



U.S. Should Bless the Japan-ROK Free Trade Pact

by Naoko Munakata

Over the weekend, South Korean President Roh Moo-hyun and Japanese Prime Minister Koizumi Junichiro announced they will strive to start negotiations "at an early date" - presumably later this year - to create the largest bilateral free trade area in East Asia. It will include 170 million affluent people with a combined GDP of \$5 trillion, about three-fourths of the entire East Asian economy. As neighbors, U.S. allies, and OECD members with large and highly developed economies, they could set a standard for economic integration in the region. Moreover, this pact would have important political overtones for the two countries, and for their most important ally, the United States. For economic, political, and strategic reasons, the two sides should move promptly forward with the strong support of the United States.

The Japan-ROK free trade agreement (JKFTA) was conceived shortly after a historic summit meeting in 1998 between former ROK President Kim Dae-jung and then Japanese Prime Minister Obuchi Keizo. While it was formulated years ago, the JKFTA was not the first FTA to be negotiated among East Asian governments. Japan has been more enthusiastic about a JKFTA than Korea and has waited for the Korean side to come on board for the past five years. The greatest source of Korean hesitation is the fear that the elimination of tariffs would increase Korea's structural trade deficit vis-à-vis Japan. That fear is not unrealistic since the average Korean tariff rate is higher than that of Japan. Koreans are concerned that JKFTA is not going to be a balanced deal. The history issue has added to the Korean hesitation.

The problems are not limited to those between the two countries. Korea is also concerned about how Beijing will react. Then Chinese Premier Zhu Rongji proposed a feasibility study of a trilateral FTA among China, Japan, and Korea in November last year. Koizumi responded that Japan would consider an FTA with China as a long-term project while watching as China implemented its WTO commitments and that Japan's current priority was an FTA with South Korea. While China is not ready for an FTA with Japan and Korea - Chinese scholars point out that it cannot compete with them without a manufacturing tariff - China is not happy to be left behind by a JKFTA. Now that China has replaced the U.S. as the largest market for South Korean exports (when combined with Hong Kong), it is difficult for Korea to dismiss China's views.

The Roh administration, with its vision of South Korea as the "hub" of Northeast Asia, is trying to overcome these hesitations. A JKFTA would not just mean intensified competition; a JKFTA would allow South Korea to attract foreign businesses that want to sell in Japanese markets. Roh also showed his leadership in preventing history issues from

derailing bilateral relations while urging continued efforts by Japan to reduce the Korean public's mistrust. Roh's vision of a Northeast Asian community of peace and co-prosperity would also ease Beijing's anxiety.

The negotiations won't be easy since both countries have many sensitive items. A JKFTA would increase Korean exports of apparel, leather goods, agricultural produce and fish, and Japanese exports of high-end machineries, metal and chemical products. The most serious problems lie in manufacturing - rather than agriculture - since both countries are highly industrialized. More than 30 percent of Japan's imports from Korea and more than 70 percent of ROK imports from Japan are manufactured goods with tariffs. Despite successful Korean exports of vegetables such as tomatoes and bell peppers to Japan, agricultural sectors in both countries are generally not internationally competitive and do not pose significant threats to each other. Japan's Ministry of Agriculture, Forestry and Fisheries is not opposed to the JKFTA negotiations, brightening the prospects for conclusion of a deal.

Washington is most likely to be indifferent to this initiative. Its own FTA with Korea is not on the agenda due to the stalemate over Korea's screen quota, abolition of which is a precondition to a bilateral investment treaty (BIT) with Korea, which in turn is a precondition to FTA negotiations. A kneejerk reaction to JKFTA would focus on trade diversion effects, but the Bush administration has issued encouraging statements on liberalization at all levels, including Asian-only initiatives such as ASEAN's efforts to conclude an FTA with Japan, Korea, and China.

JKFTA has strategic value for the United States, however, and deserves more than benign neglect from Washington. It would force Japan and Korea to overcome their extreme political sensitivity to negotiations over manufacturing and prepare them for liberalization on a most-favored-nation basis to be achieved through the Doha Development Agenda of trade talks. The agreement would stimulate domestic economic reforms, such as deregulation and FDI promotion. To add to that stimulus, Washington may want to break the current logjam and launch its own BIT and FTA negotiations with Korea.

A JKFTA would also enhance the sense among Japanese and Koreans that they are in the same boat, which will help in consolidating their positions in dealing with the North Korean crisis. They do not have much time, though. If Tokyo and Seoul allow sharp differences over this issue to surface, the damage to bilateral ties could be so large that the political momentum for a bilateral FTA would disappear. Many in South Korea seem to see Japan and the U.S. as countries on the other side of the ocean with a different perspective on the dangers posed by North Korean military action. This

perception, in addition to Korean nationalism, lies at the bottom of their differences regarding the willingness to discuss tougher measures vis-à-vis North Korea should dialogue fail. Washington's full blessing of the JKFTA as well as its renewed interest in an FTA with South Korea would be another reassuring sign of alliance solidarity, one that is particularly welcome after the planned redeployment of the U.S. forces has triggered anxiety about American security commitments on the Korean Peninsula.

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