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 21_{st} 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 Southeast 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)
		Japan-Switzerland Economic Partnership Agreement (2007)
	Proposed	Japan-China-Korea Economic Partnership Agreement (2003)
		East Asian (ASEAN+3) Free Trade Agreement (2004)
		Japan-Canada Economic Partnership Agreement (2005)
		East Asian (ASEAN+6) Free Trade Agreement (2007)
Korea	Concluded	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)
		Korea-United States Free Trade Agreement (2007)
	Under Negotiation	Korea-Canada Free Trade Agreement (2005)
		Korea-India Comprehensive Economic Partnership Agreement (2006)
		Korea-Mexico Strategic Economic Complementation Agreement (2006)
		Korea-European Union (EU) Free Trade Agreement (2007)
		Korea-Gulf Cooperation Council Free Trade Agreement (2007)
	Proposed	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) [*Intent to Negotiate signed in November 2006*]
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

Table 2: ASEAN's Free Trade Agreement

ASEAN Country	WTO/APEC Member	FTA/RTA Concluded	FTA/RTA Under Negotiation
ASEAN		ASEAN-China FTA (Goods and Services) ASEAN-Korea FTA (Goods and Services) ASEAN-Japan (Comprehensive Economic Partnership)	ASEAN-China FTA (Investment) ASEAN-Korea FTA (Investment) ASEAN-India FTA ASEAN-Australia & New Zealand FTA ASEAN-EU ASEAN-US TIFA
Brunei Darussalam	Yes/Yes	ASEAN Free Trade Agreement (AFTA)	Trade and Investment Framework Agreement (TIFA) with the United States (2002)
Cambodia	Yes/No	ASEAN Free Trade Agreement (AFTA)	
Indonesia	Yes/Yes	ASEAN Free Trade Agreement (AFTA) Japan	Trade and Investment Framework Agreement (TIFA) with the United States
Lao PDR	No/No	ASEAN Free Trade Agreement (AFTA)	
Malaysia	Yes/Yes	ASEAN Free Trade Agreement (AFTA) Japan	Australia Pakistan *India-Comprehensive Economic Cooperation Agreement* (*CECA*) Korea New Zealand United States EU Chile
Myanmar	Yes/No	ASEAN Free Trade Agreement (AFTA)	
Philippines	Yes/Yes	ASEAN Free Trade Agreement (AFTA) Japan	Trade and Investment Framework Agreement (TIFA) with the United States
Singapore	Yes/Yes	ASEAN Free Trade Agreement (AFTA) Australia Japan Switzerland, Iceland, Liechtenstein and Norway New Zealand Panama USA Jordan India Trans-Pacific SEP (Brunei, New Zealand, Chile, Singapore) Korea	Canada China The Gulf Cooperation Council Mexico Peru Pakistan Ukraine
Thailand	Yes/Yes	ASEAN Free Trade Agreement (AFTA) Australia New Zealand Bahrain China (Preferential Trade Agreement on Agriculture, Oct-03) India Japan (Closer Economic Partnership)	USA Chile Papua New Guinea Peru Korea
Vietnam	No/Yes	ASEAN Free Trade Agreement (AFTA)	Sri Lanka Japan EU (Partnership and Cooperation Agreement)

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The recent FTA discussions involving India, Thailand and Singapore and the FTA initiative between India and ASEAN are adding some degree of complexity to this trend as well. While these initiatives have contributed to the advancement of East Asian regionalism, the cooperation and integration projects within ASEAN have suffered problems arising from the so-called interest and energy distraction (Kim, 2008).

3.1 ASEAN economic integration

The growing support for regionalization in East Asia has roots in economic globalization and the desire of East Asians to follow in the footsteps of NAFTA and the EU, as well as a growing competition between China and Japan for regional leadership. Both forces tend to put ASEAN geographically as well as politically at the center of important developments.

The aims and purpose of ASEAN are mainly to accelerate economic growth, social progress and cultural development in the region and to further promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region as well as adherence to the principles of the United Nations Charter. In the recent past, ASEAN economic integration has been driven by the process itself whereby ASEAN has progressively advanced the completion date of AFTA and moved to a zero tariff end goal (Hadi, 2005).

ASEAN has come a long way since its beginnings but both the group and the world have undergone dramatic changes over this period-changes that have presented new challenges and demands. Based on performance shown, closer and deeper integration of the ten ASEAN economies will play a critical role in rebuilding the group's competitiveness and paving the way for higher rates of growth and wealth creation.

Today, ASEAN is seen to have achieved considerably high economic growth and stability as well as registering a significant drop in poverty, in addition to enjoying a substantially high level of investment and trade liberalization. Member countries have pursued economic integration as stated in ASEAN 2020 and have tried to promote and realize the activation of human resources, services, non-tariffs and the ASEAN single market. Moreover, this enhances ASEAN economic cooperation through economic development strategies, which, in turn, will focus on sustainable and equitable growth.

In fact, ASEAN plays a leading role as the hub of wider East Asian economic and political integration by offering an established market for regional trade, and an important platform for regional political concerns and economic dialogue via the East Asia Summit (EAS), ASEAN Regional Forum (ARF), and APT formula.

3.2 ASEAN Free Trade Area (AFTA)

AFTA was established in January 1992 at the fourth ASEAN Summit in Singapore. The ultimate objectives of AFTA are to increase ASEAN's competitive advantage as a production base in the world market through the elimination of intra-tariffs and non-tariff barriers, and to attract more foreign direct investment (FDI) to ASEAN.

The primary mechanism for achieving the goals given above is the Common Effective

Preferential Tariff (CEPT) scheme. The CEPT scheme is a cooperative arrangement among ASEAN member countries that would reduce intra-regional tariffs and remove non-tariff barriers over a 10-year period commencing 1 January 1993. Under the CEPT scheme, Malaysia, Philippines, Thailand, Indonesia, Brunei and Singapore (Asean 6) have agreed to reduce tariffs on all manufactured goods to 0-5%, which is targeted by the year 2002. Newer members of ASEAN, namely CLMV have been given a 10-year grace period in order to reduce tariffs from the time of their membership of ASEAN. In the case of Vietnam, it was targeted to reduce tariffs to 0-5% by 2006, Laos and Myanmar (2008) and Cambodia (2010). Based on the CEPT scheme, ASEAN member countries also have the option of excluding products from the CEPT in three cases: Temporary Exclusion List, Sensitive List and General Exception List.

Temporary exclusions refer to products for which tariffs will be lowered to 0-5%, but which are still being protected temporarily by the postponement in tariff reductions. The Sensitive List, mainly consisting of agriculture-based products such as rice are given a period of time to reduce the tariff levels to 0-5% until 2010. General Exception List refers to products of which an ASEAN member deems necessary for the protection of national security, the protection of public morals, the protection of human, animal or plant life and health, and the protection of articles of artistic historic value. ASEAN member countries have signed to execute a 0% tariff rates on all imports by 2010 for the original 6 member countries, and by 2015 for the CLMV.

The pace of removing and reducing tariff barriers can also be accelerated and the range of tariff reduction could be extended if countries undertake the efforts to expand the coverage of products (Kim, 2008). Even though each government reduces its tariff, another barrier-in the form of non-tariff barriers-poses problems for the growth of trade and in boosting integration in ASEAN because non-tariff barriers can be used as tools of protecting its domestic product and industry.

3.3 AFTA-Plus Program

ASEAN-10 was created by expanding the membership to CLMV countries, which resulted in a single market and integrated production network of 583 million people (2008). The aggregate Gross Domestic Product (GDP) of ASEAN amounts to US $686 billion. ASEAN is characterized by high degree of diversity in terms of area, population and economic size measured by the GDP volume, as well as the level of economic development. The degree of openness in ASEAN is also widespread. The core elements of ASEAN's economic integration are as follows: first, the CEPT scheme requires that tariff rates levied on a wide range of products traded within the region be reduced to no higher than five percent; second, the ASEAN Industrial Cooperation (AICO) program has been introduced as an initiative to apply low tariffs on a limited number of products designated for industrial cooperation; and third, the ASEAN Investment Area (AIA) is in the stage of introduction as a measure to ensure free intra-regional investment.

ASEAN member countries agreed to speed up the establishment of AFTA. AFTA is not

Table 3: AFTA-Plus Programs for ASEAN Economic Integration

	Programs	Scope	Process	Notes
Trade Liberalization	AFTA (started in 1993)	Comprehensive Liberalization (de facto all products)	Broad band-tariff reduction (CEPT)	Tariff reduction under the CEPT scheme: → 20% → 5% → 0%, completing in 2010/2015
			Removal Non-tariff barrier	Removal of Quotas
	AICO (started in 1996)	Limited tariff reduction (manufacture parts & materials)	Immediate Tariff reduction	5 % tariff reduction
Investment Liberalization	AIA (started in 1998)	All industries	Preferential act for home nations Free flows of capital and labor	
Service & Other	AFAS (started in 1995)	Negotiating third round in 2002-2004, covering 7 sectors and implementing the ASEAN-X formula		
	MRAs	Applying international norms, consolidating examination institutes, exchanging information, raising human resources		
	Customs	Customs automation, strengthening the integration and harmonization of Customs Valuation, a speedy customs clearance etc		
	Coordination economic policy	Exchanging information on macro-economics, improving the transparency of financial policy, raising human resources in the field of finance		

Source: Kwon (2004)

just about reducing intra-ASEAN tariff on traded goods and service. AFTA also has a program to deepen regional integration by extending the agenda beyond the liberalization of barriers to trade in goods and service and has been trying to accelerate the process of Southeast Asian market integration through its so-called AFTA-Plus program, which includes the ASEAN Framework Agreement on Services (AFAS), the AIA and the harmonization of standards, reciprocal recognition of tests and certification of products, harmonization of customs procedures, removal of barriers to foreign investment (as part of the proposal for ASEAN Investment Area) as well as macroeconomic consultation of venture capital. Jayant (2007), identified that the AFTA-Plus Program pursues to deal with issues such as trade-related investment measures (TRIMs) and trade-related intellectual property provisions (TRIPs), as well as the protection of copyrights, patents, and trademarks (Table 3).

4. Korea-ASEAN Economic Relations

4.1 Korea-ASEAN Bilateral Trade

Economic relations between ASEAN and Korea have expanded significantly over several decades. ASEAN became one of the largest potential emerging markets to attract Korean companies and others. In 2007, ASEAN became Korea's fifth largest trade partner after China, the U. S., Japan and the European. Korea is also the 3rd largest economy in Asia, and

the 12th largest in the world, based on its GDP growth as of 2007.

Although bilateral trade and investment between ASEAN and Korea decreased sharply due to the East Asian financial crisis, economic relations between the two sides have rapidly recovered. In particular, bilateral trade rebounded to US$26.3 billion at the end of 1999 and expanded to US$72.8 billion in 2007, higher than the pre-crisis level. Data from Korea International Trade Association (2007) shows that Korean exports to ASEAN increased 38 percent to reach US$38.7 billion in 2007 while imports from ASEAN have also been on the rise. Korea has recorded a consistent trade surplus with a peak surplus of US$5.4 billion in 1999 (Kim, 2008). However, since the financial crisis, ASEAN's deficit has been decreasing, and the balance of trade between the two economies is moving toward equilibrium (Kwon, 2004).

4.2 Korea-ASEAN Free Trade Agreement

The former Korean President (Roh, Moo Hyun) proposed that ASEAN and Korea should deepen and broaden relations by strengthening a comprehensive economic partnership, including the ASEAN-Korea Free Trade Agreement, during the ASEAN-Korea Summit held in Bali (Indonesia) in October 2003. The proposal was, in part, a direction to accelerate the pace of the ASEAN Free Trade Agreement that was conducted with China and Japan.

The negotiation for an AKFTA was launched in early 2005. In December 2005, at the ASEAN-Korea Summit held in Malaysia, the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and Korea was signed. This Framework Agreement called for the conclusion of key agreements, such as the agreement on Trade in Goods and Services, Investment Agreement and Agreement on Dispute Settlement Mechanism (Table 4).

Table 4 : Measures for Comprehensive Economic Partnership

The Parties shall establish, consistent with Article XXIV of GATT 1994 and Article V of GATS, a AKFTA and strengthen and enhance economic cooperation through the following: (a) progressive elimination of tariffs and non-tariff barriers in substantially all trade in goods; (b) progressive liberalization of trade in services with substantial sectorial coverage; (c) establishment of an open and competitive investment regime that facilitates and promotes investment among the Parties; (d) provision of special and differential treatment to the ASEAN Member Countries and additional flexibility to the new ASEAN Member Countries as agreed in the Joint Declaration on Comprehensive Cooperation Partnership between Korea and ASEAN and the core elements attached thereto; (e) provision of flexibility to the Parties in the Korea-ASEAN FTA negotiations to address their sensitive areas in the goods, services and investment sectors with such flexibility to be negotiated and mutually agreed based on the principle of reciprocity and mutual benefits; (f) establishment of effective trade and investment facilitation measures; (g) exploration of the ways and means to expand their economic partnership into new areas and expansion of economic cooperation in areas as may be agreed among the Parties that will complement the deepening of trade and investment link among the Parties; and (h) Establishment of appropriate procedures and mechanisms for the purposes of effective implementation of this Framework Agreement.

Source: FRAMEWORK AGREEMENT ON COMPREHENSIVE ECONOMIC COOPERATION AMONG THE GOVERNMENTS OF THE REPUBLIC OF KOREA AND ASEAN

The AKFTA on the Trade in Goods went into effect on June 1, 2007, together along with the Framework Agreement and the Dispute Resolution Mechanism, following approval of ratification in the Korean National Assembly on April 2, 2007. As a result, 63% of the total imported goods from ASEAN is now duty-free, while 45% of commodity exports to ASEAN enjoy low-tariff benefits within the 0-5% range.

The establishment of AKFTA is seen as a natural extension of the existing relations as well as a stepping-stone to elevate the ASEAN and Korea relationship to higher and more comprehensive level. AKFTA is similar to other ASEAN FTAs in terms of its comprehensive scope and provision for flexibility to deal with the CLMV countries (Hadi, 2005).

4.3 AKFTA and Trade in Goods

Since the signing of AKFTA for trade in goods, ASEAN and Korea have tried to accelerate the maximization of their profits from free trade in goods through the elimination of tariff and non-tariff barriers by 2010. Exceptionally, the CLMV countries were allowed a grace period to eliminate their tariff; 2016 for Vietnam and 2018 for Cambodia, Laos and Myanmar. In AKFTA, products traded between two areas are divided into two different tracks; normal track, sensitive track and highly sensitive track (Park, 2006).

According to the tariff concession of AKFTA-Trade in Goods Agreement, the tariff lines in the Normal Track are seen to have their Most Favored Nations (MFN) tariff rates gradually reduced and eliminated as following schedule in Table 5:

Table 5 : Tariff reduction timeline for products under the Normal Track for ASEAN 6+Korea

X=Applied MFN Tariff Rate	AKFTA Preferential Tariff Rate (Not later than 1 January)			
	2007*	2008	2009	2010**
X≥20%	13	10	50	0
15%≤X<20%	10	8	5	0
10%≤X<10%	8	5	3	0
5%≤X<10%	5	3	0	0
X≤5%	Standstill		0	0

* The first date of implementation was 1st June 2007

** Flexibility to delay tariff elimination to 1st January 2012 for a maximum of 5% of all Normal Track lines for ASEAN 6 only

Source: Trade Intelligence Asia Pacific

Korea needs to reduce its tariffs for at least 70 percent of the tariff lines placed in the Normal Track upon entry into force of the Trade in Goods Agreement. It was required to eliminate its tariffs for at least 95 percent of the tariff lines in the Normal Track not later than January 1, 2008 and eliminate all tariffs placed in the Normal Track by no later than January 1, 2010.

For ASEAN-6, each party is to reduce its tariff rates for at least 50 percent of the tariff lines in the Normal Track to 0-5 percent not later than January 1, 2007. Each party is to eliminate its tariffs for at least 90 percent of the tariff lines no later than January 1, 2009 and

to further eliminate its tariffs for all tariff lines no more later than January 1, 2010, with the flexibility to have tariff lines not exceeding 5 percent of all the tariff lines, or as listed in an agreed schedule eliminated no later than January 2012 (Lee, 2006). Vietnam is given an additional 6 years while Cambodia, Laos and Myanmar were also given an additional 8 years.

According to the Sensitive Track, the schedules to reduce and eliminate tariff rates of the tariff lines were placed in the Sensitive List. For instance, Korea and ASEAN-6 are to reduce tariff rates to 20 percent no later than January 1, 2012 and these tariff rates are to be subsequently reduced to 0-5 percent no later than January 2016. For Vietnam, tariff rates are to be reduced to 20 percent no later than January 1, 2017 and subsequently reduced to 0-5 percent no later than January 1, 2021. For Cambodia, Laos, and Myanmar, they are to be reduced to 20 percent no later than January 1, 2020 and subsequently reduced to 0-5 percent no later than January 2024 (Table 6).

Table 6 : Tariff rate for the Normal Track and Sensitive Track for ASEAN 6+Korea

FTA Elements	Commitments
Normal Track	ASEAN 6
—Thresholds	—50% of tariff lines in the NT at 0-5% by 2007
	—90% of tariff lines in the NT at 0% by 2009
	—All tariffs in the NT at 0% by 2010, with flexibility to have tariff lines not exceeding 5% of all tariff lines or as listed in an agreed schedule, by 2012
	—All tariffs in the NT eliminated by 2012
	Korea :
	—70% of tariff lines in the NT at 0% upon entry into force of the Agreement
	—95% of tariff lines in the NT at 0% by 2008
	—All tariffs in the NT eliminated by 2010
Sensitive Track	10% of all tariff lines and 10% of total import value based on 2004
—Cap	statistics
—Category	Sensitive and Highly Sensitive List
—SL/HSL Ratio	SL : 7% of all tariff lines and 7% of total import value
—Thresholds	HSL : 200 tariff lines or 3% of all tariff lines and 3% of total import value
	SL : ASEAN 6 and Korea
	—Reduction to 20% by 2012
	—Reduction to 0-5% by 2016
	HSL : ASEAN 6 and Korea
	Group A : Reduction to not more than 50% by 2016
	Group B : Reduction by not less than 20% by 2016
	Group C : Reduction by not less than 50% by 2016
	Group D : Tariff lines subject to TRQs
	Group E : Tariff lines exempted from concessions (maximum of 40 tariff lines)

Source : Trade Intelligence Asia Pacific

The tariff lines placed in a party's Highly Sensitive List are categorized into five groups. For Group A, tariff lines are subject to a 50 percent tariff rate cap; for Group B, tariff lines are subject to tariff reduction by 20 percent; for Group C, tariff lines are subject to tariff reduction by 50 percent; for Group D, tariff lines are subject to tariff rate quotas; whereas for Group E, tariff lines are exempted from tariff concession. For each group, the parties are

to undertake defined commitments. For instance, Korea and ASEAN-6 are to reduce the tariffs rates of tariff lines placed in Group A by not more than 50 percent and no later than January 1, 2016, and the number of tariff lines, which each party can place in Group E, is subject to a maximum ceiling of 40 tariff lines at the HS 6-digit level (Lee, 2006).

4.4 Rules of Origin

In the AKFTA, one of the main components is the rules of origin (RoO). These rules are fundamental to the functioning of a free trade area as they indicate whatever or not a given produce can be traded under the AKFTA. One of the main functions of the RoO is to determine to what extent a domestic product may contain imported materials from another country outside the free trade area concerned without losing their preferential status under the AKFTA. The determination of the country of origin is, in general, divided into two categories: (i) goods wholly obtained and produced in one country and (ii) goods whose production involves more than one country.

4.4.1 Wholly Obtained or Produced Goods

For goods wholly produced or obtained in one country, it is obvious that the country of production is the originating country. According to Annex III of the KAFTA, wholly obtained products are defined as shown in Table 7.

Table 7: Wholly obtained or Produced Goods

Rule 3 : Wholly Obtained or Produced Goods

Within the meaning of paragraph 1 (a) of Rule 2, the following shall be considered to be wholly obtained or produced in the territory of a Party:

(a) plants and plant products harvested, picked or gathered after being grown there;
(b) live animals born and raised there;
(c) goods obtained from live animals referred to in sub-paragraph (b);
(d) goods obtained from hunting, trapping, fishing, aquaculture, gathering or capturing conducted there;
(e) minerals and other naturally occurring substances, not included in sub-paragraphs (a) through (d), extracted or taken from its soil, waters, seabed or beneath its seabed;
(f) products of sea-fishing taken by vessels registered with the Party and entitled to fly its flag, and other products taken by the Party or a person of that Party, from the waters, seabed or beneath the seabed outside the territorial waters of the Party, provided that the Party has the rights to exploit1) the natural resources of such waters, seabed and beneath the seabed under international law ;
(g) products of sea-fishing and other marine products taken from the high seas by vessels registered with the Party and entitled to fly its flag;
(h) goods produced and/or made on board factory ships registered with a Party and entitled to fly its flag, exclusively from products referred to in sub-paragraph (g);
(i) goods taken from outer space provided that they are obtained by the Party or a person of that Party;
(j) articles collected from there which can no longer perform their original purpose nor are capable of being restored or repaired and are fit only for the disposal or recovery of parts of raw materials, or for recycling purposes; law such as the United Nations Convention on the Law of the Sea.
(k) waste and scrap derived from: (i) production there; or (ii) used goods collected there, provided that such goods are fit only for the recovery of raw materials; and
(l) goods obtained or produced in the territory of the Party solely from goods referred to in sub-paragraphs (a) through (k).

Source: AKFTA Annex III, Rule 3, obtained from AKFTA document signed at ASEAN-Europe Meeting-Republic of Korea (AEM-ROK) in Kuala Lumpur, Malaysia on 24 August 2006, available at ASEAN Secretariat (http://www.aseansec.org).

4.4.2 Not Wholly Obtained or Produced Goods

For goods that involve more than one country of production, importing countries have to set clear, specific and transparent rules to determine their origination so that exporters can recognize the rules and follow them accordingly. The percentage criteria, or the value added criteria, are also widely used in FTAs. However, rather than being used independently, they are usually adopted in combination with the change in tariff classification method or used as an optional test. The basis on which the percentage of origination/non-originating materials is to be calculated is an important element (Lee, 2006).

4.5 Korea FTA policy

Over 50 years, Korea government has pursued an export-oriented economy with comprehensive steps to expedite trade with trade partners. However, trade and investment have recently seen to be concentrating on a regional context. To meet the market expectation, Korea has diversified its trading and investment partners by stressing on the global community as its main partner for economic cooperation to stabilizing effect on the Korea economy.

Korea government also has plans to pursue FTAs with its major trading partners in order to achieve the maximization of its nation's profit and also to avoid isolation from the worldwide trend of regionalism. Moreover, Korea aims to pursue high-levels of FTAs in terms of degree of liberalization and these FTAs will be comprehensive in terms of its coverage and scope purposes. A multi-track approach will be used when negotiating FTAs, meaning that the negotiations can be carried out simultaneously with more than one country when and if necessary.

According to Korean Institute for International Economic Planning (KIEP), in selecting and carrying forward the AKFTA, Korea has taken into account all key factors which will cover all considerations such as economic benefits, political and diplomatic considerations, domestic constraints, and the industrial effect such as the vulnerability of the agriculture and the effect to infant industries, and investment relations. However, given the diversity of ASEAN countries, in terms of stage of economic development (the difference of economic structure and policy), different political systems, and variety of sensitive sectors (agriculture, auto mobile and others), it has taken a great deal of time and effort to establish FTAs between ASEAN and Korea.

5. Foreign Direct Investment

5.1 Recent FDI trend

As one of the world's fastest growing economy bloc, ASEAN has attracted a larger amount of FDI over the last several decades and has been one of the largest FDI recipients amongst the developing area. China and India are beginning to challenge the dominance of the Asian newly industrializing economies-Hong Kong, Korea, Singapore and Taiwan-as the main sources of FDI in developing Asia (UNCTAD, 2007). Generally, FDI to ASEAN has

been strong over the past few years in terms of flows and rate of growth after a period of slow growth associated with Asian crisis in 1997.

5.2 FDI inflows in ASEAN

Table 8 shows the sources of FDI inflows to ASEAN in a global context over the 2004-2006 periods. FDI inflows to ASEAN have more almost tripled since 2002 to US$52.4 billion in 2006. These flows have been concentrated in the developed countries; the United States and the EU member-states alone have consistently accounted for more than half of FDI inflow to ASEAN.

Table 8: Ten sources of ASEAN FDI inflow

(Millions of US$ and percentage)

Country*	Value				Share to total inflow			
	2004	2005	2006	2002-2006	2004	2005	2006	2002-2006
EU-25	10,046.1	11,139.6	13,361.9	44,955.6	28.6	27.1	25.5	26.3
Japan	5,723.1	7,234.8	10,803.3	30,813.7	16.3	17.6	20.6	18.0
ASEAN	2,803.7	3,765.1	6,242.1	19,377.7	8.0	9.2	11.9	11.3
USA	5,232.4	3,010.6	3,864.9	13,736.1	14.9	7.3	7.4	8.0
Other Central & South America***	(60.5)	919.4	1,035.1	3,958.3	(0.2)	2.2	2.0	2.3
Hong Kong	529.6	773.0	1,353.4	3,430.7	1.5	1.9	2.6	2.0
Korea	806.4	577.7	1,099.1	3,347.3	2.3	1.4	2.1	3.0
Cayman Island	2,029.1	(19.9)	476.4	3,003.7	5.8	(0.0)	0.9	1.8
Taiwan	366.8	(66.8)	668.1	2,417.4	1.0	(0.2)	1.3	1.4
China	731.5	502.1	936.9	2,302.9	2.1	1.2	1.8	1.3
Total top ten sources	28,217.1	27,835.4	39,841.2	127,343.3	80.4	67.8	76.1	74.5
Others	6,900.1	13,232.4	12,538.3	43,478.5	19.6	32.2	23.9	25.5
Total	35,117.2	41,067.8	52,379.5	170,821.9	100.0	100.0	100.0	100.0

Source: ASEAN Trade Database

* Identified based on cumulative FDI inflow from 2001-2005

** Includes Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and United Kingdom

*** Includes countries in Central and South America, other than Argentina, Brazil, Mexico and Panama

Inflows from Japan and South Korea have actually been insignificant. FDI inflows into ASEAN as a percentage of total world inflows have dropped from their highs of the mid-1990s when ASEAN countries accounted for about 8 percent of world inflows to the current percentage of about 11.3 percent in 2006. Clearly, the cause for this downward trend was related to the Asian Crisis, which not only affected ASEAN countries but also other East Asian countries like China, though the Chinese share picked up relatively rapidly after the Crisis. Inward FDIs from China has been on the rise in percentage terms.

Table 9 shows FDI inflows into ASEAN registered a 20.9% increase in 2006 to reach their second highest ever level of US$69 billion. In particular, FDI flows to Singapore rose by 79.5

Table 9: FDI Inflows to ASEAN, selected years

(Millions of US$ and percentage)

Countries	FDI Flows	1990-2000*	2003	2004	2005	2006	1990-2000**	2004	2005	2006
							As percentage of gross fixed capital formation			
Brunei	Inward	349	3,375	334	289	434	80.4	64.1	48.8	69.5
	Outward	45	76	4	35	38	10.4	0.8	5.8	6.1
Thailand	Inward	3,198	5,235	5,862	8,957	9,751	9.4	14.0	17.5	16.5
	Outward	370	621	76	552	790	0.7	0.2	1.1	1.3
Malaysia	Inward	4,722	2,473	4,624	3,965	6,060	18.3	19.1	15.2	20.1
	Outward	1,550	1,369	2,061	2,972	6,041	5.2	8.5	11.4	20.1
Philippines	Inward	1,289	491	688	1,854	2,345	8.8	4.9	12.6	14.1
	Outward	151	303	579	189	103	1.0	4.1	1.3	0.6
Indonesia	Inward	1,547	597	1,896	8,337	5,556	1.9	3.4	12.3	6.4
	Outward	622	213	3,408	3,065	3,418	1.4	6.2	4.5	3.9
Singapore	Inward	9,204	11,664	19,828	15,004	24,207	36.2	77.5	57.6	79.5
	Outward	4,757	2,695	8,074	5,034	8,626	17.4	31.5	19.3	28.3
Cambodia	Inward	155	84	131	381	483	36.0	11.4	32.3	38.9
	Outward	12	10	10	6	8	2.6	0.9	0.5	0.7
Laos	Inward	50	19	17	28	187	27.6	3.9	5.8	37.1
	Outward	3	—	—	—	—	1.2	—	—	—
Myanmar	Inward	346	291	251	236	143	37.4	22.3	18.8	10.8
	Outward	—	—	—	—	—	—	—	—	—
Vietnam	Inward	1,322	1,450	1,610	2,021	2,315	29.4	10.6	11.5	12.5
	Outward	—	—	—	65	70	—	—	0.4	0.4
ASEAN	Inward	30,104	53,505	60,630	72,406	69,468	13.7	19.6	19.8	20.9
	Outward	2,195	2,855	5,498	12,261	16,130	4.5	8.7	5.8	7.8

Source: World Investment Report 2007, UNCTAD
* : Annual Average
** : Annual Average

%, representing a new high of US $24 billion (Kim, 2008). As a distribution hub and financial centre in the sub-region, the country accounts for almost half of total inflows to ASEAN and continues to receive most of its FDI in services (mainly trade and finance). FDI inflows to Thailand continued to rise by 16.5% in 2006, reaching a record US$9.7 billion and consolidating the country's position as the second largest FDI recipient in ASEAN. Inflows to Malaysia and the Philippines have also rised substantially: by 20.1% in the former, to its highest level since the Asian financial crisis (US$6 billion), and by 14.1% in the latter to its highest level ever (US$2.3 billion). Indonesia saw a substantial decline (33%) in FDI inflows, thus breaking the positive trend from 2005.

The performance of other ASEAN member countries in attracting FDI in 2006 was gener-

ally significant. Laos witnessed a six-fold growth, the highest among countries in the sub-region, while inflows to Cambodia also rose. In Vietnam, FDI rose by 12.5% to reach US $2.3 billion, and the country is increasingly considered an attractive location for efficiency-seeking FDIs and some view it as an attractive alternative.

5.3 ASEAN-Korea FDI

The first Korean outflows direct investment to Southeast Asia was established as a purpose of developing forests in Indonesia in 1960. Korean FDI reached full scale in the 1980s, and since the mid-1980s, Korean companies have looked to ASEAN countries as a source of inexpensive labor as well as abundant natural resources. In particular, Korean companies also exported manufactured goods produced in ASEAN to developed countries. Such a strategy allowed these firms to bypass the trade barriers to Korean products in third country markets. As a result, Korean investment to ASEAN began to become concentrated in labor-intensive industries such as footwear, textiles and electronics. Even though Korea's investment in ASEAN declined in 1993 and 1994-mainly because many Korean companies were investing heavily in China-it increased again when large Korean conglomerates began directing their investments towards ASEAN countries including Indonesia and Vietnam. As the purchasing power of ASEAN member countries became diversified, Korean firms also began to shift their investment patterns to market-oriented investments after the mid-1990s. However, Korean investments toward ASEAN has greatly declined due to the financial crisis and it remains below the level of 1997. The emergence of China has been another reason for the relative decline of Korean investments.

From the aspect of investment scales, investment to ASEAN had continuously increased from the mid-1980s. The total amount of investment to ASEAN reached 30 percent in 1991, but due to investments in China after the normalization of diplomatic relations between Korea and China, FDIs towards the ASEAN region decreased until the mid-1990s. In the late 1990s, it regained its upward trend. However, ASEAN's share in Korea's total Investments decreased due to stagnation of the ASEAN economy and the rapid increase of investment in China. Nevertheless, investment in Southeast Asia has climbed upwards again with the recent recovery of the ASEAN economy. In 2007, Korea's total investment to ASEAN reached US $3,043 million (Table 10).

Kim (2008) identified Vietnam as the most significant FDI destination for Korea among ASEAN nations composing 29.6 percent of the remaining investment amount. Although Korea has only been investing in Vietnam since 1992, the country has emerged as the most popular destination among ASEAN leading members, namely Thailand, Malaysia, Singapore and the Philippines.

Indonesia is an attractive destination for investment with 23.2 percent. Among the ASEAN 10 members, 92 percent of total investments are concentrated in the ASEAN 6, which includes Indonesia, Vietnam, Thailand, Philippines, and Singapore, while only 8 percent are focused on Myanmar, Cambodia, Laos, and Brunei.

Kim (2008) explains in Table 11 the current trend and the cumulative state of Korean

Table 10: FDI by Year & Country (Total Acceptance & Investment as for a period of each year)

(Unit: US$1,000)

	2003	2004	2005	2006	2007	Total 1968-2007
Brunei	0	0	0	92	0	2,014
Thailand	31,770	46,065	51,597	72,363	140,317	966,423
Malaysia	13,068	38,368	22,696	58,752	125,927	705,048
Philippines	16,942	19,165	40,628	60,868	105,279	927,262
Indonesia	82,357	56,380	93,667	138,081	244,820	2,729,338
Singapore	234,563	168,978	126,016	303,849	506,553	1,990,096
Cambodia	9,669	13,529	31,745	125,438	624,494	840,806
Laos	746	2,090	0	207	11,490	67,172
Myanmar	891	0	969	465	1,068	58,430
Vietnam	156,402	178,170	309,612	588,407	1,269,883	3,490,671
Total	546,083	522,745	676,928	1,351,130	3,042,888	11,777,260

Source: The Export-Import Bank of Korea

investment towards ASEAN by industry, the manufacturing sector encompasses nearly all industries, comprising 52.2 percent of the total investment. Based on the total investment, whole and retail sales, mining & quarrying, real estate and services, construction industries and telecommunications follow the manufacturing industry. It also shows that the investment towards ASEAN in the telecommunication sector is on an upward trend.

Korean firms began to invest further into ASEAN especially Vietnam, Indonesia, Singapore and Cambodia, after AKFTA between the two countries came into effect on 1st June 2007. Korea firms were expected to invest primarily in infrastructure construction, manufacturing and real estate. In 2007, Korea was ranked first among countries and territories investing Vietnam with US$1,270 million and Cambodia with US$624 million. Currently, ASEAN has increasingly become an attractive business destination for Korean firms, as multinational companies such as Samsung (Electronics, Construction, Heavy Industry etc), LG (Electronics), POSCO (Steel), and Hyundai & KIA (Car manufacturing) have kicked off new investments or have expanded their business in ASEAN.

Most Korean firms have formed production networks and supply chains throughout Southeast Asia. They have divided their production processes into multiple sub-process and located these sub-process in different countries based on the comparative advantage i. e., relative factor proportions and technological capabilities. This tendency has helped promote the dynamic evolution of intra-regional division of labor and has led to the rise of vertical intra-industry trade in parts, components, and semi-finished and finished manufactured products. Even small-and medium-sized firms are expected to increase their investments into the market or shift their regional representative or manufacturing facilities from China to Southeast Asia in order to diversify and expand their business.

This FTA in services will definitely help both the parties to capitalize on the economic

Table 11 : FDI by Country & Industry (Cumulative Total Acceptance & Investment) Total Invested Amount

(Unit : US$1,000)

	Brunei	Thailand	Malaysia	Philippines	Indonesia	Singapore	Cambodia	Laos	Myanmar	Vietnam	Total
Agriculture & Forestry	0	940	17,224	2,176	38,474	455	4,157	966	0	10,830	75,222
Fishing	0	0	159	2,027	29,618	790	218	0	606	732	34,150
Mining & Quarrying	0	20,786	111,576	4,230	524,332	0	23,114	1,287	918	702,613	1,388,856
Manufacturing	0	566,060	444,378	683,603	1,803,722	516,571	95,126	19,813	42,841	1,975,500	6,147,614
Electricity, Gas & Water Supply	0	103	0	3,178	55	26,950	168	0	0	127	30,581
Construction	2,014	102,412	47,451	42,885	50,573	11,666	196,369	36,701	0	119,317	609,338
Wholesale & Retail Trade	0	39,466	17,219	16,276	53,623	503,892	23,054	1,018	13,135	29,008	696,691
Accommodation & Food Service Activities	0	11,341	3,020	62,889	6,278	1,777	30,060	1,900	0	177,452	294,717
Transportation	0	2,739	4,847	7,194	29,897	208,748	5,252	0	0	16,902	275,579
Telecommunications	0	151,498	14,385	23,018	12,121	229,391	9,504	0	0	2,819	442,736
Financial and Insurance Activities	0	3,125	150	6,702	62,834	57,430	13,501	0	0	40,430	184,172
Real Estate Activities & Renting & Leasing	0	12,692	27,375	33,325	102,963	177,843	398,602	2,743	0	333,952	1,089,495
Business Services	0	29,125	6,999	5,158	9,683	247,682	17,264	71	200	8,795	324,977
Public Administration & Defense & Compulsory Social Security	0	0	0	0	195	0	0	0	0	150	345
Education	0	1,434	611	13,476	921	223	1,886	0	0	2,129	20,680
Human Health & Social Work Activities	0	3,191	0	0	0	119	0	0	0	2,907	6,217
Entertainment, Cultural and Sports Activities	0	20,514	8,821	19,786	2,983	5,561	18,039	2,273	251	55,342	133,570
Other Public, Repair and Personal Services	0	994	833	1,370	1,065	999	4,491	400	480	11,666	22,298
Total	2,014	966,423	705,048	927,262	2,729,338	1,990,096	840,806	67,172	58,430	3,490,671	11,777,260

Source : Korea International Trade Association (KITA), 2007

boom in the region. Some ASEAN countries-such as Singapore and Malaysia being business friendly and with their all-ready infrastructure and existing strong ties-will be the best transit point for these traders to locate and grow their business and investment. Korean firms can tap on these agencies to facilitate their entry into ASEAN, and use ASEAN as a staging base to expand into other parts of Asia and the Middle East.

6. Competitiveness of AKFTA

The AKFTA would remove unnecessary non-tariff and technical barriers to trade between parties, which are often non-transparent and subject to frequent changes, and create the biggest obstacles to trade. Benefits to be reaped from enhancements in the trading regime would be sizeable and would substantially improve economic welfare in both parties. This would be of particular benefit to business communities who would welcome a transparent and level playing field.

AKFTA is also expected to facilitate greater flow of Korea investment ASEAN. ASEAN and Korea have both strong beliefs in the benefits of foreign direct investments as this provides capital and creates enormous employment opportunities. More importantly, FDIs facilitate the flow of ideas and know-how in the high value-added areas of management, human development, and technology, and also the opening up of access to markets and networks of global production. Both countries have, in the past few years, reviewed internal policies, rules and regulations, so as to enhance the investment environment in countries. Again, this would serve to enhance the competitiveness of our companies as they continue to move forward in facing the challenges of globalization.

Furthermore, Korean firms would benefit from ASEAN network of FTAs, including the recently concluded ASEAN-China FTA, ASEAN-Japan FTA, and other FTAs with major economies that are currently undergoing negotiations. Korean companies investing in ASEAN would gain enhanced access to these markets. Similarly, some ASEAN firms investing in Korea would gain greater access to Korea's neighboring countries like Japan and China, with which Korea is currently developing arrangements to ensure freer trade and investment flows. Both governments are also looking into promoting economic development in North Korea.

The AKFTA would offer opportunities for ASEAN to enhance its access to the Northeast Asian markets and strength its position as a node in the global economy. In addition, it would considerably expand ASEAN's trade and investment flows with the major Northeast Asian countries. Both Korea and ASEAN are active participants in major multilateral trade and economic organizations such as the World Trade Organization and the Asia-Pacific Economic Cooperation. The AKFTA would be a high-level FTA, with several sectors being WTO-plus, and thus will play a complementary role in promoting the multilateral trading system and will continue to contribute to a wider trade liberalization process. AKFTA will also strengthen and deepen economic integration and also will help to build capacity through the sharing of available resources and expertise.

7. Strategies for implementation

Comprehensive relations between Korea and ASEAN have been growing since the establishment of the Dialogue Partnership in 1989. As of 2007, the trade volume between Korea and ASEAN stood at US$71.8 billion, representing a 16% increase over that of the year before. Furthermore, ASEAN has grown into the fourth largest destination for Korean overseas investment and the third largest import market of Korean goods.

The Plan of Action, drafted after the ASEAN-Korea Joint Declaration on Comprehensive Cooperation Partnership, serves as an important guideline for ASEAN-Korea cooperation by providing specific directions in the 8 areas of cooperation in 2005. At the 2006 Summit, the First Executive Report was adopted as a progress report on the implementation of the various measures under the Plan of Action. Furthermore, the signing of the Framework Agreement on Comprehensive Economic Cooperation at the 2005 Kuala Lumpur Summit laid the groundwork for ASEAN-Korea co-prosperity. This Agreement forms the basis for the AKFTA, of which the deadline for concluding the Agreement on Services and Investment was set for November 2007.

Korea needs to continuously pursue global and strategic trade policies in order to prepare for interregional cooperation under a strategic alliance with ASEAN, and to expand investment and trade based on industrial cooperation with ASEAN members. In addition, as multilateral interregional FTAs are widening their scopes, the East Asian FTA is expected to be actively promoted around 2010. Utilizing a Korea-ASEAN FTA, which would be a building block to prepare for interregional economic integration, Korea needs to widen and deepen its strategic partnership between ASEAN in the future.

Korea needs to keep the market at an opening level as China and Japan, the nation's main trade competitors, have preceded and surpassed Korea in advancement into markets. ASEAN-China FTA has been in effect since July 2005. Accordingly, tariffs between China and Malaysia, Indonesia, the Philippines, Brunei, Thailand and Singapore were to be abolished before 2010 while the tariffs between China and Vietnam, Laos, Cambodia and Myanmar will be abolished by 2015. Meanwhile, Japan, which has already concluded FTAs with Singapore (2002), the Philippines (2004), Malaysia (2005) and Thailand (2005), is negotiating for an FTA conclusion with Indonesia.

According to the Federation of Korean Industries, in the case of China exports tariff-free steel products in 2010, the nation's price competitiveness will fall to a maximum of 10%. As the possibility of China and Japan securing the ASEAN market ahead of Korea continues to grow, it is feared that Korea will lose the ASEAN export market to the two countries. China is expected to gain 8% higher price competitiveness than Korea due to ASEAN-China FTA (The Federation of Korean Industries, 2007).

Over the coming 10 years, Japan is also likely to receive tariff cut favors from major ASEAN countries, including Malaysia and Thailand. For automobile industries, the poor

export result to ASEAN market is mainly attributed to the high tariff and non-tariff barriers and Japanese automakers' dominance over the local market. At present, Japanese automakers account for over 70% of the ASEAN automobile domestic market and control 80% of the local car production. If automobiles are classified as sensitive item in ASEAN countries especially Malaysia, Indonesia and Thailand, and the market opening scope becomes smaller, Korean automakers are expected to face difficulties in advancing into the ASEAN market. In the case of Malaysia, the Malaysian government has eliminated some local-content requirements and has cut its tariffs for its autos having at least 40% ASEAN content. However, it has imposed excise taxes on autos to compensate for the lost tariff revenue. According to United States Trade Representative, the high tax rates continue to overburden automakers and discriminate against foreign-owned manufacturers.

However, ASEAN countries now impose higher tariffs on automobiles than other items. If automobiles are classified as general item and tariffs are abolished, Korea's car export to ASEAN is expected to rise by the effect of tariff reduction. Accordingly, AKFTA should be concluded in such a way as to secure the tariff concession levels of China and Japan. If failing to do so, Korea is feared to lose a considerable part of the ASEAN steel export market. ASEAN and Korea both need to enhance Economic Cooperation Based on AKFTA.

Cooperation in the financial area and the pursuit of an East Asian FTA will also greatly contribute to the regional integration and economic development of East Asia. It is predicted that an FTA with ASEAN, Korea's fifth largest trading partner, will lead to enhanced mutual economic dependence, accelerating the development of its bilateral relations. The success of the Korea-Singapore FTA has led to positive expectations concerning the outcomes of the AKFTA.

8. CONCLUSIONS

AKFTA is seen as the extension of the existing relations and as a tool to continue elevating Korea's relationships between ASEAN to a higher and more comprehensive level in the future. ASEAN and Korea both have pursued friendly free trade and investment policies. Through FTAs, these two parties have continued to promote trade in goods and services as well as create a transparent, liberal and facilitative investment, and these efforts will strengthen and enhance economic, trade and investment cooperation. Without an enlargemet of an FTA agreement, it is difficult to export growth. Korea needs to pursue a diversified approach to trade, combining products and services to enable Korea's trade to grow continuously. Furthermore, Korea should lead the globalization trend of world trade through its conclusion of FTAs with major trading partners.

For Korea, the AKFTA would deepen its integration with the ASEAN economies and with Korea investing in ASEAN; it would gain enhanced access to these markets. ASEAN would also enhance its access to the Northeast Asian markets and strengthen its position as a node in the global economy and considerably expand ASEAN's trade and investment flows

with the major Northeast Asian countries. ASEAN firms investing in Korea would gain greater access to Korea's neighboring countries like Japan and China.

However, the AKFTA has lagged behind relatively in comparison with the ASEAN-Japan FTA and the ASEAN-China FTA. These countries have successfully been implementing FTA policies with ASEAN. Therefore, Korea needs to accelerate the implementation of AKFTA in order to maximize its benefit from ASEAN. Korea also needs to upgrade AKFTA to become a more comprehensive agreement and high-level form of FTA in terms of its contents being consistent with the WTO rules and comprehensive in coverage : commodity, service, investment, government procurement, intellectual property rights, technology standards, etc. and utilizing domestic system improvement as an opportunity for improving the domestic system as well as opening major service sectors such as law, medical, and education, This is needed in order to build the advanced international competitiveness by implementing successful AKFTA.

Although there are some challenges among ASEAN countries such as the dynamics of ASEAN's diversity and heterogeneity, and changes to its geo-political characters, ASEAN and Korea has developed FTAs flexibly. AKFTA has been successful to both parties. But it has a long way to go, so as to achieve the most successful FTA to maximize their benefit. As ASEAN and Korea continue to develop their economies, not only is there potential that has to be explored but also the need to increase and grow economic partnership between both parties.

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