

Demystifying the Impasse of the Korea-Japan FTA: The Pivotal Role of Big Business Associations in S. Korea's Trade Policy

Sang-Bok Moon

The purpose of this study is to find the underlying factor that causes the impasse of the Korea-Japan FTA negotiation. This was to undertake a theoretically motivated empirical analysis of the Korea-Japan FTA in light of the inability of statist and systemic approaches to fully explain the stalemate. The fact that FKI led coalition of business associations changed its position regarding the FTA is critical in understanding what eventually resulted. It is precisely this outcome that the societal approach is equipped to deal with and analyse successfully.

Keywords: *FTA, S. Korea, Japan, Stakeholders, FKI*

1. INTRODUCTION

Korea has traditionally been a staunch supporter of multilateralism in international trade and was one of the original members of the World Trade Organisation (WTO) when it replaced the General Agreement on Tariffs and Trade (GATT) in 1995. However, the Asian financial crisis¹ catalysed a re-examination of Korea's traditional foreign economic strategy because the crisis revealed that the Korean economy – shielded from foreign competition – could not cope well with aspects of the process of globalisation. Consequently, Korea embarked on an ambitious program of economic liberalisation and deregulation. A critical element of this program was overhauling the regimes for foreign trade and investment, including exploring an Free Trade Agreement (FTA) with Korea's trade partners (Kim 2004a; Lee 2003). In taking this initiative, the Korean government initially took a rather cautious approach (Choi 2004: 87; Kim 2002: 294), due to the fact that Korea had no previous experience in FTA negotiations. Here, we see how the changing nature of world trade helped motivate Korea in pursuing its first FTA (Cheong 2006: 30-31).

As of January 2010, the Korean government has sealed FTA deals with Chile (2004), Singapore (2006), the European Free Trade Association (EFTA) (2006) and Asia (Association of South-East Asian Nations (ASEAN) 2006 and 2009). The government signed the Korea-US FTA in 2007, and agreements with the European Union (EU) in 2009. There are also negotiations underway with, Australia, New Zealand, Peru and Gulf Cooperation Council (GCC). There are also feasibility studies underway with several countries such as Israel, China, Russia and Turkey.²

Despite these achievements, the Korea-Japan FTA has been in deadlock since 2004 and remains an unsolved puzzle. The official reason stated by both governments was the failure to organise subsequent negotiation agendas due to differences of opinion. In particular,

¹ Prior to the crisis, regionalism in East Asia was noted for its relative lack of formal institutions; many analysts stressed the role of private businesses in fostering a regional economy however, Post-crisis regionalism is being led by the state and encompasses both monetary and trade dimensions.

² <http://www.fta.go.kr/user/index.asp>.

Korea disapproved of Japan's 50 percent exclusion target for the agricultural produce market (Korea wanted 90 percent access), whereas Japan criticised Korea's reservations in delaying the opening of its industrial products market (Cheong and Cho 2009; Tadahiro 2005). The nature of these negotiations meant that frictions did not come entirely as a surprise; heated debate during negotiations was expected due to the similarities with the Korea-Chile FTA negotiations and their subsequent suspensions and Korea-US FTA. It was expected that – in order for negotiations to advance – political incentives to resolve these frictions were necessary, as had happened during the negotiation and ratification phases of the Korea-Chile FTA and noticeably Korea-US FTA. However, the Korea-Japan FTA did not follow the template exactly as set out by its Chilean and American counterpart. Instead, it reached a stalemate and has remained in stasis ever since (as of October, 2010).

Some would argue that Japanese government might be a major factor in explaining this deadlock. For example, Korean Trade Minister Kim Jong-hoon has said that the bilateral talks would have gone smoothly if Japan had agreed, as it had promised, to open more than 90 percent of its agricultural market.³ However, to the contrary, the fact is that the Japanese government tried to reopen FTA negotiations with Korea in 2007 and 2008,⁴ to which the Korean government did not display much enthusiasm.

While there have been various interpretations⁵ suggested that seek to reveal the cause for these developments at the feet of the Japanese government, this study contends that Korea's domestic stakeholders, in particular Korea's large corporations' business associations (i.e. the Federation of Korean Industries (FKI) led coalition⁶), are the principal factor behind the

³ The Korea Times (25/06/2008).

⁴ "We are ready to resume FTA negotiations, which have been put on hold since November 2004, at any time and will intensify our call on Korea to restart the process at an early date," Chief Cabinet Secretary Yasuhisa Shiozaki told a news conference. (Kyodo Daily Newspaper 03/04/2007). The Japanese government hopes to reopen the FTA with Korea that has been stalled for over three years due to differences between the two sides (Nihon Keizai Newspaper 12/02/2008). Recently, Korean President Lee Myung-bak and Japanese Prime Minister Taro Aso called for the early conclusion of a free trade deal during their summit on 28th June, 2009 and after, Korea and Japan held a working-level meeting to look into ways to resume stalled negotiations for a bilateral FTA.

⁵ For further details, see Cheong and Cho (2009), "Evaluation of the environment for a Korea-Japan FTA and prospects for the FTA," *Journal of Asia-Pacific studies*, 16(1): 159-178; Kim, D. Y. (2007), "The deadlock of Korea-Japan FTA, its problems and solutions," *Institute of Economic research Seoul National University*, 46(2): 61-94; Han, H. K. (2007), "Korea-Japan FTA and its political obstacles," *The East Asian Association of International Studies*: 77-106. Additionally, from the international political perspective, one could argue that the dispute over the Dokdo/Takeshima Islands—an intensely emotional issue for South Koreans – provoked the Blue House's antagonistic Japan policy, thus serving to kill the negotiations. If this argument had been valid, an FTA negotiation between the two countries would not have even started in 1998. This territorial conflict is a longstanding one, with the most recent, serious row over the islets taking place in February 1996, when the Japanese foreign minister reaffirmed Japan's territorial claim to the islets after S. Korea had made plans to build a wharf on them. There were several industrial business associations involved in the FTA process.

There were several industrial business associations involved in the FTA process. Of these, the most important were: The FKI, the Korea International Trade Association (KITA), Korea Federation of Small and Medium Business (FSMB), and the Korea Chamber of Commerce and Industry (KCCI). Thus, the FKI-led coalition of business associations is composed of the FKI, KITA, FSMB, and KCCI.

current deadlock. Thus, the purpose of this study is to shed light on what extent and how Korea's domestic interest groups (in particular, FKI) influence international trade agreements.

2. THEORETICAL FRAMEWORKS

In explaining countries' foreign economic policies, various theories have been proposed (Odell 1990; Ikenberry *et al.*, 1988; Rohrllich 1987). Within such a diverse body of literature, perhaps the most elaborated and theoretically refined version of foreign economic policy making is that of Ikenberry *et al.* (1988), who developed a common theoretical framework for explaining US foreign economic policy based on the interplay of three explanatory approaches: system-centered, state-centered and society-centered explanations. Within such a diverse body of literature, it is hardly surprising to find numerous points of controversy as well as areas of shared agreement (Cohen 1990: 267). As Odell notes, each of the perspectives proves to have some theoretical value, yet none has managed to dominate the field (1990: 140). Ikenberry *et al.* (1988) however, highlighted the need to go beyond more conventional system-centered explanations and look within the "black box" of the state and society, which has received some considerable academic debate over the years.

Before looking at each of the three sets of approaches, it would be first better to identify their most crucial tenets. First, the systemic approaches emphasise that a nation's foreign trade policy is fundamentally derived from the nature of the international system. As such, the formulation of policy derives more or less rationally from the constraints that the international system imposes. Second, the statist approach emphasises the autonomous role of the state in pursuing foreign economic policy. The societal approach, on the other hand, attributes policies to variations in demands made by interest groups with its primary tenet viewing policy as the outcome of a competitive struggle among affected groups for influence over particular policy decisions.

2.1. Systemic Approaches

Systemic approaches conceive of an "outside-in" dimension that gives precedence to the external pressures and challenges faced by nation-states in conducting foreign policies (Sorenson 2001: 9-10). Such approaches attribute trade policy to the demands or opportunities generated within the international political economy and prevailing distributions of power in the international system; the norms and principles embedded in international regimes; or the imperatives of international economic structures. These have all been invoked as systemic explanations of foreign economic policy. Accordingly, this systemic approach understands the international structure as an independent variable in explaining foreign economic policy such as FTAs.

Following this argument, Korea has proved to be no exception in "obeying" such international trends. It can be argued that Korea's change in foreign economic policy and the promotion of FTAs can be traced to two main systemic factors. Accordingly, the above demonstrates that the international dimension has been an important influence in compelling Korea to join the bilateral FTA league.

Notwithstanding the salience of the systemic approach, it does display some limitations in adequately explaining the variance that exists in Korea-Japan FTA. In other words, while the initiation an FTA with Japan could adequately be explained by systemic approaches,

under which the FTA with Japan could have been sealed, systemic approaches failed to account for the current impasse.

Systemic approaches that derive policy wholly from the exigencies of the system effectively ignore the rich fibres of domestic structures and can, therefore, do little more than explain broad policy characteristics under certain historical episodes; failing to penetrate the complexities of the decision-making process at the domestic level (Hocking and McGuire 2004: 1-17). Therefore, central to the concerns of this study is the domestic approach, with particular emphasis on the analysis of actors within state and society. Both approaches are examined, in turn, below.

2.2. Statist Approaches

Accordingly, one of the central concepts in the literature on theories of the state has been that of “state autonomy.” Autonomy in this context refers to the assumption that states can and do act independently from the pressures of interest groups in formulating and implementing policy (Oatley 2004: 109). In this regard, it has been persuasively asserted that the state should be understood as possessing the capability to pursue its own interests and that these may be distinct from societal interests (Skocpol 1985; Nordlinger 1981; Krasner 1978). The key question, therefore, in explaining policy revolves around whether the state should be regarded as an actor in its own right with its own specific interests, and not one whose interests will be subordinated to other interests.

In short, it is reasonable to contend that the state might adopt positions and executes policy strategies such as FTAs, which are not merely reflection of those of societal actors. Within the above context, the Korean state has conventionally been regarded by scholars as having a high degree of autonomy relative to society in pursuing its policies. Moreover, this has been linked with literature on the developmental state (Wade 2003; Woo-Cumings 1999; Weiss 1998), which asserts that the state is the primary actor in formulating and executing economic goals. According to the statist approach, it was the Korean government that not only acknowledged the importance of FTAs as an important strategic element for future economic growth. It also chose Chile as its first partner and Japan as the second. Again, using the statist approach, the start of official negotiations vis-à-vis the Korea-US FTA demonstrated the government’s autonomy in formulating policy still further for it chose to go ahead regardless of the domestic societal debate.

While a statist approach directs our attention to the important role that states play in shaping foreign economic policy, it does have some notable limitations. For one, states are not necessarily autonomous of all societal interests and policies are often shaped by the constellation of societal groups upon which the government’s power rests. Therefore, to focus on state interests alone is inadequate without considering societal and other constraints that shape the policy process. The fact that the state is not always prevalent is something recognised by some theorists (Nordlinger or Skocpol) of state autonomy themselves. More recent literature on the subject has sought to develop a state–society framework showing how the state is embedded within society that creates a kind of synthesis between the two actors (Weiss 1998; Evans 1995, 1985; Katzenstein 1978).

All in all, whether the state possesses and pursues its own independent interests or not, it does not mean that they automatically correlate with the state’s desired trade policy outcome. In applying a statist interpretation to the Korea-Japan FTA, it does not make sense that the current impasse remains in the face of the fact that the Korean government initially proposed

the FTA with Japan as a critical element for future economic growth. Therefore, in the Korea-Japan FTA, the statist approaches (like the systemic approach) do not provide a clear answer to our main research puzzle.

2.3. Societal Approaches

Societal approaches to the study of foreign economic policy focus primarily on the effects of demands for protection by pressure groups (Mansfield and Busch 1995: 724). These groups create coalitions which are engaged in support or protest vis-à-vis trade policies. The balance between the opposition coalitions opposing FTAs and those favouring them creates the ‘demand’ by society. Trade policy is thus commonly observed as a product of domestic interest group politics. In the “demand” explanation of protection, the state is seen as the empty receptacle (container or vessel) of societal bargaining with no independent voice or role (Lake 1988: 33).

The implication of this argument is that those interest groups that are more likely to mobilise and become politically active are more likely to succeed in influencing states’ policy (Gowa 1988; Frieden 1995). Essentially, then, the “demand side” literature argues that overcoming collective action problems is a key determinant of political influence (Olson 2004). Whereas groups with large numbers of members are ineffective for realising common objectives, those with a relatively small number of producers not only have a large incentive for collective action, but they find it easier to organise their preferences and can much more effectively lobby government for their desired trade policy. In consequence, this helps us to understand why producers’ interests dominate trade politics while consumer interests are often neglected.

Whatever the debate in conceptualizing distributional consequences, an understanding of the societal approach is certainly necessary for understanding countries’ policy outcomes. For example, Germany’s response of high tariffs to the 1870s depression reflected the preferences of a coalition of protectionist farmers and industrialists.⁷ The eventual policy responses to these crises demonstrate to some degree that the preferences of coalition interest groups influence policy outcomes. For example, all the domestic winners of the Korea-Chile FTA are the FKI which produces, for instance, automobiles and electronic goods. The latter had a substantial influence in the FTA policymaking process in conjunction with their strong relationship with the government. The losers, on the other hand, were typically farmers. In other words, the benefits of the FTA were disproportionately distributed between the agricultural industry and industrial manufacturing sectors, thus also fuelling political dissent against the government. In consequence, one of the most serious issues arising from the Korea-Chile FTA (and also recent debates in regard to the Korea–USA FTA) was the government’s confrontation with the domestic farm lobby; in particular the ability of Korean farmers’ organisations to muster their political weight in attempting to influence the government’s FTA negotiations with Chile.

Essentially then, the society-centred literature argues that overcoming collective action problems is a key determinant of political influence (Gowa 1988). Those groups that are

⁷ In 1897, Germany changed its course and adopted the ‘iron and rye’ tariff. Explanations concentrate on domestic groups within Germany. As owners of grain producing farms in Eastern Germany, their interests were damaged by transportation costs that translated into plummeting grain prices in Europeans markets.

most likely to mobilise behind their preferences will benefit from the greatest effect on policy decisions. Moreover, the extent to which interest groups can overcome collective action problems relates to the characteristics of the groups themselves.

In short, the FTA arena can be understood to be a struggle between domestic forces that are pressuring government agencies to pursue frequently divergent positions on trade policy (Ravenhill 2004: 59-60; Choi 2001; Gilpin 2001: 341-61). The political conflict connected to FTA policy typically involves high economic stakes for the country as a whole, or short of that, major economic consequences for parties immediately affected by international trade. The agenda-setting, process and outcome of the Korea-Japan FTA provides a typical example of trade policy that encapsulated a domestic political struggle among different economic interests.

3. KOREA-JAPAN FTA CASE: FKI AS KEY DOMESTIC STAKEHOLDER

3.1. Business Associations-the FKI Led Coalition

The FKI's position on the Korea-Japan FTA was often characterised as 'support of the collective businesses, opposition of the individuals.'⁸ In other words, Korean industries supported the principle of opening markets *per se*, but Korea-Japan FTA support was tagged with a specific set of conditions concerning Non-Tariff Barriers (NTBs). The fact was that Korean export industries experienced difficulties in accessing Japanese markets due to the various NTBs (see Table 1). Critically, the goal of the FKI led coalition was to flag the issue of NTBs on the understanding that this issue was a sensitive issue for the Japanese, thus creating an immediate road block to further negotiations. In order to guarantee the support of the FKI and its affiliates, it was absolutely necessary that the Ministry of Foreign Affairs and Trade (MOFAT) put this issue on the agenda. The efficacy of the FKI led coalition's use of NTBs as away to slow down the FTA is best demonstrated by displaying how relevant this issue was to Korea-Japanese trade.

Table 1. Case of Japanese NTBs⁹

Cases of NTBs against Korean Products by Japan
<ul style="list-style-type: none"> • Temporary blockade of automobiles by ship. • Discrimination of marine products. • Tariff quota of belts. • Import limitation of silk products. • Complicated license acquisition process. • Harsh inspection standards for some agricultural and marine products. • Harsh government consumption regulations. • Recycling systems of electronic products.

⁸ Such views are also vindicated by the remark from Hyun Min-kuk, vice president of FKI. He has commented 'though supportive to Korea-Japan FTA is general, many of the industries demurred at each item,' (Maeil Business Daily Newspaper 09/06/2003).

⁹ For more details on the non-tariff related information refers to the following literature; Lee and Chun (2004).

Table 2. Japan's NTBs to Korean Exporters

Types	No. of cases	Main content
HS classification	2	<ul style="list-style-type: none"> - The inaccurate classification of raw materials in red ginseng. - Not recognising a set of clothes as one item.
Inspection & customs	16	<ul style="list-style-type: none"> - The absence of a uniform custom clearance form. - The requirement to complete excessively detailed packaging lists and charges of high tariffs. - The prohibition in using preservatives in cosmetics. - Time consuming customs clearance. - The requirement of non-genetically modified organism (GMO) forms. - The high harbor taxes levied when using provincial harbors.
Market access & distribution barriers	21	<ul style="list-style-type: none"> - Import tariffs paid by the exporting company. - The prohibition on using timber packaging. - Being pressured to use Japanese distribution companies. - Misusing the strict product quality requirements as a way to return goods. - More favourable policies for the domestic products by the Japanese government. - The passive attitude of the Japanese dealers concerning parallel dealership.
Technological barriers	6	<ul style="list-style-type: none"> - The high cost and time-consuming process of obtaining Japanese Industrial Standards (JIS). - The extra costs associated with multiple authentication. - Favouring Japanese firms in satisfying standards and obtaining a certificate.
Living	3	<ul style="list-style-type: none"> - The strict application of immigration rules on Koreans when they travel via Hong Kong or Thailand. - The difficulties in obtaining multiple 5-year visas for newly recruited staff of Korean companies.
Tax system	1	<ul style="list-style-type: none"> - The undisclosed reasons behind the estimated calculations of Value Added Tax (VAT).
Total	49	

Source: KITA (2003) "The Non-Tariff Barriers in Japan."

As can be seen in Table 1 and 2, Korean export industries had to pass various NTBs to gain entry, receive inspection, and circulate their products within mainland Japan. The importance of NTBs in the Korea-Japan FTA can be seen clearly by their inclusion at the suggestion of the Joint Study Group in March 2002. Another relevant reason behind the

importance of NTBs is that – in addition to being conscious of Korean industries – the principle of pursuing a balance of gains in the negotiations was important. To elucidate this point further, Korea had much higher tariffs in comparison to Japan and removal of tariffs by FTA formulation would be greatly disadvantageous for Korea. Subsequently, a removal of Japan's NTBs was deemed necessary to balance the equation to help resolve these of imbalances.

The conditional support expressed by the FKI was not entirely representative of its individual members, as noted above. Korea's trademark industries – automobile, machinery, electronics and chemicals – expressed some degree of dissension with the formulation of an FTA with Japan. This was to eventually blossom into out and out hostility and opposition during the negotiation phase (see below). The support given by business associations was dependent primarily on the issue of NTBs and this conditionality always meant that the support offered by the FKI was susceptible to the changing of circumstances surrounding NTBs. Business Associations expressed support at the agenda-setting phase for the government's policies but chose to point out the dangers of the FTA in discussing possible side effects, while clearly stating their demands. These parties had their own discreet negotiation channels with the government, so they did not have to oppose the policies head-on.

3.2. Conditional Support

The FKI indicated some degree of reluctance in their support during the agenda-setting phase. Although business associations displayed a united front of supporting the FTA with Japan, behind closed doors there were early signs of unease. This concern was flagged as early as May 2000. At a conference related to the Korea-Japan FTA, sponsored by The Korea's Institute for International Economic Policy (KIEP), views opposing the FTA were offered by officials of the KITA. They insisted that Japanese companies would overwhelm Korean companies if direct competition was allowed. Also, a managing director from Samsung Electronics, Jang Il-hyung, warned that the Korea-Japan FTA would end up only increasing the importation of Japanese products.¹⁰ Similar concerns were demonstrated at the 32nd Korea-Japan Business Conference in Tokyo, in June 2000. One of the Korean representatives, president of Samyang company, Kim Sang-ha declared:

“Though (we) agree to the basic principles of the Korea-Japan FTA, sufficient discussions are required as there are discordances in each industry and field; therefore we have reservations about an early conclusion.”

What is interesting here is that the very industrial sectors that chided the protesting farmers for their ‘collective selfishness’ during the Korea-Chile FTA were either “opposing” or calling for “prudence” in the Korea-Japan FTA. The important question remains as to why they changed their position in relation to the Korea-Japan FTA.

As the agenda-setting phase wore on, circumstances changed. By 2000, the government declared that Korea's financial crisis had passed, thus alleviating the pressure on the FKI to acquiesce to government policy they felt ran counter to their interests (Hong 2002: 115). Furthermore, another report from the FKI (2004b) forecasted a less than robust picture of an

¹⁰ Munhwa Daily Newspaper (18/05/2000).

Table 3. Effects to Each Industry by Korea-Japan FTA

Industry	Effect
Electronic (-)	<ul style="list-style-type: none"> - Imports from Japan rapidly increase and restructuring of SMEs exacerbated if tariffs removed. - End products: disadvantages in technology and branding. - Comparative Advantages to some products such as mobile products and Thin film Transistor Liquid Crystal Display (TFT-LCD). - Absolute disadvantages to high-tech components and materials.
Automobile (-)	<ul style="list-style-type: none"> - Sharp increase in the importation of large and mid-sized cars expected. - Possible huge increase in importation of automobile components: restructuring of domestic component manufacturers inevitable.
General machinery (-)	<ul style="list-style-type: none"> - Dependency on Japan expected to grow in core component fields, greatest damage expected here. - Result of inducing Japanese industries to investment domestically; mediocre.
Petro-chemistry (-)	<ul style="list-style-type: none"> - Cutthroat competition expected due to excessive supply from both countries. - Advantageous in general-purpose products (PE), disadvantageous in specialty products (engineering plastics).
Precision machinery (0)	<ul style="list-style-type: none"> - Not much influence expected as most of the items were not domestically produced.
Fabrics (+)	<ul style="list-style-type: none"> - Overall improvement in the balance of trade as exports to Japan increased. - However, increase in the importation of Japanese high-quality products expected in textiles (synthetic/cotton fabrics).
Steel (0)	<ul style="list-style-type: none"> - Insignificant influence on the raw materials of iron and steel. - Secondary iron products (cast-iron products): competence reinforced systematically.
Ship building (-)	<ul style="list-style-type: none"> - General vessels: insignificant due to zero tariffs, but increased importation of special vessels (motor boats, yacht) expected. - Materials and components: increase in importations expected.
Semi-conductor (0)	<ul style="list-style-type: none"> - Insignificant due to zero tariffs. - Cost reduction in raw materials and equipment anticipated, but small and mid-sized equipment/material related enterprises possibly vulnerable.

General evaluations for the industries are given at the discretion of the writer (-: disadvantageous, 0: insignificant effect, +: advantageous).

Sources: FKI (2004c) "Effects of Korea/Japan FTA on Industry and Measures," FKI Issue Paper.

eventual FTA with Japan and this was enough to give major industries and their associations second thoughts about possible benefits. The issue of conditionality gained traction among many industry leaders. The concept of conditionality, while in itself a useful bargaining tool, was also a means to delay the process. A delay at this stage, so the theory went, would allow

the large industries, who were having second thoughts, time to come to a more considered opinion.¹¹

According to the FKI, only 28 percent of 1,522 companies approved of the FTA with Japan, while 17.6 percent called for further studies, and 54.4 percent for amendment.¹² Similar views on the Korea-Japan FTA were repeated in another survey conducted by the FKI in Table 3. As can be seen in this table (3), most companies' views – grouped according to industry – on the Korea-Japan FTA were discouraging. Whilst only textile industries' appraisal of the FTA was positive, steel, semi-conductor, and precision machinery industries judged it to be of little consequence. The remaining industries found it inauspicious. Primary exporting industries – including electronics, automobiles, petro-chemical and shipbuilding – described the FTA as of no benefit. These views were based on the fear that high-tech industries would suffer from competition against Japan and, hence, be forced to restructure to produce low-value products.¹³ Despite a cajoling MOFAT, the FKI were aware that negligible Japanese tariff barriers hardly compared to the seven percent Korean barriers and that, all other things being equal, Japan stood the most to gain (Kim 2003).

3.3. Opposition

By December, 2003 – when official negotiations between the two countries had started – the mood had definitely changed among Korean industries. During the agenda-setting phase, many corporations and industries had begun to show a distinct lack of enthusiasm and as this early phase drew to a close and the negotiation phase began, these feelings of discontent were manifested quite openly.¹⁴

To many Korean industries, it became abundantly clear that they would be no match for Japan – the world's second largest economy – in a deregulated market place. Their call to government for a delay with the FTA with Japan and, instead, the opening of discussions with a less developed or less powerful economy than Japan (e.g. an ASEAN member or China) was tantamount to a declaration that Korea was not economically vibrant enough to compete with Japan via an FTA. Lee and Chun (2004: 150) argued that:

“Based on the competence of industries in both countries and tariff rates, analysis on the trade effects of the Korea-Japan FTA has revealed that economic benefits to Korea are doubtful. Increases in exports to Japan can be expected in steel, fabric and clothing, agriculture, minerals, chemistries, and other intermediate goods industries by the Korea-Japan FTA.”

The Korea's Institute for International Economic Policy (KIEP) produced a report (see Table 4) in 2001 supporting this analysis, summarising the potential trade effects of an FTA with Japan on various parts of Korean manufacturing industries. What is immediately

¹¹ Interview conducted with a Director of Economic Research Division, KERI in FKI affiliates, Seoul, October 19th, 2005.

¹² Maeil Daily Newspaper (13/07/2004).

¹³ This is in conformity with Japanese intentions for the Korea-Japan FTA: the Japanese government and business leaders intended to reform their industries into high-value industries through the FTA and transfer low-value industries to Korea (Kim 2005: 22).

¹⁴ Interview conducted with a chief negotiator in MOFAT. I was accompanied by Kim Gi-ju, former director of administration Bureau in Blue House, August 21th, 2009.

Table 4. Trade Effects in the Manufacturing Fields Based on the Analysis of Elasticity
(Unit: million dollar, 2004 basis year, figures in parenthesis indicate change (percent))

Category	Exports to Japan Change in amount	Imports from Japan Change in amount	Trade balance with Japan Change in amount
Products	177.9 (0.9percent)	2,643.8 (5.8percent)	-2,465.8 (-9.7percent)
Mineral fuel(HS27)	50.7(1.5percent)	82.0(11.5percent)	31.3(1.2percent)
Organic chemistry(HS29)	9.3(1.2percent)	54.2(2.5percent)	-44.9(-3.2percent)
plastic(HS39)	26.6(3.1percent)	94.1(4.3percent)	-67.5(-5.2percent)
Clothing and fabric (HS61)	20.4(7.7percent)	1.4(13.7percent)	18.9(-7.5percent)
steel(HS72)	3.5(0.2percent)	27.9(0.5percent)	-24.4(0.6percent)
Steel products(HS73)	1.3(0.2percent)	22.4(4.6percent)	21.0(-15.3percent)
Primary Items	Machinery (HS84)	0.0(0.0percent) 1,067.4 (12.5percent)	-1,067.4 (-18.4percent)
	Electronic products (HS85)	13.5(0.2percent)	251.7(2.0percent) -238.1 (-3.8percent)
	Automobiles and components (HS87)	0.2(0.1percent)	85.4(8.4percent) -85.2 (-12.5percent)
	Precision machinery (HS90)	1.2(0.2percent)	455.4(9.5percent) -454.2 (-10.6percent)
	Others	51.1(1.8percent)	501.9(6.8percent) -450.8 (-9.8percent)

Source: KIEP (2005) "Analysis on the Economic Expectations and Influences of Korea-Japan FTA."

discernable from the table is that only the low-value industries, manufacturing industries, such as mineral fuels and clothing industries, would have enjoyed increases in trade. Other high-value industries, general machinery, precision machinery, electric products and automobiles, would have suffered from the Korea-Japan FTA as envisaged. Not only were these high-value industries of primary importance to the Korean national economy, they were also major industries with immense influence on numerous other subsidiary Small and medium enterprises (SMEs) (Song 2004: 84-85). Secondary knock-on effects were forecast in society had these industries been abandoned or restructured from high-value to low-value industries.

Many researchers charged that the Korea-Japan FTA would have impeded rapid industrial growth in Korea (Lee and Chun 2005; Park 2004; Kim 2004b). While many Japanese products had secured superiority in Korean markets, Korean products were still

comparatively weak in Japanese markets. Although the tariff rates imposed by the Korean government on its prime industries were 8 percent for automobiles and electronics, 7.9 percent for machinery, 7.7 percent for petrochemicals, 7.3 percent for metals, and 7.2 percent for other manufacturing industries, the Japanese government hardly imposed any tariffs on such industries, with almost nil tariff rates for electronics, automobiles and vehicles; 0.2 percent for machinery and 3 percent for petrochemicals (Lee and Chun 2005: 250).

As a result, Korean industry structure would focus on low-value products where comparative advantage still held and may have lead to a drawback or curtailment from the then comparatively disadvantaged high-value industries. In such a case, the Korea-Japan FTA would have been responsible for causing a retrogression of industrial development (Kim 2005: 19-20) As well as Lee and Chun (2004), Nam (2007: 107) stated that the Korea-Japan FTA, due to an expanding Chinese economy, would encourage major domestic companies to transfer their plant bases abroad, accelerating the de-industrialisation of SMEs and subcontracted companies, with decreases in sales and bankruptcies of SMEs as a result.

In the context of plant transfer to China and other Southeast Asian Countries, the choice of a further (or possible replacement) FTA partner country became an important issue, as concern over the Korea-Japan FTA grew (Nam 2007: 110). The FKI led coalition (2004b: 12) emphasised that any FTA with China or ASEAN countries must be made concurrently with the Korea-Japan FTA, if not in precedence, in order to attain the rapid development of industry.

According to a survey conducted by FKI in September 2000, among its members, 94.3 percent of the respondents agreed with the idea of signing FTAs. As for the ideal FTA partner, China was the highest with 42.8 percent, followed by the US with 36.5 percent, and Japan with 7.9 percent. Additionally, another report¹⁵ published by business associations, dynamic international restructuring would enable Korean industries to specialise in more technologically intensive industries only alongside an FTA with other ASEAN countries and/or China, where Korean industries still held comparative advantage in manufacturing. Only then would the Korea-Japan FTA be able to contribute to the specialisation of Korean high-value industries in the longer term. Otherwise, Korean companies would suffer from the loss of comparative advantage if the Korea-Japan FTA were to be ratified before other FTAs (Cho and Kim 2002: 136-140).

While the Korea-Japan FTA attracted its own share of supporters and detractors, it is vitally important to understand that the transmogrification that the FKI led coalition went through, from supporter to opponent, left the FTA with only key government ministries as supporters. This left the trade agreement, in essence, without any major non-governmental supporter. Therefore, regardless of external or international pressures, the FTA was always going to have a difficult, if not impossible, journey from negotiation to ratification. The following section will examine this journey from agenda-setting to negotiation.

¹⁵ FKI, 2004a, "Recent Trends in FTA Promotion and Complementary Tasks for FTA Roadmap," September.

4. SETTING THE STAGE FOR A DISCUSSION OF THE CHANNELS OF INFLUENCE

4.1. Early Agenda-Setting Phase

During the early agenda-setting phase, the FKI was co-opted into discussions regarding a potential FTA with Japan by President Kim Dae-jung and the MOFAT. In 1998, President Kim initiated the concept of a Joint Study Group to analyse the benefits of a potential Korea-Japan FTA. In effect, MOFAT took the baton from the president and laid the groundwork by establishing many of the early studies that, in turn, were offered to the FKI as a supporting conceptual framework for an FTA with Japan. The role played by the president and the MOFAT in establishing the agenda-setting phase and inviting Korean industrial associations made the Korea-Japan FTA framework realisable.

4.2. Later Agenda-Setting Phase

Business Associations

Similar to the early agenda-setting phase, this later phase was marked by the use of formal channels at the expense of informal and for the very same reasons. Before proceeding, there are a couple of key points that need elaboration; how were the underlying reasons for conditionality expressed using formal channels of influence? And, more specifically, how did the FKI deliver their concerns about NTBs to MOFAT?

As was previously discussed, the FKI began to display concern regarding an FTA with Japan prior to the negotiation phase. Ostensibly, the FKI was supportive of the FTA and their stated desires chimed with those of government, hence utilising a channel of influence was a redundancy. However, as this support began to wane, the FKI established a GBA-JSG in March 2002 whose aim was an exchange of ideas with the government concerning the FTA in light of data culled from the KIEP and IDE 'Joint Study' report and the Korea-Japan Business Forum's 'Joint Declaration (January 2001).' The information contained in these reports was not as positive as previous reports and started to ring warning bells in the business community.

Power to Influence Political Institutions (IPI)

The FKI led coalition, however, did not have to see their channels of influence endure such a loss in potency. During the negotiation phase, the FKI and its sister associations adapted both formal and informal channels of influence to their cause but again they relied predominantly on formal channels. The FKI led coalition was well aware that the MOFAT supported the FTA with Japan. This awareness enabled the FKI to adopt a nuanced approach to dealing with government ministries through the use of IPI. Instead of expressing their reservations directly to MOFAT during the negotiation phase, the FKI went to Ministry of Finance and Economy (MOFE) and Ministry of Commerce, Industry and Energy (MOCIE) with the aim of persuading them of the veracity of their doubts and to coordinate their relationship with MOFAT their stance on the FTA (though still within the confines of formal channels¹⁶).

¹⁶ Interview conducted with a member of FTA Promotion and Policy adjustment Authority division, in MOFE (currently Ministry of Strategy and Finance (MOSF)), Seoul, October 2nd, 2009; Interview

The FKI led coalition of business associations was keen on adopting the most efficient channels of influence that were available. Their main channels of influence during this phase were formal channels; petition, publications, meeting key decision-makers which Berry (1997) and Victor (2007) categorised as insider lobbying. They did, however, also utilise informal channels; i.e. media access, mainly conservative newspapers. There are several interweaving factors that help explain the position the FKI took on adopting certain channels and ignoring others. When a political situation changes quickly, a political scenario may demand a particular lobbying tactic (Victor 2007: 829). Groups much prefer direct lobbying over indirect lobbying (Hojnacki and Kimball 1999; Gais and Walker 1991).

Korean large business associations did not feel it was necessary, at any stage, to utilise public influence, or informal channels, as their access to government policy makers was virtually unfettered; e.g. access to such important institutions such as MOFAT and, via the GBA-JSG, to politicians was a given during the agenda-setting phase. Hence a constant exchange of views regarding the FTA was in place. However, once these same business associations began to arrive at new conclusions (e.g. SME's lack of competitiveness), they were able to translate this new-found hesitancy into concrete proposals for re-evaluating specific content (e.g. NTBs) despite the fact that their doubt concerned the entire edifice of the Korea-Japan FTA. For example, the Chairman of the (FSMB), Kim Gi-moon raised official concerns about Korea's competitiveness of SMEs compared to their Japanese counterparts, saying that:

“Even some FKI individually doubted their competitiveness; SMEs could be in a much more difficult position [] Furthermore, if removal of tariffs in the Korean market takes place, this could force a lot of SMEs out of business due to the technological gap between the countries.”

He delivered the FSMB's concerns to the GBA-JSG in July 2002. Although the FSMB did not directly oppose the FTA, they asked MOFAT to take into consideration the seriousness of the situation that SMEs would face under the then current FTA policies and pressed for alterations that would favour its members. The Korea Institute for Industrial Economics and Trade (KIET) (2002) also raised concerns. Particularly, Korea's mechanical engineering industries' technological level was 60 percent that of Japanese. Lee and Chun studies (2005) also provided similar outcomes. The KIET cooperated with the FKI in delivering their concerns to the GBA-JSG in July 2002 while the KITA (after the Japan FTA Joint Study Group on April 11th, 2003) expressed similar concerns to the MOFAT.

The FKI led coalition held regular meetings with the MOFAT and other government ministries during which they expressed their dismay with the trade agreement due to the fact that NTBs were not on the table for discussion. This again indicates their preference to utilise formal channels such as IPI. These meetings, held under the auspices of the GBA-JSG, took place eight times and eventually bore fruit. The FKI's success is best illustrated by the fact that NTBs were eventually included at the suggestion of the GBA-JSG in March, 2002.

conducted with a leader of FTA Team, in MOCIE (currently Ministry of Knowledge Economy (MKE)), Seoul, October 3rd, 2009. While the interviewees were not high ranking officials within either ministry, they did confirm that the FKI worked with MOFE and MOCIE during this time period. Requests for interviews by the author with high ranking officials have been submitted on several occasions but at time of writing, no interviews with any high ranking officials have been given.

4.3. Negotiation Phase

Business Associations (FKI, etc)

Firstly, their earlier position and their proximity to government ministries and important politicians placed these formal channels (i.e. direct access to the negotiators and influential policy makers) directly in their cross hairs. Secondly, their use of publications to disseminate their views via GBA-JSGs, etc. in a very academic, objective fashion appealed directly to these same ministers and bureaucrats. Thirdly, the domestic situation regarding Korea-Chile ratification and the presidential impeachment meant that the FKI was careful not to rely on informal channels due to the media frenzy surrounding these issues. Finally, as indicated above, the FKI had ostensibly supported the FTA with Japan during the early stages of the agenda-setting phase and gradually adopted an opposing position. During the FKI's earlier manifestation as supporters, they dealt directly with and through the MOFAT. As their position changed, so did their relationship with MOFAT. Although the FKI led coalition had worked hand in glove with MOFAT during the Korea-Chile FTA and the Korea-US FTA, during the negotiation phase of the Korea-Japan FTA the MOFAT was viewed as not as conducive. Given the fact that Korean business associations were inevitably going to have to work intimately with the MOFAT again in the future, the FKI decided to direct its energies towards the MOFE and the MOCIE, thus avoiding an open confrontation with MOFAT while simultaneously retaining the use of powerful formal channels.¹⁷

Groups representing major companies began to express their opposition as negotiations between the two governments commenced in October 2003, which progressed rapidly to the third round of negotiations in April 2004. The FKI led coalition opposed the FTA in earnest during the second conference of the "FTA Civilian Consultation" held in May 2004. The FKI invited the leading government authorities and representatives from every industrial field to this conference. The views expressed (by electronics, automobiles, petro-chemistry industries and SMEs) were that of worry and anxiety regarding not just the contents of the Korea-Japan FTA but also the speed of negotiations. The government authorities (i.e. MOFAT) were lukewarm in their reception of these ideas, explaining that "the Korea-Japan FTA is a diplomatic agreement due at the end of next year and the Korea-Japan FTA must be considered from a comprehensive view, including the heightening of national competence through regional cooperation among Korea, Japan, and China, as well as the restructuring and trading aspects."

Subsequently, a document was published by the FKI in October 2004 (see Table 5), just after the fifth round of negotiations had finished—August 2004, urging a more thorough examination of the Korea-Japan FTA.

Even within certain ministries, there was agreement with the view of the FKI. The MOFE insisted that it agreed with the MOFAT in principle regarding the FTA, but criticised the MOFAT in that it focused on long term benefit at the expense of short term, while the MOCIE was also critical of the MOFAT, finding the neglect of domestic industries worrisome. This multi-faceted perspective tends to reflect the fact that individual ministries' interests seem less to echo that of 'national interest' rather than that of sectoral interests (i.e. FKI).

¹⁷ Interview conducted with Choi Sung-hyun, Senior Research Fellow, International Affairs Division in FKI, Seoul, October 20th, 2006.

Table 5. Impact of Possible FTA on Bilateral Trade Balances

(Unit 10 million dollars)

Countries	Before FTA (2003)			After FTA		
	Export	Import	Trade balance	Export	Import	Trade balance
Japan	172.7	363.1	-190.4	212.9(+40.2)	464.2(+101.1)	-251.39(-60.9)
Singapore	46.4	40.9	5.5	47.0(+0.6)	53.2(+12.3)	6.2(-6.2)
Mexico	24.5	3.3	21.2	31.3(+6.8)	5.1(+1.8)	26.2(5.0)
Canada	26.8	18.9	7.9	35.6(+8.8)	28.4(+9.5)	7.2(-0.7)
India	28.5	12.3	16.2	56.9(+28.4)	17.7(+5.4)	39.2(23.0)
USA	342.2	248.1	94.1	422.2(+82)	413.1(+165)	9.1(-83)
ASEAN	202.6	184.6	18.0	308.4(+105.8)	229.8(+45.2)	78.6(60.6)
EFTA	12.0	20.1	-8.1	18.6(+6.6)	27.5(+7.4)	-8.9(-0.8)

Source: FKI (2004a) "Recent Trends in FTA Promotion and Complementary Tasks for FTA Roadmap."

To summarise, the FKI coalition became something of a bane to the Korea-Japan FTA through judicious use of available channels of public influence. FKI's dominant channel of influence during the negotiation phase was IPI, i.e. through other ministries (MOFE and MOCIE) due to not directly confronting MOFAT. And they did so effectively, so much so that the Korea-Japan FTA is effectively deadlocked.

5. CONCLUSION

A primary objective of this study was to undertake a theoretically motivated empirical analysis of the Korea-Japan FTA in light of the inability of statist and systemic approaches to fully explain the impasse of the FTA.

The fact that FKI led coalition of business associations changed its position regarding the FTA is critical in understanding what eventually resulted. During the early agenda-setting phase there was no opposition to the main thrust of the FTA. The MOFAT and business associations were united in pushing it forward. As the process entered the later agenda-setting phase and the worst of the fallout from the '97 financial crisis had passed, business associations began to take a more measured approach, raising points of contention where none had before existed.

By the time the negotiation phase had begun, the formal channels utilised by the FKI led coalition were not so ineffectual. Their access to MOFE and MOCIE was an inspired move as it allowed them to keep their relationship with MOFAT intact while simultaneously injecting their concerns and doubts about the FTA to MOFAT and the negotiators. MOFAT realised that it stood alone in favour of the Korea-Japan FTA, and were unwilling to push too hard on that basis. This effectively deprived the FTA of the political oxygen it needed to survive in a hostile environment.

The key finding here in relation to the overall thrust of this study is that it was the FKI's opposition to the Korea-Japan FTA that led to the breakdown. And it is precisely this outcome that the societal approach is equipped to deal with and analyse successfully,

whereas an analysis using statist and/or systemic approaches would not produce such insight due to their inability to decipher the role played by domestic actors.

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