

Asian Giants Tiptoe Toward Free Trade Deal

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SEOUL, South Korea (AP) — China, Japan and South Korea are inching ahead with talks for a free trade zone that would rival the European Union and North America in economic heft. Despite the achievement of setting aside their often acrimonious relations to begin negotiations, progress will be slow. An agreement to start talks took 10 years.

After three days of meetings in Seoul that finished Thursday, South Korea said officials agreed to hold two more rounds of negotiations this year, with the second meeting to be held in China either in June or July. Negotiations will cover goods, services and investment and might be extended to intellectual property rights and electronic commerce.

Striking an optimistic tone on the first day of talks, Japan's negotiator Koji Tsuruoka said the "integration of three economies which are very significant economies in this area as well as globally will provide very fruitful results to industries ... and to people."

Trade between the three Asian powers totaled \$684 billion in 2011, an increase of more than five times from 1999, underlining Asia's growing weight in the world economy after more than two decades of breakneck growth in China and the earlier rise of Japan and South Korea as manufacturing powerhouses.

Those booming commercial ties are one of the few bright spots for relations among the three. The legacy of Japan's colonial occupation of South Korea until 1945 and its World War II-era atrocities in China has provided fertile ground for animosity.

Beijing and Tokyo's dispute over the sovereignty of East China Sea islands led last year to anti-Japanese riots in China and a damaging consumer boycott of Japanese autos and other goods. China and South Korea's relations have been strained over Beijing's continuing support for North Korea even as the North engages in threatening behavior and rhetoric.

Against that background, progress toward a free trade zone that would be the world's third largest could easily be interrupted by any flare-up in political tensions. A separate Japan-South Korea trade deal has languished since talks were halted in 2004 as they could not narrow disagreements over opening agricultural trade. Negotiating a three-way deal among countries at different stages of development, and each with industries lobbying for protection from competition is by itself a complicated affair.

"Usually, it takes around one to three years at the least to conclude FTA talks with a large trading partner, but I think the ongoing talks may take some more time, considering the importance and size of the involved countries and the fact that they

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are three-way negotiations," Choi Kyong-lim, South Korea's chief negotiator, told reporters according to Yonhap.

The talks between China, Japan and South Korea come amid a slew of moves to lower trade barriers as nations seek to reinvigorate economic growth that is still lagging in the aftermath of the 2008 global financial crisis.

South Korea, which already has free trade pacts with the European Union and its U.S. military ally, is separately negotiating a trade deal with China. As part of Prime Minister Shinzo Abe's policies to lift the Japanese economy out of two decades of stagnation, Japan has started negotiations with the EU and is seeking to join talks for a Pacific trade pact known as the Trans-Pacific Partnership that is being led by the U.S.

"For 10 years we discussed a China-Japan-Korea FTA and nothing happened. China and Korea have very high tariffs. But as soon as Mr. Abe said Japan will join TPP, then China and Korea were keen to restart talks," said Motoshige Itoh, a government adviser and professor at Tokyo University.

Some experts see China's possible deal with Japan and South Korea as its attempt to counter the U.S. which is turning its foreign and economic policy focus to Asia. They urge South Korea to also join the U.S.-led Pacific trade deal to balance already heavy reliance on trade with China.

"China's intention is to first form a Northeast Asian economic cooperation that excludes the U.S. while Japan can't sit still as South Korea advances to the Chinese market with Korea-China free trade talks," said Heo Yoon, a professor at Sogang University Graduate School of International Studies.

Despite concerns about greater competition in some industries, the South Korean government said a free trade bloc with China and Japan would sharply lower non-tariff barriers and boost its exports to both countries.

The government-funded Korea Institute for International Economic Policy estimates as much as a 0.44 percentage point addition to South Korea's annual growth rate during the five years after the deal took effect.

The auto industry will be a particularly sensitive issue for South Korea where automakers and unions are likely to lobby vociferously against greater Japanese penetration of a market that domestic producers such as Hyundai Motor Co. dominate with 90 percent of sales.

South Korean cars are not popular in Japan while Korean consumers have lately been snapping Japanese vehicles such as Nissan's Cube. South Korea shipped just \$33 million worth of vehicles to Japan in 2012 while importing \$523 million Japanese cars, according to Korea International Trade Association.

"We are concerned about the free trade deal with Japan," said Kim Tae-nyen, an executive director at Korea Automobile Manufacturers Association. "We don't

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expect much gain from a deal with China" as Korean automakers already sell locally produced vehicles in China.

Agriculture is also expected to be a sticking point in negotiations as both South Korea and Japan must contend with powerful farmer lobbies worried that cheap Chinese agricultural products will flood domestic markets.

China, meanwhile, is likely to seek lower tariffs on its agricultural products and labor-intensive manufactured goods. But trade experts said Beijing will be reluctant to open its service industries or to allow a freer inflow of foreign capital — areas in which South Korea wants to remove barriers.

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