

(英語版)

Thursday, November 1, 2007

Keynote Speech:

Prof. ZHANG Yunling, Director, Academic Division of International Studies, Chinese Academy of Social Sciences (ADIS CASS)

Prof. Zhang talked about the 17th party congress and began with the current Chinese economic development, stating that the Chinese economy is continuing to keep on the high growth rate, but there are currently three big debates in China, concerning the economic development.

The first debate is whether the Chinese economy is overheating or there is bubble. While the debate is still going on, the official conclusion is that there is not overheating in general yet and bubble to some extent, but it hasn't reached to the situation, which Japan had in the late 1990's. The government has put a lot of attention to mobilize the domestic consumption to support the economy, but the policy has not worked well yet. The second debate is whether the Chinese economy can keep being sustainable in the economy led by investment and export. The investment and export continues to grow, and consumption seems a little bit declining, so the economy hasn't changed a bit. The third debate is who will benefit from the economic growth. The number of rich people has increased very fast, at the same time poverty is still a big issue. Poor people, especially farmers, do not greatly benefit from the current high growth. Social production has not developed well along with economy growth.

Prof. Zhang tried to find answers to all those debates from the 17th party congress where Hu Jintao gave a long report, which contains some new information. According to the report, the leaders confirmed that China will continue reforming and opening, and Hu said that there is no way to turn back. Also, they confirm scientific concept of development, which could indicate that they continue to confirm the policies such as to keep the economic development as a priority of the party government policy in the future and to emphasize people-oriented development policy. In addition, there are some other fresh points, which are to change growth approach, and to emphasize more on energy saving, environment protection, and domestic-led growth than investment and export-led growth. The report also puts more emphasis on social equity and social justice. Moreover, it mentions about Taiwan issue. The party called on to sign a peace framework treaty with Taiwan in order to secure the long-time peace in the Taiwan Strait. Finally, the leaders emphasized to develop democratic society and democratic party although it does not necessarily mean to follow the western democratic approach. In the near future, the democratic establishment or development in China is likely to emphasize more

people's participation and protection of it. Without people's conscious on participation, you will not have democracy, and this is a fundamental change of Chinese society.

Session 1: The recent FTA movements in the East Asia region and future prospects towards an integral FTA in the region

Moderator:

Mr. Hiroshi TSUKAMOTO, President, Institute for International Studies and Training

Panelists:

Dr. Djisman SIMANDJUNTAK, Executive Director, Prasetiya Mulya Business School, and Chairman, Board of Directors, CSIS Foundation

Regarding the overall environment for regionalism in East Asia, first of all, the region is continuously enjoying very strong economic growth. The strong economic growth serves as tailwind to integration. It is hard to integrate if economies do not perform well. Also, it is a problem that there is stagnation in the Doha Round because it provides more justification for regional integration, but the regional integration is the second-best.

Also, we have unfinished partnerships in the region. It seems liberalizing overall in this region, but it means the proliferation of bilateral agreements. Without an umbrella agreement, bilateral agreements will produce harm to our economies soon or later.

In East Asia, ASEAN is seen as driving force for regional integration, but ASEAN is not truly an integrated region yet. Bilateral agreements within ASEAN countries and between ASEAN and outside countries are fragmenting ASEAN rather than integrating it more deeply. In order to for ASEAN to play a role of driving force in East Asian regional integration, ASEAN should take community building in ASEAN very seriously. In addition, we should not forget that this role of being driving force in East Asia is occurred only by default, not design. We should also keep it in mind that ASEAN is rather diverging than unified, for instance, the difference of government system among the member countries. Economic integration requires a strong attracter more than economic ties to sustain. Furthermore, ASEAN's capacity is limited. We should pay more great deal of attention to development cooperation and capacity building. We tend to sideline development cooperation in many of FTAs that already exists or have been under negotiations.

Where do we go from here? The situation is chaotic now in terms of regional integration. So, first, we need a focus. ASEAN13 seems to be better: ASEAN, Korea, Japan, and China, rather than three different ASEAN+1s. It should be a core of integration and revolution in East Asia. Also, governments should not avoid addressing substantive issues by charging the second track

to take full of studies. Lastly, we need to standstill purely bilateral agreements. If there will be bilateral agreements coming up one after another among major trading partners, at the end there will be nothing left for WTO to do.

Mr. Shigehiro TANAKA, *Director, Economic Partnership Division, Trade Policy Bureau, Ministry of Economy, Trade and Industry (METI-Japan)*

In Japan's policy, there are three pillars. One is to achieve mutual prosperity with Asia because in Asia there is growth, and economic ties are getting stronger. Japan used to have multilateral approach, placing WTO in its first priority. Now, it has realized that EPA is a viable option to form its trading policy; however, Japan still hopes that the Doha Round will be successfully concluded. The second pillar is to achieve strong ties with countries that are rich in natural resources. Japan is resource dependent, so it hopes that EPA will help strengthen relationship with those countries. Thirdly, Japan is thinking of having EPA with larger markets beyond Asian region including the US and EU.

As for Japan's basic policy, the government has national plan as to how we develop our EPA policies. It also emphasizes to have high quality EPAs, which should not only focus on tariff but also IPR, investment, service, competition law, and so on. Also, it deals with sensitive areas such as agriculture.

Regarding the structure of Japan's negotiations, it has been doing both bilateral and regional agreements with ASEAN members, which is very unique. Overall, it has achieved positive results from both sides because there are certain things that can be achieved only from bilateral agreements and also ones can be gained only from regional agreements.

Why does Japan need EPA with ASEAN although it has already had bilateral agreements with some ASEAN members? The reason is that Japan wants to have one large seamless market with ASEAN. If you have only bilateral agreements, it works only with an individual partner. However, if you have an agreement with ASEAN, it makes it possible to have production network within ASEAN.

Prof. Simon SC TAY, *Chairman, Singapore Institute of International Affairs (SIIA)*

We have seen a large number of FTAs and EPAs grow and have reached to the stage where there are also some notes of concerns.

First of all, there are groupings among Asians, such as ASEAN, ASEAN+3, ASEAN+3+2+1 (ASEAN+6.) We need to open up to create a community in Asia. It would be good not only for the region as a whole but also for the world as the Doha round is failing. The region has not really been open yet, so if we try opening up to a larger grouping, we must be careful of the quality of our own regionalism and timing in order to have a core among Asians. We need a

core among Asians, and the core needs to be strong enough to open up to the US, EU, and the whole Asia-pacific without Asian regionalism suffered. It is a good sign that ASEAN Charter comes with ASEAN economic blueprint for integration; however, there is a bad sign in ASEAN-South Korea FTA in which Thailand refused to sign. While ASEAN reaches a consensus, we can sometimes proceed without all ten member countries, but it is important to eventually have all ten on board. Also, China's initial step to suggest FTA with ASEAN should be applauded, which led to ASEAN-Japan EPA as its response, not competition. It is important for China to keep ensuring goodwill to ASEAN countries. As for India, we all are playing a game of trying to involve India, and Indian politicians talk about the look east policy. However, when it comes to the negotiations on ASEAN-India FTA, there have been severe disagreements on both sides and too many negative item lists from India. So, we cannot proceed very well at this stage. We want ASEAN to be a hub and East Asia to come together as grouping such as in a form of ASEAN+3 or ASEAN+3+2+1 (ASEAN+6.) A choice of the form will be made in an individual FTA.

Secondly, as FTAs and EPAs really take root, they will start to effect to the society. We must have outreach programs and be able to tell our citizen that EPAs and FTAs have good for them. We cannot let the problems in WTO come into our region; otherwise, we will face the same obstacles. Also, the relationship between Japan and China is important and fundamental to move EPAs and FTAs forward. We are reaching the stage where we will need to convince our people and make them able to see Asian community so that they are able to understand why adjustment and opening is necessary.

Finally, on negotiations we still talk about largely economic issues, but new agendas are rising, such as fair trade, environment, public health, and safety concern. They are perhaps new to us but not so new to global terms. We have to learn to deal with them and have them in our integration.

Session 2: How should we deal with the different proposals towards an integral FTA in the East Asia region as a whole?

Moderator:

Prof. Simon SC TAY, Chairman, Singapore Institute of International Affairs (SIIA)

Panelists:

Mr. Allan GYNGELL, Executive Director, The Lowy Institute for International Policy

There is an unreal dimension to a lot of the current debates about regional trade. There seem to be three areas to figure out this unreality.

Firstly, trade integration has been happening perfectly well in East Asia without much help. The six of Australia's top ten trading partners in the region were placed there without any benefits of the FTAs that Australia has now. In fact, we have to take care of the profusion of different structures with rules of origin and rush of new agreements. We do not end up making trade more difficult.

Secondly, we seem to try to impose rationalization on a chaotic world. For example, there cannot be real debates about sequencing since realistically we have no alternatives that work numbers of levels at once, given the realities that all the governments in the region face.

Thirdly, we tend to ignore the political dimension of the current development. We need to consider that numbers of government decision about regional trade are driven by political issues as much as by economic issues. Also, in global approach, it would be better if rules are bigger. According to one of the recent ADB Institute works, ASEAN+6 grouping is better than ASEAN+3 and ASEAN+1 or any of bilateral ones under negotiations. However, we do not know what will yield substantive results. After the APEC Summit in Sydney, the leaders are committed to taking arrangements of practical and incremental steps to exam the prospects of FTAAP. ASEAN+6 is preferable to ASEAN+3, but there are problems with India's capacity to move substantively on agreements. In East Asia, there are 27 bilateral FTAs by June 2007, and in principal, these bilateral FTAs could serve as building blocks to larger agreements. You cannot easily build large structure with blocks in different size or shape from all the others. There are different rules of origin under the agreements we got at present, so we clearly need to encourage to design rules for FTA to facilitate smooth interaction. There are real difficulties in the region to keep up with the agreements that are currently underway, so capacity building is really needed. Because of that, we should not forget about APEC whose structure proves itself very useful in areas such as capacity building and transferring of technology.

Finally, it is a major point to remember that East Asia faces broad economic problems in trade, such as demographic, energy, environment, and bubbled investment. Thinking about trade liberalization, we need to bear in mind that architecture we devise for it also needs to serve these broadened needs of Asian economy, and therefore Asian people.

Mr. Shigehiro TANAKA, *Director, Economic Partnership Division, Trade Policy Bureau, Ministry of Economy, Trade and Industry (METI-Japan)*

Japan has proposed East Asia initiative, which has two pillars: CEPEA and ERIA, because we cannot only focus on liberalization or facilitation aspect of economic system but also on cooperation aspect in order to go further in this economic field. The issues such as the need of capacity building and narrowing the economic gap were heavily discussed and could be solved through liberalization or facilitation, but it is not enough. It is important to combine liberalization and cooperation approaches. In addition, while there is money flowing to this

region in the form of private investment or ODA, a real intellectual work is lacking to bring the money to important places. Also, we have strong business prospective, and integration in East Asia has been gone well without any government interventions. But the initiative could help push the move further by providing better environment for strengthening production network in the region.

Behind the initiative, there is the change of the trade structure of East Asia. The intra-regional trade within ASEAN+3 and ASEAN+6 has increased for the past two decades, and economic activities strengthened the network even on those years when FTAs had not come into full play. Japan used to be too dependent on exports to the US, but now the shares of East Asia countries have grown. The structure of Japan's trade has changed dramatically.

Now there are mainly three proposals for region-wide FTA and EPA in East Asia: EAFTA, CEPEA, and FTAAP. Japan has been committing to all three proposals. Why did Japan come up with CEPEA? ASEAN has negotiated, concluded, or been very close to conclusion with India, Australia, Korea, Japan, and China. This situation brought very different picture into this region. It is not sure if we are now ready to move onto the next stage, but we are surely in a position to think about the future. So, it is reasonable to come up with a new option.

As for ERIA, it is hoped that it will eventually work as OECD does in the future and help East Asia's integration, not only in the context of ASEAN+6 but also ASEAN+3, ASEAN+1, and ASEAN itself.

Dr. Termsak CHALERMPALANUPAP, Special Assistant to the Secretary-General of ASEAN and Director for Research in the Office of the Secretary-General, The ASEAN Secretariat

There is a question how proposals for economic integration in East Asia should be treated, simultaneously or in sequence. They have been already handled simultaneously, but they should be treated in sequence for implementation. We can start with trade in goods, dispute settlement, and investment, and then we can go to more complicated issues, such as competition policy, IPR, environment standard, and so on.

ASEAN has limited capacity to handle so many negotiations, which are six of them including one with EU. ASEAN is always selfish because we think that our community must come first. We first need to build ASEAN economic community by 2015. The blue print, which has already signed by the leaders, contains the specific timeline for its implementation. In ASEAN Charter, which is expected to be signed in Singapore Summit, one of new things is to keep ASEAN's legal personality that views more certainty to implementation of our agreement. The Secretary-General has a clear role of monitoring and reporting progress of implementation. A lot of works need to be done if we go into implementation of FTAs, and we need to figure out how we monitor and settle disputes. So, a larger institutional support is needed. East Asian Summit has

no institutional support, and ASEAN+3 has a view of putting ministerial body and official body in it but is not designed to implement FTA. ASEAN has a mechanism to monitor implementation but still faces many difficulties. That is why ASEAN Charter is necessary to further impose its institutional capacity to deliver implementation. FTAs cannot be discussed in isolation of political security cooperation among participated countries, and we have to learn to cooperate politically. With political trust and understanding, we can proceed to implementation of FTAs. It should be emphasized that institutional framework and support are necessary.

ASEAN might have made one big mistake. We did not go by sequencing, so we are still struggling to improve AFTA and our economic community. It is a problem that we have different size and type of building blocks. We always say that ASEAN+1 could be building blocks to economic integration in East Asia but still cannot figure out how to merge them into one. Therefore, institutional support is important for us to integrate and for others to go out as one. We went out to engage to negotiate FTA with at least six trading partners in ten different economies, not as one. We have been trying to complete our economic community so that we can go out as one integrated market.

Prof. ZHANG Yunling, Director, Academic Division of International Studies, Chinese Academy of Social Sciences (ADIS CASS)

We have three different approaches for regional integration and conversions: EU, which started from supreme architecture and later deepened, North America, which enforced legal process for negotiations and started from trade only, and East Asia, which started from multiple player to the conversion structure. We already have some good ideas for conversions. ASEAN+3 was set up by the leaders of member countries in 2004 and finished its report. Also, there is Japan's proposal, CEPEA (ASEAN+6) whose first report is finished and second one is in a process. However, there are some difficulties in reality. First, ASEAN has initiated so many ASEAN+1. There are questions if ASEAN is prepared to converge all of these 10+1 and also if it has capacity to be integrated with larger region before realizing a larger economic community. As for strategies, it should start with 10+3 as a foundation, but there are also other ideas. Secondly, it is necessary to figure out how Japan and China consolidate their strategy and become a joint push for this process. The last one is that social pressure. Formally, market base liberalization and integration mostly focus on only business interest, but now more pressure is coming to make us consider two things: social pressure and non-traditional trade and investment issues. People concern more about social benefit for this liberalization, and issues such as environment, energy, and climate are more concerning. It has become more complicated.

In the vision group's proposal, there are four pillars for community building: FTA, financial cooperation, political infrastructure framework, and social framework. FTA is just one of the pillars for community building, but we used to think that FTA comes first as a significant foundation for it. However, financial cooperation seems easier and faster than FTA since it does

not require negotiations while FTA does. It is still a heavy task for us to figure out how to design an approach to community building. We need political decision and wisdom and need to consider the second stage of East Asia development. People have realized that issues such as climate, environment, and energy have become so serious. Businesses now have to take more responsibilities for those issues rather than just profit. This East Asia process needs to be reconsidered.

Lastly, we have to consider how to combine these ideas with Bogor goal and the nature of APEC. The nature of APEC is not based on negotiations while FTA should be. So, we need to know whether we are ready to change the nature of APEC. If you follow Bogor goal's voluntary process, there will not be FTAAP at all. It does not seem to be time yet. Realistically, we should start from ASEAN+3 proposals because it is now crucial time for the leaders to design the next ten year cooperation. EAFTA should be priority.

Session 3: The Korea-US FTA and its implications to East Asia and Europe

Report Presentation:

“The Impact of the Korea-US FTA on Japanese Companies”

Moderator:

Dr. Djisman SIMANDJUNTAK, Executive Director, Prasetya Mulya Business School, and Chairman, Board of Directors, CSIS Foundation

Presenter:

Dr. Chulsu KIM, Chairman, Institute for Trade & Investment (ITI,) Lee International (Former Minister of Trade, Industry and Energy of the Republic of Korea)

The negotiation for Korea-US FTA (KORUS FTA) was concluded in April 2007 after the eight rounds of negotiations during ten months. The additional negotiations on labor and environment were held at the request of the US in June, and the FTA was signed on June 30, 2007. The FTA bill has been submitted to the Korean National Assembly, and the ratification is expected to be contentious in both countries, especially in the US.

KORUS FTA is a comprehensive, high quality FTA with ambitious schedule of trade liberalization in trade in goods. It commits Korea and the US to remove duties on more than 85% of tariff lines within three years and 98% in ten years with the only exception of rice. The FTA also features sectoral agreements dealing with tax, non-tariff barriers and regulatory issues in the fields of autos, pharmaceuticals, and telecoms. There are special arrangements in sensitive sectors, calling for TRQs, seasonal tariffs, and special safeguard system for agriculture, which is a sensitive sector for Korea, and special rules of origin and safeguards for the textiles and

apparel, which is for the US. It also calls for lowering of central government procurement contact thresholds to US\$100,000 and duty free treatment for online and off-line digital products as well as strong trade facilitation provisions. As far as trade in services is concerned, the FTA takes a negative approach, going well beyond the WTO commitments for both countries. Korea agreed to open up its services and express delivery services. The market opening for professional services including legal and accounting services is to take place within five years. Partial liberalization was agreed in broadcast services, and foreign quota in broadcasting programs will also be increased under the FTA. The FTA contains chapters on IPR, investment, regulatory issues, and other rules, which strengthens Korea's IPR protection in copyrights, patents, and trade marks. The chapter on investment contains strong investment protection rules, including investor-state dispute settlement (ISD) for both countries. SPS, TBT, and Trade Remedy committees are established to allow for regular consultations between the two countries. Rules on mutual recognition, competition policy, transparency, labor, and environment are also included. The two countries also agreed to set up a committee on outward processing zones to consider the future FTA status of products made in North Korean industrial zones including the Kaesung Industrial Estate. This had been a contentious issue in the negotiations, and a compromise solution was reached.

As a much smaller economy, the macroeconomic impact of KORUS FTA on Korea is expected to be much larger than that on the US. The Korean government think tank, KIEP, has estimated that KORUS FTA's static effect from tariffs would add 0.32% to Korea's GDP and 0.24% of GDP to welfare. The dynamic effect, which takes into account such factors as capital accumulation and productivity increase, was estimated to be much higher with 6.0% and 2.9% respectively. The USITC's economic impact study on the US shows much lower static effect on GDP and welfare. The FTA will add only 0.1% to the US GDP and less than 0.05% to welfare. As far as the impact of FTA on trade flows is concerned, KIEP and USITC have come up with conflicting estimates. KIEP estimated that Korean exports to the US will increase by US\$13.3 billion and imports from the US by US\$8.6 billion when the FTA is fully implemented in ten years. On the other hand, USITC estimated that the US exports to Korea will increase by US\$9.7 to 10.9 billion and the US imports from Korea by US\$6.4 to 6.9 billion during the same period.

KORUS FTA will substantially impact on Japanese companies in the Korean and US markets unless Japan concludes similar agreements with Korea and/or the US. Japan is a major competitor to the US in the Korean market and also to Korea in the US market. In 2006, Japan was Korea's largest import source followed by China and the US, but China is expected to overtake Japan as the largest supplier in 2007. In the US market, Japan was the fourth largest import source, and Korea was the seventh largest. In the manufacturing sector, Japan and the US export similar products to the Korean market. Based on HS 2 digit product categories, eight of the top ten exports of the two countries are identical. Since the Japanese and US suppliers

compete in similar product areas, 5 to 8% tariff removal in Korea should provide considerable competitive advantage to the US companies. Korea's trade-weighted average tariff on the US exports is due to get down from 5.9 to 3.4% immediately upon the FTA implementation. However, tariff alone does not produce trade diversion. Market shares are likely to be determined by other factors, such as NTMs and overall competitiveness. Market Comparative Advantage (MCA) analysis for this study has revealed that Japan has decidedly higher comparative advantage in key product areas. In the Korean market, the US has higher MCA indices in electrical machinery, optical, precision and measuring instruments, and agricultural and meat products. Japan has decidedly higher indices in other manufacturing products such as iron and steel, organic chemicals, plastics, vehicles and parts, glass and glassware. Competitiveness of Japanese companies in these products areas is likely to partly offset tariff disadvantage resulting from the FTA. Nevertheless, some trade diversions from Japan to the US are to be expected in the Korean market, which includes home appliances, AC motors, and passenger cars and parts. They carry a 6 to 8% tariff, most of which is to be phased-out immediately upon FTA implementation. Although the FTA does not liberalize many new service sectors immediately, and the Japanese and the US service providers compete in different sectors, the US companies are likely to benefit from liberalization of a few service sectors such as financial and professional services, telecoms, and broadcasting stipulated in the FTA. The US is likely to continue its status as a dominant service provider in the Korean market. In the US market, Japanese and Korean companies compete in the same product areas such as vehicles and parts, machinery, electrical machinery, iron and steel, and chemical and rubber products. Although they sometimes compete in the same market segments such as passenger cars, consumer electronics, and iron and steel, they often compete in the different market segments in the same product areas. KORUS FTA commits the US to remove most tariffs on leading imports from Korea immediately except in a few areas, including textiles and apparel, footwear, and plastics in which tariffs are phased-out over longer periods, up to 15 years. The impact of tariff will be limited as many US tariffs are already duty free, and duty levels are generally very low. According to a buyers opinion survey recently conducted, American buyers consistently rated Japanese products superior to Korean products in terms of quality, price, brand image, and product development and partnership. Japanese suppliers were ranked higher in autos and parts, electrical machinery, and even in textiles and apparel. This indicates that any small tariff advantage that Korean exporters receive in the US market due to the FTA might not be sufficient to produce trade diversions from Japan to Korea in the US market in key product areas. However, there should be some impact on Japanese companies in the US market in some key sectors. In autos and parts, Korean passenger cars will be more price competitive with the immediate removal of 2.5% tariff on cars below 3000cc. Korea also has a long-term market penetration possibilities in pick-up trucks for which 25% tariffs will be phased out in ten years. Price competitiveness for Korean companies should also improve in machine tools and gas turbines, flat screen TV, cotton sheeting, and shirts and blouses, among others.

In conclusion, one can say that Japanese companies will also benefit from improved rules such as strengthening of IPR protection and introduction of global standards in the FTA. However, the competitiveness position of Japanese companies is likely to be adversely affected in the Korean market through elimination of relatively higher Korean tariffs, NTBs, improvement of rules, close consultation on regulatory issues agreed in the FTA. On the other hand, the impact on Japanese companies are likely to be more limited in the US market due to generally low tariff levels, and Korean and Japanese companies often compete in different market segments.

Panelists:

Mr. Noboru HATAKEYAMA, *Chairman and CEO, Japan Economic Foundation (JEF)*
(*Former Vice-Minister for International Affairs, Ministry of International Trade and Industry, Japan*)

Direct impacts of KORUS FTA on Japan's export to the US would be limited because many Japanese companies have already invested in the US, so they do not have to rely on export so much. Even if tariff in the US is eliminated, there would not be so much impact on Japanese companies.

There will be indirect impacts of the FTA on Japanese companies through the other Asian countries. The KORUS FTA will improve the competitiveness of Korean exports in the US market, whereas it will not do the same to ASEAN or Chinese exports including those of Japanese affiliates in ASEAN countries or China. Since the export dependency ratio of Japanese manufacturers in those countries are assumed higher than that of those in Japan, indirect impacts of KORUS FTA are likely to be higher for those in ASEAN countries or China than for those in Japan.

Another set of impacts could be caused through the EU. The final signature on KORUS FTA provoked the EU, and they started FTA negotiations with Korea, India, and ASEAN as a whole. The EU-Korea FTA is expected to conclude within this year, and there seems to be the EU's intention to conclude the negotiations before the presidential election of Korea in December. Had there not been the successful conclusion of KORUS FTA negotiations, the EU-Korea (EKA) negotiations would not have started. The impact of EKA on Japan will be much bigger than that of KORUS FTA. The EU imposes rather high custom tariffs on automobiles by 10% and flat TVs by 14%, for example. With the EKA, Korean manufacturers of such products would enjoy zero tariffs, and companies such as Hyundai and Samsung are already competitive; therefore, this tariff difference will be quite a big damage for Japan. Because of this situation, the government of Japan sounded out possibility of entering a study on an FTA with the EU, but the EU was not forthcoming. Instead, a private body called the Japan-EU Business Dialogue Round Table proposed to explore feasibility of the Economic Integration Agreement (EIA) between Japan and the EU. However, reduction or elimination of tariffs is not included in the

EIA because of an idea that Doha Round WTO negotiations would become hollowed if two big elephants, Japan and the EU, have an FTA including tariff reductions or eliminations.

In conclusion, KORUS FTA through EKA may have opened a door of the new age of Asia and Europe FTA relationship. It may also open a door of the new age of APEC. Korean active attitude toward FTAs will stimulate FTA policies of other countries including Japan.

Mr. J. Jayasiri, Senior Director, Bilateral and Regional Relations, Ministry of International Trade and Industry of Malaysia

KORUS FTA has a lot of significances. It is the first FTA, which the US has with a significant Asian country. Secondly, it is the largest FTA that is one of commercially most significant since NAFTA. In addition, it required only ten months to negotiate. What was their imperative although they were rushed to conclude it before TPA expires? Outward processing zone, Kaesung was excluded from preferential treatment under KORUS, but a committee was established to deal with it in the future. It differs from ASEAN-Korea FTA where ASEAN considered to have preferential treatments to products from Kesong.

How would this FTA impact on EU? It had most impact on their trade policy. EU has been already deliberating trade strategy since October 2006. KORUS FTA is a catalyst to accelerate process in EU. Basically, EU strategy is to boost market share, emerge market, open up market, and ensure EU companies to be able to compete fairly. Although they maintain that WTO is a priority for trade liberalization, they decided to go ahead new generation of FTA, covering non-traditional areas, such as IPR, government procurement, competition policy, services, and investment. Because of that, they launched negotiations with Korea, initiated discussion with ASEAN and India. Even though China has not started negotiations, they started review of bilateral trade agreement and cooperation in about twenty two areas. From the trade policy angle, it can be seen that KORUS has added a catalyst to Asian region.

An area of investment is one of key areas where EU will be affected in Korea. In 2006, EU was the largest foreign direct investor in Korea, and Korea was the forth largest non-EU trading partner. For Korea, EU was the second largest export destination. These imperatives show why Korea will not reject FTA initiative with EU. Even though KORUS FTA has been already signed, it will take time to be ratified by the US congress. On the other hand, negotiations between Korea and EU have been underway. So, it might happen that Korea-EU FTA comes into implementation even before KORUS FTA does. If it happens, you might see EU enjoying far better advantage of preferential treatments.

How would this FTA have impact on regional integrations such as ASEAN+3, ASEAN+6, and FTAAP? This would create even more impediments to negotiations of FTA because KORUS FTA has some very high benchmarks. Korea will certainly want to stick to those benchmarks

because it already established them with the US. You will realize that as you have already negotiated with one trading partner, you want to use it as a benchmark with others. It can be an implement for further regional integration.

Dr. Hank LIM, Director for Research, Singapore Institute of International Affairs (SIIA)

First, the impact of Korea-US FTA on Japanese companies is more strategic and has long-term effect in the US and Korean market. The short-term effects are expected to have adverse impact in the Korean market as one of the major objectives of KORUS FTA is to reduce Korean's dependence on Japanese imports. In the US market, the short-term effects are expected to have less negative implications as the average tariff rate in the US is already quite low coupled with better regulations, transparency, and strong market competition except in government procurement. In addition, Japan's three major export categories to the US are vehicles, machinery, and electrical machinery, and those products have established advantage compared to Korean equivalent imports because of American consumers' more positive impressions on Japanese technology and new innovative products. The short-term effect of the FTA in terms of trade diversion and trade creation is limited. The long-term effect in terms of more efficient allocation of resources, industrial restructuring, and expansion of intra-industry will be more important.

Secondly, as for the impact of KORUS FTA on production networking, international division of labor, and allocation of resources in Korea and the US, production agglomeration and fragmentation will tend to increase in Korea and the US due to more efficient allocation of resources in both countries as a result of the FTA. Regional production networking process will also set off a chain reaction in other major industrial economies in the region, particularly in Japan, Taiwan, and some ASEAN economies within the framework of global value chain (GVC) and the rapidly emerging East Asia production networking in intermediate input and semi-finished output. The US companies through KORUS FTA may be encouraged to be involved in production networking in East Asia in the proposed FTAAP (Free Trade Area of the Asia-Pacific.) The implementation of the FTA would have more structural impact on the Korean economy; therefore, more structural adjustment and restructuring are required in Korea than in the US, especially in the service, entertainment, and some segment of the agriculture sector.

Lastly, when it comes to the impact of KORUS FTA on East Asia FTA and economic integration, the FTA would have possible reinforcing positive effects on the ongoing process of East Asia FTA (EAFTA.) It is likely to renew interest in Korea-Japan FTA negotiation. Also, it could be an impetus to the China-Korea FTA initiative and a prelude to the formation of Northeast Asia FTA among China, Japan, and Korea. Ultimately, the KORUS FTA may set off a chain reactions to the process of establishing East Asia economic integration within the framework of ASEAN Plus Three (APT) and eventually the ASEAN Plus Six (the East Asia Summit) framework.

Mr. Hiroshi TSUKAMOTO, President, Institute for International Studies and Training

First of all, according to a survey conducted by JETRO in July 2007 about impact of KORUS on Japanese companies in the US, 70% of about 600 companies found this FTA not so influential. While 23% of them thought it has bad influence, 16% of them thought it has good one. This FTA is not so influential for Japanese companies as a whole, but 23% of them take it negatively. Especially, among automobile companies, 5 out of 11 of them think that it has negative impact on them. The tariff in the US for auto and auto parts is relatively high, so Japanese companies may fear that they could be damaged by tariff reduction.

Secondly, psychological impact of KORUS FTA is high on Japanese companies. A report from Economic Federation of Japan indicates that 70% of their member companies think that Japan-EU FTA is favorable and 62% of them find Japan-US FTA in the same way. So, many of Japanese business people really hope Japan-EU and Japan-US FTA. As for FTA with EU, there is a business-led task force group established recently.

Finally, some difficulties exist in Japan's decision making as to how they deal with agricultural issues. Japan appreciates that KORUS FTA has very high benchmark because they now need to think very seriously how they can have more liberal attitude toward their agricultural policy. The LDP and opposition parties have very clear-cut difference in their agricultural policy. The LDP launched a new policy for agriculture, focusing on larger scale farmers with 170 billion yen of draft budget; on the other hand, the budget of the opposition parties is 1 trillion yen, which is five to six times more than LDP's. Japan may have an election next year, and votes from farmers are important. However, Japan has fiscal difficulties, so it is a real problem for Japan how to deal with these issues. In order to promote their FTAs, they also need their domestic policy. Policy implication is very important.