

Prospects for Millennium Round Trade Negotiations and Korea-U.S. Free Trade Agreement*

Jeffrey Schott & Inbom Choi

Jeffrey Schott

We should be quite optimistic given the vote on China in the U.S. congress this week. This has circumvented a major obstacle to bilateral relations between the U.S. and China, a problem that would have had very grave implications for the entire region if the congress had voted down the acceptance of the trade agreement that the U.S. negotiated with China last fall. I am somewhat worried that the amount of effort it took to pass an agreement that was overwhelmingly in the U.S.' interest and had such important political and security implications, does not vote well for the future progress for the WTO or for the U.S. participation in new trade initiatives over the near future. It took tremendous political effort by President Clinton to secure a victory, which was in doubt until last week. This means that we have a lot of work to do to educate our public on the importance of international trade and the contribution that it makes to our economic well-being. That is a task the IIE is trying to pursue.

I thought that it would be useful to explain some of the problems confronting the WTO, what should be done in the near term to address the problems that were exposed in Seattle, and how we should also be looking at complementary initiatives that can be undertaken at the bilateral and regional level. We already have an ongoing relationship in the APEC, but unfortunately, there has been very little progress towards fulfilling its commitments to free trade and investment in the region. There is a renewed interest in the pursuit of bilateral trade arrangements. We will talk about studies that we are undertaking on Korea-U.S. trade relationship.

First, let me briefly talk about the problems in Seattle and what we need to do about them. We started the year with a great deal of concern about the direction the WTO was taking-- about its mission and its evolving role in international trade relations. The collapse of the Seattle ministerial exposed significant differences among member

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countries about what should be on the WTO agenda, the shortcomings in the way the WTO operates, the way it conducts business and interacts with other international organizations, and the way it deals with the general public. These problems are multiple. The interesting thing is that there were so many problems exposed in Seattle that it created a wonderful agenda for new trade negotiations: it demonstrated how much trade negotiations are needed to rectify the problems in both coverage of international trading rules and the way international trade functions. But that task is obviously complicated by the differences that were exposed in Seattle, by the number of countries that would have a legitimate stake to put forward their interests, and it would be further complicated as China enters that debate as a full partner later this year.

Why did Seattle fail? There are a number of reasons and it would take a while to explain all of them. However, I do have one thing I want to say: the anti-WTO protesters, the street demonstrations and violence that was perpetrated in Seattle took credit for disrupting the Seattle meeting, but they do not deserve that credit. They did cause some problems and delays in the talks, but ultimately the WTO meeting fell victim to serious differences inside the convention center among both the developed and developing countries over the prospective agenda for the new trade round. So, it was really the problems at the core of the WTO system itself, not outsiders trying to disrupt the talks that caused the problems. The differences between members were quite diverse and complex, it involved issues between developed and developing countries, and most importantly, differences among the major trading powers, the U.S., the European Union, and Japan. In fact, because those three countries could not agree among themselves on many of the most important issues and had such different agendas for the trade talks that they were unable to take up the leadership mantle of the Seattle talks and help build consensus. It is very difficult to have a consensus among 136 countries when the top three trading nations are fighting among themselves and do not agree on the basic agenda. This is, in very simple terms, what caused the break up in Seattle.

All the differences at Seattle led to the inability to craft a ministerial declaration. There were lots of problems with representation at the meeting and many developing countries did not feel they were adequately represented. It was a combination of many ingredients that led to the collapse of the meeting. As a result of that, the protestors have been invigorated. They feel that they have a great victory, and so, you have seen them moving forward, expanding beyond the trading system, to attack the IMF and the

World Bank and take a prominent role in debate opposing China's entry into the WTO. Suffice to say, the officials had underestimated their influence and ability to disrupt the normal course of trade negotiations, and that has cost us dearly.

What can we do now? We could wring our hand about all the mistakes that we made or point fingers at countries that made many major mistakes in the run up to Seattle and in the conduct at the meeting. However, it is important that you look at what needs to be done to redress the problems that face the trading system and revive efforts to launch a new round of negotiations.

The first task is to rebuilt confidence in the organization and its ability to deal with diverse array of problems. WTO members have already begun to do that. They restarted negotiations on services and agriculture under the mandate of the agreements reached at the Uruguay Round. They talked about tariff-free treatment for the least-developed countries, though the concessions made have been diluted in any area where there is any potential major trade gain. They talked about improvements in operations of the system, but all in very general and minimalist terms. All of these modest steps at confidence-building have fallen short: key issues still divide the WTO membership; institutional reforms needed to resolve the problems, particularly with the dispute settlement mechanism; too little has been done in cooperation with other international agencies which could help build-up capacity in developing countries so that they can better undertake and enforce their trade obligations; and very little has been done to bridge the gap differences between member countries on what should be the subject of these discussions.

I am not optimistic that a lot of progress will be made in this regard in the near future. National elections in the U.S., Japan, and other key countries will distract attention away from global trade talks. There are a number of intractable disputes between the U.S. and Europe on beans, beef hormones, bananas, and on the foreign sales corporation subsidies program in the U.S. that was ruled illegal. All of these things inhibit U.S.-Europe cooperation, and public support for the WTO in the U.S. and Europe continues to wane as its ethic to promote trade reform is questioned by its supporters and its legitimacy is questioned by its vocal critics. What should be done? I think governments need to take steps to better lay the foundations for new trade talks next year: improve the foundation to improve the system and to strengthen their cooperation so that when they get to the point of being able politically to agree on a new

trade agenda is ready to handle it, unlike last year.

The first task should be to improve the WTO's dispute settlement procedures because confidence in a rules-based trading system depends in large measure on the willingness of the most powerful trading nations to live by the WTO rules and to comply with its rulings. I think there are some questions about that today because both the U.S. and European Union are flaunting their obligations when push comes to shove and they are found to be not in compliance with the WTO rules.

Second, I think the WTO decision-making needs to be more inclusive and more efficient. Part of the problem in Seattle was that too many countries with significant stake in the trading system and in the new negotiations were excluded from the deliberations on ministerial declaration. It is part of the problem of how one develops consensus in the WTO context. Obviously, it is more difficult to do that when there are 136 member countries than when there were 60 or 80. There are more developing countries that, as a result of their domestic economic reform and their unilateral liberalization, have now much more open economies and greater stake in international trade. They have a legitimate right to be in the internal deliberations that helped craft the consensus in Geneva, but many of them were excluded because of traditional ways of doing business carried over from the GATT. That needs to be resolved.

Third, the WTO needs to strengthen its ties to other international organizations, particularly to the International Monetary Fund and the World Bank to spur efforts in developing countries to improve their economic infrastructure and their administrative capability so that they will be better able to implement economic reforms. Trade agreements create opportunities; they do not guarantee sales. If a country is unable to do so because it does not have the road to bring the goods to market or if it does not have adequate telecommunications infrastructure so it cannot take proper use of information technologies that can boost productivity in goods and service industries, then these things will inhibit economic growth and dilute the value of new trade agreements because countries will be unable to take advantage of them. The WTO needs to work more closely with the Fund and the Bank to develop programs so that groundwork for these trade initiatives are laid through proper projects supported by the IMF and developing banks.

Fourth, there needs to be some bridge-building between the countries. It is

very difficult, given the baggage from Seattle and some of the residual ill-will that developed last year in the preparations for the Seattle meetings, for the countries to put that all aside and come together to work together.

What I have found is that commissioning an eminent persons group could provide a useful source of ideas and recommendations that could be put before governments. Governments could keep those ideas at arms length but could benefit from them as a means of having a common base to renew their discussions ant happened in the APEC and it worked before the start of the Uruguay Round. I think putting together a group of experts from developed and developing countries and having them issue a report early next year could serve a very useful purpose. Having a report next year recognizes that there will be very little political capital will be invested in a new round unless there is a new administration and there is a clearer idea of how the U.S. can move forward in multilateral trade negotiations, and whether the U.S. will have fast-track authority. Fast-track has been absent from the U.S. trade policy arsenal for 6 years. During those 6 years, it has been very difficult for the U.S. to move forward new trade initiatives, if those initiatives involved any changes in existing U.S. policies or practices. There were three successful agreements in the WTO on financial services, basic telecommunications, and information technology products, but none of those agreements involved significant changes in U.S. practices. They all involved agreement by other countries to basically move up to U.S. norms and to reduce their tariff on products which the U.S. already had low tariffs. So, it did not require U.S. a great deal of political skill or effort to get approval of those agreements without fast-track. It will be different in any broad-based reciprocal trade agreement that the U.S. pursues, whether it be in the WTO, in the free trade areas of the Americas in the western hemisphere, or a prospective free trade agreement with Korea or other countries. I am hopeful that a new U.S. administration would give priority to fast-track.

Now, one does not need to exclude other trade initiatives while conducting a multilateral trade negotiation, as was in the past. The negotiation of the NAFTA was an important contributor to moving the Uruguay Round forward and provided useful precedents that adopted by Uruguay Round negotiators. I think in a similar fashion, one could look at the prospects for free trade among important trading partners as a means of encouraging a forward-movement on domestic economic reforms, reforms that could be locked in through international trade arrangements. And for that reason, we are looking at what it would mean for the U.S. and Korea to engage in a free trade

negotiation to eliminate barriers to bilateral trade. I am now going to turn the podium over to Dr. Inbom Choi to talk about some of our initial findings. After his presentations, I will sum up what an FTA might mean in the near future.

Inbom Choi

As Jeffrey introduced, there has been flurry of discussions on Korea-U.S. bilateral FTA agreements in Asia-Pacific region in the last 2-3 years. The first question we raised for the outset of our study was to find out why we are discussing this issue now, in this point in time. We found that that is because Korea, going through the economic crisis in the last two years, found it is almost necessary to open up its economy, in addition to having domestic reform.

It is interesting to note that Japan is also pushing the possibilities of FTA with a few other countries in the region. This is a one possible way out of economic slowdown: through an expansion in trade and investment. But basically, we have regional and multilateral talks that are being stalled or being drifted. As you know, in Asia-Pacific Economic Cooperation (APEC), there has not been any significant progress made in the last 3-4 years, since the MOFA came out in the Philippines. And as Jeffrey mentioned, the WTO is having problems kicking out a new millennium round. We think most of these problems can be attributed to the lack of strong leadership in the global trading scene. And as you know, the U.S., without its fast-track negotiation authority, is not providing effective leadership in the global trade liberalization. With these factors considered, many countries see opportunities for bilateral FTAs with similarly-minded countries, especially with open regimes.

There are some examples of recent talks. The Pacific 5 (P5) countries, the U.S., Chile, New Zealand, Australia and Singapore recently had some talks about having an FTA together. It has not made much progress, but the idea still lingers. Korea is also in negotiation with Chile and the government hopes to complete the process some time this year. Mexico expressed its interest in having an FTA with Korea, in addition to Japan. Of course, Singapore and New Zealand are in negotiation and I just heard this morning that they might complete the process sometime this year. I think Japan is seriously considering the possibility of an FTA with Singapore. With these possible FTAs in the Asia-Pacific region, I think it would be an interesting study the possibility of an FTA between Korea and the U.S. So far, this issue has not been

discussed officially at the government level. However, there has been some interest expressed in business community and the academic community. American business community in Seoul, the American Chamber of Commerce expressed its full support for a possible FTA between Korea and the U.S. last year. Some of you may not know this, but in November 1999, the U.S. Senator Max Baucus introduced a bill to the U.S. Senate Finance Committee to authorize the negotiations for an FTA with Korea. There are lots of interests in both the U.S. and Korea, even though they are not being discussed at official level.

The next question we raised was, do we actually need an FTA between the two countries? Are these two countries trading enough already? As you know, Korea is a very open economy, in a global sense and Korea is heavily dependant on trade. We found that Korea is trading much more than one would expect, given its country's size, trading distance with other trading partners, and the income level. However, Korea was not trading enough in agricultural products. In the case of the U.S., given its huge size, it is under-performing overall, but over-performing in agricultural products.

We then looked at the bilateral trade between the U.S. and Korea and they were trading much more than one would expect from 1985-1997. This over-performing bilateral trade can be attributed to the fact that Korea itself is a heavily trading country. The second factor is the close security ties, aside from the economic ties. As you know, Korea and the U.S. have a very close security relationship and in fact, we learned that all U.S. trading partners that also have close security relations with the U.S. are over-performing in bilateral terms. So when we take that away, the margin gets smaller, but still, it is over-performing in the last 10 years. When we look at the recent years separately, the two countries are actually under-performing, especially in the manufacturing sector. So with this, we see some opportunities for a potential expansion in trade between the two countries through an FTA in the near future. So, I think it is worthwhile to think about FTA, particularly in terms of expansion in trade.

Now, what is the trading pattern between the two countries? One should look at this issue because depending on the trade pattern, there could be some trade diversions. If the U.S. and Korea trade more, it could come from increased demand for imports in these two countries from other trading partners. At the same time, the increase in trade can come at the expense of reduction or fall in trade with other trade partners. We looked at this issue and found that the two countries have very

complementary bilateral trading pattern, meaning that there are not that many sectors where two countries are in head-to-head competition. This means that with an FTA, they can reinforce the natural trading pattern between the two countries with increased trade. Some trade diversion could occur because some of these increases in trade could come at the expense of other trading partners, such as Japan or Taiwan.

We also looked at what other countries would suffer from these trade diversions. We found that in the case of the Korean market, Japan has the most similar export structure to the U.S., so Japan is in heavy competition with the U.S. products, with Germany in second, and Canada and China in distant third and fourth. So, if U.S.-Korea FTA is formed, Japan and Germany are most likely to suffer from some form of trade diversion in the Korean market. But in the case of the U.S. market, Taiwan has the most similar trade structure to Korean exports, with Japan and Mexico in close second and third. So if U.S.-Korea FTA is formed, Taiwan, Japan and Mexico are most likely to suffer. We think that Japan will be most affected because Japan is exporting heavily to both the U.S. and Korea.

We also looked at it in sectoral terms because the effect will be different according to which sector we are talking about. Japan would probably experience export reduction from trade diversion, mostly in chemical and machinery sector in the Korean market. This means that these are the sectors in which the U.S. has most competitive edge in the Korean market. In case of the Korea-U.S. FTA, Taiwan would suffer in textile files and computer-related products, Japan in rubber and telecommunications products, the EU in steel products, China in textile fibers, Canada in plastic and rubber products, and Australia and New Zealand in textile fiber and steel products in the U.S. market.

FTA is more than just tariff cuts and non-tariff reductions. These days FTA takes form of a very comprehensive economic integration. Therefore, there are other implications. For example, two countries might look for a possibility of resolving disputes. There are some side benefits as well. For example, recently, there was a section 201 case where the U.S. commerce department and the ITC saw that there was a sudden surge in steel imports into the U.S. markets. They took some measures to protect the U.S. steel producers, one of which was to levy heavy tariffs on steel-exporting countries. Korea was one of the countries hit with heavy tariffs. Mexico was also another country exporting steel into the U.S. but because of its FTA status with

the U.S., it was spared.

Korea's main complaints are the U.S.' import restrictions, particularly the practices of anti-dumping concentrated on steel, color TVs, semi-conductors, and telecommunications products, which are Korea's major exports to the U.S. In the case of the U.S., the list is more extensive. As a result of these disputes, there have been nine disputes brought to the WTO since 1995. Out of these nine cases, six cases were brought up by the U.S. against Korea, and three brought up by Korea against the U.S. Five cases out six case brought up by the U.S. were in agricultural and food products. It shows the significant interest of the U.S. in Korea's agricultural market. Korea's all three cases dealt with anti-dumping cases.

The question remains: can we actually resolve or mediate these issues?

Jeffrey Schott

Dr. Choi has pointed out that there is a potential benefit from a free trade agreement and prospects that can be achieved. In theory, it is possible because article 24 of the GATT requires that FTA be comprehensive in coverage and that they cover substantially all trade. And therefore, there should not be major exceptions. Unfortunately, the rules of the WTO are ambiguous when it comes to practices such as anti-dumping safeguards, countervailing duties and rules of origin. Countries have done a number of things when they have concluded FTAs, which either removed those issues of problems or continue them. Take anti-dumping, for instance. In a number of free trade areas and customs unions, anti-dumping has been eliminated within the European Union: between Australia and New Zealand in the closer economic relations trade agreement; and between Canada and Chile, but not in the NAFTA. When it comes to trade relations between the U.S., Canada, and Mexico, all three countries use anti-dumping quite extensively against each other. There is a special dispute settlement provision in the NAFTA that deals with disputes after a final finding by the national authorities, but it is more in the form of an expedited judicial review of those cases, not an elimination or exemption.

First, there is nothing on subsidies in the NAFTA: that was left to the WTO rules. So, the precedent there is uncertain, but if you remember, I mentioned earlier that the U.S. negotiators wanted to take anti-dumping off the table from international

negotiations in Seattle. I think you will recognize that the U.S. will be very reticent about granting exemptions from anti-dumping in a free trade agreement.

Second, must agriculture be included? In the NAFTA, there is not a common agricultural regime. Instead, there are three separate bilateral trade agreements on agriculture. The U.S. and Mexico have agreed to free trade in agriculture over a 15-year transition period. The U.S. and Canada, being more sophisticated industrial countries, could not agree on free trade and have some exceptions to the free trade regime for various products in both countries. The EU's free trade agreement with Mexico contains very important exceptions for agriculture, which may or may not be contested when that agreement is reviewed in the WTO. In my opinion, it should be contested.

So, must agriculture be included? There is a mixed record. But one factor would be very important in the consideration from the U.S.' point of view: the agricultural sector is one of the strongest U.S. domestic lobbies for an open trade policy and for the reauthorization of fast-track. So, any negotiation or new initiative could not ignore their interests.

The biggest question mark for an FTA will be whether the U.S. will have fast-track authority and then be able to put its barriers on the table. Right now, that issue is up in the Air and I think it would be very difficult to move forward in areas of priority interests for Korea in a bilateral negotiation, if the U.S. did not have fast-track authority. One example of that is the very difficult time the Congress had in agreeing to even very small preferences for African producers to ship textiles and apparel to the States under the African-Caribbean trade preference act that was passed two weeks ago by the Congress. There were major resistances from the textile lobby to granting uncompetitive or non-existing African producers preferences in the U.S. market. How are those interests going to feel about granting preferences to competitive Korean companies in selling to the U.S. market? I think the task will be even greater.

Those are some minor and not-so-minor problems that come up in the short-term. Let me sum up very briefly where we stand today on an FTA, recognizing that the issue is at a very early stage of thinking and that work we are doing now lays for the foundation for policy-formulation over the near-to-medium term.

First, will an FTA increase bilateral trade? The answer is “yes”: both Korea and the U.S. will benefit.

Second, would it encourage greater flows of U.S. foreign direct investment and technology transfer from the U.S. to Korea? The answer is “yes”: ample precedents from the NAFTA experiences prove this.

Third, would it reduce Korea’s exposure to U.S. anti-dumping and countervailing actions? The answer is “no”. But, as we have found in many other cases, as countries become more closely integrated, as trade and particularly investment expands in each other’s market, one creates vested interest in support of better trade relations. So, essentially, what you are doing through these increased trade and investment linkages is reducing the demand for anti-dumping actions. I think that will be a valuable benefit of expanding the U.S.-Korea economic relationship through a variety of bilateral and multilateral means.

Fourth, will it require a liberalization of farm trade barriers, including rice and tariff peaks, including textiles and footwear? The answer is, “yes”. This poses significant difficulties for both our countries. However, it does not require an absolute and total elimination of all these barriers and there is room for creativity among negotiators to develop some limited exceptions. It is far too early to say what could and could not be done in this area, but since there are no absolutes in this area, there is some room for compromise.

So, in sum, right now, prospects for an FTA for the U.S. and Korea is not on the immediate horizon for a variety of political reasons from both sides. It is particularly so in the U.S. because of the strong resistance to new trade initiatives that results from the backlash against globalization.

What we would recommend is that stronger trade ties between the U.S. and Korea and perhaps prospective negotiation of a FTA in the future should be part of a broader evaluation of the U.S.-Korea relations at the start of the next U.S. administration in the beginning of year 2001. I think many Korea reforms that would be required by an FTA and additional accords in the WTO are needed in any event to help restructure the Korean economy and to provide sustainable growth. If Korean reforms continue to advance and are deepened, I think Korea will find the domestic

political barriers to FTAs and new WTO accords to be much lower and it will find a much easier time negotiating with its trading partners to the mutual benefit of both countries.

So, I think we end with an optimistic forecast for the medium-term and a charge to have both governments to work much harder to remove the barriers, both economical and political, that pose restraints on new trade initiatives in the near term.

Q & A

Q: I have a question on your idea for a U.S.-Korea FTA. Could you explain a little bit more about how you envision jump-starting that process?

A: I do not believe a process like that can be jump-started: it has to be carefully prepared. The discussions in both countries are essential in looking at the importance of the relationship and how we can both benefit from a mutual reduction in trade barriers and expansion of investment flows. Right now in the U.S., the climate is not good for that kind of discussion because there is reluctance to talk about changes in U.S. trade practices. I think that could change at the start of a new administration. However, for the rest of this year, the Clinton administration has expanded so much of its political capital on the China agreement that it would be difficult to run against its labor supporters and talk about changes in the U.S. practices that are high priority for the U.S. movement. I do not see much going on this year in terms of official discussions between our two governments. However, that gives a wonderful opportunity to do much more in-depth studying and start the process of consensus-building within each government and society on the value of moving forward.

Q: I am sure that the Korean audience is very much interested in knowing whether or not the outcome of the U.S. Presidential election would affect the U.S. trade policy or FTA one way or the other?

A: The question is very easy and at the same time very difficult to answer. It's easy in the sense that both Mr. Bush and Mr. Gore are internationalists and generally support an open trade policy. They are both politicians and operate under the constraints that

all politicians operate under. And so, just to say that Mr. Bush or Mr. Gore will be in the White House, I do not think there will be significant differences just because of that factor. The differences will come in the ability of either candidate to work with the Congress and the make-up of that Congress, whether it is controlled by the Republicans, etc. If Mr. Gore faces a Republican Congress, he is more likely to compromise. If Mr. Gore has an ally in Mr. Gattpart as Speaker of the House of Representatives, then Republicans might be more willing to compromise on domestic issues in return for a more open trade policy. So, there is a variety of permutations and combinations involving both trade and non-trade issues. One of the reasons that fast-track has been held up for so many years is that the liberal democrats in the House of Representatives have explicitly held trade legislation hostage to the agreement among Republicans to support increased funding for urban programs, supported by the Democrats. The unwillingness of the Republicans to do that is a part of the reason for the impasse on fast-track. In addition, Republicans in the U.S. business community have been quite reticent to support proposals that trade agreements be conditioned on labor and environmental provisions and obligations. Though those obligations can be crafted in a benign fashion, there is a great deal of mistrust on how Mr. Clinton would have exercised that authority. So, there is a variety of uncertainties which will create much anxts in the trade policy community up to the beginning of November.

Q: If Korea and the U.S. enter into negotiations on an FTA, will labor and environmental issues be included? If you were the policy-maker of Korea, which agreement would you pursue more seriously, if you had to choose between an FTA with the U.S. or with Japan?

A: With regard to labor and environmental issue, it will depend much on how fast-track is reauthorized. I think there is a good possibility that if a compromise is reached on fast-track next year, it will include a mandate that U.S. negotiators include provisions similar to those that were negotiated with Mexico and Canada as supplementary agreement to the NAFTA. It is a different context though when you talk about how those provisions will operate in a country that is thousands of miles away because most of the rationale for those agreements was due to the proximity of the three countries. Some of the issues include labor flows, the integration of the labor markets, trans-boundary environmental effect of practices in the U.S. on Canada, the acid rain problems, the pollution problems in Mexico spilling-over to the U.S., etc. I think of that reason, one could see as a requirement for the U.S., but it would not be so onerous

and be as difficult a problem in reaching agreement between the U.S. and Korea.

As Dr. Choi mentioned, a U.S.-Korea FTA would discriminate against Japan and make Japan angry. We did not discuss this morning some of the regional implications of such an arrangement, both for relations with Japan, China and Taiwan, or for the future of APEC. Would such an agreement reinvigorate APEC and create a process of competitive liberalization or will it fracture APEC as countries object to the discrimination inherent in new trade agreements. I think there is a strong case for the competitive liberalization argument.

If Korea and Japan negotiate an FTA, the U.S. firms will be discriminated somewhat in the Korean market. I think that will create some friction, or perhaps an incentive to go forward with both. Of course, that would be part of the spirit of a competitive liberalization scenario; that one agreement would provoke interest in other countries following suit.

On the labor and environmental issue, given the mood in Washington these days, it would be more likely to include labor and environmental issues in the future agreements between Korea and the U.S.

We did a study on the Korea-Japan variable and we found that both countries are under-performing. So, in fact, in terms of a direct impact on short-term trade, the impact will be greater. So, if Japan and Korea lower their tariffs and non-tariff barriers, then they will both get great benefits from direct impact on trade.

From a negotiator's point of view, it could be easier to negotiate Korea-Japan FTA because the two countries have similar weak sectors, i.e., agriculture sector. However, in terms of political perspective, I think it would be much more difficult to complete an FTA with Japan than with the U.S. As you know, an FTA is more than just a tariff and non-tariff barrier reduction; it is a very comprehensive one. In fact, an FTA means that you are moving forward towards an eventual one-market: it is an integration. This word integration could produce some resistance among general public in Korea considering past background between the two countries.

With respect to the regional implications, I think these FTAs will create a competitive forward-moving force so that it will cause a so-called bandwagon effect.

In fact, I think if the U.S. and Korea even start to discuss, at official level, I think it would be bigger news in Tokyo than in Seoul because I think the Japanese will be very upset that the U.S. and Korea are talking about by-passing Japan. It might even push Japan into signing an FTA with either Korea or the U.S.