

Country Report 8

Korea Country Report

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KOREA

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Emergence and proliferation of FTAs in East Asia

Although functional economic integration in term of trade and investment has proceeded quite rapidly among East Asian economies, it was only recently that institutionalization of regional economic integration started among East Asia countries.

In the wake of the Asian financial crisis, the basic institutional framework for regional economic cooperation was established. The first ASEAN+3 (China, Japan and Korea) Summit Meeting was held in Kuala Lumpur in December 1997, and since then, the summit has become an annual event.

Furthermore, some East Asian countries belatedly joined the FTA bandwagon in the early years of this decade, and within a relatively short period of time, many East Asian countries have concluded a number of FTAs. For instance, Korea has concluded FTAs with Chile, Singapore, the EFTA, the United States, and ASEAN. In addition, Korea is in FTA negotiations with Japan, Canada, Mexico, India and the EU.

Debate on a region-wide FTA in East Asia

The debate on an EAFTA has also begun. The East Asian Vision Group (EAVG) recommended the formation of an “East Asia Free Trade Area” in a report submitted to the leaders of ASEAN+3 on October 31, 2001. Then, on November 4, 2002, the East Asia Study Group (EASG) also proposed the formation of an EAFTA.

However, no serious efforts had been made until the 8th ASEAN+3 Summit in Vientiane, November 29, 2004, which welcomed the decision by the ASEAN+3 Economic Ministers to set up an expert group to conduct a feasibility study on an EAFTA.

The Joint Expert Group for Feasibility Study on an EAFTA, which was spearheaded by China, submitted its report “Towards an East Asia FTA: Modality and Road Map” to the ASEAN+3 Economic Ministers, which was held on August 23, 2006.

The Joint Expert Group was followed by the EAFTA Study Phase II, initiated by the Korean government. It was launched in Seoul on May 31, 2007 with a goal of

conducting more detailed analyses on the economic effects of an EAFTA and proposing possible options of an EAFTA.

The Japanese government's recent initiative to create an ERIA and the Track Two Study Group for the CEPEA could also be regarded as proof of rising interest in an EAFTA among East Asian countries.

Prospects for an EAFTA

Despite a worldwide rise of regionalism and the proliferation of FTAs in East Asia, East Asia still lags far behind Europe and the Americas. In fact, among the major economic regions, East Asia remains the only region that does not have a region-wide FTA. In addition, should East Asians want to form an East Asian Community, an EAFTA would be a natural first step.

However, the diversity among East Asian countries, in particular, the disparity in their level of economic development, constitutes one of the most challenging obstacles to overcome for the formation of an EAFTA.

Considering recent developments in bilateral FTAs in East Asia, the most talked about scenario for an EAFTA seems to be through a series of ASEAN+1 FTAs. The ASEAN-China FTA and the ASEAN-Korea FTA were signed. In addition, an ASEAN-Japan Comprehensive Partnership Agreement was concluded in November 2007. Therefore, these ASEAN+1 FTAs, when realized, could serve as the basic framework for an EAFTA.

Along with ASEAN+1 FTAs, should the three Northeast Asian countries form an FTA, it will also facilitate the formation of an EAFTA. Since an EAFTA cannot be formed unless there is a de facto China-Japan-Korea FTA, the three Northeast Asian countries should not neglect the importance of a CJK FTA in their pursuit of an EAFTA.

Lastly, an EAFTA could be achieved by using the existing ASEAN+3 framework. This process may be complex and costly both in terms of the duration and efforts, and consensus building may be difficult among the 13 countries. On the other hand, an ideal EAFTA would be devised from scratch, and a high quality FTA reflecting the sui generis characteristics of the East Asian countries may be possible.

With regard to EAFTA membership, the first key question is whether it will be limited to regional countries or go beyond them, and the next key issue is the question of who will comprise its starting membership.

Since Japan seems to prefer to start from ASEAN+3+3 (Australia, New Zealand and India) instead of ASEAN+3, the membership issue may complicate the debate on an EAFTA and may constitute a major stumbling block, especially at the early stages of the

debate.

Given the outward orientation of the East Asian economies, EAFTA membership should be inclusive, not limited to ASEAN+3 countries. However, as for the starting membership, it would be more realistic for the EAFTA to be first discussed among the ASEAN+3 countries, partly because of the existing ASEAN+3 framework, and partly because it will be already difficult to form an EAFTA among 13 countries. Therefore, in our view, an EAFTA should be discussed among ASEAN+3 countries first, before opening up to other countries, such as Australia, New Zealand and India.

Additionally, ERIA, which is a unique regional institution, is expected to greatly contribute to East Asian economic integration. First, it could enlighten East Asians on the importance of East Asian economic integration by highlighting the benefits of advanced regional economic integration. Second, it could help overcome the existing obstacles to regional integration in many ways. In particular, it could contribute to narrowing the development gaps and enhancing mutual understanding among East Asian countries. Finally it could promote formal and functional economic integration in East Asia by facilitating many ongoing and new initiatives.