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**China's Rise and South Korea's and Taiwan's Regional Economic
Integration Strategies:
A Neoclassical Realist Perspective**

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China's Rise and South Korea's and Taiwan's Regional Economic Integration Strategies: A Neoclassical Realist Perspective

Abstract

This study takes a neoclassical realist approach in international relations to exploring the impacts of dynamic power structures at both the international and domestic levels on South Korea's and Taiwan's strategies to participate in East Asian economic integration. The main finding is the following: the main reason why South Korea signed FTAs with Southeast Asian countries and the United States prior to China or Japan while Taiwan signed a FTA with China before starting FTA negotiations with Southeast Asian countries, Japan, or the United States was that the rise of China continued reshaping both power relations among different forms of East Asian regionalism (i.e. Asia-Pacificism, Aseanism, Japan's East-Asianism, and China's East-Asianism) at the international level and power relations among key economic actors (i.e. the state, strong industries vs. weak industries, and capital vs. labor) in the two developmental states South Korea and Taiwan at the domestic level by means of its growing political and economic influences (i.e. China's export competitiveness, market advantage, and its regional economic integration actions' pressures over other countries).

Keywords: China's Rise, East Asian Regionalism, Free Trade Agreements, South Korea, Taiwan

Introduction

Regional economic integration has become increasingly prevalent along with the trend of globalization especially after the end of the Cold War. Generally speaking, there were three principal economic blocs in the global world, including America, Europe, and East Asia. Among them, East Asian economic integration was the one which emerged the latest and developed the slowest. But, after the 1997 East Asian financial crisis, it appeared to start to grow more rapidly. Besides the Asia-Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN), various versions of ASEAN+N were organized and being organized. Apart from regional trade agreements (RTAs), bilateral free trade agreements (FTAs) have become more and more popular all over the world since the stagnation of the 2001-2006 Doha round of the WTO multilateral trade negotiations. There was no exception to East Asia.

In a broader view, this study would like to explore how a state makes its FTA policies in response to regional economic integration. Specifically, this study attempts to explain South Korea's and Taiwan's FTA policies in response to East Asian economic integration. The reason

why South Korea and Taiwan are selected as the cases of this study is that they almost always had quite similar economic and political experiences, but their FTA policies in response to East Asian economic integration appeared very different.

South Korea and Taiwan had common characteristics in several dimensions. In terms of economy, both of them were regarded as East Asian developmental states and belonged to the Four Asian Tigers due to their postwar economic success. In the processes of economic development, both of them were export-oriented economies and treated the US as the principal export market for a long time. Under the pressure of globalization, both of them were forced to practice some economic liberalization reforms. In terms of politics, both of them were born from divided nations or divided countries which were caused by the international structure of the US-Soviet confrontation during the Cold War. Due to the impacts of globalization and economic liberalization, both of them also experienced the so-called third-wave democratization around the end of the Cold War.

However, South Korea and Taiwan seemed to have very different FTA policies in response to East Asian economic integration. There were two points to this. First, the timing of the first time South Korea signed a FTA with an East Asian country was much earlier than the timing of the first time Taiwan signed a FTA with an East Asian country. In particular, Singapore was the first East Asian country which signed a FTA with South Korea, and this FTA was signed in Nov 2004; China was the first East Asian country which signed a FTA with Taiwan, and this FTA was signed in Jun 2010. Second, the order of the countries with which South Korea signed FTAs was very different from the order of the countries with which Taiwan signed FTAs. For example, South Korea chose Southeast Asian countries and the US as its prior FTA targets before starting FTA negotiations with Japan and China; but, Taiwan decided to sign a FTA with China before starting FTA negotiations with Southeast Asian countries, Japan, and the US. The above-mentioned differences imply that South Korea and Taiwan adopted distinct FTA strategies to participate in East Asian economic integration.

Theoretically, there are several approaches to international economic cooperation and regional economic integration. First, the economic approach believes that regional economic integration is pursued because economic actors want to reduce their exchange costs, enhance their economic profits, and maximize the economic welfare of their society.¹ Second, the functionalist approach thinks that regional economic integration works to practice a series of interdependent functions, and certain forms of regional economic integration, such as the European Union, thus work like a multi-functional international organization.² Third, the institutionalist approach

¹ See Balassa 1961.

² See Taylor 1978, 167.

understands regional economic integration as an international institution which can solve the problem of market failures and the problem of collective action in the international system and thus can urge individual states follow international norms.³ Fourth, the international political approach pays attention to the role of states in pushing regional economic integration; some scholars see regional economic integration as the outcome of the communication and cooperation among states,⁴ while others view it as the product of the relations and interactions among great powers. Fifth, the domestic political approach puts emphasis on the role of domestic factors, such as interest groups and mass opinion, in promoting regional economic integration.

To explore how a state makes its FTA policies in response to regional economic integration, this study tries to combine the international political approach with the domestic political approach to offer a more complete political explanation. The broader argument of this study is that a state's FTA policy, being a type of foreign policy, depends on both international and domestic political factors with regard to regional economic integration. There are four sections in this study. The first section is an introduction. The second section is a discussion over the theoretical framework. This section uses neoclassical realism as a basic theoretical framework and then incorporates East Asian regionalism and the developmental state model into that framework on which the argument of this study is based. The third section is a discussion over the cases. This section adopts case study as the method and discusses the cases of South Korea and Taiwan to offer empirical evidence for the theoretical framework. The fourth section is a conclusion. This section summarizes the main finding of this study and points out its potential contribution.

Theoretical Framework

To combine the international political approach with the domestic political approach to exploring a state's FTA policies in response to regional economic integration, the theory of neoclassical realism in international relations is adopted as a basic theoretical framework. Because of the characteristics of the two cases in this study, the concepts of East Asian regionalism and developmental state are also used to respectively observe the international and domestic politics of East Asian economic integration. In particular, certain categories from East Asian regionalism help to grasp the politics of East Asian economic integration at the international level within the whole framework of neoclassical realism, while certain categories from the developmental state model help to grasp the politics of East Asian economic integration at the domestic level within the whole framework of neoclassical realism. On the basis of those theoretical framework and concepts, the argument of this study is developed.

³ See Keohane 1984.

⁴ See Moravcsik 1993.

Neoclassical Realism

Neoclassical realism constitutes the basic theoretical framework of this study. As a new theoretical approach in international relations, it to some extent links classical realism with neo-realism (or structural realism).⁵ Some of its characteristics are thus similar to either classical realism or structural realism, while others are distinct from each of them.

There are five points to this. First, neoclassical realism assumes that anarchy is the basic status of international relations. Second, neoclassical realism assumes that national interest is the aim of a state's actions. The above-mentioned two points are basically the same as both classical realism and structural realism.

Third, neoclassical realism admits that international political structure (or the distribution of power among states) is the most important factor which could affect a state's actions and foreign policies. This could be ascribed to the tenet of structural realism.⁶ But, fourth, neoclassical realism, unlike structural realism, holds that domestic political structure (such as state capacity and the power relations among societal groups) also have influence on a state's actions and foreign policies.⁷

Moreover, fifth, neoclassical realism, like classical realism and structural realism, agrees that a popular goal of a state's foreign policy is to pursue the balance of power and thus maintain the status quo in the international system. The strategies for this include internal balancing and external balancing.⁸ But, neoclassical realism, unlike the two traditional forms of realism, holds that a state is also likely to pursue the unbalance of power and thus change the status quo in the international system. Two possible strategies for this are bandwagoning and buck-passing.⁹

East Asian Regionalism

Some concepts of East Asian regionalism are used in this study to grasp the politics of East Asian economic integration at the international level within the whole neoclassical realism. This study understands regional economic integration as "policy-induced" regionalism rather than "market-driven" regionalization. Regionalism, compared with regionalization, pays more attention

⁵ See Rose 1998.

⁶ See Schweller 2003.

⁷ See Schweller 2003, 321-322, 324-325.

⁸ Internal balancing means that a state strengthens its own national power to match other states. And, external balancing means that a state allies itself with some other states to contend with a particular great power. See Waltz 1979.

⁹ Bandwagoning means that a state, usually a less powerful state, acts as a free-rider by allying itself with a rising great power or the greatest power for enhancing its own power to change the status quo. And, buck-passing means that a state refuses to confront the potential threat of a growing great power in the hope that another state will do that to change the situation. See Schweller, Chap. 3.

to the dimension of “intergovernmental cooperation” in a regional economic integration process, in which a state forms its own relevant policies, communicates and cooperates with other states, constitutes mutual identification in their region, and pursues their common value goals.¹⁰

In the post-Cold War East Asia, regional economic integration involved the cooperation and conflicts among three sorts of East Asian regionalism, including Asia-Pacificism, Aseanism, and East-Asianism.¹¹ Asia-Pacificism was advocated by the US and other developed countries. It basically followed the World Trade Organization (WTO) spirit of economic liberalization and globalization, and thus actively promoted extroverted, open regionalism (rather than introverted, protective regionalism) at annual APEC leaders meetings, in order to check the rise of potential great powers in East Asia and then consolidate the US’s hegemony in the global world. Aseanism was advocated by the 10 ASEAN countries.¹² In response both to the US-driven globalization pressure and to the competition between China and Japan for regional leadership, Southeastern countries organized themselves to enhance their regional influence and thus protect their own international status. East-Asianism had two versions: one was advocated by Japan; the other was advocated by China. Each state promoted its own East-Asianism to struggle for the regional hegemony in East Asia; Japan’s East-Asianism tended to cooperate with Asia-Pacificism to balance the rise of China, while China’s East-Asianism tended to stand with Aseanism to avoid the containment of the US-Japan alliance.

After the 1997 East Asian financial crisis, the power distribution among the three sorts of East Asian regionalism was changed. Since 1999, Aseanism and East-Asianism had been urged by the crisis to intend to cooperate with each other through the so-called ASEAN+3 (composed of the ASEAN countries, Japan, China, and South Korea) to jointly confront Asia-Pacificism.¹³ This was because the crisis reminded East Asian countries of the regional economy’s interdependence and fragility and of the necessity for improving regional economic integration. This was also because the post-crisis recovery which was largely handled by the US-led international financial institutions was dissatisfied with by some East Asian countries, and, moreover, the crisis was to some extent originally attributed to the economic liberalization and globalization which was advocated by Asia-Pacificism.

In response to that change, Asia-Pacificism attempted to draw some members of Aseanism and East-Asianism to its side by proposing the idea of the Free Trade Area of the Asia-Pacific (FTAAP) at the 2004 annual APEC leaders meeting. In particular, the US regarded the Trans-

¹⁰ See Frost 2008; and Lamberte 2005, 3-41.

¹¹ See Shiau 2004, 9-10.

¹² The Association of Southeast Asian Nations (ASEAN) is composed of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

¹³ See Shiau 2004, 10-11.

Pacific Strategic Economic Partnership Agreement (TPSEP)¹⁴ as the groundwork of FTAAP, and thus announced joining it in 2008 to cooperate with some Southeastern countries (Brunei and Singapore). Later, the US expanded TPSEP to be the Trans-Pacific Partnership (TPP),¹⁵ and thus cooperate with some additional Southeastern countries (Malaysia and Vietnam). Besides, Japan also announced joining the TPP negotiations in 2011.¹⁶ In this way, Asia-Pacificism gradually incorporated some members of Aseanism and Japan's East-Asianism into the course of FTAAP to compete with China's East-Asianism for the leadership in East Asia.

The Model of Developmental State

Some concepts from the developmental state model are also used in this study to grasp the politics of East Asian economic integration at the domestic level within the whole framework of neoclassical realism. This model is based largely on Chalmers Johnson's research on Japan's postwar economic development¹⁷ and many other studies on East Asian economic development. This theory is added because the two cases of this study, both South Korea and Taiwan, are generally understood as the examples of developmental state.¹⁸ Thus, it may be helpful for certain concepts from this model to complement the framework of neoclassical realism, as an international relations theory, with more domestic perspectives and insights.

There are mainly three dimensions in the developmental state model. First, the state holds a high level of capacity in a political economy. One reason for this is that the state has a high degree of autonomy relative to the society. State autonomy is usually well achieved under an authoritarian regime in which the state is able to formulate its economic policies without the intervention of private interests but from a longer-term, overall society perspective. Another reason why the state holds strong capacity is that there is usually a pilot agency devised inside the state. Pilot agencies, such as Japan's Ministry of International Trade and Industry (MITI), South Korea's Economic Planning Board (EPB), and Taiwan's Council for Economic Planning and Development (CEPD), help to enhance state capacity by coordinating interests among various public and private organizations and then formulating national interest-oriented policies.¹⁹

Second, the state uses both fiscal and financial policy tools to guide private capitals to particular strategic industries. Several mechanisms, such as "market conforming,"²⁰ "market

¹⁴ The Trans-Pacific Strategic Economic Partnership Agreement (TPSEP) is a free trade agreement originally started between Brunei, Chile, New Zealand, and Singapore.

¹⁵ The Trans-Pacific Partnership (TPP) is a free trade agreement between Brunei, Chile, New Zealand, Singapore, Australia, Malaysia, Peru, Vietnam, and the US, which was expanded from TPSEP.

¹⁶ See Taiwan Institute of Economic Research 2001.

¹⁷ See Johnson 1982.

¹⁸ See Alice Amsden 1990; Woo-Cumings, 1991; Gold 1986; and Wade 1990.

¹⁹ See Chibber 2002, 951-89.

²⁰ See Johnson 1982.

augmentation,”²¹ “market enhancing”²² and “market governing,”²³ are respectively identified to describe that process. But, their common point is that the state controls the financial system and adopts tax preferences to tame private capitals and thus lead economic resources to certain types of potentially promising industry. In the East Asian cases, those state policies tend to bring about export-orientated industrialization, but, in the Latin American cases, they tend to generate import-substitution industrialization.

Third, the state has a close relationship with private capitals in practicing developmental policies, while the concerns of workers and the interests of trade unions tend to be ignored. On the capital side, the cooperation between the public and private sectors helps the state acquires the so-called “embedded autonomy” on which the realization of national interest-oriented policies is based, because building an institutionalized link between the pilot agency and private capitals provides the state with the capability of controlling and mobilizing private resources more effectively.²⁴ On the labor side, the rights of workers and trade unions are relatively neglected by developmental states, not only in order not to weaken state autonomy, but also because high wage is harmful to the export-orientated industrial policies.

In addition to the above-mentioned characteristics, the idea of the “adaptive developmental state” is formulated in response to the changes of the environment; but, the essence of the state’s active role and of the state’s close relations to private capitals remains. According to Linda Weiss, developmental states, under the impacts of economic liberalization and globalization, didn’t retreat and won’t “normalize” themselves at all; instead, they automatically continued adapting themselves to the new conditions and gradually transformed from purely state-led governance to the so-called “governed interdependence” in which the public and private sectors cooperate with each other in managing a country’s economy.²⁵ Similarly, Joseph Wong also contends that the developmental states in East Asia must adapt themselves to changing political, social, and economic realities, such as external economic constraints, internal demographic shifts, corruption, and demands for political liberalization; but, the functioning of the state would still remains relevant.²⁶

²¹ See Amsden 1990.

²² See Aoki et al 1996, 1-37.

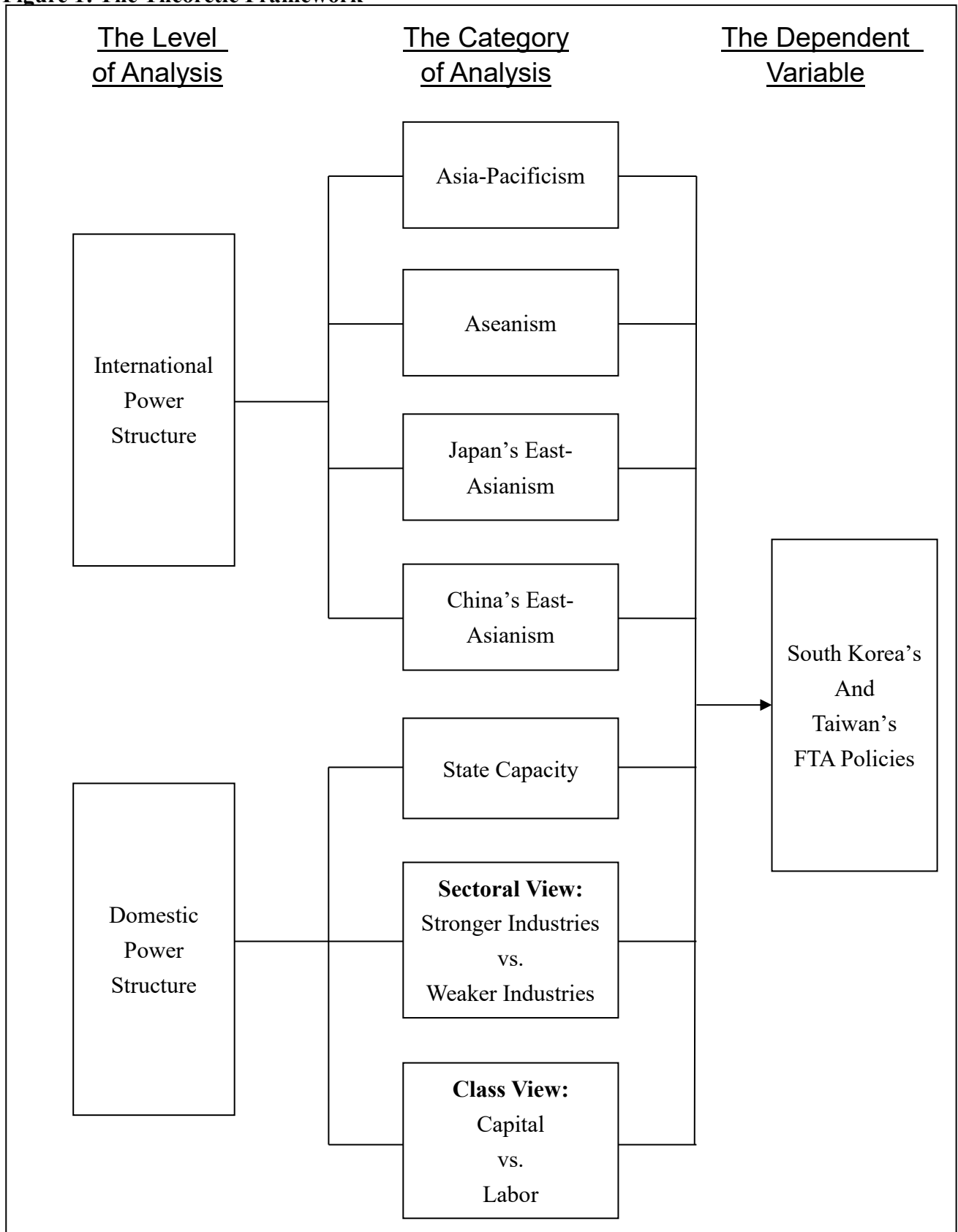
²³ See Wade 1990.

²⁴ Evans 1995.

²⁵ Weiss 2000, 21-55.

²⁶ Wong 2004, 345-362.

Figure 1: The Theoretic Framework



The Theoretical Framework

The theoretical framework of this study is constituted on the basis of the three theories outlined above. Neoclassical realism forms a basic analytical framework, in which two-level structures, both international power structure and domestic power structure, affect a state's foreign policies (a state's FTA policies). Within this framework, East Asian regionalism offers international power structure certain categories of analysis (Asia-Pacificism, Aseanism, Japan's East-Asianism, and China's East-Asianism); and, the developmental state model provides domestic power structure with certain categories of analysis (state capacity, the power relations between stronger industries and weaker industries, and the power relations between capital and labor). The complete theoretical framework is shown in Figure 1.

The broader argument of this study, based on the above-mentioned theoretical framework, is that a state's foreign policies depend both on the distribution of power among states at the international level and on the distribution of power among key actors at the domestic level. That is, a state tends to make its foreign policies, not only to increase its own power and realize its national interests in the international system, but also to satisfy the demands of more powerful actors and eliminate or neutralize the opposition of less powerful actors in the domestic realm. According to neoclassical realism, besides, international factors are usually more critical than domestic factors in deciding a state's foreign policies.

More specifically, the argument of this study, in the case of East Asian economic integration, is that South Korea's and Taiwan's FTA policies are decided not merely by the distribution of power among various sorts of East Asian regionalism (Asia-Pacificism, Aseanism, Japan's East-Asianism, and China's East-Asianism), but also by the distribution of power among various key actors involving into policy making processes (the state, stronger industries, weaker industries, capitalists, and workers). And, international power structure usually plays a more decisive role than domestic power structure.

Case Study: The FTA Policies of South Korea and Taiwan

This study uses case study as the research method to examine the argument outlined above. The cases selected by this study are South Korea and Taiwan. The case study focuses on their FTA policies in response to East Asian economic integration.

South Korea's FTA Policies (1990-2011)

In the 1990s, South Korea, in terms of international power structure, continued departing from Asia-Pacificism and, instead, gradually approached East-Asianism and Aseanism. In the first half of the Cold War period, South Korea's state took a bandwagoning strategy to ally itself with the US for developing its economy, both because the US offered South Korea a great deal of military

and economic aid due to the international structure of the US-Soviet confrontation, and because the US acted as South Korea's most important export market. But, since the beginning of 1980s, South Korea, although holding the military cooperation with the US, has started to depart gradually from the US in the economic issues. This was because, at that time, the US not only started to impose limits on the goods imported from South Korea, but also urged South Korea to open its domestic market for American products, in order to alleviate the US's problem of trade deficit from which it suffered for a long time. During the 1986-1994 Uruguay round of the WTO trade negotiations, the US even strongly urged South Korea to open its agricultural product market. Those series of trade frictions not merely engendered the protests of farmers and workers in South Korea, but also promoted the anti-American attitude of South Korean common people. After the 1997 financial crisis, since South Korean people suspected that the US and the International Monetary Fund (IMF) took the bailout opportunity to force South Korea to further practice neo-liberal economic reforms, the anti-American attitude was further strengthened in South Korea.²⁷ To respond to the growing pressure from the US, South Korea's state basically took an external balancing strategy to form closer and closer economic relationships with East Asian countries. In 1992, South Korea established an official diplomatic relation with China, because China was viewed as its potential export market in the future, especially when the US market appeared not so reliable as before. In 1999, due to the lesson from the 1997 financial crisis, South Korea, just like China, Japan, and the ASEAN countries, started to consider the possibility of the ASEAN+3 cooperation.

The 1990s South Korean state, in terms of domestic power structure, continued maintaining close relationships with large enterprises but started to care for the interests of weaker industries and workers. During the period of postwar economic development, South Korea's government, being both an authoritarian state and a developmental state, tended to help the growth of certain industries and large enterprises and protect their interests, on the one hand, and to suppress the organizations and activities of workers which might damage large enterprises' interests, on the other hand. In particular, the state accumulated its capitals and developed its economy by providing particular large enterprises with financial resources and tax preferences and guiding them to invest in particular exported-oriented strategic industries.²⁸ After the 1980s economic liberalization and political democratization under the globalization pressure, large enterprises kept holding close relationships with the state and even became the ruling partners of the state, both because their financial autonomy was enhanced when the national financial system was deregulated and no longer totally controlled by the state,²⁹ and because their political influence was increased when

²⁷ See Chu 2007, 125-144.

²⁸ See Amsden 1990; and Woo-Cumings 1991.

²⁹ See Wang 2007, 189-190.

democratic elections made parties and politicians in need of the political contributions from large enterprises. Moreover, weaker industries and workers had less money but they had rights to vote in a democracy. Because weaker industries and workers represented a large number of voters, their rights and interests started to be concerned with by the state.

Under the above-outlined international and domestic power structures, South Korea once didn't have any interest in FTAs for fear that they may open its domestic market, damage national industries, and bring about the colonization of foreign capitals, but, around the end of the 1990s, it changed its mind to choose Chile as its first FTA target in Nov 1998, and then completed the negotiation and signed the agreement in Oct 2002. There were international and domestic reasons for this. Internationally, to solve the economic recession after the 1997 financial crisis, South Korea's state considered FTAs as an internal balancing strategy which could both attract foreign investments to revive its national economy and improve the export markets to recover its international competitiveness.³⁰ Besides, due to the stagnation of the 2001-2006 Doha round of the WTO multilateral trade negotiations, the state was also aware of the necessity of participating in the international bilateral FTA fervor and thus considered FTAs as an external balancing strategy to prevent South Korea from being marginalized. Domestically, by choosing Chile as the first FTA target, the state took care of both the interests of strategic industries and large enterprises and the interests of weaker industries and workers at the same time. The main reason for this was that a FTA with Chile was expected to have less impact on South Korea's agriculture, because Chile was a country in the Southern Hemisphere and it thus had agricultural seasons distinct from those in South Korea. Even so, the FTA signed in 2002 was not passed by the South Korean congress until Jan 2004 because of the protests of farmers.³¹ This also implied that strategic industries and large enterprises still had more powerful political influence than weaker industries and workers.

After the first experience with Chile, South Korea made an official "FTA Promotion Road Map" in Aug 2003, deployed the FTA negotiations with several countries simultaneously, and signed a FTA with Singapore in Nov 2004 as well as a FTA for goods with ASEAN in May 2006. Both international and domestic factors accounted for this. From the perspective of international power structure, because the cooperation between Aseanism and China's East Asianism (the ASEAN-China FTA) was planned to partially come into effect in July 2005, it was expected to decrease the advantage of certain South Korean products (especially mechanical and electronic products) relative to their Chinese counterparts in the Southeast Asian market.³² To maintain the export competitiveness and preserve the ASEAN market, South Korea was forced to take an external balancing strategy to ally itself with Aseanism as soon as possible. That's one of the

³⁰ See Wang 2007, 189-190.

³¹ See Liou 2006, 125-153.

³² See Liou 2010, 8-11.

reasons why South Korea signed a FTA with the members of Aseanism before signing FTAs with the members of Asia-Pacificism and East-Asianism. From the perspective of domestic power structure, the state made this FTA policy to protect the interests of mechanical and electronic industries and their large enterprises.

So far, South Korea appeared to keep holding its anti-American standpoint and continue embracing the Asian value in the economic realm; but, it started the FTA negotiation with the US in Jun 2006 (probably earlier than this time) and promptly signed it in Jun 2007. There were international and domestic reasons for this. In terms of international power structure, South Korea was caught in the midst between China's and Japan's East-Asianism; for example, South Korea thought of themselves to be mired in the so-called economic "sandwich difficulty" between low-price China and high-tech Japan.³³ To break this difficulty, South Korea's state decided to take an external strategy to match China and Japan by allying itself with the US. By signing a FTA with the US in advance, South Korea could attract foreign investments and enhance its export competitiveness, and thus increase its bargaining power in the FTA negotiations with Japan and China in the future.³⁴ That's the main reason why South Korea decided to shift its ground towards Asia-Pacificism before starting substantive negotiations with either China's or Japan's East-Asianism.

In terms of domestic power structure, South Korea's state signed a FTA with the US, both to satisfy the demands of certain industries and large enterprises, and to alleviate the impacts on agriculture, but it still sacrificed some interests of weaker industries and workers for the sake of international competition. In particular, this FTA helped certain industries (especially the electronics, iron and steel, automobiles parts, and textile industries) and their large enterprises to expand the US market and earn more profit, but it also had impact on certain other sectors (especially the chemical, pharmaceutical, medical equipment, and mass media industries).³⁵ Besides, considering that the FTA with China might have more serious impacts on South Korea's agriculture than the FTA with the US since Chinese agricultural products were much cheaper and more homogeneous to South Korean ones than American ones, the decision of South Korea's state to sign a FTA with the US helped delay the demands of stronger industries and large enterprises for signing a FTA with China for expanding the Chinese market, and thus helped suspend the more serious impacts on South Korea's agriculture. But, the South Korea-US FTA was not passed by the US Congress until Oct 2011 and by the South Korean Congress until Nov 2011 due to the agriculture issue and the opposition of farmers.

To sum up, due to international and domestic power structures, South Korea signed its first

³³ See Liberal Times 2007.

³⁴ See Liou 2006, 125-153.

³⁵ See Korea Central Daily News 2011.

FTA with Chile in 2002 and then signed a FTA with the ASEAN countries in 2006. To increase its economic power to match Japan and China, South Korea shifted its anti-American ground and signed a FTA with the US in 2007.

Taiwan's FTA Policies (1990-2011)

In the 1990s, Taiwan, in terms of international power structure, continued standing with Asia-Pacificism in the process of East Asian economic integration. From the beginning of the Cold War to the middle of the 1970s, Taiwan, just like South Korea, took a bandwagoning strategy to develop its economy and strengthen its international power by allying itself with the US. Under the international structure of the US-Soviet confrontation, the US offered Taiwan military supports and helped Taiwan (the Republic of China) represent the whole China in the United Nations (UN). The US also provided Taiwan with a great deal of economic aid and acted as Taiwan's principal export market to assist Taiwan in promoting its economic growth. But, because the US changed its China policy in the 1970s, Taiwan (the Republic of China) was forced to withdraw from the UN in 1971 to give way to China (the People's Republic of China). Taiwan was also forced to break off its official diplomatic relation with the US in 1979. Moreover, Taiwan, just like South Korea, has been urged by the US to open its domestic market and to practice economic liberalization reforms since the 1980s due to the US's trade deficit problem. But, Taiwan, unlike South Korea, didn't turn to East-Asianism and Aseanism in the 1990s. This was because Taiwan economically adopted a protective "No Haste, Go Slow" policy towards China, for Taiwan kept holding a debate over sovereignty with China and thus could not reach political reconciliation with China.³⁶ This was also because Taiwan could not successfully develop any official cooperation with other East Asian countries, for Taiwan seriously suffered from the suppression from China in the international system. Therefore, in the 1990s, Taiwan had no choice but to continue staying with Asia-Pacificism. For example, Taiwan participated in the APEC in 1991; the APEC was once the only important international institution Taiwan could send higher-ranking governmental officials to join. Taiwan also participated in the WTO in 2001. Apparently, Taiwan could not officially connect itself with the international system without the channels of Asia-Pacificism.

In terms of domestic politics, Taiwan's state, similar to South Korea's, continued maintaining close relationships with private capitals and started to be concerned with the interests of weaker industries and workers in the 1990s. In the process of postwar economic development, Taiwan's authoritarian, developmental state, just like South Korea's, played a central role in guiding both state-owned and private enterprises to invest in certain strategic industries by adopting fiscal and

³⁶ See Wang and So 2002, 23.

financial policy tools.³⁷ The state thus had close, reciprocal relationships with private enterprises; particularly, private enterprises followed the state's economic development plans to help accumulate national capital and develop national economy, and, in return, the state protected the interests of private enterprises by constraining the rights of workers and trade unions. But, the features of Taiwanese private enterprises were very different from those of South Korean private enterprises. In South Korea, the size of private enterprises tended to be large due to their high degree of vertical integration, so South Korea's exports were almost taken charge of by large enterprises. In contrast, there were much more small and medium enterprises (SMEs) than large enterprises in Taiwan, because Taiwan's state didn't encourage the formation of large private enterprises and it thus used state-owned enterprises to control up-stream industries, allowed only a few large private enterprises to occupy middle-stream industries, and encourage a great number of SMEs to manage down-stream industries; in this way, Taiwan's exports were mainly taken charge of by SMEs.³⁸ Since the 1980s, both large enterprises and SMEs have gradually developed closer relationships with the state. This was because more and more state-owned enterprises were privatized because of the economic liberalization reforms. This was also because some high-tech large enterprises took the place of SMEs to become the main drive for exports due to the industrial upgrading policy.³⁹ After the 1990s democratization, not only the interests of stronger industries and private enterprises but also those of weaker industries and workers could attract more attention from the state, because parties and politicians in a democracy had more incentive to look after the concerns of voters to win the elections.

Throughout the 2000s, Taiwan, despite participating in the WTO in 2001, failed to sign any FTA with other East Asian countries, but, instead, only succeeded in signing FTAs with five of its diplomatic allies in Latin America (Panama, Nicaragua, El Salvador, Honduras, and Guatemala). This resulted from international and domestic factors. From the perspective of international power structure, China's East-Asianism has been rapidly developing its economic power both in East Asia and in the global world since the 1980s, and has taken place of the US-led Asia-Pacificism to become Taiwan's most important trade partner in the beginning of the 2000s. In particular, the US accounted for 48% of Taiwan's gross export in 1985 but accounted for only 21% in 2002, while China accounted for only 9% of Taiwan's gross export in 1985 but accounted for 25.1% in 2002;⁴⁰ this showed that Taiwan's most principal export market already changed from the US to China. But, Taiwan's state took a buck-passing strategy throughout the 2000s to refuse to confront the rising of China's East-Asianism, to continue practicing a protective policy towards China, and to

³⁷ See Shiao 1989.

³⁸ See Wang 2007, 186-187, 195-196.

³⁹ See Wang and So 2002, 20-26.

⁴⁰ See Wang and So 2002, 22.

be reluctant to negotiate for a FTA with China, in the hope that the situation would be changed by itself someday. One reason for this was that, from 2000 to 2008, the state was managed by the Democratic Progressive Party (DPP), a party which tended to support the Taiwan-independence value, so it was relatively reluctant to have deeper economic cooperation with China for fear that Taiwan might lose its economic autonomy if overly relying on the Chinese market. In addition to the rise of China, another big change in the international system was the emergence of the bilateral FTA fervor due to the stagnation of the 2001-2006 Doha round of the WTO multilateral trade negotiations. To avoid being marginalized by this FTA fervor, Taiwan's state took an external balancing strategy to intend to develop FTA relationships with several other East Asian countries other than China, but those plans weren't put into practice. This was because China understood signing FTAs as a sovereign behavior, so it impeded Taiwan's attempts to do so by putting pressure on those East Asian countries.⁴¹ Under this circumstance, Taiwan only succeeded in signing FTAs with five of its diplomatic allies (Panama, Nicaragua, El Salvador, Honduras, and Guatemala), although those countries actually accounted for only less than 1% of Taiwan's annual trade volume.⁴² It is thus fair to say that, from the perspective of domestic power structure, those five FTAs didn't create better opportunities for stronger industries and enterprises, but they also didn't bring significant impacts on weaker industries and workers. It is also fair to say that those FTAs didn't work well to improve Taiwan's economy, but they seemed to serve the political goal of consolidating the relationships with those diplomatic allies.

In the 2008 Presidential election, Taiwan's ruling party was changed from DPP to Kuomintang (KMT), a party which didn't reject the option of being unified with China; after that, the new government immediately announced starting the FTA negotiation with China in Feb 2009 and then quickly signed a FTA, named as the Economic Cooperation Framework Agreement (ECFA), with China in Jun 2010. There were international and domestic reasons for this. In terms of international power structure, Taiwan didn't obtain any cooperative opportunities from Asia-Pacificism, Aseanism and East-Asianism from 2000 to 2008 to improve its economic conditions. In particular, Taiwan didn't successfully sign any FTA with other East Asian countries; neither the US nor Japan had interests in signing FTAs with Taiwan; ASEAN+1 (the ASEAN-China FTA) partially came into effect in Jul 2005 and was expected to be wholly put into practice in Jan 2010; the South Korea-US FTA was signed in Jun 2007; and, ASEAN+3 (the FTA among China, Japan, South Korea, and the ASEAN countries) was viewed as a potential plan which was likely to be put into practice in 2012. In a word, it was fair to say that Taiwan was really marginalized by East Asian economic integration. To change this status quo and break through this difficulty, Taiwan's

⁴¹ See Lin 2009, 92.

⁴² See Tung 2011, 36.

state had no choice but to take a bandwagoning strategy to depart from Asia-Pacificism and ally itself with China's East-Asianism. This strategy not merely aimed to attract foreign investments and improve Taiwan's export competitiveness, but also aimed to take a risk of cooperating with China in advance for its friendliness in order to acquire more opportunities of signing FTAs with more other countries, participating in East Asian economic integration, and going back to the international economic division system.⁴³

In terms of domestic power structure, Taiwan signed the ECFA with China to satisfy the demands of certain industries and private enterprises, and it also bargained over the content of the ECFA's "early harvest" list with China to suspend its impacts on weaker industries and workers. On the one hand, certain industries and their enterprises were afraid that South Korea, whose export structure was 70% the same as Taiwan,⁴⁴ would obtain stronger export competitiveness in the Chinese market than Taiwan after ASEAN+3 was realized in the future. So, the state was actively lobbied by those enterprises to sign a FTA with China and, in the bargaining process, it tried its best to include the interests of most those enterprises onto the ECFA's "early harvest" list. The sectors who benefited from the ECFA's "early harvest" list included petrochemical, plastic, rubber, engineering, textile, and iron and steel industries.⁴⁵ On the other hand, farmers and workers were the most principal potential victims of the ECFA, so they organized several protests against it. With regard to the bargaining outcome of the ECFA's "early harvest" list, the state didn't allow the import of Chinese agricultural products and workers into Taiwan, and it successfully asked China to allow the export of 18 types of Taiwanese agricultural products into China.⁴⁶ In this way, the state postponed the ECFA's impact on weaker industries and workers and thus mitigated their hostility toward the ECFA. In addition, it was deserved to be mentioned that state capacity might also play a role in putting the ECFA into practice. Because KMT controlled both the executive and the legislative sectors when it was in power while DPP didn't control the legislative sector when it was in power, the KMT government had a higher level of state capacity than the DPP government. Therefore, the KMT-led state was able to exclude the policy influence of opposition forces and put the ECFA into practice by adopting various procedural means to preventing the content of the ECFA from being supervised by opposition parties, being substantively reviewed by the congress, and being decided by referendum.⁴⁷

From the signing date of the ECFA (Jun 2010) to the present (Mar 2012), Taiwan received a few friendly messages about FTAs from East Asian countries and Asia-Pacific countries, but didn't complete any further FTA negotiations. For example, Singapore announced starting the FTA

⁴³ See Shiau 2010.

⁴⁴ See Tung 2011, 52.

⁴⁵ See Tung 2011, 41.

⁴⁶ See Tung 2011, 44.

⁴⁷ See Chen and Liao. 2009.

negotiation with Taiwan in Aug 2010. And, India, Indonesia, Philippines, and New Zealand also showed their interests in the FTAs with Taiwan. Besides, the US expressed in Jul 2010 when the ECFA was just signed that it didn't have any plan to negotiate for a FTA with Taiwan, but it was willing to negotiate for a Trade and Investment Framework Agreement (TIFA) with Taiwan.⁴⁸ And, Japan didn't sign a FTA with Taiwan, but it signed an Investment Arrangement under the Global Business Strategies with Taiwan in Sep 2011.⁴⁹ However, China still continued publicly opposing Taiwan's signing FTAs with other countries. Therefore, it was still uncertain whether Taiwan would stay with China's East-Asianism or still be likely to turn to Aseanism, Asia-Pacificism, or Japan's East-Asianism in the future. But, this would depend largely on whether Taiwan could successfully sign FTAs with more other countries after signing the ECFA with China. If Taiwan could not get more chances of signing FTAs with other countries, it might finally stay with China's East-Asianism and lose its economic autonomy.⁵⁰ In contrast, if Taiwan could acquire more opportunities of signing FTAs with other countries, it would still be likely to turn to other sorts of East Asian regionalism, participate in East Asian economic integration, and return the international economic division system.

To sum up, due to international and domestic power structures, Taiwan didn't sign any FTAs with East Asian countries, but only signed five FTAs with its diplomatic allies in Latin America throughout the 1990s and the 2000s. To avoid being marginalized by East Asian economic integration, Taiwan had no choice but to sign a FTA with China in 2010. After that, it was still uncertain whether Taiwan could successfully sign further FTAs with other countries.

Conclusion

This study, in a broader sense, attempts to explore how a state makes its FTA policy in response to regional economic integration, and, specifically, focuses on the explanation over South Korea's and Taiwan's FTA policies in response to East Asian economic integration. To answer those questions, this study tries to integrate the international political approach and the domestic political approach, and, in particular, uses neoclassical realism in international relations as the basic theoretical framework and then incorporates the concepts of East Asian regionalism and developmental state into that framework. Based on the theoretical framework, this study argues that a state's FTA policy, as a kind of foreign policy, is decided by both international and domestic power structures with regard to regional economic integration. To examine this argument, this study uses case study as the research method and selects South Korea and Taiwan as the cases to provide empirical evidence.

⁴⁸ See Apple Daily 2010.

⁴⁹ See Lin 2011.

⁵⁰ See Lin 2009, 94.

There are mainly four points to the finding of this study. First, both South Korea's and Taiwan's FTA policies were apparently affected by both international and domestic power structures at the same time. This finding is consistent with the theoretical framework built by this study which suggests that both international and domestic factors play a role in explaining a state's foreign policies.

Second, the two domestic power structures South Korea and Taiwan separately faced were similar. For example, because both countries' economic growth relied largely on export, their states had close relationships with the private enterprises which made contribution to export. Besides, because South Korea's and Taiwan's industrial structures and export structures were highly (about 70%) similar to each other, the power relations among various economic actors in both countries were also similar; namely, strategic industries and private capitalists were generally more powerful than agriculture and workers.

Third, the two international power structures South Korea and Taiwan separately faced were very different. In particular, South Korea's international actions were less intentionally impeded by any certain great power, so it was able to not only practice its FTA policies more promptly and timely, but also choose its FTA targets among various sorts of East Asian regionalism more flexibly and appropriately. In contrast, Taiwan's international actions were frequently intentionally suppressed by China, so its FTA policies were often postponed and even could not be realized at all. Besides, Taiwan could not flexibly choose its FTA targets among various sorts of East Asian regionalism. For example, Taiwan was less likely to sign FTAs with Japan and the ASEAN countries because of China's suppression. Under this circumstance, when the US offered cooperative opportunities, Taiwan would have less choice but to ally itself with the US, in order to enhance its own economic autonomy and avoid being incorporated into China; but, when the US didn't provide cooperative opportunities, Taiwan would also have less choice but to take a risk of signing a FTA with China, in order to enhance its own international competitiveness and avoid being marginalized by regional economic integration.

Fourth, given that South Korea's and Taiwan's domestic power structures were similar and their international power structures were different, the differences between South Korea's and Taiwan's FTA policies were more dependent on international power structure than on domestic power structure. For example, South Korea which domestically held an anti-American attitude still internationally turned to sign a FTA with the US; similarly, Taiwan which domestically held a defensive attitude toward China still internationally turned to sign a FTA with China. This finding is consistent with neoclassical realism which implies that international factors are more critical than domestic factors in affecting a state's foreign policies.

There are mainly four points to the potential contribution of this study. First, this study combines two existing approaches together. It not only tries to understand international economic

cooperation from a political point of view, but also tries to combine the international political approach with the domestic political approach to it.

Second, this study builds a theoretical framework. It borrows the ideas of neoclassical realism, East Asian regionalism, and developmental state to constitute a new theoretical framework, and uses it to explain a developmental state's FTA policies in response to East Asian economic integration.

Third, this study offers empirical evidence for its theoretical framework. It uses the case studies on South Korea and Taiwan to confirm the validity of the theoretical framework, established causal mechanisms for each of the cases, and compared the similarities and differences between the two cases.

Fourth, this study provides certain policy implication. It suggests that, if a country is to make its FTA policies in response to regional economic integration, both international and domestic factors should be put into consideration and the former may be more critical than the latter at some situations. This policy implication may be especially helpful to the developmental states in East Asia.

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