

**Political Economics of Trilateral CJK FTA and  
Strategic  
Trade Options of Korea**

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## **I. Introduction: New Regionalism**

The object of this study is how to find a strategic trade policy of Korea in order of building FTA among China, Japan and Korea (so-called CJK FTA). It is well known that FTA is the distinguishing features in East Asia. The reason for this is that East Asia is regarded the optimal trading area in Balassa's concept.

In East Asia there are not any other institutional economic agreements such as EU or NAFTA level. Instead exists market driven integration now. As aspect of neo-functionalism, it is absolutely necessary that there is an institutional economic integration in order to develop a stage further. Generally speaking, the strategic trade policy of Korea tends to rely on multilateralism as well as bilateralism, but makes away with regionalism and regional multilateralism. Therefore, Korea government is to be recommended to focus on CJK FTA as a strategic trade option.

This study proposes '3 person 2 stage game' which is a procedure of integration among CJK. In addition, the study refers to the effect of institutional economic integration for three country and indicates what the obstacles of economic integration are as well.

In spite of existing WTO system, regionalism becomes more and more one of important features in world economy. Regionalism is in itself regarded as an exception to non-discrimination rule of WTO.<sup>1)</sup> During 1950s-1960s, we witnessed so-called 'old regionalism'. In period of 1950-1969 merely 20 RTAs (Regional Integration Agreements) were notified to the GATT. Moreover these regional arrangements remained shallow in width and depth. The only exception was EEC Treaty (today EU). In those days before WTO, the expansion of home market was one of important backgrounds of regional integration.

At beginning of 1970s a number of new arrangements were established and notified. In a decade of 1970s more than 40 RTAs came to birth, which reflected the deterioration of world economy in wake of oil crisis. In the time of trade protectionism 1970s/80s the world economy suffer from recession.

A real surge of RTAs took place in 1990s. Over one hundred arrangements were notified to WTO, thus justifying so-called 'New Regionalism'. The New Regionalism could be distinguished from old one in the sense that many countries consider the regionalism as instrument not only to expand their home market, but to maximize national interests. Beyond tariff reduction FTA aims at promotion of national security, prestige and value etc. Regionalism is now considered as strategy in trade policy: This is especially true in case of USA and EU. After a regional group is formed, it becomes an economic entity on world economic scene. It encompasses several member countries which are united in a strategic coalition to realize common economic goals. They can get bargaining power in international

negotiations. Regional Grouping is therefore also a political phenomenon. It is evident that regionalism is now perceived as strategic trade policy of countries.

Four main trends are visible. First of all, countries across the world depend on centre pieces of their commercial policy. For some countries regional integrations are on a par with multilateral trade objectives. For many others RTAs have become the priority. Secondly, RTAs are becoming complex more and more, in many cases establishing regulatory trade regimes which go beyond multilaterally agreed trade regulations. Thirdly, mutual preferential agreements among developing countries are on the increase. Significance is the emergence of preferential agreements among key developing countries which may be evidence of a strengthening of so called South-South trading patterns. Finally, RTAs dynamics show a general pattern of expansion and consolidation. We are witnessing a proliferation of cross-regional integrations, which account for a large proportion of the total increase in RTAs. Regional trading blocks on a continent-wide scale are in the making.

Turning to the typology of RTAs in force<sup>2)</sup>, the most common category is the free trade agreement (FTA) which accounts for 84 percent of all RTAs in force. Partial scope agreements and CU (customs union) agreements account for 8 percent respectively. Of the RTAs not yet in force, 96 percent are FTAs and 4 percent are partial scope; there are no customs unions. The predominance of FTAs over CU is due to the fact that they are faster to conclude and require a lower degree of policy coordination among the parties. In FTA each party maintains its own trade policy to do with third parties. On the other hand, CU requires the establishment of common external trade policies, implying a greater loss of autonomy over national commercial policies and more complex negotiations and implementation periods. Furthermore, the majority of FTAs are concerned with strategic

market access, unbound by geographical considerations. In CU geographic factors play important role in defining the objective of economic and political integration.

## II. Functional Integration in East Asia

### 1. The Growth of Trade

The trade of Korea, China and Japan had been increasing at 4-5 percent rate during the last 10 years. The scale of trade of 3 countries was approximately 1,300 billion dollar in 1995 to 3,078 billion dollar in 2008. Therefore, the trade volume of tree countries in the world trade was getting bigger 12 percent to 13.9 percent. It was remarkable that a size of trade of China had risen much faster than Japan. It was the reason that Japan had struggled against a stagnancy of business activities in 1990s (so-called a lost decade).

<Table 1> Share of Korea, Japan and China in the World (2008)

	Population (Billion)		GDP (US \$10Billion)		Total Trade (US \$10Billion)	
	Scale	Gravity(%)	Scale	Gravity(%)	Scale	Gravity(%)
CJK	14.6	23.6	6,698	21.7	3,078	13.9
EU	4.0	6.5	9,637	31.8	9,174	41.5
NAFTA	4.2	6.8	11,809	36.7	4,188	19.0

Sources: WTO, World Overview, IMF, International Financial Statistics.

Although there was a little increase in the share of Korea exports of 2.4 percent, China had been big increased 2.9 percent to 6.0 percent. In case of Japan, it was getting down from 8.6 percent to 6.5 percent at the same time. Moreover, Korea and Japan had decreased 2.6 percent to 2.3 percent and 6.5 percent to 5.0 percent on the total imports. However, it had risen 2.5 percent to 4.3 percent in China. Korea became the third market in Japan and the fourth market in China. China was the second market of Korea and Japan, and Japan became the third market of Korea and China. The interdependence of three countries had been continually increasing from 1990s. The export of Korea to China and Japan has been increased 20.0 percent in 1995 to 22.6 percent on 2008, and the export of Japan to Korea and China has been highly increased 12.1 percent to 16.0 percent in the same time. However, the export shares of China to Korea and Japan had been decreased 23.6 percent to 17.5 percent in that period. Especially, the export shares of Korea and Japan to China had been highly increased. Otherwise, the export shares between Korea and Japan had been slowly decreased. As mentioned above, one of the trading structure of three countries is an inequality on trade. Korea has been on red to Japan continually and China has been on red consecutively Korea but, Japan has been on black on the trade balance among those countries.

<Table 2> Trade Relationship among Korea, China and Japan

Unit : billion dollar

	Korea·China	Korea·Japan	China·Japan
1995	17	50	46

1996	20	47	57
1997	24	43	64
1998	19	29	57
1999	23	40	67
2000	31	52	86
2001	32	43	89
2002	41	45	102
2003	57	54	133
2006	90	68	160
2008	120	70	200

Source : IMF, Direction of Trade Statistics.

## 2 Benefits of Regional Economic Integration

### 1) Increasing Scale of Economy

The gravity of three countries on the world economy is increasing in sense of population, GDP and international trade. Moreover, this area is generally thought one of the most dynamic economic places. It is the best example that China has been improving all of economic parts since 1990s. China has been increasing an economic growth of GDP extremely, specifically 8%-10% since 1990s to 2000s. According to the 10th "5 years plan"

the government in China has a plan to open their market more and more to foreign investors continually. Since China affiliated with WTO in 2001 the economy of China has been integrating into the world economy very fast.

In spite of an economic depression, people realized that Japan has a big competition on high technology and international credit. So it is why Japan can maintain a good reputation as a second super power country in the world economy. As a matter of fact, foreign exchange currency and international credit are the main reason for Japanese economy to get a high advantage in the world economy. Generally speaking, Japan used to earn 150-200 billion dollar of trade on black every each year.

Korea, which was one of the poorest countries in 1960s, has been improving the economy as a developed country today. In time of 1962-2008, GDP in Korea has been rising almost 12 times so that GDP per capita arrived at about 20,000 US dollar. It means that Korea becomes a 10th important country on international trade. The trade scale of Korea sums up about 800 billion dollar, and trade surplus of Korea is almost 20 billion dollar. Korean economy has been growing up very fast because of market mechanism and changing for the better of firm governance in spite of financial crisis. The economic scale of 3 countries occupies 25% on the world producing and 18% on trade. The economic integration of 3 countries is the best solution to overcome a lot of competitions in the world.

## **2) The Inter-dependence of Economic Relationship**

China concentrates on a reform of market mechanism and financial factors since China has become a member of WTO. As a result, China could be exposure in severe competitions and world-wide standard. China just has a next step to open a financial market and

liberalization of trade regime. It is, however, not excluded that China could fall into dangerous situation in financial or stock market. Therefore, China would be able to choose a method which Japan and Korea has already used to get rid of dangerous sectors. In fact, Korea and China have interdependent relationship because Korean industry is used to supplying a fundamental goods to Chinese companies which exports their products to foreign countries. Furthermore, Japan is also the most important for China to learn a high technologic industry. In other words, Korea and Japan seemed to be a momentous role to China before China open a domestic market. No country tries to do something for economic integration besides Japan. Japan thought that economic integration of East Asia was only one solution to subjugate a long-term economic depression in 1990s.

Takamatsu and Kojima insisted "flying geese model" which emphasizes a specialization of international labor in Asia. Japan attempted to make economic integration in Asia since 1960s. Scholars thought that "flying geese model" was worthy of doing for Asia even though it had a couple deficits.[3\)](#)

Although Japan tended to affect economy in China, Japanese share in Chinese market did not increase highly than expected. In the other hand, European countries try to enter into China continually. Meanwhile Japan has begun to have interest in a regional integration in 1990s. The reason for this is that an economic concentration in Japan was flocked too much in Tokyo, so the solution was to be dispersion of power from central-government to new local areas. Main idea is that Japan attempted to make a regional integration in East Asia.

Korea, Japan and China have a very close intimacy about culture, economy and history. It is impossible to think about the future of Korea without China and Japan. Economic support

and investment from Japan has been important for Korea to improve industries. China began to catch up with Korean economy inch by inch since China joined in the WTO. China is the fastest growing market to Korea as an opportunity of development.

### **3) Common Political Interests**

There are some controversies, whether or not, China included economic integration in East Asia. If economic integration is processing without China in East Asia, it is not complete regional integration because China is going to be super power country in East Asia. The group of Asian Big 3 has a political interests, which is much better than a model of 2 countries because Big 3 model has a advantage to get down a political pressure. Industrial interest groups in Korea are afraid of trade deficit with Japan. However, trade balance is on equilibrium if China participates on a trade of Korea and Japan.

The political stability among 3 countries would be strengthened by union of 3 countries. Moreover, the disbelief of China and Japan on the historical experience and a competition of China and Japan in order to get a leadership in East Asia could act on obstacle to be an economic integration.

### **4) Trade Creation Effects**

These are traditional static effects of a regional economic integration. Trade creation refers to the shifts in expenditure or imports of a member country from more expensive domestic producers to cheaper sources within the region. The creation of more trade refers to the addition and increased variety of exports to other member countries. These exports are not existent before integration because of trade barriers. Trade creation means the expansion of production in exporting countries and enhancing of allocation efficiency as a whole.

The trade diversion refers to the shifts in imports from a cheaper outsider-producer to a more expensive inside-producer, which means the deterioration of consumer welfare. Some supporters of RTA assert that trade diversion has positive effects on production expansion within member countries, which could result in dynamic economics such as scale economy, competition effects, investment activities and so on.

## **5) Non-Economic Effects**

The expected effects of FTA formation of 3 countries can be derived from the well-known theory of economic integration. The static benefits could be referred to 'trade creation effect'. The elimination of trade barriers between 3 countries could surely increase trade volume. Notwithstanding of insufficient statistics about trade creation effects, the regional production of 3 countries could be grown annually at the rate of 1-2% merely via trade creation.

The second consideration could be dynamic effects of integration. If RTA happens, such positive developments in integrated area are to be followed: furious competition, technology transfer, increased mobility of factors. The regional economy could, therefore, have more enhanced efficiency of allocation (so-called A efficiency: Pareto optimality). The regional integration induces firms to take M&A. (X-efficiency). Scitovsky referred this as the 'great market effects'. Great market effects are, to be sure, much more important than trade creation effects.

The last consideration in this connection is related to political dimension in East Asia, where political stability turned out sometimes fragile. The historical experiences and ideological differences give rise to mutual misunderstandings. Only enlarged economic interests could make political barriers be lessened.

### III. Strategic Approach to CJK Integration

#### 1. Current Situation

The leaders of Korea, Japan and China have good wishes to establish the trilateral FTA among 3 countries. On October 2003 the leaders from 3 countries agreed that they would start the possibility study of trilateral FTA.<sup>4)</sup>

However, the negotiations processes have been slowed in recent periods. The 3 countries have launched separated FTA talks with other countries: Korea finished FTA with Chile, Singapore, ASEAN, USA in addition to EU. Japan has finished FTA with Singapore, Mexico and so on. Meanwhile China has finished FTA with ASEAN and Hong-Kong etc.

According to microeconomic survey of media, most businessmen and enterprisers of 3 countries believe that the Regional Trade Agreements are necessary in this region and furthermore trilateral FTA could be more beneficial than any other forms.

Next Table is results from investigation of Korea, Japan and China's enterprisers as to necessity of FTA.

<Table 3> Necessity of establishing Trilateral FTA

Unit : %

Investigated Companies	China	Japan	Korea
Necessity	64 *	69.8 *	75
No necessity	4	0.9	2
No necessity in short run	21	20.8	20
No ideas	8	4.7	3

No answers	3	.	.
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Resource : Investigation from "International Business Daily"(China), "NIKKEI"(Japan) and "The Korea Economic Daily"(Korea); 2004.2.15-3.15. Note: \* Maximum number

## 2. Optimum Size of Integration Area

Is grouping of Big 3 countries optimal size? Optimization research of the size of integration gained a great attentions from academic world. In particular 'optimum currency area' has been, to a extent, well formulated by economists. According to R. Mundell the optimal currency area could be considered, if following conditions are to be fulfilled:

- 1) high degree of factor mobility.
- 2) high degree of openness and share of trade in production.
- 3) low degree of product diversification.
- 4) high degree of international financial integration.
- 5) similarity in rates of inflation.
- 6) high degree of policy integration.

How about 'optimal trading areas'? How big or wide should an integrated region be? Considering the theorem of 'optimal currency areas', we can discuss about 'optimal trading areas'. In this subject a lot discussions haven been undertaken in other topics such as 'optimum factor mobility areas, the optimal regulatory area, or the optimal areas for all public goods and the optimal number of level of responsibilities. From this lists the concept of optimal trading area is clearly a complex issue with no easy answer.

Considering the basic motivations for formation of regional groupings it can be argued that the regions are in process of a primitive stage to complicated one: In the evolution of world economy from a local, then national and onto a global scale. Preserving security is often a matter concerning neighboring countries with a long-time experience of wars. Building regional group is, therefore, the means to promote trust and security.<sup>5)</sup> Likewise bargaining power includes countries which have the same location and the same interests. In both case, therefore, a limited number of neighboring countries qualify for the formation of a regional grouping. The economic effects of integration do not suggest always building a RTA. Paradoxically the trade liberalization on global scale do better than regional grouping.<sup>6)</sup> In this case trade creation could be maximized and trade diversion avoided. A similar conclusion can be drawn with regards to the dynamic effects of economic integration: When liberalized on global scale, the degree competition could be increased and the scale economy fully realized. Under global competition firms go anywhere labor cost are lowest. There will be more chances for less developed areas to catch up. So Centrifugal forces will function in world economy and agglomeration forces be weakened.<sup>7)</sup>

Loose liberalization arrangements on global scale (likewise WTO) give rise to problem, which have always been less important to national countries than more restricted arrangements on regional level. The reason is that a large number of heterogeneous countries make negotiations too difficult to conduct, implement and control, thus undermine their credibility. Smaller groups of countries, therefore, are better solution for maximizing integration effects. This reasoning is somewhat similar with the argument of 'second best policy'.

Balassa suggested three pre-conditions for optimal trading areas as follows: <sup>8)</sup>

- 1) geographical neighboring.
- 2) cultural similarity.
- 3) similar degree of economic development.

Geographical neighbouring means low cost of transportation between regions. High transport costs imply the possibility of trade diversion effects, if regions are to be integrated. Geographical neighbouring means, in other words, similar experiences in culture, history and religion. This could play an important role on political issues of integration. The last factor of pre-conditions has something to do with magnitude of integration effect. The welfare effect of trade could be estimated more positively in case of intra-industry trade than inter-industry case. The more similar industry structure countries have, more magnificent the effect of integration.

Considering the past experiences of EU or NAFTA the number of participants in RTA is very important. From view of purely mathematical analysis, the better is economic welfare, the greater the number of participants.<sup>9)</sup> This is the same arguments in free trade of neoclassic world. However, there is some room for further consideration regarding this matter. In collective behaviors of participants it is hardly expected that all players (participants) do keep their agreements.<sup>10)</sup> In other words, the more is the number of players, the more difficult is cooperation, decisions, bargaining, etc. among members. If being summed up, three countries option (China, Japan, Korea) could be considered as realistic regional grouping in East Asia.

### **3. China, Japan and Korea as player :**

#### **a model for 3 person cooperation game**

Three countries option (China, Japan, Korea) as regional grouping is seemed to be optimal and realistic in feasibility perspective. In present stage Korea appears as the strongest supporter for CJK grouping. Korea has begun, for long time, to show interests in regional integration. China is now fully conscious of the benefits of integration.

The environment seems to be good for dialogue between three countries. Soon bilateral and trilateral negotiations of RTA should be undertaken. If one country has great interests in these grouping and at the same time the other country approved, the third country has to be forced to join the grouping.

In the long run the equilibrium could be found. In process of these negotiations of China, Japan and Korea, the following scenario or game could be expected. It may well be expected that in the first stage of three countries integration, Japan and Korea could begin to take a bilateral negotiation. At the same time China-Japan negotiation and China-Korea negotiation should take place. At the final stage package deal between three countries could be begun.

The following figures show possible games between three countries: <Fig. 1> illustrates the matrix of Japan-Korea cooperation game. At present time the game begins at the fourth quadrant (IV) of figure. This means that Japan is eager to make a FTA with Korea, but Korea is reluctant for Korea-Japan free trade. If China is known surprisingly to negotiate for free trade, the atmosphere of Korean negotiator will be changed. The solution could, therefore, move from IV to III. If the negotiation for free trade between Korea and Japan turns out successful, the other negotiations with the third country (China) could be settled

down. This game gives political implications: If only two countries of three agree with each other, three country grouping could be easily arrived.

The game model for this three countries cooperation could be exemplified by NAFTA. In case of NAFTA negotiation between USA and Canada began at the first stage and then negotiation with Mexico was followed.

<Figure 1> cooperation game between County A and B

		B	
		Cooperation	Non-cooperation
A	cooperation	Integration <III>	Negotiating <II>
	non-cooperation	Negotiating <IV>	non-integration <I>

<Fig. 2> shows the final game, in which all three players participate. In this game 3 different equilibrium could be expected:

(1) If all countries agree to cooperate, the equilibrium could be settled down at third quadrant (III). In other words trilateral FTA could be established.

(2) If all countries decide not to cooperate, the equilibrium is at the first quadrant (I). In this case the three countries remain separately without any market integration.

(3) If two countries cooperate and one country does not cooperate at the same time, the equilibrium could not found. In this case negotiations continue. (second, fourth quadrant)

<Figure 2> cooperation game including Country C

		C	
		Cooperation	non-cooperation
A	Cooperation	Integration <III>	Negotiating <II>
	non-cooperation	Negotiating <IV>	non-integration <I>
		C	
		Cooperation	non-cooperation

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B	Cooperation	integration <III>	Negotiating <II>
	non-cooperation	negotiating <IV>	non-integration <I>

## IV. Perspectives for CJK FTA

### 1. FTA Policies of 3 Countries

#### 1) China

Basically, Chinese policy towards FTA is a strategic one that is based on long-range perspective. FTA emerged as a part of the main trade policy of China, since the country's entry into WTO was coming near. Therefore, China is able to have done industrial conversion that is from labor-intensive to capital-intensive industry. China has a much higher comparative position in concern about the trade of agriculture around the world. As a matter of fact, however, government of China does not want their international payments to increase because of just agriculture advantage.

Chinese government hopes that China become a super power country like the United States in the world. So, China has attempted to establish FTAs in East Asia more and more

in order to enlarge his power of influence. It is possible for China to strengthen his position toward the world. In the long run, the most important thing is that China should negotiate FTA with Korea and Japan for his aim. To realize their goal, China should recognize a big political coalition between the United States and Japan. As a China's position, it is pretty difficult for China to increase the power of influence in East Asia on accounts of U.S. and Japan's check in check. As a result, CJK FTA is one of the best solutions for China to expand his power in East Asia. As a matter of fact, the appearance of CJK FTA has to overcome several serious problems such as political and diplomatic relations. However, CJK FTA is going to become the best choice of China' politics as well as the third main blocs in the world if three countries get together.

## **2) Japan**

Japan has so far second economic power in all of the world. Generally speaking, Japan has pursued the free trade system on the WTO. The reason for this is that Japan could take a benefit from the multilateral trade system. However, regional trade agreement such as FTA is the main wave nowadays in the world. So Japan has to work hard to make a regional trade agreement instead of multilateralism in order to get a profit more and more.

In the recent, Japan attempts to make a bilateral trade agreement with some economies, specially countries in Northeast Asia. Japan prefers to use the Economic Partnership Agreement(EPA) rather than to make a FTA because EPA includes trade as well as the rules, investment, intellectual property, personal exchanges and so on. Japan has invested not only in Asia but also in the world. Therefore, it is possible that Japan can invest more than ever toward Korea and China as long as CJK FTA is established. Because CJK FTA brings the moment that investment circumstance is transparent. Moreover, Japan is able to

secure energy, natural resources, and food with CJK FTA. Especially, Japan does not possess a lot of natural resources such as raw material which is based on export products. So it is really important that Japan secures those one in advance for the development of Japan.

At this time, Japan tries to make a regional economic integration no matter why Japan prefers EPA to FTA. Japan hopes that the negotiation for Korea-Japan FTA begins to make efforts again. Then Japan has a plan to use a Korea-Japan FTA as a stepping stone to make a CJK FTA under the leadership of Japan.

### **3) Korea**

Korea made a FTA policy as a trade strategy to take off Korea's economy again. In advance, Korea decided the promotion of Korea-Chile FTA in 1998. And it was the first FTA to Korea. Both countries did not have a big scale of trade so that an economic effect of Korea-Chile FTA was not very much. However, it was important that the Korean government adopted regionalism as a trade policy. Meanwhile, Korea could notify several FTAs which are Korea-Singapore, Korea-EFTA, Korea-ASEAN. Moreover, the negotiation of KOR-US FTA finished. Korea is now in progress on agreement with Canada, Mexico, New Zealand, India, and EU etc.

The Korean government announces a roadmap about Korea's FTA strategy in September 2003. Korea's FTA policy is able to summarize following four major things.

The Korean government is participated in regionalism such as FTA quite late in the world. As a result, the Korean government prepares several FTA.

First of all, the Korean government pursues a simultaneous multiple FTA strategy..

Secondly, Korean government seeks for establishing FTA with big economies. As a matter of fact, USA, EU, China, ASEAN, and Japan take 90% among the trade partner of Korea. Therefore, Korea has already made a FTA with couple countries which belong to big economies. Korea concluded FTA with USA, EFTA, India, and finally EU. Moreover, Korean government is trying to drive forward to make FTA with BRICs(Brazil, Russian Federation, and China).

Thirdly, the Korea government chases down a comprehensive FTA on high level. It means that Korea does not only make efforts to negotiate goods on FTA but also exerts to talk about services, intellectual property, and so on. It is possible to remove a complete tariff barrier so that an economic effect of FTA is able to increases more and more.

Finally, the Korean government hopes that Korea's FTA policy is supported fully by an interest group or people who are concern about FTA. Korean negotiators can not have a bargaining power as long as they do not get a support from Korean people. In addition, the Korean government has a principle to keep a transparency on FTA policy.

## **2. Barriers and Obstacles**

CJK FTA leads to enormous economic effects if three countries collaborate together. However, there are several problems for establishing CJK FTA. First of all, three countries have a totally different focus about agriculture problem. China overwhelms the price level of agricultural products to compare with Korea and Japan. So, agriculture problem should be solved fully among three countries for CJK FTA. Secondly, three countries have different degrees of economic development. As a result, difference degree of economic development among three countries works on being harmful as long as CJK FTA is established. Thirdly, three of them own historical and political obstacles jointly. Japan has a historical mistake to

Korea and China that were attacked to conquer. It is a really hard situation to reconcile between Korea, China and Japan. Moreover, Japan has triggered off a struggle which Japan has demanded the territorial waters and territory of Korea as the Japanese possession. China has distorted the history of Korea-China as well. Both of China and Japan have a serious problem that they have been comparative severely in order to occupy the leadership of politics and diplomatic relations in East Asia. As a result, it is very difficult that three of them harmonize to establish CJK FTA. Fourthly, each of countries has peculiar non tariff barriers. Non-tariff barriers are used to reducing the effect of economic integration. In other words, non-tariff barriers prevent trade partners from trade liberalization. As a matter of fact, Japan has unique non-tariff barriers especially such as a preference of long term transaction, monopoly business, and transaction of an affiliated companies etc. The non-tariff barriers of Japan almost become a kind of a culture of enterprise. Therefore, it is not easy that non-tariff barriers of Japan is going to be removed. Finally, there is interference of U.S. to be worry about decreasing of influence to East Asia. Countries in East Asia attempted to build up Asian Monetary Fund (AMF) to support Asian countries one another on accounts of the financial crisis of East Asia. U.S. objected to make AMF because U.S. was ruled out as a member nation.

### **3. conclusion**

There are a lot of RTAs here and there since 1950's. 194 RTAs which has notified the GATT/WTO exist in the world. In addition, big regional blocs such as EU and NAFTA were appeared. These situations pursue only one goal that all of countries try to get a economic benefit on trade liberalization. For Korean there is not any other RTA besides couple bilateral FTAs. Korea should establish RTA in East Asia as soon as possible. There are

several patterns of FTA. Among them, CJK FTA is the strongest FTA to Korea as long as Korea pays attention to consider politic, diplomatic situation as well as economic effects. CJK all have a severe problems to get together for economic integration. However, CJK FTA has the most powerful and positive influence to each of them in the various aspects. Moreover, CJK FTA becomes close optimal trading area which is based on B. Balassa's economic integration preconditions.

Korea, China, and Japan are most neighboring nations, so that CJK FTA is satisfied with geographical condition exactly. And three countries have a quite similar culture and share with Confucianism as well. These one are also very important to establish CJK FTA. Cultural similarity brings about the identity of traditional values that can make easy to solve a conflict or something like this on economic integration. As a result, CJK FTA has the most possibility as an economic integration in East Asia.

The Korean government chases down a simultaneous multiple FTA strategy in principle.

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1) Regional Integration could be regarded as a discrimination against the third countries. It do not coincide with the spirit of MFN (Most Favored Nations).

2) According to B. Balassa, regional economic integration could be staged as follows: 1) Free Trade Agreement 2) Customs Union 3) Common Market, 4) Economic Union 5) Completely Integrated Economy

3) Flying Geese Model is nowadays evolved to “Bamboo Capitalism Model” and “Water Lily Model”.

4) On Oct. 7 2003 the top leaders of 3 countries have met in Bali, Indonesia at APEC summit.

5) Franco-German conflicts could be an example.

6) According to Krugman, economic welfares are to be maximized in one world integration while worst the world divided into 3 blocs.

7) Krugman, 1999

8) Balassa, 1969

9) Haggard, 1997, p.22