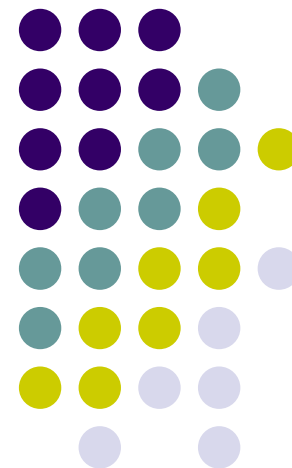


The FTA Frenzy in East Asia: *Current Status and Prospects*

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(Preliminary Draft)



Overview

- **Proliferation of Trade Pacts**
 - Competing Models of Integration
 - Key Players and Objectives
- **Competitive Liberalization Dynamic, driven by:**
 - Export Similarity
 - Extensive Merchandise Trade Linkages among United States, China, Japan, Korea
- **Integration Scenarios Going Forward**
 - US-Japan FTA → US-Japan-Korea
 - Harmonizing East Asia Pacts
 - Asia-Pacific Options

Current Status

- **Proliferation of FTAs**

- : Since 2000, widely different in scope of coverage and depth of reform

- **Contrasting Models of Integration**

- East Asian Incrementalism
 - US-style FTAs

- **New Wave of Trade Pacts**

- : prompted by China-ASEAN ties
but driven by US, Japan, Korea initiatives

- **US, Japan, Korea: FTA Partners and Objectives**

US FTA Policy

Bilateral FTA Partners (as of Nov. 1, 2007)

(billions of US dollars)

FTA Status	Country/Region	2006 GDP	US merchandise trade, 2006			
			Exports to	Imports from	Trade balance	Total trade
A	Israel	142.3	11.0	19.4	-8.4	30.4
A	Canada	1,275.3	230.3	307.8	-77.6	538.1
A	Mexico	840.0	134.2	200.5	-66.4	334.7
A	Jordan	14.1	0.7	1.5	-0.8	2.1
A	Chile	145.8	6.8	10.3	-3.5	17.1
A	Singapore	132.2	24.7	18.1	6.6	42.8
A	Australia	755.7	17.8	8.6	9.2	26.3
A	Morocco	65.4	0.9	0.6	0.3	1.4
A	CAFTA-5	84.8	14.3	14.8	-0.5	29.1
A	Dominican Republic	31.6	5.4	4.7	0.7	10.0
A	Bahrain	15.4	0.5	0.7	-0.2	1.1
B	Oman	36.0	0.9	1.0	-0.1	1.8
B	Peru	93.0	2.9	6.2	-3.2	9.1
B	Colombia	135.9	6.7	9.8	-3.1	16.5
B	Panama	17.1	2.7	0.4	2.3	3.1
B	Korea	888.3	32.5	47.6	-15.2	80.1
C	Malaysia	148.9	12.6	37.5	-25.0	50.1
C	United Arab Emirates	163.3	11.9	1.5	10.5	13.4
D	Thailand	206.3	8.2	23.7	-15.5	31.8
D	SACU-5	276.4	4.6	8.7	-4.1	13.3
D	Ecuador	41.4	2.7	7.6	-4.8	10.3
Subtotal		5,509.1	531.9	730.7	-198.8	1,262.7
Memorandum	United States (world trade totals)	13,194.7	1,037.1	1,919.3	-882.2	2,956.3

A = in effect; B = signed; C = under negotiation; D = talks suspended

US FTA Policy: Objectives

- Mix of economic/foreign policy
- Export gains from trade/regulatory reform in agriculture, manufactures, and services
- Strengthen investment and IP protection
- Maintain US engagement in the region

Japan FTA Policy

Bilateral FTA Partners (as of November 1, 2007)

FTA status	Country/region	2006 GDP (billions of US dollars)	Japanese merchandise trade, 2006 (billions of yen)			
			Exports to	Imports from	Trade balance	Total trade
A	Singapore	132.2	2,267.7	869.2	1,398.5	3,136.9
A	Mexico	840.0	1,080.0	328.1	751.9	1,408.1
A	Malaysia	148.9	1,537.1	1,801.1	-264.0	3,338.2
A	Thailand	206.3	2,665.2	1,962.6	702.6	4,627.8
B	Philippines	117.6	1,047.9	920.9	127.0	1,968.8
B	Brunei	11.6	11.8	271.7	-259.9	283.5
B	Indonesia	364.2	857.7	2,791.5	-1,933.8	3,649.2
A	Chile	145.8	126.4	777.3	-650.9	903.7
C	ASEAN		8,892.9	9,276.0	-383.1	18,168.9
C	Vietnam	61.0	481.6	615.1	-133.5	1,096.7
C	GCC countries		1,815.8	11,144.8	-9,329.0	12,960.6
C	Switzerland	388.0	281.3	593.6	-312.3	874.9
C	Australia	755.7	1,463.0	3,221.2	-1,758.2	4,684.2
C	India	873.7	521.9	472.0	49.9	993.9
D	Korea	888.3	5,850.5	3,174.9	2,675.6	9,025.4
Subtotal			20,007.9	28,944.0	-8,936.1	48,951.9
Memorandum Japan						
	(world trade totals)		75,254.4	67,163.7	8,090.7	142,418.1

Japan FTA Policy: Objectives

- Encourage/safeguard Japanese trade/investment interests in East Asia
- Avoid/redress discrimination caused by other pacts
- Shelter Japanese farm policies

Korea's FTA Policy

Bilateral FTA Partner (as of November 1, 2007)

(billions of US dollars)

FTA Status	Country/Region	2006 GDP	Korean merchandise trade, 2006			
			Exports to	Imports from	Trade balance	Total trade
A	Chile	145.8	1.4	3.5	-2.1	4.9
A	Singapore	132.2	8.7	5.4	3.3	14.1
A	EFTA-4	740.2	1.6	2.0	-0.4	3.6
A	ASEAN-10 (only goods)	859.3	25.2	24.1	1.1	49.3
B	United States	13,194.7	39.5	31.1	8.4	70.6
C	Canada	1,275.3	3.4	2.8	0.6	6.2
C	Mexico	840.0	5.8	0.7	5.1	6.5
C	India	873.7	5.1	3.2	1.9	8.3
C	European Union	14,609.8	45.4	27.4	18.0	72.8
D	Japan	4,366.5	24.1	47.2	-23.1	71.3
Subtotal		37,037.5	160.2	147.4	12.8	307.6
Memorandum Korea (world trade totals)		888.3	296.7	281.9	14.8	578.6

Korea's FTA Policy: Objectives

- Propel domestic economic reforms to increase productivity/growth
- Reduce barriers to manufactured exports
- Promote development of North East Asia economic hub
- Reinforce strategic alliance with key partners

What will drive integration going forward?

- Key players all following C.L. strategy and affected by the pacts implemented by the others
- Why? Extensive trade linkages and similar export composition

(millions of US dollars)

	<i>2006 Merchandise Exports to:</i>				Total (% of world exports)	Total Exports with World
	US	Japan	Korea	China		
US		59,649	32,455	55,224	147,329 (14.2%)	1,037,070
Japan	147,230		50,290	92,789	290,309 (44.9%)	646,779
Korea	39,543	24,115		63,275	126,933 (42.8%)	296,675
China	203,898	91,773	44,558		340,229 (35.1%)	969,284
Total	390,671	175,536	127,303	211,288		

Export Similarity Index, 2005

Finger-Kreinin Index based on SITC trade data at 5 digits

	Australia	Canada	China	Indonesia	Japan	Korea	Malaysia	Mexico	Peru	Philippines	Thailand	United States	United
Australia	1.00												
Canada	0.35	1.00											
China	0.16	0.25	1.00										
Indonesia	0.28	0.30	0.35	1.00									
Japan	0.20	0.43	0.36	0.20	1.00								
Korea	0.15	0.35	0.43	0.24	0.56	1.00							
Malaysia	0.21	0.28	0.44	0.40	0.35	0.41	1.00						
Mexico	0.22	0.45	0.40	0.33	0.40	0.38	0.38	1.00					
Peru	0.18	0.12	0.12	0.18	0.05	0.07	0.09	0.11	1.00				
Philippines	0.11	0.17	0.33	0.22	0.26	0.32	0.43	0.25	0.08	1.00			
Thailand	0.19	0.32	0.47	0.36	0.41	0.45	0.46	0.41	0.13	0.36	1.00		
United States	0.28	0.49	0.38	0.23	0.56	0.43	0.36	0.45	0.09	0.27	0.46	1.00	

What will drive integration going forward?

- **Political roadblocks to US-China and Japan-China pacts**
- **Agricultural barriers to a US-Japan pact**
- **Korea as catalyst**
 - Korea is only country that has FTA initiatives with all major Asia-Pacific countries
 - KORUS FTA and EU-Korea FTA would change the calculus of moving forward with a US-Japan FTA and reviving Korea-Japan FTA

Could the US FTA template fit Japan?

- **Is agriculture still a roadblock?**
 - Large US farm exports
 - Precedent of farm liberalization in Japan-Mexico FTA
 - Precedent of rice exception in KORUS FTA
- **Other issues with US FTA template**
 - Environment
 - Auto industry concerns regarding Yen
- **Trilateralize the process**
 - Consolidate US-Japan and Japan-Korea initiatives
 - US-Japan-Korea deal on manufactures/services following KORUS template
 - Separate bilateral farm deals á la NAFTA

US Agricultural Exports to Japan and Korea

HTS 2 digit code	Description	Japan		Korea	
		million USD	share of US agr exports (%)	million USD	share of US agr exports (%)
01	LIVE ANIMALS	89.91	0.88	13.85	0.50
02	MEAT AND EDIBLE MEAT OFFAL	1,120.04	10.97	273.89	9.80
03	FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES	929.22	9.10	404.91	14.49
04	DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PRODUCTS OF ANIMAL ORIGIN, NESOI	103.18	1.01	51.86	1.86
05	PRODUCTS OF ANIMAL ORIGIN, NESOI	25.21	0.25	8.58	0.31
06	LIVE TREES AND OTHER PLANTS; BULBS, ROOTS AND THE LIKE; CUT FLOWERS AND ORNAMENTAL FOLIAGE	12.96	0.13	1.57	0.06
07	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	184.40	1.81	19.43	0.70
08	EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUIT OR MELONS	612.15	6.00	210.92	7.55
09	COFFEE, TEA, MATE AND SPICES	38.58	0.38	7.99	0.29
10	CEREALS	2,897.66	28.38	944.50	33.79
11	MILLING INDUSTRY PRODUCTS; MALT; STARCHES; INULIN; WHEAT GLUTEN	32.14	0.31	4.23	0.15
12	OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUITS; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER	1,350.66	13.23	267.18	9.56
13	LAC; GUMS; RESINS AND OTHER VEGETABLE SAPS AND EXTRACTS	21.64	0.21	18.37	0.66
14	VEGETABLE PLAINTING MATERIALS AND VEGETABLE PRODUCTS, NESOI	2.82	0.03	0.06	0.00
15	ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES	61.05	0.60	58.36	2.09
16	EDIBLE PREPARATIONS OF MEAT, FISH, CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC INVERTEBRATES	94.35	0.92	18.18	0.65
17	SUGARS AND SUGAR CONFECTIONERY	66.75	0.65	26.13	0.93
18	COCOA AND COCOA PREPARATIONS	27.58	0.27	39.26	1.40
19	PREPARATIONS OF CEREALS, FLOUR, STARCH OR MILK; BAKERS' WARES	95.98	0.94	30.46	1.09
20	PREPARATIONS OF VEGETABLES, FRUIT, NUTS, OR OTHER PARTS OF PLANTS	421.38	4.13	101.02	3.61
21	MISCELLANEOUS EDIBLE PREPARATIONS	335.51	3.29	155.13	5.55
22	BEVERAGES, SPIRITS AND VINEGAR	306.56	3.00	36.24	1.30
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FEED	438.50	4.29	70.31	2.52
24	TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES	942.69	9.23	32.78	1.17
Total Agricultural Exports		10,210.94		2,795.23	

Comparison: KORUS and Japan-Mexico

HTS code	HSK code	description	KORUS	Japan-Mexico
02	MEAT AND EDIBLE MEAT OFFAL			
	0201	Beef products	F	E
	0203	Pork products	F	E
	0207	Chicken products	C&D	E
03	FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES			
	0302	21-29,32. Fish (fresh or chilled)	C	A
	0306	Crustaceans	C&F	A & G
04	DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PRODUCTS OF ANIMAL ORIGIN, NESOI			
	0402	skim and whole milk powder	E	Z
	0404	whey for food use	E	Z
	0406	cheese	E	Z
07	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS			
	0702	Tomatoes, Fresh or chilled	C	A
	0703	10 Onion	D	E
	0703	20 Garlic	D	A
	0704	90010 Broccoli	C	Z
	0705	11 Lettuce	C	A
	0706	10 Carrots	C	A
	0707	Cucumbers (fresh or chilled)	A	Z
	0708	Peas	C	A
	0709	20 Asparagus	A	A
	0709	30 Eggplants	A	A
	0709	40 Celery	A	A
	0709	70 Spinach	A	A
	0710	40 sweet corn	C	G - 5.3%
	0712	3x dried mushrooms	C	G - 4.5%

A - immediate elimination of tariff
 B - one to four year phase out of tariff
 C - Five to 10 years (or longer) phase out of tariff
 D - 11 years or longer phase out of tariff

E - Tariff quotas
 F - other expansion of market access
 G - Tariff reduction
 Z - not included in the agreement
 * - zero tariff

Comparison: KORUS and Japan-Mexico (continued)

HTS code	HSK code	description	KORUS	Japan-Mexico
08	EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUIT OR MELONS			
	0802	11 almonds	A	A
	0802	50 pistachios	A	A
	0803	Banana	C	D
	0804	40 avocados	B	A
	0805	40 grapefruit	C	G - 5%
	0805	50 lemons	B	A
	0805	10 oranges	F	E
	0806	20 raisins	A	A
	0806	grapes	F	E
	0808	10 apples	F	Z
	0808	201 pears	F	G - 3%
	0809	20 fresh cherries	A	G - 5.3%
	0810	other fruits, strawberry, etc	C	A & G
	0811	Frozen fruits	C	E & G
	0813	20 dried prunes	B	Z*
10	CEREALS			
	1001	wheat	A	Z*
	1003	barley	E	Z*
	1005	9020 popcorn	E	A
	1005	10 Corn (seed)	C	A
	1005	9010 Corn for feeding	A	A
	1006	Rice	Z	Z
	1008	Buckwheat	D	A
11	MILLING INDUSTRY PRODUCTS; MALT; STARCHES; INULIN; WHEAT GLUTEN			
	1102	20 Maize (corn) flour	A	E
12	OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUITS; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER			
	12XX	Oil seeds and oleaginous fruits, misc. g	varies	A
	1201	soybeans for crushing	A	A
	1201	soybeans for food use	D	A
	1206	sunflower seeds	B	A
	1207	20 cotton	A	Z*

Comparison: KORUS and Japan-Mexico (continued)

HTS code	HSK code	description	KORUS	Japan-Mexico
		EDIBLE PREPARATIONS OF MEAT, FISH, CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC INVERTEBRATES		
	1602	Prepared or preserved meat, meat offa	B & C	A & E
		17 SUGARS AND SUGAR CONFECTIONERY		
	1710	frozen french fries	A	Z
		18 COCOA AND COCOA PREPARATIONS		
	1806	chocolate and chocolate confectionary	C	G - 7.8% for product w/o sugar
		19 PREPARATIONS OF CEREALS, FLOUR, STARCH OR		
	1905	bread and pastry	C	Z
		20 PREPARATIONS OF VEGETABLES, FRUIT, NUTS, OR OTHER PARTS OF PLANTS		
	2002	Tomatoes, prepared or preserved	A	E & G
	2003	Mushrooms and truffles, prepared or pr	C	G - 2.4 - 8.5%
	2009	frozen orange juice concentrate	A	E
		21 MISCELLANEOUS EDIBLE PREPARATIONS		
	2101 11 & 12	Extracts, concentrate of coffee	C	A & G - 2.2%
	2103	20 Tomato Ketchup and sauces	C	E
		22 BEVERAGES, SPIRITS AND VINEGAR		
	2202	Waters including natural or artificial mir	A	G 2.4 - 8.5%
	2204	wine	A	A
	2206	grape juice	A	G - 11.5%
	2208	30 burbon whiskey	A	Z*
		23 RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FEED		
	2309 90297	pet food	A	A

Broader Integration Scenarios

- Consolidating ASEAN initiatives with China, Japan, Korea (10 + 3)
- Asia-Oceania Initiative including India, Australia, New Zealand (10 + 6)
- Free Trade Area of the Asia-Pacific
- All being vetted in “Competitive Liberalization” studies