

Exploring the Possibility for a U.S.-Korea FTA^{*}

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ABSTRACT

Since the financial crisis, East Asian countries have worked on bilateral/regional Free Trade Agreements (FTAs). Currently, East Asian countries are working on over 30 FTAs. So far, the United States (U.S.) has exerted its considerable political and economic power in East Asia, but its political and diplomatic position is increasingly shaky for many reasons-emergence of China's economic and military strength, growing regionalism in East Asia, weakening influence of the Asia Pacific Economic Conference (APEC) forum, and growing anti-American sentiment after the anti-terrorism war. The U.S. will be even more concerned about the development of FTAs in East Asia, since the country will suffer economic and non-economic losses when the East Asian regionalism is developed. This article evaluates a U.S.-Korea FTA in terms of U.S. involvement in East Asian regionalism, and tries to provide an economic assessment of the FTA. This article points out that the U.S. should take advantage of the U.S.-Korea FTA to secure its interests in East Asia and to avoid exclusion from East Asian regional economic integration.

Keywords : Free trade Agreement, U.S.-Korea Free Trade Agreement, East Asian Regionalism, Economic Integration

I. INTRODUCTION

Official and unofficial discussions are underway regarding a Free Trade Agreement (FTA) between the United States and Korea. A high-ranking official in the U.S. Trade Representative Office officially expressed their positive view of an FTA with Korea, and political circles in the U.S. are calling for the government to have more diversification in target countries of FTAs. The Korea-U.S./U.S. -Korea Business Council set the FTA issue

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as one of its top agenda items, requesting that the two governments should accelerate their FTA negotiation. Korean government has yet to announce its official stand on an FTA with the U.S., but it is turning toward reviewing it positively.¹

The U.S. has long been Korea's most important trading partner. Although the recent economic boom in China has caused Korea-China trade to grow rapidly, the U.S. has remained in first place. In turn, Korea is one of important trading partners of the U.S. The volume of trade between Korea and the U.S. increased steadily until 2000, when it saw a slight downturn due to a depression in the Korean economy. In 2002, exports from Korea reached \$32.8 trillion while imports from the U.S. reached \$23 trillion. The proportion of exports to the U.S. out of Korea's total exports peaked at almost 40 per cent in 1986, declining to 16 per cent in 1997 before recovering to over 20 per cent in 2002. In 2002, exports to Korea comprised 3.3 per cent of the U.S. total, indicating that Korea is the sixth-largest exporter to the U.S. and the seventh-largest importer.

In spite of the close trade and investment relations between Korea and the U.S., discussions regarding an FTA between the two countries have been inactive. This article will look into the emergence of regionalism in East Asia and try to draw implications for a U.S.-Korea FTA. So far, the two countries have limited their outlook on a bilateral FTA. In addition, this article emphasizes the political and strategic significance of an FTA as well as its economic effects. That is, instead of requiring agricultural sector opening and the elimination of screen quota as preconditions of an FTA, this article argues that the two countries should evaluate an U.S.-Korea FTA on both economic and non-economic interests. This article indicates that the U.S. should take advantage of the U.S.-Korea FTA to secure its interests in East Asia and to avoid exclusion from East Asian regional economic integration. In conclusion, the U.S. and Korea should start official talks on a bilateral FTA between the two countries. This article starts with the analysis of growing regionalism in East Asia in Section II.

II. EMERGING REGIONALISM IN EAST ASIA

1. Internal and External Environment

Since the end of the Second World War, the world economy has witnessed two parallel trends of integration, namely, multilateralization of global economic and trading relations under General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) and the regionalization of different economies or groups of nations. The European Community (EC), the predecessor of the European Union (EU), was successful in regional economic integration through its establishment of regional free trade agreements, later developing into a customs union, and then an economic and political

¹ Korea and the U.S. had official meetings for discussing a bilateral FTA between two countries in 2005.

entity. Initial efforts for regional integration in Europe were launched right after the conclusion of the World War II, with the birth of Organisation for European Economic Co-operation (OEEC) (now called the Organisation for Economic Co-operation and Development or OECD) in 1948 and the Council of Europe (CE) in 1949. The key turning-point was marked by the signing of the 1952 Paris Treaty, laying the foundation for the formation of the European Community of Steel and Coal in the same year. Important treaties and agreements in the second half of the twentieth century led to the establishment of European Economic Community (EEC), the EC and then the EU.² Outside the EU framework, there were also economic integration efforts among some European countries, notably the group of Northern European countries, and among neutral nations.

The U.S. has shifted its focus to regional and bilateral integration since the mid-1980s and early 1990s: signing FTAs with Israel, Canada, and then forming NAFTA, with Jordan, Singapore and Australia and more than 300 agreements of economic cooperation, trade and bilateral investment throughout the two terms of presidency of William J. Clinton (1993-2001). Tremendous efforts to accelerate bilateral agreements have been made under George W. Bush's administration (since 2001) with "competitive liberalization" strategy - creating competition through liberalization initiatives in a number of bilateral deals - an expression used by the U.S. Trade Representative Robert Zoellick of George W. Bush's administration.

The WTO, created in 1995, allows some exceptions which permit the creation of regional trading agreements (see, for example, GATT/Article XXIV; GATS/Article V). Most of them are in the form of regional/free trade agreement (FTA) or custom union (CU). The fundamental principle of WTO is non-discrimination, which means that each Member shall accord immediately and unconditionally the Most-Favoured-Nation (MFN) Treatment to any other Member (i.e. requiring countries not to discriminate between goods on the basis of their origin or destination). The WTO framework, however, does not ban two or more countries from reaching agreements on deeper and wider liberalization than those committed in GATT/WTO. As a result, more than half of regional trading agreements have emerged since the establishment of the WTO.

The round of multilateral economic integration (called the Doha Development Agenda [DDA]) reached a deadlock due to the fact that issues of negotiation have been extended to non-tariff matters and beyond the scope of pure trade (for example, "Singapore issues") in the Cancun WTO Ministerial Meeting. The developed and developing countries could not reach an agreement on such matters as agricultural

²Roma Treaty (RT) in 1957 laid foundation for the establishment of European Common Market and Tariff Alliance; The Single European Act (SEA) in 1985 eliminated non-tariff barriers on the transaction of labor, goods, service and then capital (1992). The Maastricht Treaty (MT) in 1992 marked the establishment of economic and monetary union, political union as well as other fundamental institutional pillars needed for the coming European Union; Amsterdam treaty (AT, 1997) and Nice treaty (NT, 2000) deepened institutional integration in European Union aiming at a comprehensive political union.

subsidies, labor standards, and environmental issues. Developed countries found themselves in disagreement on the agenda of the DDA³, especially on “Singapore issues” - transparency in government procurement, trade facilitation, and investment and competition policies.

The 1997-1998 East Asia economic crisis forced the region to seek new motivations for reform and growth, shifting their foreign economic policies to regional and bilateral integration. Most East Asian countries, typically Korea, Singapore, Hong Kong and China, used international trade to stimulate economic growth. Therefore, foreign markets, especially those of Northern America and Western Europe constituted a prerequisite for maintaining the growth momentum of these East Asia countries.

Since 1999, East Asia has witnessed a strong proliferation of bilateral FTAs in the world, and then Japan and Korea followed suit and implicitly announced that the WTO was no longer their only choice by concluding bilateral FTAs. In fact, the GATT/WTO framework is incapable of dealing effectively with new issues of international relations, including trade in services, e-commerce, government procurement and movement of labor. China and Thailand swiftly advanced their bilateral FTA initiatives to incorporate the Association of Southeast Asian Nations (ASEAN) as a single bloc in 2002, also accelerating in the same year the ASEAN Free Trade Area's (AFTA) bilateral commitments with Australia and New Zealand, linked together, in turn, by their Closer Economic Relations (CER) agreement.

2. Evolving FTAs in East Asia

The East Asia is the least developed region in terms of regionalism. The main regional trade agreement in East Asia is the ASEAN Free Trade Area (AFTA). Currently, AFTA has 10 members and is pursuing trade liberalization. Recently, these countries have been discussing bilateral FTAs with China, Japan, India and Closer Economic Relations (CER) Agreement (the FTA between Australia and New Zealand). The evolution of FTAs in East Asia is summarized at the Appendix.

AFTA (1992) was the only FTA experiment in East Asia aimed at strengthening ASEAN intra-bloc trade until 2002 when the bilateral FTA between Japan and Singapore – the Japan-Singapore Economic Partnership Agreement (JSEPA) - was signed. Until recently, the Northeast Asian countries - China, Japan, and Korea - have not participated in any regional trade agreements. After the financial crisis, however, these countries began to show greater interest in establishing FTAs.

In 1998, Korea announced its plan to proceed with an FTA with Chile and also commenced a joint study with Japan. The Korea-Chile FTA negotiations were launched in

³ The agenda of the DDA consisted of 6 major issues: Agriculture, Approach of non-agriculture and service market; Singapore issues; Trade Rules (on dispute settlement and trade compensation); Intellectual Property Rights (TRIPS); and Trade and Development issues.

December 1999 and concluded in October 2002. Japan and Korea developed bilateral FTA strategies with a view to accelerating domestic reform and maintaining their competitive positions in the international and regional markets, in addition to responding to the rise of China. The governments of both Japan and Korea felt that they had entered the regional and bilateral races belatedly while experiencing pressure of the United States and China in the regional and global markets. Although the two East Asian countries were originally faithful to the multilateral framework, they have now realized that multilateral commitments are of little help in advancing domestic reforms and, therefore, the establishment of bilateral FTA becomes a major strategy in adjusting their trade policy.

The governments of both Japan and Korea have faced strong resistance from their respective agricultural sectors with regard to their commitments on market openness and liberalization. As a result, the two countries were rather cautious in selecting Mexico (in Japan - Mexico FTA) and Chile (in Korea - Chile FTA) as their partners in bilateral FTA negotiations. Especially, in the case of Japan - Singapore FTA, the agricultural sector was removed from the negotiation table.

Currently, Japan and Korea are, however, very active in seeking bilateral FTA partners in the region. The two countries themselves are under negotiation for a bilateral FTA, targeting the conclusion of their negotiation for the end of 2005. Japan has signed a framework agreement with ASEAN – the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) – and is doing joint studies on bilateral FTAs with each ASEAN member including Thailand, Malaysia, Indonesia and Vietnam. Simultaneously Japan is exploring the opportunity of having bilateral FTAs with non East Asian countries. After signing the bilateral FTA with Chile, Korea is now conducting joint studies on and negotiating bilateral FTAs with Japan, Singapore, Thailand, ASEAN, Mexico, the European Free Trade Association (EFTA) and India.

China has shifted its policy to bilateral FTAs with visible geo-political and geo-economic motivations, taking advantage of exceptions obtained from being a WTO member. Although being a new member of WTO, China has been very active in taking advantage of the exceptions in GATT/WTO framework to form the Framework Agreement on Trade and Investment with Hong Kong - the Closer Economic Partnership Agreement (CEPA) - and then signed a bilateral FTA with ASEAN as a whole and later with each of its member, beginning with Thailand.⁴ China is in the process of negotiating bilateral FTAs with Malaysia and the Philippines while studying bilateral FTAs with Macao, CER, and a trial FTA with Japan and Korea.

China's bilateral FTA policy has also reflected geo-political and geo-economic considerations, not only pure trade motivations. The China-ASEAN FTA was concluded in June 2005 to bring free trade between the two regions into effect by 2010. Instead of

⁴ China and Thailand have reached a bilateral FTA agreement on agriculture with 160 farming products committed.

seeing ASEAN “being whirled into” the orbit of Japan and the U.S., the deal with ASEAN, and each of its members, not only created closer linkages with China but also an economic sphere favorable to the country. Through bilateral FTAs, China could, to some degree, show its regional role in the expansion of economic ties within East Asia.

The ASEAN bloc promotes through individual, rather than collective, effort external economic ties to strengthen its internal integration and maintain its competitiveness against the pressure of China’s attraction. Since the 1997-1998 Asian Financial Crisis, ASEAN has gradually lost its attractiveness compared to China in the eyes of international investors. The crisis revealed defects in the structure of the economy of each member and the inefficiency of ASEAN cooperation mechanisms. It has become urgent to enhance each member’s internal reform and strengthen the economic ties among the members. Besides, Singapore and Thailand have actively found their own “way out” through bilateral FTA channels. This has put the ASEAN into a dilemma of regional integration intensification: *agreement by word, not by heart*.

ASEAN can only be attractive so long as it maintains a unified market of considerable scale because the implementation of AFTA has yet to yield substantial benefits.⁵ Accordingly, ASEAN needs to take advantage of FTAs with the U.S., Japan, China, Korea, and India to become the “hub” of East Asian bilateral and multilateral FTA commitments. Progressively, this idea has been put into practice but will only be successful if ASEAN members do not form their own bilateral FTAs with these partners.⁶ Yet, what is happening in reality is contrary to this assumption.

At present, ASEAN cooperation and integration efforts are made at various levels such as individual bilateral FTAs (Singapore, Thailand, Malaysia, the Philippines); ASEAN+1 formula (with China, Japan, Korea, and India separately); ASEAN+3 formula (with China, Japan and Korea together); and the idea to set up the ASEAN Economic Community (AEC) put forward in 2003. While the ASEAN+1 formula is getting some initial results efforts by its members to form individual bilateral FTAs is the likely trend. Among ASEAN countries, Thailand is actively shifting towards bilateral FTAs due to internal political motivations and in harmony with the wave of the establishment of regional and global bilateral FTAs. Malaysia and the Philippines have commenced considering their own bilateral FTAs seriously so as not to be reduced to an unfavourable position in international trade.

3. Future Prospects for East Asian Regionalism

Since 1998, political leaders of the ASEAN+3 (China, Japan and Korea) have

⁵ AFTA creates a market of 550 million people with the total GDP of U.S.D 570 billion, half of the population and the GDP of China.

⁶ See the journal by Canada’s Asia Pacific Business Network, “*Asian powers queue up for free trade deals with Southeast Asia*”, Asia Pacific Bulletin, November 15th, 2002.

established an annual summit, discussing economic cooperation measures in the region. The ASEAN+3 process, which started in 1997, can be an igniting force for East Asian economic integration. The region discusses the transformation of the ASEAN+3 summit meeting into an East Asian summit for a more enhanced institutional approach in East Asian cooperation. Then, within this framework, the idea of an East Asian FTA (EAFTA), covering all countries within the region, is likely to gain more momentum among member countries.

There are many obstacles, however: differences in political systems and level of economic development together with historical remnants. Despite these impediments, East Asia is likely to overcome them and pursue economic integration in order to respond to the global trend of regionalism. The EU was enlarged to twenty-five countries, encompassing ten Central and Eastern European countries and a Free Trade Area of the Americas (FTAA), covering both North and South America, will be realized. Given the prospects of the advent of these two major blocs, East Asia recognizes the need for deeper economic integration, including an East Asia Free Trade Agreement (EAFTA). Then, the question is how to attain East Asian economic integration. All potential member countries in East Asia will have different ideas and directions for a regional free trade agreement. Another question is whether there is any way to narrow the gap between the countries in respect to their perception of East Asian economic integration? How can we maximize the synergy gains in integrating East Asia economically?

According to Ahn, Baldwin and Cheong (2005), many East Asian countries think that East Asia will be integrated in future, and Northeast Asian countries - China, Japan and Korea - are supportive of the establishment of an EAFTA. Although they deliver different views on how to achieve this goal, they all agree that China, Japan and Korea, which represent 90 per cent of East Asian GDP, must play a leading role in forming an EAFTA. China seems to advocate the merits of an ASEAN - China FTA and then an ASEAN + 3 approach, implying bilateral FTAs of China, Japan and Korea with ASEAN. However, Japan, taking into account static and dynamic benefits, might prefer an approach to East Asian regionalism through the formation of a Japan-Korea FTA first, and then later concluding bilateral FTAs with ASEAN and China.

Two major players in Northeast Asia could develop East Asian regionalism in several directions depending on approaches, but a Japan-Korea FTA seems to be a key contributing factor for East Asian regionalism. Baldwin (2004) argues that East Asian regionalism will shift from talk to action - resulting in a rapid spread of preferential arrangements - provided that at least one major FTA gets signed. He predicts that the Korea-Japan FTA currently under negotiation may well be the trigger. The arguments supporting this assertion are based upon both historical analogy and political economic reasoning. During the 1990 both America and Europe witnessed waves of regionalism triggered by single idiosyncratic events of preferential liberalization - the U.S.-Mexico FTA in North America and the European Union's Single Market programme. This article argues that the 'domino theory' is the political economic logic behind the waves of regionalism. To put another way, trade and investment diversion created by a preferential

trade arrangement among a nation's trade partner tends to stimulate extra political pressure within the nation to redress the discrimination. Since signing a new FTA is the easiest way to redress the discrimination, one FTA tends to encourage others. Moreover, the article argues that the 'force for inclusion' and the cost of exclusion gets stronger as more FTAs are signed, so the spread of FTAs can be quite rapid.

III. THE U.S. RESPONSE TO EVOLVING EAST ASIAN REGIONALISM

The U.S. is the most important trading partner for most East Asian countries. In addition, considering the international status of the U.S. and the high connectivity of its military and political relations with the region, East Asian countries will need strong relations with the sole superpower. However, if the U.S. is excluded from the region's economic integration, economic relations will be correspondingly weaker. Over the past few years, East Asian countries have recorded slightly declining trade shares with the U.S., and regionalism will enforce even closer economic relations. This is not necessarily good for East Asian countries, as both they and the U.S. will experience losses from trade diversion and increasing trade conflicts.

The U.S. will be more concerned with the development of a Japan-Korea FTA or a China-Japan-Korea (CJK) FTA among FTAs in East Asia, since the three countries in Northeast Asia occupy 90 per cent of East Asia in terms of market and economic power.

A substantial internal consensus has formed in Korea, which suggests that a Korea-Japan FTA can be a core force for integrating East Asian economies (Baldwin 2004). Although there are many concerns about its potentially negative effects on the Korean economy, including increasing the country's economic dependency on Japan and increasing Korea's trade deficit with Japan, both parties are negotiating a bilateral FTA.

Choi and Schott (2003) negatively evaluate the progress of a CJK FTA based on several aspects, including rivalry between China and Japan. However, their evaluation misses the position and role of China in a CJK FTA. The review of a CJK FTA proposed by former Chinese Prime Minister Zhu Rongji in 2002 can be interpreted as a sign of China's uneasiness towards Korea-Japan FTA progress. The Trilateral Joint Research Project is being performed by the Development Research Center of the State Council (DRC) in China, the National Institute for Research Advancement in Japan (NIRA) and the Korea Institute for International Economic Policy (KIEP).

So far, Korean manufacturers have supported a CJK FTA, as shown by the support given to an FTA among the three countries at the CJK business forum in 2002. According to the Trilateral Joint Research Team's questionnaire survey of business enterprises, a large proportion of the respondents supported the idea of establishing an FTA among China, Japan and Korea (85 per cent in China, 79 per cent in Japan and 71 per cent in Korea). In addition, Chinese Premier Wen Jiabao suggested that government officials in the three countries introduce CJK FTA discussions at the China-Japan-Korea summit in

Bali, 2003, but Japan did not agree to the suggestion. China plans to hold a large-scale international seminar in 2006, inviting Japanese and Korean representatives from the public and private sectors.

China seems to have proposed a CJK FTA as a stepping-stone for mid/long-term Northeast Asian regional economic integration. Rather than participating in a Korea - Japan FTA as a third member, it seems that China prefers to take the initiative for a CJK FTA and the leading role in place of Japan in its formation. There are both pros and cons for China in launching an FTA. Although China has internal problems in pursuing FTAs, it also has merits. As for merits, China has strong leadership from its government, a consistent administrative system and an absence of NGO anti-FTA campaigning. Thus, China has favorable FTA conditions and could produce distinct results within a short period when the government comes to a policy decision.

A Korea - Japan FTA will be evolved and the discussions on a CJK FTA as proposed by China will continue - even after a Japan-Korea FTA negotiations began. The difficulties in the formation of a CJK FTA may be differences in economic development stages, political factors (historical problems and border conflicts) and political rivalry between China and Japan. If there are problems in launching a CJK FTA due to the uneasy China-Japan relationship, a China-Korea FTA might take its place. Chinese scholars showed high concern over an FTA with Korea in an international conference on a China-Korea FTA organized in October 2004 by KIEP-Academy of Macroeconomic Research, one of China's national think-tanks.

In the past, the U.S. has explicitly expressed opposition to an East Asian Economic Group (EAEG, and later the East Asia Economic Caucus (EAEC) proposed by Malaysian Prime Minister Mahathir and has, furthermore, encouraged East Asian countries to pursue open regionalism within the APEC (Bae 2000). Now, the U.S. seems to promote economic cooperation with East Asian countries not only by supporting the movement of regionalism in East Asia, but also by seeking to conclude bilateral FTAs with individual ASEAN member countries. During a visit to Thailand in April 2002, United States Trade Representative (U.S. TR) Robert B. Zoellick showed support for East Asia regionalism, including bilateral FTAs with China/Japan and bilateral ASEAN agreements because of the contributions he anticipated these agreements would have for world trade liberalization.⁷ U.S. President George Bush, on the other hand, suggested 'the Enterprise for ASEAN Initiative (EAI)' at the APEC Summit held in Los Cabos, Mexico in October 2002, which would promote economic cooperation with Southeast Asian countries.

Compared to the past, there are much fewer reasons for the U.S. to oppose East Asian regionalism in economic terms (Choi, 2003). First, the U.S. is pursuing regionalism and the majority of economists now consider regionalism as contributing to the

⁷For detailed information, refer to [<http://usembassy-australia.state.gov/hyper/2002/0408/epf110.htm>].

development of a multilateral trading system (Building Blocs). There has also been criticism over the roles of the U.S. and International Monetary Fund (IMF) in dealing with the financial crisis in East Asia.

As for national security, there are still many issues to be clarified regarding whether U.S. considers China to be a potential threat or not. There are three U.S. viewpoints toward China (Lee 2003). (1) *Positive viewpoint* : There is an expectation that the Chinese economy will not pose a threat because it will become increasingly dependent on neighboring economies. Stronger economic relations with neighboring countries will lead China promote a more market-oriented economy irreversibly away from the old central planning and socialistic political system. (2) *Negative viewpoint* : A situation of rivalry wherein there cannot be a constructive relationship established with China unless China's political system changes. (3) *Compromise* : The U.S. should counterbalance China's rising power using military superiority while maintaining a positive outlook.

If the U.S. position on China is close to the negative or compromise options, the U.S. will be more concerned with the evolution of regionalism in East Asia if China, now the rising power in political, economic and military areas, takes a hegemony position in East Asia, noting that China is competing a leadership in East Asia with Japan through FTAs (Cheong 2002). This will lead the U.S. to pursue closer linkages with other East Asian countries. As mentioned before, one of the alternative policies the U.S. can take is to strengthen its relationship with Korea and Japan if it is unable to control the expansion of FTAs in East Asia (Choi, 2003).

The U.S. will be concerned about the economic and non-economic losses it might suffer when the U.S. is excluded from East Asian regionalism such as a Japan-Korea FTA and a CJK FTA. What could U.S. trade policies be possible at this moment? The U.S. concern over FTAs in East Asia is reflected in its approach towards ASEAN in 2002 through the introduction of the EAI, the conclusion of the U.S.-Singapore FTA and discussions on a U.S. - Taiwan FTA. The U.S. cannot put a brake on the emergence of East Asian regionalism since the U.S. itself is also pursuing FTAs. The U.S. will have no other choice than to examine concluding more bilateral FTAs with East Asian countries.⁸

The U.S. needs to launch a bilateral FTA with one of three Northeast Asian countries in order to respond to the evolvement of East Asian regionalism, since it is unlikely that the U.S. will join the Korea-Japan or CJK FTAs currently under active discussion. Considering the rapid progress being made in FTA negotiations in East Asia, it is essential for the U.S. to get involved in securing its economic and non-economic interests. It remains to be seen which country the U.S. can maximize its national interest when carrying out FTA negotiations.

⁸ It can be suggested that APEC can be an alternative for East Asian regionalism. However, it seems that APEC lost its momentum for regional trading bloc without the progress on the Bogor Goal.

IV. EVALUATION OF KOREA-UNITED STATES FREE TRADE AGREEMENT

1. General Discussion

While U.S. researchers have conducted discussions concerning the Korea-U.S. FTA, Korea has taken a passive position to research. Although informal discussions on Korea-U.S. FTA started in the mid-1980s, formal discussions have yet to be held between the two. Former U.S. TR William Brock visited Korea and informally sounded out Korea's position regarding the Korea - U.S. FTA on April 1984. In addition, Peter Murphy, former U.S. representative to GATT, brought up the potential FTA between the two countries in May 1985. Moreover, former U.S. TR Peter Allgeier talked on the potential FTA in January 1988.

The discussions about the Korea-U.S. FTA were embodied in a report by the U.S. ITC examining Asian-Pacific FTAs in 1989. This report suggested that Singapore, Korea and Taiwan would be the most suitable FTA partner in East Asia for the U.S. Moreover, Korea was considered the most appropriate country among these three in economic terms. However, due to the anti-American sentiment in Korea in the late 1980s, the United States International Trade Commission (USITC) judged an agreement too difficult to push.

From then, Korean research institutes started to conduct studies on a potential FTA with the U.S. For example, Kim Wootae (1986) worked on the economic effect of a Korea-U.S. FTA using the Armington model. However, discussions on the FTA did not last long, as they were perceived as part of a push from the U.S. to open the Korean market. In the 1990s, FTA discussions were suspended due to disputes over tariff concessions in the agricultural sector under the Uruguay Round.

However, the U.S. showed renewed interest in a Korea-U.S. FTA following the start of Korea-Chile FTA negotiations. The U.S. Chamber of Commerce and Industry sent a letter to former President Clinton in July 1999 regarding the possibility of a Korea-U.S. FTA. The U.S. Senate of Finance Committee then asked the U.S. ITC to submit a research paper on the economic effects of a Korea-U.S. FTA in December 2000. In addition, the 14th Korea-U.S. Business Meeting held in Hawaii in January 2001 pushed for an early settlement of a bilateral investment treaty and an FTA between the two countries. In 2004, the U.S. government officials made favorable comments on a U.S.-Korea FTA, and the Korean government became to regard the U.S. as one of Korea's FTA partner countries. According to the FTA roadmap prepared by the government of Korea September 2003, suggested a U.S.-Korea FTA could be pursued in the long-run, but this did not provide any meaningful implications.

2. Numerical Assessment

Examples of analyzing the numeric economic effects of a U.S.-Korea FTA are provided by Wang and Cheong (1998), Choi and Schott (2001), U.S. ITC (2001), and

Cheong (2002). The other three papers analyzed the tariff-abolition effect of a U.S.-Korea FTA using the computational general equilibrium (CGE) model. Wang and Cheong (1998) looked at three different scenarios where tariffs were removed under a U.S.-Korea FTA – absolute tariff-abolition in every sector, tariff-abolition in every sector except agriculture and 50-per cent tariff-removal in the agricultural sector with 100 - per cent tariff removal in all other sectors. Through this research, Wang and Cheong suggested that Korea could expect economic benefits from a U.S. - Korea FTA, but excluding the agricultural sector, which is expected to be a major point of contention in negotiations, would result in large losses for Korea. Choi and Schott concluded that both countries could enjoy economic welfare gains if all sectors (agriculture included) were liberalized under the FTA. They also predicted that the FTA would produce trade diversion effects for Japan and China.

Table 1. Estimated Economic Effect of a U.S.-Korea FTA

Researcher	Model	Major Results
KimWootaek (1986)	Armington Model (Partial balance)	<ul style="list-style-type: none"> - Korean exports to the U.S. increase 18.25% and imports from the U.S. rise 12.93% - Korea's trade balance with the U.S. would increase by \$1 billion.
Korea Trade Committee - Research Institute of Industry (1989)	Applying trade and industry indices (trade specialization index, etc)	<ul style="list-style-type: none"> - Korean goods that benefit: clothing, steel, metal, textiles, traveling goods - U.S. goods that benefit: agriculture, chemical, electronic machinery, general machinery - Ambiguous goods: communication, automobiles, computers, general industrial machinery.
Wang and Cheong (1998)	Multi-region, multi- sector CGE model	<ul style="list-style-type: none"> - Korea's GDP improves by 0.36% and its welfare increases by \$21.5 billion. - Excluding the agricultural sector would decrease Korea's total welfare.
Choi-Schott (2001)	Multi-region, multi- sector CGE model	<ul style="list-style-type: none"> - In the long run, Korea and the U.S. can both expect welfare to improve by \$10.9 billion and \$8.9 billion, respectively. - Korean exports and imports to the U.S. can increase by 30.3% and 49.4%, respectively.
U.S.ITC (2001)	Multi-region, multi- sector CGE model	<ul style="list-style-type: none"> - The Korean and U.S. GDPs would improve by 0.69% and 0.23%, respectively. - Korean exports and imports with the U.S. would increase 21% (\$100 billion) and 54% (\$190 billion), respectively, causing Korean trade balance accounts with the U.S. to fall by \$90 billion
Cheong (2002)	Multi-region, multi- sector CGE model with increasing return to scale	<ul style="list-style-type: none"> - Under the assumption of perfect competition, Korea's GDP will increase up to 0.25%, reaching 2.03% with economies of scale. - Korea's trade conditions would improve internationally.

Three studies by Choi and Schott (2001), U.S. ITC (2001) and Cheong (2002) estimated the economic effects of a Korea-U.S. FTA using the CGE model and Global Trade Analysis Project (GTAP) database (version 4), but they produced somewhat variable estimations due to the applications of different aggregations in industries and regions, as well as different model closure. Although it is difficult to evaluate which study forecast most realistic estimates, the estimates by Cheong (2002) can be said to be more comprehensive than others, since his simulation assumes scale economies in addition to perfect competition, while others are based on the assumption of perfect competition. The U.S. is Korea's most important trading partner, and the country will have high chance to enjoy scale economies if it established an FTA with the U.S. Therefore, it may not enough to simulate economic effects with the perfect competition assumption.

The major conclusion of these articles can be summarized as follows. A U.S.-Korea FTA would mean economic benefits for both countries, with substantial gains for Korea but modest gains for the U.S. Under a bilateral FTA, the GDP and welfare of both countries are expected to improve, favoring U.S. agricultural exports and Korean clothing and textile exports. Accordingly, U.S. ITC (2001) identifies these areas as most likely to be sensitive issues during negotiations, as Korean clothing and textiles exports would increase by \$70 billion while U.S. agricultural exports (including processed goods) would increase by \$140 billion.

What will an FTA with the U.S. bring to Korea? For starters, let us take a look at the economic aspects. The FTA might cause some pain associated with restructuring arising from the opening of agriculture, industry and services, but the entire national economy will be able to enjoy substantial economic gains. Based on the findings of my own research, an FTA between the U.S. and Korea is expected to generate an annual 1 per cent additional economic growth and more than US\$10 billion dollar per year export growth to the U.S. than now. Clearly, the opening of agriculture will be a pivotal issue in concluding an FTA between the two countries. The U.S. might seek the FTA with Korea in order to advance, to some extent, into the Korean agriculture market, but if the U.S. put more emphasis on strategic goals to defend its own interests in the process of East Asian regionalism formation, the U.S. might be more flexible about agriculture market access. As shown in the FTA with Australia, sugar was the most sensitive agricultural item of the U.S., implying that the country itself is not fully free from agriculture concerns.

Additionally, the FTA with the U.S. will serve as a good chance to accelerate the advancement of Korea's industrial structure, improve trade and economic systems, and reduce future trade friction with the U.S. It will also help reduce the ratio of Korea's dependence on China, which is growing rapidly. Taking a step further, the FTA will imbue the U.S.-Korea alliance with deeper economic cooperation. Ultimately, this cooperation will contribute to the stability of Korean peninsula.

Not only would a Korea-U.S. FTA allow both countries to benefit from preferentially favorable measures, the arrangement would likely reduce the amount of trade disputes involving Korea. The U.S. is Korea's most important trading partner, but also the

country's greatest source of trade friction. Even though a Korea-U.S. FTA would not eliminate all trade friction between the two countries, such liberalization would likely reduce the occurrence and severity of trade disputes. This article concludes that the U.S. and Korea would gain benefits from a bilateral FTA, especially substantial political and strategic meaning for both countries. Undeniably, non-economic factors have been as important as economic factors in the the FTAs formed by the United States with Singapore, Jordan, Morocco and Israel.

Clearly, Korea can expect high level of economic benefits from an FTA with the U.S., the important trade partner of Korea, and the country with the biggest domestic market in the world. Moreover, an FTA between the two allies bears significance in strategic aspects, especially politics and security. Of course, negotiators will have some trouble in dealing with sensitive issues such as agriculture and the screen quota system. However, it is definitely necessary to review the FTA from the perspective of advancement of Korean economy and globalization. If we take into consideration both economic and non-economic considerations, the U.S. and Korea should finish current discussions on a bilateral FTA soon, as it will still take years to conclude an agreement if the U.S. and Korea were to begin discussions now. The timing of the conclusion of FTA would be a more critical issue than the content in view of the rapidly changing global trade environment. Consequently, it would be more propitious to move towards official negotiations for an FTA between two countries.

According to Kang (2003), the U.S. seems to set two pre-conditions for an FTA with Korea: opening agricultural markets under the proposed bilateral FTA; and concluding the U.S.-Korea Bilateral Investment Treaty (BIT) before starting official discussions on a U.S.-Korea FTA. In general, Korean sentiment toward a Korea-U.S. FTA seems to be improving. First of all, business groups from both sides, including the Korea-U.S. Business Meeting and the American Chamber of Commerce in Korea (AMCHAM Korea), are in support of the U.S.-Korea FTA. Second, political barriers, including anti-American sentiment in Korea, have shown great progress compared to the early 1990s, although we saw a temporary rise of anti-American sentiment after the death of two schoolgirls during U.S. military exercises in Korea, and Korea's deployment of troops to Iraq at the request from the U.S.

From an economic point of view, a broad consensus was formed on the needs of a bilateral FTA between U.S. and Korea (according to research results). However, there is a great discrepancy in the views of both countries on a U.S.-Korea FTA. Korea is concerned about minimizing the opening the agricultural sector in a U.S.-Korea FTA. Korea has not concluded the BIT with the U.S. because the screen quota issue is as yet unresolved. Thus, Korea is not likely to be active in discussing an FTA with U.S. Ratification of the Korea-Chile FTA has been postponed and Korea's lack of will to carry out FTAs is likely to be taken into account by other countries. There are more selling points to a U.S.-Korea FTA than the U.S.-Korea BIT, as the significance of the U.S.-Korea BIT is confined to improving the investment environment and increasing inflow of investment, whereas a U.S. - Korea FTA not only implies increased economic benefits through a unified market,

but also consolidating economic alliances with the U.S. A U.S. - Korea FTA is expected to contribute towards the security of Korean peninsula if it becomes necessary to strengthen national security and military alliances. The U.S. can expect an improvement of political and diplomatic relations with Korea under the bilateral FTA, in addition to economic gains. Cheong (2004b) underlines the strategic importance of a U.S. - Korea FTA.

2. Issues related to a U.S.-Korea FTA

Agricultural market access

American agricultural products, even in case of the unilateral opening of agricultural markets, are not expected to take up substantial shares in Korea's domestic markets (rice from Southeast Asia and China is more competitive than that from the U.S. and Australian meat is more price competitive than the U.S.). The U.S. should adopt a flexible approach to the opening of agricultural markets by guaranteeing Tariff Rate Quota minimum market access using a U.S.-Korea FTA rather than by adhering to the principle of a multilateral opening of agricultural markets in Korea. In turn, Korea should also take a U.S. - Korea FTA as an opportunity to accelerate its restructuring drive in the country's agricultural sector.

If a sensitive agricultural sector is excluded from trade liberalization, economic gains will be smaller than complete tariff elimination, since a major portion of the FTA gains is created from the structural adjustment of less competitive sectors. Although the losses of economic gains from excluding agricultural sector can be estimated from extra simulation works, some problems are still raised. First, all agricultural sector cannot be excluded because of the multilateral regulations on regional trading blocs (GATT Article 24). Thus, at maximum, only part of the agricultural sector could be legally excluded. Rice will be the most sensitive item in Korea. The estimate of economic effects for excluding rice can be underestimated because Korea's import performance is based on the minimum market access (MMA) system as agreed upon in the Uruguay Round. The actual imports of rice are smaller than those under tariff system.

One approach for Korea is to provide preferential tariff treatments for sensitive agricultural items in addition the market access in the Korea-Chile FTA. In the FTA with Chile, around 400 agricultural products out of 1,432 items are excluded from tariff elimination. While Korea maintains the tariff structure for agriculture with tariff preference to the U.S., the U.S. can still improve on its agricultural market access in Korea

Korea's trade liberalization

Korea is expected to undergo a trade liberalization process in two ways in the near future and, as a result, the environment for carrying out a U.S.-Korea FTA is likely to improve. Inevitably, industrial markets will open due to a Korea-Japan FTA. This would

lead to the restructuring of industries in Korea, and the Korean manufacturing sector will be more positive towards an FTA with the U.S. Multilateral negotiations on agricultural liberalization are proceeding very slowly due to the failure to reach a consensus on the Doha Development Agenda principles at the WTO Ministerial Conference at Cancun, Mexico. However, the greater extent of agricultural market opening in Korea is expected to come from the multilateral system, which would substantially reduce economic barriers to FTAs.

As Korea brings the FTA with Chile to fruition and concludes FTAs with Japan and Singapore, it will be sure to implement the agreements. Nevertheless, U.S. companies raised some questions related with Korea's intentions toward implementing the contents of FTAs at a conference on a U.S. - Korea FTA organized by the U.S. ITC May 2001. While Korea accomplished its outstanding economic growth by using an export-oriented trade policy, the country is now in a position where it has to accelerate trade liberalization through the multilateral and bilateral trading system.

Consolidating the relationship between the U.S. and Korea

A U.S.-Korea FTA should be recognized for its usefulness in maintaining the traditional alliance between the two countries. Further, a U.S.-Korea FTA could be a way to enhance the understandings of both countries by expanding bilateral trade volume and investment, and the exchange of human capital.

Korea should overcome its disadvantageous position as an economic minor power through a U.S.-Korea FTA rather than becoming too dependent on Japan and China. In the short term, the U.S. should take a U.S.-Korea FTA as momentum to participate in Northeast Asia's economic integration rather than affecting indifference to the move, because it will be more difficult for the country to establish FTAs with China and Japan. Afterwards, the U.S. should examine ways in which the country could participate in China-Japan-Korea FTA discussions.

The U.S. has not objectively evaluated a U.S. - Korea FTA. Indeed, the U.S. overlooks the strategic importance of a U.S. - Korea FTA. There is a tendency for the economic effects of a U.S.-Korea FTA to be regarded in relation with the market access for the agricultural sector. This is related with the voting districts of some politicians who are concerned over a U.S. - Korea FTA, and the issue was presented in a document form the U.S. Senate Committee on Finance requesting "special attention to agricultural goods" when asking the U.S. ITC for an analysis report on the expected economic effects of a U.S.-Korea FTA in December 2000.

Some U.S. industrial sectors are overly defensive. These sectors should acknowledge that more substantial economic benefits under an FTA that can be obtained through mutual cooperation in the form of expanding intra-industry trade and strategic alliances among companies. The U.S. should consider a U.S.-Korea FTA as a channel to participate in Northeast Asia and East Asia's economic integration. The U.S. should also utilize FTAs

for the sake of its military interests and national security in the Northeast Asia region.

Thus, Korea, with its limited experience in FTAs and a passive position toward market opening, is focusing on the negative aspects of a U.S.-Korea FTA rather than its potentially positive effects. At the same time, the U.S. is limiting its focus on a U.S. - Korea FTA to economic aspects rather than political and strategic considerations.

V. Conclusion

Starting from the FTA negotiation with Chile in 1998, South Korea joined regionalism in earnest. Korea seems to admit the need for the FTA with the U.S., but this issue has been set aside so far and regarded as a mid- and long-term task for many reasons, political economic burdens to be caused from opening of agriculture, the absence of FTA experience and the lack of interests from the U.S governments over the FTA with Korea. Setting up the mid & long-term FTA roadmap in September 2003, the Korean government maintained the same standpoint over the FTA with the U.S.

In the middle of 2004, the U.S. started showing interests in the FTA with Korea, although it has not decided a position towards an FTA with Korea. The U.S. changed its position for many complicated reasons: the request of U.S. political circles for economically meaningful FTAs, implementation of the FTA between Korea and Chile, ongoing FTA negotiations with many countries by the Korean government, China emerging as a big power in East Asia and the need to respond to the growing regionalism in East Asia.

Among these reasons listed above, the two most significant reasons that changed the position of the U.S. seem to be China emerging as a big power and the rapid growth of regionalism in East Asia. In late 1980s, fifteen years earlier from the present, when the then-Premier Mahathir of Malaysia proposed the establishment of the East Asia Economic Group (EAEG), the U.S. put Japan in the front to lead public opinion opposed to the proposal, and succeeded in stifling the initial moves towards regional integration in East Asia, by means of transferring APEC as an official economic cooperative body in the Asia Pacific region. At that time, Malaysia's proposal was hard to accept because regionalism had not been activated in East Asia, and countries did not have much experience, and many of East Asian countries were mainly dependent on the U.S. market.

However, after the financial crisis of 1997-98, key countries in East Asia have worked on FTAs. Korea and Japan, both of which generate large volumes of trade in East Asia and share many similarities in terms of their economic systems and industrial structures, are seeking to negotiate a bilateral FTA. Also China is emerging as a major political and economic power of East Asia. The country's 2005 FTA with ASEAN, is expected to become a decisive variable in the future of regionalism in East Asia. Naturally, the rapid economic growth of China naturally has led many East Asian countries adjacent to China, including Korea, to deepen their economic relationships with the country. As a result, China has become the top trade and investment partner of many

East Asian countries, surpassing the U.S. Indeed, China is now regarded as a country to be involved with in FTAs due to the incomplete market economy system. Currently, China is reviewing FTAs with Australia, India, Middle East countries following the country's successful FTA negotiation with ASEAN. Collectively, East Asian countries are working on over 30 FTAs. Once commenced, regionalism has a Domino Effect and expands its driving power within itself, so that regionalism in East Asia is expected to progress faster.

So far, the U.S. has exerted its political and economic clout in East Asia, but its political and diplomatic position is waning for many reasons - emerging China, growing regionalism in East Asia, weakening APEC and growing anti-American sentiment after anti-terrorism war. Therefore, many voices in the U.S. are raising the need for measures that reinforce relationships with the East Asian region. Moreover, the U.S. is not in the position to exert pressure on moves towards regionalism among East Asian countries. Indeed, the U.S. has over recent years concluded FTAs with many countries, including Australia, Morocco, countries in Central and South America, Jordan and Chile. The country's government is also advocating FTAA, the Free Trade Agreement in America.

This paper concludes that a Korea-U.S. FTA would benefit both countries. In particular, the FTA would be imbued with substantial political and strategic meaning for the U.S. Undeniably, non-economic factors have been more important than economic factors in forming the FTAs between the U.S. and Singapore, Jordan and Israel. An FTA with Korea will bring substantial political gains to the U.S. With regards to agriculture, a main barrier to any FTA with Korea, the strategy may be to accept an FTA with special considerations for weak sectors, making improvements afterwards rather than pursue an 'ideal' FTA by enacting complete market opening from the beginning.

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Appendix: Progress of major FTAs in East Asia (2004)

FTA	Stages of Evolution				
	Discussion	Joint study	Negotiation	Signed	Implementation
ASEAN					
ASEAN FTA					X
ASEAN-China (CEC)					X
ASEAN-Japan (CEP)				X	
ASEAN-India				X	
ASEAN + 3		X			
ASEAN-Korea		X			
ASEAN-CER		X			
Japan					
Japan - Singapore					X
Japan - ASEAN			X		
Japan - Mexico				X	
Japan - Malaysia			X		
Japan - Korea			X		
Japan - Philippines			X		
Japan - Thailand			X		
Korea					
Korea - Chile					X
Korea - Japan			X		
Korea - ASEAN			X		
Korea - Mexico			X		
Korea - China	X				
Korea - Singapore				X	
Korea - Canada	X				
Korea - U.S.	X				
Korea - EFTA		X			
Korea - India		X			
China					
China - ASEAN			X		
China - Hongkong					X
China - Macao	X				
China - Australia	X				
Singapore					

FTA	Stages of Evolution				
	Discussion	Joint study	Negotiation	Signed	Implementation
Singapore - CER					X
Singapore - U.S	Signed TIFA with the U.S				X
Singapore - EFTA					X
Singapore - Japan					X
Singapore - Canada			X		
Thailand					
Thailand - China					X
Thailand - BIMSTEC					X
Thailand - Australia				X	
Thailand - U.S	Signed TIFA with the U.S		X		
Thailand - Japan			X		

Source: Cheong (2003) and updates