Static and Dynamic Consequences of a KORUS FTA

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CONTENTS

Part IV: Conference Discussion and Conclusions

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REGIONAL INTEGRATION AND A FREE TRADE AGREEMENT AMONG CHINA, JAPAN, AND KOREA

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I. Introduction

Free trade agreements (FTAs) are rapidly proliferating among Asian countries. For instance, Japan has completed its free trade negotiations with Singapore and Thailand. At the end of March 2007, Korea and the United States successfully completed a historic FTA negotiation. For the United States, the U.S.-Korea Free Trade Agreement (KORUS FTA) is the largest trade agreement since the North American Free Trade Agreement (NAFTA); and for Korea, it is easily its most important one. In addition to these FTAs, China, Japan, and Korea are actively seeking FTAs with numerous other countries including the European Union (EU) and the members of the Association of Southeast Asian Nations (ASEAN).

Many have written about the rationale and feasibility of a tripartite FTA among China, Japan, and Korea. Lee et al. (2005) and Jin et al. (2006) show the rationale for a China-Japan-Korea FTA and discuss its impact on the world economy and particularly on the Korean economy by using a computable general equilibrium (CGE) model. They have predicted that its member countries in general and Korea in particular would have substantial economic growth if there were such an FTA. They have also computed the extent of trade creation and trade diversion and have provided a detailed prediction for the major economic segments such as agriculture and manufacturing sectors.

In Kang (2006), I also argue why such an FTA, termed a Far Eastern Asia FTA (FEAFTA), is a good arrangement for all three countries. I specifically suggest that a trilateral FTA is a more desirable arrangement for those countries than any bilateral FTAs among those three countries. When my earlier paper was written, the three countries were in serious discussions toward completing an FTA by the end of 2005. Not much happened until April 2007, however. One important development as far as FTAs are concerned is that, at the end of March 2007, Korea and the United States completed negotiations for a KORUS FTA. Although it still has to be ratified by lawmakers in both countries, the KORUS FTA negotiation is a monumental achievement. In this paper, I try to argue that for South Korea a FEAFTA is far more necessary and desirable than the KORUS FTA.

This paper differs from my earlier one in three areas: First, the recent KORUS FTA negotiation is reflected in the discussion of FEAFTA. Second, more recent data are used in evaluating the necessity of a FEAFTA. Third, trends in regionalism in economic activities will be elaborated to emphasize the inevitability of FEAFTA. This paper will thus go beyond the feasibility of FEAFTA by showing that such an arrangement is both necessary and even inevitable for China, Japan, and Korea. I use the term inevitability because the three countries are the only neighboring, major countries in the world still without a regional trade agreement.

II. Economic Environments of FEAFTA

Trade—the total figures of both exports and imports—among the FEAFTA countries, between FEAFTA and NAFTA, and between FEAFTA and the EU are shown in ***Table 1.***

Table 1: **Total Trade (Exports and Imports) Involving Proposed FEAFTA Countries, 2000–2005, in millions of dollars**

Year	Trade among FEAFTA countries	Trade between FEAFTA countries and NAFTA countries	Trade between FEAFTA countries and the EU
2000	111,899	422,105	238,094
2001	109,900	387,797	227,974
2002	126,046	405,630	240,889
2003	164,402	443,775	304,809
2004	319,855	537,696	408,272
2005	364,535	609,640	458,778

Source: IMF (2006).
Note: Trade data shown above are averages from the reports of each trading partner. EU = European Union; FEAFTA = Far Eastern Asia Free Trade Agreement (China, Japan, Korea); NAFTA = North American Free Trade Agreement.

The annual growth rates for trade from 2000 to 2005 are 26.6 percent for FEAFTA, 7.6 percent for FEAFTA-NAFTA, and 14 percent for FEAFTA-EU. The large growth rate for FEAFTA is mainly because of the tremendous increase in trade with China in recent years.

The populations of these regions are as shown in ***Table 2.***

Table 2: **Populations of the FEAFTA, NAFTA, and EU Areas, 1990–2005, in thousands**

Year	FEAFTA	NAFTA	EU
1990	1,301,569	359,427	355,631
1995	1,373,987	383,330	362,855
2000	1,433,015	403,394	367,913
2005	1,482,372	434,742	459,900

Sources: Eurostat (various years); U.S. Census Bureau (various years).
Note: EU = European Union; FEAFTA = Far Eastern Asia Free Trade Agreement (China, Japan, Korea); NAFTA = North American Free Trade Agreement.

FEAFTA has almost twice the population of NAFTA countries and the EU combined. In addition, many countries that neighbor the three FEAFTA countries have economies and populations that could greatly benefit from the establishment a greater Asian free trade area. India, Indonesia, and Russia in particular have huge populations and governments that may favor an alignment with China, Japan, and Korea. Even if the EU further extends its membership in Eastern Europe and NAFTA countries extend membership in South America, the population of FEAFTA will continue to dominate the population in other regions.

The gross domestic products (GDPs) of those regions are shown in ***Table 3.***

Table 3: **Total Gross Domestic Product of FEAFTA, NAFTA, and EU Areas, 2003–2005, in billions of 1995 dollars**

Year	FEAFTA	NAFTA	EU
2003	6,321	12,515	11,187
2004	6,999	13,406	12,454
2005	7,363	14,252	12,963

Source: World Bank (various years); Eurostat (various years).
Note: EU = European Union; FEAFTA = Far Eastern Asia Free Trade Agreement (China, Japan, Korea); NAFTA = North American Free Trade Agreement.

The annual growth rates from 2003 to 2005 are 7.93 percent for FEAFTA, 6.71 percent for the NAFTA area, and 7.65 percent for the EU. Because Japan's economic growth during the data period has been close to zero, the growth rate of FEAFTA will likely be much greater than other regions in the future, as Japan recovers from its prolonged recession.

The following table (***Table 4***) shows the exports among China, Japan, Korea, and the United States. Read the table by finding the intersecting cell from the exporting country listed in the farthest left column to the importing country across the top. For example, exports from China to Japan in 2005 amounted to $84,097 million.

In terms of U.S. imports, China is the second-largest trading partner of the United States, Japan the fourth, and South Korea the seventh. Imports into the United States from the three FEAFTA countries are already larger than the imports from the entire EU. U.S. trade with FEAFTA countries is also growing faster than that with the EU or even with the NAFTA countries. China and Japan have become the third- and the fourth-largest trading countries in the world, respectively, following the United States and Germany. Whether or not China, Japan, and South Korea successfully negotiate FEAFTA, they are likely to remain important players for the United States and in world trade. The creation of FEAFTA would enhance this role.

Table 4: **Exports among China, Japan, Korea, and the United States, 2005, in millions of dollars**

	China	Japan	Korea	United States
China	—	84,097	35,117	163,348
Japan	80,005	—	46,678	136,002
Korea	61,915	24,027	—	41,500
United States	41,837	55,410	27,670	—

Source: IMF (2006).
Note: Read the table by finding the intersecting cell from the country on the left-hand side margin to the country at the top. For instance, the dollar amount of the exports from China to Japan in 2005 was $84,097 million.

To arrive at the successful conclusion of FEAFTA, countries have to be prepared for significant changes in their agricultural as well as manufacturing sectors. Countries should view these changes as opportunities rather than threats, as challenges and advantages rather than as weaknesses and disadvantages in the long run. The protection of sunset industries will become harder and costlier as years pass, and substantial reforms will be necessary for all the countries involved.

For instance, Japan and Korea share a similar tariff structure although Japanese tariff rates are somewhat lower on fisheries and forest products. Chinese tariff rates, however, are substantially higher than Japanese and Korean rates except in transportation, electronics and machinery, and manufacturing, for which China has much lower rates (Cheong et al. 2003, 88). Differences in tariff rates and trade barriers reflect the differences in the political clout of import-competing sectors as well as the different stages in economic development. An omnibus trade negotiation would be quite complicated to negotiate owing to the prevalence of so many competing claims. Tensions among the three countries are decreasing, however, and each country is apprehensive and cautious and does not want to be left out of a potential FTA. Moreover, one great benefit of FEAFTA, as any other FTA, would come from the ensuing reform and restructure of domestic industries. Those industries with comparative advantages would flourish, and those without would perish to make the entire economy more efficient.

III. Regional Integration

Multinational Enterprises

The economic activities of multinational enterprises (MNEs) are regional. According to Rugman and Verbeke (2005), an overwhelming proportion of the sales of large MNEs occurs in their own triads, where triads are defined as the North America,

Europe, and Asia-Pacific regions. The Asia-Pacific region includes the three FEAFTA countries, Australia, New Zealand, India, and the Middle East. Out of the largest 500 multinational enterprises, based on their sales in 2002, Rugman and Verbeke (2005, 27) have complete data for regional sales of 380 MNEs. ***Table 5*** shows the intraregional sales in 2001:

Table 5: **Intraregional Sales, 2001**

Region of world	Number of firms out of global 500	Number of firms with complete data	Intraregional sales as percentage of total sales (%)
North America	215	185	77.2
Europe	158	119	62.8
Asia-Pacific	122	75	74.3
Other	5	1	88.0
Total	500	380	72.2

Source: Rugman and Verbeke (2005).

African countries are included in the Europe region, and the "Other" category includes countries in South America. These triad regions are mainly what MNEs report for their regional sales. Intraregional sales amount to 77.2 percent of the total sales for those MNEs, indicating a strong regional bias. Major MNEs make their sales mostly in their own triads, where their headquarters are located. More than two-thirds of the entire sales were made in their own home triads in 2001, and this figure has been very stable over the years, according to Rugman and Verbeke (2005).

Intraregional International Trade

Table 6 shows the percentage of intraregional trade (exports plus imports) out of the total trade. For instance, 64.63 percent of the EU trades were within the EU in 1990.

Table 6: **Intraregional Trade (Exports plus Imports) as a Percentage of Total Trade, 1990–2005**

Year	FEAFTA	NAFTA	EU
1990	5.13	18.46	64.63
1995	11.20	20.80	61.11
2000	10.09	23.28	60.02
2005	11.84	21.40	64.17

Source: IMF (2006).
Note: EU = European Union; FEAFTA = Far Eastern Asia Free Trade Agreement (China, Japan, Korea); NAFTA = North American Free Trade Agreement.

The low value of 5.13 percent for FEAFTA in 1990 is mainly because of China's low amount of trade prior to its joining the World Trade Organization. Perhaps because of the geographical proximity of EU members, the EU's figures are much larger than the values for FEAFTA or NAFTA. Another important point is the difference in geographical size of European countries. Trade flows from New York to California travel much farther than those from France to more than a dozen countries. Therefore, trade flows that are counted as international in each of the regions cannot be directly compared. With only three FEAFTA countries, the results should be more similar to signatories to the NAFTA than to the EU. Table 6 nevertheless shows that the intraregional trade in FEAFTA is much smaller than that in the NAFTA or the EU.

If a successful FEAFTA duplicated NAFTA, then intraregional trade (exports and imports) would double to reach NAFTA rates. There would be tremendous potential for trade creation in FEAFTA. The impact of NAFTA has of course been much smaller. If we compare the 1990 figure of 18.46 percent, before NAFTA, and the 2005 figure of 21.40 percent, after NAFTA, we see that the increment is only about 16 percent, far lower than the twice as much just mentioned. Yet, even before NAFTA, the United States and Canada had had de facto bilateral trade agreements. Table 6 shows that the intraregional trade for FEAFTA countries is much lower than in the other triads. It is likely that a successful FEAFTA would sharply increase intraregional trade to make it comparable with that in the other triads.

Sales of large MNEs and the total exports and imports are thus highly regional. With or without FEAFTA, intraregional trade and economic activities will increase, along with the trend in other triads, for the three countries. With FEAFTA, the increment would be larger and the sharp increase would be realized quicker. More multinational enterprises in the FEAFTA countries would make the list of the global top 500 MNEs as their sales would increase markedly. Needless to say, having larger MNEs is not necessarily good for the welfare of a country, yet companies in the FEAFTA countries would have a greater opportunity to take advantage of both economies of scale and economies of scope.

Trade Gravity Model

The trade gravity equation has been widely used in the literature to explain international bilateral trade flows; see Anderson (1979), Frankel (1997, chap. 5), Deardorff (1998), Rose (2000), among others. These trade flows, adjusted for prices, increase when real income and per capita real income of each country increase, but decrease with the distance separating two trading partners. The distance between the trading partners is a proxy for transaction and transportation costs. Other country-specific characteristics in the equation are a common land border, common language, common currency, and membership in regional trade agreements (RTAs).

The typical trade gravity specification is as follows:

$$(1)\ \ln(y_{ijt}) = ß_0 + ß_1\ln(x_i x_j)_t + ß_2\ln(I_i I_j)_t + ß_3\ln(d_{ij}) + å_k\, ß_4^k Characteristics_{ijt}^k + e_{ijt},$$

where y_{ijt} = bilateral trade flows between country i and country j at time t in real terms, x = real GDP, I = per capita real income, d = distance, and *Characteristics* represent a few country-specific dummy variables indicating whether the two trading partners share a common currency or belong to the same RTA, which includes FTAs and customs unions. Characteristics also include time-invariant factors such as common language, having had a common colonizer, and a shared land border as well as year dummy variables. In equation (1), e_{ijt} is an independent and identically distributed error term.

Annual observations are on bilateral trade flows for the years 1980–2003 for all cross-country trade along with the countries' GDPs, exchange rates, and other geopolitical variables. The estimation results from 122,402 observations are shown in ***Table 7.*** The source of country-level bilateral trade data is the World Trade Analyzer by Statistics Canada for 1980–2003; and the source of geographic, cultural, and institutional data is the same as Rose (2005) for 1980–99. The data set has been modified and expanded with the same data sources of Rose (2005) by the regional economic integration research project of Indiana University Center for International Business Education and Research (CIBER). The detailed description on the source of the data set and the process of data management is available in Oh (2006).

The first column of data shows the results when all RTAs are grouped together without identifying the memberships of individual RTAs. The second column of data uses all 11 RTAs separately under the assumption that different RTAs have heterogeneous effects on bilateral trade flows. All the regression coefficients of RTAs or interregional variables are statistically significant.

Larger countries trade more with significantly positive regression coefficients for (the log of) real GDP and for (the log of) real per capita GDP. Their coefficients are, respectively, 0.9241 and 0.1373, as shown in the second column of Table 7. A 10 percent increase in the real GDP or real per capita GDP, respectively, will increase trade by 9.241 percent and 1.373 percent. Indeed (the log of) distance between trading partners is a great trade barrier, with a significant negative regression coefficient of –1.1082. A 10 percent increase in the distance between the two trading partners will reduce their trade by 11.082 percent. Results in Table 7 are, as expected, similar to those reported in the literature.

For RTA dummies, coefficients vary from one RTA to another. All the RTA coefficients are statistically significant at the 1 percent significance level. Three RTA coefficients

Table 7: **The Effects of Regional Trade Agreements on International Trade, 1980–2003, with the gravity trade model.**

	With RTA effects	With separate RTAs
Intercept	–28.2604***(.1208)	–29.0248***(.1209)
Log of real expenditure	.9071***(.0025)	.9241***(.0024)
Log of real per capita exp.	.1331***(.0032)	.1373***(.0032)
Log of distance	–1.0948***(.0080)	–1.1082***(.0080)
Common border	.4181***(.0378)	.4661***(.0377)
Common language	.4446***(.0143)	.4087***(.0143)
Common colonizer	.8074***(.0245)	.7709***(.0245)
Colonial relationship	1.3231***(.0280)	1.3343***(.0278)
Common currency	.3363***(.0618)	.6101***(.0566)
Common RTA	1.0187***(.0389)	
Interregional	.3267***(.0158)	.2619***(.0157)
ASEAN		1.6829***(.1021)
CARICOM		2.5772***(.1046)
EU		–.3934***(.0259)
NAFTA		.2328***(.0895)
ANDEAN		.7845***(.1099)
ANZCERTA		–2.0844***(.2943)
CACM		1.9663***(.1135)
MERCOSUR		.7307***(.1721)
PATCRA		–1.8268***(.2437)
SPARTECA		4.0380***(.1097)
USIS		.8924***(.0483)
Obs.	122,402	122,402
R2	0.6783	0.6828

Sources: Author's calculations. The source of for 1980–2003 country-level bilateral trade data is Statistics Canada (various years); the source of geographic, cultural, and institutional data is the same as in Rose (2005) for 1980–99. The data set has been modified and expanded with the same data sources of Rose (2005) by the regional economic integration research project of Indiana University Center for International Business Education and Research (CIBER). The detailed description on the source of the data set and the process of data management is available in Oh (2006).

Notes: Fixed-year dummies are estimated but not reported here. Robust standard errors are shown in parentheses. Statistical significance at the 1 percent level is indicated by ***, at the 5 percent by **, and the 10 percent by *.

Regionalism is defined in terms of 11 regional trade agreements: ANDEAN (Bolivia, Colombia, Ecuador, Peru, and Venezuela), ASEAN (Philippines, Indonesia, Malaysia, Singapore, Thailand, Vietnam, Laos, Burma, and Cambodia), CARICOM (Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, Saint Vincent and Grenadines, Suriname, and Trinidad and Tobago), CACM (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), NAFTA (Canada, the United States, and Mexico), MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay), USIS (the United States and Israel), PATCRA (Australia and Papua New Guinea), ANZCERTA (Australia and New Zealand), SPARTECA (Australia, New Zealand, Fiji, Kiribati, Papua New Guinea, Solomon Islands, Tonga, Vanuatu, and Samoa), and EC/EU (Belgium, France, Germany, Italy, Luxembourg, Netherlands, Denmark, Ireland, United Kingdom, Greece, Portugal, Spain, Austria, Finland, and Sweden). The regional dummy is equal to one when the countries in the pair belong to the same RTA; otherwise it is zero. The interregional dummy is equal to one when the countries in the pair belong to different RTAs; otherwise it is zero.

in the second column are negative. Two of those three RTAs (ANZCERTA and PATCRA) are small ones that include Australia. Studies in the literature repeatedly report a negative coefficient for the EU. In Table 7, it is –0.3934, possibly because of the fact that the EU is one of the oldest and most extensive RTAs. RTAs' effectiveness at reducing trade barriers might have been diminished over the years. In addition, the protection of, for instance, agricultural sectors through common agricultural policies might have even enhanced trade barriers. More study is needed to identify and quantify the effectiveness of the EU.

The coefficient of NAFTA is 0.2328. In contrast, some coefficients of RTAs are large. For instance, the coefficient for ASEAN is 1.6829. Because FEAFTA is not yet in place, we do not have its RTA dummy variable in the model. Moreover, a statistical investigation through the trade gravity model does not provide the impact of those RTAs on other trading partners. Yet it is reasonable to assume that FEAFTA is closer to ASEAN than to NAFTA, mainly because China is closer to many ASEAN countries geographically as well as in its economic development. Hence, FEAFTA is expected to significantly increase trade among member countries. If the impact of FEAFTA is perhaps heroically assumed to be half that of ASEAN so that a hypothetical regression coefficient is 0.841, trade between the member countries and the rest of the world would increase by 84.1 percent after the conclusion of a trade agreement. Table 7 shows that international trade is again highly regional: RTAs are statistically significant, and geographical distance between the trading partners is a large hindrance to the trade flows.

The stylized facts in this section show that the sales of multinational enterprises take place overwhelmingly in their own home triads; international trade is mainly with neighboring countries; and RTAs have significant, positive impacts on international trade flows. Yet, China, Korea, and Japan are the only major neighboring countries without an RTA. A FEAFTA appears to be necessary for the three countries. It may very well be an inevitable arrangement.

IV. FEAFTA

As Kang (2006) documents, at the summit meeting of China, Japan, and Korea in the Philippines in November 1999, the three countries hinted at the possibility of an FTA among them. Summit meetings of the same three countries have become an annual event. During the November 2002 meeting in Cambodia, China suggested, and all three countries accepted, a joint investigation of the feasibility of an FTA. In October 2003, the three countries issued a communiqué announcing a formal study on the creation of an FTA. Since then, the three countries have jointly investigated various aspects of FEAFTA, the results of which are published regularly in each country. Separately, Japan and Korea announced in October of 2004 that they were set to

"declare the launch of official talks to forge an FTA by 2005." Several media reports have also reported on the current situation of the movement toward a FEAFTA.

On 19 October 2004, the *Yomiuri Shimbun* wrote: "The Japan External Trade Organization has established a joint research group with a Chinese government institute to examine the possible impact on the Japanese and Chinese economies of a bilateral free trade agreement." The *Asian Economic News* on 7 February 2005 reported: "Chinese Ambassador to Japan Wang Yi called on Japan on Thursday to launch negotiations with China on a bilateral free trade agreement," including intellectual property rights issues.

On 14 February 2005, the *Korea Times* wrote that the Korea-Japan FTA "negotiations have come to a standstill due in part to a difference between the two countries in the opening of the agricultural market," and seafood market. Xinhua news agency, in contrast, reported on 19 May 2005 that "Vice Premier Wu Yi stressed Wednesday the significance of the Sino-Japanese economic relations and called for a bilateral free trade agreement for long-term and active ties." According to *Korea Herald* on 4 August 2005, "China's Premier Wen Jiabao during a meeting in Beijing with Prime Minister Lee Hae-Chan [of Korea] on 21 June [2005] said he finds it necessary to spur the process of official negotiations once research on the economic impact on the two countries has reached some degree of progress."

As these several sample media items indicate, all three countries wanted to negotiate a FEAFTA for economic reasons, but they did not have the political will to pursue it. This in my view changed after the completion of the KORUS FTA negotiations. Right after the negotiations, both China and Japan renewed their commitments to FEAFTA. "Japan is eager to restart free trade negotiations with South Korea, stalled since late 2004, and needs to consider a trade agreement with the United States, officials in Tokyo said yesterday," according to the *Financial Times* (on 4 April 2007). The article continued: "The calls came after the signing of a landmark trade deal on Monday between South Korea and the United States that will see 95 per cent of tariffs eliminated between the two countries in the next three years. They highlight Japan's concern that it could be left out by a growing number of bilateral deals. Japan yesterday signed a trade agreement with Thailand that will eliminate tariffs on more than 90 per cent of trade between the two countries in 10 years. But that was overshadowed by a pledge from Yasuhita Shiozaki, chief cabinet minister, that Japan is 'ready to resume FTA negotiations [with South Korea] at any time and will intensify our call to restart the process at an early stage.' "

In early April of 2007, when Chinese Premier Wen Jiabao visited both Korea and Japan he emphasized only trade and economic ties and did not even mention political issues such as war repatriation or territorial disputes as often he did previously. "In a

rare honour, Mr Wen has been invited to address Japan's parliament, where he will suggest that China is rising, but along a peaceful incline; he will invite Japan to share it," according to the April 7–13 issue of *The Economist.*

Reuveny and Kang (1996) investigate the Granger intertemporal causality between international trade and bilateral political conflict or cooperation and find that the causality direction differs from one country pair to another. When countries trade more, the level of political cooperation and conflict also rises. Two countries may lower the trade barrier to further increase the benefits of trade. At the same time, a greater amount of trade generally increases trade disputes and political conflicts. One extreme form of conflict is of course a war. It is also true that major wars are generally between neighboring countries. Remote countries do not trade much, and the level of political cooperation or conflict is also low. Neighboring countries also tend to be former enemies. Former enemies have formed regional trade agreements, as in the EU, MERCOSUR, and even NAFTA. Economic benefits from RTAs and FTAs are believed to be greater than political differences and conflicts. The same will apply to FEAFTA.

International trade in general and exports in particular are considered to be the main engine of a country's economic growth. This belief is not only for developing countries, but even for developed countries. The three FEAFTA countries rely greatly on their exports for their economic growths. Given the trend in regionalism, a successful FEAFTA negotiation in the near future seems to be inevitable. The exploration of the feasibility and rationality of FEAFTA is important. What is more important now is the creation of a strong, joint political will in the three countries in order to realize a FEAFTA.

V. Concluding Remarks

In this paper, the sales of large multinational enterprises are shown to be regional more than outside the geographic region. More than two-thirds of sales take place within countries' own triads. International trade flows are regional as well. Regional trade agreements are statistically significant determinants of the trade flows, and the distance between two trading partners is a significant barrier to trade flows. Because more trade occurs among neighboring countries, a regional trade agreement among them will be of more benefit. The KORUS FTA is expected to be a great achievement for both Korea and the United States. Although some agricultural sectors are not fully included in the negotiation, it is remarkable that the two countries in fact successfully completed their agreements within 18 months of the initial announcement. Given the necessity of a FEAFTA, Korea will be in an excellent position to renew a tripartite negotiation. The agricultural sector has been one of the major issues in previous

FEAFTA studies and discussions. With a strong political will in the countries involved, even the agricultural sector can be fruitfully included in the agreement.

The three countries of China, Japan, and Korea have initiated trade talks toward the establishment of FEAFTA. Yet the countries have not been eager to make a serious move until very recently. Because all the studies on a FEAFTA agree that, at least as a percentage, Korea will gain the most in its economic growth, Korea has the strongest incentives for setting up a FEAFTA among the three countries. Korea has also gained valuable experience from the KORUS FTA negotiations. Korea should therefore demonstrate its forceful initiatives toward a successful tripartite FEAFTA in the very near future by immediately embarking on a formal negotiation.

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