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## ESTUDIOS

### **A Study on Economic Cooperation in the EU and East Asia: Can Franco-German Cooperation be a Model for Japan and Korea?**

Un estudio sobre la cooperación económica en la UE y el Este asiático: ¿puede la cooperación franco-alemana ser un modelo para Japón y Corea?

Sang Chul Park

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# A Study on Economic Cooperation in the EU and East Asia: Can Franco-German Cooperation be a Model for Japan and Korea?

*Un estudio sobre la cooperación económica en la UE y el Este asiático:  
¿puede la cooperación franco-alemana ser un modelo para  
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Sang Chul Park

Professor at Graduate School of Convergence Technology and Energy  
Tech University of Korea  
separk@tukorea.ac.kr

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**Summary:** I. Introduction.—II. Theoretical Debates.—III. Economic Cooperation between France and Germany in the EU. 1. Economic Integration and Intra Industry Trade. 2. Franco-German Economic Cooperation for the EU's Economic Integration. 3. Outcomes and Reasons of Franco-German Cooperation.—IV. Economic Development and Conditions in Japan and Korea. 1. Economic Development and Current Conditions in Japan. 2. Economic Development and Current Conditions in South Korea.—V. Changing Global Economic Environment as Common Challenges and Possible Economic Competition and Cooperation between Japan and South Korea.—VI. Conclusion.—VII. References.

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**Abstract:** The economic integration has been the most important agenda since the Second World War particularly in Europe because many European nations were heavily destroyed and ruined. After the severe destruction, European political leaders started to rethink how to restore Europe economically and politically in order to establish a long-term peace in Europe. The two major countries, France and Germany, initiated this based on reconciliation processes and signed on the Elysee Treaty that is legally binding and known as the *de jour* approach. Unfortunately, East Asian countries, Japan and South Korea took a different path, without reconciliation processes, based on the *de facto* approach only for economic cooperation. As a result, it is not solid yet, but contains fragile risks for the two countries to cooperate in a sustainable way. This paper investigates how and why Franco-German tandem has played core roles in the EU integration. Furthermore, it argues what are successful factors for Franco-German cooperation. Last, but not least, it analyzes

whether the Franco-German model can be adapted for the Japan-Korea economic cooperation or not.

**Keywords:** Economic integration, Franco-German cooperation, economic growth, intra industry trade, Japan-Korea cooperation.

**Resumen:** *La integración económica ha sido una de las cuestiones más importante desde la Segunda Guerra Mundial, particularmente en Europa, dada la destrucción y ruina en la que quedaron muchas naciones europeas. Tras la enorme devastación, los líderes políticos europeos comenzaron a repensar cómo restaurar Europa económica y políticamente para consolidar una paz a largo plazo en el continente. Los dos países principales, Francia y Alemania, iniciaron este proceso basándose en la reconciliación y firmando el Tratado del Elíseo, texto jurídicamente vinculante. Desafortunadamente, los países de Asia Oriental, Japón y Corea del Sur, siguieron un camino diferente, sin procesos de reconciliación más allá de una cooperación económica de facto. Como resultado, la colaboración entre ellos aún no es sólida y presenta debilidades que no permiten un diálogo sostenible. Este artículo investiga cómo y por qué el tándem franco-alemán ha desempeñado un papel fundamental en la integración de la UE. Se describen, además, cuáles son los factores de éxito de la cooperación franco-alemana. Por último, pero no menos importante, se analiza si el modelo franco-alemán puede trasladarse o no a la cooperación económica entre Japón y Corea.*

**Palabras clave:** *Integración económica, cooperación franco-alemana, crecimiento económico, comercio industrial interno, cooperación Japón-Corea.*

## I. Introduction

The first half of the 20<sup>th</sup> century must be one of the darkest eras in the human being history due to the two World Wars although we restored our civilization during the second part of the century. After the Second World War, Western Europe was rebuilt by the Marshal Plan, while East Asia was not able to receive such economic support from the USA. After the mass destruction in Europe during the two World Wars, it understood the importance of peace to sustain the value of mankind represented by human right and democracy in the United Nations (UN)<sup>1</sup>. In order to realize it, the six Western European countries such as Germany, France, Italy, and three Benelux nations created European Coal and Steel Cooperation in 1951, which is the starting point of the economic cooperation between Germany and France. Later, the two nations signed the Élysée Treaty in 1963 that set out regular and frequent diplomatic and cultural cooperation between the two nations to provide a foundation for lasting friendship. It is also regarded as a cornerstone of Franco-German reconciliation as well as the basis of European integration to become the European Union (EU)<sup>2</sup>.

European integration processes are regarded as a model for creating long term peace and prosperity around the world, which is the highest level of integrations as an economic union. The European Union (EU) has aimed to become a political union as the final goal. However, some member nations such as France and the Netherlands rejected the European constitution in their referendums in 2005<sup>3</sup>. As a result, the EU has remained as the economic union since then and nobody knows exactly when it reaches its final goal to become the United States of Europe that was stated by German Chancellor Adenauer and French President de Gaulle on the Élysée Treaty. In order to strengthen their roles in the engine of the European integration, German and French cooperation was reconfirmed by the Treaty of Aachen in 2019 that aims to play a greater role in international politics dealing with security and development, United Nations (UN), educations and research as well as no borders for cooperation and business.<sup>4</sup> As a result, the EU has created the highest

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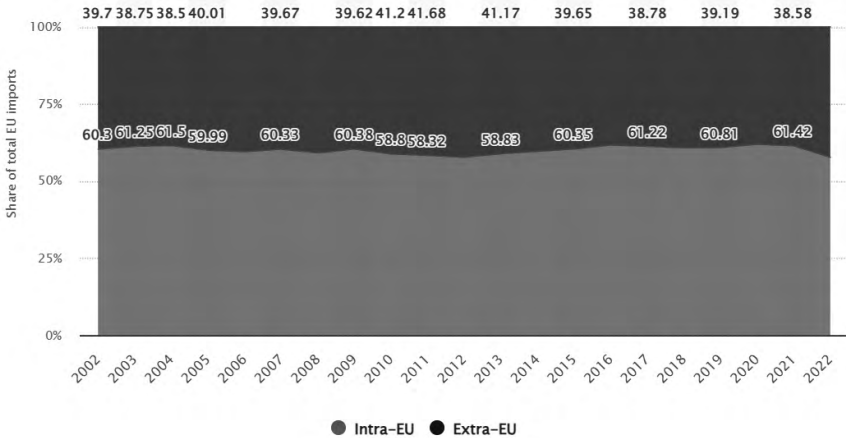
<sup>1</sup> Krotz, U. and Schild, J. *“Shaping Europe: France, Germany, and Embedded Bilateralism. From the Elysée Treaty to Twenty-Century Politics”*, (Oxford: Oxford University Press, 2013).; Dinan, D. *“Origins and Evolution of the European Union”*, (Oxford University Press, 2014).

<sup>2</sup> Mourlon-Druol, E. Rethinking Franco-German Relations: A Historical Perspective, Policy Contribution, Issue No. 29, November, Bruegel, [https://www.bruegel.org/sites/default/files/wp\\_attachments/PC-29-2017.pdf](https://www.bruegel.org/sites/default/files/wp_attachments/PC-29-2017.pdf) (2017).

<sup>3</sup> Cameron, F. The European Union as a Model for Regional Integration, September, Working Paper, Council on Foreign Relations (2010).

<sup>4</sup> Poptcheva, A-M. The Franco-German Relationship in the EU: A Short Overview, EPRS\_BRI(2015)568359\_EN.pdf, (2015).; Federal Foreign Office, Five Things You Need to Know About the Treaty of Aachen, <https://www.auswaertiges-amt.de/en/aussenpolitik/laenderinformationen/frankreich-node/treaty-aachen/2179778>, (2019).

developed economic union in the world that accounted for nearly 60 percent of intra trade within the 27 member nations in 2022.<sup>5</sup> (See fig. 1)



**Figure 1**  
Shares of EU’s Intra Trade (As of 2002~2022, %)

Source: www.statista.com, 2024

Compared to Franco-German cooperations in the EU, the two major economies such as Japan and South Korea (hereafter Korea) did not exercise any formal economic cooperation and institutionalized reconciliation process except to reopen their diplomatic relations based on the Treaty on Basic Relations Between Japan and Republic of Korea (ROK) and the Agreement between Japan and ROK Concerning the Settlement of Problems in Regard to Property and Claims and Economic Cooperation in 1965.<sup>6</sup> For it, the Japanese government paid USD 300 million to the ROK that was the economic compensation for the colonial period (1910~1945). The opposition parties and civil groups in ROK protested heavily, but the military regime needed seed capitals to launch its economic development plans.<sup>7</sup>

<sup>5</sup> www.statista.com, (2024).

<sup>6</sup> United Nations (UN), Treaty on Basic Relations, No. 8471, United Nations-Treaty Series, <https://treaties.un.org/doc/Publication/UNTS/Volume%20583/volume-583-I-8471-English.pdf>, (1966).

<sup>7</sup> Ju, J-Y, The Japan-Korea Dispute Over the 1965 Agreement, Oct. 23, The Diplomat, <https://thediplomat.com/2020/10/the-japan-korea-dispute-over-the-1965-agreement/>, (2020).

Since then, the two East Asian nations had generated the extraordinary economic growth and succeeded in industrialization processes. As a result, Japan became the second largest economy in 1968, while Korea achieved the 10th largest economy in 2020 in the world without any institutionalized economic integration. At present, they are participating in reshaping the global supply chains (GSCs) led by the USA particularly in the semiconductor industry in order to response the Chips and Science Act (CSA) properly.<sup>8</sup>

This paper focuses on economic development strategies in the EU and East Asia how different their paths and approaches are. Furthermore, it analyzes the importance of political and economic cooperations in order to create a sustainable development for a long term. Last, but not least, it argues what are implications of the Franco-German cooperation to Japan and Korea. In order to meet the research targets, various methods are used such as a method of critical analysis of literature, an inference method, cross sectional analysis, and a method of quantitative and qualitative statistical analysis.

## II. Theoretical Debates

Economic regionalism (de jure regional economic integration) can be defined as an institutional combination of separate national economies into larger economic blocs or communities as the EU. Usually, the process is understood to be a state-led project that promotes a definable geographic area by development of specific institutions and strategies. Therefore, regionalism is a conscious and coherent top-down policy of the state.<sup>9</sup> The above definitions describe institutionalized aspects of economic cooperation within the area, which are usually a result of intergovernmental negotiations undertaken or agreements concluded between member nations. Based on this perspective, regionalism exposes institutional and instrumental linkages between the member nations. Although regionalism is sometimes used interchangeably with the term international economic integration, it is not identical.<sup>10</sup>

Beside regionalism, international economic integration includes regionalization. A regionalization (de facto regional economic integration) means a process of integration, in which the most significant role is played

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<sup>8</sup> Park, S-C, Mega FTAs and Indo-Pacific Economic Framework (IPEF) in the Asia Pacific Region: Will It Be Cooperation or Competition? *International Organizations Research Journal*, 18:2 (2023): 122-150; World Bank, World Bank Open Data, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=IN-KR>, (2024a).

<sup>9</sup> Robson, P., *The economics of international integration* (London and New York: Routledge, 1998).

<sup>10</sup> Beeson, M. and Stubbs, R., *Routledge Handbook of Asian Regionalism* (London and New York: Routledge, 2012).

by market factors such as an activity of enterprises and other private entities interested in developing cross-border relations. This, in turn, leads to increasing trade, investment and production in the region. In contrast to regionalism, regionalization is a spontaneous, complex and bottom-up process by which material patterns of transnational transactions among individuals and groups knit a loosely defined geographical area together.<sup>11</sup>

Such processes are rarely independent of the economic policies implemented by the nations, and these often take place without deliberate planning at the national or local level. The distinction between regionalism and regionalization are of key importance in East Asia, as this region's market integration processes diverge from the institution-based approaches adopted in Europe and North America.<sup>12</sup> As a result, East Asian countries have become increasingly interdependent in terms of trade, investment, finance and production. The predominance of regionalization in East Asia does not mean that processes of regionalism do not exist. On the contrary, they exist, but rather as 'soft or informal regionalism'.<sup>13</sup>

Both concepts make up the notion of an international and regional economic integration. One of the definitions claims that economic integration is the process of removing progressively those discriminations which occur at the national level. Another definition describes it as the abolition of discrimination between economic entities from different states. The latter is a dynamic approach to integration. In a static view, economic integration means the absence of various forms of discrimination between national economies. Countries interested in the process usually start from a simpler form of establishing free trade zone, and then progress through more advanced forms in terms of customs union, common market, economic union up to a full economic union. In practice, this sequence does not always occur, and an achievement of the final stage is challenging as it entails a level of political integration and loss of sovereignty.<sup>14</sup>

<sup>11</sup> Söderbaum, F., *Theories of Regionalism*, In: M. Beeson and R. Stubbs (eds), *Routledge Handbook of Asian Regionalism* (London and New York: Routledge, 2012): 11-21.

<sup>12</sup> Pempel, T. J. (2010) *Soft Balancing, Hedging, and Institutional Darwinism: The Economic Security Nexus and East Asian Regionalism*. *Journal of East Asian Studies*, 10(2010): 209-238.; Zhao, S. (1998) *Soft versus Structural Regionalism: Organizational Forms of Cooperation in Asia Pacific*, *The Journal of East Asian Affairs*, 1 (1998): 96-134.

<sup>13</sup> Breslin, S., & Higgott, R. (2000) *Studying regions: Learning from the old, Constructing the new*, *New Political Economy*, 5:3 (2000): 333-352.; Katzenstein, P., *Introduction: Asian Regionalism in Comparative Perspective*, In: P. Katzenstein & T. Shiraiishi (eds.), *Network Power: Japan and Asia*. (Ithaca: Cornell University Press, 1997): 1-46.

<sup>14</sup> Balassa, B., *The Theory of Economic Integration*, (London: Routledge, 1962).; Hosny, A. S. (2013) *Theories of economic integration. A survey of the economic and political literature*, *International Journal of Economy, Management and Social Sciences*, 2:5 (2013): 133-155.

Countries that decide to participate in an integration process must consider benefits and costs of such activities. Not only economic but also political and social effects should be taken into consideration. Obviously, in economic terms, benefits should overcome costs, but it is worth emphasizing that a necessary condition for efficient integration requires an honest division of political benefits and costs between member countries. Focusing on the economic sphere, it can be concluded that in the short run, benefits of integration are mainly due to a growth of trade turnover in the grouping, but in the long run, they rely on increasing production, improving productivity in factors of production, GDP and GDP per capita growth.<sup>15</sup>

Economic integration theories also discuss benefits and costs of regional economic integration. There are two main theories that explain the effects of integration. The traditional group presents a static approach, while the dynamic group takes into account ever-changing economic conditions that present the dynamic approach.<sup>16</sup> The traditional group analyses the effects of a customs union composed of trade creation effect and trade diversion effect. If a trade creation effect creates growth in trade turnover within the group as a result of reduction of tariffs and other restrictions outweighs the diversion effect replacing more efficient partners from outside the zone by partners from the zone, then the customs union can be recognized to have net positive effects.<sup>17</sup>

The dynamic group analyzing the effects of the integration takes into account the dynamic effects of this process. It emphasizes the role of changes in economic conditions. These changes concern the economies of scale, technology, impact on market structure and competition, productivity growth, risk and uncertainty and investment activity. In addition, the growing competitive pressure will cause the previously existing non-competitive market structures such as monopoly and oligopoly to evolve towards more competitive ones. This can create the conditions to improve productivity in integrating economies.<sup>18</sup>

Economic integration, particularly as discussed in the theories of traditional and the dynamic groups, apply to the EU as well as East Asia.

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<sup>15</sup> Molle, W., *The Economics of European Integration. Theory, Practice, Policy*, Hong-Kong, Singapore. (Sydney: Brookfield, 1990).

<sup>16</sup> Viner, J., *The Customs Union Issue*, (New York: Carnegie Endowment for International Peace, 1950).

<sup>17</sup> Pomfret, R., *The Economics of Regional Trading Agreements*, (Oxford: Oxford University Press, 2001); Siddique, M. A. B., *Regionalism, trade and economic development: theories and evidence from the Asia-Pacific region*. In: M. A. B. Siddique (ed.), *Regionalism, trade and economic development in the Asia-Pacific region*. (Cheltenham: Edward Elgar, 2007): 3-22.

<sup>18</sup> Balassa, B., *op. cit.* (1962): 1-17.; Urata, S., *Japan's Free Trade Agreement Strategy*, *The Japanese Economy*, 36: 2 (2009): 46-77.



Particularly, these processes are primarily of a bottom-up nature in East Asia. At the same time, however, East Asian economies are increasingly interested in forming institutional links of cooperation. Therefore, the process of East Asian economic regionalism has its own characteristics and dynamics compared to the European regionalism, resulting from the activities and commitment of countries inside and outside the region.

### III. Economic Cooperation between France and Germany in the EU

#### 1. *Economic Integration and Intra Industry Trade*

It is true that few politicians, policy makers, and scholars believed in the success of European integration in terms of economy and politics starting with the European Coal and Steel Community in 1951. The European integration processes have gone from a limited form of industrial cooperation to an economic and monetary union that have never been created elsewhere. Therefore, the EU is regarded as much more than a trading arrangement seen in other regional blocs such as ASEAN in Southeast Asia, Mercosur in South America, and USMCA in North America.<sup>19</sup>

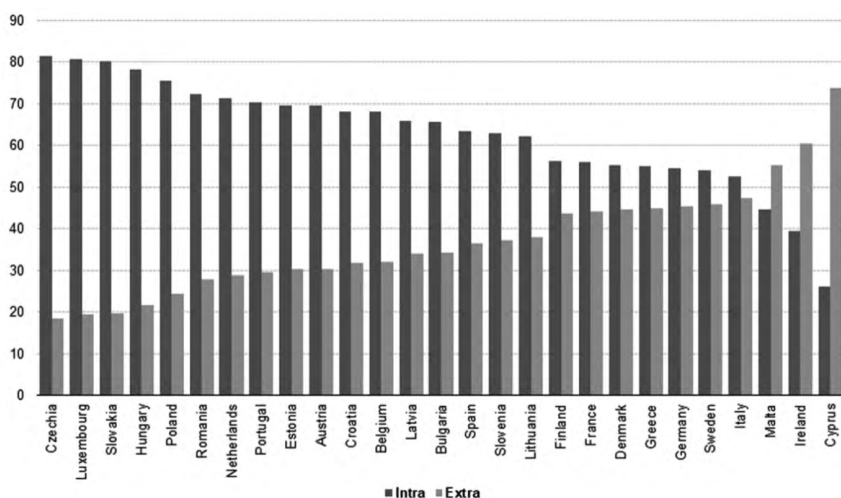
The foundation of European economic integration was based on internal trade liberalization. The process of trade liberalization within the European Community (EC) had developed with four phases. The first phase started in 1958 as free trade areas based on the Treaty of Rome and lasted up to 1967. The second phase was completed by eliminating customs duties and quantitative restrictions that resulted in the introduction of a common external tariff and becoming a customs union from 1968 to 1972. During the third phase from 1973 to 1986, internal trade barriers were reduced within the 12 member nations, and the European Common Market was built. This phase was completed in 1992 by creating the European Single Market for goods, services, capital and labor. Finally, the economic and monetary union as an economic union started in 1999 with 15 member nations by using the common currency of Euro in 11 member nations.<sup>20</sup>

During the economic integration, the share of intra trade increased steadily following the Treaty of Rome. In 1958, it accounted for less than 40 percent and increased to nearly 55 percent in 1970. Since then, it

<sup>19</sup> Begg, I., *The European Union and Regional Economic Integration: Creating Collective Public Goods-Past, Present and Future*, (2021) [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/689369/EPRS\\_BRI\(2021\)689369\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/689369/EPRS_BRI(2021)689369_EN.pdf).

<sup>20</sup> Balassa, B., *op. cit.* (1962): 1-17.; Sapir, A., *Regional Integration in Europe*, *Economic Journal*, Royal Economic Society, 102:415 (1992): 1491-1506; Begg, I., *op. cit.*, (2021).

remained constantly until 1985 and increased thereafter over 60 percent that has continued until 2022.<sup>21</sup> It is also noteworthy that a convergence phenomenon between old and new member nations has taken place since the first enlargement in 1973. This has resulted from a decrease of share of intra trade for the old members and an increase for the new. Moreover, a link between regional economic integration and intra industry trade has generated three channels such as overlapping demands, scale economies, and production factor movements that established a causal relationship between the two elements. Therefore, there exists a deterministic link between the EU integration and intra industry trade creating the specialization of intra industry in bilateral trade among the EU member nations.<sup>22</sup> (See fig. 2, 3)



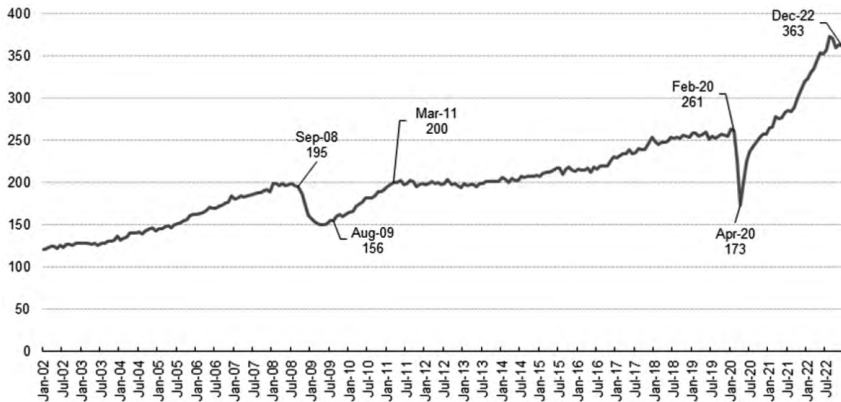
**Figure 2**

EU's Exports of Goods in Intra and Extra Trade (As of 2022, %)

Source: Eurostat, Online Data Code DS-018995, 2023

<sup>21</sup> Balassa, B. and L. Bauwens, The determinants of intra-European trade in manufactured products, *European Economic Review*, 32 (1988), 1421-1437.; [www.statista.com](http://www.statista.com), (2024a).

<sup>22</sup> Greenaway, D., Regional trading agreements and intra-industry trade: Evidence and policy issues, in D. Greenaway, T. Hyclak and R. Thornton (eds.), *Economic Aspects of Regional Trading Agreements*, (Harvester Wheatsheaf: Hemet Hempstead 1989); 50-69.; Sapir, A., *op. cit.*, (1992).



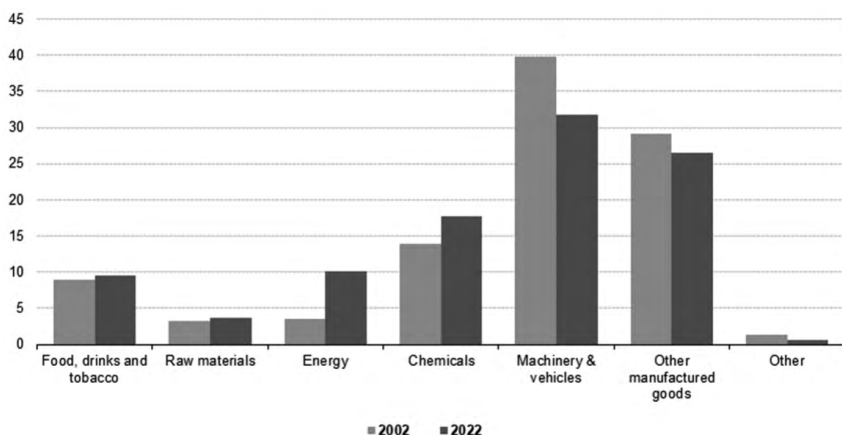
**Figure 3**

Trends of Intra EU Exports of Goods between 2002 and 2022 (As of Billion Euro)

Source: Eurostat, Online Data Code: ext\_st\_EU27\_2020sitc, 2023

Regarding the specialization of intra industry trade in the EU, the primary sectors such as agriculture and raw materials as well as the secondary sectors such as energy and chemicals increased from 2002 to 2022, while other secondary sectors such as machinery and vehicles as well as other manufactured goods declined during the same period. At the same time, however, these latter two secondary sectors were the major sectors in intra EU export shares by product types that accounted for around 60 percent of the total intra export in 2022. The intra EU trade in goods balance from 2002 to 2022 resulted in large deficits of old member nations particularly in Germany and France, while new member nations operating as manufacturing basis of old member nations generated surpluses particularly in Poland, Czech Republic, and Hungary. Interestingly enough, Belgium, Ireland, and the Netherlands as old member nations are very exceptional cases to make the large amount of the trade surpluses during the whole period.<sup>23</sup> (Dautovic et al., 2014; Eurostat, 2023) (See fig. 4, table 1)

<sup>23</sup> Dautovic, E., Orszaghova, L. and Schudel, W., Intra Industry Trade Between CESEE Countries and the EU15, Working Paper Series, No. 1719, Aug. (Frankfurt a. M.: European Central Bank (ECB), 2014).; Eurostat, Intra-EU Trade in Goods — Main Features, (2023) [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Intra-EU\\_trade\\_in\\_goods\\_-\\_main\\_features](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Intra-EU_trade_in_goods_-_main_features).



**Figure 4**

Intra EU Export Shares by Product Types between 2002 and 2022 (As of %)

Source: Eurostat, Online Data Code DS-018995, 2023

**Table 1**

Intra EU Trade in Goods Balance between 2002 and 2022 (As of Mil. Euro)

	2002	2022	Trend
Belgium	13 416	64 452	
Bulgaria	-1 043	757	
Czechia	2 894	25 410	
Denmark	1 368	-12 425	
Germany	53 105	-47 243	
Estonia	-575	-4 556	
Ireland	25 193	32 060	
Greece	-15 032	-9 669	
Spain	-22 481	16 098	
France	-19 300	-149 599	
Croatia	-4 555	-12 816	
Italy	-4 567	-5 070	
Cyprus	-1 725	-5 782	
Latvia	-1 692	-6 893	
Lithuania	-1 204	-5 614	
Luxembourg	-2 075	-9 435	
Hungary	4 562	6 107	
Malta	-833	-3 289	
Netherlands	70 520	326 291	
Austria	-6 107	-25 317	
Poland	-5 344	27 572	
Portugal	-12 256	-20 670	
Romania	-2 138	-22 879	
Slovenia	-904	7 172	
Slovakia	990	128	
Finland	1 485	-14 653	
Sweden	-956	-20 329	

Source: Eurostat, Online Data Code DS-018995, 2023.

Note: Red points denote trade deficits and blue points are trade surpluses.

## 2. Franco-German Economic Cooperation for the EU's Economic Integration

The origins of the EU started from the Schuman declaration in 1950 proposing to place Franco-German production of coal and steel as a whole under a common higher authority. Since then, Franco-German relations has been constituent for the common projects in the European Economic Community (EEC) and continuously in the EU. In addition, the reconciliation of the French and German peoples played a significant role in strengthening the further European integration. As a result, France and Germany signed the Elysee Treaty in Jan. 1963, which created a special relationship coordinating their policies in foreign, security, youth and cultural matters. One of the goals of the two nations was to establish a United Europe. For it, the two nations institutionalized Franco-German cooperation through governmental summits based on the treaty, which gradually expanded and were replaced in 2003 by joint cabinet meetings that made possible not only coordination functions at the highest political level, but also concrete political decision-making processes in working sessions.<sup>24</sup> (Poptcheva, 2015)

On the 25<sup>th</sup> anniversary of the Elysee Treaty, the Franco-German Financial and Economic Council was created in 1988 and a year later, the Defense and Security Council and the Environmental Council were launched. These joint council of ministers' meetings are held twice a year, once in each nation. Additionally, each government has designated a commissioner for Franco-German cooperation to coordinate the preparation and implementation as well as to follow up decisions taken by the joint ministerial councils. Franco-German intergovernmental cooperation was further deepened, and the Treaty of Nice was signed in 2001.<sup>25</sup> The treaty could coordinate their positions for increasing informal consultations at the top political level within the EU framework, particularly when the two major member nations had different views on weighting of votes in the European Council. Accordingly, the two leaders, Chirac in France and Schroeder in Germany decided to hold their regular meetings once every two months in order to make clear any disagreements before formal negotiations taking place within the European Council. In fact, such bilateral meetings just on the eve of European Council meetings have been criticized by some member nations because they feel to limit from the outset the scope of negotiations. On the other side, however, the Franco-German pre-understandings are regarded as positive for other heads of state

<sup>24</sup> Poptcheva, A-M., *op. cit.*, (2015).

<sup>25</sup> Hänsch, K., Maximum des Erreichbaren — Minimum des Notwendigen, *Integration* 2/2001, (2001): 94-101.; Poptcheva, A-M., *op. cit.*, (2015).

or governments to negotiate effectively. As a result, they have contributed to generating efficient and solution-oriented decision-making processes in the European Council.<sup>26</sup>

The Franco-German cooperation has been regarded as the engine of the EU cooperation although it was sometimes dysfunctional leading to standstill and even regression in the EU. Indeed, however, it has often broken deadlocks in the negotiations between the member states and provided political leadership whenever the EU has faced major challenges. Therefore, the Franco-German cooperation has remained at the heart of the EU that was reconfirmed by the Amsterdam Treaty in 1997 enhancing cooperation within the EU framework. For the close economic cooperation within the EU, the Franco-German tandem played a significant role in the establishment of the European Monetary System under the leadership between President Giscard d'Estaing and Chancellor Schmidt that laid the path to the introduce the single currency, euro later. Based on such a preemptive cooperation, the European Economic and Monetary Union was launched by the Maastricht Treaty in 1991 led by Mitterrand and Kohl.<sup>27</sup>

The EU experienced the global financial crisis (GFC) in 2008 and the debt crisis in 2010. It is the only economic area hit by the two crises in a row. The economic and financial crisis in the EU during the period intensified Franco-German cooperation generating multilateral coordination together with the European Council, the European Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF). Despite the multilateral cooperation, the Franco-German tandem faced significant criticism after the Deauville agreement between Sarkozy and Merkel in 2010 on the eurozone bailout based on the participation of private creditors in debt restructuring of euro zone member states and sanctions against governments failing to comply with budgetary discipline rules.<sup>28</sup> It indicated that the European Stability Mechanism (ESM) based on the permanent lending facility did not exist because the two major countries had fundamentally different positions regarding fiscal policy discretion or stricter budgetary discipline rules. Therefore, Sarkozy and Merkel agreed to call for deeper integration of euro zone member states to include a euro

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<sup>26</sup> Joerges, C., and Glinski, C., *The European Crisis and the Transformation of Transnational Governance: authoritarian managerialism versus democratic governance*, (London: Bloomsbury Publishing, 2017).

<sup>27</sup> Blockmans, S., *Differentiated Integration in the EU: From the Inside Looking Out*, (Brussels: CEPS, 2014).; Poptcheva, A-M., *op. cit.*, (2015).

<sup>28</sup> Krotz, U. and Schild, J., *Shaping Europe: France, Germany, and Embedded Bilateralism from the Elysee Treaty and to Twenty-First Century Politics*, (Oxford, Oxford University Press, 2013).

zone budget and a proper monetary fund based on the ESM in 2011. Since then, deep interstate cooperations have become quite resilient to sudden economic shocks. In particular, the EU agreed to a recovery package for Europe of Euro 2,018 trillion in 2021 in order to tackle on socio-economic consequences of the COVID-19 Pandemic. The total EU economic response for the pandemic has amounted to Euro 3.7 trillion under the Franco-German leadership based on the Aachen Treaty in 2019.<sup>29</sup> (See table 2)

**Table 2**  
Franco-German Cooperations for Economic Integration of the EU

Treaty	Period	Major Agreements	Main Actors
Schman Declaration	1950	Franco-German production of coal and steel as a whole under a common higher authority	Schman & De Gole
Elysee Treaty	1963	<ul style="list-style-type: none"> <li>— Special relationship coordinating their policies in foreign, security, youth and cultural matters for European integration and United Europe</li> <li>— Franco-German cooperation through governmental summits twice per year</li> <li>— Franco-German Financial and Economic Council (1988)</li> <li>— Defense and Security Council and Environmental Council (1989): Council Ministers' Meetings twice per year</li> <li>— European Economic Community, Customs Union, European Common Market</li> </ul>	<ul style="list-style-type: none"> <li>— De Gole &amp; Adenauer</li> <li>— d'Estaing &amp; Schmidt</li> <li>— d'Estaing &amp; Kohl</li> </ul>
Maastricht Treaty	1991	— European Economic and Monetary Union	Mitterrand and Kohl
Amsterdam Treaty	1997	<ul style="list-style-type: none"> <li>— Enhancing cooperation within the EU framework</li> <li>— European Monetary System</li> </ul>	<ul style="list-style-type: none"> <li>— d'Estaing &amp; Schmidt</li> <li>— Mitterrand and Kohl</li> </ul>

<sup>29</sup> Peritz, L., Weldzius, R., Rogowski, R., and Flaherty, T., Enduring Great Recession: Economic Integration in the European Union, The Review of International Organization, 17 (2022): 175-203.; International Labour Organization (ILO), COVID-19 Country Policy Responses, March 1, (2023) <https://www.ilo.org/static/english/covid-19/country-policy-responses/covid-EU-response-2023-03-01.pdf>.

Treaty	Period	Major Agreements	Main Actors
Treaty of Nice	2001	<ul style="list-style-type: none"> <li>— Coordinating their positions for increasing informal consultations at the top political level within the EU framework: weighting of votes in the European Council</li> <li>— Summit meetings once every two months for Franco-German pre-understanding</li> <li>— Governmental summits replaced by joint cabinet meetings (2003)</li> </ul>	Chirac & Schroeder
Deauville agreement	2010	<ul style="list-style-type: none"> <li>— European Stability Mechanism (ESM) based on the permanent lending facility</li> <li>— Euro zone budget and monetary fund</li> </ul>	Sarkozy and Merkel
Aachen Treaty	2019	<ul style="list-style-type: none"> <li>— Deeper cooperation in foreign and defense policy &amp; closer economic integration</li> <li>— Strengthening Europe's sovereignty: Brexit, increase extreme rightwing parties</li> </ul>	Macron & Merkel

Source: Author's own adaptation.

### 3. Outcomes and Reasons of Franco-German Economic Cooperation

Franco-German economic cooperation has contributed to deepening the economic integration of the EU within the EU framework and played significant roles in a driving force to move forward from the EEC to the EU. The two major economies are also de facto twin-engines of the EU's economy accounting for around 40 percent of the whole EU with 27 member states and around 50 percent of the euro zone with 20 member states in 2022. The major outcomes of Franco-German economic cooperation are to complete the European economic integration from the FTA level to the level of the economic and monetary union that is the highest economic integration model in the world although the common fiscal policy among the member states is not still implemented.<sup>30</sup>

In all economic integration processes, there were always political conflicts and disagreements between the member states due to the diverse economic interests. In fact, Franco-German political deals caused often

<sup>30</sup> Eurostat, *op. cit.*, (2023).



stalemate in the negotiations between the member states and at the same time provided political leadership whenever the EU faced major challenges such as European Customs Union, European Common Market, European Monetary System, European Economic and Monetary Union, euro bailout etc. Therefore, Franco-German cooperation has continued and strengthened despite the EU's further enlargement in the past decades because they could find out solution measures such as European Stability Mechanism, European Bank Union, euro zone budget, monetary fund etc. As a result, the EU as European Economic and Monetary Union has completed its economic integration sustaining to generate its economic growth and the high ratio of intra industry trade.<sup>31</sup>

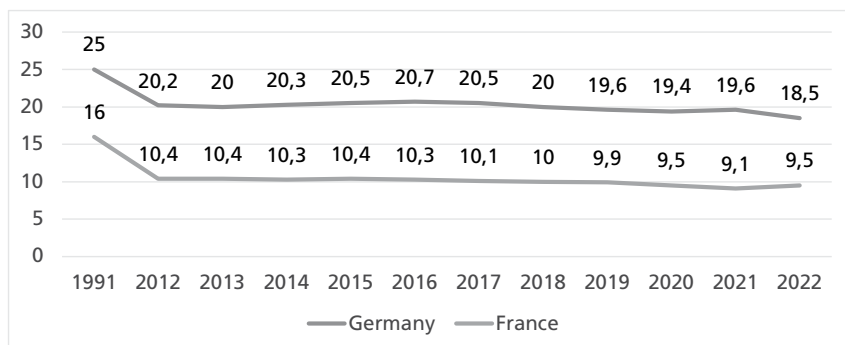
The reasons why and how the Franco-German tandem has been successful and continued such long period seems to be clear. Firstly, their industrial structures are complementary instead of being competition-oriented based on different industrial strategies policies. The German industry is focused on manufacturing industry, while the French industry is oriented to service industry. The share of German manufacturing industry in its GDP in 1991 accounted for 25 percent and declined to 20.2 percent in 2012.<sup>32</sup> Germany maintained its share of manufacturing industry continuously around the similar level of 20 percent until 2022. The French share of manufacturing industry in her GDP was equally high like Germany with 22.5 percent in 1960, but declined to 16 percent in 1991 that dropped continuously and radically to 9.5 percent in 2022. By contrary, the share of German service industry in GDP accounted for 56.4 percent in 1991 and increased up to 61.7 percent in 2012 and remained around that level until 2022, while the French shares increased from 62.8 percent in 1991 to 70.3 percent radically and remained around that level until 2022. It indicates that the industrial specialization and division of labor processes have been intensified since the Maastricht Treaty creating the European Single Market.<sup>33</sup> (See fig. 5, 6)

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<sup>31</sup> Poptcheva, *op. cit.*, (2015).

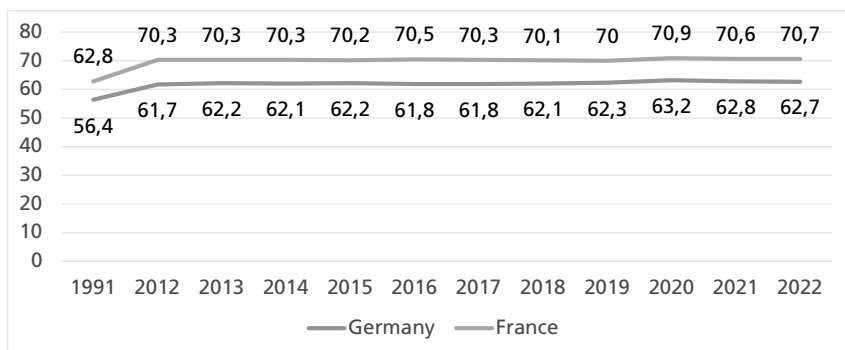
<sup>32</sup> Sapir, *op. cit.*, (1992); Dautovic, E. et.al., *op. cit.*, (2014).

<sup>33</sup> World Bank, World Bank National Accounts Data, (2024b), <https://data.worldbank.org/indicator/NV.SRV.TOTL.ZS?locations=DE-FR>.

**Figure 5**

Shares of Franco-German Manufacturing Industry in GDP (As of 1991~2022, %)

Source: World Bank, 2024.

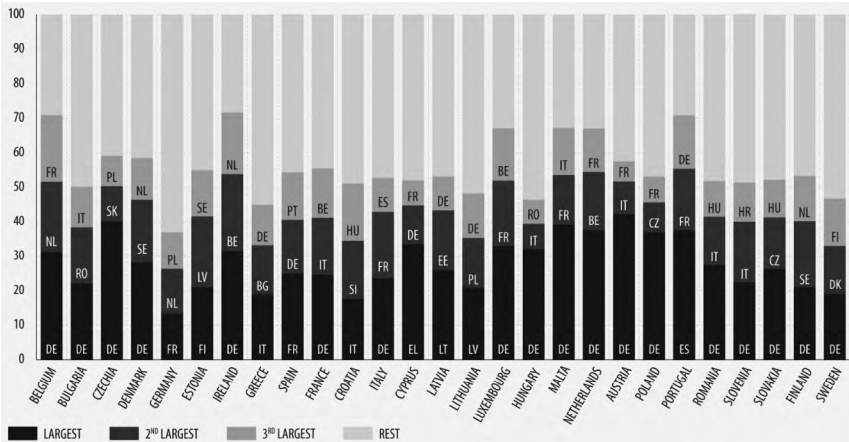
**Figure 6**

Shares of Franco-German Service Industry in GDP (As of 1991~2022, %)

Source: World Bank, 2024.

Secondly, Franco-German trust based economic cooperation has enabled to created high intra trade dependency on neighbor's member states within the EU framework. As a result, the two major economies have become their largest trade partners in the EU intra trade, although Germany has been the largest intra trade partner to other EU member states particularly to new member states due to her economic size and industrial policy based on the manufacturing industry. As a whole, Germany was the largest trade partner to France with Euro 84.5 billion in 2022, while France was the fourth largest

trade partner with Euro 185 billion in the same year. Last, but not least, the Franco-German tandem has aimed at its initial target to complete United Europe based on the Elysee Treat because it can generate economic and political advantages not only for them, but also for the whole member states contributing to creating market efficiency and establishing long-time peace in Europe despite the current Ukraine War.<sup>34</sup> (See fig. 7)



**Figure 7**

Main EU Partners for Goods Exports by EU Member Nations (As of 2022, %)

Source: Eurostat, Dataset, DS-018995, 2023.

## IV. Economic Development and Conditions in Japan and Korea

### 1. Economic Development and Current Conditions in Japan

As explained, there is no legal bind approach for Japanese and Korean government to develop their economies jointly. Therefore, the two nations have developed their economies independently and separately based on their own economic strategies and policies. The Second World War destroyed Japanese economic and social infrastructure as well as production facilities widely. During the War, Japan lost a quarter of her national wealth and one

<sup>34</sup> Kampeter, W., European Integration and the Price of Peace, IPG 2/2000, (2000), <https://library.fes.de/pdf-files/ipg/ipg-2000-2/artkampeter.pdf>; Eurostat, *op. cit.* (2023); [www.statista.com](http://www.statista.com), (2024b).

third of production capacity. Therefore, it was not possible to estimate economic and social statistics between 1945 and 1947 because the statistical data was not available or not reliable. The aftermath of the War started to improve after the Dodge Plan was launched in the end of 1948, which curbed extraordinary inflation with the Nine-Point Economic Stabilization Program. After controlling high inflation in 1946-1948, Japanese economy suffered from severe depression due to deficient demand.<sup>35</sup>

Such depression of the economy was resolved by the Korean War in 1950-1953 because special procurement caused by the Korean War generated around 1-2 percent additional economic growth each year. Until the mid of 1955, the Japanese economy had recovered its prewar level thanks to the grace of these strong demands that was based on the rear base strategy of the Japanese government. Since then, Japanese economy experienced a high growth period for about two decades up to the early 1970s.<sup>36</sup> The real GDP or GNP growth rates accounted for over 10 percent in average during this period. After the early 1970s, the Japanese economy turned to a stable growth period with around five percent in average until the bubble crash took place in the early 1990s that caused a low economic growth period with 1-2 percent known as the lost decades until even now.<sup>37</sup> (See table 3, fig. 8, 9)

**Table 3**  
Special Procurement Order from the Korean War (As of 1950~1955, USD 1,000)

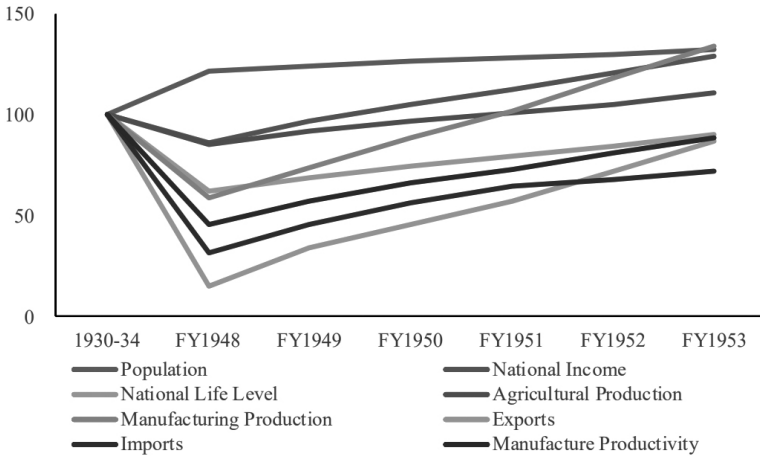
Period	Merchandize	Services	Total
1950.06~1951.05	229,995	98,927	328,922
1951.06~1952.05	235,851	79,767	315,618
1952.06~1953.05	305,543	186,785	492,328
1953.06~1954.05	124,700	170,910	296,610
1954.06~1955.05	78,516	107,740	186,256
Total	974,607	644,129	1,618,736

Source: Miwa and Hara, 2010.

<sup>35</sup> Yoshioka, S. and Kawasaki, H., Japan's High Growth Postwar Period: The Role of Economic Plans, ESRI Research Note No. 27, (Tokyo: Cabinet Office, 2016).

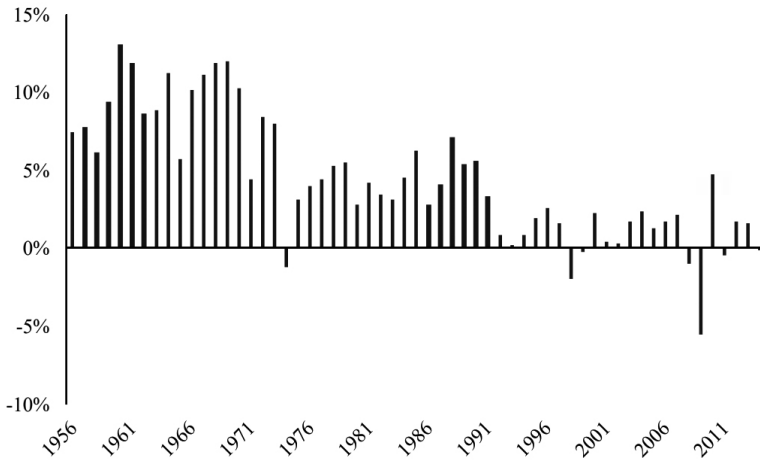
<sup>36</sup> Furuya, K., Trajectory of Growth, (Tokyo: Nihon Keizai Shinbun Sha, 1979), (in Japanese); Hayashi, Y., Economic Plans in Japan, (Tokyo: Nihon Keizai Hyoron Sha, 1997), (in Japanese).

<sup>37</sup> Miwa, R. and Hara, A., Handbook on Modern and Contemporary Japanese Economic History, (Tokyo: Tokyo University Press, 2010), (in Japanese); Yoshioka, S. and Kawasaki, *op. cit.*, (2016).



**Figure 8**  
 Postwar Economic Indicators in Japan (As of 1930-34=100)

Source: Hayashi, 1997.

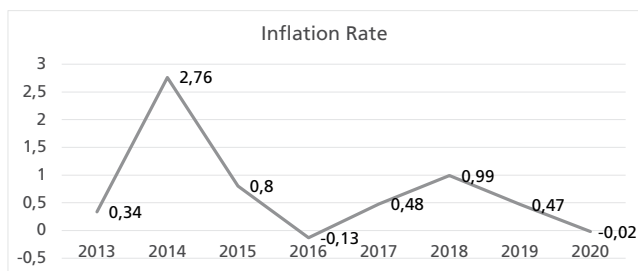


**Figure 9**  
 Real Economic Growth Rates in Japan (As of 1956~2013, %)

Source: Yoshioka & Kawasaki based on Cabinet Office, 2016.

In the 2000s, pre-Abenomics period, Japanese economy already faced hyper aging society, imbalance of asset, deflation, high government deficit etc.

Therefore, Abenomics set the targets of the three arrows such as aggressive monetary policy, government consolidation, and growth strategy. Despite the ambitious approach, the final outcomes are regarded rather as moderate than expected. During the Abe administration (2013~2021), the average inflation rate and economic growth rate accounted only for 0.7 percent and 0.3 percent respectively that were lower than the targets. The economic growth rate increased in 2021, but it was regarded as a base effect from 2020. At the same time, it continued to grow to 1.7 percent in 2022, and it is a high time whether it sustains to grow this and next years or not.<sup>38</sup> (See fig. 10, 11)



**Figure 10**  
Inflation Rates in Japan (As of 2013~2020)

Source: World Bank, 2023.

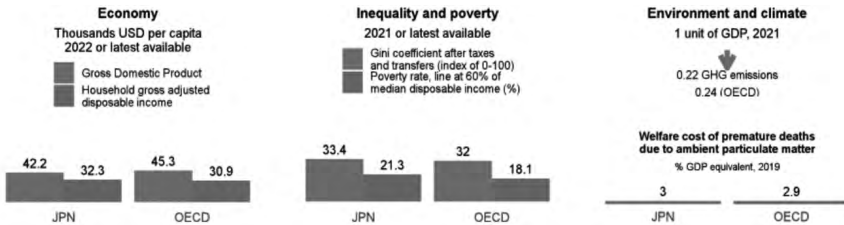


**Figure 11**  
Economic Growth Rates in Japan (As of 2013~2022)

Source: World Bank, 2023.

<sup>38</sup> Yoshino, N. and Taghizadeh-Hesary, F., Three Arrows of Abenomics and the Structural Reform of Japan: Inflation Targeting Policy of the Central Bank, Fiscal Consolidation, and Growth Strategy, ADBI Working Paper Series, No. 492, August, (2014) Abenomics (2014).pdf.; World Bank, World Bank Open Data, (2023) <https://data.worldbank.org/>.

As an aggregate result of Japanese economy has been analyzed by OECD comprehensively. Its labor productivity was lower than the average of OECD in 2022, while its unemployment rate was better than any OECD member nations. Its weakest part was digitalization and business R & D expenditure in information industries. As a result, the overall performances in income per capita, inequality and poverty, as well as environment and climate were lower than the average of the OECD.<sup>39</sup> (See figure 12)



**Figure 12**  
Overall Performances of Japanese Economy (As of 2022)

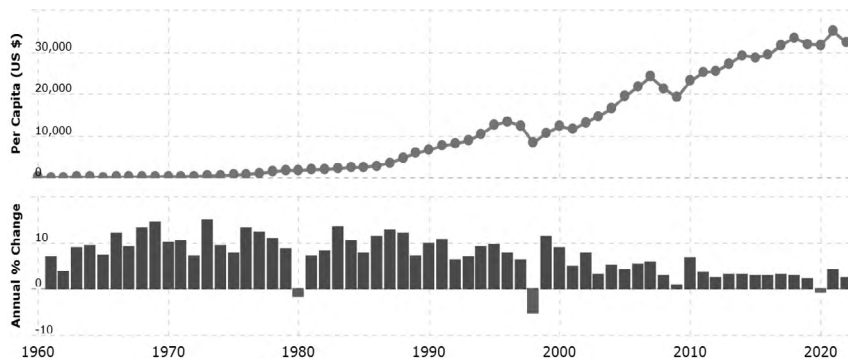
Source: OECD, 2023.

## 2. Economic Development and Current Conditions in South Korea

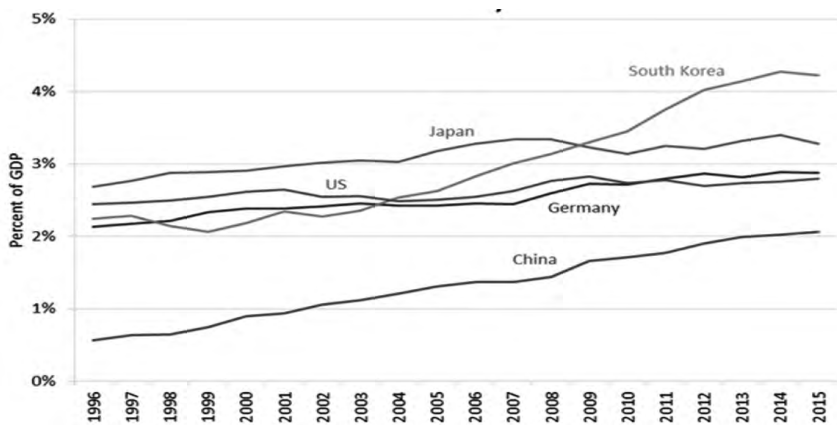
Korean economic growth strategy started in 1963 under the military regime after the total destroying during the Korean War. For the high economic growth from the 1960s to the 1980s, Korea mainly focused on the U.S. and Japanese market and their inward FDIs. A turning point for the further economic growth was to expand its markets toward China, the EU, Russia, Eastern European countries, CIS etc. after the Cold War era that contributed to globalizing Korean economy and diversifying its industrial structure in the 1990s. As a result, Korean major trade partners were diversified toward China, the USA, the EU, and Japan. In order to upgrade its industrial structure and generate higher value-added products, Korea strengthened its R & D investment heavily that enabled to increase total factor productivity (TFP) and generate the further economic growth.<sup>40</sup> (See fig. 13, 14)

<sup>39</sup> OECD, Going for Growth, (Paris: OECD, 2023)

<sup>40</sup> SaKong, I. and Koh, Y., The Korean Economy: Six Decades of Growth and Development, (Seoul: Korea Development Institute (KDI), 2010).; Park, S-C (2016) East Asian Culture and Economic Miracle: The South Korean Experience, Institutions and Economies, 8:1 (2016): 1-24.; World Bank, *op. cit.*, (2023).



**Figure 13**  
 Korean Economic Growth Rate and Income per Capita (As of 1960~2022)  
 Source: World Bank, 2023.



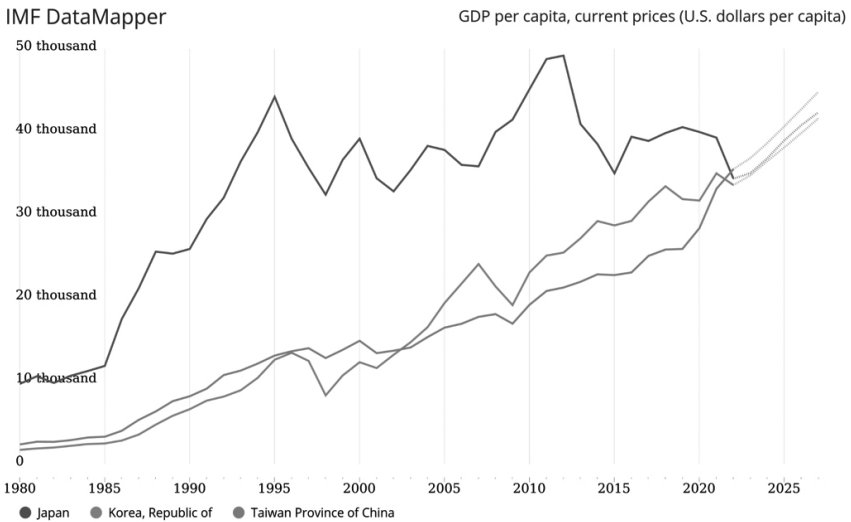
**Figure 14**  
 Share of R & D Investment in Major Economies (As of 1996~2015)  
 Source: World Bank, 2023.

Since the 2000s, Korean economy has tried to enlarged its economic territory by completing bilateral FTAs with the global major economies such as the USA, the EU, and ASEAN. Later, it completed FTA with China in 2015. As a result, Korea has become the only country completing its FTAs with the global big three countries. The trade-oriented growth strategy has resulted in increasing GDP per capita, productivity, R & D



intensity etc. and made possible to become one of the highest income nations in East Asia along with Japan and Taiwan.<sup>41</sup> (See fig. 15)

Korean economy turned from the aid economy in the 1950s to the donor economy in 2010 and grew continuously by closing mega FTAs such as Regional Cooperation for Economic Partnership (RCEP) and Indo Pacific Economic Framework for Prosperity (IPEF). However, it has also faced socio economic challenges such as a rapid aging demography with low fertility since 2020 that can result in a structural low economic growth trend. It must overcome with technological innovation and structural reform as it did in the 1990s. Otherwise, Korean economy can face the same risk as Japan has experienced last three decades.<sup>42</sup>



**Figure 15**

Trend of GDP per Capita in Nominal in Korea, Japan, and Taiwan (As of 1980~2025)

Source: IMF, 2022.

The aggregate result of Korean economy in 2022 was slight lower labor productivity than the average of OECD, while active labor market policies expenditure accounted for the same level of the OECD average. At the same time, digitalization and business R & D expenditure were more advanced

<sup>41</sup> IMF, World Economic Outlook October, (Washington D. C.: IMF, 2022)

<sup>42</sup> OECD, *op. cit.*, (2023).

than any other top 5 OECD countries. Overall, Korean GDP per capita as well as inequality and poverty met the average of OECD. However, it was far behind in environment and climate issue.<sup>43</sup> (See fig. 16)



**Figure 16**

Overall Performances of Korean Economy (As of 2022)

Source: OECD, 2023.

## V. Changing Global Economic Environment as Common Challenges and Possible Economic Competition and Cooperation between Japan and Korea

Global economic environment has changed radically since the Trump administration had implemented America First Policy in 2017. As a result, the global economy has faced protectionism continuing even in the Biden government. The U.S. government has even extended its conflict with China not only trade, but also high technology area and initiated Indo-Pacific Strategy (IPS) in 2022. It aims to reshape the global supply chains (GSCs) in order to minimize the risk of interruption in the GSCs. Initially, the Biden government tried to build a decoupling mechanism in the GSCs excluding China in line with economic security in specific high-tech areas. Later, however, it realized that the decoupling approach could harm not only the U.S. economy itself, but also damage close allies' economies such as the EU, Japan, Korea etc. Therefore, it turned to de-risking approach after the G7 Summit in Japan in 2023 because the EU strongly urged that the decoupling approach in the GSCs is too dangerous for its national interests. At the same time, the USA and its allies agreed that the core risks of China such as unfair competition and regulations for foreign companies in China must be solved.<sup>44</sup>

<sup>43</sup> OECD, *op. cit.*, (2023).

<sup>44</sup> Park, S-C, Mega FTAs and Indo-Pacific Economic Framework (IPEF) in the Asia Pacific Region: Will It Be Cooperation or Competition? *International Organizations Research Journal*, 18:2 (2023); 122-150.

At the same time, the U.S. and the EU have intensified their protectionism represented by Chips and Science Act (CSA), Inflation Reduction Act (IRA) from the U.S. and Net Zero Industrial Act (NZIA), Carbon Border Adjustment Mechanism (CBAM) from the EU. Both parties decided to provide astronomical subsidies and expect inward FDIs. Japan tries also to implement a similar approach in order to restore its semiconductor industry by using its rear base premium in case of military conflict in Northeast Asia. Under such a circumstance, Korea responded to invest in the U.S. market as the largest foreign investor in the CSA and the IRA frameworks. It also invested in the EU for large-sized batteries, while investing in Japan for semiconductor products.<sup>45</sup> (See table 4, 5)

**Table 4**  
Investments in CSA and Expected Companies' Investment (As of 2022)

Fund & Investments	Program	Investment
CSA Fund	Manufacturing Incentives	USD 39 billion
	R&D	USD 11 billion
	Workforce Development	USD 2.2 billion
	Security for ICT & SCA	USD 500 million
	Total	USD 52.7 billion
Public Wireless Supply Chain Fund	Open & Interoperable Radio Access Networks	USD 1.5 billion
Company Investment	Micron (US)	USD 40 billion
	Qualcomm & Global Foundries (US)	USD 4.2 billion
	Samsung Electronics (ROK)	USD 17 billion
	SK Siltron CSS (ROK)	USD 300 million
	Kanto/Chemtrade JV (Japan)	USD 250 million
	TSMC (Taiwan)	USD 40 billion

*Source:* Author's own adaptation based on The White House, 2022a; Casanova, 2022, and Kannan & Feldgoise, 2022.

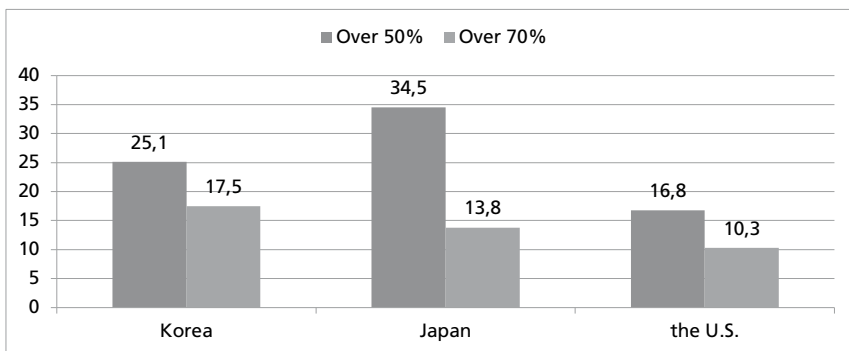
<sup>45</sup> The White House, Fact Sheet: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China, August 9, (2022), <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>.; Casanova, R., The CHIPS Act Has Already Sparked \$200 Billion in Private Investments for U.S. Semiconductor Production, Semiconductor Industry Association, Dec. 14, (Washington D.C.L SIA, 2022)

**Table 5**  
 Comparison between the U.S. IRA and the EU’s Green Deal Industry Plan

	The U.S. IRA	The EU’s GDP
Investment	USD 370 billion	<ul style="list-style-type: none"> <li>— Euro 250 billion (RRF)</li> <li>— Euro 270 billion (REPoswerEU)</li> <li>— Annual budget (Cohesion Funds)</li> <li>— Various Programs and Funds (Horizon Europe, Invest EU, the Innovation Fund)</li> </ul>
Total	USD 370 Billion	Euro 520 billion + alpha

Source: Author’s own Adaptation.

Under such a rapidly changing global economic environment, there are many reasons for Japan and Korea to cooperate with each other instead only of competing in order to hedge any risks for their national economies. First of all, two countries belong to Four Chips Alliance along with the U.S. and Taiwan. Additionally, they are key partners among six advanced countries in the IPEF reshaping the GSCs. Last, but not least, two countries are highly dependent on Chinese intermediate goods in their industries than the U.S. that causes a dilemma between market in China and high technology in the USA more than any other country in the world.<sup>46</sup> (See fig. 17)

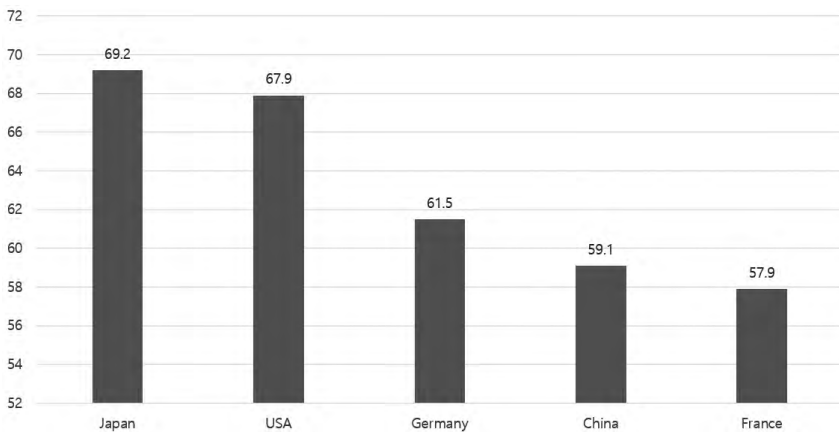


**Figure 17**  
 Dependent Ratios of Korea, Japan, and the U.S. Industries on Chinese Intermediate Products (As of 2020, %)

Source: Author’s own adaptation based on Kim, 2021.

<sup>46</sup> Kim, B-U, Report of Analysis on the Supply Chain Weakness of Korean Industry and Its Trajectory, (Sejong: KIEP, 2021).

Although the two nations need to collaborate for reshaping the GSCs in high end products jointly within the IPEF, it is not easy to realize it in reality because their industrial structures are very similar based on the manufacturing industry. The shares of Japanese and Korean manufacturing industry in their GDP in 2022 accounted for 19.2 percent and 25.6 percent respectively.<sup>47</sup> It causes a high competition in the global market particularly in automobile, steel, large-sized battery, clean energy etc. They also compete with each other in all major markets such as the USA, the EU, ASEAN, China, and India because the competition ratio of manufacturing export between Korea and Japan accounts for the highest among major economies. It means that the industrial structures of the two economies are not complimentary for cooperation generating mutual economic benefits like the Franco-German model. Structurally, it is only possible to maintain or strengthen existing supply and value chains between the two economies.<sup>48</sup> (See fig. 18)



**Figure 18**

Manufacturing Export Competition Ratio in Major Economies (As of 2022, %)

Source: KERI, 2023.

<sup>47</sup> Korea Economic Research Institute (KERI), Impact and Implication of Devaluation of Japanese Yen, (Seoul: KERI, 2023).

<sup>48</sup> [www.statista.com](http://www.statista.com), (2024c); [www.statista.com](http://www.statista.com), (2024d).

## VI. Conclusion

The Franco-German tandem provides significant insights for economic integration in other part of the world. It also proves that multilateral cooperation between member nations is fully possible and generate common economic growth and well-being for their citizens if the core nations closely cooperate with each other for the long-term base. The starting point of the European integration was the political reconciliation processes in order to create mutual trust that enabled to yield their sovereignty for common prosperity and fundamental peace in Europe. As a result, the EU was established through all integration processes except the political union. In the heart of the processes, the Franco-German cooperation has existed based on the complimentary industrial structures and division of labor between the two nations.

Korea and Japan are the two core advanced economies in East Asia although China plays the leading role in the regional economy. Due to the alike industrial structure based on the manufacturing industry, they have competed with each other harsh in the global market rather than cooperated closely. As pointed out, structurally it is difficult for the two economies to cooperate with each other except maintaining or strengthening existing supply and production chains. Technological cooperations may also be difficult due to lack of trust-based relationships between the two nations. At present, however, the second wave of protectionism has been strengthened for economic security, and the reshaping GSCs is underway in order to control Chinese emerging as a global superpower competing with the USA. Therefore, Japan and Korea are exposed by the common external economic environment. In fact, the Korean economy is more vulnerable by rapidly changing global economic environment than the Japanese economy because its share of trade in the GDP is much higher than that of the Japanese economy. Additionally, the two nations are experiencing extremely low fertility and aging society that affects negatively for the economic growth.

Under such circumstances, Korea and Japan have two options. The one is to compete with each other harsh as before that does not contribute to generate their economic growth properly for their mutual prosperity due to domestic and global economic conditions. The other is to cooperate with each other in order to overcome protectionism wisely together. In reality, however, it is not easy to build a complementary industrial structure based on the division of labor as France and Germany have developed in the EU framework because of lack of trust-based relationships between the two countries as well as a lack of solid economic framework in the region although the RCEP and the CPTPP have been formed recently, which are

the first steps for the economic integration process like the FTAs. If Korea joins the CPTPP, it can be the de facto FTA between Korea and Japan. Therefore, it may be the right way for the two parties to cooperate with each other by building trustful relationships for the mutual prosperity in the long term although it will take a long time based on the EU's experiences.

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## About the author

**Sang Chul Park** is Professor at Korea University of Technology. Ph.D. in Germany and Ph.D. in Sweden, he has served as professor and visiting professor in nine different Asian and European countries from 1993 to 2023. He was a member of the Presidential Committee of Southbound Policy in the Republic of Korea from 2018 to 2022. He has been the editor in chief of *Asia Pacific Journal of EU Studies* (APJEUS) since 2011 and a board member of various international journals in Asia and Europe. Currently, he is Professor at Graduate School of Knowledge-based Technology and Energy, Korea University of Technology.

## Sobre el autor

**Sang Chul Park** es Profesor Catedrático en la Universidad Tecnológica de Corea. Doctorado en Alemania y Suecia, ha sido profesor visitante en nueve países diferentes de Asia y Europa entre 1993 y 2023. Fue miembro del Comité Presidencial de la Política Southbound en la República de Corea entre 2018 y 2022. Desde 2011, es el Director de la *Revista Asia Pacífico de Estudios de la UE* y miembro del consejo editorial de varias revistas internacionales de Asia y Europa. Actualmente, ejerce su actividad como Profesor Catedrático en la Facultad de Energía y Tecnología basada en el Conocimiento de la Universidad Tecnológica de Corea.