

BILATERALISM AND REGIONALISM IN THAILAND-SOUTH KOREA RELATIONSHIP: THE CASE OF ASEAN-KOREA FTA¹

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Abstract

This paper aims to discuss multi-dimensional features of the cooperation between Thailand and South Korea and its implications on their relationship focusing on pre-existing bilateralism and regionalism which was highlighted mainly through the Association of Southeast Asian Nations (ASEAN), ASEAN plus Three (APT). The interest-conflict over the ASEAN-Korea FTA in particular on rice issue, which was signed between South Korean and ASEAN except Thailand in 2005, reveals the potential hurdle for the close bilateral relationship between two countries and the creation of regional community in East Asia. This article elucidates key factors to explain the disagreement on the FTA between Thailand and South Korea and Thailand and other ASEAN member countries such as the relative gain and loss of interests, the lack of shared goal, norm and identity, the influence of domestic politics, and the complexity of bilateralism. This article argues that deepening regionalism without mutual understanding and shared idea and norm could be conflicting with the further development of bilateral relationship.²

Keywords: Bilateralism, cooperation, ASEAN plus Three, norms, and identity

Introduction

Along with the decade-long bilateral tie that exists between Thailand and South Korea, their relationship is expected to be closer with the evolution of regionalism in East Asia. Thailand has played a pivotal role in the development of regionalism in Southeast Asia while more recently, South Korea has been an advocate of regionalism in East Asia. While the two countries have made much progress individually to advance a bilateral free trade agreement (FTA) with various partners, they face a potential conflict of interest over the ASEAN-Korea FTA, in particular over the issue of free trade in rice, the staple food of the region. Indeed, when the Framework Agreement on Comprehensive Economic Cooperation was signed between South Korea and ASEAN, on 13 December 2005 in Kuala Lumpur, the only ASEAN state not to ratify the agreement was Thailand. This concluded the bilateral FTA excluded rice such as ASEAN-China FTA in 2002 and Japan-ASEAN FTA in 2007.³

Given the sensitivity of the rice issue in the two countries in political, economic, and cultural terms, such a deadlock situation is hardly surprising. The ASEAN Way however, has made progress in advancing regionalism as a result of

its emphasis on consensus through consultation. The way has been central to economic agreements such as the ASEAN Free Trade Area (AFTA), ASEAN-China FTA, and more recently in the process of the ASEAN-Japan FTA. These agreements emphasized the comfort level of the parties involved rather than rule governed criteria or products that might prove contentious for instance, flexible timeframe for less developed ASEAN members and an early harvest programme in the case of ASEAN-China FTA, gave priority to an agreement based comfortable level rather than disagreement.

This article argues, therefore, that in the case of the ASEAN-Korea FTA and in particular the stalemate between Thailand and South Korea was inconsistent with the ASEAN Way as well as other FTAs with other major trading partners. This reflects the lack of a sincere commitment to bilateralism.

The article elucidates key factors to explain the case such as the sensitiveness of the rice trade, relatively weak political and economic relations, politically motivated FTA strategies, lack of political willingness, and the influences of domestic politics, which renders the bilateral process complex. This case reveals that bilateralism should be considered a significant contribution towards successful regionalism and countries involved in regionalism need to take a long-term bilateral approach rather than a short-term profit-oriented approach.

Bilateral Background to the ASEAN-Korea FTA

In the last decade, the global trading system has become much more liberal and the world economy has become increasingly integrated. This was possible partly due to a series of multilateral negotiations led by the World Trade Organization (WTO), which has pursued not only liberalization of trade in goods and services and investment but also the environment and labour standards. Along with multilateralism, the world has witnessed a rapid increase in the number of regional trading arrangements (RTAs) and free trade agreements (FTAs). For instance, the number of RTAs around the world has surged since the early 1990s and now some 380 RTAs have been notified to the GATT/WTO up to July 2007.⁴ Asian countries which have been relatively passive towards FTAs have not been exceptional to this trend. Bilateral or regional FTAs became a popular option for many countries in Asia since the latter half of the 1990's at the time when the WTO led trade liberalization process slowed down and other regions successfully moved towards the creation of regional trade groups such as EU and NAFTA. Beside the ASEAN Free Trade Area (AFTA) which was signed in 1992, the number of FTAs under implementation in Asia has increased rapidly from 5 in 1992 to 61 in 2007 while there are 47 FTAs on proposal, 61 are under negotiation, and 29 were signed as of June 2007.⁵

The movement towards regional and bilateral FTAs in East Asia has accelerated in particular since the economic crisis in 1997-98 with some initiatives for financial cooperation in East Asia. Through the crisis, Southeast Asian countries saw the need for greater cooperation with Northeast Asian countries especially Japan and China. In the wake of increased trade interdependence in East Asia, enhanced cooperation was crucial not only for tackling the crisis itself but more importantly for the recovery from the crisis which required steady economic growth through increasing exports and inflows of foreign investments.

More importantly the rise of China and India as manufacturing hubs of the world present huge opportunities, but it also further revealed the protectionist weakness in the Southeast Asian region and add urgency to the pressing need for market-based reforms. Although access to raw materials and export platforms still remain major attractions for foreign direct investment (FDI) in Southeast Asia, China and India with huge domestic markets, have attracted far greater flows of FDI since the financial crisis. Southeast Asian countries thus perceive that the two regional and potential global powers' development has continued at the expense of their economies. Given the fact of low interdependence in trade, ASEAN's pursuit of deeper economic integration could be understood as a strategic choice to increase FDI inflow which has played a pivotal role in its economic development prior to 1997.

In these circumstances, besides AFTA which was signed in 1992, ASEAN became engaged after 1997 in the process of establishing an FTA with its major trading partners including China, India, Japan, and South Korea who have also begun a series of FTA negotiations with their major trading partners. Meanwhile, The United States is also trying to construct a US-ASEAN FTA through a bottom-up process of individual bilateral agreements between Washington and each ASEAN member country. For fear of a 'spaghetti bowl effect', the ASEAN members have agreed to conclude a number of FTA negotiations first before they move on to other intra-regional FTA proposals. The major trading partners are from 'East Asia' region, which is in line with the development of East Asian regionalism.

Quite recently, leaders of ASEAN member countries signed the ASEAN Charter and the blueprint for an ASEAN Economic Community that aims to create a market with free movement of goods, services, investment, and to a limited extent labour by 2015. The agreements show ASEAN's strong desire towards regional integration within the region, as well as the expanded region of East Asia including ASEAN Plus Three (APT) members, China, Japan, and Korea, and more arguable members, Australia, New Zealand, and India. The first step towards a full implementation of ASEAN-Korea FTA was an agreement on 'dispute resolution systems' which was signed in December 2005 and an agreement on basic items and goods in August 2006. The agreements went into effect in June 2007. South Korea signed an agreement on the services sector with the 10-member Association of Southeast Asian Nations (ASEAN) in a free trade deal in 2007. The last step to conclude the bilateral FTA is an accord on investment which is expected to be signed by 2008.

However, Thailand did not approve the first and second steps due to the controversy over the agricultural industry in particular on the issue of rice. Before elaborating bilateral issues between Thailand and South Korea, we need to review the major features of regionalism in ASEAN which reveal limitations and challenges to the so called 'ASEAN Way' in economic cooperation to which we next turn.

'ASEAN Way' and ASEAN-Korea FTA

The term 'ASEAN Way' has been used to describe the practice of ASEAN. Despite the lack of a clear definition, the term ASEAN Way often refers to a mechanism of dispute management through the process of consensus and consultation.⁶ ASEAN observes the ASEAN Way or the principle of non-interference not only in the political area but also in terms of the regional economy to protect national interests.

Ironically, attempts to protect national interests partly contributed to strengthening the rules and procedures governing regional economic cooperation.⁷ The protocol on Sensitive and Highly Sensitive Products in agriculture and the Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List were agreed in 1999 and in 2000 respectively. The former not only focused on procedural issues, but also provided for two categories of exemptions. It imposed the deadline at 2020 when tariffs on agricultural products would have to be in the 0-5 per cent range. Under the protocol, governments were forced to decrease tariffs on their highly sensitive products between 2001 and January 2005.⁸

The Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List was formulated as a response to Malaysia's request for delaying the inclusion of the automobile sector into the Inclusion List. The Protocol allowed governments facing real economic difficulties to delay the transfer of a product from the Temporary Exclusion List to the Inclusion List, or to temporarily suspend the concessions on products that already were on the Inclusion List.⁹

Prior to the agreement on the ASEAN Economic Community (AEC) in October 2003, the regional grouping's senior officials meeting expressed the concern that it would require harmonization of national policies in the form of increased regional surveillance and interference. In this context, Malaysia wants to assess the implications of Free Trade Agreements between member and non-member states and study their implications for the proposed AEC.¹¹

There have been several proposals to modify the economic restrictiveness of the ASEAN Way. One of them is the '10 minus x' principle announced at the ASEAN Economic Ministers (AEM) Retreat in 2002 and now stated in the ASEAN Charter in 2007. The '10 minus x' principle would give member nations the option of joining liberalization programmes at their own pace. The 10 minus X principle would thus allow ASEAN countries that are ready and willing to proceed with liberalization in selected areas. In the process of drafting the ASEAN Charter, the Eminent Persons Group had recommended that ASEAN relaxes its style of decision-making by adopting an 'ASEAN Minus X' formula that would allow decisions to be reached without full consensus. The Charter institutes an 'ASEAN Minus X' formula allowing for 'flexible participation' only when it comes to the implementation of economic commitments, when there is a consensus to do so.

In short, ASEAN has pursued regional integration and cooperation in its own way which was governed by consensus and consultation. Not surprisingly, the ASEAN Way can also be found in the process governing the ASEAN-Korea FTA.

Thailand with 70% of its population in farming, is the largest rice exporter of the world. It has strong reservations concerning the agreement with South Korea which refused the liberalization of its highly sensitive rice market. Although the possibility of settlement of the issue over rice is unlikely, Thailand's actions, in declining the FTA, were in keeping with the conventions of the ASEAN way tradition of consultation. Thailand thus confirmed that Prime Minister Thaksin Shinawatra would join other ASEAN when they signed the Framework Agreement on Comprehensive Economic Cooperation with South Korea in Kuala Lumpur in 2005.¹² Such a gesture could be understood as Thailand's commitment to ASEAN and minimizing any exposure of disunity between ASEAN members. On the same token, ASEAN has not publicized any shortcomings of the organization. Such concern is reflected in the official document, 'Conclusion of the Agreement on Trade in Goods of the Korea-ASEAN Free Trade Agreement' in 2006. The document did

not reveal any details of the disagreement between Thailand and South Korea, but merely stated that

“Due to domestic political circumstances, Thailand did not participate in the conclusion of the tariff concession schedules for goods and is not expected to participate in the official signing of the Agreement on Trade in Goods...”¹³

In order to avoid a deadlock over the rice issue, and thus cause a loss of face all round, ASEAN has tried to mediate between the two parties though in a very limited way and by issuing a formal statement. Thus, ASEAN Secretary General Ong Keng Yong said “the regional block was behind Thailand. We understand the strong reasons why Korea is doing this. But we also hope to persuade the Koreans to find some way to give substantive character to the free trade agreement.”¹⁴ Indeed, individual member countries recognized the issue as significant, since many of them are also rice-producing nations. Such shared interests, however, did not result in collective action in the negotiation process but in moderate expressions of concern for an amicable conclusion. Bounsom Phommavithane, director general of the Economic Affairs Department of the Laotian Foreign Ministry said Thailand had asked for Singapore’s help in talks with South Korea to hammer out a compromise.¹⁵ Malaysia’s Trade Minister Rafidah Aziz urged Thailand and Korea to continue to talk to resolve some of the issues arising between the two countries.

The outcome of the Korea-ASEAN FTA, however, revealed the limitations of the ASEAN Way. Thailand’s refusal to sign was not in line with consensus, a principal practice of ASEAN. The ASEAN Minus X mechanism allows only flexible implementation of agreed projects. Despite recent discussions to make it as a decision-making mechanism, yet, its implementation relies on consensus through consultation as stated in the ASEAN Charter. In this sense, if ASEAN and Thailand had fully respected the ASEAN Way, they could have reached an agreement at a certain level with which all members would be comfortable as AFTA allows member countries to protect their highly sensitive sectors including agriculture. The case of Thailand over the FTA with Korea was one of the major reasons for the inclusion of new measures, so called, “pre-agreed flexibility” in the ASEAN Economic Community Blueprint.¹⁶

The case of the Korea-ASEAN FTA was not merely an instance of a serious challenge to the ASEAN Way by revealing the conflict over national interests. It is also the first case that ASEAN faced in the midst of expanding economic cooperation with countries outside the ASEAN region and at a time when ASEAN is pursuing regionalism in East Asia. Here, we need to turn to bilateral issues and other factors that have prevented an agreement based on the traditional ASEAN formula.

The Inconsistencies in ASEAN’s FTAs

It is a well-known fact that ASEAN has been conducting concurrent negotiations with East Asian countries such as China, Japan, and South Korea and other major trading partners. The ASEAN-China FTA which resulted in a framework agreement

in 2003 did not show such disagreement although it significantly did not include the liberalization of the agricultural sector. In the recent case of the Japan-ASEAN FTA which was signed in 2007, Japan immediately repeated the tariff on most imports from ASEAN unlike the usual FTAs with a gradual tariff elimination process, ASEAN successfully managed to reach a consensus, including Thailand, although again Japan did not liberalize its rice market. In fact, Japan is well known for its agricultural protectionist policy. Japan's concern over agriculture was clearly witnessed when Japan concluded an FTA with Singapore that excluded rice even though Singapore has never been considered an agricultural country. In view of the above facts, the outcome of the FTA between ASEAN and Korea may be distinguished from other ASEAN FTAs.

The ASEAN-Korea FTA has been pursued in a somewhat different way from other ASEAN FTAs. First, it was 'cheap-regionalism' without significant economic and political weight on each other. Second, the FTA has been based on 'relative gain strategy' which has not considered its counterpart but with a greater emphasis on regional competition and rivalry. While the two characteristics often appeared in a mixed form, the latter is clearly to be found on the Korean side. First 'cheap-regionalism' represents South Korea's relatively weak economic power and political position in the region in comparison to China and Japan. The rise of China with a rapid economic growth rate and increased FDI at the expense of ASEAN countries in the last decade was initially perceived as threats to ASEAN in terms of the economy and security. Subsequently, after 2002, ASEAN reviewed this perception of China when ASEAN recognized its huge domestic market as an export market especially for ASEAN services and natural resources. Increased purchasing power in China led by its economic growth is expected to encourage more exports from ASEAN to China. ASEAN, in which foreign investments play a significant role in economic development, sought a FTA with China as a means to attract FDI from outside but also from China. For China, to sustain economic growth, it must secure a stable supply of raw materials and energy. Indeed, for the 'peaceful rise' as a political power, China needs favourable relations and support from neighboring countries. ASEAN could be a suitable partner to meet such needs given the ASEAN members' rich resources. In fact, China's intention for a peaceful management of territorial disputes over the Spratly Islands helped create a positive perception of China to counter to regional suspicions of its 'rising hegemony'.

Japan has been one of the biggest investor and Official Development Assistance (ODAs) provider in Southeast Asia. Japan has built an 'industrial production network', which resulted in high trade volumes between Japan and ASEAN member countries.

By contrast, ASEAN members consider Japan's financial support as a significant source to prevent a repeat of the financial crisis of 1997-1998. For Japan, Southeast Asia has been a strategic area in economic terms and international politics. Among numerable regional economic projects led by Japan, in August 2006, Japan announced that it had put aside US\$80-100 million to fund the Nikai Initiative, a study into a 16-nation Comprehensive Economic Partnership in East Asia. Traditionally, Japan has adopted bilateralism initially rather than regionalism or multilateralism in its deals with Southeast Asian countries. Japan's bilateralism-oriented approach has moderately changed since the signing of a framework agreement on comprehensive economic cooperation between ASEAN and China

in 2002, which is expected to form a bilateral free trade area by 2010 covering nearly two billion people. China's success over the FTA with ASEAN eventually brought Japan to FTA talks with ASEAN much earlier than the original plan while it continues with existing bilateral FTA talks in the region. Japan has implemented FTAs with Singapore and Malaysia. It has also signed agreements with Indonesia, the Philippines and Thailand, though these have yet to be put into effect. It has reached an agreement with Brunei and is negotiating with Vietnam.

Lack of Bilateralism

In comparison with the case of China and Japan, South Korea has never achieved much economic and political influence in the region despite a steady increase in interdependence in economic and political terms. For South Korea which has been much more dependant on U.S. and Japan mainly for security and economic reasons, Southeast Asian countries or ASEAN has never been a priority for its foreign policy (this contrast for example even with Taiwan). However, the feeble relations between Korea and Southeast Asia is only in relative terms. Ironically, the relatively weak relations between the two partners has positioned South Korea as one of the easiest to deal with in terms of development cooperation. Traditionally, "South Korea did not promise much, but delivered on what they did".¹⁷ The real problem is that ASEAN and South Korea have pursued FTAs simultaneously with their major trading partners when both sides did not recognize each other as a critical partner. In these circumstances, it was difficult to expect full attention and priority to the ASEAN Korea FTA.

Second, South Korea has been more concerned about its own regional position. Indeed it tends to see FTA as not about building an integrated market but enhancing its competitiveness with regional rivals. In this it prefers bilateral FTAs rather than regional ones because of its zero sum view of competition. Thus South Korea has actively negotiated bilateral FTAs with major trading partners such as U.S. since its first FTA with Chile which took effect on April 1, 2004. Korea has FTAs with Singapore, Chile, ASEAN, EFTA, and U.S., and is in the process of talks with Japan and Canada, and is looking ahead to open discussions with Mexico, MERCOSUR, China, India and possibly Israel. Like Japan, South Korea's movement towards FTAs has been motivated by the fear of lagging behind its major competitors in the region. Such motivation has been found expressed continuously in government statements and media coverage regarding the progress of the ASEAN FTA. South Korea which proposed studying the possibility of a FTA with ASEAN in 2003 set a target for a successful conclusion by 2008 earlier than those with China and Japan.

The results of negotiations with ASEAN were often publicized in comparison with the FTAs with China and Japan rather than careful analysis on the deal. It was also witnessed in a President's statement as President Roh said, "Concluding an early FTA is needed because ASEAN is also seeking deals with our major trade competitors."¹⁸ In such an approach by South Korea, space for adopting or adapting the ASEAN Way was limited and in consequence there has not been enough socialization, unlike China which has pursued socialization through the ASEAN Regional Forum and ASEAN Plus Three processes.¹⁹ As ASEAN has repeatedly claimed the role of being the driving force behind regionalism in the region, the

evolution of regionalism in East Asia has come under the assumption that ASEAN has a role to play for the gathering of non-ASEAN Northeast Asian countries where there was no prior experience of successful regional cooperation. Although South Korea has given strong support for the APT process since 1997 through several initiatives such as former President Kim Dae Jung's proposal and formation of 'East Asia Vision Group' and 'East Asia Study Group', the incumbent administration has given priority to Northeast Asia rather than Southeast Asia. However, at the same time ASEAN was also busy with other FTA talks as ASEAN was due to conclude FTA with China while negotiations with Japan, Australia, New Zealand and India were still ongoing.

When countries are involved in bilateral and regional FTAs simultaneously, the process of the two negotiations unavoidably affects each other. Before the ASEAN-Korea FTA started, Thailand and Korea had sought the possibility of various bilateral FTA. (In November 1998, the Korean government formally announced that it would seek an FTA first with Chile and Korea studied the feasibility of FTAs with other trading partners such as the U.S., Japan, New Zealand and Thailand.) Similarly Thailand started to consider bilateral FTAs after 1999, when Singapore announced its plan to set up study groups for FTAs with Japan and Australia. Korea has conducted a joint feasibility study of FTA with Thailand since 1999 and completed in March 2001. In 2002, Thailand and Korea agreed to review FTA agreement on the suitable condition of both parties.²⁰ However, the bilateral FTA was not able to succeed mainly due to the 'impassion' of South Korea. Despite the Thailand's active sought of FTA by suggesting a further joint research, South Korea's response preferring 'macro level' discussion did not support the suggestion.²¹ Indeed Thai's focus of FTA partners has shifted under Thaksin government. In comparison to Chuan government (December 1997-January 2001), Thaksin government showed the change of its preference toward economic power countries such as US, India, and Japan. Under Thaksin leadership, the decision making mechanism has been centralized to Thaksin himself and The National Economic Policy Committee.²²

In these circumstances, South Korea has conducted FTAs with other partners based on so called 'multi track' negotiation. Its FTA partners were namely a non-agricultural country, Singapore and its core trade and security partner, US. South Korea started joint studies on the feasibility of FTA with Singapore in March 2003 and US in March 2005 respectively. As a result the ASEAN-Korea FTA negotiation has been conducted in the absence of bilateral talk with Thailand. South Korea has taken bilateral approach toward Thailand only since April 2007 at a time when the latter left as an only country denied the agreement on trade of goods. South Korea and Thailand have had bilateral meetings alongside on-going ASEAN-Korea FTA negotiations on investment, where the two countries could pay little attention on each other.

With hindsight, South Korea may have some reservation on bilateral conclusion prior to regional negotiation. If a bilateral FTA is concluded prior to a regional FTA, a country when it is also a member of a regional group might face the double burden of assuring equal treatment of both FTA cases. If it fails to do so, the bilateral deal could be under pressure. The recent case of ASEAN-India FTA and Thailand-India FTA supports this scenario. In fact, "Thailand has been asking for flexibilities, which are in excess of whatever has been offered to the ASEAN trade bloc. If the ASEAN FTA (with India) fails to take off, India will renegotiate

with Thailand. In any case, India will proceed with the Thai FTA only after it knows of a definite status of the ASEAN one."²³

In this context, South Korea and Thailand should have focused on the collective FTA first before their bilateral agreement. However, the priority on regionalism or often witnessed the bypassing of bilateral issues even when bilateral talks were urgently needed to solve the trade issues under FTA. For instance, when both sides, Thailand and South Korea, met at ASEAN Economic Ministers Meeting 2006, bilateral issues were put aside without giving the date for resuming talks to resolve their disagreement over agriculture products.²⁴ The next section will investigate some bilateral factors between South Korea and Thailand over some limitations on regionalism between Korea and ASEAN.

Rice Issue

Thailand refused to sign an initial ASEAN deal on trade in goods with Seoul due to Korea's insistence on excluding rice from the pact, although ASEAN's other members agreed to it. Given the fact that the share of the Korean market for rice imported from Thailand remains low at 0.5% in 2006 and 2007,²⁵ conflict over rice is not a purely economic issue. It is not surprising that Korean farmers were at the forefront of the mobilizations against the trade liberalization of agriculture through other bilateral free trade agreements. Korean farmers led many months of sustained opposition to the FTA which Seoul signed with Chile and more seriously with U.S. recently, concerned over the impact of floods of cheaper farm imports on their livelihoods. The US has recently demanded that Korea fully opens its rice market although the two countries had agreed earlier not to highlight the issue prior to starting talks in June, 2006. South Korean negotiators have argued that Seoul is obliged under a multilateral World Trade Organization (WTO) clause to abolish tariffs on rice from the US, Thailand, China and Australia gradually through 2014. However, it does not feel obliged to offer greater benefits to anyone of these countries. South Korea agreed in the 2004 WTO pact to increase rice imports from the current 4 per cent to 8 per cent of consumption after 10 years. The base for agriculture and rice in Korea remain weak without a proper long-term development plan, while Japan's farmers were relatively secure through operating a system of direct marketing of food products. But due to the sensitiveness of the rice issue, it is often regarded as a bargaining tactic to leverage the negotiations. South Korean minister Kwon O-kyu took that in his stride. "That (raising rice issue) would be merely a bargaining tactic. The United States has nothing much to gain regarding rice. They must have raised it as a bargaining chip."²⁶ Strong opposition from farmers against liberalization of the agriculture sector often strengthens the government's position in negotiations as Seoul concluded a free trade agreement with the United States, keeping its rice market out of the deal despite the fact that it was controversial.

Thailand has a different industrial structure but similar sentiments about agricultural trade can be found. For instance following the October 2003 FTA with China, in which tariffs were removed from a significant number of fruit and vegetables imported from China, causing a flood of cheaper imports into Thailand, Thai farmers and others questioned the wisdom of agricultural liberalization through FTAs when they face displacement and their livelihoods destroyed by such

deals. While the Thai-US FTA talks were stalled pending the election in December 2007, rice will remain a crucial issue in future FTA negotiations. Rice is not merely an industrial product in Thailand like South Korea. A Thai official argued that rice is an “emotional issue” for Asia when he said:

“In my mind these are all national prerogatives. The beauty of it is Thailand is not saying ‘I will smash this deal.’ Thailand is saying ‘help me to get on board the deal.’ That’s why we support them,” the official said.”²⁷

Such importance was often stressed as Thai Deputy Prime Minister and Commerce Minister Somkid Jatusripitak, who led the negotiating team in the Malaysian capital, said

“Thailand commits and supports the FTA between South Korea and ASEAN. But rice is a very important issue for Thailand because more than 70 percent of our people are farmers.”²⁸

However, the Thai Rak Thai-led government excluded rice from the trade talks with Japan without consulting local businesses which caused some disappointment even within the government. Unlike the case of the FTA with Korea, omission of rice from the deal was not highlighted by the Thai government.²⁹

Such inconsistency in Thai FTA policy-making could be explained by the relative significance of trade and investment between the bilateral political and economic conditions at the bilateral level. For instance, Thailand’s active approach could be understood given Japan’s economic role and weight. Japan is Thailand’s biggest foreign investor and an important export market for Thai products. Trade between the two countries was valued at Bt1.65 trillion (US\$44.1 billion) in 2006. Thailand’s exports during the first quarter of this year grew 18.5 per cent while gross domestic product expanded between 4-4.5 per cent.

No Urgency of the Case

Thailand’s disagreement over the Korea-ASEAN FTA was unusual given the country’s tradition of foreign policy, which has been one of the leaders of ASEAN economic cooperation via consensus and non confrontation. The increasing economic transaction between the two countries might be seen as a tool to help reduce the risk associated with relying too heavily on Japan.

South Korea however remains Thailand’s 13th largest export market in 2005 with a share of 2.04 % of Thailand’s total export,³⁰ while Japan was the second largest, as well as the largest contributor of foreign direct investment to the country. At the moment when the Korea-ASEAN FTA was not signed between Thailand and Korea, Thai businessmen and trade negotiators do not think the FTA delays will significantly affect the Thai economy.³¹ The relatively weak economic interdependence between the two countries eased the pressure for the urgent settlement of the rice issue. Then Thai deputy Prime Minister and Minister of Finance Somkid said “Thailand had received a proposal from South Korea, but it

was 'inappropriate' and that Thailand also presented its "lengthy" proposal to South Korea, but no deal was reached."³²

Politically Motivated FTA Strategies

Thailand and other Asian countries need a fresh wave of liberalization and regulatory reform to meet the challenges of globalization. As other countries adopted a new trend in global trade, leading to FTAs, South Korea remained slow to act, and agonizingly apprehensive to sign its first FTA with Chile in 2003. The centre of debate right now, and the focus of much popular opposition, however, is the US-Korea FTA.

Free trade agreements (FTAs) have dominated Thai trade policy in the last two-to-three years. Beside Thailand's trade centered economic policy, such development and change of trade policy was partly affected by some external environment changes, i.e., China's and India's historic integration into the global economy; the slow pace and progress of multilateralism and regionalism. Thailand has FTAs with New Zealand in 2005, Australia in 2005, India and China in 2003 respectively. A controversial Thailand-Japan FTA was signed recently, a Thailand-Chile deal is under study, an FTA with Peru is being considered and a Thai-Moroccan agreement has been proposed. Like South Korea, the core argument on FTA is about the US-Thailand FTA while the Thai-US FTA talks are stalled pending the next election.

For Thailand and other countries in the region, FTAs are motivated by security-related and defensive economic concerns, and are seen as part of a benign 'competitive-liberalization' process, a building block multilateral liberalization. Bilateral and collective-ASEAN FTAs are however highly unlikely to tackle the protectionist barriers that throttle cross-border commerce in South, Southeast and East Asia.

Given the short history of the FTA trend in Asia that is without clear evidence of gaining profits from FTA,³³ there is a need for more empirical research to be done. The two countries' careful approach and sceptical views have been overshadowed by political will of a FTA dominant trade policy. In this context, Archanun Kohpaiboon said "FTAs may serve as an insurance policy for Thailand. The country rushes negotiations for FTAs because it wants to maintain its market share. This produces a domino effect that in turn results in even greater competition."³⁴

The FTA policy in the two countries, while conforming to the regional pattern, shared similar features in political terms despite their different domestic political conditions. It is a style of political leadership that lacks consultation and follows a bulldozer type implementation.

In Korea, President Roh Mu-Hyun's administration has actively sought FTAs with major trading partners in particular U.S. The Korea-US FTA has been pursued not only because of the latter's economic weight but also its security and political role. The government does not look at FTAs in isolation, but links them to a national economic-and-institutional reform agenda. It, thus, has sought to enhance national competitiveness by introducing global standards and minimizing social resistance to the FTA with U.S. The ruling party could push the liberalization policy ironically with support from conservative opposition party, Grand National Party which has kept a pro-market and pro-conglomerates position. As a result, civil society which

generally opposes the FTAs was excluded from the process of decision making and negotiation.

In Thailand, then Prime Minister Thaksin Shinawatra's CEO style of fast decision making and implementation made Thai style FTA policy. Its FTA policy has been in line with so called 'Thaksinomics' emphasizing improving domestic consumption and mass manufacturing supported by FDI and exports. The 'Thaksinomics' has led the liberalization policy which was mainly expressed in a form of FTA. Indeed, like South Korea, Thailand's FTAs have been rushed, driven by foreign-policy goals. Thailand's FTA partners including the countries under FTA negotiations are generally divided into three categories: First, major trading partner such as US and Japan with high trade and economic volumes; second group, the countries with high market potential but relatively low present trade volumes, China and India; lastly stepping stones countries toward the regions, Bahrain, and Peru. Thailand's FTA policy under Thaksin leadership had been focused on bilateralism with countries that Thailand has not only economic interests but also security and political interests. Thailand and India have implemented an Early Harvest Programme on 80 items without covering an automotive industry which was Thailand's one of strategic industry supported by government policy to turn Thailand to 'Detroit of Asia'. Such deal was merely symbolic as a response to the India's 'Look East Policy' rather than practical given the fact that the share of export to India of Thailand's total export was 0.8% in 2003. Regarding the Thailand's desire for the FTA with US, it should be noted that Thailand has long history of security cooperation with US including recent Thailand's dispatch of troop to Iraq as well as Afghanistan.

Given the situation that many FTAs have been pursued, not surprisingly, in both countries, careful preparations and full consultation certainly has been lacking. This has come at some cost and led to unanticipated complications. In consequence, the case of the ASEAN-South Korea trade agreement hardly met the domestic needs of the various parties.

The hasty signing of the Japan-Thailand Economic Partnership Agreement (JTEPA) was paradoxically clear evidence that political willingness could offset potential economic losses or gains. Thailand due to the coup in 2006 pending existing negotiation of FTAs,³⁵ unexpectedly reached an agreement and decided an early implementation of JTEPA. Thai Prime Minister Surayud and his Japanese counterpart Shinzo Abe on April 3 2007 signed the JTEPA agreement in Tokyo, aimed at boosting bilateral trade. Despite the current political problems prevailing in Thailand, Thai Prime Minister Surayud Chulanont pledged in his address to members of the Thai-Japanese Association, "this year (2007) is especially important because the two countries celebrate 120 years of diplomatic relations and both nations will try to enforce JTEPA as soon as possible...government still focused on free trade and investment as well as trying to boost production and basic infrastructure on the basis of transparency and the sufficiency economy philosophy."³⁶

In this context Thailand also publicized the necessity for the JTEPA with relative gains and losses as Deputy Prime Minister and Industry Minister Kosit Panpiemras said "Thailand could lose advantages over Vietnam and Indonesia if it fails to sign the pact with Japan, because the reductions in tariffs will help Thai exporters to better compete in the Japanese market."³⁷ On the issue of rice, political factors explicitly played a role in the deal. Mr. Pornsilp said that

“Thai government not only had an economic motivation for a deal with Japan, but also strong political motivation to move negotiations forward. But, he said rice and other farm products had been left out of the deal because Thai policymakers had close personal relationships with Japanese politicians.”³⁸

The bilateral deal which was based on politics rather than economic relations between Japan and Thailand, paved the way for the long delayed Japan-ASEAN FTA which was signed in November 2007 unlike the Korea case without prior bilateral deal.

The Possibility of Compromise

Despite repeated demands from Thailand for opening up the rice market as a precondition for the deal with South Korea, Thailand wanted to utilize rice to maximize its bargaining power with its counterpart. Uttama Savanayana, a vice-minister of the Commerce Ministry reiterated that Thailand was not going to sign the pact without rice but hinted a possibility of negotiation based on an exchange arrangement.³⁹ Indeed, Thailand has shown its willingness to resume bilateral talks with South Korea. When ASEAN-Korea FTA on goods was signed in 2006 Pornsilp Patcharintanakul, deputy secretary-general of the Board of Trade, said “Apparently, Thailand has not missed this train yet. I would say it is good for the country that we have more time for a better deal.”⁴⁰

In fact, Vietnam also a major rice exporting country concluded rice negotiations in 2005. It discussed with South Korea concessions on some industrialized products, but no details have been disclosed.⁴¹ Thailand reportedly told South Korea the possibility of bargaining over rice.

“Thailand is saying: ‘If we let you protect your rice market, give us some concessions,’” said the trade official, who asked not to be named. “That is where the arm-wrestling is. I’ve heard it’s still hard-bargaining.....Vietnam had also raised the same problem with South Korea, but this had been settled when Seoul granted some concessions on industrial goods.”⁴²

Yet there was no positive response from South Korea. However, Thailand’s flexible proposal should result in some change in South Korea’s policy. In fact, Thailand’s willingness for the creation of a FTA with South Korea was clear in its acceptance of the FTA on service signed in 2007. Indeed, a deadlock situation between the two would block a progress in efforts to push for FTAs in East Asia under the ASEAN+3 frameworks. South Korea also would be under pressure for adopting a flexible position under the name of East Asian cooperation which was given emphasis in the last decade. Also Thailand’s sidelined agreement with Japan could not provide a strong base for justifying Thai demands. As for Korea, Japan’s successful deal with Thailand and ASEAN might be another impetus for finalizing its incomplete deal with ASEAN.

In this context, despite the deadlock on the rice issue, the two countries came back to the negotiation table with South Korea hinting in April 2006 that they were scheduled to sign the last-step accord on investment in 2007.

Conclusion

The case of the Korea-ASEAN FTA is a challenge not only for the development of bilateral relations but also regionalism in Southeast Asia and emerging regionalism in East Asia. Basically, the case was quite expected given the nature of international negotiations based on equal exchange.

This article argues that such disagreement was not in line with the ASEAN Way which emphasized consensus through consultation. It implies that deepening economic cooperation will pose new challenges for the traditions and norms of ASEAN. Due to a limitation in ASEAN's mediation role, the deadlock became a bilateral matter.

At the bilateral level, FTA negotiations are often influenced by non-trade policy matters such as economic development strategy, security, domestic political conditions and historical background of bilateral relations.

On the FTA issue, Korea and Thailand did not see each other as a major partner in either economic or political terms. Such a view contrasts with both parties' perceptions of China and Japan, which both countries regard as major partners and competitors. The sensitiveness of rice in the two countries in this context made negotiations hard.

Political conditions in both countries which pushed them to join the FTAs race without careful preparation and sufficient consultation with various circles led to disagreement.

However, as the case of Japan shows, political willingness is more important for the economic deal. Paradoxically, political conditions which limited the progress of negotiations would provide space for renegotiations between Thailand and Korea. Thailand's junta sought international recognition through the sealing of the pact. It changed its strategic stand on rice from 'special product' to 'one of product'.

The two countries realize that regionalism in East Asia would face obstacles unless they settle the deadlock on the rice issue, as regional cooperation in the region faces rivalry and is rapidly developed.

In these circumstances the deadlock situation is likely to be compromised at a certain level which provides relative gain to each party.

Some important lessons, though, should be learnt. First, South Korea needs to be more active in bilateralism with greater sincerity. As shown, it can hardly compete with China and Japan based on economic and political strength. While China and Japan have put some effort into socialization learning in many ways for a long time despite clear limitations, South Korea has regarded Southeast Asia as an export-market and approached it through a very limited and recent history of regionalism in East Asia. As South Korea has emphasized its role in emerging regionalism in East Asia, it should recognize equal partnership with Southeast Asian countries not only for gaining economic benefits but for long term cooperation.

Second, if there is compromise and settlement of bilateral issues, it will be partly due to the limited political space that exists for civil society. Despite recent

political changes, the two countries remain democratic countries thanks to a strong and sound civil society. However, the FTA process in both countries has shown that there is almost no room for social consensus and fair treatment. Paradoxically, there are still many things the two countries can do such as sharing information and seeking cooperation when they deal with their more powerful and important trading partner, U.S., to protect their own national interests.

Endnotes

¹ Paper delivered at the International Conference on “Korea-Thailand Relationship: Past, Present, and Future,” Burapha University, 24 – 25 January 2008.

² The author extends his grateful thanks to Professor Dr. David Martin Jones of the School of Political Science and International Studies, University of Queensland, for his guidance and constructive comments on this article.

³ After completing this article, Korea and Thailand have concluded the negotiation on the ASEAN-Korea free trade agreement (AKFTA) in Bangkok on 18 December 2007 without revealing the details.

⁴ World Trade Organization, http://www.wto.org/english/tratop_e/region_e/region_e.htm. (accessed on 20 November 2007)

⁵ Asian Development Bank, Asia Regional Integration Center, FTAs by Status (cumulative) <http://aric.adb.org/1.php>. (accessed on 30 November 2007)

⁶ Acharya stressed the ASEAN Way as socio-cultural norms which are separate from ASEAN norms. According to him, ASEAN norms comprise the non-use of force, regional reliance, non-interference in domestic affairs and avoidance of military alliance, while the ASEAN Way is characterized by compromise and consultation, consensus building, ambiguity, avoidance of strict reciprocity, and rejection of hard legalization. Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the problems of regional order* (New York: Routledge, 2001), pp. 47-72.

⁷ According to former ASEAN Secretary-General Ajit Singh, most decisions made by ASEAN members are based on national interests rather than regional interests. However, the uncommon stands did not affect on intra-ASEAN bilateral relations. *New Straits Times*, 2 May 2003.

⁸ Helen E.S. Nesadurai, *Globalization, Domestic Politics and Regionalism: The ASEAN Free Trade Area* (London: Routledge, 2003), p. 167.

⁹ *Ibid.*, p. 167.

¹⁰ *The Sun*, 14 April 2004.

¹¹ *The Straits Times*, 15 June 2003.

¹² *Asian Economic News*, 12 December 2005.

¹³ See ‘Conclusion of the Agreement on Trade in Goods of the Korea-ASEAN Free Trade Agreement (FTA)’ http://www.korea.net/news/issues/issueDetailView.asp?board_no=12129&menu_code=A. (accessed on 15 November 2007)

¹⁴ *AFP*, ‘Rice row threatens ASEAN-South Korea free-trade deal’, http://www.bilaterals.org/article.php?id_article=3201 (accessed in November and December 2007)

¹⁵ *Ibid.*

- ¹⁶ S. Pushpanathan, interview by author, Jakarta, 14 April 2008.
- ¹⁷ Rodolfo C. Severino, *Southeast Asia in Search of an ASEAN Community* (ISEAS: Singapore, 2006), p. 307.
- ¹⁸ *Korean Times*, 21 November 2007.
- ¹⁹ See Alastair Iain Johnston, "Socialization in International Institutions The ASEAN Way and International Relations Theory" in G. John Inkenerry and Michael Mastanduno eds. *International Relations Theory and the Asia-Pacific* (New York: Columbia University Press, 2003)
- ²⁰ Fumio Nagai, "Thailand's Trade Policy: WTO Plus FTA?," Working Paper Series 01/02 – No. 6, APEC Study Center, Institute of Developing Economies, 2002.
- ²¹ *Ibid.*
- ²² *Ibid.*
- ²³ *Bangkok Post*, 25 November 2007.
- ²⁴ Thai official told that "both sides are busy with the AEM here, and before that with the WTO (World Trade Organisation) talks in Geneva. Maybe we will have some time after this..., however, South Korea had not indicated the timing to restart a new round of talk to resolve their disagreement over agriculture products." *Bernama*, 26 August 2006.
- ²⁵ Ministry of Commerce , Thailand, Information and Communication Technology Center with Cooperation of the Customs Department.< http://www2.ops2.moc.go.th/menucomen/export_topn_re/#>
- ²⁶ http://www.nationmultimedia.com/2007/03/29/opinion/opinion_30030497.php
- ²⁷ *AFP*, 'Rice row threatens ASEAN-South Korea free-trade deal', 12 August 2005, http://www.bilaterals.org/article.php3?id_article=3201
- ²⁸ *Asian Economic News*, Dec 12, 2005
- ²⁹ "We hope to finalize the investment, service and economic chapter in the ASEAN-Japan proposed CEP because the text there is agreeable to both parties and there is no hostility and conditions look bearable to each other," Ramon Vicente Kabigting, director of the Bureau of International Trade Relations (BITR), said. *Manila Bulletin*, 21 August 2007, <http://www.mb.com.ph/BSNS20070821100851.html>
- ³⁰ Ministry of Commerce , Thailand, Information and Communication Technology Center with Cooperation of the Customs Department. http://www2.ops2.moc.go.th/menucomen/export_topn_re/#
- ³¹ Although South Korean businesses have become more important, they are still far from becoming major partners like those of the United States and Japan. *Bangkok Post*, 26 May 2006.
- ³² *Asian Economic News*, 12 December 2005.
- ³³ It was argued that Thailand was suffering a nearly Bt9 billion (about US\$239.5 million) trade deficit from October 2005 to May 2006 with major trading partner who signed FTAs with Thailand. During the period, according to government spokesman Surapong Suebwonglee, Thailand exported goods worth Bt609 billion, imported Bt618 billion of goods from these countries, resulting in a Bt8.99 billion deficit. Under the Chinese-Thai FTA Agreement, Thailand exported Bt383 billion worth of goods while importing Bt419 billion from China. *MCOT News*, 10 August 2006, 'Thailand reaps Bt9 billion trade deficit from FTA'.
- ³⁴ *Bangkok Post*, July 20 2006.

³⁵ The interim government pledged to do and what it actually delivered was its promise, made in the first month of the interim administration, to halt all negotiations involving free trade agreements, or FTAs, with other countries. *Bangkok Post* 2 April 2007.

³⁶ *MCOT News*, Thailand, 20 June 2007.

³⁷ *Bangkok Post*, 2 April 2007.

³⁸ *Bangkok Post*, 26 May 2007.

³⁹ "Discussions (with South Korea) are still ongoing, we have exchanged lists. Everything is on the table. We are not looking at one item in isolation, there are other agricultural items and goods as well," said Uttama Savanayana, a vice-minister of the Commerce Ministry, who attended the Manila meeting. *Bangkok Post*, 26 May 2006.

⁴⁰ *Bangkok Post*, 26 May 2006.

⁴¹ *Asian Economic News*, 12 December 2005.

⁴² *Bangkok Post*, 26 May 2006.