

The Effectiveness of the Cooperation Agenda in FTAs: Ways to Promote Foreign Investment and Development Assistance in Asia*

JKT 25(6)

Received 11 September 2020
Revised 25 September 2021
Accepted 11 October 2021

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Abstract

Purpose – This paper aims at analyzing the functions and effectiveness of the cooperation agenda in Free Trade Agreements (FTAs), focusing on the cases of Asian countries. This paper estimates the contribution of this agenda to the sustainable development in Asia by providing the ‘side payment’ of the economic integration that encourages foreign investment and change in global value chains (GVC).

Design/methodology – This study analyzes the functions of the cooperation chapter in FTAs by applying the cooperative game theory and reviewing the structures of the related FTAs. Also, as an empirical study, the existing FTA provisions and related development assistant programs in Asia are reviewed in this paper, especially focusing on the FTAs signed by Korea.

Findings – Our main findings can be summarized as follows: The drawback of the economic integration, which would be the imbalanced economic benefit, can be redressed by the cooperation chapter in FTAs functioning as a ‘side payment’. Indeed, as the examples of Korean FTAs show, more foreign investment and the GVC expansion in Asian countries have been encouraged thanks to the implementation of the cooperation chapters.

Originality/value – This paper attempts to find how a legally binding agreement would influence the cooperation agenda in Asia which has never been analyzed despite the increasing number of so-called ‘cooperation’ chapters in the FTAs.

Keywords: Cooperation Chapter in Free Trade Agreement (FTA), Korea’s FTAs within Asian Countries, Official Development Aid, Side Payment in Cooperative Game Theory

JEL Classifications: F13, F63, K33

1. Introduction

The global economy is now densely knitted by expanding regional economic blocs built from Free Trade Agreements (FTAs). Basically, FTAs are to remove tariff or non-tariff trade barriers between the parties to promote trade liberalization. However, it should not be overlooked that this regional arrangement is also to pursue the economic integration. As a result, recent FTAs tend to include non-trade issues such as the environment or labor policies closely linked to each party’s economy, harmonizing different policy objectives. The ‘cooperation’ agenda stemmed from this trend and recently has been included in a number of FTAs.

‘Cooperation’ between countries may refer to various issues such as the co-responses to the

* This work was supported by the Korea Trade Research Association’s support project for the new scholars (2020.3.1~2020.12.31).

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recent pandemic or strategic partnership for military forces. However, when it appears in a FTA, the concept mainly targets on the 'economic' aspect of cooperation specifically influencing the parties' fiscal, monetary and trade policies. Thus, some FTAs explicitly use the term 'economic cooperation'. After the end of World War II, the international organizations pursuing this goal have been established such as the Organisation for Economic Co-operation and Development (OECD) or United Nations Conference on Trade and Development (UNCTAD). According to the OECD, 'economic cooperation' is to achieve "better lives" by fostering "prosperity, equality, opportunity and well-being for all" in the global economy. Thus, the concept of 'economic development' is inseparable from this concept.

It is common to distinguish the two groups – developed and developing countries – based on their relatively different levels of economic development.¹ Under these circumstances, the above-mentioned concept of 'economic cooperation' can be either the cooperation between the countries in a same group, or in the different groups. From the mere information and knowledge sharing to the specific financial assistance, the economic cooperation agenda varies in many fields of the economy. Generally, the cooperation takes the form of exchanges of resources between the countries in the same group while it becomes more of development assistance transferred from developed countries to developing countries.

This is also true in FTAs. Regarding the issue of trade liberalization through FTAs which has the final goal of improving efficiency through specialization and economies of scale, the amount of benefits from this process cannot always be the same for each FTA party. The capacity to achieve this efficiency would vary between countries due to their different levels of technology, human resources, facilities, and financial budget. Usually, the suppliers in a developed country have more production capacity and thus may dominate the market of developing countries. Also, the problem of "losing" sectors in the domestic economy would arise due to market opening. In this regard, the 'cooperation' agenda in FTAs may function as a mediator to balance the benefits of developed and developing countries when having an FTA. To pursue the mutually beneficial market liberalization between developed and developing countries, at least some attempts to rebuild the "ladder" which has been "kicked away" must be shown (Chang, 2002). The promises contained in the 'cooperation' agenda in FTAs would be the legal evidence of this attempt.

Although the cooperation agenda in FTAs has been discussed for a long time, there have not yet been any academic research or analysis looking into the specific functions of this agenda. Drysdale (2005) and Shimizu (2009) both have just explained the economic cooperation movements in East Asia, focusing more on the issue of regionalism and historical events including the FTAs. Nakagawa (2016) has reviewed how some mega-FTAs address the non-tariff barriers through regulatory cooperation mechanisms, including regulatory harmonization, mutual recognition and information sharing among regulatory authorities. Here, the regulatory cooperation should be distinguished from the 'economic cooperation' agenda that we are now discussing. There has not been any literature focusing on how the cooperation agenda would appear and be formulated in the FTAs, especially as the 'Cooperation' chapter.

Thus, this study aims at analyzing the functions and effectiveness of the cooperation agenda in FTAs, focusing on the cases of Asian countries. In this process, not only the structural review of the FTAs but also the cooperative game theory is attempted. Also, as an empirical study, the existing FTA provisions and related development assistant programs in Asia are reviewed, especially focusing on the FTAs signed by Korea. Through this study, it is to be

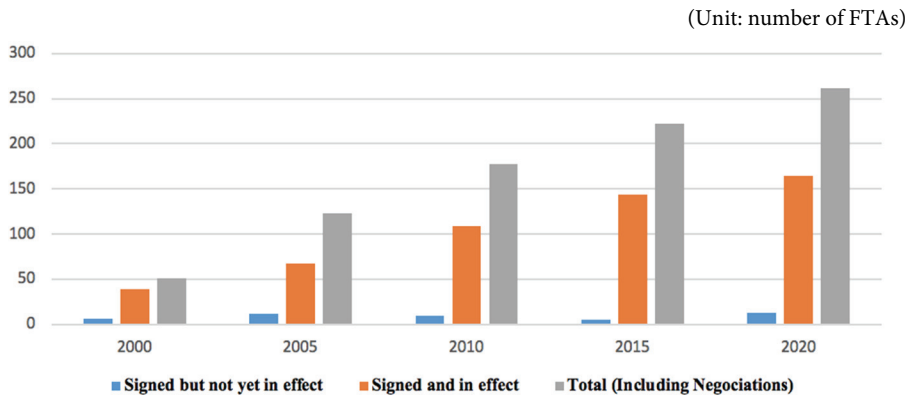
¹ However, there is no universal or absolute standard to divide 'developed' and 'developing' countries groups. Even in the World Trade Organization, (WTO), the 'developing country' status is only based on the countries' announcement for themselves.

examined whether the cooperation agenda may function as the way to promote foreign investment and development assistance in Asia. When it properly functions, the cooperation agenda is likely to contribute to the sustainable development in Asia by encouraging more regional engagement in global value chains (GVC).

2. Overview of the Cooperation Agenda in Asian FTAs

The countries in Asia have been actively participating in regional economic integration. Asia began emphasizing FTAs as a trade policy instrument in the late 1990s and the region is today at the forefront of world FTA activity (Kawai and Wignaraja, 2010a). Especially, the large economies of Northeast Asia such as People’s Republic of China (PRC), Japan, and the Republic of Korea (Korea) are at the forefront of efforts to use FTAs to pursue their respective regional and global trade strategies. Also, ASEAN members have been increasingly signing FTAs as a means to expand trade and increase their participation in Asia’s advanced production networks. Fig. 1 shows the continuous proliferation of FTAs in the Asia and Pacific region based on the FTA database and a comprehensive listing of bilateral and plurilateral FTAs with at least one of ADB’s 48 regional members as signatory.

Fig. 1. FTA by status in Asia-Pacific, 2000 to 2020



Source: Asia Regional Integration Center (ARIC), Asian Development Bank, 2020.

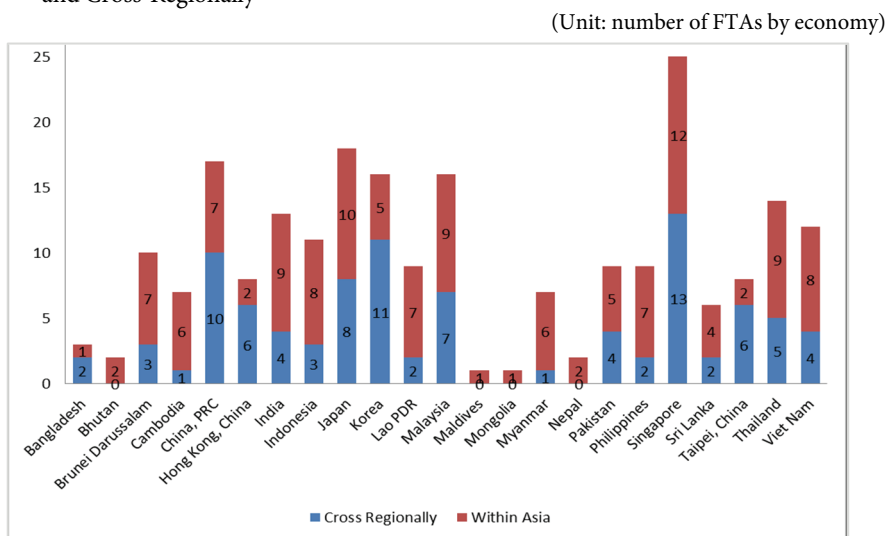
In spite of some exceptions, low-income economies in Asia such as Cambodia, Indonesia, the Lao PDR, the Philippines, and Viet Nam, have tended to rely on ASEAN for concluding FTAs with the region’s larger economies (ADB, 2020). It may be due to their weak institutional capacity, lack of human and technical resources, and limited leverage to undertake FTA negotiations in poorer economies. The Association of Southeast Asian Nations (ASEAN) framework offers the possibility of pooling scarce capacity and resources, increasing the bargaining power as a group.

Fig. 2 illustrates the summary of the geographical orientation of Asian FTAs.² A high degree of the orientation within Asia is visible in most Asian countries. Except for the PRC, Korea, and Singapore, there has been a greater number of FTAs within Asia in all countries. Notably

² Only the FTAs signed and in effect are counted (2020).

for Bhutan, Maldives, Mongolia, and Nepal, all the FTAs signed and being effective are concluded within Asian countries. This trend is yet unstable since there are also a number of FTAs being proposed and negotiated cross-regionally. Indeed, Kawai and Wignaraja (2010b) had found that “Asia has a strong preference to maintain open trading relations with the rest of the world rather than become inward-looking” based on the data from the period of 2000-2010. However, the fact that more FTA negotiations have been concluded within the region may be the evidence of stronger motivation for the regional economic integration.

Fig. 2. Geographical Orientation and Share of Concluded FTAs in Asia – FTAs within Asia and Cross-Regionally



Note: FTAs within Asia cover FTAs where all partners are in Asia. Here, Asia includes the 23 economies listed in the figure.

Source: Authors' calculation using Asian Development Bank data in 2020.

In these FTAs, cooperation agenda is incorporated in various forms. In many cases, the FTAs themselves claim to be an agreement of 'economic cooperation' that is a balancing step toward the final regional integration. For example, South Asia Free Trade Agreement (SAFTA)³ states in its preamble that the agreement is “Motivated by the commitment to strengthen intra-SAARC economic cooperation to maximise the realization of the region’s potential for trade and development for the benefit of their people.” Article 2 of the SAFTA states that “The Contracting States hereby establish the SAFTA to promote and enhance mutual trade and economic cooperation among the Contracting States.” Some FTAs have their official name include the agenda of 'economic cooperation'. An example is ASEAN-India FTA consists of a package of treaties which is under the “Framework Agreement on Comprehensive Economic Cooperation between the Republic of India and the Association of Southeast Asian Nations” (2003). Another example is India-Malaysia FTA which has the

³ Even though Afghanistan is also a member of the SAFTA, this paper regarded the agreement as the one between Asian countries since the other members are all Asian countries – Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka.

official title of “Comprehensive Economic Cooperation Agreement between the Government of Malaysia and the Government of the Republic of India” (2011).

Also, sometimes the chapters in FTAs about each different issue contain specific provisions dealing with the cooperation agenda. For example, the FTA between Korea and China has the following provisions scattered in each related chapter: customs cooperation (Article 4.8), technical cooperation for Technical Barriers to Trade (TBT) measures (Article 6.8) and Sanitary and Phytosanitary (SPS) measures (Article 5.4), cooperation regarding the protection of intellectual property rights (Article 15.30), cooperation on electronic commerce (Article 13.7), cooperation in the field of labor (Article 18.11) and environment (Article 17.10). Although all these provisions would be the tools for the cooperation between FTA parties, however, the rights and obligations under these provisions deal with rather technical and systemic harmonization for further economic integration process.

On the other hand, the separate ‘Cooperation’ chapter in some FTAs– sometimes appears as ‘Economic Cooperation’ Chapter – has additional functions compared to the above-mentioned provisions. Here in this chapter, not only technical cooperation such as the issue of customs procedures but also information exchange or the formation of a joint committee. Furthermore, the industrial sectors of cooperation are often illustrated ranging from the primary sectors of agriculture, fisheries, and forestry to the services sectors. It is also common to include bilateral human resource development, capacity building, and support for small and medium enterprises in the chapter. The core reason of having this separate ‘Cooperation’ chapter in a FTA is to emphasize the need of economic cooperation and specify the areas and forms of the economic cooperation activities, which should be distinguished from other issues of trade liberalization. In this regard, when the economic cooperation agenda is bundled in the following types of norms, these norms would fulfill the same functions of the separate ‘Cooperation’ chapter: (i) a separate agreement contained in the package of the agreements consisting a FTA, (ii) an annex attached to the FTA, (iii) an article specifically dealing with economic cooperation agenda in the framework agreement.

Table 1 shows 34 FTAs where all parties are in Asia including the above listed 23 economies. Almost all of Asian FTAs, except for the ‘Bhutan-India’ and ‘Pakistan-Sri Lanka’, and ‘Singapore-Taipei, China’ FTAs, contained cooperation agenda at least in the preamble or in the scattered provisions in each chapter. Only 23 FTAs have the norms which separately deal with economic cooperation issue, and 20 FTAs have the ‘Cooperation’ chapter specifically. ASEAN FTA has a spate agreement called “Framework Agreement on Enhancing ASEAN Economic Cooperation (1992)”. In the Chapter V for “Trade and Investment Facilitation” of the China (PRC)-Hong Kong China FTA, Article 17 has stated fields of cooperation which are explained in other FTA’s separate chapter.

If we take a look at the 20 FTAs having the separate ‘Cooperation’ chapter, most of them include Japan or Korea as a party. For example, except for the Japan-Singapore FTA, all nine Asian FTAs signed by Japan have the chapter. In the case of Korea, all five Asian FTAs include the chapter. The partner countries are mainly developing countries in Asia such as ASEAN countries, China, and India. Japan and Korea are representative developed countries in Asia, being as the members of the OECD. This fact supports the fact that the ‘Cooperation’ chapters usually appear in the FTAs between developed and developing countries. The exceptional six cases are as follow: (i) the ASEAN-China(PRC) FTA, (ii) China(PRC)-Singapore FTA, (iii) China(PRC)-Taipei China FTA, (iv) India-Malaysia FTA, (v) Malaysia-Pakistan FTA, (vi) Sri Lanka-Singapore FTA.

Table 1. Cooperation Agenda and ‘Cooperation’ Chapter in Asian FTAs

FTAs within Asia (Alphabetical Order)	Cooperation Agenda	‘Cooperation’ Chapter (Including Annex, Agreement, Articles)
ASEAN	O	O (Agreement)
ASEAN-China(PRC)	O	X
ASEAN-Hong Kong, China	O	O (Chapter)
ASEAN-India	O	O (Article)
ASEAN-Japan	O	O (Chapter)
ASEAN-Korea	O	O (Chapter + Annex)
Bhutan-India	X	X
Brunei Darussalam-Japan	O	O (Chapter)
China(PRC)-Hong Kong, China	O	O (Article)
China(PRC)-Korea	O	O (Chapter)
China(PRC)-Singapore	O	O (Chapter)
China(PRC)-Taipei, China	O	O (Chapter)
India-Japan	O	O (Chapter)
India-Korea	O	O (Chapter)
India-Malaysia	O	O (Chapter)
India-Singapore	O	X
India-Sri Lanka	O	X
Indo-Nepal	O	X
Indonesia-Japan	O	O (Chapter)
Japan-Malaysia	O	O (Chapter)
Japan-Mongolia	O	O (Chapter)
Japan-Philippines	O	O (Chapter)
Japan-Singapore	O	X
Japan-Thailand	O	O (Chapter)
Japan-Viet Nam	O	O (Chapter)
Korea-Singapore	O	O (Chapter)
Korea-Viet Nam	O	O (Chapter)
Malaysia-Pakistan	O	O (Chapter)
Pakistan-China(PRC)	O	X
Pakistan-Sri Lanka	X	X
Singapore-Taipei, China	X	X
South Asian FTA	O	X
Sri Lanka-Singapore	O	O (Chapter)
Laos-Thailand	O	X

Note: Although the FTA between China and Thailand also has been signed and became in effect, it is not listed since its legal text has not been open to the public.

Source: Authors’ review of each FTA provisions.

3. Functions of the ‘Cooperation’ Chapter in FTAs

3.1. Legal Binding Force Making the Cooperative Game

It is most noteworthy that the cooperation agenda becomes an inseparable part of a FTA by the ‘Cooperation’ chapter. Beyond the symbolic trust building arrangements, a FTA has

legal binding force as a treaty – a source of the ‘international law’ confirmed by the Article 38 of the Statute of the International Court of Justice (ICJ). Of course, compared to the domestic legislation enforced by the state’s authority, a mere treaty between states of equal sovereign powers has inherently weaker binding force with no over-arching compulsory judicial system or coercive penal system. Nevertheless, the basic element of the treaty, which is the ‘consent to be bound’ expressed by the party state, works as a basis of legal binding force enabling dispute settlement procedures between the parties.

Dispute settlement procedures established by each treaty encourage the parties to abide by their obligations and undertake actions required for compliance. In this context, FTAs typically include the mechanism for compliance, enforcement and dispute settlement. According to the customary international law on state responsibility, which has been codified as Draft Articles on the Responsibility of States for Internationally Wrongful Acts by the United Nations International Law Commission (ILC), a state who is injured by the breach of treaty obligation may take countermeasures against the responsible state. Likewise, as an enforcement mechanism, FTAs generally have the provisions allowing the countermeasures such as retaliation. Since FTA parties have the economic interdependency to some extent, which is the reason why they have chosen each other as a partner for the trade agreement, this retaliation mechanism strengthens the effectiveness of the dispute settlement and solidify the treaty’s legal binding force.

Here, the legal binding force of the FTA encourages the parties to behave based on the model of ‘cooperative game’, which refers to the situations in which different parties cooperate to reach a common goal. It is a game with competition between groups of players (“coalitions”) due to the possibility of external enforcement of cooperative behavior (e.g. through contract law or treaty), being opposed to non-cooperative games in which there is either no possibility to forge alliances or all agreements need to be self-enforcing (e.g. through mere credible threats). Thus, while the non-cooperative game theory describe and take into account the strategic interaction among the players, the cooperative game theory focuses on how much players can appropriate given the value each coalition of player can create instead. If the countries can have a cooperative game, they may ignore the risk of strategic stages of the coalition building but fully concentrate on the possible results of the cooperation.

For instance, when there are n different countries pursuing similar objectives such as mutual investment promotion and economic integration, these countries can be the players of the cooperative game. If these ‘players’ are indicated as the set of players by N , with the player set of $N = \{1, 2, \dots, n\}$, every subset of players S (notation: $S \subseteq N$) is a coalition which would be formed by signing a FTA. The collection of the coalitions of N is denoted by 2^N , including N itself, the empty set and all the one-element subsets. The number of the players of a coalition S is denoted by s , and v is the characteristic function (or “coalitional function”). The extent to which the common goal can be accomplished by a coalition S can be expressed by $v(S)$ and $v(\emptyset)=0$, where \emptyset is the empty set.

The characteristic/coalitional function can be expressed in units of ‘utility’ which can be the economic benefit of the increased mutual investment and economic integration. If a subset of players (coalition) can obtain a total utility v , players would have real incentives to form a coalition only if this utility can be fairly divided among the members of the coalition. Furthermore, while the players have freedom to choose a joint strategy, they would choose the strategy which would maximize the total utility only if the utility is transferable among players in order to reallocate. The distinguishing feature of the “transferable utility” case is that the players may make “side payments” of utility as part of the agreement. Here in the cooperative game of FTA negotiations, the commitments of providing development assistance through the ‘Cooperation’ chapter would work as this side payment, especially for the FTA

between developed and developing countries.

We can assume that the process of FTA negotiation as a period of “preplay negotiation”, during which the players meet to discuss the possibility of choosing a joint strategy together with some possible side payment to induce cooperation – the signing of the FTA. If they do come to an agreement, it may be assumed that the payoff vector is Pareto optimal in which no player can be made better off without making at least one other player worse off. This is because if the players are about to agree to some feasible vector v and there is another feasible vector, v' , that is better for one of the players without making any other player worse off, that player may propose changing to the vector v' , offering to transfer some of his gain in utility to the other players. For example, consider the following bimatrix game in which $n = 2$: a is for the payoff of the developing country and b is the payoff of the developed country. x stands for the situation of no FTA and y refers to the situation of signing a FTA.

$$\begin{pmatrix} (a_x, b_x) & (0, 0) \\ (0, 0) & (a_y, b_y) \end{pmatrix}$$

$$a_x > a_y \text{ and } b_x < b_y, (a_x + b_x) < (a_y + b_y) \text{ and } b_x < \frac{1}{2}(a_y + b_y) \quad (1)$$

If the players come to an agreement, it will be to use the lower right corner because it has the greatest total payoff, namely $a_y + b_y$. Developed country may pursue the y strategy if it can receive at least $1/2$ of $(a_y + b_y)$ which is bigger than b_x . Developing country would also be satisfied if it can obtain the side payment from the developed country. If the players come to an agreement, then rationality implies that they will agree to play to achieve the largest possible total payoff, call it σ as the payoff to be divided between them.

$$\sigma = \max_x \max_y (a_{xy} + b_{xy}) \quad (2)$$

However, to achieve this equilibrium, it must be assured that the amount of side payment p should be $a_x < (a_y + p)$. This side payment would be paid by the transferable commodity such as financial assistance. In a FTA, the ‘Cooperation’ chapter itself functions as the evidence of the commitments to cooperate – the commitment made by the developed country to pay the side payment to the developing country.

3.2. Pursuit of Mutual Benefit as a Process of Economic Integration

While it is impossible to suggest the unified structure and contents the ‘Cooperation’ chapter in each FTA, the chapter generally contains detailed provisions on the cooperation areas and forms such as capacity building programs and technical assistance, or the cooperation agenda related to each different industrial sector. Besides, as seen above, the chapter appears more frequently in the FTAs between developed and developing countries which have different levels of capacity. As a result, the implementation methods may take the form of ‘development assistance’ mainly provided by the developed country party and supports the economic development of the developing country party.

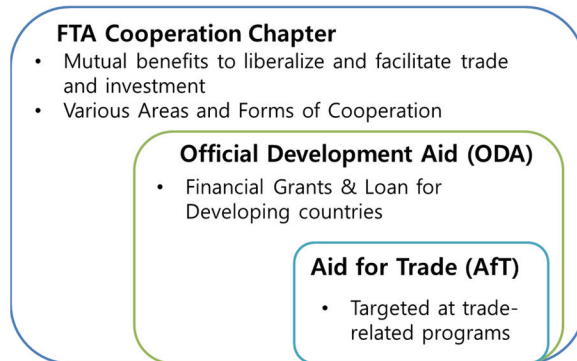
However, it must be differentiated from the mere official development assistance (ODA) given by a ‘donor’ country to a ‘recipient’ country. ODA is defined as government aid designed to promote the economic development and welfare of, particularly, “developing countries” (OECD, 2020a). In this sense, ODA includes grants, “soft” loans and the provision of technical assistance. Thus, the loans concessional in character being provided on favourable

terms to developing countries can be regarded as a form of ODA. It is noteworthy that “a long-standing United Nations target is that developed countries should devote 0.7% of their gross national income to ODA”, which implicates the ODA flows the developed countries to the developing countries (OECD, 2020b). The net ODA data should the ODA flow supports this concept.

Another concept called “Aid for Trade (AfT)” also seems quite similar to the assistance pursued by the ‘Cooperation’ chapter. WTO members launched the AfT initiative at the Sixth Ministerial Conference in Hong Kong in 2005. AfT focuses on supporting developing countries, particularly the least-developed, in building trade capacity, enhancing their infrastructure and improving their ability to benefit from trade opening opportunities. It is part of overall ODA — grants and concessional loans — but targeted at trade-related programs and projects (WTO, n.d). Thus, any kind of ODA related to the promotion of trade can be regarded as AfT. For example, the concept includes technical assistance which is to help countries to develop trade strategies, negotiate more effectively, and implement outcomes. Also, the capacity building of the infrastructure that link domestic and global markets, or the productive capacity that enables diversification of exports and comparative advantages would be a kind of AfT while being as an ODA at the same time.

It is true that all kinds of development assistance are inevitably accompanied by the provision of benefit from one country to another. Nevertheless, this provision of benefit should not be regarded as the pure charity. Although the assistance cannot be the same as a ‘transaction’ which explicitly pursues mutual benefit on the spot, it would work as an ‘investment’ looking forward to the return in the future. Indeed, the market development in developing countries can be accelerated by the assistance which would at last contribute to the market expansion of the developed countries. However, it is often difficult to witness the immediate effect of this long-term investment due to the uncertainty. Even conditional ODAs may not bring the expected outcome since the assistance is not guaranteed for the donor’s profit. Thus, intrinsically, the developed countries may be less willing to become a mere ‘donor’.

Fig. 3. Scope of ODA, AfT and the ‘Cooperation’ Chapter in FTAs



Source: Author’s original diagram based on her analysis.

As we can see in Fig. 3, the scope of the FTA ‘Cooperation’ chapter would embrace both ODAs and AfT. This ‘Cooperation’ chapter, being as the ‘side payment’, is to balance the benefits from a FTA – a treaty for reciprocal tariff reduction. Including ODAs or AfT that would work as the long-term investment flowing one way, the chapter fundamentally pursues and emphasizes more on the mutual benefit of FTA parties. Article 129 of the FTA between

Japan-Malaysia would be a good example as many other FTAs have similar statements in the chapter: “The Governments shall, ... promote co-operation under this Agreement for their mutual benefits in order to liberalise and facilitate trade and investment between the Countries and to promote the well-being of the peoples of the Countries.” It reflects what aspects Japanese government has considered when pursuing the cooperation agenda in the FTAs (Kim et al., 2007): (1) the cooperation must be mutually beneficial for both Japan and the partner; (2) the involvement of not only ODA but also the regional governments, public universities, research institutes, private companies and non-governmental organizations; (3) the flexibility considering the partner’s development level and the negotiating steps. However, since the developing countries still tend to prefer the assistance based on the ODAs together with technical cooperation and dispatch of the experts, the FTA parties’ authorities in charge of the economic cooperation generally work collaboratively to realize specific ODA projects.

In fact, as FTAs deal with a variety of industrial fields including both goods and services, the benefits of the trade liberalization can never be only for the one winning party. If so, there may not be any FTA being concluded through negotiations. The winning and losing parties can vary in one sector from another. In sum, the agenda included in the ‘Cooperation’ chapter can partly overlap with ODA but would also include additional cooperation agenda for mutual benefits of both FTA parties. This is why the ‘Cooperation’ chapter can also appear even in the FTAs between developing countries having different comparative advantages and levels of economic development.

The examples of specific cooperation activities are largely focusing on the capacity-building of both FTA parties such as co-hosted training program for human resources development, exchange of the experts and information through workshops and seminars, joint research studies for specific industrial issues, investment in infrastructures, etc. The ‘Cooperation’ chapter in FTAs has switched the type of ODA projects from the very simple donation into the assistance for the long-term capacity building in Asia, increasing foreign direct investments (FDI) between the FTA parties thanks to the enhanced capacity. Then, not only the basic trade creation effect of a FTA but also increased FDI are likely to change the GVC and create newly integrated regional value chains. Along with the positive impact of the FDI on the GVC participation (Jiaen, 2019), supply chains of the FTA parties are more likely to be linked through their investment partnership. Strategically reformed GVCs would make the foreign investors more cost-effective and create more jobs and income for the host countries. This investment promotive effect of the cooperation activities also contributes to the mutual benefit of FTA parties which would eventually be the market expansion.

3.3. Greater Efficiency of the Comprehensive Agreement

Before the trend of having economic cooperation agenda in the FTAs, ODA was generally made by the donor country’s good will to assist developing countries. Likewise, there is no international legal obligation enforcing the developed economies for economic cooperation. As already discussed above, it may be difficult to assure continuous development assistance without legally binding commitment. Because of this, a treaty like the “cooperation agreement” has been pursued for more stable cooperative relationship based on the cooperative game, before having the FTA ‘Cooperation’ chapter. For example, in the Cooperation Agreement between Member Countries of ASEAN and European Community (1980), mutual cooperation for economic development has been emphasized but furthermore, EC has promised to make a substantial contribution to the development of ASEAN. Article 4 of the agreement states that “The Community recognizes that ASEAN is a developing region and will expand its cooperation with ASEAN in order to contribute to ASEAN’s efforts in enhancing its self-

reliance and economic resilience and social well-being of its peoples through projects to accelerate the development of the ASEAN countries and of the region as a whole.”

This kind of cooperation agreements should be distinguished from the ones which are actually being as a FTA by its character. India has used the term of “Comprehensive Economic Cooperation Agreement, CECA”: such as India-Malaysia CECA or India-Singapore CECA. However, CECAs in fact deal with trade liberalization and are notified to the WTO as the formation of regional free trade area. Also, Japan generally uses the term “Economic Partnership Agreement, EPA” but this package of treaties in fact include FTA and other agreements dealing with investment promotion, the movement of human resources, government procurement etc. Since EPAs are to complete the regional economic integration, and thus can be regarded as a FTA according to its character.

The economic cooperation partners sometimes signed a treaty for each specific cooperation project. Since 1965, about 25 treaties including agreements and exchanges of notes were signed between Korea and Japan, mainly to promote Korea’s economic development (Hur, 2014). Also, Korea had been the recipient of economic assistance from Japan through a number of loan agreements in the 1970s and 1980s. For example, Rice Aid Arrangement between the Government of the Republic of Korea and the Government of Japan (1970) was targeted to provide rice to Korean people. Exchange of Notes concerning Japanese Loan for the National Railway Electrification and Seoul Subway Construction Project (1971), and the Exchange of Notes on Loan for the Implementation of the Rural Development Project and of the Daechong Dam construction Project (1974) are the examples of the treaties signed for specific assistance projects on Korea’s infrastructures.

Later, the introduction of ‘Cooperation’ chapter in FTAs substituted an individual cooperation agreement. This trend made the discussion more efficient since the negotiations for both economic and non-economic agenda could have been pushed ahead at the same time. Indeed, FTAs as a comprehensive agreement function as a forum where negotiations on various issues can take place at once. Besides in many FTAs, the ‘implementation agreement’ attached in these FTAs states the basic principles, area and methods of the cooperation by each agenda, so there would not need a single treaty for each cooperation projects. This lump-sum commitment of cooperation with very detailed areas and forms provides a good legal basis for the specific cooperation projects.

4. Case Study of Korea’s FTAs within Asia

‘Cooperation’ chapter does also appear in the FTAs signed among Asian countries – especially between the developed and developing countries – pursuing sustainable development in the region. To verify whether the treaty obligations have actually contributed to the mutual benefits between the Asian FTA parties, there needs a practical examination on the government projects or programs initiated to carry out the obligations. Analysis on the specific FTA examples would show how the ‘cooperation’ chapter in the FTAs has enlarged the scope and the scale of the investment and development assistance between the parties. Here, the case of Korea, one of the largest economies in Asia and also a member of OECD, will be the subject of this analysis.

4.1. Korea’s FTA Policy and the ‘Cooperation’ Chapter in Asian FTAs

Among nineteen FTAs signed by Korea, sixteen FTAs (with Chile, Singapore, EFTA, ASEAN, India, EU, Peru, the U.S., Turkey, Australia, Canada, China, New Zealand, Vietnam,

Columbia, The Republics of Central America) came into effect and other three FTAs (with the U.K, Israel and Indonesia) are yet to be in effect. While all treaties contain the cooperation agenda in their related chapters, only nine FTAs have the independent ‘Cooperation’ chapter or annex (FTAs with Singapore, ASEAN, India, Peru, Australia, China, New Zealand, Vietnam, Columbia). When necessary, the separate ‘implementation agreement’ of the annex is attached in these FTAs stating the basic principles, area and methods of the cooperation by each specific agenda.

Basically, each of Korean FTAs has dealt with various issues different from one to another. However, the “Cooperation” chapters in Korea’s FTAs overall have emphasized the role of small and medium sized businesses which is to promote further investment and expand export markets at the same time. Also, the scope of cooperation has been extended to the services industry such as IT and entertainment of which Korea has the comparative advantage. Especially regarding the cooperation with the developing countries, Korea tends to continue ODA format of the economic cooperation which includes technical cooperation and dispatch of the experts.

Table 2. Provisions in the ‘Cooperation’ Chapters of Korea’s FTAs within Asia

Partner Country	Singapore (2006)	ASEAN (2007)	India (2010)	China (2015)	Vietnam (2015)
<General Economic Cooperation >					
General Principle	-	-	-	Art. 17.2 Art. 17.25	-
Trade & Investment Promotion	Art. 18.6	Annex Art. 2	-	-	-
Small and Medium sized Businesses	-	Annex Art. 3	Art. 13.5	Art. 17.9	Art. 13.2
Human Resources	Art. 18.10	Annex Art. 4	-	Art. 17.18	-
Development Cooperation	-	-	-	Art. 15.30	Art. 13.2
<Manufacturing, Resources, Energy>					
Textiles·Leather	-	-	Art. 13.8	Art. 17.11	Art. 13.2
Pharmaceuticals	-	-	Art. 13.9	-	-
Minerals·Natural Resources	Art. 18.12	Annex Art. 15, Art. 16, Art. 17	Art. 13.2 Art. 13.13	Art. 17.8 Art. 17.18	Art. 13.2
Shipbuilding	-	Annex Art. 18	-	-	-
<Primary Industry>					
Agriculture	-	Annex Art. 9	-	-	Art. 13.2
Fishery	-	Annex Art. 9	-	Art. 17.6	Art. 13.2
Livestock·Forestry	-	Annex Art. 9	-	Art. 17.7	-

Table 2. (Continued)

Partner Country	Singapore (2006)	ASEAN (2007)	India (2010)	China (2015)	Vietnam (2015)
<Services>					
Research· Technology Information· Communication	Art. 18.4	Annex Art. 6	Art. 13.4	Art. 17.19	Art. 13.2
	Art. 18.2	Annex Art. 8	Art. 13.3	Art. 17.10	-
Broadcasting· Movies· Game	Art. 18.8 Art. 18.13 Art. 18.14 Annex Sec. 2, Sec. 4	Annex Art. 12, Art. 19	Art. 13.7	Art. 17.23	Art. 13.2 Annex 13a
Tourism· Sports· Leisure	-	Annex Art. 5	Art. 13.10	Art. 17.21, Art.17.22	-
Health Care Environment	- Art. 18.9	- Annex Art. 11	Art. 13.11 -	Art.17.24 -	- Art. 13.2
Financial Service	Art. 18.5	Annex Art. 7	-	-	-
Construction· Infrastructure	-	Annex Art. 13	-	-	Art. 13.2
Marine Transportation	Art. 18.11	Annex Art. 18	-	Art. 17.20	Art. 13.2
<Cooperation Mechanism>					
Joint Committee	-	-	-	Art. 17.12 Art.17.16, Art. 17.27	-

Source: Authors' review of each FTA provisions.

4.2. The Implementation of the 'Cooperation' Chapter of Korea's FTAs

As shown above in Table 2, Korea has negotiated various cooperation agendas in its FTAs with Asian parties. In this section, the efforts and methods to implement the cooperation commitments stated in Korea's FTAs are reviewed with notable examples of specific cooperation projects initiated by the parties. Through these efforts, there have been more foreign investment inflows and connections to GVC in Asian countries.

4.2.1. Korea-Singapore FTA

Chapter 18 of the Korea-Singapore FTA (2005) is specifically about "Co-operation" between the two parties who are at the equitable level of economic development. As the rising economic powers of Asia, they have agreed on the cooperation especially in the fields of high value-added industries such as 'information and communications technology (ICT)', science and technology, electronic commerce, financial services, broadcasting, energy, film production, gaming and animation. Also, to maximize the two parties' economic strength of being the trade hub of Asia, Article 18.6 of the FTA explicitly stated the cooperation in promoting trade and investment activities by private enterprises of the parties. This obligation has been restated in Annex 18A which is to specify the implementation of the chapter. By Section 1,

Korea Trade-Investment Promotion Agency (“KOTRA”) and the International Enterprise Singapore Board (“IE Singapore”) have the obligation to pursue co-operation as follow: (1) joint organization of industry specific business missions and activities, (2) electronically linking the online business matching databases of the Parties, (3) facilitation of Korean enterprises to explore new markets in the region through Singapore, (4) Using all reasonable efforts to encourage each Party’s companies to participate in exhibitions organized by the other party.

This arrangement was the cornerstone of later expansion of their cooperation which at last has concluded ‘Memorandum of Understanding (MOU)’ between KOTRA and IE Singapore in 2018. According to the MOU, IE Singapore and KOTRA are to collaborate in boosting two-way market access and investment opportunities for Singapore and Korean companies so as to promote mutual economic growth and development. In this process, KOTRA will serve as the one-stop agency to provide information and facilitation to promote Singapore companies’ investments and expansion of operations into Korea. Both KOTRA and IE Singapore will support business matching sessions between the two parties’ enterprises, and encourage third country collaborations where companies can form business alliances or jointly undertake projects in markets beyond the two countries. The key factors of this partnership were especially about Smart City, infrastructure development, lifestyle and consumer, e-commerce and liquefied natural gas (LNG).

4.2.2. Korea-ASEAN FTA

As the Korea’s first FTA with a large economic bloc, Korea-ASEAN FTA (2009) has also contained cooperation agendas within the treaty. Chapter 3 ‘Economic Cooperation’ included in the “Framework Agreement on Comprehensive Economic Cooperation” – in fact being a FTA – states the scope of cooperation between the parties as follow: customs procedures, trade and investment promotion, SMEs, human resource management and development, tourism, science and technology, financial services, ICT, primary industries, intellectual property, environmental industry, broadcasting, construction technology, standards and conformity assessment and SPS, mining, energy, natural resources, shipbuilding and maritime transport, film.

Additionally, functioning as a side payment from Korea to ASEAN countries, Article 3.2 states the obligation of the ‘capacity building programmes and technical assistance’. This article explicitly recognizes the development gaps among the ASEAN member countries and between Korea and the ASEAN member countries and thus states mandatory regional and sub-regional cooperation initiatives in the territory of ASEAN countries: (1) the Mekong Sub-region, (2) the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), (3) the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), (4) the growth triangles such as the Indonesia-Malaysia-Thailand (IMT-GT) and the Indonesia-Malaysia-Singapore (IMS-GT), (5) the Greater Mekong Sub-Region (GMS) programme, (6) the Second East-West Economic Corridor, (7) the ASEAN Mekong Basin Development Corporation (AMBDC), (8) the Singapore-Kunming Rail Link (SKRL) project, and (9) sharing experiences with the Mekong River Commission (MRC) in formulating and implementing priority programmes in the Mekong River Basin.

More details are explained in the Annex which clarifies specific forms of ODA projects in regard to this cooperation chapter of the FTA. The cooperation in customs procedures states in Article 1 has been implemented through the annual meetings of “Korea-ASEAN customs chiefs”. Furthermore, in Article 2 about ‘Trade and Investment Promotion’, the launch of a feasibility study on the establishment of an Korea-ASEAN Centre based in Korea has been included as an obligation. Indeed, in March 2009, ASEAN-Korea Centre has been established

not only to promote trade and investment between the parties but also to support cultural exchanges, tourism, and ASEAN awareness. Another example is the initiation to establish the Korea-ASEAN Financial Cooperation Center (KAFCC) which implements Article 7 about the cooperation in “Financial services”.

4.2.3. *Korea-India CEPA*

The FTA between Korea and India has been named as the Korea-India “Comprehensive Economic Partnership Agreement (CEPA)” (2010). Chapter 13 of this agreement with the name of ‘bilateral cooperation’ specifically has dealt with cooperation agenda. Areas of cooperation are comprehensive as follow: trade and investment promotion, energy, ICT, Science and technology, small and medium enterprises, infrastructure and transportation, audio-visual content, textile and leather, pharmaceuticals, tourism, health care, government procurement, and renewable energy resources. In each article about each topic, specific forms of cooperation have been stated such as promotion of dialogues, exchange of information, and promotion of joint research and development.

The implementation of this cooperation agenda has been pursued mainly regarding the fields of infrastructure and technology. After the conclusion of this CEPA, Korea has offered to provide the US \$10 billion financings as the development assistance and concessional credit to India for infrastructure projects in 2015. Later in 2017, Ministerial Joint Committee led by the Trade Ministers of India and Korea has agreed to establish a Joint Future Strategy Group to identify areas of high-end technological cooperation. Especially the cooperation in fields of standardization and conformity assessment to develop mutual recognition agreements and pilot project to provide Indian IT services to Korean small and medium companies have been initiated. Also, several events to promote the exchange of information and dialogues such as India-Korea Business Summit (2016), Roundtable on Investment Opportunities in Indian Infrastructure (2016), and India-Korea Infrastructure Forum (2018).

4.2.4. *Korea-China FTA*

While it is difficult to define the difference in economic development levels between Korea and China, Chapter 17 ‘Economic Cooperation’ of Korea-China FTA (2015) included diverse areas of cooperation with very detailed provisions for each area. According to Article 17.1 ‘Objectives’, “The cooperation under this Chapter shall pursue ... creating and enhancing sustainable trade and investment opportunities.” Distinguished from other FTAs, Korea-China FTA has explicitly confirmed the objectives of their cooperation effort which will have an impact when interpreting the obligations therein. Also, it is distinguished from other Korean FTAs that Article 17.4 establishes the Committee on Economic Cooperation with the functions of monitoring and assessing the progress, making recommendations, reviewing the operation of the chapter. Through this committee, more systemic review of the implantation process can be achieved, strengthening the binding power of what have been promised in this chapter.

Korea-China FTA also has stated various areas of cooperation as follow: agro-fisheries cooperation, industrial cooperation, government procurement, and other industry-specific areas such as energy, science and technology, maritime transport, tourism, pharmaceuticals. The provisions regarding the above-mentioned cooperation agendas seem to be suggesting the general idea. However, Article 17.25 is very specific, explaining in detail about the local economic cooperation projects such as Weihai and Incheon Free Economic Zone (IFEZ). Besides, Article 17.26 suggests a very specific method of economic cooperation which is to establish and operate industrial complexes/parks for Korea-China cooperation.

Within this arrangement, Korea has invested more than 2,000 projects in China, up 12 percent year-on-year (Jianguo, 2020). Also, since the conclusion of the FTA, Korea and China have annually hold Fisheries Cooperation meeting, reviewing the fisheries order in the Yellow Sea and take note of the progress in the efforts to improve the situation regarding illegal fishing operations. Furthermore, Korea and China have already made efforts for energy cooperation (Hwang, 2014). In the 'Plan to Enrich the Strategic Partnership of Cooperation between China and Republic of Korea,' two countries announced to step up coordination in the development of renewable energy. With previous cooperation experiences in energy and other fields, partner states gather certain information about each other's preferred forms of interaction and records of abiding by the previously-signed agreements.

4.2.5. Korea-Vietnam FTA

Vietnam, an ASEAN member, independently has signed another FTA with Korea in 2015. This Korea-Vietnam FTA (2015) was aimed at promoting deeper economic integration than Korea-ASEAN FTA between the two country parties. While Chapter 13 of the FTA specifically deals with 'economic cooperation', Article 13.2 has stated the sectors of cooperation which are in a very broad scope: sectors related to each manufacturing industry such as automotive, electronics and machinery, sectors related to agriculture/fishery/forestry, sectors related to rules and procedures for trade and other sectors such as fair competition, infrastructure and investment. Article 13.3 states the forms of cooperation such as technical assistance, training of human resources, exchange of views and information, joint research and development etc.

Korea-Vietnam FTA contains the separate "Implementing Arrangement for Economic Cooperation Pursuant to Chapter 13" (2015) that has specified the targeted amount of economic cooperation in "Introduction" part: "The cost of implementing the economic cooperation activities is estimated at five million U.S. dollars jointly borne by the Parties considering the different levels of development and capacity". Here, more detailed objectives and indicative activities are explained for each cooperation agenda. Additional cost is to be decided upon mutual agreement. The sentence connotes that this cooperation chapter is being the 'side payment' of the FTA by emphasizing the different levels of development and capacity.

Based on this distinguishable arrangement, Korea and Vietnam has been officially pursuing the Korea-Vietnam Trade-related Economic Cooperation Project since 2017. Not only the ODA projects such as the construction of expressway or waste water disposal plan in Vietnam, Korea has pursued the information exchange activities especially through the Knowledge Sharing Program (KSP) led by the Center for International Development of the Korea Development Institute (KDI). The project of "Cooperation in Solving Issues on Technical Barriers to Trade (TBT) within Framework of WTO and FTA" in 2018 is an example of this cooperation (KDI, 2018). The implementing efforts are likely to be continued with active interaction of Korea with the Vietnamese economy.

5. Concluding Remarks

In brief, the most important role of the cooperation agenda in FTAs – which is incorporated in the cooperation chapter – is to be the 'side payment' for the cooperative game of economic integration, balancing the mutual benefit of the two countries. This function is necessary especially when they are at the different levels of economic development. The legal basis of this adjustment from the international treaty makes this function solid. Also, the cooperation chapter as a part of the FTA makes the negotiation more efficient. Not only the

forms but also the contents of cooperation agenda contained in the FTA cooperation chapter would emphasize more on the mutual benefit than the general ODAs or AfT. Mutual information exchange, cooperation in technology development and operation of joint committee encourages the reciprocal effort of both developed and developing countries unlike the one-way support of ODAs.

In this regard, the cooperation chapter in FTAs has contributed to the sustainable development in Asia. Unlike ODAs that were given once as a donation – an investment for the future benefit, the implementation of the FTA cooperation chapter has required more continuous engagement of all FTA parties in their economic development which would work better as a method of the investment promotion. For example, newly initiated cooperation projects such as the joint research and development, infrastructure building, or co-work in the ICT development have promoted foreign investment in FTA party countries, increasing the certainty of the potential returns. With the increase of FDI, the investors would pay more attention to the development of the host countries that would grow more profits. This linkage between the investment and the economic development would help to find better strategies and build continuous cooperative relationship. As a result, there can be changes in GVCs such as the expansion of regional value chains (RVC) in Asia. Economic integration through FTAs together with cooperative exchanges of resources and information would make Asian RVCs more competitive.

The effectiveness of the cooperation agenda in FTAs became more important in this era of COVID-19. Due to the public health crisis, the financing capacity for sustainable development in low- and middle-income countries eligible for ODA has been deteriorated (OECD, 2020d). Indeed, there is a significant reduction in the financing available to developing economies and this exacerbated the risk of major development setbacks that would make the global society more vulnerable to future crisis. While the international community need to promote ambitious support and invest in sustainable recovery, Asian network for the cooperation built by the FTAs should be constant and sturdy. The cooperation agenda beyond mere ODAs would be able to continue the cooperative relationship between Asian FTA parties and thus bring more effective outcome especially when boosting the effort for the sustainable development.

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