

# Implications of Korea-US FTA

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I would like to express my heartfelt congratulations on the South Korea-US (KORUS) FTA which was agreed on April 2, 2007. This FTA has a lot of implications upon WTO negotiations and Asian regional economies, including those between Japan and South Korea and between the United States and East Asia.

In the WTO talks known as the Doha Round, Japan, South Korea, Switzerland, Norway and six other countries formulated the so-called G-10 to represent voices of countries whose agricultural goods imports exceed exports thereof by a big margin. However, since Korea accepted "a comprehensive FTA," which means for Korea to address full liberalization of agricultural trade in the FTA negotiations with the United States, I think the G-10 has collapsed already at least on a de facto basis. Other things being equal, the collapse of the G-10 will put much stronger pressure on Japan's policymakers to open the agricultural market further in the WTO negotiations.

The pressure on Japan's agricultural policies will be strengthened also in FTA negotiations. When the KORUS FTA is completed, companies located in South Korea will be able to enjoy zero tariffs in their exports to the United States whereas companies in Japan will continue to have to pay around 4% US tariffs on average. In order to avoid this disadvantage, some Japanese companies may invest in South Korea or directly in the United States. Some of them may invest in Mexico to enjoy the benefits of the Japan-Mexico FTA and NAFTA.

Of course, a more fundamental solution is to have a Japan-US FTA. The stance of the US government on this issue is to require Japan to agree on "a comprehensive" FTA, which means for Japan to address full liberalization of agricultural trade in the negotiations on an FTA with the United States. The ratio of agricultural output in South

Korea to its GDP is 4%, much higher than that of Japan whose agriculture ratio is just 1% of GDP. Nevertheless, South Korea determined to accept a "comprehensive" FTA with the United States. Therefore voices are coming out in Japan as to why Japan cannot do what South Korea could in opening agricultural markets. The government of Japan should seriously consider this point and decide to enter FTA negotiations with the United States as soon as possible. The US presidential Trade Promotion Authority (TPA) expired at the end of June 2007, but negotiations per se are possible even without TPA, which may have been reinstated by the time the outcome of the negotiations is submitted to Congress.

The KORUS FTA will also accelerate FTA negotiations further between Asian countries and non-Asian economies including the EU. In fact, South Korea has already started negotiations with the EU which, in turn, has entered FTA negotiations with ASEAN as a whole and India since May.

Companies located in the ASEAN area except for Singapore, which has an FTA with the United States already, will have the same disadvantage as companies in Japan. Therefore, most ASEAN countries, including the Philippines, will try to have FTAs with the United States.

If some of these efforts are realized, they, along with the KORUS FTA, will contribute to responding to the US request to join Asian legal trade frameworks. The US government has been informally expressing its displeasure against East Asian FTA proposals that do not include the United States as a member. Although it is impossible for the United States, not located in East Asia, to be a member of an East Asian FTA, there are at least two ways for the country to engage in this area institutionally. The first one is to establish an APEC FTA. APEC includes the United

States and most East Asian countries. This idea was discussed at the Hanoi APEC leaders' meeting in November 2006 and will be elaborated further at the next APEC summit set for September 2007 in Sydney.

The second one is for the United States to have an FTA with each individual East Asian country. In this respect, the KORUS FTA as well as possible FTAs between the United States and individual ASEAN countries will facilitate the US-Asia relationship.

Last but not the least, what kind of impact will the KORUS FTA have on Japan-Korea FTA negotiations that have been stalled since November 2004? Will the momentum of concluding the KORUS FTA revive Japan-Korea FTA negotiations as well? I hope so, but the situation is not that easy. In fact, in most bilateral FTA negotiations, a smaller country took the initiative to start. Through an FTA, the smaller country can enjoy a bigger liberalized market of the partner country whereas some industries of the smaller country may be overwhelmed by their counterparts in the bigger country. Therefore, a smaller country has the right to decide whether to enter negotiations on an FTA with a bigger country, comparing merits with demerits. In the same vein, it is entirely up to South Korea whether to resume FTA negotiations with Japan. **JS**

## COMING UP

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