

Background

1. In the summit meeting held in Tokyo on October 8, 1998, Prime Minister Keizo Obuchi of Japan and President Kim Dae-jung of the Republic of Korea (ROK) signed the “The Joint Declaration of the New Japan-ROK Partnership for the 21st Century” to build a future-oriented relationship on the basis of the spirit of reconciliation and friendship. With a view to reinforcing economic partnership between the two countries, Japan and Korea announced the “Japan-Korea Economic Cooperation Agenda 21” at the summit held on March 20, 1999 in Seoul and concurred to promote cooperation in a wide range of areas.

2. Against this backdrop, the ‘21st century Japan-Korea Economic Relations Study Group’ was established in December 1998 under the initiative of research institutions, Institute of Developing Economies (IDE) of Japan and Korea Institute for International Economic Policy (KIEP), to examine the economic feasibility of a FTA between the two countries. The respective studies of the two institutions concluded that a bilateral FTA would have a positive impact on both economies in the long run and would be an effective mechanism to further advance the economic relations between Japan and Korea¹.

3. In September 2000, to take into consideration the views of the business sector, Prime Minister Yoshiro Mori and President Kim Dae-jung concurred to establish the Japan-Korea FTA Business Forum, comprising business leaders from both countries. The Forum issued a Joint Declaration in January 2001 recommending, *inter alia*, that the two governments exert utmost efforts to create a comprehensive economic partnership agreement, Japan-Korea Free Trade Agreement (JKFTA).² Furthermore, Nippon Keidanren and the Federation of Korean Industries together established the Japan-Korea Industrial Cooperation Study Group and released a joint communiqué in November 2001, which recommended the early conclusion of the JKFTA.

4. In March 2002 in Seoul, Prime Minister Junichiro Koizumi and President Kim Dae-jung concurred to launch a Joint Study Group, composed of

¹ KIEP, IDE, 2000.5, “Toward a Korean-Japan FTA: Assessments and Prospects”, Joint Symposium in Seoul. For details, see www.kiep.go.kr and www.ide.go.jp

² For further details of the Business Forum, see KORCHAM, 2002.3, “Position of Business Sector on the KJFTA”, in Korean

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representatives from the government, business and academia, to appraise the possibility of establishing a bilateral FTA. The Joint Study Group, later on, was established with the terms of reference as follows:

- a. The Joint Study Group should examine the feasibility and desirability of establishing the JKFTA, benefits of the FTA, the potential scope of the FTA, and basic elements of individual issues.
- b. Bearing in mind that the scope of the FTA should be comprehensive, the Joint Study Group should examine ways to accelerate liberalization and facilitation of trade in goods, services and investment and reinforce bilateral cooperation in a wide array of areas.
- c. The Joint Study Group would meet alternately in Japan and Korea every two to three months and prepare a final report on the results of the meetings within two years from the first meeting.

5. The Joint Study Group held eight meetings from July 2002 to October 2003. In the course of this period, the Joint Study Group reviewed current bilateral relations between Japan and Korea and explored means to fortify these relations, especially in the economic arena. The Joint Study Group also discussed an across-the-board range of issues that are to be included in the scope of the negotiations. As a result of the discussions, both sides gained greater understanding of each other's position on a variety of issues, including the vulnerabilities existing in the sensitive sectors in each country.

6. In June 2003, in Tokyo, at the Summit Meeting between Prime Minister Junichiro Koizumi and President Roh Moo-hyun, it was decided to make efforts to launch the FTA negotiations at an early date and to step up the efforts to create an environment conducive to promoting the JKFTA. On this occasion of President Roh Moo-hyun's visit to Japan, the business leaders of the two countries held a roundtable meeting and called on the leadership of the two leaders for an early launch of the negotiations, given the positive role of the FTA in promoting the restructuring of both economies and enhancing the global competitiveness of the business sector.

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7. This report contains a summary of the deliberations carried out in the Joint Study Group, followed by the recommendations of the Joint Study Group to the governments of Japan and Korea. Part I gives an overall picture of the present global trend of regional integration, the respective FTA policies of Japan and Korea, and the bilateral economic relations between Japan and Korea. Part II carries a detailed study of the economic effects of the FTA. Part III explores the overall scope of the JKFTA. Lastly, Part IV ends with the conclusions and recommendations of the Joint Study Group and examines the strategic significance of a bilateral FTA, including the possibility of the JKFTA working as a catalyst or building block for wider economic integration in East Asia.