The Political Economy of Economic Integration in Korea and Japan*

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I. The International Background

Since its creation in 1995 to oversee a complex of agreements such as the GATT-1994, the General Agreements on Trade in Services (GATS) and the Trade Related Intellectual Property Rights (TRIPs), there have been five Ministerial Conferences (Singapore-1996, Geneva-1997, Seattle-1999, Doha-2001, Cancun-2003) of the WTO. The new multilateral negotiations for the Doha Development Agenda (DDA), however, have been slow; the 147 WTO member countries approved the so-called “July Package” which included a framework for further negotiations. In contrast to this situation at the WTO level, regional trade agreements (RTAs) are proliferating everywhere. According to the WTO,¹ “by July, 2003, only three WTO members - Macau-China, Mongolia, and Chinese-Taipei - were not party to a regional trade agreement. The surge in these agreements has continued unabated since the early 1990s. By May, 2003, over 265 had been notified to the WTO (and its predecessor, GATT). Of these 138 were notified after the WTO was created in January 1995. Over 190 are currently in force; another 60 are believed to be operational although not yet notified. Judging by the number of agreements reportedly planned or already under negotiation, the total number of regional trade agreements in force might well approach 300 by 2005.”

How is this trend to be explained? One reason for the upsurge in RTAs is the paucity of negotiations on new agreements at the WTO level. This in turn is due to the disruption of the Ministerial Conferences by anti-globalization movements. These relatively small but well coordinated movements, opposed to trade liberalization, have been mobilized by heterogeneous interest groups such as the organizations for agricultural sector, the environment advocates, and labor. A second reason is that negotiations at the regional level are usually easier than those at the global level, perhaps due to similarities in cultural backgrounds, pre-existing closer economic interrelations, common regional economic interests, and regional security motivations. ASEAN is, perhaps, a good example of the latter. At the same time, the fact that the RTAs consist of fewer countries makes the negotiation process much simpler. Thus, while there are more than one hundred forty six countries in WTO, NAFTA has only

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¹ www.wto.org>trade topics>goods>regional trade agreements
three countries and ASEAN consists of ten countries. A third reason, important at a
practical level, is the blessing given by the WTO to the creation of RTAs under the
concept of “Open Regionalism.” Since open regionalism is interpreted as the reduction
of existing trade barriers among the members of an RTA unaccompanied by an increase
in trade barriers against nonmembers, any RTAs adhering to this principle will be
considered to be consistent with Article 24 of the GATT. Thus, RTAs are viewed as
stepping stones rather than stumbling blocks in the process of creation of a freer global
trading system. Inasmuch as the rapidly spreading RTAs are achieving the objectives
that elude global negotiations, the blessing given to them by the WTO certainly serves a
practical purpose.

The Forum for Asia Pacific Economic Cooperation (APEC) has been an
important environment for the creation of RTAs. “Since its inception in 1989, APEC has
helped to reduce tariffs and other barriers to trade across the Asia-Pacific region. APEC
has worked to create an environment to ensure the safe and efficient movement of goods,
services and people across borders in the region through policy decisions and economic
and technical cooperation. During this period, APEC member economies have grown
and developing economies, in particular, have experienced increases in GDP and
standards of living.” At the same time, the “APEC Economic Leaders” meeting, which
is the members’ summit meeting, has strived to set up milestones for APEC from its
first gathering in 1993. Thus, in 1994 the meeting held in Bogor, Indonesia proclaimed
the “Bogor Goals of free and open trade and investments in the Asia-Pacific by 2010 for
developed economies and 2020 for developing economies.” Since then the summit
meetings have announced “Action Plans” designed to implement the Bogor Declaration.
The voluntary character of APEC as well as the non-binding nature of its agreements
place obvious limitations on the implementation of these lofty goals. The “Bogor
Goals” seem to be a noble idea but whether the member countries will actually
implement the goal or not by the time specified is a completely different matter.
Decision-making within APEC is by consensus, and when it comes to a hard decision
such as the opening of the agricultural sector, it may be difficult to come up with any
substantive agreement. The large number of members-twenty one developed and
developing countries-contributes to making decision-making on sensitive issues a tough
proposition. In practice, it has been possible to agree to general principles on freer trade
and investments but not on concrete issues such as the opening of domestic markets to
all goods and services.

Notwithstanding the recent stagnation of economic growth in Japan, Northeast
Asia has been a dynamic economic center due to the rapid growth in the Chinese
economy. Despite the dynamic growth and the great potential for future progress in the
region, the spread of regional integration in the region has been slow until now. The
idea of an FTA among Japan, China, and Korea has been raised, but no specific
proposal exists so far. In addition, each of these countries entertains plans to liberalize

iie.com
3 APEC, APEC-Outcomes and Outlook, December 2002.
4 Ibid.
its trade with ASEAN either through bilateral FTAs or agreements with the entire block. And a framework for negotiations between ASEAN and all three countries (ASEAN+3) is in place.

In this paper we are mostly interested in the positions of Korea and Japan within this complex context. As is known, both countries are negotiating an FTA, and research institutes have been busy simulating its expected outcome. The conclusion of these negotiations, however, appears to be far in the future. Such an agreement would, of course, only be a beginning and not the end of a long process of multilateral negotiations, in the sense that they would necessarily trigger further trade negotiations with the most important trade partners of both Japan and Korea, such as China and the USA. Our view is that both Korea and Japan should look at these issues with a long-run perspective that includes China and the United States. Although both countries are active participants in APEC and have agreed on its “Bogor Goals,” no specific policies for the sensitive agricultural sector have been decided upon. In order to achieve success for APEC or for trade liberalization with their most important trade partners, fundamental changes regarding the agricultural sector will be needed. Both countries face political over-representation of rural interests in their national assemblies, and this explains to a large extent the difficulties in dealing with this issue.

We also examine, in this paper, the trade-off between efficiency and equity in the agricultural sector. Single-minded emphasis on efficiency will, of course, entail unacceptable social costs not only in terms of economic loss but also social division and antagonism. Recognition of this problem by political leaders as well as the public is urgently needed to prevent such a situation and preserve social harmony. Compensating policies can and should be designed in such a way that a proper balance is achieved between equity and efficiency.

II. The Politics of Regional Integration in Korea

As mentioned before, although both Korea and Japan actively participated in APEC movements from the beginning, neither of them signed an FTA or any other regional economic integration scheme until Japan’s FTA with Singapore and Korea’s FTA with Chile. Thus, the FTA between Korea and Chile has a special meaning for Korea. The negotiation process has also been instructive in showing the limitations of Korea’s economic model and in pointing out the new opportunities from opening its economy to imports.

Until recently, the comparative advantage of Korea was based on relatively lower wages, energetic export-promoting policies of the government, and a favorable world trade environment for newly emerging countries such as Korea. The creation of WTO and the spread of FTAs and other varieties of regional economic integration, based upon the reciprocity principle, seriously hinder the further expansion of exports critically needed for the continuous growth of Korea. The only way to prolong the basic growth strategy, therefore, is negotiate with major trade partners to reduce trade and investment barriers. The FTA with Chile was the first such trade pact ever, and the politics of ratifying it was not easy; the National Assembly had to try four times to get it through.
1. The Politics of the FTA with Chile

The governments of Korea and Chile agreed on a detailed FTA package in 2002. The agreement was believed to be straightforward by most observers, including government officials and most economists in Korea. Such expectations were justified by the openness of the Chilean economy and the fact that the gains accruing to Korea’s manufacturing sector from important economies of scale would easily compensate for the limited damage inflicted upon some agricultural products. The agreed package, however, excludes tariff reduction for agricultural products such as rice, apples and pears, and restricts concessions for grapes to November-April, thus precluding any competition with Korean production. Tariff reduction for other agricultural products has been given periods of 5 to 16 years, while that for hot pepper, garlic, onion, and powder milk products has been postponed until DDA negotiations at WTO are completed.5

Despite such favorable provisions for the agricultural sector, and the comprehensive compensation scheme proposed by the Korean government to offset the negative effects of the FTA (see the following section), virtually all farmers’ organizations and many NGOs organized numerous rallies to forcefully, and sometimes recklessly, oppose the ratification of the trade pact. These difficulties explain why the National Assembly had to thrice postpone the ratification of the treaty, notwithstanding the strong support from the Korean government and the ratification of the treaty by the Chilean Assembly. The Korean National Assembly, finally, ratified the trade deal in its fourth attempt in mid February 2004.

The ratification process not only illustrated the difficulties lying ahead, but also had an important educational value for the Korean public. It highlighted the operation of the political process and showed how proper compensation together with public support for the national policy could make national interest prevail over narrow interest groups. The issue of reducing social costs of this kind of political turmoil is still open.

2. Negotiations with Japan

On August 30, 2003, the government of Korea announced a road map for a future FTA in which Japan and Singapore were chosen as the immediate partner countries. The government as well as many economists believe that these two countries are relatively easier to have FTA with. This belief is predicated on the fact that agriculture is the most sensitive sector for Korea, and that an FTA with Japan would have a minor impact on this sector. The first round of negotiations took place in December 2003, and further talks took place through 2004.

According to research analyses based on CGE (Computable General Equilibrium) models and carried out independently by KIEP (Korea Institute of International Economic Policy) and Jetro-IDE (Institute of Developing Economy), a Korea-Japan FTA will cause the trade deficit of Korea with Japan ($14.7 billion in 2002, $10.1 billion in 2001) to increase in the short-run but improve in the medium and longer

terms. This optimistic view seems to be based on the assumption that having an FTA with Japan will allow for reductions in non-tariff barriers to Korean exports arising from the complex and costly distribution networks in Japan. Many think that these barriers are more important for the trade imbalance than tariffs on manufactures.

The two countries have strong and large manufacturing capabilities in automobiles, semi-conductors, electronics, shipbuilding, and steel. The FTA between them will enhance competitiveness in both countries, and have an important impetus for economic integration in East Asia. However, considering the current tariffs on major manufacturing products, there are many doubts on whether Korea can sustain increasing trade imbalances. Current tariffs on automobiles and machineries are 8% and 7.5% respectively in Korea and zero in Japan. Tariff rates on electronics are 8% in Korea and 0.8% in Japan. There are no tariffs on steel and 60% of semi-conductors are exempt from tariffs in both countries. This being so, it is clear that the elimination of tariffs on those major manufactures will worsen the trade balance of Korea. Thus, many think that without some improvements in non-tariff barriers in Japan, increased investments in the production of intermediate inputs in Korea by Japanese firms, and increased technological cooperation, trade liberalization between the two countries will be difficult to achieve.

There is also some skepticism about these negotiations due to external factors such as the possible response from the major trade partners of the two countries, namely China and the USA. It is argued that the FTA between Korea and Japan may be much easier than the task of accommodating the demands of other important trade partners. Certainly China and the USA will claim equal treatment for their manufactures and agricultural products, and neither Korea nor Japan can ignore their demands. Thus, it is argued that negotiations between Korea and Japan are only a part, not the whole, of a complex negotiating framework. China will complain due to its huge trade deficits with Korea ($13.1 billion in 2000 and $14.8 billion in 2002), and the USA will do so because its manufactures compete with Japan in the Korean market. It is also worth keeping in mind that China recently became the largest trade partner for Korea, surpassing the USA. The Chinese accession to WTO, the Beijing Olympics in 2008, the World Fair in 2010 and the development plan for western part of China, are just some facts that indicate that the growth of China will have a profound impact on other Northeast Asian nations. At the same time, China is targeting an FTA with ASEAN from 2001 and, as mentioned before, there is a host of integration proposals involving China, Korea and Japan as well as these three countries with ASEAN.

From a Korean perspective, an FTA with Japan should be considered in conjunction with the problem of persisting trade imbalance in favor of Japan, increased investments in intermediate inputs in Korea from the Japanese side, easing of non-tariff barriers in Japan, and increased technological cooperation. These are, of course, not so

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6 In Kyo Cheong, “FTA between Korea and Japan and that between Korea and Singapore: Current Status and Directions for Negotiation,” KDI Information Center, National Economy, December 2003, pp. 18-22.
7 Chosun Ilbo, March 25, 2004, B3.
much a part of the FTA per se as the elements whose consideration will speed up the negotiations.

3. Towards an FTA with Singapore

In the wake of the Asian financial crisis that slowed down her economic growth, Singapore has been actively promoting FTAs with other countries. On November 14, 2000, Singapore agreed to have an FTA with New Zealand; in January, 2002 with Japan; in June, 2002 with EU; in November, 2002 with Australia, and finally in 2003, with the USA.⁹

Korea and Singapore set up, in March 2003, an “FTA Specialist Group” that included representatives from business, government, and academia to discuss the scope of an FTA between both countries. In October 2003, the two governments agreed to pursue formal negotiations.

Contrary to perceptions that such an FTA will have a negative effect on Korea due to lower tariffs in Singapore, it is estimated that Korea will enjoy positive growth effects on GDP (In Kyo Cheong). The FTA would induce investments in both countries, and Singapore would become a base for the expansion of trade between Korea and other Southeast Asian countries while at the same time increasing relations between Korea and the overseas Chinese community. Since Singapore does not have a significant agricultural sector that would hurt Korean agriculture, the FTA would increase efficiency without a significant equity problem.

According to the economic structural analyses of the two countries, it is believed that Singapore enjoys competitiveness in petrochemical, electronic and machinery products. Currently Korea imposes 5-8% tariffs on those products. It should be noted that the FTA between Singapore and Japan excluded petrochemicals from free trade.

4. Negotiations with ASEAN

ASEAN is the fifth largest export market for Korea, and it is an important region not only for immediate economic gains but also for regional security, long-term supply of natural resources, and future Korean exports.

If China and Japan initiate FTA with ASEAN, Korea will experience a huge trade diversion effect. It seems that Korea should complete FTA with Singapore as soon as possible, and on the basis of that, FTA negotiations with ASEAN should be carried out. One should keep in mind that the FTA with ASEAN will bring in some equity problem as many ASEAN countries have agricultural sectors that are potentially threatening to Korean farmers.

III. The Politics of Regional Integration in Japan

Until very recently, Japan was not showing interest in taking part in regional

⁹ Ibid. In Kyo Cheong.
integration agreements, preferring instead to concentrate on multilateral negotiations taking place in the GATT and later the WTO. The reasons advanced in Section 1 to explain the rise of regional integration also explain the conversion of Japan to this trend. In addition, two important facts have had an important role in shaping Japanese attitudes towards integration in East Asia. First, in the wake of the recovery from the Asian financial crisis of 1997-8, Japanese business activity has become more focused in East Asia. The increasing interdependence of East Asian economies has been largely advantageous to Japanese businesses and is essential for the consolidation of the recent revival of the Japanese economy. It is thus in the interest of Japan to “systematize” this web of relations and, in particular, enter into negotiations with countries in the region to create the institutional framework needed to achieve this end (see, for instance, chapter 4 in METI, 2003). Second, the emergence of China as a major player in the international economy and, in particular, in the regional economy, has added urgency to these tasks. As the general institutional framework is not clearly defined and there are many initiatives on the table that would build bits and pieces of it, competition between Japan and China for the central role within it will be an important factor in the foreseeable future.

1. The Japan – Singapore agreement

Goh Chok Tong, the former Prime Minister of Singapore, first raised the idea of this agreement in December 1999 in a summit meeting with former Prime Minister of Japan, Keizo Obuchi. The proposal was timely as Japan was already reviewing its position towards regional integration. Singapore was an optimal partner for this kind of agreement, as it has practically no agricultural sector. A Joint Study Group was constituted which swiftly prepared a report and submitted the same to both governments in October 2000. Following its recommendations, negotiations were initiated in January 2001 with the intention of completing them within the year. These plans were indeed accomplished and on January 13, 2002, Prime Ministers Goh Chok Tong and Junichiro Koizumi signed the Japan-Singapore Economic Partnership Agreement (JSEPA) in Singapore. The JSEPA, as the name makes it clear, is not only a Free Trade Agreement (FTA). In addition to liberalization and facilitation, it contemplates on several areas of cooperation such as in financial services, information and communications technology, science and technology, and tourism. It is interesting to note that one of its explicitly stated objectives is “to present, as the first RTA for Japan, a valuable model case for Japan to become proactive in bilateral and regional agreements” (MOFA, 2002).

2. Conclusion of negotiations with Mexico

The process of negotiations with Mexico also originated from a summit meeting in May 2001 between Prime Minister Junichiro Koizumi and President Vicente Fox of Mexico. A Joint Study Group was soon appointed and it presented its final report in July 2002. Although negotiations have not been as swift as was with Singapore, “agreements in substance on major elements” were announced in March, 2004. The
scope of the agreement is narrower than that between Singapore and Japan but its significance is unambiguously much higher. For the first time Japan had to cede ground on issues relating to agricultural imports, including such sensitive products as chicken and pork. The agreement has great importance, on the other hand, for the Japanese manufacturing sector, especially electronics and automobiles, as it was on the verge of having its access to the North American market seriously obstructed. The agreement is yet to be ratified by the legislatures of both the countries and there are some worries as to whether rural producers in Japan will mount a strong opposition to it or not. If the agreement between Singapore and Japan was seen as a test of the Japanese determination to move into the area of regional integration at all, the ratification of the agreement with Mexico is seen as a test of its will to pursue really meaningful free trade agreements.

3. Negotiations with Korea

This has been the longest process of negotiations so far with the first talk of an agreement between Japan and Korea dating back to Korean President Kim Dae-Jung’s state visit to Japan in late 1998. The first studies on such an FTA were conducted separately by the Institute of Developing Economy (Tokyo) and the Korean Institute for International Economic Policy (Seoul) and discussed at the joint symposia in both places. A Joint Study Group to further study the issue was established in July 2002 and it delivered its final report on October 2003. On the basis of its recommendations, negotiations started in December of that year and are still going on. As in the case of Mexico, the Japanese industry is enthusiastic about the agreement but the proposed FTA is predictably unpopular with the agricultural sector. Beyond the variation of views across economic sectors, there is no doubt that this agreement is essential for both Japan and Korea to continue having an important role in the new economic architecture of East Asia.

4. The ASEAN process

East Asia has become, as is well known, the scene of some of the most active regional integration processes, with negotiations prominently involving ASEAN with Japan, Korea and China. Each of these three nations has its own negotiation framework either with the entire ASEAN or bilateral negotiations with member countries of ASEAN. In addition, there is the “ASEAN + 3” framework. Japan, following the footsteps of China, announced its Initiative for Japan-ASEAN Comprehensive Economic Partnership in January 2002. This Partnership has been the subject of discussions at three Japan-ASEAN Summit Meetings (Phnom Penh, November 2002; Bali, October 2003; Tokyo, December 2003) and also of various decisions, for instance, those included in the Tokyo Plan of Action (MOFA, 2003). In addition to this framework for negotiations with ASEAN as a whole, Japan has also entered into negotiation processes with several member countries. Joint Study Groups with Malaysia and with Thailand have already submitted their final reports as also has the Joint
Coordinating Team with the Philippines. In addition, conversations are underway with Indonesia and Vietnam. Of all of these negotiation processes, the most advanced is the one taking place with Thailand. During the latest Japan-ASEAN Summit, the Prime Ministers of Japan and Thailand decided that negotiations for an Economic Partnership Agreement (JTEPA) should start during 2004. Of course, it is to be expected that agriculture will be a difficult issue; less difficult, however, once the agreement with Mexico is ratified.

IV. Government Policies towards the Agricultural Sector

1. Korean Government’s Policy Proposals for FTAs and the DDA

The Government of Korea has recently submitted to the National Assembly a proposal detailing “Four Supporting Programs” aimed at preparing for negotiations on the DDA and FTAs including that with Chile. Although the document is not final, the broad direction of the government’s policy towards the agricultural sector in Korea can be discerned. The four supporting programs fit into two categories, policies aimed at enhancing efficiency and competitiveness, and those striving to improve equity within the agricultural sector.

The first of the proposed programs, the “Special Law for Supporting Farm Sector after FTAs,” will be the basis for compensating losses due to FTAs. It will also specify the levels of assistance aimed at for improving infrastructure, increasing the scale of production, modernizing the distribution system, and giving income support to those ceasing production or moving into other activities. The second proposal is a special legislation aimed at breaking the vicious circle of debt burden in agriculture. A “work-out program” would reduce the debt burden of farmers through the provision of special loans at 3% interest to be repaid over seven years after a three years grace period. Other so-called “Strategic Loans” would see their repayment period extended to fifteen years with a five years grace period and interest rates reduced to 1.5% from the current 4%. The third proposal is to extend the “Special Tax Provision for Agricultural Sector” to 2009 from the current deadline of 2005 so as to reduce the tax burden of farmers. The last proposal is aimed at improving living standards and the quality of life in rural areas through a comprehensive program that includes government subsidies to national pension and medical insurance, modernization and expansion of education in rural areas, and improvement of other social infrastructure (housing, roads, waterworks, public transportation system and other basic amenities).

At the same time, the government plans revolutionary changes in its so-called “Land Use Policy.” Major elements of the reform facilitate the conversion of agricultural land to other uses, so far prohibited, and its lease to professional farmers or farm cooperatives. In particular, regulatory powers are to be transferred to local governments and the ownership and use of agricultural land is to be completely

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liberalized in “Special Economic Zones.” As a result, economies of scale will be brought about in the agricultural sector.

The above policies give useful insights into the kind of agricultural sector the Korean government envisions. The government wants an agricultural sector that is competitive in open markets and produces safe and good quality items by using the most up-to-date technology available and enjoying the benefits of increased scale of production. The necessary inflow of young and highly trained manpower to the rural areas is to be enabled through the equalization of living standards between rural and urban sectors and the upgradation of colleges of agriculture throughout the country. The government expects that, by 2010, the agriculture sector will generate five billion dollars worth of export earnings, 20% of the population will live in rural areas and about two-thirds of rural income will be non-farm income.

2. Japanese agricultural policies

Some basic facts about Japanese agriculture are worth reminding. Not only is land scarce but also little of it is suitable for agriculture. The problem of naturally low productivity of land is compounded by the fact that the average size of farms is just 1.6 Ha, minuscule compared to the almost 200 Ha in the US or even 32 Ha in Germany. In addition, the opportunity cost of labor is very high. Hence, it is easy to see why Japanese agricultural products are in no position to compete with imports in nearly all categories of products. Rice, which accounts for one quarter of the value of agricultural production, is the national staple food and grows well in Japan, is still very expensive.

On the other hand, the Japanese authorities have taken important steps in the last two decades to open the market to imports. Many products whose importation was prohibited in the past, such as beef and orange juice, are now easily imported. On account of these measures, Japan is the largest net importer of food products in the world and over 60 percent of the food it consumes is imported. There are still barriers to the importation of some products, which although limited in number are important, such as rice and milk products. The barriers consist mostly of high tariffs rather than outright prohibition.

The stated Japanese negotiating position on agriculture is that it will strive to continue opening its markets to agricultural products but that it will also take due account of the “special” characteristics of this sector as well as of the Japanese situation. This means that special attention will continue to be given to food security, consumer concerns, and the so-called multi-functionality of agriculture. Food security is a concern for the Japanese government, though probably not so much for the population at large, given the high dependence of the country on imports. Consumer concerns are more widely shared by the population and they are well highlighted by the recent food scares involving chicken and beef. Related to this subject is the general suspicion that foreign vegetables and fruits may have been grown using too many chemicals. Finally, multi-functionality refers to the externalities offered by agriculture, such as flood prevention,

12 Ibid. “FTA with Chile: Ratification and Policies.”

3. The Issue of Political Overrepresentation in National Assemblies

Although agriculture accounts for about 5% of Korean GDP and rural workers represent less than 10% of its economically active population, the political representation of the rural sector in Korea is much stronger. In many cases its political power in the National Assembly plays a key role in national policy decisions. During the final vote for the ratification of FTA with Chile, 71 members of the National Assembly out of 271 opposed the trade pact. This shows that more than a quarter of the legislative members are allied with the rural area or agricultural sector, more than five times the share of that sector in the economy. At the same time, most NGOs and labor organizations seem to be siding with the opposition of trade liberalization. The situation in Japan is not fundamentally different and the disproportionate political power of the rural sector was highlighted during the process of negotiating the FTA with Mexico.

Both in Korea and in Japan, however, the news media has generally played an important role in convincing the majority of the public that agreements such as these are in the national interest. Thus, it is our view that the role of the mass media is important for national decisions such as regional integration and trade liberalization. It is to be expected that the mass media will continue to play this role in the future.

V. Concluding Remarks

A steady expansion of international trade is the most important ingredient for economic growth both in Japan and Korea, perhaps even more so for the latter. Regional economic integration, widely spread among the members of WTO and embodied in about 300 agreements expected to be signed by 2005, has become essential for continued expansion of international trade. Yet, Japan and Korea, the second and the eleventh largest trading countries in the world respectively, have only one FTA each—Korea with Chile and Japan with Singapore. As neither Korea’s nor Japan’s agricultural sectors are realistically threatened by the domestic agricultural sectors of Chile or Singapore, we are led to conclude that significant FTA negotiations in Korea and Japan have not yet taken place.

Regarding the ongoing negotiations for an FTA between Korea and Japan, we believe that it is desirable to extend those negotiations to China and the USA based on the principle that the exclusion of the largest and perhaps most important trade partners will not be conducive to maintaining smooth trade relations in the future. Since the adjustment of their agricultural sectors is central to the DDA and to the FTA negotiations with China and the USA, Korea and Japan will have to face this issue squarely. Political over representation of the rural sector makes such adjustments difficult. However, the indications so far suggest that the public is willing to accept
those adjustments provided that adequate compensation is provided to the farmers affected by them. In other words, the efficiency and equity problems involved in FTAs can be resolved even if the political power structure is skewed towards the rural sector.

The major problem is, consequently, the design of compensation programs aimed at resolving the equity problem. Some suggest the adoption of “income support” program for farmers.\textsuperscript{13} We believe, however, that any income support program lacking associated efficiency enhancing policies will cause a moral hazard, resulting in further social losses. Income support programs should be designed in such a way that those farmers who introduce new or competitive products in open markets by using highbred seeds or new technologies of production such as environment friendly farming should get more support. In other words, efficiency oriented programs should be given priority so as to maximize the social gains from opening up the agricultural sector, and a part of those gains should be used to compensate the losers.

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Cheong, In Kyo. "FTA between Korea and Japan and that between Korea and Singapore: Current Status and Directions for Negotiation." KDI Information Center, National Economy, December 2003, pp. 18-22.


\textsuperscript{13} Ibid. Schott.