

ASEAN-KOREA FREE TRADE AREA

— Towards Economic Integration in East Asia —

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Abstract

Association of Southeast Asian Nations (ASEAN) and Republic of Korea (Korea) has been mutually important economic partners over several decades. The impact of regionalism in East Asia brought two parties to realize the need to develop and enhance their economic integration. Therefore, Korea had proposed comprehensive and closer economic relations with ASEAN and as a result, ASEAN-Korea Free Trade Agreement (AKFTA) was agreed and signed. This paper examines the current bilateral trade patterns and FDI flows between ASEAN and Korea, examines the effects of AKFTA, determines the FTA's potential benefits of AKFTA, and to suggest possible strategies to be initiated by AKFTA. It also focuses on the direction in which an AKFTA is expected to move and accelerate towards. The results suggest that the potential benefits will be huge in terms of bilateral trade and FDI between ASEAN and Korea. In order to achieve successful implementation of AKFTA, Korea needs to pursue global and strategic trade policies and maintain the market opening levels at those of China and Japan or other competitors. Overall, the economic relationship between ASEAN and Korea will be developed by further deepening economic integration and cooperation.

1 . Introduction

Regional trading agreements (RTA) became a worldwide phenomenon in the 1990s alongside globalization, and it continues to prosper in the first decade of the 21st century. As the European Union (EU) and North American Free Trade Area (NAFTA) continues to widen and deepen its regional economic integration (currently with 27 member's countries), and the Americas have been attempting to form the Free Trade Area of the Americas (FTAA), the Association for Southeast Asian Nations (ASEAN), formed a newly emerging market of

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great potential with over 583 million people (2008).

ASEAN is the fifth largest export market for Republic of Korea (Korea). As ASEAN member countries continue to enjoy the privileges provided under the ASEAN Free Trade Area (AFTA), ASEAN have maintained high tariffs with non-members. Both ASEAN and Korea are facing many common challenges in the post-crisis period, such as growing competition from China for manufactured export, foreign direct investment, and awareness of regionalism in East Asia. All these challenges strengthen the need for economic integration between ASEAN and Korea.

ASEAN has pursued intensified economic integration, in order to establish a single market and a regional production network since 1990s. AFTA was established in 1992 to eliminate trade barriers among the member economies of ASEAN. It has also expanded its membership to Cambodia, Laos, Vietnam and Myanmar (CLMV). The leaders of ASEAN signed an agreement that faced an elimination of all import duties by 2010 for the six original members, and by 2015 for the CLMV countries.

Recently, ASEAN has been making efforts to further strengthen programs of its own economic integration while at the same time trying to expand and deepen economic ties with other countries in East Asia. The establishment of an "ASEAN+Three (APT)" framework together with three Northeast Asian countries-China, Japan and Korea, is a noteworthy new development in this direction. The momentum of regional economic integration has been substantially improved through the intensified bilateral FTA networks in East Asia. In addition, a number of consultations and feasibility studies, as well as even more serious negotiations were carried out between individual ASEAN member countries and three Northeast Asian countries. These individual countries' own regionalism attempts notwithstanding, ASEAN itself hopes to consolidate its position as an "FTA hub country" in the East Asian region. Considering these trends of ASEAN on the one hand, and individual ASEAN members on the other, especially, the country is advised to strike a certain degree of balance between regional economic integration and global trade liberalization, when pursuing its external economic policies.

While economic integration refers to the removal of barriers to the cross-border flow of goods, services, capital and labor, economic integration between ASEAN and Korea means more trade between the two sides before they can contemplate moving toward deeper levels of integration. AKFTA was signed on 13 December 2005 on the Trade in Goods, which stipulated agreements on tariff concessions and rules of origin, and services. It went into effect on 1 June 2007, together with the Framework Agreement and the Dispute Resolution Mechanism, following approval of ratification in the Korean National Assembly on 2 April 2007.

Hence, AKFTA needs to be developed as one successful FTA, which both parties can benefit and make a role of cornerstone as prime mover toward East Asian FTA in the future. Korea has emphasized the importance of AKFTA over several years as the fifth largest exporters. ASEAN and Korea needs to be aware of mapping out the practical strategy on a realistic basis in order to increase mid to long term trade and service, and FDI between both

parties, and develop FTA which can maximize benefits by the effect of FTA, such trade creation, reduction of tariff and not-tariff barrier and rules of origin.

2. Dynamic effects of Regional Trade Agreements

Since 1990, global trade liberalization has moved to the wayside, as regional trade agreements have become the preferred choice in East Asia. East Asian countries began to actively participate in joining or creating regional trade agreements (Lee and Shin, 2006). One might expect that the liberalization effect of these arrangements to be even smaller than for the multilateral tariff reductions as regional trade arrangements only lower trade barriers among member countries (Volker, 2005).

Currently, over 100 RTAs or FTAs in the world are in different stages of negotiations and over 200 RTAs agreements have been in effect since 1940s. An overwhelming proportion of world trade is conducted based on preferential basis within the FTAs and not on MFN basis any more. FTAs became more common in East Asia after formation of bilateral free trade areas such as a Singapore-Korea FTA, Japan-Malaysia FTA, and other multilateral FTAs such as an ASEAN-China FTA and ASEAN-Korea FTA.

According to Choi and Jeffrey (2004), economic benefits of RTA include the expansion of trade and associated welfare gains, more secure access to other markets, and other long-run dynamic effects stemming from increased investments and incentives to implement additional economic reforms.

The dynamic effects of regional trade agreements are the most significant factors in that they may lead to increases in the economic growth and real income of member countries relative to the case under protectionism. The benefits associated with a customs union's dynamic gains may, more then, offset any unfavorable static effects. Therefore, dynamic gains include greater competition and hence will lead to an improvement in efficiency, gains from greater specialization, economies of scale and learning-by-doing, reduction of intra-regional transaction costs, some protection from adverse developments in the world markets, and bargaining power vis-à-vis industrialized countries (Kim, 2008).

There are tendencies that an increase in market size as a result of trading agreement will create more competition between producers in the same industry, and this will then lead to improvements in production efficiency within member countries. Moreover, the larger market will create economies of bigger scale in production. From this point of view, it will make the individual countries become more attractive for multinational enterprises to invest in producing goods as a response to the needs of the combined larger number of consumers within member countries.

3. Free Trade Agreement in East Asia

Since the financial crisis 1997-98 in East Asia, a new wave of regionalism has been prevalent in featuring the external economic and trade policy of the countries in the region. The number of FTA initiatives involving East Asian countries-in the stage of discussion, feasibility studies, and official negotiation, as well as implemented after successful negotiations-has been soaring over the last few years. East Asian countries have been alerted to the ever-increasing regionalist tendency in the world economy and have come to a better understanding of the importance of regional cooperation and integration as a means to avoid vulnerabilities in their financial markets. They also were cautious about the prospective success (or failure) and outcome of the on-going multilateral trade negotiations under the title of Doha Development Agenda (DDA), and thus would have wanted to reap the benefits of liberalization first at the regional level before the multilateral deal was concluded.

As East Asian countries began to seriously recognize the need for regionalism, FTAs have become a major issue at the center of their external economic policies. ASEAN transformed into a unique regional entity alongside the worldwide regionalist, and especially with the increasing regionalism East Asia. ASEAN currently has been pursuing FTAs with countries outside the region, such as Australia, India and the United States, leading to increased complexity of management of the FTA networks in the region (Kim, 2008).

It is quite interesting to observe that despite ASEAN endeavors to make the entire South-east Asia region more integrated through its diverse cooperation programs; its individual member countries have also been pursuing their own cooperation and integration program with other countries. In particular, Singapore released a new national development strategy in February 2003, which would enhance its profile as a leading global city. Singapore has already signed similar bilateral FTAs with New Zealand, Japan, European FTA, Australia, the Republic of Korea and the United States. Singapore is also in negotiations to form several more FTAs with Mexico, Canada and India. Thailand has also promoted FTAs with large economies such as the United States. Thailand recently has signed a bilateral FTA agreement with Japan, and is considering FTAs with Australia, the United States and India. Philippines also has been considering FTAs with the United States, and have been negotiating an FTA agreement with Japan (Table 1).

These independent FTA approaches of selected ASEAN member countries have led to conflicts of interests among ASEAN members. ASEAN is naturally concerned about the potentially negative impacts of this move onto ASEAN's own integration programs, and have somewhat become skeptical about the possibility of encouraging further liberalization within the region. For example, Malaysia and several other Southeast Asian countries have openly criticized ASEAN members that have formed bilateral FTAs with countries outside the region, charging that they have the potential to weaken regional cooperation agreements such as AFTA and would allow economies outside the region to enter the regional market (Table 2).

Table 1 : FTAs in East Asia by Country and by Status

Country	Status	Contents
Japan	Concluded	Japan-Singapore Economic Agreement for a New-Age Partnership (2002)
		Japan-Mexico Economic Partnership Agreement (2005)
		Japan-Malaysia Economic Partnership Agreement (2006)
		Japan-Philippines Economic Partnership Agreement (2006)
		Japan-Chile Economic Partnership Agreement (2007)
		Japan-Thailand Economic Partnership Agreement (2007)
		Japan-Brunei Economic Partnership Agreement (2007)
	Under Negotiation	Japan-Korea Economic Partnership Agreement (2003)
		Japan-Indonesia Economic Partnership Agreement (2005)
		Japan-ASEAN Comprehensive Economic Partnership Agreement (2005)
		Japan-Gulf Cooperation Council Free Trade Agreement (2006)
		Japan-Vietnam Economic Partnership Agreement (2006)
		Japan-India Economic Partnership Agreement (2007)
Japan-Australia Economic Partnership Agreement (2007)		
Proposed	Japan-Switzerland Economic Partnership Agreement (2007)	
	Japan-China-Korea Economic Partnership Agreement (2003)	
	East Asian (ASEAN+3) Free Trade Agreement (2004)	
	Japan-Canada Economic Partnership Agreement (2005)	
Korea	Concluded	East Asian (ASEAN+6) Free Trade Agreement (2007)
		Korea-Chile Free Trade Agreement (2004)
		Korea-European Free Trade Association (EFTA) Free Trade Agreement (2005)
		Korea-Singapore Free Trade Agreement (2006)
		Korea-ASEAN Free Trade Agreement (2006)
	Under Negotiation	Korea-United States Free Trade Agreement (2007)
		Korea-Canada Free Trade Agreement (2005)
		Korea-India Comprehensive Economic Partnership Agreement (2006)
		Korea-Mexico Strategic Economic Complementarity Agreement (2006)
		Korea-European Union (EU) Free Trade Agreement (2007)
	Proposed	Korea-Gulf Cooperation Council Free Trade Agreement (2007)
		Korea-New Zealand Closer Economic Partnership (1999)
		Korea-Malaysia Free Trade Agreement (2004)
		Korea-MERCOSUR Preferential Trading Agreement (2004)
		Korea-South Africa Free Trade Agreement (2005)
Korea-China Free Trade Agreement (2005)		
Korea-Australia Free Trade Agreement (2006)		

China	Concluded	China-Thailand Free Trade Agreement (2003)
		China-Hong Kong Closer Economic Partnership Arrangement (2004)
		China-Macao Closer Economic Partnership Arrangement (2004)
		China-ASEAN Free Trade Agreement (2005)
		China-Chile Free Trade Agreement (2006)
		China-Pakistan Free Trade Agreement (2006)
	Under Negotiation	China-New Zealand Free Trade Agreement (2004)
		China-Gulf Cooperation Council Free Trade Agreement (2005)
		China-Australia Free Trade Agreement (2005)
		China-Singapore Free Trade Agreement (2006)
		China-Iceland Free Trade Agreement (2006)
Proposed	China-India Regional Trading Arrangement (2003)	
	China-South African Customs Union Free Trade Agreement (2004)	
	China-Peru Free Trade Agreement (2006)	
Taiwan	Concluded	Taiwan-Panama Free Trade Agreement (2004)
		Taiwan-Guatemala Free Trade Agreement (2006)
		Taiwan-Nicaragua Free Trade Agreement (2006)
		Taiwan-El Salvador-Honduras Free Trade Agreement (2007)
	Under Negotiation	Taiwan-Paraguay Free Trade Agreement (2004)
		Taiwan-Dominican Republic Free Trade Agreement (2006)
Hong Kong	Under Negotiation	Hong Kong-New Zealand Closer Economic Partnership Agreement (2001)
Singapore	Concluded	ASEAN Free Trade Agreement (1993)
		Singapore-European Free Trade Association (EFTA) Free Trade Agreement (2001)
		Singapore-New Zealand Closer Economic Partnership Agreement (2001)
		Singapore-Australia Free Trade Agreement (2003)
		Singapore-United States Free Trade Agreement (2004)
		Singapore-India Comprehensive Economic Cooperation Agreement (2005)
		Singapore-Jordan Free Trade Agreement (2005)
		Singapore-Panama Free Trade Agreement (2006)
		Trans-Pacific Strategic Economic Partnership Agreement (2006)
	Under Negotiation	Singapore-Mexico Free Trade Agreement (2000)
		Singapore-Canada Free Trade Agreement (2002)
		ASEAN-India Regional Trade and Investment Agreement (2004)
		Singapore-Pakistan Free Trade Agreement (2005)
		ASEAN-Australia and New Zealand Free Trade Agreement (2005)
Singapore-Peru Free Trade Agreement (2006)		
Singapore-Gulf Cooperation Council (GCC) Free Trade Agreement (2006)		

		Singapore-Ukraine Free Trade Agreement (2007)
	Proposed	Singapore-Sri Lanka Comprehensive Economic Partnership Agreement (2003)
		ASEAN-EU Free Trade Agreement (2007)
		Singapore-Egypt Free Trade Agreement (2004) [<i>Intent to Negotiate signed in November 2006</i>]
Thailand	Concluded	Thailand-Laos Preferential Trading Arrangement (1991)
		Thailand-Australia Free Trade Agreement (2005)
		Thailand-New Zealand Closer Economic Partnership Agreement (2005)
	Under Negotiation	Thailand-Bahrain Free Trade Agreement (2002)
		Thailand-United States Free Trade Agreement (2004)
		Thailand-India Free Trade Agreement (2004)
		Thailand-Peru Free Trade Agreement (2004)
		Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area (2004)
	Thailand-European Free Trade Association (EFTA) Free Trade Agreement (2005)	
	Proposed	Thailand-Pakistan Free Trade Agreement (2004)
Thailand-Chile Free Trade Agreement (2006)		
Thailand-MERCOSUR Free Trade Agreement (2006)		
Malaysia	Concluded	Preferential Tariff Arrangement-Group of Eight Developing Countries (2006)
	Under Negotiation	Trade Preferential System of the Organization of the Islamic Conference (2004)
		Malaysia-Australia Free Trade Agreement (2005)
		Malaysia-New Zealand Free Trade Agreement (2005)
		Malaysia-Pakistan Free Trade Agreement (2005)
		Malaysia-United States Free Trade Agreement (2006)
	Malaysia-Chile Free Trade Agreement (2007)	
Proposed	Malaysia-India Comprehensive Economic Cooperation Agreement (2005)	
Indonesia	Under Negotiation	Indonesia-Pakistan Free Trade Agreement (2005)
	Proposed	Indonesia-United States Free Trade Agreement (1997)
		Indonesia-India Comprehensive Economic Cooperation Arrangement (2004)
		Indonesia-European Free Trade Association (EFTA) Free Trade Agreement (2005)
Philippines	Proposed	Philippines-United States Free Trade Agreement (1989)
Brunei	Proposed	Brunei-United States Free Trade Agreement (2002)

Source : Masahiro, 2007