

The Effects of an ROK-Japan FTA on the Car Industry of Both Countries and
Potential for Cooperation between Them
(Summary)

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In addition to using the framework of spatial economics to examine the effect that an FTA between the ROK and Japan would have on production sites and trade patterns in the car industry in both countries, the aim of this paper is to investigate the potential for cooperation between them. The car industry is one of the industries upon which an ROK-Japan FTA would have the biggest effect. With regard to the ROK's car industry, which is subordinate to Japan in terms of competitiveness, it is anticipated that the integration of the market that would result from an ROK-Japan FTA would be a major blow for both the finished automobiles and automotive parts_sectors. In a situation in which the import duty on Japanese cars was zero, if the ROK's import duties were abolished, the competitiveness of Japanese cars in the ROK market would increase further. In addition, it would be a situation in which one could not really expect the investment generation effect that is generally anticipated as a dynamic effect of FTAs. More specifically, a bilateral investment treaty (BIT) came into effect in 2003; moreover, given the production and market structures and site-related factors in the car industries of both countries, there is little potential for intra-regional production adjustments based on compartmentalization.

However, if an ROK-Japan FTA is ultimately inevitable, then the matter of how to ensure that the industry has a soft landing is a crucial question. In other words, it is vital to make use of the strengths of the car industry in both the ROK and Japan and design an FTA that guarantees benefits for both countries (a win-win situation). In order to do this, it will first of all be necessary to enhance cooperation between the car industries of both countries. In addition to extending strategic division of labor within the industry and strategic cooperation between companies, it is necessary to strive to put in place the requisite environment, by such means as institutional harmonization and the establishment of a consultative body, in order to extend cooperation between the car industries of both countries.

Keywords: ROK-Japan FTA, spatial economics, accumulation effect, trade diversion effect, trade generation effect