

Forming a Cross-Regional Partnership: The South Korea-Chile FTA and Its Implications

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Introduction

As noted in the lead article of this special issue, South Korea is not the only country in East Asia which is belatedly attempting to catch up with the global trend of free trade agreements (FTAs).¹ Yet the rise of South Korea's FTA initiatives—particularly its appetite for cross-regional trade agreements (CRTAs)—is truly dramatic in its speed and enthusiasm, thereby offering fertile grounds for testing the hypotheses developed in the introduction by Solis and Katada.

In this study, we focus on the first cross-Pacific FTA, signed between South Korea and Chile in February 2003. Against the background of South Korea's new trade strategy in the post-Asian financial crisis period, we examine various economic and diplomatic/security factors that affected the long, halting negotiations and ratification process of the South Korea-Chile FTA. For South Korea, the agreement marked the beginning of its dramatic embrace of trade liberalization methods outside multilateral ones such as the GATT and WTO. It also has had a significant impact on South Korea's trading partners in the Asia-Pacific, who are busily weaving a web of bilateral FTAs on their own.

Since its dramatic economic takeoff in the 1970s, South Korea has benefited from export-oriented industrialization under the auspices of the multilateral trading regime of the GATT/ WTO. However, in the wake of the Asian financial crisis of 1997-1998, the illusion of its unstoppable economic growth was severely shattered. Furthermore, when the 1999 Seattle

¹ East Asian countries' interest in regionalism has surged dramatically at the turn of the new millennium. In East Asia, the shift toward alternatives to the General Agreement on Tariffs and Trade (GATT)/World Trade Organisation (WTO) and the Asia-Pacific Economic Cooperation (APEC) took its most pronounced turn with the conclusion of Japan's first post-World War II bilateral FTA, the Japan-Singapore Economic Partnership Agreement (EPA). Other East Asian countries, traditionally loyal supporters and beneficiaries of post-war multilateral trading regimes, are also actively weaving a web of bilateral FTAs, targeting countries both within and outside the region in hopes of securing access to much-needed export markets. See Vinod K. Aggarwal and Min Gyo Koo, "The Evolution and Implications of Bilateral Trade Agreements in the Asia-Pacific," in Vinod K. Aggarwal and Shujiro Urata, eds., *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications* (London: Routledge, 2006).

Ministerial Conference of the WTO failed to launch a new round of trade talks, South Korea came to recognize that the mediocre performance of the WTO and increasing competition in its traditional export markets could hurt export-dependent South Korea, which lacked alternative trade channels.²

As a result, the then-incoming Kim Dae-jung government (1998-2003) began to pursue bilateral FTAs with its trading partners, departing from South Korea's earlier position on trade policy based on global multilateralism. South Korea's bilateral track record has been remarkable since then. Aside from the South Korea-Chile FTA, South Korea has concluded bilateral and minilateral FTAs with Singapore (April 2005), the European Free Trade Association (EFTA, July 2005), the Association of Southeast Asian Nations (ASEAN, December 2005) and the US (April 2007). South Korea has also been negotiating bilateral FTAs with Japan, Canada, Mexico, India and the European Union (EU), the successful conclusion of which would likely facilitate FTAs with its other major trading partners—particularly, China. In addition, a number of feasibility studies are currently under way with South Africa and Mercosur, the regional trade agreement (RTA) between Brazil, Argentina, Uruguay, Venezuela and Paraguay.

An exploration of South Korean motives behind its FTA with Chile raises a number of important questions. Why did South Korea choose Chile as its first FTA partner? In contrast to earlier expectations, why did it take so long for the two countries to conclude and ratify the agreement? What has motivated South Korea to continue to form FTAs with its cross-regional partners?

Among the key economic and diplomatic/security motives identified by Solis and Katada, four are particularly important. First, for both South Korea and Chile, economic opportunity gains from a bilateral FTA with each other loomed large in the post-Seattle era. Second, the socio-economic restructuring in post-financial crisis South Korea promoted a new internationalist social coalition that began to overshadow protectionist interests, particularly in agriculture. Third, a new consensus emerged within South Korea's policy circles that a new bilateral approach is not only complementary to the traditional multilateral strategy but is also a crucial element of South Korea's economic survival strategy in a world of rising regionalism. The change in political leadership—namely reform-minded Kim Dae-jung's rise to the presidency in 1998 in the midst of financial turmoil—was at the heart of this dramatic shift in South Korea's approach. Finally, growing peer pressure motivated South Korea to surf the growing wave of bilateral FTAs both inside and outside East Asia.

Section two of this study provides an overview of South Korea's shifting trade strategy. Section three examines South Korea's economic and political

² Min Gyo Koo, "From Multilateralism to Bilateralism? A Shift in South Korea's Trade Strategy," in Aggarwal and Urata, eds., *Bilateral Trade Agreements in the Asia-Pacific*, pp. 140-41.

motivations behind its CRTA initiatives with a focus on the South Korea-Chile FTA. Section four analyzes the potential impact of South Korea's cross-regional initiatives—particularly the recently concluded South Korea-US FTA (KORUS FTA)—on Seoul's simultaneous effort at promoting intra-regional FTAs. Section five summarizes our main findings and draws some conclusions.

South Korea's Policy Shift from Multilateralism to Bilateralism

Historically, South Korea has supported the GATT/WTO multilateral trading regime over sub-multilateral options including bilateral and minilateral FTAs. Since its accession to the GATT in 1967, South Korea's active promotion of its export sector has allowed the once-reclusive country in Northeast Asia to aggressively participate in the global market. As a trade-dependent country, South Korea's full integration into the world trading system was not a matter of choice but of survival. Under the auspices of the GATT/WTO, South Korea has ensured its access to vital export markets, while implementing market-oriented economic liberalization.³ Until recently, together with Japan and China, South Korea remained one of the very few WTO member countries which did not enter into any regional trading agreements as defined under Article 24 of the GATT/WTO.⁴

Yet the global trend to forming FTAs began to exact its toll by diverting trade away from South Korea. Furthermore, in the wake of the WTO's failure to launch a new round of trade talks in Seattle in 1999, export-dependent South Korea increasingly recognized that the mediocre performance of the WTO would not solve its lack of alternative trade channels. For South Korea, therefore, FTAs belatedly came to be seen as a promising alternative avenue.⁵

On 16 September 1998, the then Japanese Ambassador to South Korea first proposed that South Korea and Japan launch a joint study group to examine the feasibility of a bilateral FTA between the two countries.⁶

³ Koo, "From Multilateralism to Bilateralism," pp. 142-43; Byung-Nak Song, *The Rise of the Korean Economy* (Hong Kong: Oxford University Press, 1997), pp. 91-93.

⁴ In 1975, seven Asian countries including South Korea, the Philippines, Thailand, India, Laos, Sri Lanka and Bangladesh met in Bangkok and agreed to a list of products for mutual tariff reduction. The agreement, known as the Bangkok Agreement, was ratified by five of the original seven members (not included were the Philippines and Thailand). China joined the agreement in 2001. Yet the Bangkok Agreement is governed by the Enabling Clause rather than by Article 24 of the GATT/WTO. See "Asia-Pacific Trade Agreement (APTA)," [Online, cited 8 September 2006]. Available from <www.srilankabusiness.com/tragreement/APTA/pdf/apta.pdf>.

⁵ According to one study, South Korea's economic opportunity costs due to the exclusion from the global web of regional FTAs would likely amount to at least a 1.33 percent decrease in growth rate and a \$34.4 billion decrease in exports per year (Inkyo Cheong, *The Economic Effects of A Korea-Japan FTA and Policy Implications*, KIEP Policy Paper 01-04 [Seoul: Korea Institute for International Economic Policy, 2001]).

⁶ Dong-han Lee, "Han-II Ja-yoo-moo-yuk-ji-dae Je-ahn: Ogura Dae-sa," *Chosun Ilbo*, 17 September 1998. [Online, cited 5 December 2006]. Available from <http://srchdb1.chosun.com/pdf/i_service/read_body.jsp?Y=1998&M=09&D=17&ID=9809170210>.

Presumably, his proposal was motivated by President Kim Dae-jung's conciliatory approach to Japan. Although the proposal itself was not warmly received in Seoul due to the South Korean concern about deepening economic dependence on Japan, it did prompt genuine interests in FTAs among South Korea's policy makers.⁷

The South Korean government wasted no time. On 5 November 1998, the Inter-Ministerial Trade Policy Coordination Committee formally announced that South Korea would seek an FTA with Chile, followed by economic feasibility studies with other trading partners, such as the US, Japan, New Zealand and Thailand. In the following month, the South Korean government formed a special task force on a South Korea-Chile FTA, which consisted of five working groups, covering market access, trade rules, services, intellectual property and legal procedures.⁸

Aside from a fear of exclusion from the recent trends of regionalism, the outbreak of the Asian financial crisis catalyzed South Korea's decision to pursue FTAs. Indeed, the 1997-1998 financial crisis served as a wake-up call to South Korea, making it realize the importance of supplementary trade mechanisms at the sub-multilateral level in safeguarding its economic security. Also, trade and economic liberalization through FTAs came to be recognized as an integral part of South Korea's long-term economic vitality.⁹

As a latecomer in the global trend of forming bilateral FTAs between like-minded countries, South Korea has adopted an aggressive FTA strategy. Its current FTA initiatives can be variously characterized, but four features are particularly important.

First, South Korea's approach can be dubbed a multi-track FTA strategy with a geographic focus that goes beyond East Asia.¹⁰ Currently, South Korea engages in more than 20 FTA initiatives at various stages, ranging from joint feasibility studies to official negotiations. The South Korean government publicly expresses its willingness to pursue FTAs with any countries, either inside or outside of its geographic comfort zone, as long as the partners share mutual interests in exchanging preferential market access.¹¹ As of May 2007, South Korea has concluded bilateral/minilateral FTAs with Chile,

⁷ Interviews with South Korea's FTA negotiators, Seoul, July 2006.

⁸ Hae-kwan Chung, "The Korea-Chile FTA: Significance and Implications," *East Asian Review*, vol. 15, no. 1 (2003), p. 74; Chan-Hyun Sohn, "Korea's FTA Developments: Experiences and Perspectives with Chile, Japan and the US" (paper presented at *Regional Trading Arrangements: Stocktake and Next Steps*, Trade Policy Forum, Bangkok, 12-13 June 2001).

⁹ Inkyo Cheong, "Han-Chile FTA eui kyung-je-jok hyo-gwa mit eui-eui," *Journal of International Economic Studies*, vol. 3, no. 4 (1999), pp. 115-36; Sohn, "Korea's FTA Developments," p. 7.

¹⁰ Ministry of Foreign Affairs and Trade of Korea (MOFAT), "U-ri-na-ra FTA chu-jin jeong-chaek," [Online, cited 1 December 2005]. Available from <http://www.fta.go.kr/fta_korea/policy.php>; Soon-Chan Park, "Recent Changes in World Trading System and Korea's FTA Strategy" (paper presented at a workshop organized by the Korea Chamber of Commerce and Industry, Seoul, 28 January 2005).

¹¹ MOFAT, "U-ri-na-ra FTA chu-jin."

Singapore, EFTA, ASEAN and the US, and is conducting negotiations with Japan, Canada, Mexico, India and the EU.

Second, South Korea's FTA initiatives have multiple purposes, including strengthening regional economic security, securing market access to its major trading partners and raising the national economy through efficiency gains from trade expansion. As manifested in the course of a number of completed and ongoing FTA negotiations, South Korea also wants politically sensitive sectors—such as agriculture—off of the negotiation agenda wherever possible.

Third, the South Korean government has set up a roadmap for FTA negotiations with its prospective FTA partners, which are classified into three broad groups: (1) immediate FTA partners, such as Chile, Singapore, EFTA and Japan; (2) medium-term FTA partners, such as Mexico, Canada, ASEAN and China; and (3) long-term FTA partners, such as the US, the EU and India. Currently, South Korea has concluded bilateral FTAs with all countries in the first group with the exception of Japan.¹² With respect to the second group, the FTA negotiations with ASEAN has made faster progress than originally expected, as indicated by the conclusion of the South Korea-ASEAN FTA's Trade-in-Goods Agreement in May 2006. Finally, despite South Korean filmmakers' protests, the South Korean government made a surprise move in early February 2006 to cut its annual screen quota in favour of the US, thereby removing the last hurdle on the way to the start of KORUS FTA negotiations.¹³ After working around the clock, both countries successfully concluded the FTA close to midnight on 1 April 2007, a deadline set by the US Trade Promotion Authority (TPA) which expires in June 2007.¹⁴

Fourth, South Korea seeks comprehensive FTAs which cover not only trade in goods and services, but also investment, government procurement, intellectual property rights and technical standards. It wishes to pursue high-quality FTAs, thus contributing to WTO-plus liberalization. Given that the Asian financial crisis played a pivotal role in forcing the South Korean economy to adopt global standards in many policy areas, liberalizing its trade

¹² After a long gestation period, South Korea and Japan started official negotiations for a bilateral FTA in December 2003. The two countries held six rounds of negotiations by November 2004, but the negotiation has been stalled since then due to disagreements on the speed and coverage of bilateral trade liberalization. In addition, the diplomatic tensions caused mainly by the controversial visits by the Japanese Prime Minister Koizumi to the Yasukuni Shrine have heightened bilateral tensions, thus undermining the desire for an FTA between the two countries.

¹³ South Korea's screen quota system was designed to stem a flood of Hollywood blockbusters. South Korea cut the quota from the current 146 days or 40 percent reserved for domestic films to 73 days or 20 percent starting 1 July 2006 ("Screen Quota Cut Clears Way for Trade Deal with the US," *The Chosun Ilbo*, 26 January 2006. [Online, cited 5 December 2006]. Available from <<http://english.chosun.com/w21data/html/news/200601/200601260013.html>>).

¹⁴ United States Trade Representative, "United States and Korea Conclude Historic Trade Agreement," 2 April 2007. [Online, cited 21 May 2007]. Available from <http://www.ustr.gov/Document_Library/Press_Releases/2007/April/United_States_Korea_Conclude_Historic_Trade_Agreement.html>.

and economic policy beyond what is committed to the WTO is not regarded as a major problem for South Korea. South Korea's liberalization of its investment regime, financial services sector and selected other trade-related policy areas has gone far beyond its WTO commitments, making the country feel confident about accepting WTO-plus liberalization.¹⁵

In sum, South Korea seeks to form FTAs not only with its neighbouring countries in East Asia or major trading partners like the US but also with smaller countries in other regions. South Korea has given equally strong attention to European and Latin American countries. Thus, CRTAs have become a distinctive feature of South Korea's new FTA strategy. Although South Korea's pursuit of FTAs does not mean that it has completely abandoned its support for the multilateral trading system, the policy shift is now obvious and important.¹⁶

Why CRTAs? The Case of South Korea-Chile FTA

Economic motives

How and why have CRTAs become a trade policy option for South Korea over the past decade? As Solis and Katada note in their introduction, the search for new and/or expanded market access through preferential trade and investment liberalization is a powerful determinant of partner selection. Surprisingly, however, very little research exists that offers a clear and consistent rationale for choosing an ideal FTA partner.

From the perspective of neoclassical trade theory, an FTA between two countries with complementary structures of comparative advantage—that is, a capital-abundant and labour-abundant country pair—would most likely foster *inter*-industry trade, bringing trade benefits in the form of economies of scale and efficient allocation of resources.¹⁷ The South Korea-Chile FTA is seemingly consistent with the neoclassical prediction. By contrast, new trade theories based on the differentiated products model suggest that countries having similar structures of comparative advantage will trade more through product specialization based on *intra*-industry trade.¹⁸ From this perspective, an FTA between economies with similar factor endowments, such as South Korea and Japan, would likely maximize the gains from trade.¹⁹

¹⁵ For more details, see MOFAT, "FTA jeong-chaek hyun-hwang gwa hyang-hu gye-hoek" (paper prepared for a special lecture at Korea University, 18 August 2005).

¹⁶ Koo, "From Multilateralism to Bilateralism," p. 143.

¹⁷ Paul Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*, 7th ed., (Boston: Addison-Wesley, 2006), pp. 24-49.

¹⁸ Krugman and Obstfeld, *International Economics*, pp. 121-31.

¹⁹ It should be noted, however, that neither neoclassical economics nor new trade theories of differentiated products offer first-hand explanations for why countries might prefer a bilateral FTA to other types of trading arrangements. The bottom line is that these theories are designed to predict the *direction* of trade, rather than a certain *pattern* of trade, between countries.

The so-called gravity model offers an alternative explanation that links geographic distance and economic size to the choice of an FTA partner.²⁰ In order to reduce the costs related to geographic distance and to maximize the benefits from economic size, this model suggests that neighbouring countries form FTAs with each other, thereby creating a natural trading bloc.²¹ While the formation of natural trading blocs improves economic gains, the formation of unnatural trade blocs between distant and/or small economies arguably has marginal positive effects.²² From this perspective, the South Korea-Chile FTA is a typical example of an unnatural trading bloc, not only because an ocean separates the two countries, but also due to the fact that Chile's economy is relatively small.²³

As noted by Solis and Katada, the gains to specific industries from CRTAs may promote otherwise unlikely FTAs between distant trading partners. As will be discussed in the following section, the sectoral interests in South Korea in fact played an important role by providing political support to their government's FTA initiative. In July 2002, for instance, the Korea Automobile Manufacturers Association filed a petition that urged its government to conclude the final round of FTA negotiations with Chile sooner rather than later, as well as to launch new negotiations with other Latin American countries.²⁴ In 2003, South Korea's automobiles and electronics industries further mobilized their resources to lobby for the agreement when they began experiencing trade diversions in Chilean market as a result of South Korean National Assembly's inability to ratify the agreement in a timely manner.

Nevertheless, the mixed predictions of trade theories on the one hand and the initial doubts about economic benefits on the other indicate that a South Korea-Chile FTA did not make compelling economic sense at the

²⁰ A typical gravity model assumes that trade between countries depends positively on their size and inversely on distance. The effect of distance on trade is directly associated with three categories of costs, including shipping costs, time-related costs and unfamiliarity costs. See Jeffrey Frankel, Ernesto Stein and Shang-Jin Wei, *Regional Trading Blocs in the World Economic System* (Washington DC: Institute for International Economics, 1997), pp. 49-76.

²¹ Paul Krugman, "The Move to Free Trade Zones" (paper presented at a symposium, sponsored by the Federal Reserve Bank of Kansas City, *Policy Implications of Trade and Currency Zones*, Jackson Hole, Wyoming, 22-24 August 1991).

²² Frankel, Stien and Wei, *Regional Trading Blocs*, pp. 149-53.

²³ Koo, "From Multilateralism to Bilateralism," p. 144. In the meantime, gravity model analyses indicate that South Korea would most likely be better off if it removed existing trade barriers by establishing FTAs with Japan and China. According to one study, South Korea's actual trade volumes with Japan and China, which in terms of economic size and geographic distance present greater advantages, seem to fall short of the theoretical trade intensity—85 percent with Japan and 67 percent with China, as compared to the model's estimation (Chan-hyun Sohn and Jinna Yoon, "Does the Gravity Model Fit Korea's Trade Patterns?" *KIEP Working Paper* 01-01 (Seoul: Korea Institute for International Economic Policy, 2001), p 29.

²⁴ Eui-young Kang, "Joong-nam-mi ja-dong-cha shi-jang gong-ryak eui-hae FTA shi-geup," *Yonhap News*, 1 July 2002. [Online, cited 5 December 2006]. Available from < http://news.naver.com/news/read.php?mode=LSD&office_id=001&article_id=0000199056§ion_id=101&menu_id=101>.

early stage of negotiations.²⁵ As a result, we argue that the two countries entered an agreement for political and instrumental, rather than purely economic, reasons.

Diplomacy and leverage motives

Negotiations for a South Korea-Chile FTA unfolded in three distinct phases: (1) pre-negotiation phase (November 1998-September 1999); (2) negotiation phase (December 1999-February 2003); and (3) ratification phase (August 2003-February 2004). In this section, we analyze the diplomacy and leverage motives behind the South Korea-Chile FTA, respectively, the attempts through FTA policy to raise the country's status as a major trade hub and/or to push for domestic reform and set negotiation precedents for subsequent negotiations.

Phase 1: November 1998-September 1999

In the early 1990s, the so-called "additive regionalism" strategy began to shape Chile's trade policy.²⁶ Soon after President Patricio Aylwin Azocar (1990-1994) entered office, Chile became one of the most active Latin American countries pursuing FTAs. During his presidency, Chile concluded a series of FTAs with its Latin American neighbours, including Mexico (1991), Venezuela (1993) and Colombia (1993). Under President Eduardo Frei, Jr. (1994-1998), Chile's pursuit of FTAs was further accelerated, as indicated by the signing of agreements with Canada (1996) and Mercosur (1996). For Chile, the main motive behind this policy shift was to secure market access to its large trading partners.²⁷

In sharp contrast, South Korea was a newcomer in a world of FTA negotiations. Although the discussion about FTAs first emerged in South Korea in the late 1980s, it was not until 1998 that the South Korean government began to seriously consider this alternative path. At first, however, the South Korean government had difficulty in choosing its FTA partners. It

²⁵ The share of South Korea-Chile bilateral trade in South Korea total trade remains at less than 1 percent (IMF, *Direction of Trade Statistics Yearbook* [Washington DC: International Monetary Fund, various years]).

²⁶ Chile's additive regionalism is defined as "the process of sequentially negotiating bilateral free trade agreements with all significant trading partners" (Glenn W. Harrison, Thomas F. Rutherford and David G. Tarr, "Chile's Regional Arrangements: The Importance of Market Access and Lowering the Tariff to Six Percent," *Working Papers*, no. 238 [Santiago: Central Bank of Chile November 2003]).

²⁷ Aside from "economic complementation agreements" with Bolivia, Peru, Argentina and Ecuador, as well as a partial agreement with Cuba, Chile has signed FTAs with its major trading partners: the EU (2002), EFTA (2003), the US (2003), South Korea (2003) and China (2005). In June 2005, it also finalized a four-way deal with Brunei, New Zealand and Singapore. Most recently, in June 2006, it signed an FTA with Panama. The Chilean government is presently seeking to negotiate further bilateral deals with Thailand, India and Malaysia. See "Chile," [Online, cited 8 September 2006]. Available from <http://www.bilaterals.org/rubrique.php3?id_rubrique=130>.

contacted a number of countries, but only a few of them showed explicit interest in discussing FTAs with South Korea, which had yet to recover from the effects of the Asian financial crisis. As of mid-1998, South Korea received positive responses from only six countries: Turkey, South America, Thailand, New Zealand, Israel and Chile.²⁸ In an inter-ministerial meeting held in November 1998, an FTA with Chile was given top priority, mainly because of that country's complementary industrial structure and the potentially low level of threat to South Korea's agriculture due to the seasonal differences. For South Korea, Chile's experience in FTA negotiations was an additional attraction. Subsequent FTA partners were to be chosen from a list of small and medium-sized countries.²⁹

At the APEC summit meeting in Malaysia in November 1998, South Korea and Chile agreed to push forward an FTA with high-level talks in Seoul and Santiago. At the dawn of official negotiations, several economic analyses predicted that a South Korea-Chile FTA might provide both countries with economic gains through the expansion of bilateral trade and investment.³⁰ Although the estimated economic gains from preferential trade between the two countries were not particularly impressive, a South Korea-Chile FTA made broader economic sense because South Korea wished to expand market access in Latin America and Chile in East Asia.³¹ At the APEC summit meeting in New Zealand in September 1999, the two countries agreed to begin official FTA negotiations in Santiago in December 1999.

Aside from prospective economic gains, a major push factor for South Korea's policy shift toward FTAs was its change in political leadership and subsequent bureaucratic realignment. In pursuit of ambitious policy initiatives that intended to make South Korea a regional logistics hub and international business centre, President Kim Dae-jung was drawn to FTAs. For him, FTAs also held some political appeal because some noncompetitive, politically sensitive sectors could be excluded from FTA negotiations, thus avoiding domestic resistance to trade liberalization.³²

In the aftermath of the unprecedented financial crisis that resulted in South Korea's near economic collapse, the Kim Dae-jung administration had to make fundamental adjustments to South Korea's trade policy. Up to that point, South Korea's trade strategy had given the country economic success but also left it heavily dependent on a handful of major export

²⁸ We thank an anonymous reviewer for this point.

²⁹ Sohn, "Korea's FTA Developments," p. 7; Chung, "The Korea-Chile FTA," p. 74.

³⁰ For instance, one study estimated that economic gains for South Korea from an FTA with Chile would amount to approximately \$950 million, or an additional GDP growth of 0.2 percent every year, and reported an estimated economic gain of approximately \$10 million, or an additional GDP growth of yearly 0.02 percent for Chile (Cheong, "Han-Chile FTA," pp. 123-130).

³¹ Chung, "The Korea-Chile FTA," pp. 83-84.

³² Koo, "From Multilateralism to Bilateralism," p. 146-148.

markets, including the US and Japan. Whether he could devise a strategy to successfully navigate between stalled multilateralism and rising regionalism would determine just how much he could achieve. The president's advisers recognized the reality in which they found themselves.³³

Indeed, South Korea's policy shift toward FTAs reflects President Kim's commitment to locking in his policy reforms in response to the rising global demand for liberalization and transparency. In the wake of the financial crisis, the Kim Dae-jung government did not sit idle, though it operated with less enthusiasm for state intervention. The Kim government recapitalized banks, set up a public asset-management company to buy up bad loans, oversaw banking reforms, and forced *chaebols* to purge the debt from their balance sheets by selling entire divisions, resulting, in some cases, in their going out of business altogether. The Kim government also actively promoted a number of promising industries, such as information technology and biotechnology, through various forms of incentives including grants, bank loans on preferential terms, preferential tax treatments and the like.³⁴

The 1998 government reforms were an attempt to consolidate bureaucratic support for President Kim's reform agenda.³⁵ In particular, the Ministry of Foreign Affairs was reorganized as the Ministry of Foreign Affairs and Trade (MOFAT) and the Office of the Minister for Trade (OMT) was newly established under MOFAT, so as to comprehensively coordinate foreign policies on trade, trade negotiations and international economic affairs. The OMT began to play a pivotal role in both initiating and promoting FTAs.³⁶

During the negotiations with Chile, opposition to the OMT's initiative came from the Ministry of Agriculture and Forestry and farmers' organizations such as the Korean Farmers League and the Korean Women Farmers Association. In addition, the OMT's mission to maneuver through bureaucratic and social opposition was challenged by rival institutions, such as the Ministry of Commerce, Industry and Energy and the Ministry of Finance and Economy. Despite its shaky start, however, the OMT has slowly but steadily institutionalized the idea and practice of promoting economic

³³ See Sohn, "Korea's FTA Developments," pp. 3-6; and Choeng, "Han-Chile FTA," pp. 116-21.

³⁴ Koo, "From Multilateralism to Bilateralism," p. 147. As Solis and Katada note in their lead article, countries undergoing the process of economic adjustment often use FTAs for the purpose of locking in their reform agendas in a softer way than multilateral or unilateral liberalization, controlling the extent of new competition by choosing suitable partner(s). Mexico's participation in the North American Free Trade Agreement (NAFTA) is an oft-cited example. In the context of East Asia, Japan decided to conclude an FTA with Singapore in order to lock in reform policies while protecting vested interests at the same time. See also T.J. Pempel and Shujiro Urata, "Japan: A New Move toward Bilateral Agreement," in Aggarwal and Urata, eds., *Bilateral Trade Agreements in the Asia-Pacific*, pp. 84-88.

³⁵ For a discussion of South Korea's bureaucratic realignment in the post-financial crisis period, see Joo-Youn Jung, "Inside the State in Transition: Restructuring Economic Bureaucracies in Korea, China and Japan" (paper presented at the Research Workshop Series, Center for International Studies, University of Southern California, Los Angeles CA, 19 October 2005).

³⁶ Koo, "From Multilateralism to Bilateralism," p. 148.

and strategic partnership through FTAs, thus bringing about a new bureaucratic balance of power in favour of FTA initiatives.³⁷

Phase 2: December 1999-February 2003

Negotiations for a South Korea-Chile FTA continued, acrimoniously and intermittently, for almost three years and through six official rounds of talks from December 1999 to October 2002. A main reason for the delay was the disagreement on the extent to which agricultural products would be included in the agreement. Initially, South Korea believed that Chile, which is located in the opposite hemisphere of the globe and has thus opposite seasons, would pose a minimal threat to South Korea's agricultural products. Yet the talks reached a dead end in summer 2000 when South Korea's proposal, which excluded apples and pears, irritated Chile. Twenty months had to pass before the negotiation resumed in February 2002.³⁸

During the stalemate, the potential winners of the agreement in South Korea, such as automakers and electronics manufacturers, did not mobilize political support for the agreement, whereas South Korea's farmers successfully made their potential losses a highly salient issue. Engaged in its first-ever FTA negotiation, the South Korean government lacked political skills to garner support from the winners of trade liberalization and to persuade domestic veto players, particularly the farmers who had traditionally been protected from global competition.

Yet a breakthrough came in February 2002 in high-level talks held in Los Angeles. South Korea revised its agricultural liberalization plans and proposed an advanced schedule that was more in line with Chile's request, such as lower off-season tariffs to Chilean grapes. Although South Korea insisted on its position to exclude some sensitive items such as apples and pears from its concession list, it agreed to negotiate trade liberalization in seasonings and dairy products after the Doha Development Round is completed. Chile was not completely satisfied but accepted South Korea's proposal because it did not want to delay the negotiation any longer. In return for accepting South Korea's request to exclude apples and pears, however, Chile demanded that sensitive manufactured items, such as refrigerators and washing machines, be excluded from the South Korea's wish list because of local opposition in Chile. South Korea accepted this request, believing that those goods, which already had a firm foothold in the Chilean market, would not be adversely affected.³⁹

³⁷ Seungjoo Lee and Min Gyo Koo, "South Korea's Multi-Track FTA Strategy: Moving from Reactive to Proactive" (paper presented at the 2006 Annual Meeting of the American Political Science Association, Philadelphia PA, 31 August -3 September 2006).

³⁸ See MOFAT, "u-ri-na-ra FTA chu-jin: Han-Chile FTA," [Online, cited 1 December 2005]. Available from <http://www.fta.go.kr/fta_korea/info.php?country_id=11>.

³⁹ Chung, "The Korea-Chile FTA," pp. 74-79.

After long, halting negotiations, South Korea and Chile finally concluded an agreement in October 2002 and signed it in February 2003. The South Korea-Chile FTA consists of a preamble and 21 chapters covering a wide range of issues, including national treatment and market access for goods, rules of origin, customs procedures, safeguard and anti-dumping/counter-vailing measures, investment and cross-border trade in services, telecommunications, government procurements, temporary entry for business people and a dispute settlement mechanism.⁴⁰

As noted earlier, it was largely political and strategic considerations that motivated South Korea to conclude the negotiations without further ado. Before establishing FTAs with larger trading partners, such as the US and Japan, South Korea needed to pursue experimental FTAs with smaller partners in order to minimize possible risks and to gain negotiation skills. South Korea believed that Chile's open trade policy and its rich experience in FTA negotiations would make the country an ideal candidate for South Korea's first FTA partner.⁴¹

South Korean negotiators felt relatively confident in dealing with their Chilean counterparts, presumably because of Chile's small economic size. Yet it did not take long for them to realize that Chilean negotiators were much more experienced and sophisticated than originally perceived.⁴² Lacking confidence and competence in core negotiation skills, South Korea had to pay a higher political and diplomatic tuition for its first FTA education than it originally thought.⁴³ Nevertheless, South Korea gained valuable training opportunities, which supports the Solis and Katada leverage hypothesis that an important motive for embarking early on in CRTAs is to acquire leverage over the evolution of intra-regional integration through two principal mechanisms: capacity building and precedent setting.

⁴⁰ Dong-hyuk Lee, "Han-Chile FTA Seo-myung," *Chosun Ilbo*, 17 February 2003. [Online, cited 5 December 2006]. Available from <http://srchdb1.chosun.com/pdf/i_service/read_body.jsp?Y=2003&M=02&D=17&ID=0302170206>. With regard to trade in goods, both parties agreed that (1) the tariffs for 2,300 items that constitute 66 percent of items exported to Chile by South Korea, such as passenger vehicles, trucks, computer and mobile phones, would be abolished immediately with the implementation of the agreement; (2) tariffs on South Korean petrochemical products and auto components would also be removed gradually over the next five years; (3) South Korea would immediately abolish the tariffs for all imported industrial products excluding items such as electric copper and would get rid of the tariffs for 224 items, including breeding cows and breeding pigs, within the first year after the agreement becomes effective; and (4) South Korea would gradually remove tariffs on Chilean peaches, kiwis, persimmons and pork over the next ten years and on Chilean grapes between the months of November and April for ten years, after which these tariffs would also be completely removed (Woo-seok Choi and In-jung Huh, "Han-Chile FTA 3 nyun-man-eh ta-gyul," *Chosun Ilbo*, 25 October 2002. [Online, cited 5 December 2006]. Available from <http://srchdb1.chosun.com/pdf/i_service/read_body.jsp?Y=2002&M=10&D=25&ID=0210250101>).

⁴¹ See Inkyo Cheong, "Korea's FTA Policy: Focusing on Bilateral FTAs with Chile and Japan," *KIEP Discussion Paper* 02-02 (Seoul: Korea Institute for International Economic Policy, September 2002), pp. 24-32.

⁴² Interview with South Korea's FTA negotiating team, Seoul, July 2006.

⁴³ Byong-kuk Kim, "Reservations on Korea-Chile Free Trade Agreement," *The Korea Times*, 21 November 2002.

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The two governments wished to ratify the agreement as soon as possible. However, the Chilean House of Representatives did not pass it until 27 August 2003. Even worse, the South Korean National Assembly had made several failed attempts to vote for the agreement before it was able to agree only on the method of voting on 9 February 2004, which was almost one year after the agreement had been signed. The concern about inter-sectoral complementarity between FTA partners was one of the most controversial points of debate.

Most notably, the structural adjustment costs of farming sector were a bone of contention. Although the agricultural sector represents only a fraction of national economy, South Korea's traditional attachment to rural areas made many South Koreans sympathetic with agricultural protectionism.⁴⁴ Yet, with the exception of the Ministry of Agriculture and Forestry and a few anti-free trade non-governmental organizations (NGOs), farmers failed to draw broad political support for their demand during the ratification stage.⁴⁵

In the meantime, South Korea's traditional protectionist groups, such as labour unions and uncompetitive manufacturing industries, remained disorganized during the ratification process, which indicates that a new dynamic of sectoral politics has emerged in South Korea. As a result of massive socio-economic restructuring imposed by the International Monetary Fund's austerity program, the South Korean economy experienced huge layoffs as well as wild fluctuations in capital flows until the economy rebounded in 1999. The once rigid South Korean labour market became more flexible—

⁴⁴ The share of agriculture, forestry and fisheries in South Korea's total employment decreased continuously, from 17.9 percent in 1990 to 8.1 percent in 2004. The three sectors' share in South Korea's GDP was less than 4 percent in 2003 (Ministry of Finance and Economy of Korea, *Economic Bulletin*, vol. 27, no. 11 [22 November 2005]). Yet the relatively short history of South Korea's industrialization since the 1970s means that many South Koreans still have family roots and ties in rural areas despite large-scale migration to urban areas. Before the Uruguay Round (UR), agriculture had been excluded from the free trade debate, allowing South Korean agriculture to enjoy market protection. But South Korea had to agree to open its agricultural market under the UR agreement, thereby jeopardizing uncompetitive South Korean agricultural products. A significant portion of South Korean farmers suffered varying degrees of losses. South Korean farmers saw their government's promotion of FTAs as yet another blow to the agricultural sector and, as a result, opposed the FTA with Chile.

⁴⁵ By contrast, the South Korea-Chile FTA has enhanced public awareness of FTAs and rallied public support in South Korea. According to a Gallup poll, 80 percent of the opinion leaders in South Korea supported South Korea's FTA policy in general and the signing of the South Korea-Chile FTA in particular, despite growing concerns of South Korean farmers (Chung, "The Korea-Chile FTA," p. 83). In a similar vein, according to a survey conducted by the Korea Rural Economic Institute in early 2004, 76.3 percent of South Korean consumers responded that they would be willing to buy Chilean grapes and wines if they were better than South Korean products in terms of quality and price (Bum-gu Lee, "Han-guk nong-up i-gut-i sal-gil-i-da (2): gyung-jaeng-ryuk hwak-bo ga-neung-ha-da," *Hankook Ilbo*, 27 December 2004. [Online, cited 5 December 2006]. Available from <<http://news.hankooki.com/lpage/society/200412/h2004122718362521950.htm>>).

albeit with a high risk of social unrest—as indicated by a growing proportion of temporary and daily workers and the emergence of a two-tier labour market. Indeed, the proportion of non-regular workers increased from 42.5 percent of total employees in 2000 to 52 percent in 2002, leading to a temporary disorganization of a number of labour unions across the country.⁴⁶

In sharp contrast, South Korean manufacturers with a competitive edge were better organized than anti-FTA groups. In particular, as their sales in Chile dropped rapidly in the middle of ratification battle, they became more anxious and thus raised their voices even louder in support of FTAs. In 2002, for instance, South Korean automobiles accounted for about 25 percent of Chile's automotive market, the second largest only after the Japanese market share. From 2003, however, the US, Mexico, the EU, Brazil and Argentina began to export automobiles to Chile duty free under their respective FTAs with Chile, thereby causing a serious market loss to South Korean automakers.⁴⁷ South Korea's top business groups, including the Federation of Korean Industries, pro-business scholars and major news media, expressed their concern that South Korea's failure to put into effect any FTAs had exposed the country to a wide range of disadvantages and setbacks in the global market.⁴⁸

Under increasingly heavy pressure, South Korea's National Assembly finally managed to ratify the agreement on 16 February 2004, when legislators from agricultural districts decided not to block the vote as they had done in the previous weeks, acknowledging that they were no longer able to reverse the momentum for bilateral FTAs.⁴⁹ Yet it was not an unconditional defeat of protectionist interests. In March, the ratification was followed by the passage of a special law designed to make up for the potential financial damages of farming and fishing industries due to FTAs. Despite criticism for the government's excessive financial commitment to declining sectors, over \$80 billion of public and private funds have been earmarked for farming and fishing rescue programs over a 10-year period.⁵⁰

⁴⁶ See Koo, "From Multilateralism to Bilateralism," p. 146.

⁴⁷ Korea Institute of Public Finance, "Chile, Argentina-Brazil ja-dong-cha moo-gwan-se-hyung-jung pal-hyo," [Online, cited 5 December 2006]. Available from <http://kipfweb.kipf.re.kr/english/information/default_view.asp?run=??%E4%BA%A6??8&run2=Property%20Tax&class=??%EA%B3%B7%EB%AE%9E&code=H11&tbl=SIGAWIN_CONTENTS&idx=124044&page=&jumenu=>>.

⁴⁸ Euo-dal Song, "FTA che-gyul ahn-hae han-guk ki-eop keun pi-hae," *Chosun Ilbo*, 24 October 2003. [Online, cited 5 December 2006]. Available from <http://srchdb1.chosun.com/pdf/i_service/read_body.jsp?Y=2003&M=10&D=24&ID=0310243501>.

⁴⁹ Doo-shik Park and Jong-se Park, "Han-Chile FTA ne-beon-man-eh guk-hoe tong-gwa," *Chosun Ilbo*, 17 February 2004. [Online, cited 5 December 2006]. Available from <http://srchdb1.chosun.com/pdf/i_service/read_body.jsp?Y=2004&M=02&D=17&ID=0402170101>

⁵⁰ See MOFAT, "Ja-yoo-moo-yuk-hyup-jeong che-gyul-eh dda-reun nong-eo-eop-in deung-eui ji-won-eh gwan-han teuk-byul-beop," [Online, cited 8 September 2006]. Available from http://www.fta.go.kr/inc/html/down.php?board_id=81&file_id=1.

With the implementation of the agreement, South Korea's exports to Chile—with automobile and electronics exports being the main beneficiaries—rose dramatically by over 50 percent in 2004, as compared to the previous year. According to a survey among South Korean firms exporting to Chile, more than 50 percent of the respondents said that exports increased with the implementation of the South Korea-Chile FTA and 88 percent of these positive respondents attributed export expansion to the agreement.⁵¹

In contrast to earlier fears, the growth of South Korea's imports of agricultural products, except for wines, from Chile slowed to a 2.6 percent increase. Meanwhile, South Korea's imports of copper ingots and ores, pork and wines from Chile increased sharply. The South Korean government prepared a fund of \$1.3 billion for year 2004 in anticipation of side payments to domestic agricultural sectors, but actual losses turned out to be far smaller than originally feared.⁵²

In sum, the economic crisis at the end of the 1990s contributed to the rise of reform-minded Kim Dae-jung and the downfall of many domestic veto holders that had plagued South Korea's economic policy in general and trade policy more specifically. As one observer notes, the economic crisis shocked South Korea out of traditional policy patterns and practices, disrupting interest groups that used to veto policy reform, and generating pressure for politicians to change the failed policies.⁵³ Furthermore, although some farmers' groups and labour unions remain militant, their political influence has been significantly eroded, as both their absolute and relative shares in the economy continue to decline. By contrast, competitive manufacturing sectors largely welcomed the government's FTA policy.

Implications of South Korea's Cross-regional Initiatives

The dramatic policy shift toward FTAs was undertaken as part of President Kim's ambitious vision and strategic goals for regional cooperation. At the first ASEAN Plus Three (APT) summit meeting in Kuala Lumpur in December 1997, he made public South Korea's aspiration to become a hub country of East Asia by playing a balancer role between regional powers.⁵⁴

⁵¹ Trade Research Institute, "Korea's Exports to Chile Surge 58.7% After FTA," *TRI Research Paper*. [Online, cited 1 December 2005]. Available from <http://www.kita.net/tri/eng_tri/tri_research_viw.jsp?no=445>.

⁵² Trade Research Institute, "One Year After Implementation of Korea-Chile FTA—Appraisal and Tasks," *TRI Research Paper*. [Online, cited 1 December 2005]. Available from <http://www.kita.net/tri/eng_tri/tri_research_viw.jsp?no=445>.

⁵³ Jongryn Mo, "The Politics of Economic Reform," in Carnegie Economic Reform Network, *The Politics of the Economic Crisis in Asia: Consensus and Controversies* (Washington DC: Carnegie Endowment for International Peace, 1999), p. 53.

⁵⁴ Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?" *Asian Survey*, vol. 42 no. 3 (2002), pp. 440-55.

Yet the Kim government's FTA policy was inherently reactive and passive to the extent that it aimed at minimizing potential costs rather than maximizing benefits of FTAs. Although the policy shift toward FTAs under President Kim marked a dramatic departure from South Korea's traditional trade policy, it was not until President Roh Moo-hyun entered office in 2003 that a comprehensive roadmap and detailed procedures for FTA negotiations were put in place.⁵⁵ In contrast to its rather peripheral status in President Kim's economic and strategic agenda, the FTA policy has now become a core element of President Roh's neoliberal policy reform and regional vision.

Upon its inauguration in February 2003, the Roh government launched an initiative aimed at creating a peaceful and prosperous Northeast Asia.⁵⁶ From the beginning, however, President Roh's agenda encountered unfriendly regional geopolitics, since none of the great powers surrounding the Korean Peninsula were supportive of Roh's wishful thinking, which lacks the same degree of diplomatic and moral attraction as his predecessor Kim once enjoyed. With its ambitious regionalist vision in trouble, the Roh government therefore realized that FTAs might serve as a better policy tool to achieve its strategic goals.⁵⁷

South Korea's recent move toward another CRTA, namely the KORUS FTA, is one of the most promising examples of South Korea's proactive FTA strategy. As noted earlier, the Roh government made a surprise move in February 2006 to cut South Korea's annual screen quota in favour of the US. In addition, it lifted the ban on US beef (the response to an incident of mad cow disease in the US), proposed modifications to its pharmaceutical pricing system and revised an automobile remissions regulation to provide a grace period for imported vehicles, thereby paving the way for KORUS FTA negotiations.⁵⁸

After eight formal negotiating rounds since June 2006, the two governments successfully concluded a landmark agreement on 1 April 2007. The KORUS-FTA represents America's most commercially significant FTA after the conclusion of NAFTA in 1993, as South Korea represents America's seventh-largest merchandise trading partner. For South Korea, the KORUS FTA is the largest FTA ever, as the US is South Korea's third-largest trading partner. In 2006, their bilateral trade valued at approximately \$72 billion. Aside from prospective economic gains, this FTA will strengthen the more

⁵⁵ Lee and Koo, "South Korea's Multi-Track FTA Strategy," pp. 27-28.

⁵⁶ Presidential Committee on Northeast Asian Cooperation, *Toward a Peaceful and Prosperous Northeast Asia* (Seoul: Government of Republic of Korea, 2004).

⁵⁷ Lee and Koo, "South Korea's Multi-Track FTA Strategy," pp. 11-12.

⁵⁸ United States Trade Representative, *2006 National Trade Estimate Report on Foreign Trade Barriers: Korea* (Washington DC: USTR 2006), pp. 393-417. [Online, cited 5 December 2006]. Available from <http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_NTE_Report/asset_upload_file682_9188.pdf>.

than fifty-year-old alliance between the US and South Korea and will underscore the substantial US engagement in East Asia.⁵⁹

By any measure, the negotiation process was not an easy one and the two governments expect an even tougher legislative ratification process. From one perspective, the current debate in South Korea about the KORUS FTA indicates that social cleavages may be much wider and deeper than previously thought. South Korea's protectionist interests, which are slowly recovering from the upheavals caused by the financial crisis, have now been galvanized by their coalition of convenience with anti-capital labour unions and anti-American NGOs, whereas pro-liberalization business lobbies are not actively mustering enough political support for the government.

Amid shifting interest group demands, however, South Korea's FTA strategy maintains its top-down momentum that is centred on presidential leadership and government institutions. Under President Kim, strong executive power and public support for neoliberal restructuring allowed the introduction of new FTA initiative. Under President Roh, the OMT has taken over the driver's seat from the president who currently suffers low popularity even among his once-loyal supporters.⁶⁰

The KORUS FTA has the potential to alter not only the cross-Pacific economic relations between the US and South Korea but also the dynamics of East Asian economic relations. With respect to spillover effects, many in Japan and China have already expressed concern that the US-South Korean accord could put their countries at a competitive disadvantage in the US and South Korea market. Such recognition might motivate both Tokyo and Beijing to seek an FTA with Seoul and Washington.⁶¹

As a matter of fact, the dynamics between Japan and China as regional rivals and South Korea as a bridge between them are of great importance not only to the Northeast Asian region itself but also to the rest of East Asia.⁶²

⁵⁹ United States Trade Representative, "United States and Korea Conclude Historic Trade Agreement."

⁶⁰ The OMT's neoliberal policy orientation has been further highlighted by the appointment of its third trade minister, Kim Hyun-chong, in July 2004 as well as the promotion of its first trade minister Han Duk-soo (1998-2004) to deputy prime minister and minister of finance and economy. The OMT's authority has been expanded as indicated by the abolition of the Foreign Economic Council under the Presidential Committee for National Economy in early 2006 after its operation as a monitoring body for the past two years. In addition, a presidential committee to facilitate a KORUS FTA and to win over its opponents was set up in August 2006 under the leadership of the former OMT minister and the former deputy prime minister Han Duk-soo, who is most likely to shield the OMT from its critics. For more details, see Lee and Koo, "South Korea's Multi-Track FTA Strategy," pp. 25-26.

⁶¹ Lee and Koo, "South Korea's Multi-Track FTA Strategy," p. 16; "Chinese Premier Hopes for FTA with Korea 'Soon'," *Chosun Ilbo*, 6 April 2007. [Online, cited 21 May 2007]. Available from <<http://english.chosun.com/w21data/html/news/200704/200704060013.html>>.

⁶² As noted above, South Korea-Japan FTA negotiations have been stalled since November 2004. Meanwhile, the feasibility of a South Korea-China FTA has been studied by private/semi-private research institutions in both countries. The opinion about a South Korea-China FTA is divided in South Korea. From one perspective, a bilateral FTA with China will enhance South Korea's economic presence

Although these countries have yet to act vigorously to institutionalize economic relations, the new dynamics of rivalry between Japan and China are currently playing a critical part in shaping the newfound rush to preferential arrangements.⁶³

This point was driven home most dramatically with regard to ASEAN. At the APT meeting in Brunei in 2001, China proposed an ASEAN-China FTA and signed an agreement in February 2003 with the 10 ASEAN countries pledging free trade by 2010. Challenged to do the same, Japan proposed a Japan-ASEAN FTA at the ASEAN summit of 2002. It also hosted the ASEAN-Japan Commemorative Summit in December 2003, confirming its enthusiasm for promoting collaboration with ASEAN members.⁶⁴ The framework agreement between South Korea and ASEAN reached in December 2005 puts additional pressure on Japan to strike a similar deal with ASEAN.⁶⁵

Indeed, South Korea's FTA initiatives would likely reinforce the burgeoning effort to form the East Asian Community in various proposed forms. In this respect, the negative impact of regionalism on multilateralism resulting from a diversion of interest, does not seem to hold in the case of South Korea's pursuit of FTAs at both intra-regional and cross-regional levels.

Conclusion and Policy Implications

CRTAs are a main feature of South Korea's newfound enthusiasm for a multi-track FTA strategy. In this study, we examined the rise of South Korea's aggressive FTA initiatives with a special focus on the first cross-Pacific FTA, namely the South Korea-Chile FTA, and drew implications of South Korea's cross-regional initiatives for its effort at intra-regional FTAs.

From an institutional point of view, South Korea's embrace of FTAs has been shaped by a top-down political initiative rather than a purely bottom-up demand from various interest groups and the general public. In the aftermath of the 1997-1998 Asian financial crisis, a new consensus emerged within South Korea's policy circles that FTAs are crucial to South Korea's economic survival in a world of economic uncertainties. The political leadership of President Kim Dae-jung turned new policy ideas into action. Amid sweeping socio-economic restructuring, Kim's decision to pursue preferential trade liberalization through FTAs went unchallenged, if not

with its largest trading partner. From other perspective, potential adverse effects on agricultural and some low-end manufacturing sectors would be much greater than those of prospective FTAs with the US and Japan.

⁶³ Vinod K. Aggarwal and Min Gyo Koo, "Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia," *The Pacific Review*, vol. 18 no. 2 (2005), pp. 205-06.

⁶⁴ Pempel and Urata, "Japan: A New Move toward Bilateral Agreement," p. 78; Aggarwal and Koo, "Beyond Network Power," pp. 212-13.

⁶⁵ It should be noted that the South Korea-ASEAN agreement is not yet complete. Thailand backed out of the deal because of South Korea's persistent demand to exclude rice from the list of items for market liberalization.

unnoticed, by traditional protectionist interests in South Korea. This point was proven by the fact that it was not until 2003 that a heated debate started over the ratification of South Korea-Chile FTA.

South Korea's motivations to pursue CRTAs are complex. These include economic, political and diplomatic/leverage motives. South Korea's policy departure from its long-standing support for the multilateral trading system began with its FTA negotiations with Chile, a country located on the opposite side of the globe. Aside from the South Korea-Chile FTA, South Korea has been negotiating a number of other CRTAs. Most importantly, the recently concluded KORUS FTA will have significant economic and strategic repercussions not only for South Korea but also for its neighbouring East Asian countries.

We found that South Korea's choice of Chile as its first FTA partner had a lot to do with the potentially minimal costs for South Korea's uncompetitive sectors such as agriculture. More broadly, South Korea's CRTA initiatives reflect its concerns about inter-sectoral complementarities with its FTA partners. In addition, South Korea needed to gain experience in bilateral FTA negotiations. As such, it wanted to use South Korea-Chile FTA negotiations as a litmus test of the country's capability to pursue trade liberalization outside and beyond the WTO's multilateralism. Before establishing FTAs with larger trading partners, South Korea chose to pursue strategic FTAs with smaller partners in order to minimize the risk and possible losses and to gain negotiation skills. Chile's open trade policy and its accumulated experience in FTA negotiations made the country an ideal candidate for South Korea's first FTA partner. Although South Korea had to pay expensive tuition for its learning experience with Chile, it certainly acquired negotiating skills and technical know-how that contributed to its fast-growing list of FTAs.

This leverage argument can be applied to South Korea's new CRTA initiative with the US. Undoubtedly, the successful KORUS FTA has increased South Korea's diplomatic and economic leverage in East Asia, especially vis-à-vis Japan and China. Aside from prospective economic gains, it will greatly improve the troubled alliance between South Korea and the US in a region where the balance of power is shifting due to the rise of China. At the same time, it will prompt both China and Japan to form an FTA with South Korea, either bilaterally or trilaterally, in order to maintain their foothold in the US market, in which the three Northeast Asian countries continue to compete with one another.

To conclude, the economic and strategic motivations of the political leadership as well as the new bureaucratic balance of power centred on OMT have played a significant role in South Korea's rush toward RTAs in general and CRTAs more specifically. South Korea attempts to strike the right balance between intra-regionalism and cross-regionalism. South Korea's CRTA initiatives will strengthen its intra-regional policy goals, in particular the

wished-for balancing role between China and Japan. Although its pursuit of FTAs does not necessarily mean that it has completely abandoned the multilateral trading system, the policy departure is becoming increasingly obvious and significant.

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