF: Opposed KAFTA, but only with mild resistance, distracted by Korea–Chile FTA and Korea–US FTA. 	<ul style="list-style-type: none"> • KPL & KAFF: Opposed FTAs, but relatively indifferent to KSFTA
Government’s Interests	<ul style="list-style-type: none"> • Trade gains through enlarged market access. • Early stages of negotiation: Lack of leverage to attract individual ASEAN members to participate in bilateral FTAs. • After KAFTA: Increased Korean economic and political leverage, leading to additional bilateral FTAs. 	<ul style="list-style-type: none"> • Negotiation efficiency (less complicated and takes shorter time and resources to conclude with an in-depth agreement)

Japan chose the bilateral EPAs for their efficiency, as it aimed to achieve high quality agreements in a short period. MOFA (Japan) considered that the country’s political and economic leverage against individual ASEAN members could be helpful for deriving a favourable negotiation outcome for Japan, as it had been ASEAN’s most important contributor of FDI and ODA. Moreover, Japan enhanced its strategic position through the simultaneous promotion of bilateral EPAs by triggering competition among the ASEAN members. In this process, JSEPA was used as precedent to negotiate comprehensive EPAs with conservative liberalisation in its agricultural and fishery market. Diplomatically, MOFA considered that Japan’s own style of EPA would strengthen Japan’s regional power, shaping regional economic governance.

Thus, the region-based approach was promoted primarily for economic-driven reasons. As Japan already had been deeply engaging in trade and investment with ASEAN, it aimed to secure its existing supply chain through cumulative RoO via AJCEP. In that process, however,

the AJCEP negotiations were delayed due to the relative weakness of Japan's leverage against ASEAN as a group.

The Korean government also preferred the bilateral approach of negotiations initially. The bilateral approach was considered more efficient than the regional KAFTA, not only because of its efficiency, but also because Korea faced strong opposition from the agricultural sector due to the Korea–Chile FTA. In 2003, however, the Korean government turned to KAFTA. It considered that the benefits of the enlarged market access through first mover advantages outweighed the costs from the agricultural sector and the complexity caused by negotiating with multiple partners. The change in Korea's negotiation approach also concerned realistic constraints, namely, its relative lack of diplomatic leverage to attract individual ASEAN countries. Even though economic transaction between Korea and ASEAN rapidly increased throughout the 1990s, ASEAN members were reluctant to engage in FTAs bilaterally with Korea. It was only since 2010s that Korea's economic and political leverage had also increased, leading Vietnam, Indonesia and Thailand to propose additional bilateral FTAs with Korea.

The examination of Japan's and Korea's domestic interests demonstrates that a direct and visible cause of the divergence in negotiation approaches came from their respective government's interests. Japan and Korea held varying degrees of diplomatic leverage against the ASEAN countries, both individually and as a group. Japan also had a stronger motivation than Korea with its foreign policy objectives of countering China. For Japan, it was important to sustain its leadership role in East Asia. To do so, Japan aimed to establish a regional trade regime based on its standards, and it considered the bilateral EPAs more suitable for those purposes. Thus, the findings confirm most of initial predictions.

However, the findings also suggest that the cost and benefit analysis did not determine preference of one approach over another. In particular, Korea and Japan did not strategically calculate the strength of their diplomatic leverages. Instead, the utility of leverages was demonstrated through the counterparty's willingness to participate in the negotiations. Japan already had a strong influence in Southeast Asia through trade and investment by the early 2000s. Thailand, Malaysia and the Philippines showed interest for the bilateral approach to Japan. Fearing to be left out of the bilateral deals that these three ASEAN members had achieved with Japan, the rest of ASEAN members were also drawn into the negotiation not to be excluded from the EPA-driven benefits. The region-based approach took much longer due

to Japan's effort to incorporate the bilateral EPAs into AJCEP. The AJCEP negotiations were delayed and Japan's demands were not fully met, because its leverages were not strong enough to obtain the deals it had desired. Despite the delay, the Japanese negotiators considered that Japan's unique style of EPA had been effective in countering China's influence in Southeast Asia, as most Southeast Asian countries learned to negotiate their first PTAs through Japan.

In comparison, Korea did not have the leverage that Japan held in the early stages of the negotiations. Because only very few ASEAN countries were interested in bilateral FTAs with Korea, reaching ASEAN as a group was a more realistic goal. The existence of leverage was clearly demonstrated by the difficulty Korea faced at the working-level bilateral negotiations with Thailand for the signing of KAFTA, in contrast with the JTEPA in which the conflicting issues over rice was resolved relatively easily. By the time KAFTA went into effect, however, Korea's economic influence in these countries had grown substantially, leading to countries, such as Vietnam and Indonesia, to request further bilateral FTAs with Korea. Despite its increased leverage, however, Korea's strategy toward ASEAN remained consistent with the region-based approach unless otherwise proposed by individual ASEAN members, and its goal is to improve the utilisation of KAFTA rather than negotiating further bilateral FTAs.

4.5 Conclusion

When KAFTA and AJCEP began, both Korea and Japan were novices with FTAs. Thus, neither party's strategies were thoroughly planned. Rather, they opted for strategies that seemed most strategic at the time. Although Japan had the greater interest to counter China's rise, Korea's and Japan's similarities in their interests initially led both countries to place greater emphasis on the bilateral approach of negotiation. At this stage, the two countries' expected benefits of using diplomatic leverages against ASEAN members were still vague. Due to the lack of experience and information in FTAs, the two countries had not been able to fully calculate the costs and benefits of the different negotiation approaches before entering into negotiations with ASEAN.

Thus, the logic of cost and benefit analysis is insufficient to account for Korea's sudden shift of preference from bilateral to the region-based approach of negotiations, even regarding its relative lack of leverage. This also brings into question what the counter-intuitive implications of Japan's continued promotion of a two-track strategy are. Moreover, the interest-

based explanation in this chapter does not account for the mechanism in which the government's interests and private interests interact to produce a certain outcome. In particular, the private interest groups' preferences in Korea and Japan were almost identical; thus, how much they influenced each government needs further scrutiny. To account for the remaining puzzles, the following chapters will examine the influence of ideas and institutions on Korea's and Japan's preference of negotiation approaches.

Chapter 5 When Do Ideas Matter? The Negotiation Divergence of Korea and Japan

5.1 Introduction

Until the late 1990s, Korea and Japan claimed to be firm adherents of GATT and the WTO-based multilateral system. A series of external events—the slow progress of the multilateral talks, the emergence of NAFTA and the EU, and the Asian financial crisis—led the two countries to shift in their trade policies. In addition, the Doha Round launched in 2001 was not expected to advance any faster with the WTO's 142 members with diverse development statuses, which included the newly admitted China and Taiwan. They further facilitated Korea's and Japan's transition from multilateralism to bilateralism and regionalism, which notably progressed at a fast pace since the early 2000s. The two countries' degrees of emphasis on bilateralism and regionalism, however, began to vary in the formation of their PTA preferences. Korea and Japan both initially preferred bilateral approaches of negotiations in their PTAs with ASEAN as a response to the progress of CAFTA. In 2003, however, Korea's preference suddenly shifted to the region-based KAFTA. In contrast, Japan continued to simultaneously promote bilateral EPAs and AJCEP.

This chapter demonstrates that ideas are central to explaining Korea's and Japan's divergence in their preferences for bilateralism and regionalism. As Chapter 3 lays out, Korea's and Japan's cases with ASEAN provide counterfactuals to assess the influence of ideas, as no substantive structural changes occurred to bring obvious changes to the two countries' domestic interests. The contrasting perspectives developed in Korea and Japan are more obvious when examining cross-regionalism trends in East Asia. East Asian countries started promoting cross-regional PTAs almost as soon as they began PTAs in the late 1990s. In comparison with European or North American countries that consolidated intra-regional partnerships before seeking expansion of PTAs with extra-regional partners, East Asian countries have taken bolder steps toward PTAs (Solís and Katada 2007a). Korea and Japan have also promoted cross-regional PTAs from the outset: Korea's first FTA partner was Chile, and Japan's second EPA partner was Mexico. However, the steps towards the two countries' subsequent agreements varied, creating a significant gap in the two countries' overall PTA progresses. As Yoshimatsu (2012) observes, of the 12 PTAs Japan concluded by 2010, only four—Mexico, Chile, Switzerland and India—were made with non-ASEAN countries. Japan's

trade policies did not include its major trading partners, such as the US, the EU or China. In contrast, Korea negotiated FTAs with Chile, EFTA, India, the US, the EU and Peru, in addition to the FTAs with ASEAN and Singapore.

To trace the origin of the ideational background on Korea's and Japan's divergence on their different PTA negotiation approaches, this chapter examines the development paths of the policymakers in the two countries' ideas. It demonstrates how a combination of antecedent conditions and the reinforcements amalgamated in to the policymakers' ideas, determining a range of viable policy options. Following the introduction, the next part examines the Korean policymaker's ideas on bilateralism and regionalism. The third part then examines the case of Japan. After examining each country's evolution of ideas, this chapter tests the hypotheses established in Chapter 3. It concludes by assessing the findings from this chapter.

5.2 Korea

5.2.1 The Antecedent Conditions: Korea's Departure from Multilateralism and the Rise of Bilateralism and Regionalism. The Korean policymakers did not consider the possibility of bilateral trade agreements until the late 1990s. Even as the United States Trade Representative (USTR), as early as in the mid-1980s, considered Korea one of the most apt partners to initiate an FTA in East Asia, policymakers refrained from adopting PTAs due to the high sensitivity in its agricultural sector (KITA 2002). Together with countries like Japan, New Zealand, India and Pakistan, it criticised the new rise of regionalism and bilateralism in the Western hemisphere and argued that economic co-operation should be strengthened at the multilateral level (former MOFAT official, personal communication). As one of the biggest beneficiaries of multilateralism, Korea's official position was that it supported trade through the WTO-based multilateral co-operation (former MOFAT official, personal communication; Moon 2007, 176-177).

Despite its maintenance of a firm position throughout the 1990s, the pressures for the FTAs continue to grow with the slow progress of multilateral talks, emergence of bilateral and regional trade agreements in the Americas and Europe, and the outbreak of the Asian financial crisis. Accommodating these external changes, however, did not cause political turbulence within Korea. During the process of redirecting its external economic policy from multilateralism to bilateralism, the Korean president and the MOFAT bureaucrats could build

consensus on the need of the FTAs in several aspects (former MOFAT official, personal communication; Moon 2007; S. Kim 2004, 18-20).

First, the new president and the MOFAT bureaucrats shared the view that reforms in trade are necessary. They believed that external trade relations are essential for a heavily trade-dependent economy like Korea. Therefore, President Dae Jung Kim, who came into office in February 1998, moved the jurisdiction over trade to MOFA (Korea), changing the name of the ministry to the Ministry of Foreign Affairs and Trade (MOFAT). In addition, the FTA Promotion Guidelines were published in November 1998. The Guidelines were created voluntarily within MOFAT, independent from those imposed by the IMF system. The MOFAT officials, who shared the idea that the emphasis on multilateralism is ideal but not realistic (former MOFA official, personal communication), strongly supported them.

Moreover, Mexico's participation in NAFTA gave confidence to Korean policymakers and policy advisors from diverse trade backgrounds, so that Korea could also successfully employ FTAs (Taeho Bark, former Minister for Trade, personal communication; S. Kim 2004; H. Kim 2006). The fact that Mexico is situated in the southern part of North America directed the decision makers' attention to Chile in selecting Korea's first FTA partner (Taeho Bark, former Minister for Trade, personal communication). Mexico's case was perceived as a model to be learnt, rather than a threat of trade diversion or a gateway for the market access in North America. In fact, when Mexico proposed an FTA with Korea in November 1998, the Korean government did not agree to the proposal, as it feared that pursuing another FTA with similar economic characteristics of Chile would cause domestic backlash (H. Kim 2006, 21).

Thirdly, the decision makers shared the view that their influence at the multilateral level was meagre due to Korea's low international status in the late 1990s. Then-negotiators perceived that Korea's influence or reputation in the multilateral negotiations was rarely heard. Korea also was perceived as a country with no experience in the FTAs and thus incapable of negotiating advanced bilateral agreements (H. Kim 2006, 31-35). Therefore, advancing FTAs became considered as a diplomatic tool to enhance Korea's international status (Cheong 2009, 5).

Relatively frictionless policy-making process did not last long. In moving away from multilateralism to bilateralism and regionalism, domestic friction began to emerge. During the Kim administration, Chile was chosen as Korea's first FTA partner, an idea prompted by Mexico's progress with NAFTA (Taeho Bark, former Minister for Trade, personal

communication; S. Kim 2004). However, the domestic political atmosphere was more favourable toward negotiating FTAs with the East Asian neighbours. The FTA with Japan was expected to launch soon, as President Kim had maintained a close diplomatic relationship with Japan and had promised to initiate the Korea–Japan FTA in the near future.

The next administration, succeeded by President Moo Hyun Roh in 2003, followed the core elements of his predecessor’s external trade policies. Thus, the first task of trade with the new administration was to initiate the FTA with Japan. The mainstream opinion in the government and the media during this time was still inclined toward the goal of East Asian economic integration, and therefore, it was seen natural that Korea began FTAs with its closest neighbours: China and Japan (H. Kim 2006, 29). In this respect, President Roh, in his inaugural speech, emphasised the “Era of Northeast Asia”, which would model the EU in its economic integration of East Asia and basis for security co-operation (Jeon-Hong 2003). Roh sought for Korea to be a co-ordinator and a casting voter in regional affairs through the Northeast Asian frame of co-operation (Jeong 2006).

5.2.2 The Reinforcement: Development of Negative Experience from Korea–Chile FTA. Korea’s first FTA with Chile gave it a negative impression of bilateralism in two respects. The first considered its relationship with the counterpart. Negotiators often refer to an FTA as a “marriage” between two economies (Choi 2016, 8); Korea’s first marriage was rather turbulent. Chile was chosen as Korea’s very first FTA partner in 1998 at the Inter-Ministerial Trade Policy Coordination Committee Meeting. Korea considered that an FTA with Chile would be a good experiment to shift its policy toward bilateralism and act as a gateway to the Latin American market. Moreover, policymakers considered that Korea’s trade volume with Chile would be relatively small, thus, an FTA would not have a very significant impact on the domestic market. Chile’s far distance from Korea, located in the opposite side of the hemisphere, was expected to minimise the potential loss for domestic farmers (MOFAT and KIEP 2003, 54). Then-negotiators at the Ministry of Agriculture considered that the most likely imported agricultural goods—apple, pear and grape—were uncompetitive in the Korean market, due to their high transportation costs to maintain freshness and different product varieties far from the general Korean consumer’s taste (Bae et al. 2005, 146–148).

Korea’s approach to negotiations was also quite reserved, as it could not anticipate how domestic constituencies and the agricultural sector would respond to the FTA. Therefore,

Korea's offer of concession clashed with the expectations of Chile, then the world's second most proactive FTA negotiator after Mexico. Disagreement between the two parties was not unforeseen considering the gap in their FTA experiences and the sensitivity of the Korean agricultural sector after the Uruguay Round. Throughout the six rounds of negotiations on tariff schedules, from 1999 to 2002, the Korean side continued to maintain a strong protectionist position for its agricultural goods; whereas the Chilean side contended that substantially all tariffs be removed, including the agricultural sector, for the next 10 years. Official negotiations stalled after the fourth negotiation round held in Seoul in December 2000, due to strong domestic oppositions.

The negotiations reached the point where they were no different than being suspended; it was only on-going on the surface at the request of the Korean government (S.C. Kim 2001). Korean policymakers felt pressured because other agricultural exporters, including the US, were keeping an eye on the progress of this negotiation, and the FTA with Chile would be an opportunity to show its determination for trade liberalisation (S.U. Kim 2002). The fifth negotiation was expected to be held in Santiago in March 2001 but was postponed until the next year August due to domestic oppositions. An agreement was finally reached in the sixth negotiation in October 2002.

Even though the Korean tariff schedule was much more protective than originally suggested, Chile moved a step backward and accepted these terms in the recognition of the strong backlash reported by the Korean media. Korean negotiators recalled that due to the series of stalled negotiations and revision of tariff schedule by the Korean side, the Chilean government was deeply disappointed and its credibility toward Korea plunged (Taeho Bark, former Minister for Trade, personal communication; Bae et al. 2005, 156–157). These difficulties suggested that further FTAs with another Latin American country, like Mexico, could overload its negotiation capacities for the time being.⁶⁶

⁶⁶ Mexico had already once proposed an FTA to Korea, just after Korea and Chile agreed for an FTA in November 1998. Korea showed hesitancy about negotiating another FTA with similar economic characteristics. Due to Korea's reluctance, Mexican President Zedillo instead proposed an FTA with Japan in the same month. This was only the beginning of the mixed fate between Korea and Mexico, leaving their diplomatic relationship in an uncomfortable position throughout 2000s (H. Kim 2006, 21; Taeho Bark, former Minister for Trade, personal communication). Even though the first negotiation for the Korea–Chile Strategic Economic Complementation Agreement (SECA) began in 2006, it was again stalled in 2008. As of 2017, Korea–Chile SECA negotiations are yet to reinitiate.

More fundamentally, however, the second source of the negative experience came from the conflict between the Korean government and its domestic constituencies. During the Korea–Chile FTA negotiations, structural systems had not been established to reflect various interests of the domestic interest groups.⁶⁷ Due to the lack of the channels in which the domestic interest groups could lobby or deliver their opinion, the agricultural groups penetrated their oppositions through unorganised, and sometimes violent, demonstrations. Going through such negotiation experiences, negotiators began to consider that they needed a strategic guideline to pursue further FTAs. Many negotiators regretted that the negotiation with Chile did not extend into a friendly relationship between the two countries, but rather, ended as a single event (Taeho Bark, former Minister for Trade, personal communication).

5.2.3 Emergence of New Ideas and the Policy Change. Even though the Roh administration emphasised economic regional co-operation based in East Asia, its goals soon changed together with the rearrangement of personnel within the trade ministry. In other words, both the security and economic goals under the Kim administration⁶⁸ was narrowed down to the security dimension under the Roh administration (Cho and Park 2014, 590). Instead of region-based economic co-operation, the FTA Roadmap announced in August 2003 became the milestone for Korea’s subsequent FTA strategies. Korea sought a niche strategy to become the global hub of FTAs, situated between China and Japan (H. Kim 2006, 29).

The ideas of the newly appointed Minister for Trade, Hyun-Chong Kim,⁶⁹ were a determining factor that shaped Korea’s FTA policy orientations. Trade Minister Kim emphasised the importance of connecting to big economies like the US and the EU, rather than East Asia-based FTAs. As a practical decision maker under the strong support of President Roh, he argued that Korea–Japan FTA strategically was not a good start for Korea’s subsequent FTAs. He argued that Japan’s growth model was outdated considering Japan’s prolonged economic downturn, and that Korea could learn from the FTAs with the bigger economies (H.

⁶⁷ See Chapter 7 for detail on the development of institutional arrangements.

⁶⁸ Korea had been considering the creation of a regional trade block that included both Northeast Asia and Southeast Asia since President Dae Jung Kim proposed EFTA at the APT Summit in Brunei, 2001.

⁶⁹ Kim was reappointed as Korea’s Minister for Trade in 2017 under the Jae-in Moon administration.

Kim, 2006). His ideas were borne out of his experience in his personal environment (H. Kim 2006); being the son of a diplomat, he was spent most of his childhood abroad. His educational background in the US⁷⁰ and his working experience at the WTO⁷¹ were known to have influenced his neo-liberal philosophy (former MOFAT official, personal communication; H. Kim 2006).

The dramatic change in the Roh administration's policy direction by no means occurred in a vacuum. The change was about a constant process of persuasion of Trade Minister Kim to change President Roh's mercantilist beliefs and encourage his pragmatist and reformist desires towards the neo-liberalist direction. As Trade Minister Kim (2006) states, in his conversation with MOFAT officials,

President Roh is pragmatic. He is not the kind of leader who is held back by his ideology. He supports logical ideas that break paradigm and has the desire to triumph. He will [have greater] concern for our [Korea's] isolation from [the global rise of] FTAs [than maintaining his mercantilist ideology]. (41)

In spite of the domestic opposition Korea faced with the Korea–Chile FTA, Trade Minister Kim (2006, 41–42) believed that the proactive FTA strategies could progress under the Roh administration due to the latter's progressive and leftist tendencies. However, he also considered that President Roh needed to be fully convinced of the need for a multitrack FTA strategy, as reforms would necessarily accompany opposition from vested interests.

Trade Minister Kim's logic on the need for FTAs was seen as radical at the time. However, as one of President Roh's advisors (cited in J. Lee 2007) states, "Kim's strategic mind that sees few moves ahead of others convinced the President". He was considered a man of path-breaking ideas with an analytical and strategic mind, winning President Roh's favour despite his near absence of network in Korean politics (J. Lee 2007). He was also taken as a man of political dexterity for his ability to convince the president and win his political support and budget for FTAs (MOTIE official; former MOFAT official, personal communication). Trade Minister Kim's view was at odds with the Roh Administration's trade guidelines but his

⁷⁰ Minister for Trade Kim received a B.A. (1981) and M.A. (1982) in Political Science from Columbia University and a J.D. (1985) from Columbia Law School in New York (Center for Strategic and International Studies (CSIS) 2017).

⁷¹ Minister Kim served as a senior lawyer with the WTO's Appellate Body Secretariat and Legal Affairs Division from 1999–2003 (CSIS 2017).

core logic was consistent with the president's philosophy on reforms, which sufficiently convinced the latter in spite of domestic criticisms (H. Kim 2006; former MOFAT official, personal communication). To quote President Roh, "there is no guarantee that reforms will succeed, but if we don't liberalize, we can't become an advanced country" (H. Kim 2006, 42).

Within MOFAT, the administration's change was received with surprise for its contradictory orientations to Roh's political background. There was a discomfort about Kim's unprecedented style of leadership, which was inconsistent with MOFAT's traditional bureaucratic culture (MOTIE official, personal communication; H. Kim 2006). Trade Minister Kim had neither a political nor a bureaucratic background in Korea. Because he lacked a connection with Korean society, Minister Kim's decisions were less politically oriented and more geared towards his convictions in the benefits of free trade. As Minister Kim (2006, 55) reminisces, "[w]hy would bureaucrats risk their life-long career, by dealing with domestically sensitive issues through FTAs, which are voluntary agreements unlike the multilateral trade negotiations? [By contrast,] I had no reason to spare myself."

The progressiveness of the new policy faced criticisms not only within MOFAT, but also within the broader domestic politics. Those who argued that Korea should begin with East Asian FTAs opposed Korea's FTA Roadmap, as they considered that it made more political and economic sense to start FTAs gradually at the regional level. For example, Tae-in Jeong (2006), then-Executive Director for Presidential Committee on Northeast Asian Economic Cooperation Initiative, contended that the sudden surge of FTAs with big economies would shock the Korean economy. Moreover, the strategies outlined in the FTA Roadmap would create a political divide between Korea-US-Japan and the Democratic People's Republic of Korea (DPRK)-Soviet Union-China alliance, which would cause a loss of Korea's diplomatic chip as a co-ordinator between the US and China. Due to Minister Kim's strong insistence on the FTA Roadmap⁷² and the Korea-US FTA, some even accused him of a conspiracy with the US due to his educational background (Jeong 2006; former MOFAT official, personal communication).

Minister Kim, indeed, placed relatively little emphasis on East Asian regional economic integration. The core of Kim's strategy and the FTA Roadmap was to convince smaller economies in each region around the world and then to expand them (KIEP researcher, personal

⁷² For further information on the FTA Roadmap, see Chapter 6 on the institutions.

communication; H. Kim 2006). Kim (2006, 54) considered the KSFTA as a bridge to reach the south of Korea, including gaining market access to ASEAN, which was looked upon as a stepping-stone to reach the greater economies. To the East, Kim considered an FTA with Canada would trigger competition from the US, which would take Korea a step closer to negotiating a Korea–US FTA. To the West, negotiating a high quality agreement with EFTA was expected to provide a strategic gateway to the EU (KIEP researcher, personal communication; Tae-ho Bark, former Minister for Trade, personal communication).

His new policy ideas were also bolstered by Korea’s FTA negotiation experience with Chile. Going through a series of oppositions from the agricultural sector, conflict in agricultural issues was seen as best to avoid, rather than to persuade or reconcile. The government’s view of the bilateral approach of negotiations, initially considered more efficient while remaining cautious of the agricultural sector, had changed completely through the Korea–Mexico FTA. In other words, the region-based KAFTA began to be considered more efficient and realistic, taking into account the domestic backlash the government had experienced. Although it opted for the bilateral approach in the beginning, it soon realised that it will be much inefficient given its policy goals. According to Kim Han Su (personal communication), the former Chief Delegate of the KAFTA negotiations:

“[a]ll of the ASEAN member countries, other than Singapore, would influence Korea’s agriculture and fishery sector, meaning that if negotiation was pursued bilaterally, the negotiators would have to persuade the involved interest groups every time, establish alternative supporting measures, which would have to repeat in every negotiation.”

By the end of 2005, President Roh’s redirected his focus on the EU community as the model for the Northeast Asia toward establishing an FTA with the US (Jeong 2006). Due to the aims based on the values shaped by the FTA Roadmap, KAFTA was considered leverage for further FTAs with the wider world, rather than a building block for regional economic integration.

5.3 Japan

5.3.1 *The Antecedent Conditions: Japan’s Emphasis on Multilateralism.* Unlike Korea, Japan did not initially have a clear strategy for the PTA. Japan’s trade policies were a product of factors after the end of World War II. Japan, along with other East Asian countries

that had experienced rapid economic growth during the last half of the 20th century, was actively involved in intra-regional trade without formal institutions. Moreover, Japan had refrained from taking proactive initiatives in international politics following the Yoshida Doctrine⁷³ (Munakata 2001, 2–4).

Most critically, however, the trade friction with the US throughout the 1980s and 1990s drove Japan to commit to the WTO-based multilateral trade system as a means of defence against American bilateral pressure. The trade disputes during this period were very different in nature to Japan's previous trade conflicts, as the source of the conflict arose from Japan's high current account surplus and trade surplus in specific industries due to its rapid development of technology (Noguchi 2015, 185). These frictions continued to dominate Japan and the US's trade relationship until the establishment of the WTO in 1995. Therefore, when it came to bilateral relations, Japan's external trade policies tended to be conservative and improvised by its counterpart rather than strategically planned (Shujiro Urata, personal communication; METI official, personal communication). Moreover, the process of moving from multilateralism to bilateralism and regionalism was a constant source of domestic debate (METI official, personal communication; Munakata 2001; Yoshimatsu 2007).

These memories prevailed Japanese economic policies until the early 2000s. As Taniguchi (2005), deputy secretary general of the OECD during the 1990s, recalls, Japanese society had not been very responsive to the idea of regionalism initially. According to a METI official (personal communication), trade negotiators were “almost haunted by the memories of the trade dispute with the US so that regionalism and bilateralism were considered like a taboo”. It was in line with this memory that they argued the FTAs⁷⁴ discriminated against those outside the agreement, hence, they were not really FTAs.

Like many other Asian countries, Japan at the time faced external pressures, such as the Asian financial crisis, the setback of multilateral dialogues at the WTO and APEC meetings, and the rise of bilateralism and regionalism in other parts of the world. To international changes, some officials in MOFA (Japan) and MITI were slowly leaning toward the new global

⁷³ See Chapter 4 for the Yoshida Doctrine and Japan's early foreign economic policies, which emphasised economic development while relying on the US for security.

⁷⁴ This section uses FTA and EPA interchangeably, instead of PTA, as FTA was a commonly used term among Japanese officials before the use of EPA.

trend and argued that JSEPA could be an experiment for Japan's further bilateralism (Munakata 2001). However, MAFF strongly opposed the EPAs. The WTO also criticised Japan's move toward the EPAs. The February 2001 visit to Tokyo of then-WTO Director-General, Mike Moore, was in line with the concern that Japan would undermine the rules of the multilateral system. As Japan expected to initiate formal EPA negotiations with Singapore at the end of the month, Moore criticised that the rise of bilateralism in East Asia would likely cause trade diversion, and thus a new round of WTO negotiations would be necessary to deter the trend (*Asahi Shimbun* 2001).

Despite the external changes, Japan continued to be dominated by the ideas based on the WTO's multilateral rules. Within MOFA (Japan) and MITI, domestic debate surrounding multilateralism and bilateralism was fierce. MOFA's (Japan) main concern was validating bilateralism within the multilateral rules and maintaining the Japan-US relationship, so that Japan's changes do not deliver the wrong message to the world. MOFA (Japan) still did not have a bureau responsible for FTAs until such a team of three officials was created in 1999 under the supervision of Makio Miyagawa, then-Director of APEC and Developing Economies, Division at the Economic Affairs Bureau (J. Kim 2008, 699). Director Miyagawa played a leading role in convincing MOFA (Japan) officials to reach an agreement within the ministry so that Japan could begin a step-by-step bilateralism approach. Its first step would be JSEPA. As Director Miyagawa (personal communication) recounts:

Singapore proposed an FTA to Japan. To our luck, late Prime Minister Obuchi decided to have an FTA with Singapore. It was sometime in mid-December in 1999, I can still remember the discussion. Prime Minister Obuchi and Prime Minister Go Chok Tong agreed to create a joint study group. MOFA disagreed with the creation of JSEPA, but agreed to the joint study group, which was held for one year. In 1999, the prime minister of Singapore proposed for a bilateral trade agreement with Japan, very sincerely, to Japan. I was the director in charge at the time. There were differences between MOFA and MITI. MOFA had the most rigid and negative views about FTA negotiations. MITI was quite flexible. So, I thought that I should change the views within MOFA. Our discussions centred on the merits and demerits of the FTAs. From the discussions, we agreed that, first, we should seek the lower parts (areas that had already been liberalised) between Singapore and Japan. Then, involving other nations to participate in EPAs could expand these lower parts.

MITI was also cautious about the negative influence of bilateralism and regionalism, though less so than MOFA or MAFF. The conflict between the new opinion leaders and the conventional supporters of the WTO became so famous that they were known as the “conflict between Munakata faction (FTA supporters) and Nakatomi faction (WTO supporters)” (J. Kim 2008, 698). Within MITI, officials from the International Trade Policy Planning Office also played a critical role in convincing the pro-WTO groups within. MITI Deputy Director-General Ooshima, for example, organised study groups comprising officials from MOFA (Japan), MAFF, Ministry of Finance, MITI, and the young people involved in the agricultural and fishery sectors. He convinced them that the oppositions for FTAs had been formed without any logical reasoning and that Japan should move forward to catch up with the global trend (J. Kim 2008, 703–704). The International Trade Policy Planning Office further investigated regional integration patterns worldwide to provide policy advice when necessary. However, it had been assumed, even within MITI, that Japan negotiated FTAs with geographically close partners— with whom Japan had already established economic relations (Munakata 2001, 13).

5.3.2 The Reinforcements: Japan’s Learning Experience from JSEPA and Japan–Mexico EPA. Japan was one of the most careful initiators of the PTAs. For example, the name EPA⁷⁵ initially was adopted instead of FTA when Japan first negotiated an agreement with Singapore, so as to minimise the domestic backlash from the sensitive agricultural and fishery sector. Because the name “Free Trade Agreement” could deliver a strong message to those hurt by the reduction of trade barriers, the Japanese bureaucrats chose the softer sounding name of “Economic Partnership Agreement” (*Nihon Keisai Shimbun* 2003a; METI official, personal communication). As its name suggests, Japan’s first EPAs were its attempt to experiment with the diverse possibilities of the new bilateral approaches of trade negotiations, while at the same time putting in the effort to convince the domestic agricultural group.

When Singapore’s Prime Minister Goh Chok Tong proposed JSEPA in 1999, the idea of bilateralism, as opposed to multilateralism, was considered negative within Japan. In addition, JSEPA could trigger more PTAs with the rest of the ASEAN countries, which would harm Japan’s agricultural and fishery sectors. Because the JSEPA negotiations were expected

⁷⁵ The label EPA was used to minimise domestic backlash, but also was used to differentiate Japan’s goals for a more advanced and comprehensive trade agreement than the FTAs.

to go without much opposition from either the public or domestic industry, its precedence was not enough to fully convince farmers or MAFF for further EPAs. Singapore's tariff rates were already close to zero, had no significant production of agricultural goods, and already had advanced FTAs that included a diversity of trade issues (Watanabe and MOFA Economic Bureau EPA Negotiation Team 2007, 49).

On the other hand, JSEPA could harm the ASEAN unity that Japan had supported for many years by approaching only Singapore. Furthermore, Japan was concerned that JSEPA could trigger exclusively Asian initiatives, which would cause backlash from other regions (Munakata 2001, 20–21). Moreover, MITI officials were concerned that the creation of an exclusive East Asian regional bloc could be the beginning of the collapse of the WTO, as it would be tantamount to discriminating against other regions. Similar rationalisations were prevalent among the MOFA (Japan) officials. They perceived that if Japan joined the tide of bilateralism and regionalism, blaming the slow progress of the WTO's multilateral approach, the WTO-based multilateral co-operation could ultimately fall down (J. Kim 2008, 700–701). MAFF, on behalf of the sensitive sectors of Japan, was also cautious about reduction of tariff through PTAs and argued it should be further examined at the WTO negotiations (Yoshimatsu 2007, 85).

Hence, the focus of the five rounds of the Joint Study Group for JSEPA, held from March to September 2000, mainly dealt with the compatibility of the WTO and PTAs. Specifically, the study group underlined three questions on: 1) whether Japan will give up the WTO centred trade liberalisation; 2) how Japan will respond to the compatibility of PTAs with the WTO; and 3) how Japan can overcome the negative aspects of PTAs (Watanabe and MOFA (Japan) Economic Bureau EPA Negotiation Team 2007, 51). Because the "old thinking" of multilateralism dominated, Japan considered JSEPA an experiment; therefore, the negotiations involved only technocrats, rather than high-ranking officials (METI official, personal communication).

As the negotiations progressed, however, policymakers began to see the positive side of PTAs, which could be reconciled with the WTO. Japanese negotiators perceived as a strength the fact that Singapore was pursuing advanced PTAs. They could achieve a significant level of tariff elimination beyond the requirement set by the WTO, remove some non-tariff barriers like the standards of manufactured goods, liberalise Japan's and Singapore's services and adopt advanced investment rules, and include the chapters for movement of people and

government procurement (Oike 2002, 24–28). During this process, PTAs attained status as “one of the tools” of trade liberalisation, while the WTO remained the main tool (METI official, personal communication).

After JSEPA was signed in January 2002, Prime Minister Junichiro Koizumi and Mexican President Vicente Fox Quesada jointly announced the official launch of the Japan–Mexico EPA in October 2002 (MOFA (Japan) 2002b). Even though the negotiation processes were not smooth internally and externally, the Japan–Mexico EPA negotiations became the turning point that shifted from “old thinking” to “new thinking”. Japan learned new negotiation techniques, began to convince the agricultural sector, and gained the general public’s acceptance on the PTAs.

First, it was an opportunity to learn new negotiation techniques and to widen the trade scope, as used in NAFTA. Technique-wise, Japan adopted the import quota in agriculture and the negative list approach of negotiation in services. This was the first time that Japanese officials utilised import quotas as an additional tool to protect the agricultural sector, which they considered could be very useful for their subsequent EPAs with other ASEAN members (METI official, personal communication). As for the negative list approach in services, MOFA (Japan) and MITI officials were uncomfortable with Mexico’s strong insistence in the beginning, as it was incongruent with the WTO’s or JSEPA’s positive list negotiation approach. Some officials questioned the need for an EPA with Mexico because Japan had set its policy goal that Asia would be the starting point for its EPAs. However, the country also saw it as an opportunity; because Japan’s EPA policies emphasised region-based co-operation that began with Asia, it also saw the negative list approach as another tool that gave it the flexibility to shape the “Japan-style EPAs” in East Asia (Solís and Katada 2007b, 294–300). In terms of the trade scope, Japan newly added the Business Environment Chapter.

Second, because JSEPA had no substantial influence over Japanese agriculture and fishery, the Japan–Mexico EPA was an opportunity to learn to reconcile the sensitive issues raised by the conflict in domestic interests (Watanabe and MOFA Economic Bureau EPA Negotiation Team 2007, 80). Even though the sensitivity of Japanese agricultural products was a major obstacle in Japan and Mexico’s negotiations, there was an achievement from the domestic contestations, particularly with MAFF and the agricultural groups. For example, the disagreement was at cross-roads when the second summit in October 2003 failed to be held, despite Prime Minister Koizumi and President Fox’s enthusiastic efforts to advance this

agreement. This was due to the failure of the earlier meeting at the minister level. The two sides could not agree on the terms of liberalisation for agricultural goods, particularly on tariff and import quotas on pork and orange juice (Khan 2003).

This failure delayed the negotiations between Japan and Mexico. It also provided a lesson for the Japanese negotiators across the involved ministries that EPAs are not simply about economy, but also about domestic politics, which involve the process of reconciliation between the different ministries and the domestic industries. Particularly, MOFA and MITI officials considered that agricultural interests' gradual acceptance on the need for the EPAs was one of the most significant gain from the Japan–Mexico EPA negotiations (METI official, personal communication). After the Japan–Mexico EPA was signed in September 2004, MAFF's changed position was reaffirmed by then-Minister of MAFF, Kamei Yoshiyuki, through his statement that “we [MAFF] will strategically respond [to EPAs] by protecting what we must, while yielding what is necessary” (*Nihon Nogyo Shimbun*, 2004f). The change in MAFF's position was once again reflected in the Green Asia EPA Promotion Strategy (midorino ajia EPA suisin senryaku), announced in November 2004, which accepted the need for the EPAs while allowing the new policy to coexist with the sensitive domestic industries. It clearly specified Japan's future strategy by indicating that in promoting additional EPAs with Asian countries, which would begin with Thailand, Japan would balance out the stability and liberalisation for its agricultural, forestry and fishery sectors (Higashi 2008).

The EPA with Mexico was different from MAFF's previous encounter with its constituencies on the negotiation with Singapore or in multilateral agreements because it was about convincing them on what Japan could take and must relinquish in return (METI official, personal communication). Although not easy, it provided a positive learning experience to the Japanese officials and imbued them with confidence about bilateralism, which naturally lead to the pursuit of further individual EPAs with the other ASEAN countries.

5.3.3 Continuation of the East Asia-based PTAs. Because Japan had come to clearly characterise itself as a good adherent of the WTO, when it turned away from the organisation's multilateral approach, its main task was to justify to itself that EPAs complemented the limitations of multilateral negotiations. Specifically, they should have been stepping-stones to create a greater economic block that went beyond the rules set by the WTO and qualified as an agreement that satisfied the conditions as a developed nation, as specified by GATT Article

XXIV (Shujiro Urata, personal communication; Watanabe and MOFA Economic Bureau EPA Negotiation Team 2007). To fulfill these principles, it had to be sure that the EPAs were more comprehensive and advanced than the standards set by the WTO.

The basic principles of the EPAs were agreed upon in a meeting involving the prime minister and ministers of different sectors meeting on 21 December 2004 (Watanabe and MOFA Economic Bureau EPA Negotiation Team 2007, 24). First, the principles of the WTO should be placed at the centre of all on-going EPA negotiations. Second, EPAs should promote structural reforms in Japan and its counterpart. Third, EPAs should be strategically beneficial in forming a politically and a diplomatically favourable international environment for Japan. To fulfill these conditions, economists at the study groups convinced the government that it was more realistic to pursue EPAs with more developed members of ASEAN first and less developed members later (Shujiro Urata, personal communication).

Having the basic outlines established, Japan further considered the possibility of expanding EPAs with ASEAN as a stepping-stone for a more integrative regional economic block on its lead (Oike 2007). Japan began to consider ASEAN as one of the three pillars for the regional economic integration, together with North America and Europe. Beginning with the ASEAN bilateral EPAs and the ASEAN+1 PTA, it considered the possibility of expanding into a wider regional economic agreement, such as the ASEAN+3 PTA (METI official, personal communication).⁷⁶ As Terada (2003, 267) explains, Japan's role in East Asia was beginning to be newly defined to lead "stability and prosperity", while keeping its connection with the US through APEC. Japan considered that the ASEAN+3 FTA would have political implications not only tying all 13 members, but also in promoting co-operation between the three Northeast Asian countries. Because AJCEP only agreed on provisions for Trade in Goods, Japan's regional approach also had greater implication for its support for integration with ASEAN, which was based on ASEAN Centrality (former MOFAT official, personal communication; Myanmar Times 2017).

Therefore, Japan's first EPA with Singapore and the on-going FTA negotiation with Korea were considered as the foundations of further EPAs (Makio Miyagawa, former Director of Regional Division, MOFA (Japan), personal communication; Oike 2007). According to Director Miyagawa (personal communication), "We agreed that we should start from JSEPA

⁷⁶ Argument for ASEAN+6 only came in 2006 (METI Official, personal communication).

and expand them to create a level playing field, so that we could expand them to the regional FTAs. This was the original idea designed for the region". While bilateral approach was given priority to ultimately build a regional arrangement. AJCEP would then become an extended stepping-stone for regional integration.⁷⁷ To gain an impetus to bring growth to its economy, trade negotiators agreed that the ASEAN market should become its strategic starting point (Watanabe and MOFA Economic Bureau EPA Negotiation Team 2007, 23).

In the meantime, the Japanese government had also stated in 2002 that it would refrain from negotiating PTAs with the US, Canada or the EU, considering the realistic constraints posed by its agricultural sector (*Yomiuri Shimbun* 2002a; MOFA (Japan) 2002a). In particular, it was tentative about potential trade diversion effects of the Japan-US PTA, which would severely discriminate against non-members (MOFA (Japan) 2002a). The positive experiences the Japanese policymakers had built, through the EPAs with Singapore and Mexico, had further strengthened the confidence in their existing focus in East Asia.

At the economic co-operation inter-bureaucracy meeting in December 2004, Japan's basic principles for EPAs were reconfirmed: it would continue to emphasise East Asia as the focus of its PTAs. Thus, aside from Thailand, Malaysia and the Philippines, which were under negotiation, Japan re-emphasised progressing further on Japan-Korea FTA⁷⁸ and aiming for an early conclusion to AJCEP, as its negotiation was to take place in April 2005 (*Nihon Nogyo Shimbun* 2004e). Also, the EPA experience with Mexico would provide Japan a wider range of negotiation techniques that can be applied in Japan's further EPAs within East Asia (Solís and Katada 2007b; METI official, personal communication)

The long-term goal, then, was to further connect North America, as Japan considered Mexico as the access point to the NAFTA-based approach. To reach Europe, Japan sought to co-operate through Asia-Europe Meeting (ASEM) (METI official, personal communication).

⁷⁷ While the sense of regionalism continued to be emphasised, it was weakened in the face of economic interest. That is, Japan wanted to promote the ASEAN+3 FTA, but because China's agricultural sector was too sensitive for the Japanese side, instead it pursued negotiations with Korea and ASEAN (METI official, personal communication).

⁷⁸ Japan considered that the FTA with Korea could be another momentum to further specify the Japanese model of EPAs, as Korea was the only developed country within the region at the time, in addition to Singapore. Hence, it came as a big disappointment to MOFA (Japan) when the negotiation with Korea stalled in 2004 (Oike 2007, 21).

The Koizumi Doctrine, announced in January 2002, highlighted these policy guidelines emphasising region-based co-operation:

The community I am proposing should be by no means an exclusive entity. Indeed, practical cooperation in the region would be founded on close partnership with those outside the region. In particular, the role to be played by the United States is indispensable because of its contribution to regional security and the scale of its economic interdependence with the region. Japan will continue to enhance its alliance with the United States. Cooperation with Southwest Asia, including India, is also of importance, as is cooperation with the Pacific nations through APEC, the Asia–Pacific Economic Cooperation group, and with Europe through ASEM, the Asia–Europe Meeting. APEC and ASEM are important tools to link our region to other regions. Through such efforts, the community I have described can take meaningful actions for regional cooperation. I believe that this in turn will benefit global stability and prosperity (Koizumi 2002).

5.4 Testing the Hypotheses

The examination of the interplay between the antecedent conditions and the reinforcements in Korea and Japan ideas are in fact valid variables in explaining the two countries' PTA negotiation preferences with ASEAN. In fact, the direct trigger for divergence of Korea's and Japan's negotiation preferences with ASEAN came from ideas, rather than interests. The two countries shared similar international surroundings when they moved away from multilateralism to bilateralism and regionalism. The divergence in Korea's and Japan's preferences occurred even as there were no further changes in international structures, confirming the initial hypothesis that ideas are indeed significant variables in explaining the two countries' different paths.

The country-specific sub-hypotheses for Korea and Japan are consistent with the findings. In Korea, the new ideas substantially influenced changing the direction of the country's negotiation preferences. When Korea shifted its emphasis from WTO-based multilateralism to bilateralism, it emphasised East Asian regionalism and FTAs based in East Asia. The region-based trade policies, however, soon changed after the Roh administration took office in 2003. During this transformation process, Minister Kim's path-breaking liberal

ideas on cross-regionalism were critical in turning around President Roh's region-focused policies. Despite Minister Kim's lack of political background, his ideas were unprecedentedly influential in persuading the key decision makers. The negative experience Korea had in its first FTA with Chile bolstered the new idea further, as a breakthrough to restore Korea's international credibility while redefining what it means to achieve negotiation efficiency. The turn of Korea's bilateral negotiation approach with ASEAN to KAFTA occurred in line with these changes; the region-based approach would encounter a lesser amount of domestic opposition, while it could provide leverage for Korea to negotiate further cross-regional FTAs.

In Japan, existing ideas on multilateral rules continued to be highly valued across domestic policymakers. Compared to Korea, which underwent a relatively smooth transitional phase from multilateralism to bilateralism, Japan had a greater inclination to adhere to multilateral rules due to the history of trade friction with the US. Even as Japan's preferences were moving toward bilateralism and regionalism, domestic actors placed the highest priority on justifying bilateralism and regionalism's discriminative nature and making sure they are compatible with the multilateral rules. Due to the continued dominance of multilateral ideas, Japan's trade policies tended to be reserved and path-dependent; even the strongest proponents of PTAs remained focused in East Asia. Japan sought gradual approaches to negotiate PTAs, by prioritising neighbouring East Asia countries that had already established economic relationships with Japan. Japan's positive learning experiences in its earliest PTAs—JSEPA and Japan–Mexico EPA—strengthened its confidence with its strategy, leading to the continued pursuit of existing path.

The explanatory value of ideas in explaining Korea's and Japan's negotiation strategies is significant in explaining the divergence in the two countries. If it were not for the frictionless antecedent conditions that combined with negative reinforcement, which accommodated introduction of new ideas, it is most likely that Korea would have followed the evolutionary path Japan had pursued. Korea is likely to have placed East Asian regionalism as its top priority in the development path of its FTA Roadmap, instead of pursuing radical and ambitious cross-regional strategy. These differences in Korea's and Japan's in ideas also defined Korea's and Japan's perception of interest with ASEAN. For Korea, its FTA with ASEAN became a stepping-stone for further cross-regional FTAs. For Japan, its PTAs with ASEAN were expected to serve as stepping-stones for a more integrative East Asian regionalism.

5.5 Conclusion

Even though Korea and Japan's domestic interests had inclined toward the bilateral approaches of negotiation with ASEAN, neither of the two countries was entirely confident about their choices. Due to this instability of the equilibrium, the decisions could be reversed at any time. Thus, this chapter has examined the role of ideas in shaping Korea's and Japan's preferences for PTA negotiation approaches with ASEAN. It has demonstrated the long-term development of ideas shaped the policymakers' preferences for the different “-ralisms”—bilateralism, regionalism, cross-regionalism and multilateralism—in the two countries' trade policies.

In Japan, the new ideas occurred within the boundaries of the existing ideas. Japan had greater pressure about adhering to the multilateral rules established by GATT and the WTO. Added by the positive experiences in its very first EPAs with Singapore and Mexico, Japan continued to pursue individual EPAs with ASEAN, while trying to harmonise them under the region-based AJCEP. Like Japan, Korea also emphasised economic co-operation based in East Asia. In Korea, however, the path-creating ideas were enabled, altering the existing equilibrium, in the absence of Japan's corresponding trade conflict with the US and the negative reinforcements in its earliest FTAs. The changes in leadership, added by Minister Kim's neo-liberal ideas, led to the breakthrough in Korea's FTA policies. Thus, Korea placed greater emphasis on becoming the hub for FTAs. This meant the symbolic aspects of the FTAs were more important, which could work as leverage to convince other potential FTA partners, rather than pressured by the GATT Article XXIV as Japan was. Moreover, Korea faced strong oppositions from the agricultural sector during its very first FTA negotiations with Chile, which led the governmental officials to reconsider their initial perception of efficiency in choosing the different negotiation approaches.

The stories this chapter tells are short of resolving the two remaining puzzles. First, the key decision makers were apparent in Korea, while Japan's decision-making processes did not demonstrate any outstanding figure who had the power to push through one decision over another. In Korea, the key decision makers made quick decisions in a short time, convinced by Minister Kim's path-creating ideas. In Japan, the decision-making process involved numerous key players with co-equal voices from the different ministries. Second, it is still ambiguous why Korea's region-based KAFTA and cross-regional strategy has been more efficient and liberalising than Japan's two-track and region-based strategy, in contrast to the two countries'

initial calculations. The next chapter on institutions will address these remaining queries further in-depth.

Chapter 6 Intra-Democratic Variations in Trade Policies

6.1 Introduction

This final empirical chapter examines the institutional dimensions of Japan and Korea to account for the remaining puzzle from the previous chapters. First, the key decision makers were visible in Korea, while non-particular decision makers demonstrated the power to push through one decision over another in Japan. In Korea, the key decision makers made quick decisions in a short time, convinced by Trade Minister Kim's path-creating ideas. In Japan, the decision-making process involved numerous key players from different ministries with coequal voices. Second, in contrary to the preliminary calculations, Korea's region-based KAFTA and cross-regional strategy turned out to be more efficient and liberalising than Japan's two-track and East Asia-based strategy.

Despite similar interests and starting points, there was a divergence in Korea and Japan's outcomes. This chapter contends this difference arose from variations in institutional structures, which distributed varying degrees of power to the decision makers. Specifically, this chapter focuses on how intra-democracy variation and bureaucracy discretion influences the centralisation of policy-making authority with regard to KAFTA, AJCEP and Japan's EPAs with individual ASEAN countries in the early 2000s. Due to institutional differences, it was easier for the Korean government to opt for a more coherent, liberal and international strategy, whereas the Japanese government was inconsistent in its strategy, which at times inclined toward protectionist and parochial interests.

This chapter is organised as follows. The next section examines the negotiation outcomes of KAFTA, AJCEP and Japan's bilateral EPAs with individual ASEAN members. It assesses to what extent the existing literature's view that Korea's overall progress with its PTAs is more liberalising than Japan's can be generalised to the cases of Korea and Japan's PTAs with ASEAN. The sections three and four applies the analytical framework from Chapter 3 based on an atypical principal-agent literature that examines the reciprocal mechanisms of decision-making between the executive and legislative branches of government and bureaucracy. Specifically, it examines institutional developments in Korea and Japan and the development of their PTA institutions throughout the late 1990s to the early 2000s. The section then demonstrates how the differences in the executive, legislative

and bureaucratic relationships of these two countries resulted in a divergence from the institutionalisation of the PTA strategies, which is illustrated by Korea and Japan's PTA strategies with ASEAN. The fifth section tests hypotheses and assess the institutional developments of Korea and Japan. The final section summarises the findings and concludes by providing the implications of this chapter.

6.2 Korea's and Japan's Negotiation Approaches and Outcomes

Existing studies generally acknowledge that Korea's FTAs are more advanced in quality than Japan's, not only in terms of content, but also the number and the influence of FTA partner countries (Choi and Oh 2011; Yoshimatsu 2012; Fujisue 2013). Likewise, the negotiation timeline in Chapter 1 shows that even though KAFTA was suggested later than AJCEP, KAFTA went into effect faster than most of Japan's EPAs with individual ASEAN members. Before further examining the institutional differences of Korea and Japan in detail, this section examines to what extent KAFTA has been more efficient than AJCEP and Japan's bilateral EPAs by assessing the length of negotiations and the degree and scope of liberalisations in the respective PTAs.

One noticeable difference between KAFTA, AJCEP and Japan's bilateral EPAs is how much time the negotiations took, from their official announcements to their entry into force. KAFTA was officially announced in October 2003. Official negotiations were announced in November 2004 and the agreement on trade in goods came into effect in June 2007, with the exception of Thailand. In comparison, AJCEP was officially announced in January 2002 on Prime Minister Koizumi's visit to Singapore. However, official negotiations did not launch until April 2005, five months later than that of KAFTA. The agreement on trade in goods came into effect in December 2008, approximately one and a half years later than KAFTA; this was also two years later than Japan's original target of negotiating the agreement by 2006 (*Nihon Nogyo Shimbun* 2006).

Most of Japan's bilateral EPAs were slower compared to KAFTA, except for Singapore and Malaysia. JSEPA had taken effect since November 2002. Japan's EPAs with Malaysia, Thailand, Philippines, Indonesia, Brunei and Vietnam progressed together with AJCEP. JMEPA, JTEPA and JPEPA were proposed in parallel in early 2004, approximately four to five months earlier than KAFTA. Indonesia, Brunei and Vietnam consecutively

engaged in EPAs with Japan since 2005, 2006 and 2007, respectively. JMEPA took effect in July 2006, earlier than KAFTA. However, Brunei, Indonesia and the Philippines took effect in 2008, while Vietnam took effect in 2009. As Korea's FTA took effect faster than most of Japan's EPAs or AJCEP, Korea's MOFAT (2006) considered that it had achieved its initial goal of gaining market access faster than its competitor, Japan. When comparing the tariff reduction phase out target years, the gap becomes more significant. Tariff elimination under KAFTA was realised in 2016, while AJCEP aims to eliminate tariff by 2018.

Next, the most notable difference between KAFTA and AJCEP in traditional issues of trade is the services and investment provisions (see Table 1). Japan has not yet negotiated the provisions for services and investment as of 2017, in spite of its claim for adopting the single undertaking approach of negotiation. Thus, the comparison with regard to the level of liberalisation between KAFTA and AJCEP is possible only in trade in goods. According to Kuno (2012), KAFTA's average tariff liberalisation rate is 94.5%, in comparison with AJCEP's average of 92.8% (see Table 2). Data for Japan's bilateral EPAs are unavailable. Both KAFTA and AJCEP have achieved the implicit minimum of tariff liberalisation target shared among WTO members, which is 90%, although some developed countries, such as Australia, insist the tariff should be eliminated by at least 95% of the total trade (Hamanaka 2014, 59).

In services, Ishido (2011) provides Hoekman Index⁷⁹ on KAFTA and Japan's bilateral EPAs. In KAFTA, the average commitment was rated 0.20, in comparison with AANZFTA's 0.23 and CAFTA's 0.12. Korea's commitment scored 0.28, in comparison with ASEAN's average of 0.19, indicating that Korea is committed for deeper liberalisation in services. Among the included service sectors, "travel agencies and tour operator services" had the highest average commitment score of 0.50. In terms of its contents, the KAFTA services agreement had similar patterns with AANZFTA and CAFTA, showing a correlation of over 0.8. As in the case of other ASEAN+1 PTAs, KAFTA is most committed in liberalising consumption abroad, or Mode 2, while most conservative in the movement of people, or Mode 4. When examining Japan's bilateral EPAs with Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam (data for Brunei is missing), the average score

⁷⁹ According to the Hoekman Index, the score runs from 0 to 1, where 0 indicates unbound (no legally binding commitment) and 1 indicates bound (no limitation) (Ishido 2011).

using Hoekman Index is 0.41, which is much higher than KAFTA's 0.20 (see Table 3). The high score is attributable to Japan's strong commitment in services liberalisation, which scored 0.58 on average across Japan's six EPAs. The average score of ASEAN is 0.24, which is still higher than the commitment observed in KAFTA (Ishido 2011).

When it comes to the inclusion of WTO plus issues, KAFTA is more comprehensive compared to AJCEP (see Table 1). Both agreements include intellectual property, information and communications, tourism, energy, human resource development, SPS, environment, agriculture, trade and investment, and SMEs, but are lightly committed in general, which are limited to joint research, co-operation, exchange of information or other forms of non-binding assistance. AJCEP also includes light commitments in competition, business environment, transportation and logistics, and paperless trading—these commitments are the most representative features of Japan's EPAs. In addition, KAFTA includes light commitments in financial services, technology, natural resources, mining, construction technology, broadcasting, shipbuilding and maritime transport, and film production. When comparing KAFTA to Japan's bilateral EPAs, however, Korea's commitments are much less engaged in almost all areas of trade.

Table 6.1 Liberalisation Scope of Japan's Seven Bilateral EPAs, AJCEP, KSFTA, KVFTA and KAFTA

	JSEPA	KSFTA	JMEPA	KAFTA	JTEPA	JIEPA	JBEPa	JPEPA	AJCEP	JVEPA	KVFTA	
Entry into force	2002	2006	2006	2007	2007	2008	2008	2008	2008	2009	2015	
Services	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	x	Yes	Yes	
Investment	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	x	Yes	Yes	
Competition	Yes	Yes	Yes	x	Yes	Yes	x	Yes	Yes	Yes	Yes	
Government Procurement	Yes	Yes	x	x	Yes	Yes	x	Yes	x	x	x	
Intellectual Property	Yes	Yes	Yes	Yes*	Yes	Yes	Yes*	Yes	Yes*	Yes	Yes	
E-Commerce	x	Yes	x	x	x	x	x	x	x	x	Yes	
Telecommunications	x	Yes	x	x	x	x	x	x	x	x	x	
Transparency	x	Yes	x	x	x	x	x	x	x	x	Yes	
Economic cooperation	Information & Communications	Yes	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	x
	Financial Services	Yes	Yes	Yes	Yes*	Yes	Yes	Yes	Yes	x	Yes	x
	Business Environment	x	x	Yes	x	Yes	Yes	Yes	Yes	Yes*	Yes	x
	Technology	Yes	Yes*	Yes*	Yes*	Yes*	x	Yes*	Yes*	x	x	Yes*
	Tourism	Yes	x	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	x
	Energy	x	Yes*	x	Yes*	Yes	Yes	Yes	Yes*	Yes*	x	x
	Natural Resources	x	x	x	Yes*	x	Yes	x	x	x	x	x
	Human Resource Development	Yes	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*
	SPS	x	Yes	Yes	Yes*	x	x	x	x	Yes	Yes	x
	Environment	x	Yes*	Yes*	Yes*	Yes	Yes*	Yes*	Yes*	Yes*	Yes*	x
	Agriculture & etc	x	x	Yes*	Yes*	Yes*	Yes*	Yes*	x	Yes*	Yes*	x
	Trade & Investment	Yes*	Yes*	x	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	Yes*	x
	Manufacturing Industries	x	x	x	x	x	Yes*	x	x	x	x	x
	Transportation & Logistics	x	x	x	x	x	x	Yes*	Yes*	Yes*	Yes*	x
	Paperless Trading	Yes	Yes*	Yes	x	Yes	Yes	Yes	Yes	Yes	Yes	x
	Road Development	x	x	x	x	x	x	x	Yes*	x	x	x
	Mining	x	x	x	Yes*	x	x	x	x	x	x	x
	Construction Technology	x	x	x	Yes*	x	x	x	x	x	x	x
	Broadcasting	Yes*	Yes*	x	Yes*	x	x	x	x	x	x	x
	Gaming & Animation	x	Yes*	x	x	x	x	x	x	x	x	x
Shipbuilding & Maritime Transport	x	Yes*	x	Yes*	x	x	x	x	x	x	x	
Film Production	x	Yes*	x	Yes*	x	x	x	x	x	x	x	
SMEs	Yes	x	Yes*	Yes*	Yes*	x	Yes*	Yes*	Yes*	Yes*	x	
Labor standards	Yes	Yes	x	x	Yes	Yes	x	Yes	x	Yes	x	

Source: compiled by the author from official texts of the respective FTAs.

* Indicates light commitment (for example, limited to joint research, co-operation, exchange of information or other forms of non-binding assistance)

Table 6.2 Tariff Liberalisation (%) in KAFTA and AJCEP

	KAFTA	AJCEP
Brunei	99.2	97.7
Cambodia	97.1	85.7
Indonesia	91.2	91.2
Laos	90	86.9
Malaysia	95.5	94.1
Myanmar	92.2	85.2
Philippines	99	97.4
Singapore	100	100
Thailand	95.6	96.8
Vietnam	89.4	94.4
Korea	90.5	
Japan		91.9
Average	94.5	92.8

Source: Kuno (2012).

Table 6.3 Hoekman Index Under Japan's Bilateral EPAs

	Japan	ASEAN	Average
JIEPA	0.68	0.14	0.41
JMEPA	0.66	0.12	0.39
JPEPA	0.65	0.27	0.46
JSEPA	0.37	0.44	0.40
JTEPA	0.6	0.15	0.37
JVEPA	0.55	0.33	0.44
Average	0.59	0.24	0.41

Source: Ishido (2011). Table recompiled by author.

The brief overview of Korea's and Japan's PTAs with ASEAN suggests it is difficult to generalise on which country's approach was more efficient in the end, due to the missing data on Japan's bilateral EPAs and Korea's bilateral FTAs, the lack of discussion on the

issues such as non-tariff barriers or RoO, and the absence of analysis on the dynamic trade effects of these agreements. The simple one-to-one comparison of AJCEP and KAFTA, however, suggests that KAFTA achieved higher liberalisation than AJCEP in a shorter period of time, without delay and with an earlier goal to phase out existing tariff barriers. One of the highest priorities of Japan and Korea in promoting the PTAs with ASEAN was to gain market access faster than its Northeast Asian competitors. In this respect, Korea progressed much faster to achieve this goal by reaching KAFTA faster than Japan, while minimising trade diversion effects from CAFTA. When it comes to Japan's bilateral EPAs, however, its scope and content are much more in depth than KAFTA, particularly with Indonesia, Malaysia, the Philippines, Brunei and Thailand. Thus, their long-term effects are still inconclusive. The mixed findings suggest that more work needs to be done to understand the effects of these agreements from a comprehensive view.

For the purpose of this chapter, then, the better question to ask is why Japan's PTAs with ASEAN went through prolonged negotiation processes without coherence, in both its bilateral EPAs and AJCEP. By contrast, how can the paradox of Korea's efficient progress with its regional approach of negotiation, initially perceived to be inefficient, be explained? The following sections will examine the institutional dimensions of Korea and Japan to address these questions in detail.

6.3 Korea

6.3.1 Korea's Centralised Institutional System and the Role of Bureaucracies. In Korea, the trade negotiation authority, as is the case for all other treaties, lies in the power of the executive branch of the government⁸⁰ (The Constitution of the Republic of Korea n.d.). In contrast to countries such as the US or Japan, the legislative branch, the National Assembly, is only indirectly involved in the decision-making process by monitoring and giving consent to the negotiation results before ratifying FTAs (The Constitution of the

⁸⁰ Article 73 of the Constitution stipulates that:

The President shall conclude and ratify treaties; accredit, receive or dispatch diplomatic envoys; and declare war and conclude peace.

Republic of Korea, n.d.).⁸¹ Therefore, the power of the legislative branch is weak when it comes to shaping the scope and content of the negotiations. It is more common that bureaucratic agencies correspond with legislators during the process of FTA negotiations by disclosing related materials to facilitate the ratification process (MOFA official, personal communication; Cheong and Cho 2009, 3). Interest groups cannot easily influence the political parties within the National Assembly because the party system is weakly linked to voters.⁸² Politicians deliberate their opinions directly to the National Assembly, and the differences in their opinions are adjusted within the party to which they belong.

Moreover, administrative jurisdiction over the trade and goals of foreign economic policy are subject to changes in administrations. For example, Korean FTA strategies were based on the East Asia region promoted by the Kim administration until the end of 2002 (Cho and Park 2014). Although the elongated FTA negotiation with Chile⁸³ was an exception to the region-based strategy of the Kim administration, the launch of FTA negotiations with Singapore was announced in October as the first step in negotiating more bilateral FTAs with the rest of the ASEAN members. The FTA between Korea and Japan had promised improved diplomatic relations between the two countries since the signing of the Joint Declaration of the New Korea–Japan Partnership for the Twenty-First Century and the Twenty-First Century Korea–Japan Economic Relations Study Group in 1998 (MOFA (Japan) 2003). In particular, the PTAs with Japan and Singapore were considered one of the major stepping-stones toward accomplishing East Asia-based economic regionalism. Hence, it was expected that the next administration would continue to carry out a negotiation for the Korea–Japan FTA.

⁸¹ Article 60 of the Constitution stipulates that:

[t]he National Assembly shall have the right to consent to the conclusion and ratification of treaties pertaining to mutual assistance or mutual security; treaties concerning important international organizations; treaties of friendship, trade and navigation; treaties pertaining to any restriction in sovereignty; peace treaties; treaties which will burden the State or people with an important financial obligation; or treaties related to legislative matters.

⁸² Bae et al. (2005, 158) suggested that there was no direct route for KPL or KAFF to communicate with the executive branch of the government, until the government officially reached the agricultural sector to explain the government's position and persuade the farmers.

⁸³ Korea's first FTA with Chile was an experiment with bilateralism and overcoming the trade diversion posed by NAFTA, but it was soon considered a failure for the Korean side. For further discussion on this topic, see Chapter 5.

However, the presidential election, to be held on 19 December 2002, did not guarantee a continuation of President Kim's framework for Korean bilateralism. Farmers were demonstrating in the streets while the Korea–Chile FTA awaited ratification by the National Assembly in the first half of 2003. The presidential candidates, conscious of the rural votes, were requesting a reconsideration and careful progress with the upcoming FTAs (Seo 2002).

The new administration began in February 2003, after the Democratic Party's Roh won the election against the Grand National Party (*Yonhap News Agency* 2002c). Although the goals for FTAs changed from the Kim administration to the Roh administration, the concentration of trade negotiation authority in the executive branch of government allowed the institutionalisation process under the Roh administration to work on building a highly centralised, top-down legal mechanism for the FTAs. Under the Roh administration, the role of bureaucracy increased as the president delegated significant decision-making power to his newly appointed trade minister. The mutual reinforcement between the president and bureaucracy further advanced the efficiency, scope and content for building and promoting FTA strategies.

Even though Roh belonged to the leftist liberal party, he was in favour of the FTA policies because he was willing to promote the agreements in succession of his predecessor, President Kim, who also belonged to the Democratic Party. Despite strong opposition from the agricultural group and extreme leftists, Roh contended that “FTA is not an ideology, nor selling off our country—it is about eating and living (*Policy Briefing* 2007)”. Roh's economic policy, regarding FTAs, was characterised by his role of representing the entire nation as his constituency and his pragmatism for considering FTAs as a means to achieve economic growth (Cho and Ko 2003). Unlike most of the previous administrations, Roh did not reassemble government organisations. He kept jurisdiction over trade under MOFAT, which has been restructured under President Kim in 1998.⁸⁴ The trade minister continued to be responsible for trade negotiations and signing FTAs under the president's direct order (Cheong and Cho 2009b).⁸⁵

⁸⁴ President Kim rehoused the function of trade from the MOTIE to the MOFA (Korea) in February 1998.

⁸⁵ Article 30 (1) of the Government Organization Act stipulates that:

However, President Roh did restructure MOFAT's internal design to streamline the trade function of the ministry to promote greater centralisation in FTA negotiations. The power of MOFAT was demonstrated during this process. Starting in late 2003, discussions within the government continued for almost a year on how to centralise the institutional aspect of FTAs. The Presidential Committee on Government Innovation (PCGI)⁸⁶ and MOFAT had contrasting opinions on whether to separate the trade function as an independent body under the president's direct orders, similar to that of USTR, or to supplement the existing system. MOFAT argued that it would be too costly and inefficient if all of the trade functions of the ministry were transferred again only five years after it had been merged under MOFAT. Conversely, PCGI contended that the existing system was insufficient to overcome the conflict between various ministries and the drastic changes in global trade trends (Kim and Chae 2013).

Facing strong opposition from MOFAT, the Roh administration decided to keep the trade function under MOFAT with internal restructuring. Hence, the president issued the FTA Negotiation Procedure Rules as an executive order in June 2004 to "regulate FTA related organization, management, negotiation procedure to promote FTAs efficiently, and encourage people's understanding and participation" (National Law Information Center, n.d.). The FTA Negotiations Bureau was also created in October 2004. The bureau was divided into four divisions: policy planning, regional negotiation, goods, and services and investment. Newly appointed officers mostly comprised civilian experts and officers from other ministries to reinforce the expertise and openness of the trade sector of the ministry (*Policy Briefing* 2004).

PCGI's concern that the conflict between various ministries would cause delays in FTAs was resolved efficiently through close executive–bureaucratic relations. As Yoon-Jae Cho (2009), who was economic advisor for President Roh, explains, one distinctive feature in

“[t]he Minister of Foreign Affairs and Trade shall exercise general supervision over diplomacy, trade negotiations with foreign countries, and general management and coordination of trade negotiations, treaties and other international agreements, protection of and support for Korean nationals abroad, and research on international situations and immigration.” (as cited in Cheong and Cho 2009b)

⁸⁶ PCGI was established on 7 April 2003 to systemically assess state affairs to innovate and promote national development. PCGI is under direct presidential order.

Korea's appointment of ministers was that the selection was made according to their bureaucratic background, expertise and personal relationship with the president. Therefore, the president's role, judgment and connection with the trade minister, instead of the party's discipline, became the most crucial factors in determining a policy. The former minister for trade, Taeho Bark (personal communication), reaffirms these features:

In Japan, the prime minister is politician, and the ministers of the different bureaucracies are also politicians. Everyone is politician. Therefore, the prime minister cannot wield big influence. In contrast, Korea has a presidential system. The trade minister does not have a great power, but in an event of conflict, it becomes easier for him to grasp the overall situation. For example, if an FTA negotiation is stalled due to opposition from the Ministry of Agriculture, the trade minister can report this situation to the president for his orders. This kind of system eases the inter-bureaucracy conflict, making it conducive to come up with a unified strategy.

Furthermore, the discretion of the minister of trade was strengthened. The role of minister for trade had been constrained by the minister of foreign affairs due to the administrative structure, and the function of trade had been rehoused under the Ministry of Foreign Affairs. Therefore, under MOFAT, the trade minister is subordinate to the minister of foreign affairs, despite its equal label as "minister" in English.⁸⁷ However, as the importance of trade grew, the Roh administration gave a significant degree of discretion and power to the minister for trade, and the trade part of the ministry witnessed an unprecedented change (Taeho Bark, former Minister for Trade, personal communication).

For example, Roh personally approached Hyun Chong Kim, then a senior lawyer in the WTO's Appellate Body Secretariat and Legal Affairs Division, for his expertise in trade affairs. He was requested to take part in MOFAT as a deputy director instead of minister for trade considering his relatively young age—he was still in his mid-forties (H. Kim 2006, 15). Kim had initially declined the offer because he had already experienced how little discretion

⁸⁷ MOFAT and Organization Act (외교통상부와 그 소속기관 직제, Presidential Decree no. 17959) Article 22(2) stipulates that the Chief Director of Trade Negotiation should function as the representative of trade and be labelled as "Minister for Trade" in English (National Law Information Center n.d.)

he had in the deputy role in the WTO Legal Affairs Division. However, due to President Roh's strong request, Kim initiated his position at MOFAT as the deputy director and soon became the minister for trade from 2004 to 2007. As the Minister for Trade, Kim was granted independent decision-making on the appointment of personnel, received strong budget support, and was backed by Roh when faced with criticism or stagnant decision-making processes (H. Kim 2006; Taeho Bark, former Minister for Trade, personal communication), which had a significant influence on centralising the institutional features of the FTAs.

In regard to the detailed scope and content of the FTAs, MOFAT bureaucrats with expertise in this area played central roles, except for Korea's two contentious FTAs with Chile and the US. Therefore, the early stages of making FTA policy were mostly shaped through a bottom-up process. MOFAT officers first wrote an internal report; then they put it through inter-ministry co-ordination, and only then did they report it to the president. During this process, the policy direction itself was easily determined (Hansu Kim, former KAFTA Chief Negotiator, personal communication).

The National Assembly was actively involved in the ratification process of Korea–Chile FTA and Korea–US FTA; other FTAs were given consent without much debate due to their relative insignificance in terms of their trade impact or drawing domestic public sentiment (Hyung-dae Park, Policy Director of KPL, personal communication; Minsu Han, General Manager of KAFF, personal communication). To give an example, the Korea–Chile FTA demonstrated that even though negotiation processes are relatively isolated from domestic constituencies, the ratification process is not (Yu 2006). When conducting FTA negotiations with domestically contentious counterparts, most opposition from domestic interests occurs during the last stages of negotiations. This can cause serious delays or fragmentation in public opinions and push the government to come up with reactive compensation measures (Hansu Kim, former KAFTA Chief Negotiator, personal communication). This also meant that little information was disclosed to the public, which raised the anger of the sensitive sectors, such as agricultural and fishery, in the absence of a channel for lobbying the government. To quote Policy Director Park of KPL,

The National Assembly only has the authority to take a yes-or-no vote in ratifying an FTA. According to the current law, the National Assembly has access to the text of the negotiated FTA, not to the information on how the agreement is actually negotiated. There had always been complaints about the lack of accessibility to this

kind of information. The politicians, too, did not present their opinions based on the party discipline, but presented their opinions based on the president's orders. These problems existing across the executive and the legislative branches of government meant that our (agricultural groups') pressure through the National Assembly did not have any decisive and direct impact on shaping FTA policies. (personal communication)

6.3.2 Institutional Elements in the FTA Roadmap and the KAFTA. Soon after the inauguration of President Roh, the government announced new strategies for the FTAs. A list of strategic goals, labelled as the FTA Roadmap (roadmap), were announced in August 2003, which established Korea's short- and long-term plans to become a global hub for the FTAs. This indicated that Korea shifted away from its region-oriented economic co-operation to pursue cross-regional FTAs. President Roh firmly believed the principles of market economy and that "FTA policy needs to be pursued proactively under a big unified frame" (H. Kim 2006, 53). This broad strategy was solely based on the power of the executive branch of the government; Trade Minister Kim's professional expertise and his personal development of relationship with President Roh strengthened the President's conviction that FTAs could promote Korea's economic growth. The roadmap was quickly adopted despite the existence of internal opposition because the president pushed for the strategy believing it would enhance Korea's market access and its diplomatic leverage.⁸⁸

The roadmap was created based on the four core partner selection criteria (see Figure 2). The first was about the selection of an FTA partner, which emphasised the counterparty's economic characteristics. For example, the negotiators would evaluate the potential partner country by asking questions, such as whether the partner is "an advanced country with a large economy" or "a developing country but abundant in human and natural resources" (Taeho Bark, former Minister for Trade, personal communication). The basic aim in assessing the economic benefit and cost was to secure an external source of economic growth, considering Korea's high dependence on trade. The second criterion focused on the political and diplomatic implications of the FTA. The third criterion involved how much the

⁸⁸ See Chapter 5 for details on Korea's region-based strategy changed to the global-hub strategy.

counterparty wanted to have an FTA with Korea. The final criterion considered the possibility in which the conclusion of an FTA with a counterpart would help promote FTAs with economically significant partners, such as the US and the EU (Taeho Bark, former Minister for Trade, personal communication; FKI 2004; Y. Kim 2014; C. Kim 2015).

The roadmap was pursued under what is called the “simultaneous multi-track strategy”. Through this strategy, Korea aimed at signing multiple FTAs simultaneously with a selective list of countries. In the short term, which was roughly defined as less than five years, Korea aimed to conclude negotiations with relatively small economies that would have a smaller economic impact, such as Singapore, Chile, Mexico and the members of ASEAN. Japan, Canada and EFTA would have a greater economic implication for Korea but were selected as potential partners for their political and diplomatic relations with Korea and their significance in its promotion of future FTAs with big and advanced economies. In the medium and long term, approximately defined by the government as five to ten years, Korea aimed to expand its effort to approach bigger economies. The medium-term goals specifically targeted the US and the EU, whereas the long-term goals targeted China, which was expected to have a greater conflict with Korea due to the agricultural sector. Under this single framework, Roh placed a priority on ASEAN because it would be one of the most practical goals to achieve in the short term. The short-term goals considered the fact that Korea has a five-year, single-term presidency (Taeho Bark, former Minister for Trade, personal communication; FKI 2004; H. Kim 2006; Y. Kim 2014; C. Kim 2015).

The details regarding Korea’s FTA with ASEAN were mostly delegated to the FTA Negotiations Bureau. The specifics included assessing negotiation approaches with ASEAN, the scope of trade to be included, and the degree of trade liberalisation. In the joint study meetings held five times between March and August 2004, bureaucrats provided crucial data to support the decision to initiate the KAFTA negotiations. FTA Deputy Director General Han-Su Kim led the Korean side of the negotiations, and Singapore’s David Chin, Director of Ministry of Trade and Industry, led the ASEAN side of the negotiations.

The first meeting was held in Jakarta in March and was a preliminary meeting between the government officials and industry representatives of both parties, where the two parties exchanged market trends, systems, and plans for their respective countries; set the timeline and structure of the joint study result; and exchanged ideas on the negotiation scope and methods (J. Lee 2004). The Korean side was composed of government officials from the

different ministries, including MOFAT, the Ministry of Finance and Economy, and the Ministry of Industry and Resources. It was in the second meeting, held over two days in Seoul, that the ASEAN side demanded that the KAFTA progress as quickly as possible (*Yonhap News Agency* 2004). Moreover, the two parties both agreed that it would be best if Korea and ASEAN negotiated multilaterally, instead of through 10 bilateral FTAs (Ryu 2004).

The hierarchical division between the executive leadership and the administrative role of bureaucracy based on its expertise further strengthened Korea's commitment to KAFTA. In regard to the content of KAFTA, FTA Deputy Director General Han-Su Kim (personal communication) explained that it was "solely decided on by the bureaucracy group", based on their experience and expertise in the area, and "the only occasion the President showed great interest and exerted direct influence on the choice of bilateral partner was with the United States". Deputy Director Kim further added, "When we reported (the details of negotiations) about our FTA with ASEAN, the case did not receive particular attention nor orders from the president". Thus, in regard to negotiation scope and technique, the negotiators had leeway in deciding the content as long as it fit the broader framework of the roadmap.

In contrast, interest groups had little room to participate in these negotiations. The opportunity for public or private interest groups to participate in the negotiation approach was provided by the government, twice in August of that year, and only as a one-time event. As former MOFA (Korea) official notes (personal communication), the Korean government considered that it would be more efficient to deal with the opposition in one queue through KAFTA, rather than having to face the opposition through 10 bilateral FTAs. Confronting fierce opposition from the agricultural groups during the Korea–Chile FTA negotiations, the region-based approach was seen much more realistic. Such consideration demonstrates that the agricultural groups had an indirect way of pressuring the government but did not have any official gateway to influence the government's unilateral decision-making processes.

When the first Korea–ASEAN Ministers' Meeting was held in Jakarta in September 2004, Minister for Trade Hyun Chong Kim (2006, 53–82) made substantial progress with ASEAN. As president's direct delegate, he was given discretion and responsibility in the practical negotiations. Trade Minister Kim considered that accessing the ASEAN market faster than China and Japan was the most important goal. Thus, he aimed to approach them

all together as fast as possible. Trade Minister Kim suggested that KAFTA conclude before the target years of the CAFTA or the AJCEP, which were 2010 and 2012, respectively. This was seen by the ASEAN counterpart, who initially proposed 2014 to Korea as the target year, as a pleasant surprise. The ASEAN counterpart thought Korea would be conservative in its liberalisation considering its little experience with FTAs. The target year had not been previously approved in the inter-ministerial meeting or by the president when the agreement was made, but Trade Minister Kim's decision was welcomed when he returned from the negotiations. President Roh and Trade Minister Kim expected that progressive FTA strategies would cause domestic backlash, but they also considered them inevitable and necessary for the Korean economy to move on to the next stage.

Figure 6.1 The FTA Roadmap 2003

- ◆ Partner selection criteria:
 1. Economic benefit
 2. Political and diplomatic implications
 3. Counterparty's will
 4. Whether the FTA and the partner will help promote FTAs with big and advanced economies
- ◆ Strategies
 1. Simultaneous multitrack strategy
 2. Advanced and big economies
- ◆ Short-term goals: Japan, Singapore, ASEAN, Canada, EFTA, Mexico and Chile
- ◆ Medium- and long-term goals: China, India, the US, the EU, Korea–China–Japan FTA, EAFTA, MERCOSUR (Southern Common Market)

(Source: Taeho Bark, former Minister for Trade, personal communication; FKI 2004, 6; C. Kim 2015)

6.4 Japan

6.4.1 Japan's Decentralised Institutions and the Role of Bureaucracies. The power of the executive branch in Japan is known to be weak, even among other world parliamentary

systems. Even after the electoral reforms in 1996 and the civil service reforms conducted from the late 1990s through the early 2000s (Kaihara 2008), fragmented and reactive decision-making trends continued to dominate Japanese politics. Institutionalisation of PTAs was no exception. Japanese Constitution Article 73 stipulates that the Cabinet shall “conclude treaties. However, it shall obtain prior or, depending on circumstances, subsequent approval of the Diet (The Constitution of Japan n.d.)”. Therefore, the Cabinet has the formal authority to make decisions on PTAs, but the influence of the Diet can intervene with flexibility, depending on how it is interpreted. The Constitution has never been revised since its implementation in 1947, and most decision-making procedures have been shaped by informal practices (Oros 2014). In the realm of PTAs, the *de facto* negotiation authority has been delegated to the related bureaucracies, which have been heavily influenced by the Diet (Solís 2010). The PTA decision-making, therefore, have been a bottom-up process.

The fact that the early stage of the PTA institutionalisation was promoted under the three prime ministers of LDP—Prime Minister Keio Obuchi (July 1998 to April 2000), Yoshiro Mori (April 2000 to April 2001) and Junichiro Koizumi (April 2001 to September 2006)—meant that it was also subject to faction-based politics within the party. Under the two-party system, LDP managed to dominate Japanese politics until the 1990s. However, it became fragmented due to intra-party competition triggered by its electoral system—a multimember district with a single non-transferrable vote. It has caused LDP candidates to compete with one another to attract loyal voters and receive funding from the party instead of co-operating to promote a unified ideology. Even after the system has been reformed to some extent since 1994 through the adoption of Mixed Member Majoritarian system, it did not fundamentally eliminate the LDP traditions (Krauss and Naoi 2011).⁸⁹ Executive turnover is frequent due to the strong presence of factions. Therefore, the prime minister’s main tasks involve co-ordinating differences that exist across factions and making sure that members of the Cabinet represent all factions within the party. The prime minister is first among the equal faction leaders instead of a powerful representative of the party or an executive leader. For

⁸⁹ According to Krauss and Naoi (2011, 59), the Mixed Member Majoritarian system is a “hybrid of 300 Single Member District seats and 180 Proportional Representation seats”. Although the characteristics of the previous electoral system were not completely eliminated, the change gave rise to the Democratic Party of Japan (DPF). Representatives in each district were made to respond to the greater variety of interest groups than before.

this reason, Cabinet appointments have been more about the distribution of power within the party rather than capability or shared goals (Neary 2004).

Also, LDP's fragmentation has been divided by special interests and rivalry among bureaucracies, namely between METI and MAFF. These two bureaucracies are popular among LDP, as opposed to other ministries, such as MOFA, because they relate directly to votes and fundraising (Tatebayashi 2004). The party–bureaucracy relationship reflects the importance of domestic constituencies, particularly for MAFF. Since the 1950s, LDP's "agricultural tribe" (*nōrin zoku*) has built its political support on an over-representation of rural areas and an institutionalised link with organised agricultural groups (Yoshimatsu 2012, 197). In contrast, other LDP politicians, who have a close relationship with industries, have coalesced with METI (Mulgan 2008, 172). Although bureaucrats and politicians have the same end goals, the primary motivations for PTA policy among bureaucrats and politicians diverge because politicians are driven by parochial interest, which causes internal conflicts.⁹⁰ In this process, Keidanren (The Japanese Business Federation)'s participation in shaping Japan's trade policy is more direct (e.g. government study groups, policy papers, and interaction with international and domestic businesses and politicians) than the agricultural groups that pressure the government as constituencies.

Third, in addition to the division by sectoral interests, the four bureaucracies directly related to PTAs—MOFA, METI, MOF and MAFF—have been divided over their policy orientations. When it comes to the scope of trade agreements, in particular, METI, MOFA and MAFF have competed over the negotiation content. MOF has been less involved in this process because its responsibility concerns the implementation of PTAs. These bureaucracies have traditionally occupied central roles shaping Japanese policy throughout the post-war period, especially policies regarding economic growth. Because the bureaucracies consisted of a group of elites with expertise, they also produced many of Japan's prime ministers (Nakasone 1995). Furthermore, because of the high turnover rate of the Cabinet, bureaucratic

⁹⁰ At times, MAFF and LDP politicians diverged over how to implement the same policy goals. For example, the agricultural sector was shrinking at a fast pace due to the rise of manufacturing industries throughout the 1960s and 1970s. While both MAFF and LDP politicians shared the view that Japan's agricultural sector needed a change, their suggested approaches were at the opposite ends. MAFF wanted a fundamental change to increase the agricultural sector's competitiveness, while LDP wanted more protectionist and closed policies, such as imposing an import quota or providing subsidies to keep its rural vote intact.

elites have had greater discretion in shaping public policies. According to Nester (1990, 142–143), Japanese bureaucrats can be characterised by “elitism, mission, and intelligence”, which are “reinforced by their socialisation into their particular ministry, the role in promoting their ministry’s interests, and their constant turf battles against other ministries”. As a result, the role of the minister is limited to leading turf battles across bureaucracies, instead of shaping actual policies.

Due to the complex power relationship between executive, legislative and bureaucratic, the institutionalisation process of PTAs has been characterised by informal practices of bottom-up decision-making, referred to as the “pre-evaluation system (事前審査制度)” and the “ruling party and government’s dual structure (与党と政府の二元構造)” (Fujisue 2013). The pre-evaluation system includes LDP’s Policy Affairs Research Council; special interest politicians; Executive Council; and the bureaucratic vice ministers’ meeting, where PTA policies are evaluated by the ruling party in the different ministries, such as MOFA, METI, MOF and MAFF, which acts separately from the Cabinet. When the parties submit proposals, they are examined at the Cabinet meeting, and the results are deliberated by the Diet. The decision-making at the party level is particularly important because their decisions are adjusted prior to deliberation by the Diet. Once the decisions are passed to the Diet, LDP legislators are obliged to agree with the decisions that have been made at the prior level under the pre-evaluation system (Mulgan 2008, 172–173; Solís 2010, 227).

6.4.2 Japan’s Institutional Elements in Its Bilateral EPAs and AJCEP. The influence of Japan’s bottom-up institutionalisation of PTAs is apparent in the way it negotiated PTAs with ASEAN. Even though Japan places high priority on trade, support for agricultural sector is mainly due to political divide between ministries and the weak decision-making power of prime minister, rather than for the economic reasons. (Ministry of Internal Affairs and Communication Official, personal communication).

From the late 1990s to 2001, no substantive effort had been made to institutionalise PTAs. The idea of bilateralism itself was very contentious during this period, as illustrated in Chapter 5. Therefore, Japan’s first EPA with Singapore, proposed under Prime Minister Obuchi—with the first negotiation initiated under Prime Minister Mori—was considered a test case, which would not cause substantial impact on the Japanese economy. For this reason, it was mostly bureaucrats with technical expertise who were involved in the

negotiations, instead of higher-ranking bureaucrats or politicians (METI Official, personal communication).

The scene did not change much when the Koizumi Cabinet came into power in April 2001. Prime Minister Koizumi was an anomaly in Japanese politics because he was elected for his popularity instead of his factional status in LDP. His popularity was based on his promise to perform structural reforms and bring change to the discredited political system under the slogan “destroying the LDP” (Mulgan 2005; Solís 2010). With regard to PTAs, Koizumi had promised to revitalise the Japanese economy and agricultural sector through the promotion of PTAs (Koizumi 2003; Mulgan 2006). Also, his policies favoured PTAs with ASEAN, following the LDP’s pro-ASEAN policies (Kamikubo 2010).

For example, in the House of Councillors election in 2003, Koizumi emphasised the PTA progresses with Korea, Thailand, Phillipines, Malaysia and Mexico as a way out of Japan’s prolonged economic stagnation; but he also underscored Japan’s commitment to bring growth to the agricultural sector through structural reforms and doubled expansion of exports within 10 years, raising the self-sufficiency rate up to 50 per cent (Koizumi 2003). Also, he had declared to co-ordinate the inter-bureaucracy discords through the establishment of the “Meeting on FTA-Related Bureaucracies” in December 2003 and the “Economic Partnership Related Ministers’ Meeting” in March 2004 (Mulgan 2006, 9; Song 2012, 115)⁹¹

Even though Prime Minister Koizumi began with ambitious aims to reform the agricultural sector and coordinate inter-ministry conflict, his goals were achieved with limitations. To quote Mulgan (2006, 9), “in the clash of interests between Japan’s manufacturing exporters and investors on the one hand, and agricultural interests on the other, the latter set the ultimate limits to any agreement.” Moreover, Koizumi considered policies as tools to win political victories and maintain his popularity; thus, he was sometimes criticised for being “deaf to diplomacy,” despite his reputation for being a “lion prime minister” for his strong leadership. (Kamikubo 2010; J. Kim 2008, 703–704).

Illustrating this point, MAFF, METI, and MOFA shaped most strategy details for Japan’s PTAs with ASEAN, both as individual members and as a region, after Prime Minister

⁹¹ See the next section (6.4.3) for further the development on Prime Minister Koizumi’s endeavor to resolve for the inter-ministry conflict.

Koizumi provided broader policy goals by proposing Japan–ASEAN initiatives⁹² in January 2002 (Kamikubo 2010). In regard to the PTA strategies, the inter-bureaucracy conflict mainly involved METI, MOFA and the competition over bureaucratic goals based on expertise and elitism. When it came to the content of the PTAs, METI and MOFA (Japan) faced opposition from MAFF, which was divided along sectoral lines of interest due to domestic political pressures. MOF was rarely involved in these battles because its interest mainly involved technical issues as it dealt with the PTA implementation stage (e.g. customs procedures).

In the absence of the executive branch’s overarching power, and due to the strong existence of bureaucratic expertise, it was mainly the technocrats of MOFA and METI that shaped the negotiation approaches for the PTAs with ASEAN (METI official, personal communication; Makio Miyagawa, former Director of Regional Division, MOFA (Japan), personal communication; Solís 2010). According to the former director for JSEPA Negotiations, Makio Miyagawa (personal communication):

Prime Minister Koizumi thought that there should be good integration between Japan and ASEAN. So he proposed in January 2002 that Japan seek AJCEP. We were quite happy to see the prime minister’s political initiative. After the prime minister took the initiative, the bureaucrats discussed the negotiation details.

High level of discretion given to MOFA and METI bureaucrats further drove fragmentation across the two ministries. Due to the co-equal power MOFA and METI had over PTAs, the process in which the decisions were made tended to be improvised in reflection of the expertise demanded by bureaucrats of both ministries. In particular, MOFA gave greater focus to diplomatic and security objectives than economic ones, by emphasising

⁹² Kamikubo (2010, 65) well summarises Koizumi’s five initiatives:

“(1) cooperation in education and human resources development including the dispatch of governmental missions to ASEAN to promote exchange between universities; (2) designation of 2003 as the Year of Japan-ASEAN Exchange (the stimulation of exchange in a broad range of areas, including cultural and intellectual exchange); (3) a Japan-ASEAN Comprehensive Economic Partnership (strengthening economic partnership in areas ranging from trade and investment to science, technology and tourism; it was suggested that concrete proposals should be put forward at the Japan-ASEAN Summit); (4) East Asian Development beginning with the convening of a meeting at which participants could discuss the best courses for future development and cooperation to achieve a higher level of prosperity and development in the region; and, (5) enhanced security cooperation between Japan and ASEAN including transnational issues”.

strategic use of PTAs such as promoting regional ties, political stability, governance, democracy and the WTO standards.⁹³ MOFA's advocacy for the bilateral approach of negotiation with individual ASEAN countries was in line with this position. MOFA (n.d.) considered that reaching ASEAN as a region is not efficient, because it prioritised:

- strengthening relations with ASEAN as the basis of Japan's diplomacy with Asia;
- promoting economic stability of ASEAN as an essential factor for the stability of East Asia;
- considering a Japan–ASEAN economic partnership as the core of East Asia's overall economic partnership;
- aiming for EPA/FTA integration with ASEAN;
- concluding an agreement with member countries that are ready and have capacity for

⁹³ MOFA, independently from METI, announced “Our Country's FTA Strategy (我が国の FTA戦略)” in October 2002 (*Nihon Keisai Shimbun* 2002; MOFA (Japan) 2002a; MOFA (Japan) n.d.). The strategy included five criteria to decide when and with whom Japan should prioritise its PTA negotiations: economic, geographic, political and diplomatic, feasibility and time factors (MOFA (Japan) n.d.):

1. Economic standards: revitalise the economies of Japan and the counterparty, respond to Japan's industries, overcome disadvantages caused by the negotiation of FTAs in other countries, promote domestic reforms by relaxing restrictions and conducting structural reform, and respond to countries with slow liberalisation;
2. Geographical standards: strengthen regional ties (East Asian regional economic ties in response to the RTAs in North America and the EU, and stabilise East Asian economies), and strengthen strategic relations with other regions and countries;
3. Political and diplomatic standards: strengthen friendship through economic ties, diplomatic use of economic ties (in particular in response to changes in strategic relations with major powers), and promote political stability, governance, and democracy;
4. Feasibility: determine the realistic negotiability of an agreement (reviewed through feasibility studies, proportion of sensitive goods, counterpart's will and Japan's domestic needs); and
5. Time standards: consider Japan's negotiation capacity, relationship with WTO negotiations, FTA/EPA progress in other countries, changes in political, diplomatic, and economic relations, and feasibility.

EPAs in ASEAN; and

- providing integrated support and trade-related technical co-operation for CLMV.

Further, MOFA further explained that “we will agree with ASEAN [on AJCEP at the upcoming APT Summit in Cambodia], but our principle is to prioritize EPAs with Thailand, the Philippines, Malaysia, and other members, for agreements with high quality (*Yomiuri Shimbun* 2002a)”. Because the development statuses of the 10 ASEAN countries varied significantly, the region-based agreement would pose greater challenge in meeting the WTO standards. MOFA’s announcement of its goals was considered to have significant implication for Japan’s following strategies, as it was the first time the country had officially defined its priority in economics and security promoting PTAs. As Thailand and the Philippines proposed to initiate EPAs with Japan, the scene was leaning toward MOFA’s argument.

METI disagreed with MOFA’s unilateral announcement. It considered that Japan should reach ASEAN as a region to prevent Japan from losing to China its market influence with ASEAN, and to strengthen its existing supply chain network with ASEAN (*Asahi Shimbun* 2002; METI official, personal communication). The debate between MOFA and METI in the end led to the pursuit of both bilateral and regional approaches of negotiations with ASEAN by the end of 2003. In a process of reducing inter-ministry differences with equal power, the bureaucrats came to the conclusion that there should be no problem promoting both approaches simultaneously; both ministries agreed that PTAs with ASEAN were necessary and that both ministries should cooperate to realise the initiatives. Also, the end result of Japan’s PTA strategy toward ASEAN was influenced in part by the existing bilateral EPA negotiations, which were improvised and shaped as the negotiations progressed. (METI official, personal communication; Makio Miyagawa, former Director of Regional Division, MOFA (Japan), personal communication; Yoshimatsu 2007, 85).⁹⁴ Thus, the double-track approach was agreed upon between MOFA and METI.

According to former Director Miyagawa (personal communication), the double-track approach considered the following three criteria:

⁹⁴ According to the author’s interviews, the disagreement between MOFA and METI was not as serious as the press or the public viewed it (METI official, personal communication; Makio Miyagawa, former Director of Regional Division, MOFA (Japan), personal communication).

- Because Japan already had an agreement with Singapore, Japan would pursue similar agreements with the rest of ASEAN.
- Japan would not pick and choose with which ASEAN members it would pursue FTAs. Japan would let ASEAN decide.
- Japan would expand EPAs with ASEAN nations and seek regional co-operation in economics and in politics. EPAs would be a means and pillars of political regional and economic integration in the future of East Asia.

In terms of the scope of trade, bureaucracies were divided across sectoral interests in the absence of central co-ordination within the government, mainly between MAFF, which was against MOFA, and METI. The division was mainly driven by the agricultural interest represented by the close interaction between LDP politicians and MAFF, which became an obstacle for Japan's EPA negotiations. LDP and MAFF's strong pressure against the liberalisation of the agricultural sector has been demonstrated by Japan's selection of Singapore as its EPA partner for its insignificant share of agricultural products. As study groups for bilateral EPAs with Thailand, the Philippines and Malaysia proceeded throughout 2003, and Thailand's agricultural exports became particularly controversial.

For example, during the inter-ministry co-ordination meeting held in May 2003, MAFF strongly opposed the launch of JTEPA negotiations due to Japan's sensitivity in agriculture, particularly with regard to Thailand's rice and chicken. In contrast, METI was unable to reach a consensus with MAFF because it was pressured by a strong call from Japan's three industrial groups—Keidanren, Chamber of Commerce and Industry, and Japan Association of Corporate Executives—to launch negotiations within the month (*Asahi Shimbun* 2003a; *Yomiuri Shimbun* 2003). While maintaining a pro-bilateralism position, MOFA tried to act as a middleman between METI and MAFF without much success (*Nihon Keisai Shimbun* 2004a). Also, in the midst of inter-bureaucracy conflict, MAFF, MOFA and METI each continued to build their own PTA bureaus (*Asahi Shimbun* 2003b).

The breakdown of the Japan–Mexico EPA negotiations in October 2003 called for Prime Minister Koizumi's attention to resolve the bureaucratic PTA turf battles, which contributed to the institutionalisation of PTAs. The “Meeting on FTA-Related Bureaucracies” in December 2003 and the “Economic Partnership Related Ministers' Meeting” in March 2004 aimed to change the protectionist policies of MAFF, as well as co-ordinate the

differences among the four bureaucracies (Mulgan 2006; Song 2012, 115). Even though Keidanren criticised the absence of a centralised agency to co-ordinate the PTAs and argued that a unified institution like the USTR was needed (*Nihon Keisai Shimbun* 2003b), physical institutionalisation did not occur under the Koizumi Cabinet.

Koizumi believed that he could resolve the bureaucratic turf battles through his own leadership. Therefore, at the Council on Economic and Fiscal Policy in December 2004, Koizumi stated, “it is often argued in the business circles that a minister of state for FTAs should be set up. In reality, there will be no change even if such a minister would be established. Accordingly, I myself would like to assume the role of the minister” (Mulgan 2006; Yoshimatsu 2012, 200–201). Koizumi also utilised the Cabinet appointment as a means to co-ordinate the differences between MAFF and METI by appointing the former MAFF minister, Shoichi Nakagawa, as the minister for METI without much success (*Nihon Keisai Shimbun* 2004b; Mulgan 2005, 292).

6.5 Testing the Hypotheses

The examination of the cases of Korea and Japan suggest that intra-democracy variation had a critical influence on the institutionalisation of PTAs for the two countries and their PTAs with ASEAN. Moreover, bureaucratic expertise and discretion were significant factors in shaping the PTA negotiations in both countries. Thus, the hypotheses established in the analytical framework section hold true for both Korea and Japan:

In the case of Korea, where a strong executive branch was present, (a) FTA institutions were centralised and produced a top-down and coherently planned FTA strategy, and (b) the presence of bureaucratic expertise strengthened centralisation by maintaining a close relationship with the executive branch and shaping the degree of liberalisation, scope, and efficiency of the negotiations. As a result, Korea was able to overcome potential negotiation inefficiencies attached to KAFTA.

Under Japan’s parliamentary system, with a close relationship between the executive and the legislative branches, (a) the trade institutionalisation process was decentralised, which led to the fragmentation of consensus-based strategies reflected by the legislator’s domestic interests, and (b) the presence of bureaucratic expertise

further fragmented Japan's PTA strategies in the absence of strong executive pressure. As a result, Japan's two-track PTAs with ASEAN tended to be improvised and suffered delays during their negotiations.

The degree of centralisation in the PTAs was strengthened in Korea's case because the Korean Constitution gives trade negotiation authority to the executive branch entirely. The president, the trade minister, and bureaucracy mutually reinforced each other under the centralised system, which led to a more liberalising and efficient negotiation outcome with ASEAN. The strong centralisation was possible because the influences of legislative and domestic interests were minimised. Hence, Korea's FTA institutionalisation process can be defined as *de jure* institutionalisation, which first established institutional frame, followed by an FTA strategy, and then pursued specifics regarding the negotiations. Under the unified institutions, the president appointed his trade minister for his experience and shared policy goals, instead of appointing personnel from his party. Therefore, despite the high degree of discretion given to MOFAT, negotiations proceeded in a direction that bolstered its broad goals regarding the roadmap. The Korean example confirms case three of Figure 3.1, suggested in Chapter 3. That is, Korea had a strong executive branch and almost no legislative branch, which led to a strong centralisation in institutionalising FTAs. Mutual reinforcement with bureaucracy led to greater liberalisation.

In contrast, Japan's PTA strategies were established through *de facto* institutionalisation. Because there was no formal institution, strategies were established as the negotiations progressed. The Japanese Constitution does not clarify to what extent the Diet can intervene in the Cabinet's authority, which empowers various actors in the decision-making process. The prime minister competed with his own Cabinet, and the Cabinet led the bureaucratic battles, not only in the pursuit of bureaucratic missions, but also as politicians. Prime Minister Koizumi assumed the leadership role to co-ordinate these differences; however, instead of promoting a coherent strategy from the beginning, his use of leadership led competing bureaucracies to create their own strategies as their PTA negotiations progressed. Thus, Japan's case confirms case four in Figure 3.1. Japan had a weak executive branch, a strong legislative branch, and high bureaucratic discretion, which led to the decentralised, bottom-up process of PTA institutionalisation. Liberalisation was limited, and

the negotiations progressed slowly due to the mixed influence of interest and bureaucratic discretion by politicians.

6.6 Conclusion

This chapter has demonstrated how the institutional factor links interests and ideas, where institutions act as a frame to alter the emphasis placed on political and economic interests by providing a pathway for the exchange of the actors' ideas. Both Japan and Korea were institutionally ill-equipped to promote PTAs until the early 2000s. Even though the countries shared similar economic and political circumstances, the institutional developments of each country resulted in significant differences. The balance of power between the executive branch and the legislative branch, and their relationship with bureaucracy, had a significant influence on centralising or decentralising their PTAs. In the case of Japan, the parliamentary system did not clearly define the decision-making boundaries between the Cabinet and the Diet, and the fragmented bureaucratic discretion caused the greater clash between domestic interests. Unable to find a common ground, Japan ended up pursuing both negotiation approaches. In contrast, Korea's presidential system delegated the negotiation authority to the executive branch of the government – the president and the trade minister, a bureaucratic organisation that gave administrative power to MOFAT entirely, and the low accessibility of the interest groups to the government drove it to pursue one coherent FTA strategy with ASEAN after its trial FTA with Singapore.

Although a swift generalisation that a strong executive branch produces a centralised decision-making system in foreign economic policies should not be made, this chapter has demonstrated that when the executive branch perceives the need, its actions can be conducted in an uncomplicated manner. In contrast, when the trade negotiation authority is distributed among diverse actors, as in the case of Japan, it is more often the case that conflict arises while trying to achieve the same end. Korea and Japan illustrated that their response to the regional competition, triggered by CAFTA, is not entirely shaped by outlying interests or ideas. The supply side of the policies determined the mechanisms that distribute power across the key decision makers in PTAs. The finding from this chapter is also consistent with the literature that focuses on the effect of the power relationship between the executive and legislative branches of government in foreign policies with the US or the EU.

The stark contrast between the cases of Korea and Japan leads to an additional question, “How much is too much?” between efficiency and democracy. It is beyond the scope of this chapter to address this question. However, Korea’s centralisation of FTA policies has been promoted at the cost of incorporating domestic interests. On the other hand, Japan’s decentralised PTA institutions have allowed different domestic interests to interact and compromise, while its degree of liberalisation in the agricultural sector was narrowed due to the involvement of numerous actors in its decision-making processes.⁹⁵ In this regard, this chapter provides room for decision makers, given the political and economic circumstances, to contemplate the extent that centralisation in policy-making can be reconciled with democratic decision-making processes to achieve an optimal outcome.

⁹⁵ Japan’s leverage against individual ASEAN countries compensated for this relative loss of institutional efficiency, while maintaining high protection in agricultural sector. See Chapter 4 for further discussion on this topic.

Chapter 7 Conclusion

7.1 Introduction

As of 2017, ASEAN+1 level PTAs continue to be the most comprehensive form of RTA in East Asia today. With the US's withdrawal from TPP, the slow progress of the Regional Comprehensive Economic Partnership (RCEP) and still a largely visionary Free Trade Area of the Asia–Pacific (FTTAP), the prospect for further regional economic co-operation is ever more complex. In view of this uncertainty, this chapter concludes by recapping the theoretical and practical additions of this research in the realm of trade policies and providing implications for future negotiation efforts for regionalism in East Asia.

This thesis started by questioning the causes behind Korea's and Japan's notably contrasting approaches to negotiations with ASEAN. When China announced its framework agreement for CAFTA in 2001, Japan and Korea consecutively announced ASEAN PTAs the following year. Although both countries began with bilateral negotiation approaches with individual ASEAN members, Korea soon changed its approach to the region-based KAFTA. Japan continued to work with bilateral PTAs while promoting its harmonisation through the AJCEP framework. Because the two countries were facing very similar international political and economic challenges, the thesis compared Korea and Japan as live counterfactuals to examine the influence of domestic variables determining the preferences for bilateralism and regionalism in trade policy. Specifically, it examined *when* and *how* domestic interests and ideas determined Korea's and Japan's preferences, and *what* institutional restraints or opportunities enabled those interests and ideas.

This concluding chapter begins by assessing the thesis' initial hypotheses through an integrative summary of empirical findings. Next, it revisits the more theoretical issues of the three I's analytical framework, set forth in Chapter 3. Then, it takes the discussion a step further by locating the findings of the thesis in the existing debate of the compatibility between bilateralism and regionalism. The fifth section addresses more practical implications of the thesis for the policy world. In the final section, the limitations of the study and outstanding issues that are beyond the scope of this dissertation are discussed. This section finishes the thesis by contemplating what lies ahead for future research in the field of IPE.

7.2 Assessing the Hypotheses

The primary hypothesis of this thesis established that:

Domestic factors, rather than systemic factors, account for the different negotiation approaches taken by Korea and Japan in their PTAs with ASEAN. Korea's and Japan's preferences vary at the different stages of negotiations, depending on the relative influence of domestic interests, ideas and institutions.

To test the validity of this hypothesis, the thesis additionally investigated *under what circumstances* one variable matters more than another in the negotiation processes of Korea and Japan, through the establishment of sub-hypotheses. In short, the empirical analysis in Chapters 4–6 demonstrate that the primary thesis holds valid; a combination of factors, including domestic interest, ideas and institutions, have constituted Korea and Japan's preferences at the different stages of their negotiations. When it comes down to the detailed sub-hypotheses, however, the findings presented greater complications than initially expected by the author.

Figure 7.1 summarises the details of the findings. As the figure illustrates, domestic actors' interests and ideas primarily shaped Korea's and Japan's negotiation preferences, which were constrained or empowered by their respective institutional structures. At the same time, interests and ideas also shaped the institutional dimensions of the two countries. Neither Japan nor Korea had an institutional basis on which to negotiate PTAs in the late 1990s to the early 2000s; domestic actors' preferences also fed back the development of the two countries' PTA institutionalisations. Due to the prematurity of Korea's and Japan's PTA institutions, empirically untested interests and ideas at times gained greater leeway to shape the two countries' negotiation preferences.

In the beginning, both Korea and Japan preferred bilateral negotiation approaches because they both faced opposition from domestic agricultural groups and considered bilateral PTAs to be more efficient in time, negotiation capacity, and quality. Japan, particularly MOFA (Japan), further expected the bilateral negotiation approach to be easier to negotiate, considering its relatively strong diplomatic leverage against ASEAN, which arose from its pre-established economic relationship with ASEAN since the post-war period. Japan

also had greater political motivations to deepen its bilateral ties with individual ASEAN members to establish a regional rule of law regarding PTAs in order to counterbalance the Chinese influence in ASEAN. Even though Korea and Japan had varying degrees of diplomatic leverages and different foreign policy objectives, they were not determinant factors in distinguishing the two countries' choices of negotiation preferences. In fact, neither Korea nor Japan could calculate their relative diplomatic leverage against ASEAN until they faced the responses from the ASEAN counterpart.

The early development paths of Korea's and Japan's PTA approaches with ASEAN were neither strategic nor coherent. Their preference for the bilateral approach of negotiations did not mean region-based agreements were any less important. Domestic actors in both countries had recognised that region-based negotiations would grant greater market access to domestic industries and overall welfare of their economies.

In Japan, METI and Keidanren strongly supported this view, arguing that AJCEP would yield greater trade gain for Japan by securing its production network in Southeast Asia. Due to the weak power of the executive branch in Japan, however, the prime minister's role was limited to co-ordinating the differences across the ministries. Because of the high turnover rate of the prime minister and cabinet, the executive branch had relatively weak influence in shaping actual policies, giving greater discretion to bureaucratic elites. In the absence of clear policy preference by Prime Minister Koizumi, both MOFA's (Japan) and METI's preferences were reflected in their negotiations with ASEAN by 2002. To borrow a then-negotiator's words, the two-track approach was closer to a "coincidence" rather than a strategic choice (METI official, personal communication). In Korea, no visible domestic division occurred due to the presence of strong executive power, at least until mid-2003, despite the recognition among the government officials and industrial groups that KAFTA would give greater opportunities to the Korean industries. Facing strong opposition from the agricultural groups on the Korea–Chile FTA, the Korean government remained reserved about the announcing KAFTA.

During this period, there were no substantial differences between Korea and Japan in their ideas of bilateralism and regionalism. When they diverted their focus from WTO-based multilateralism to bilateralism and regionalism during the Asian financial crisis in the late 1990s, East Asian economic regionalism emerged as a new key idea in their trade policies. To Korea and Japan, ASEAN was geographically natural, one of the most important strategic

PTA partners and symbolic stepping-stones for the economic integration of East Asian countries. Because neither country had much experience in PTAs, they considered ASEAN a safety zone to test the influence of the new trend, which could then be further expanded into PTAs with partners such as the US and the EU. In other words, Korea and Japan were still relatively conservative and wary about the idea of bilateralism and regionalism.

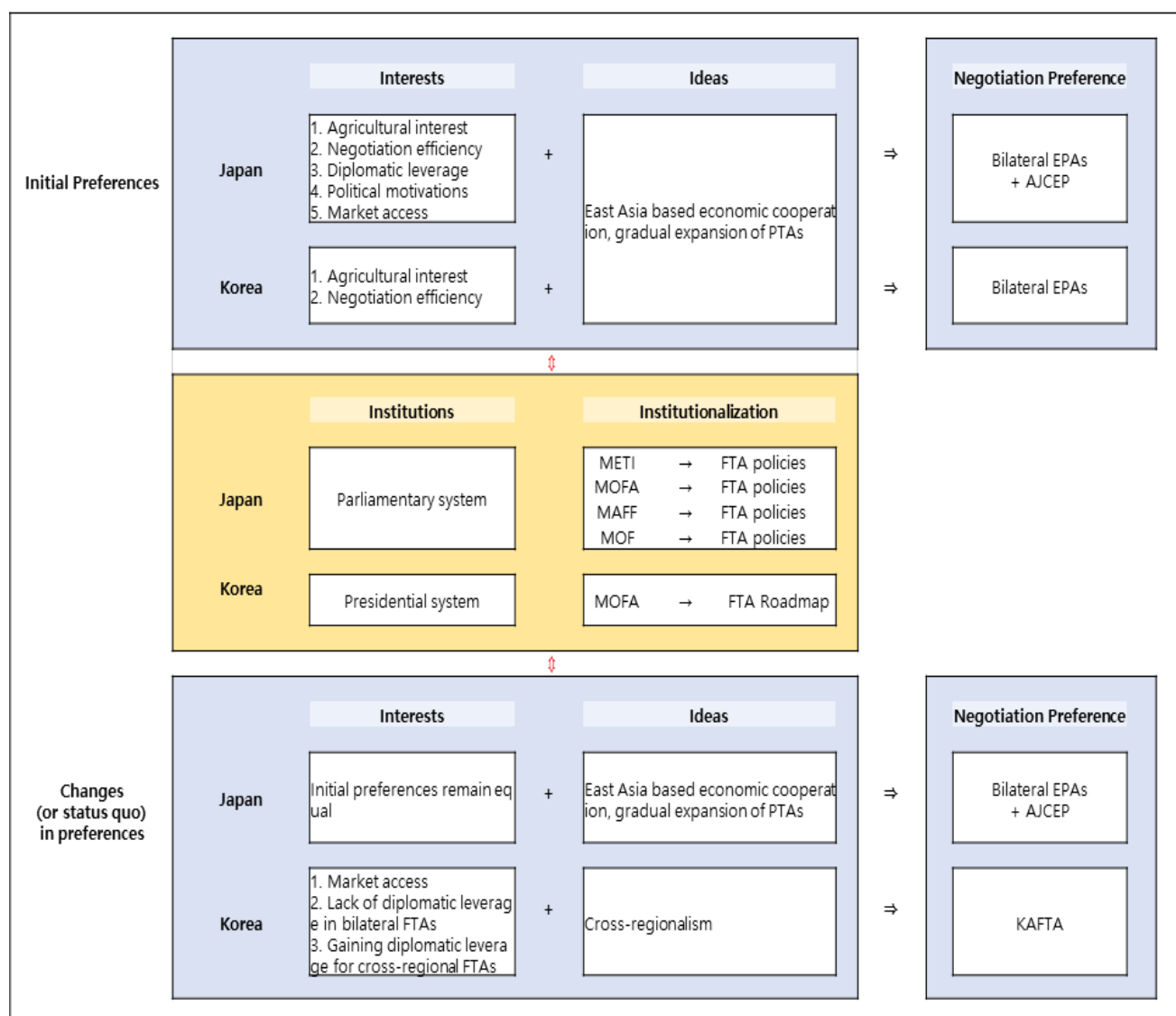
The influence of ideas became more evident when Korea took a sudden turn in its preference in late 2003, which directly accounted for the divergence between Japan's and Korea's negotiation approaches. Domestic preferences, as a combined result of existing interests and ideas, remained consistent—although fragmented—in Japan, as values, such as meeting “the WTO standard” and building “East Asian regionalism”, became deeply entrenched across the domestic policymakers. In particular, Japan's trade war with the US in the mid-1980s continued to influence its firm adherence to the multilateral rules. Japan's policy direction was reconfirmed through its earliest EPAs with Singapore and Mexico; negotiators referred to them as learning experiences for further EPAs, and the domestic actors arrived to a mutual understanding that the issue of sensitivity in Japan's agricultural sector could be resolved through communication.

In the absence of such corresponding memory, Korea's emphasis on “East Asian regionalism” quickly collapsed when Prime Minister Hyun-chong Kim introduced neo-liberal ideas. Under Prime Minister Kim's leadership, ASEAN became a symbolic instrument to gain leverage for Korea's FTA Roadmap, which aimed to simultaneously negotiate cross-regional FTAs with multiple partners. The diffusion of new ideas occurred through the process of persuasion and competition with the existing values that emphasised East Asian economic regionalism. In particular, the trade minister's success in convincing President Roh further empowered his leadership, which was facilitated by Korea's institutional structure that give treaty negotiation authority wholly to the executive branch of the government. More microscopically, the policymakers' perception that the Korea–Chile FTA was a failed negotiation further augmented the need for a breakthrough through the pursuit of the new strategy.

Japan's and Korea's cases also demonstrate that diplomatic leverage was not a direct factor policymakers could utilise to calculate the costs and benefits of the different negotiation approaches. Its influence, instead, was exhibited through the ASEAN counterpart's willingness to negotiate PTAs with Korea or Japan. For instance, Japan's

bilateral EPAs initiated much faster than those of Korea's due to the ASEAN members' political and economic demands. The Korean side also preferred the bilateral negotiation approach in the beginning but began to consider the approach may not be realisable, because the ASEAN members, except for Singapore and Malaysia, were not interested in bilateral FTAs with Korea. The country's increase in diplomatic leverage with ASEAN was shown much later in the 2010s, through Vietnam, Indonesia and Thailand's additional proposals for FTAs.

Figure 7.1 Summary of the findings



7.3 Revisiting the Three I's Approach: Interests, Ideas and Institutions

The systemic IPE theories provide explanations for the influence of exogenous forces on Korea's and Japan's macro-level trade policies. Yet, they are limited in providing analytical guidance to microscopic decision-making processes, as the puzzle of Korea's and Japan's PTA negotiations with ASEAN presented. Highlighting domestic aspects of decision-making provide a better understanding of trade policies, as they often involve greater participation of domestic actors for their direct domestic consequence compared to most other foreign policies. Thus, this research developed an analytical framework, building from the existing theories, to bridge gaps in the foreign economic policy literature. It sought to provide the influence of the three I's and the causal interactive map of the three variables in Korea's and Japan's decision-making processes. If exogenous factors explain the rise of PTAs and account for the broader landscape of trade policies, then to what extent do domestic factors explain variations existing in trade policies? In addition, if interests are indispensable factors determining domestic actor's preferences, as political scientists often claim, then to what extent can ideas be said to have played an independent role in Korea's and Japan's PTA negotiations? How do the domestic actors' preferences and institutions influence each other? This section returns to the theoretical dimensions of the three I's and assesses (1) the contribution of the analytical framework suggested in this thesis to the domestic approaches of IPE, and (2) the development of existing theories through identification of new variables.

The systemic IPE approaches and the existing literature that focus on the international factors to explain the motivations of ASEAN+1 PTAs are limited in explaining foreign economic policies; they neglect the influence of domestic factors in the decision-making processes by focusing on states as unitary actors and examining international factors as the sources of policy outcomes. The focus on state and systemic factors explain the rise of PTAs and account for the broader landscape of trade policies seen from the international level, but they risk the possibility of oversimplifying Korea's and Japan's differences in their strategies. As demonstrated in Chapter 2, they found the motivation behind Korea's and Japan's PTAs with ASEAN from regional rivalry, or Korea's and Japan's relative economic gains from the reduction of trade barriers. Thus, the thesis adopted an inside-out approach of analysis to examine how domestic factors shape trade policies both independent from and in response to international factors.

The cases of Korea and Japan have shown that interstate rivalries or economic formulas are insufficient to explain the choices of the two countries' negotiation strategies, and further, to account for the changes in their strategies when international factors remain consistent. For instance, Chapter 5 has shown that the constructivist elements were crucial in shaping Korea's and Japan's foreign economic policies; policymakers' ideas constructed domestic actors' preferences, causing the divergence in the two countries' PTA strategies. Also, even when Korea and Japan faced similar international backgrounds and chose the same bilateral approaches of negotiations, they originated from a combination of different domestic motivations. Chapter 4 has pointed out that Korea and Japan had both considered agricultural interests and negotiation efficiency, but Japan's domestic interests further accompanied the use of diplomatic leverages and achieving foreign policy objectives. The subtle differences explain the intentions behind the two countries' different motivations for the different choices of negotiation approaches, which in turn explain the long-term development of trade policies in the two countries. Furthermore, Korea's and Japan's reversal of negotiation progress with ASEAN is difficult to understand if seen from the perspective of mainstream theories—Japan has had a closer political and economic relationship than Korea with ASEAN. Thus, Chapter 6 has illuminated the democratic variations existing between Korea and Japan. Because Korea's decision-making power is concentrated to the executive branch of the government in comparison with Japan's strong legislative branch, KAFTA was negotiated much faster than most of Japan's bilateral EPAs and AJCEP.

In addition, the thesis contributes to the approaches taken in foreign economic policy by rediscovering the domestic variables shaping Korea's and Japan's PTA decision-making processes. To better understand the relative influence of interests, ideas and institutions, the thesis has (1) fleshed out the political and economic interests influencing preferential choices between bilateralism and regionalism, (2) examined how domestic policymakers respond to the ideas surrounding their trade environment and accommodate them internally, which in turn shapes their perception on preferences, and (3) demonstrated how institutional structures distribute decision-making power across the domestic actors who hold different interests and ideas. It listed all essential domestic factors influencing the two countries' policies while not dismissing the influence of external factors. It also extended the existing theories mainly developed in the West to be applicable for the cases of Korea and Japan, particularly for

PTAs that are based on vertical trade relationships, and reinterpreted the theories suitable for comparative case study analysis.

Regarding interests, various possible political and economic variables, determining domestic actors' preferences for the choices between bilateralism and regionalism, were defined and incorporated by examining Korea and Japan's private interests and their governments. Among the key interests, the empirical findings suggest agricultural groups were particularly concerned about maintaining existing trade barriers; thus, they did not welcome PTAs. However, less opposition was observed in bilateral PTAs, as they preferred to be exposed to a smaller market with a better chance of gaining concession. The manufacturing industries were concerned with enlarging market access or reducing the costs in utilizing PTAs. The Korean and Japanese governments considered factors, such as increasing negotiation efficiency, advancing trade gains, using asymmetrical power as diplomatic leverage and achieving foreign policy goals. The different combinations of these domestic interests constructed Korea's and Japan's initial negotiation preferences with ASEAN.

Despite the importance of the political and economic interests in shaping trade policies, the thesis has also shown that ideas and institutions have had indispensable influence in Korea's and Japan's decision-making processes. It has identified *how* ideas can be isolated from interests and *whether* they have independent influence in shaping the two countries' negotiation preferences. The self-ruling effect of ideas was observed when Korea shifted its negotiation preference only in a year's time, from 2002 to 2003, officially agreeing on the initiation of a KAFTA joint expert group in October 2003. Japan's *status quo* in its preferences provided a counterfactual development of trade policies when existing values continue to prevail across the domestic society. Korea and Japan both emphasised building region-based PTAs in the beginning, but Korea soon changed its priorities to cross-regional FTAs attributable to the less constraining antecedent conditions and the negative reinforcement, which allowed the new ideas to enter at a relative ease. Thus, the Korean policymakers started to consider that FTAs with bigger economies, such as the US and the EU, are strategically more important for Korea. KAFTA began to be considered one of the stepping-stones for further FTAs. In Japan, the bilateral EPAs with ASEAN and AJCEP continued to be considered as the key to the country's PTA policies, due to its trade conflict with the US and positive experience in its earliest EPAs. Thus, even the strongest proponents

of PTAs focused on developing PTAs based in East Asia. In short, the influence of ideas was critical in the development stages of the two countries' PTA negotiations.

In the institutions section, the thesis revised George Krause's atypical principal-agent model to be applicable to the qualitative analysis to compare Korea's and Japan's cases. To examine the influence of political institutions on the centralisation of trade policies, the thesis newly included intra-democratic variations and bureaucracy discretion. Taken together, the institutions demonstrated *a mediating role* between domestic interests and ideas. They at times assisted the progress of PTA negotiations, but at other times, caused severe delays due to the concentration or diversion of decision-making power. As Chapter 6 demonstrates, Japan's parliamentary system did not clearly define the decision-making boundaries between the Cabinet and the Diet, and the fragmented bureaucracy discretion caused the greater clash between domestic interests. Thus, Japan's trade policies tended to be consensus-based and improvised by immediate needs rather than through long-term goals. In contrast, Korea's presidential system delegated the negotiation authority to the president, who gave full administrative power to MOFAT. Fewer individuals had the power to change policy direction in Korea; thus, one coherent FTA strategy was pursued under the FTA Roadmap.

To summarise, the thesis aimed at reinterpreting the three I's approach as an integrative and interpretative tool to provide a balanced view in the IPE literature. The approach has been designed to examine the processes rather than outcomes—an approach often neglected in the systemic IPE literature. As Cohen (2007) observes, the field of IPE has become increasingly divided by what he distinguishes as the US-style scholarship that emphasises positivism, empiricism, and rationalism, and the British-style scholarship that focuses on interpretive, normative, institutional and historical in nature. After all, IPE only emerged in the 1970s to bridge the gap between political science and economics. Therefore, Cohen (2008, 5) argues:

Each style has its strengths-but also its weaknesses. Neither may lay claim to comprehensive insight or exclusive truth. To complete the construction of IPE, it is not enough to build bridges between economics and politics. Bridges must be built between the field's disparate schools, too.

The approach taken in this thesis is closer to the “British-style of IPE”, according to Cohen; it has relied on the qualitative method of research to acquire data that would otherwise have been difficult to collect, and emphasised the significance of normative, historical and institutional elements in shaping trade policies. The primary contribution of the thesis, however, is in its attempt to connect the systemic approaches with the domestic approaches, and further, the rational approaches with the normative–institutional approaches in IPE. The question of Korea’s and Japan’s divergence in their PTA negotiations with ASEAN would not have been fully accounted by dismissing any of the three I’s.

7.4 A Step Toward East Asian Regionalism? Compatibility Between Bilateralism and Regionalism

A major aim of this thesis has been to address whether bilateralism and regionalism are compatible. This section accomplishes its goal through recapping the relationship between Korea’s and Japan’s respective bilateral PTAs and RTAs with ASEAN and evaluating whether Korea’s and Japan’s PTAs with ASEAN help take a step toward East Asian regionalism. The cases of Korea and Japan demonstrate positive interactions between bilateralism and regionalism, which balance the pessimistic views dominant in the existing literature. The two countries’ cases are limited in their generalisability, but they provide a modest yet important addition to the literature through the examination of the domestic politics involved in their economic diplomacy.

The dominant view in the literature is pessimistic about the relationship between bilateralism and regionalism (Chapter 2). For example, Choi (2005), Corning (2009) and Medalla (2011) see AJCEP and Japan’s bilateral EPAs as the two clashing forms of PTAs, rather than complementary pacts, when they compare the efficacy between the result of the two negotiation approaches. Corning (2009), Medalla (2011) and Dent (2010) concern that complexity caused by the tangled web of PTAs are more likely to deepen complications to building an East Asian RTA than to facilitate the region’s integration process. Moreover, as Dent (2005) predicted, the Japan–China rivalries and differences in the PTA standards continue to obscure the future of East Asian regionalism. The lessons from the existing literature give important implications to the trade relations in East Asia today.

Yet, there is a room to reduce the seemingly ever-growing gap between bilateralism and regionalism. The positive outlook the thesis offers is based on the examination of Korea and Japan's negotiation processes rather than outcomes. The two countries' decision-making processes demonstrate that bilateralism can serve as the basis for regionalism when bilateral PTAs provide learning experiences and there is a strong political willingness to take the bilateral PTAs as the stepping-stones for regional integration.

First, PTA experiences can change the perception of regionalism and provide new understanding in negotiation techniques and the availability of diverse topics in PTAs. For example, Chapter 5 illustrates that when Japan did not have any experience in PTAs, and even had a negative impression of bilateralism and regionalism, its EPAs with more experienced partners, such as Singapore and Mexico, not only changed Japan's perception that PTAs could be building blocks to the WTO-based multilateral co-operation, but also it is comprehensive enough to go beyond the WTO standards while not excluding the non-members of PTAs. The EPAs with Singapore and Mexico were also essential in shaping Japan's negotiation techniques on how best the different negotiation tools can be utilised to realise the East Asian regional integration. As Japan learned from their very first PTA partners, Japan also provided precedents for many Southeast Asian countries that did not have experiences in PTAs. In similar ways, KAFTA and AJCEP provide precedents for Korea and Japan in negotiating with multiple partners that vary in their developing status for negotiations like RCEP and TPP.

Second, Korea's and Japan's domestic politics involved in the PTA negotiation processes indicate that the policy orientation toward the regional economic integration heavily depends on the political willingness of those with the decision-making power. Japan promoted AJCEP along with the bilateral EPAs but progressed much slower because the Japanese side wanted to make every aspect of AJCEP mutually intersect with its individual EPAs. In other words, Japan had the leverage to derive a deal that was beneficial bilaterally, but not enough to convince all ASEAN member states, which varied in their developing statuses, to agree on a unified term under AJCEP. For this reason, Japan has only negotiated the provisions for a Goods Agreement to date under AJCEP, despite its initial goal to take the single undertaking negotiation approach. However, it is not fair to claim that AJCEP is a failed attempt, as most existing studies do, by understanding them as substitutional agreements rather than complementary ones.

Although internal disputes existed, Japan promoted AJCEP and individual EPAs as a package since the end of 2002 to complete the supply chain network in Southeast Asia and utilise it as a building block for a wider RTA. As the former director of AJCEP notes (personal communication), one of the major tasks of the negotiators was to harmonise the bilateral EPAs under the AJCEP framework, particularly concerning RoO. In the author's interviews, every Japanese negotiator who engaged in these PTAs in the early to mid-2000s showed satisfaction with Japan's two-track approach for their contribution to its trade policy today. Japan's East Asia-focused PTAs provided the basis for Japan's active engagement in the regional integration initiatives.

In contrast, Korea's political goal focused more on cross-regional FTAs than East Asia's exclusive regional economic integration. Thus, KAFTA did not extend further effort to build East Asian PTAs. Instead, the growth in intra-regional economic transactions naturally led to further demand for bilateral PTAs. After KAFTA's trade in goods agreement took effect in 2007, economic exchange between ASEAN rose by 182%. In particular, the volume of trade with Indonesia and Vietnam rose remarkably during this period, approximately two- to threefold; this led to additional initiation of FTAs by the end of 2012⁹⁶ with Vietnam and Indonesia.

These bilateral agreements are partially market-driven because increasing market transactions within the KAFTA framework triggered the call for bilateral FTAs. KAFTA provided an arena in which trade could be facilitated by lowering the barriers of trade between Korea and ASEAN, creating and deepening the production network between the two parties. The individual FTAs would be more specific and liberalised for the benefit of the two specific parties, while allowing the suppliers to use RoO most beneficially to their own. To the decision makers, these negotiations were perceived relatively easier compared to previous FTAs, having established a closer economic tie through the existing rules within KAFTA and the newly created supply chain network.

However, because the Korean government does not intend to extend either KAFTA or bilateral FTAs as a basis for a broader regional agreement, these FTAs have been ineffective in promoting further regional integration. Nonetheless, the Korean case of regionalism triggering more intra-regional bilateral FTAs does not imply that it is impeding the

⁹⁶ See Chapter 4 for detailed figures.

development of East Asian regionalism. The bilateral FTAs have been promoted to the extent that it benefits both parties beyond what KAFTA can offer, thus, strengthening intra-regional relations rather than obstructing the regional co-operation.

The differences in Japan's and Korea's political intentions may provide explanation to Japan's faster commitment to TPP and Korea's focus to the FTA with China, which diverted its trade negotiation capacity for East Asian regionalism.

7.5 Practical Contributions: Providing Strategic Information to Policymakers

By examining Korea's and Japan's different approaches to negotiation, this thesis provides a reference to policymakers in East Asia and other regions to strategically foster economic co-operation. First, it provides relevant information to policymakers to enhance their understanding of the counterpart strategy, on when and why one negotiation method works better than another. When policymakers do not have enough information, either due to the lack of their own experience or other's examples, their decision outcomes become much less predictable. This had been the case with Korea and Japan. When Korea and Japan began their negotiations, both of their strategies were short-sighted. The two countries did not have a well-planned strategy, mainly because they did not have much experience in PTAs, and there were no other examples to learn from other than CAFTA.

Because both KAFTA and AJCEP have taken effect for several years now, the comprehensive overview of Korea's and Japan's negotiation approaches provides useful precedents. It also provides brief information about Korea's and Japan's PTAs with partners other than ASEAN. For example, it gives account to why the Korean negotiators considered Korea–Chile FTA a failure, why Korea–Japan FTA was stalled, or what kind of negotiation techniques the Japanese negotiators learned from JSEPA and Japan–Mexico EPA, which shaped the two countries' subsequent trade policies.

Second, policymakers seeking PTA with ASEAN may also find this research useful. Korea's and Japan's negotiation processes with ASEAN demonstrate that countries with strong diplomatic leverage gain more benefits through bilateralism than through regionalism, because they have stronger influence in shaping the content of the negotiations while also influencing the rules of trade. The US's recent shift in its negotiation approaches from the multilateral TPP to bilateralism demonstrates a case in point. As far as economic gains are

concerned, however, the group-based approach still provides greater market access and reduced trade diversion effects. For smaller economies seeking an ASEAN PTA, group-based negotiations can be considered more beneficial for several reasons. As KAFTA demonstrated, small diplomatic and economic leverages make it difficult to attract the counterparty bilaterally. ASEAN as a group, however, is easier to reach because of its agenda to drive East Asian regional integration. The increase in economic transaction through the group-based agreement can lead to further in-depth, country-specific agreements.

Third, the thesis provides a useful reference to the policymakers of the countries seeking PTAs with Korea and Japan. For instance, Korea and Japan have significant differences in their institutional structures, which distributed the varying degrees of decision-making power to the domestic actors. Korea's decision-making power is concentrated under presidential leadership, whereas Japan's decision-making power is distributed among politicians across the different ministries. Thus, in the case of Korea, negotiation with key decision makers should be most important. In the case of Japan, one should expect to see diversification of responsibilities to the different ministries with different issues at stake; thus, policymakers should devote separate effort to convincing the politicians and ministries involved in sensitive sectors of the economy. When thinking of the two countries' interests regarding PTAs, they can also consider country-specific goals: Korea's interest is highly focused on economic gains, whereas Japan's geopolitical motivations, for example, maintaining and expanding its regional leadership, are greater.

7.6 Limitations and Future Research Directions

A main limitation of this research is one that would be inherent in any comparative case study method: its generalisability. Comparative case studies, although better than single-case study methods, are far from controlled experiments. This research is constrained by a complex combination of domestic and international factors, which makes its conclusions difficult to generalise to other cases. The goal of this research has been to examine the PTA negotiation strategies developed in Korea and Japan from the late 1990s to the mid-2000s. Thus, it provides an in-depth analysis of the two countries and their negotiation approaches with ASEAN during this specific period of time, but it does not examine other existing ASEAN+1 level PTAs or other countries' perspectives on the choices of their negotiation approaches with ASEAN or

with other regional actors. For example, AIFTA and AANZFTA came after CAFTA, KAFTA and AJCEP, but both opted for group-based negotiations. The US considered an ASEAN PTA, but it has been suspended because US officials are finding it difficult to negotiate an agreement that meets its high standards.

Globally speaking, there are also cases in which their studies can contribute to generalising the factors shaping preferences between bilateralism and regionalism. For example, Chile's FTA with the EU came into force in 2005, but Chile also negotiated a bilateral FTA with Turkey, which came into force in 2011. Mexico has an agreement with Uruguay since 2004, but also promoted an FTA with MERCOSUR, entered into force since 2016. The examination of these outstanding cases will provide an important reference for explaining the variables that determine a country's PTA negotiation strategy.

Moreover, further research is needed to account for Japan's efforts for cross-regionalism today. Chapter 5 of this thesis demonstrated that Japan's strong commitment to the East Asia region has prevented it from taking bold strategies toward ASEAN. Chapter 6 then explained why Japan's progress with PTAs lagged behind that of Korea's, based on their institutional differences. The international political economy has changed since then. Korea and Japan have often competed with one another when it comes to their progress with PTAs because they are geographically close and share many overlapping economic interests with the PTA counterparty, which can easily cause trade diversion. So far, Korea's cross-regional strategy has been comparatively fruitful when it comes to broadening its FTA partnerships, particularly with large trade partners such as the EU and the US. Therefore, Japan considered that TPP would be its game changer when it was signed at the end of 2016. Japan's participation in TPP would accomplish its goal of developing the wider economic community to a high standard while lowering its trade barrier with the US.

Construing from the findings of this research, Japan's dual-track approach can be considered successful, although as a late bloomer; by taking negotiations step by step, Japan established regional norms bilaterally while building East Asian regionalism. Because the US has withdrawn from TPP and instead announced a bilateral trade agreement with Japan; however, it is unclear now whether Japan's approach will be seen as more effective in the future. Coincidentally, Korea has not been advancing many FTAs since 2013 due to changes in administrations and the reshuffling of ministries. This may be explained by the rationale in Chapters 5 and 6: Korea's efficiency in FTA strategy is closely dependent on institutions and

the leader's ideas. Thus, further attention needs to be paid to the changes in Korea's FTA policies after the new administration takes over in May 2017. These on-going changes demonstrate that it is still too early to evaluate Korea's and Japan's approaches and conclude that the findings of this research are valid not only in the short run, but also in the long run.

Next, the applicability of the mutual reinforcement between bilateralism and regionalism found in this research is limited with regard to the question of bilateralism/regionalism and multilateralism. The nature of bilateralism/regionalism and multilateralism differs to a significant degree: bilateral and regional agreements are discriminative to non-participants, whereas multilateral forums offer public good to all members. Article XXIV of GATT accommodates bilateralism and regionalism by making an exception for MFN to the extent that they are building blocks for multilateralism. It specifies that the parties should liberalise substantially all areas of trade.

However, whether bilateralism complements multilateralism is still an unresolved query. Korea's and Japan's cases are also equivocal when it comes to their contribution to multilateralism today. Both have proactively promoted bilateralism and regionalism, but not equally so for multilateralism. One reason can be inferred from the fact that the member countries find no incentive to liberalise unilaterally because they can enjoy the free lunches the WTO has to offer. For example, Korea is still maintaining a strong protectionist approach when it comes to liberalising rice in the WTO, utilising its developing status in the organisation, even though Korea has been actively promoting FTAs. Thus, future research could examine whether bilateralism and regionalism have been building blocks for Korea's and Japan's multilateralism.

In addition to these outstanding issues, future research could also examine how ASEAN compares with other regional blocs as an PTA counterpart. One starting point could be Korea's FTA negotiation with the EU. As the Korean chief negotiator for KAFTA and Korea-EU FTA, Hansu Kim (KBSi interview 2012) recalled that the negotiation methods of the two countries are very different, even though KAFTA and Korea-EU FTA are negotiations with regional entities. For one, their institutional structures diverge. An independent decision-making body, or the European Commission, leads the EU's FTA negotiations. In contrast, ASEAN's PTA negotiations are led by the negotiators of all 10 member states, which means that consensus among all 10 parties is necessary before a decision is reached. Moreover, the EU is a more advanced economic group relative to ASEAN—and thus prefers higher standards of

liberalisation. In addition to these two factors, future research could further investigate what other factors should be considered when negotiating with different regional blocs.

Finally, future research should further develop various political and economic issues, including trade policies, in economic diplomacy. When this thesis project began, the author aimed at conducting research connecting IR theories with the real world—economic diplomacy is an important scholarly platform that provides the link between the two. However, in the author's fieldwork to interview policymakers, a deep gap was found between academics and practitioners. Academics often place too much focus on theories that are constrained by too many unrealistic assumptions, whereas negotiators frequently go to negotiations unaware of the rigorous research on how PTAs can be best negotiated and implemented. In the era of free trade agreements, the study of economic diplomacy could narrow this gap.

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