"Korea, the U.S., China and Japan: The Rise of Asian Regionalism"

(Excerpts)

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Introduction

This goal of this paper is to analyze evolving trade and investment patterns and relations among the United States, South Korea, and China, with a special focus on the implications of rising Asian regionalism for the three countries. The report will also suggest optimal responses for the U.S. and Korea to these new trends and trade policy shifts. The paper is organized as follows. The first section will describe the growth of Korea as a trading nation as well as its trading relationship with major partners in the last decade. The second section will analyze the bilateral relationship of Korea and its four largest trading partners, including the U.S., China, Japan, and ASEAN. Included in the second section, the report examines Korea's recent strong economic performance and its emergence as a powerful regional and world trading power. The third, and final section, of the paper will trace the growth of Asian regional trading patterns and describe recently concluded and proposed bilateral, sub regional and regional Asian free trade agreements (FTAs). The paper will conclude with discussion and recommendations regarding optimal responses for the U.S. and Korea to the new realities of Asian trade and regionalism.

In the trade arena, throughout the entire postwar period, East Asian nations largely eschewed bilateral or sub regional free trade agreements (ASEAN was the exception, but until quite recently, little or no trade liberalization had been fostered among its member states). As their political leaders pointed out, even though worldwide almost all nations belonged to one or more FTAs or customs unions, East Asia had flourished—with higher economic growth and per capita incomes rates—as individual nations outside of any trade bloc. During the 1990s, however, important new factors and pressures produced major changes in trade policies and priorities for the region. First, because many East Asian economies were heavily dependent on the U.S. market as an exports source, the signing of the NAFTA agreement, with the potential of substantial trade diversion to Mexico, caused a wave of uneasiness. This uneasiness was heightened by the announced plans to negotiate a free trade agreement encompassing all of Central and South America by the year 2005. Then came the financial crisis of 1997, which resulted in further reexamination of the traditional go-it-alone stance. Many Asian leaders felt that the U.S. and the IMF had reacted unsympathetically, advancing draconian policy prescriptions to the plight of beleaguered governments.

Only in 1999, however, did the real break with the past occur, when both Japan and Korea embarked on an historic course of action by advancing the possibility of negotiating a series of bilateral, sub regional, and regional – and even cross-regional – trade agreement with other nations. Previously, both nations had limited their trade objectives to membership in the multilateral system of the GATT and WTO, though trade experts in each nation had at times called for special bilateral relations with the U.S.

Led by Japan and Korea, the East Asian region has witnessed a wave of proposals over the past several years for various bilateral and sub regional combinations, including proposed FTAs between Japan and Singapore, Korea and Japan, Singapore and Australia, Singapore and New Zealand, China ASEAN, and Japan, Korea and China (Table 1).

Table 1: Progress of Regionalism in East Asia

FTAs	Progress				
	Discussion	Joint Study	Negotiation	Conclusion	Implementation
AFTA					V
AFTA-China			V		
AFTA-Japan		V			
AFTA-Korea		V			
AFTA-India	V				
AFTA-US	V				
China-Japan-Korea	V				
East Asian FTA	V				
Japan-Chile		V			
Japan-Canada	V				
Japan-Mexico			V		
Japan-Taiwan	V				
Japan-Singapore					V
Korea-Chile					V
Korea-Japan			V		
Korea-Mexico	V				
Korea-New Zealand			V		
Korea-Singapore			V		
Korea-Thailand		V			

Source: Inkyo Cheong, March 2004

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I: Korean Trade since 1960

Korea's trade statistics show dramatic export growth between 1960 and 1980. (Table 2) Spurred by the government's industrial policy, Korea's industrialization focused on increasing exports, and export growth rates during the period outpaced import growth rates. In the 1980s, both export and import growth rates slowed, and trade became more balanced. The trade balance began to deteriorate in 1990, however, and reached a deficit record of negative $20.6 billion in 1996. As a result of the 1997 financial crisis, growth stagnated even though the Korean *won* dropped precipitously in value. Exports dropped slightly, but imports decreased dramatically. As Korea's economy was restored, both imports and exports rebounded, showing healthy year-on-year growth. Although Korea's economy experienced a setback in 2001 – with negative growth rates for both imports and exports – Korea has run successive annual trade surplus since. By 2004 both exports and imports reached record nominal trade levels.

Table 2: Korea BoP, Selected Years (1960-2004) (000s USD)					
Year	**Exports**	**Growth**	**Imports**	**Growth**	**Trade Balance**
1960	32,827	48%	343,527	-22%	-310,700
1965	175,082	433%	463,442	35%	-288,360
1970	835,185	377%	1,983,973	328%	-1,148,788
1975	5,081,016	508%	7,274,434	267%	-2,193,418
1980	17,504,862	245%	22,291,663	206%	-4,786,801
1985	30,283,122	73%	31,135,655	40%	-852,533
1990	65,015,731	115%	69,843,678	124%	-4,827,947
1991	71,870,122	11%	81,524,858	17%	-9,654,736
1992	76,631,515	7%	81,775,257	0%	-5,143,742
1993	82,235,866	7%	83,800,142	2%	-1,564,276
1994	96,013,237	17%	102,348,175	22%	-6,334,938
1995	125,057,988	30%	135,118,933	32%	-10,060,944
1996	129,715,137	4%	150,339,100	11%	-20,623,963
1997	136,164,204	5%	144,616,374	-4%	-8,452,171
1998	132,313,143	-3%	93,281,754	-35%	39,031,388
1999	143,685,459	9%	119,752,282	28%	23,933,177
2000	172,267,510	20%	160,481,018	34%	11,786,492
2001	150,439,144	-13%	141,097,821	-12%	9,341,323
2002	162,470,528	8%	152,126,153	8%	10,344,375
2003	193,817,443	19%	178,826,657	18%	14,990,786
2004	253,844,672	31%	224,462,687	26%	29,381,985

Source: KITA, various, 2005

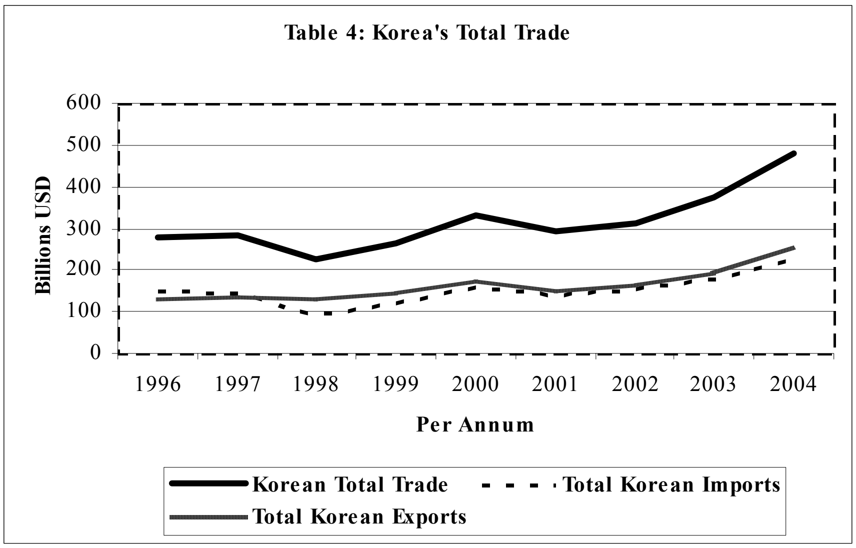
IA: Korea's Major Trading Partners

Korea's most significant trading partners include China, the U.S., and Japan. The list also includes Hong Kong, Germany, Taiwan, and the U.K. For the purpose of this report, the top three trading partners – China, the U.S. and Japan – are considered, due to their continued dominance in international/regional trade and their large volume in Korean imports and exports. Moreover, in light of the regional focus herein, and the implications for import and export patterns in the near horizon, ASEAN partners are also investigated.

In advance of the bilateral and intraregional trade analyses, the subsequent tables help identify Korea's 1996-2004 total trade growth and the import/export trends of Korea's largest trading partners. Korea's export surplus continues into 2004; however, the destination and bilateral contribution of Korea's total trade have fluctuated. Most of Korea's imports originate from East Asia, and, increasingly, a larger proportion of Korea's exports are landing in the same East Asian nations.

Total Korea trade rose near $200 billion from 1996 to 2004 (Tables 3 and 4). The marked increases in Korean export percentage originate from much higher demand levels in ASEAN, China and Japan. This is not the case in Korea's exports, however, as the EU, U.S., and most recently, China, have maintained strong demand for Korean goods.

Table 3: Korea Per Annum Total Trade			1996-2004
Year	Imports in 000s	Exports in 000s	Total Trade in 000s
1996	150,339,100	129,715,137	280,054,237
1997	144,616,374	136,164,204	280,780,578
1998	93,281,754	132,313,143	225,594,897
1999	119,752,282	143,685,459	263,437,741
2000	160,481,018	172,267,510	332,748,528
2001	141,097,821	150,439,144	291,536,965
2002	152,126,153	162,470,528	314,596,681
2003	178,826,657	193,817,443	372,644,100
2004	224,462,687	253,844,672	478,307,359



Source: KITA, various, 2005

The subsequent charts (Tables 5-8) provide an historical picture of Korea's total trade involving imports and exports, and the contribution percentages of Korea's major trading partners.

Table 5: Korea Per Annum Imports 1996-2004 (Selected Blocs and Nations)						
Imports in 1,000 USD						
Year	ASEAN	China	Japan	U.S.	Europe	Total
1996	12,073,822	8,538,568	31,448,636	33,305,379	26,244,234	150,339,100
1997	12,548,804	10,116,861	27,907,108	30,122,178	23,687,605	144,616,374
1998	9,135,142	6,483,958	16,840,409	20,403,276	14,280,732	93,281,754
1999	12,249,476	8,866,667	24,141,990	24,922,344	16,579,165	119,752,282
2000	18,173,436	12,798,728	31,827,943	29,241,628	20,069,931	160,481,018
2001	15,915,658	13,302,675	26,633,372	22,376,226	18,861,330	141,097,821
2002	16,756,588	17,399,779	29,856,228	23,008,635	21,802,567	152,126,153
2003	18,458,465	21,909,127	36,313,091	24,814,134	24,758,673	178,826,657
2004	22,383,147	29,584,874	46,144,463	28,782,652	30,535,455	224,462,687

Source: KITA, various, 2005

Table 6: Percentage of Total Per Annum Import						
Year	**ASEAN**	**China**	**Japan**	**U.S.**	**Europe**	**Total**
1996	8%	6%	21%	22%	17%	**150,339,100**
1997	9%	7%	19%	21%	16%	**144,616,374**
1998	10%	7%	18%	22%	15%	**93,281,754**
1999	10%	7%	20%	21%	14%	**119,752,282**
2000	11%	8%	20%	18%	13%	**160,481,018**
2001	11%	9%	19%	16%	13%	**141,097,821**
2002	11%	11%	20%	15%	14%	**152,126,153**
2003	10%	12%	20%	14%	14%	**178,826,657**
2004	10%	13%	21%	13%	14%	**224,462,687**

Source: KITA, various, 2005

Table 7: Korea Per Annum Exports 1996-2004 (Selected Blocs and Nations)						
Year	**ASEAN**	**China**	**Japan**	**U.S.**	**Europe**	**Total**
1996	20,310,764	11,377,068	15,766,827	21,670,465	21,395,385	**129,715,137**
1997	20,365,332	13,572,463	14,771,155	21,625,432	24,817,284	**136,164,204**
1998	15,327,871	11,943,990	12,237,587	22,805,106	28,749,403	**132,313,143**
1999	17,707,934	13,684,599	15,862,448	29,474,653	26,091,213	**143,685,459**
2000	20,133,786	18,454,540	20,466,016	37,610,630	28,141,378	**172,267,510**
2001	16,458,982	18,190,190	16,505,766	31,210,795	23,958,093	**150,439,144**
2002	18,400,241	23,753,586	15,143,183	32,780,188	27,010,302	**162,470,528**
2003	20,253,388	35,109,715	17,276,137	34,219,402	31,898,993	**193,817,443**
2004	24,024,265	49,763,175	21,701,337	42,849,193	44,592,658	**253,844,672**

Source: KITA, various, 2005

Table 8: Percentage of Total Per Annum Export						
Year	**ASEAN**	**China**	**Japan**	**U.S.**	**Europe**	**Total**
1996	16%	9%	12%	17%	16%	**129,715,137**
1997	15%	10%	11%	16%	18%	**136,164,204**
1998	12%	9%	9%	17%	22%	**132,313,143**
1999	12%	10%	11%	21%	18%	**143,685,459**
2000	12%	11%	12%	22%	16%	**172,267,510**
2001	11%	12%	11%	21%	16%	**150,439,144**
2002	11%	15%	9%	20%	17%	**162,470,528**
2003	10%	18%	9%	18%	16%	**193,817,443**
2004	9%	20%	9%	17%	18%	**253,844,672**

Source: KITA, various, 2005

IB: Korea's Major Import Partners (1980–2004)

Throughout the past two decades, Japan has been Korea's biggest import partner, followed by the U.S. [Table 9 provides an effective snap-shot in charting this historical relationship.] However, the trade contribution percentages of Japan and the U.S. have reduced significantly, owing much to the growing importance of China as one of Korea's major sources of imports. China represented only 3 percent ($2.27 billion) of Korea's total imports in 1990; however, China's share grew to 8 and 13 percent, respectively, of total imports by 2000 and 2004.

Table 9: Nation/Bloc Source of Korea Imports: 1980, 1990, 2000, 2004 (in thousands)

1980 Total Imports 21,949,891				2000 Total Imports 160,481,018			
Rank	Nation/Bloc	Percent	Import Total 1980	Rank	Nation/Bloc	Percent	Import Total 2000
1	Japan	**27%**	5,857,810	1	Japan	**20%**	31,827,943
2	U.S.	**22%**	4,890,248	2	U.S.	**18%**	29,241,628
3	Saudi Arabia	**15%**	3,288,406	3	China	**8%**	12,798,728
4	Kuwait	**8%**	1,753,192	4	Saudi Arabia	**6%**	9,641,492
5	Australia	**3%**	680,019	5	Australia	**4%**	5,958,700
1990 Total Imports 69,843,678				**2004 Total Imports** 224,462,687			
Rank	Nation/Bloc	Percent	Import Total 1990	Rank	Nation/Bloc	Percent	Import Total 2004
1	Japan	**27%**	18,573,851	1	Japan	**21%**	46,144,463
2	U.S.	**24%**	16,942,472	2	P.R.C.	**13%**	29,584,874
3	Germany	**5%**	3,283,546	3	U.S.	**13%**	28,782,652
4	Australia	**4%**	2,589,117	4	Saudi Arabia	**5%**	11,799,580
5	P.R.C.	**3%**	2,268,137	5	Germany	**4%**	8,485,567

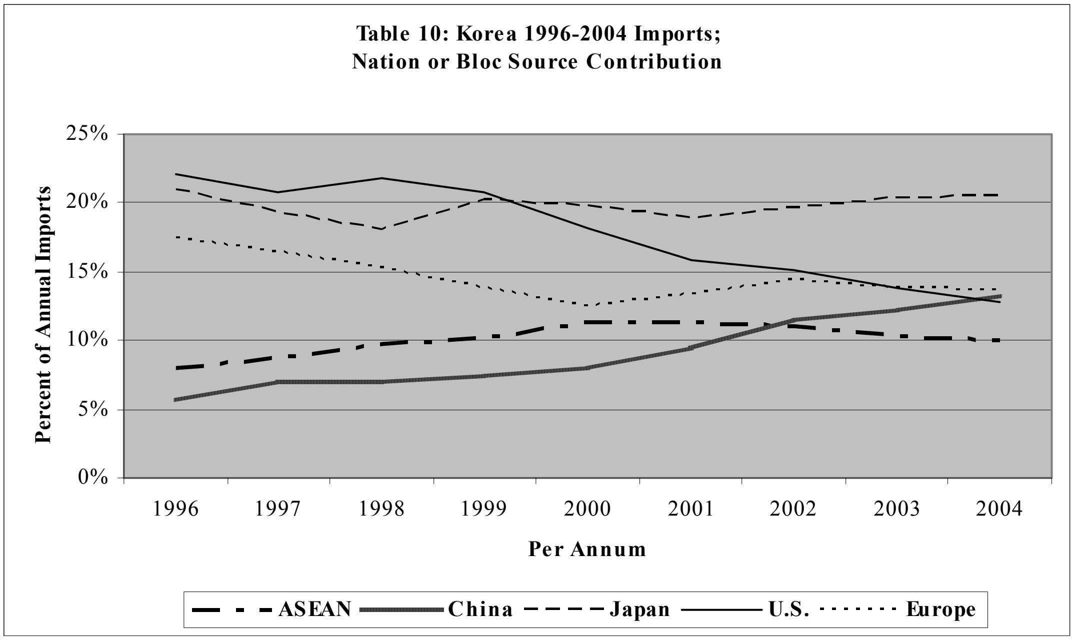
Source: KITA, various, 2005

Like Japan and the U.S., Saudi Arabia has been one of Korea's five main sources of imports since 1980 (ranked 6 in 1990), reflecting the importance of oil imports for the Korean economy, in particular during the 1980s. Saudi Arabia provided 15 percent ($3.29 billion) of Korea's total imports in 1980, a share that decreased significantly by 1990 ($1.72 billion); however, Saudi Arabia's contribution increased markedly through 2004, reaching $11.8 billion. Korea's imports from other countries continued to increase between 1980 and 2004, a trend indicating Korea's diversification of imports. Excluding Korea's five major trading partners in imports, the number of countries that provided more than 1.4 percent of Korea's total imports increased from 6 in 1980 to 10 in 1990. The number reached 12 in 2002, reflecting Korea's continuing import diversification. These countries included countries of Southeast Asia and East Asia (Indonesia, Malaysia, and Taiwan), Europe (Germany, the United Kingdom [UK], Italy, and France), and the Middle East (United Arab Emirates and Kuwait).

IC: Korea 1996-2004 Imports:

Korean import demand of European and U.S. goods fell near 4 and 10 percent, respectively, from 1996-2004 levels. The demand for ASEAN and Chinese goods, however, has supplanted European and U.S. import loss, accounting for 10 and 13 percent, respectively, of Korea's 2004 imports.

Import levels from Japan, in contrast to declines in European and the U.S., maintained per annum Korean import levels near 20 percent. Japan remains the only Korea trading partner that exceeds 15 percent of Korea's total per annum imports. The four other partners converge in the 10 to 15 percent import contribution range. The U.S. holds the largest net import loss, from 22 to 13 percent in 10 years, and China the largest net gain, from 6 to 13 percent (Tables 9 and 10).



Source: KITA, various, 2005

ID: Korea's Major Export Partners (1980–2004)

From 1980 to 2002, the U.S. was Korea's largest export market. This is no longer the case. The contribution share of Korea's exports to the U.S. has decreased significantly since 1990, from 30 percent in 1990 to 22 percent in 2000 to 17 percent in 2004. The most influential trend affecting this decline proved fast-growing demand from China for Korean exports. In 1980 and 1990, the amount of Korea's exports to China was insignificant; however, in 2000 China took in 11 percent ($18.5 billion) of Korea's total exports and 20 percent ($49.8 billion) in 2004, supplanting the U.S. and Japan as Korea's largest export destination (Table 11.

The growing share of the Chinese market for Korea's exports is also a sign of Korea's export-market diversification. Before the surge of exports to China, more than 40 percent of Korea's exports headed to the U.S. and Japan. China's emergence as a major importer of Korean products, however, has reduced Korea's heavy export concentration in the U.S. and Japanese markets. Table 4 shows that the shares of Korea's three major export markets became more evenly distributed by 2000 and 2004. Moreover, Hong Kong sustained its share – near 5 percent and rising – of Korea's total exports in the 1990-2004 period. In 2004, non-top-five import countries took 43 percent of Korea's total exports, which proved slightly smaller than their 44 percent share in 2000. The number of countries whose share of Korea's exports was greater than 1.4 percent grew from 8 in 1980 and 1990 to more than 14 in 2004. These countries included Southeast Asian and East Asian countries (Indonesia, Thailand, and Singapore), European nations (UK, Netherlands, France, and Germany), Canada, and Australia.

Table 11: Nation/Bloc Source of Korea Exports: 1980, 1990, 2000, 2004 (in thousands)

	1980 Total Exports 17,369,618				2000 Total Exports 172,267,510		
Rank	Nation/Bloc	Percent	Export Total 1980	Rank	Nation/Bloc	Percent	Export Total 2000
1	U.S.	**27%**	4,606,625	1	U.S.	**22%**	37,610,630
2	Japan	**17%**	3,039,408	2	Japan	**12%**	20,466,016
3	Saudi Arabia	**5%**	946,111	3	China	**11%**	18,454,540
4	Germany	**5%**	876,389	4	Hong Kong	**6%**	10,708,094
5	Hong Kong	**5%**	823,318	5	Taiwan	**5%**	8,026,625

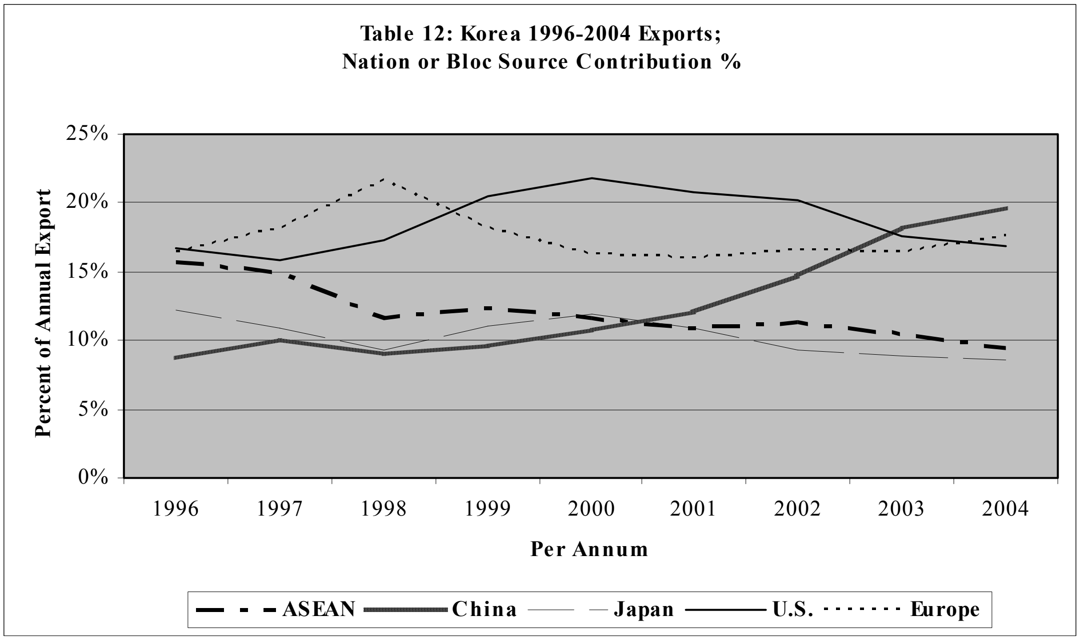
	1990 Total Exports 65,015,731				2004 Total Exports 253,844,672		
Rank	Nation/Bloc	Percent	Export Total 1990	Rank	Nation/Bloc	Percent	Export Total 2004
1	U.S.	**30%**	19,359,997	1	China	**20%**	49,763,175
2	Japan	**19%**	12,637,879	2	U.S.	**17%**	42,849,193
3	Hong Kong	**6%**	3,779,949	3	Japan	**9%**	21,701,337
4	Germany	**4%**	2,849,165	4	Hong Kong	**7%**	18,127,112
5	Singapore	**3%**	1,804,587	5	Taiwan	**4%**	9,844,215

Source: KITA, various, 2005

IE: Korea 1996-2004 Exports:

Regional contributions to the Republic of Korea's exports have risen, in large part, due to increased demand in China. From 1996 to 2004, Korean exports to ASEAN countries fell near 5 percent. European demand for Korean goods, from 1996 to 2004, permitted levels exceeding 15 percent each year. The U.S., Europe, and China hold a similar contribution margin, nearing 17, 18, and 20 percent, respectively, of total Korean exports in 2004.

The Asian crisis clearly initiated a sharp decline in export demand in ASEAN nations. However, the 5 percent margin in ASEAN import reduction in 1997-1998 did not mimic Europe or the U.S. in this period. The percent contribution demand levels, not nominal levels, from ASEAN nations have not recovered in 10 years, and China's rapidly rising demand levels proves a counterbalance, having more than doubled since 1996.



Source: Kita, various, 2005

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II: Korea's Major Trading Partners Examined

Mentioned above, again, Korea's most significant trading partners in 2004 included China, the U.S., and Japan. In addition, the ASEAN trading partners also drove much of Korea's regional trade numbers. The subsequent paragraphs examine each of the mentioned partners, and describe to the reader the macroeconomic relationships from an import and export perspective. The last 8 years – from 1996 to 2004 – presented numerous changes in trade patterns in the North East Corridor, most significantly, the rise in intraregional trade. Korea's bilateral relationships involving China, the U.S., Japan, and the ASEAN bloc serve as effective illustrations of this enhanced intra-regionalization in trade policy and the need for responsive U.S. trade policies.

IIA: Korea-U.S. Trade: Asymmetrical but Crucial

The trade relationship between the U.S. and Korea, historically, has always proven asymmetrical. The U.S. is no longer Korea's most important trading partner, this fact consistent with the trends in shifting market share observed in 2000. In 2000 Korea's exports to the U.S. accounted for 22 percent of its total exports, the highest among Korea's trading partners at the time. This asymmetrical relationship is also reflected in import contributions in 1980s, when (Table 13) almost one-thirds of Korea's exports went to the U.S. Times have changed, clearly! In the last 15 years, Korea's imports from the U.S. have shrunk from 24 percent of total in 1990 to 13 percent in 2004. Korea, historically, is not as important a trading partner for the U.S. as the U.S. is for Korea; the tides in bilateral contribution percentage have shifted some. Nevertheless, Korea still ranks as the seventh largest trading partner of the U.S. (behind Canada, Mexico, Japan, China, Germany, and the UK) and as the seventh-largest recipient of U.S. exports in 2004. Moreover, Korea took in 4 percent total U.S. exports in 2004 and supplied 3 percent of total U.S. imports. The asymmetrical dependence of Korea and the U.S. also proves evident in measuring the ratio of bilateral trade volume to GDP in each country. The ratio in 2004 is estimated at 39 percent for Korea and only 6 percent for the U.S.

Table 13: Korea's Bilateral U.S. Trade Relationship: 1980-2004 (000s)

Korea	1980	1985	1990	1995	2000	2004
Total Exports	17,369,618	30,283,122	65,015,731	125,057,988	172,267,510	253,844,672
Exports to U.S.	4,606,625	10,754,100	19,359,997	24,131,474	37,610,630	42,849,193
% of Total Exports to U.S.	**27%**	**36%**	**30%**	**19%**	**22%**	**17%**
Total Imports	21,949,891	31,133,006	69,843,678	135,118,933	160,481,018	224,462,687
Imports from U.S.	4,890,248	6,489,322	16,942,472	30,403,515	29,241,628	28,782,652
% of Total Imports from U.S.	**22%**	**21%**	**24%**	**23%**	**18%**	**13%**
Total BoP	-4,775,574	-860,586	-4,827,947	-10,060,944	11,786,492	29,381,985
Bilateral BoP	-283,622	4,264,778	2,417,525	-6,272,042	8,369,002	14,066,541
U.S.						
Total Exports	224,250,000	215,915,000	392,975,794	583,030,524	780,418,628	817,935,849
Exports to Korea	4,890,248	6,489,322	16,942,472	30,403,515	29,241,628	28,782,652
% of Total Exports to Korea	**2%**	**3%**	**4%**	**5%**	**4%**	**4%**
Total Imports	249,750,000	338,088,000	496,037,579	743,505,251	1,216,887,535	1,469,670,757
Imports from Korea	4,606,625	10,754,100	19,359,997	24,131,474	37,610,630	42,849,193
% of Total Imports from Korea	**2%**	**3%**	**4%**	**3%**	**3%**	**3%**

Source: KITA and ITA, various, 2005

Although bilateral trade between Korea and the United States grew tremendously in size, until 1981 the bilateral trade balance was persistently – with the exception of 1978 – in favor of the U.S. The balance of payments shifted into Korea's favor beginning in 1982 and has since grown significantly, reaching a peak at $14 billion in 2004. Korea showed a trade deficit with the U.S. in 1991 and 1992 and also from 1994 through 1997; however, Korea has maintained a balance of payments surplus since the economic crisis of 1997.

Korea's 1998 recession, during which its gross domestic product shrank by 6.7 percent, led to a sharp decline in its demand for imports from all countries, including the U.S. (Ahearn 1999). Conversely, Korea's exports to the U.S. rose significantly between 1998 and 2001, propelled by the strong U.S. economy, which increased U.S. demand for foreign goods and services, and by the depreciation of the *won,* which made Korean products cheaper for Americans to buy. In 2002, the slowing U.S. economy led U.S. imports from Korea to stagnate. From 2002 to 2004, the emboldened U.S. economy led to further increases in imports from Korea.

Korea began its outward-oriented economic development in the mid-1960s, and Korea's access to the U.S. market has proven critical for export-led growth. Recent trends in regional demand have clearly altered the U.S. contribution percentages; however, the total value of the U.S. imports remains inherent to Korea's dependence on the demand levels of the U.S. In addition to the total trade value, the intrinsic reliance of Korea on U.S. trade is made more acute in examining the leading export sectors.

IIB: Korea's Exports to the United States (Table 14 Reference)

From 1996 to 2004, Korea's total and top ten exports to the U.S. rose near 80 percent and 90 percent, respectively. Total exports from Korea neared $39 billion in 2004, from near $22 billion in 1996. Top ten exports, in total, reached $34 billion in 2004, from $18 billion in 1996; as a percentage of total exports, the top ten categories of Korea-U.S. export trade rose from 83 to 87 percent of total U.S. exports. From 2000 to 2004, total Korea export trade to the U.S. rose near $1.5 billion, in real terms. The total rise in 2004 exports from total 2000 levels is minimal (4 percent), in comparison to the

$17 billion increase from 1996 to 2004. The periodic variations in contribution ratios remain, however, especially involving automotive and machines and equipment exports.

Total electrical machinery and equipment exports – Korea's largest export commodity in U.S. trade for the last 10 years – made up over 34 percent of Korea's export trade in 2004, marking a 3 percent rise from 2000 and a 9 percent decline from 1996. Korea's current account information also exhibits the rise in Korea's automotive exports to the U.S., in 2004 replacing parts and mechanical appliances as the 2nd largest export category, next to electronics. In 2004, automotive parts and vehicles made up 25 percent of total exports to the U.S. Reactors, machinery and appliances fell to 14 percent of total export in 2004, from near 25 percent of total in 2000. Textile and apparel export items have fallen in 2004 from levels seen in 1996 and 2000.

Emerging export categories in 2004, in addition to automotive and machinery, include rubber and rubber derivative products (1.7 percent of U.S. export total) – not in 1996 or 2000 respective top exports – and mineral fuels, mineral oils, and mineral waxes (2 percent of export total). The largest periodic increases for top ten commodities in 2004 included electronics, automotives, and plastics. However, despite these independent trade fluctuations, the top three categories of commodity export in 2004 – including electrical machinery, parts and mechanical appliances, and automotive products – are also the top three in 1996 and 2000. For each four year measured period, from 1996 through 2004, these three categories, collectively, advanced over 3 percent, in real terms.

Table 14: Republic of Korea Exports to the United States; 1996, 2000, and 2004

Rank	1996			2000			2004 (M1-11)		
	Total Exports: $21,670,465,000			Total Exports: $37,610,630,000			Total Exports: $38,996,071,000		
-	Commodity	USD in Thousands	% of Total Exports	Commodity	USD in Thousands	% of Total Exports	Commodity	USD in Thousands	% of Total Exports
1	Electrical Machinery and Equipment and Parts thereof (85)	9,375,218	43.3%	Electrical Machinery and Equipment and Parts thereof (85)	11,660,807	31.0%	Electrical Machinery and Equipment and Parts thereof (85)	13,392,208	34.3%
2	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	3,219,886	14.9%	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	9,202,785	24.5%	Vehicles other than Railway or Tramway Rolling-Stock, and Parts thereof (87)	9,839,076	25.2%
3	Vehicles other than Railway or Tramway Rolling-Stock, and Parts thereof (87)	1,903,810	8.8%	Vehicles other than Railway or Tramway Rolling-Stock, and Parts thereof (87)	5,552,990	14.8%	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	5,550,971	14.2%
4	Articles of Apparel and Clothing Accessories, **not** Knitted or Crocheted (62)	888,216	4.1%	Articles of Apparel and Clothing Accessories, **not** Knitted or Crocheted (62)	1,260,693	3.4%	Articles of Iron or Steel (73)	804,661	2.1%
5	Articles of Apparel and Clothing Accessories, Knitted or Crocheted (61)	553,052	2.6%	Articles of Apparel and Clothing Accessories, Knitted or Crocheted (61)	1,008,750	2.7%	Articles of Apparel and Clothing Accessories, Knitted or Crocheted (61)	802,105	2.1%
6	Articles of Iron or Steel (73)	512,646	2.4%	Articles of Iron or Steel (73)	803,805	2.1%	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	785,993	2.0%
7	Iron and Steel (72)	432,197	2.0%	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	779,075	2.1%	Iron and Steel (72)	757,170	1.9%

8	Plastics and Articles thereof (39)	341,634	1.6%	Iron and Steel (72)	769,575	2.0%	Plastics and Articles thereof (39)	689,416	1.8%
9	Footwear, Headgear, Umbrellas, Walking-Sticks, Whips, Riding Crops (64)	328,249	1.5%	Plastics and Articles thereof (39)	496,265	1.3%	Rubber and Articles thereof (40)	682,117	1.7%
10	Railway or Tramway Locomotives, Rolling-Stock and Parts thereof (86)	327,990	1.5%	Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus, Parts and Accessories thereof (90)	477,124	1.3%	Articles of Apparel and Clothing Accessories, **not** Knitted or Crocheted (62)	665,998	1.7%
-	**Sum of Top 10 Exports**	**17,882,898**	**82.5%**	**Sum of Top 10 Exports**	**32,011,869**	**85.1%**	**Sum of Top 10 Exports**	**33,969,715**	**87.1%**

Source: KITA, various, 2005
Note: Numbers in parentheses refer to the HSK classification (commodity) code.

IIC: Korea's Imports from the United States (Table 15 Reference)

Total imports from the U.S. to Korea declined 22 percent from 1996 to 2004, near $7 billion in reduced trade. Top ten commodity types – making up, on average, 75 percent of U.S. import totals - lost near $5 billion from 1996 to 2004, in real terms. The largest categorical product decline from 2000 import levels was electrical machinery and equipment, losing 8 percent in reduced value (near $3 billion). In 2004, top ten imports from the U.S. to Korea made near 74 percent of total U.S.-Korea imports, with electrical machinery and equipment representing near 29 percent of total U.S. imports. Top three imports – electrical machinery, parts and mechanical appliances, and optical measuring and instrument parts – represented nearly 50 percent of total imports from the U.S.

Machinery parts and mechanical appliances fell from 21 percent in 1996 to 15% percent in 2004. Electrical machinery and equipment entered the top ten imports in 2000 as the #1 import, nearing 37 percent of total U.S. imports. Electrical machinery and equipment parts, and optical measuring and instrument parts, supplanted automotive and aircraft part positions in 2000. However, electrical machinery and equipment did decline 8 percent in 2004, as imports like organic chemicals and cereals increased. In 2004 import data, automotive is no longer in the top ten imports from the U.S. (less than 2 percent of total) and aircraft parts fell from 7 percent of total U.S. imports in 1996 to 3 percent in 2004.

From 1996 to 2004 there is a periodic (per 4 years) decline in Korea-U.S. importation, nearing $4 billion in reduced U.S. product. Iron and steel imports rose notably in 2004, making 3 percent of total U.S. imports in 2004 from only 2 percent in 1996 and less than 2 percent in 2000. Meat and raw hides fell from the top ten imports in 2004, shedding roughly $1 billion from total U.S. imports. Mineral derivatives, plastics and organic chemical, moreover, drove much of the increase in importation percentage in 2004. Pulp and timber products, in addition to the meat and hides, also fell, in percentage terms, from the top ten U.S. imports. In addition to the removal of aircraft parts and automotive from the top import categories in 2004, there remain only two import categories that have risen since 1996, including organic chemicals and optical and precision measurement.

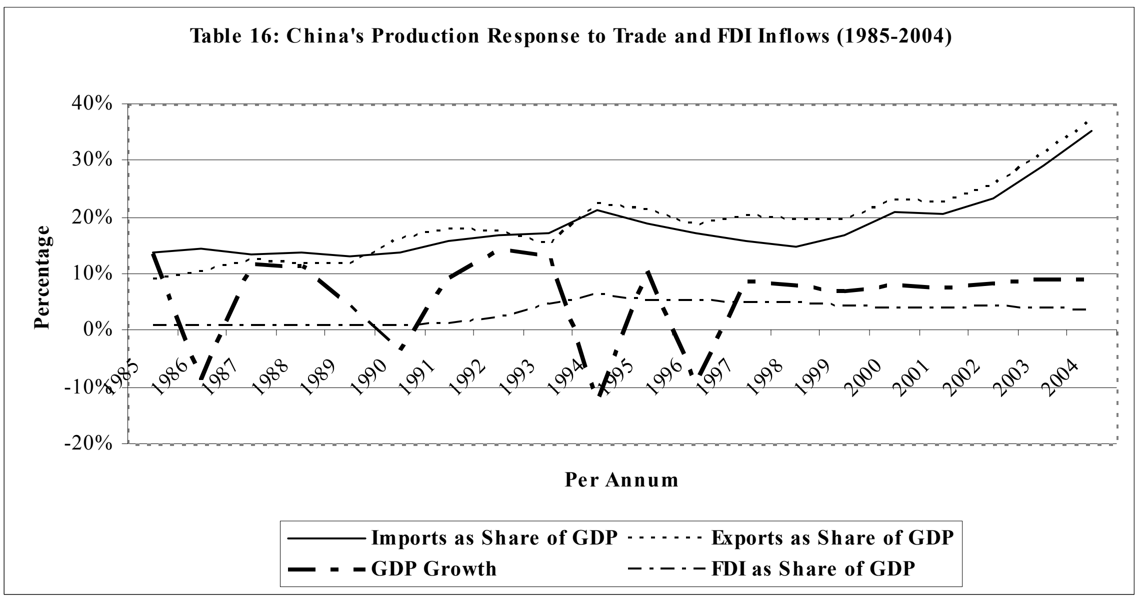
Table 15: Republic of Korea Imports from the United States; 1996, 2000, and 2004

Rank	1996			2000			2004 (M1-11)		
	Total Imports: $33,395,379,000			Total Imports: $29,241,628,000			Total Imports: $26,156,483,000		
-	**Commodity**	**USD in Thousands**	**% of Total Imports**	**Commodity**	**USD in Thousands**	**% of Total Imports**	**Commodity**	**USD in Thousands**	**% of Total Imports**
1	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	6,977,284	20.9%	Electrical Machinery and Equipment and Parts thereof (85)	10,783,550	36.9%	Electrical Machinery and Equipment and Parts thereof (85)	7,485,527	28.6%
2	Vehicles other than Railway or Tramway Rolling-Stock, and Parts thereof (87)	6,801,063	20.4%	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	5,103,785	17.5%	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	4,024,514	15.4%
3	Aircraft, Spacecraft and Parts thereof (88)	2,360,385	7.1%	Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus, Parts and Accessories thereof (90)	1,952,798	6.7%	Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus, Parts and Accessories thereof (90)	2,004,209	7.7%
4	Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus, Parts and Accessories thereof (90)	1,861,979	5.6%	Organic Chemicals (29)	991,504	3.4%	Organic Chemicals (29)	1,399,808	5.4%
5	Cereals (10)	1,844,281	5.5%	Plastics and Articles thereof (39)	650,929	2.2%	Cereals (10)	995,972	3.8%
6	Organic Chemicals (29)	1,143,433	3.4%	Pulp of Wood or of other Fibrous Cellulose Material, Waste of Paper (47)	598,488	2.0%	Iron and Steel (72)	807,810	3.1%
7	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	915,722	2.7%	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	597,760	2.0%	Aircraft, Spacecraft and Parts thereof (88)	737,580	2.8%
8	Raw Hides and Skins (other than Fur Skins), Leather (41)	793,671	2.4%	Meat, Edible Meat Offal (02)	595,888	2.0%	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	698,623	2.7%
9	Plastics and Articles thereof (39)	727,556	2.2%	Raw Hides and Skins (other than Fur Skins), Leather (41)	590,783	2.0%	Plastics and Articles thereof (39)	679,872	2.6%
10	Iron and Steel (72)	690,247	2.1%	Aircraft, Spacecraft and Parts thereof (88)	556,160	1.9%	Miscellaneous Chemical Products (38)	532,192	2.0%
-	**Sum of Top 10 Imports**	**24,115,621**	**72.2%**	**Sum of Top 10 Imports**	**22,421,645**	**76.7%**	**Sum of Top 10 Imports**	**19,366,107**	**74.0%**

Source: KITA, various, 2005
Note: Numbers in parentheses refer to the HSK classification (commodity) code.

IID: China's Emergence as a Trading Nation

In particular, since the mid-1990s, China has become an increasingly important trading nation in both world[i] and East Asian regional markets. During the 1990s, China emerged as a major player in the world trade regime; no other country has ever expanded its role so rapidly. China has sustained an enviable growth performance for most of the last decade. Real GDP growth as measured by official figures[ii] averaged more than 10 percent during the 1990s (Table 16). Exports and imports have grown even more rapidly than GDP during the 1990s. As a result, China's economy is now substantially more open to international trade than it was at the beginning of the 1990s. China's relative openness is also evident in examination of recipient foreign direct investment (Table 16).



Sources: IMF, ITA, and NSD, various, 2005

China's foreign trade exploded, with its exports and imports increasing from near $18 billion and $20 billion in 1980, increased to $62 billion and $53 billion in 1990, and then to US$593 billion and US$561 billion in 2004, respectively. By 2002, its share of world trade had almost tripled compared with its share in 1990, with exports and imports totaling 6 percent and 4.3 percent of world total imports and exports (IMF, 2003). China successfully kept strong momentum for its exports and imports expansion with an average annual growth rate of 14.4 percent throughout the period of 1980-2002. Moreover, China enjoyed a trade surplus with the rest of the world, and in particular, the trade surplus in 2004 ($32 billion) hit the record level, reflecting their recent economic boom after the WTO accession.

With its strong growth potential, deriving from its huge population and largely underdeveloped market, China has increasingly emerged as a major center for trade and investment. As China has pursued market-oriented economic reform, FDI inflows to China have increased substantially. In 2004, China received $54.25 billion, the largest FDI inflow in the world. Large-scale investments in China will continue as a result of political stability and more liberal FDI regulations.

China's manufacturing sector receives 50 percent of its FDI. As a manufacturing center, China's export shares in the world trade have been growing significantly. China's exports of manufacturing goods represented 4.7 percent of world exports in 2000, a huge increase from 1.7 percent in 1990. China's share of total U.S. imports was 8.9 percent in 2002, up from 3 percent in 1991. In the same period, China's share of Korea's total imports increased to 10 percent from 4 percent.

Along with its strong increase in exports, imports into China have grown rapidly. As China's industrialization has proceeded, China has demanded more material and machinery to expand its production capacity. Asian Development Bank (ADB 2002) statistics demonstrate a close relation between China's import growth and industrialization. Throughout the 1990s, more than 70 percent of China's imports fell into three standard international trade classification (SITC) categories – chemicals, basic manufactures, and machine and transport equipment. China has increasingly – and particularly during the 1990s—imported what it needs from ANIE countries; their share of China's total imports grew to 26 percent in 2000 from 9 percent in 1991.

Although most imports have gone into China's manufacturing sector, local markets for consumer goods have also strengthened. China's rapid economic development has created local demand for imported consumer goods and has provided more opportunities for foreign companies to profit from Chinese consumers. Samsung Electronics, for example, considers China as one of its priority markets. It sold $1.81 billion worth of consumer electronics in China in 2002 and expects to triple these sales figures by 2005. (Roberts and Moon, 2002) In particular, Samsung is promoting its high-end products, and its success shows that growing numbers of Chinese consumers can afford and demand expensive and sophisticated goods.

Positive growth will continue as long as China's labor-intensive exports expand. In addition, a more integrated China will benefit neighboring Asian countries. China's accession to the WTO is forecast to increase its economic output by 2.2 to 5.5 percent annually. (Lardy, 2002)

IIE: Korea's Growing Dependence on the Chinese Market

Korea is becoming increasingly dependent on the Chinese market for its exports; Korea's exports to China increased from 1.4 percent in 1991 to 20 percent in 2004. [Table 9 illustrates the recent impact of higher demand levels in China, and also the resulting BoP position in Korea-China bilateral trade.] By contrast, during the same time period, Korea's export dependence on the U.S. and Japan fell from 26% and 17%, respectively, to 17 and 9%.

Over the years, China's major exports to Korea have been textile materials and products, crude oil and petroleum, corn, coal, and other raw materials. Other bulk export commodities include chemical raw materials, rolled steel, leather goods, shoes, fodder, and mechanical and electrical products. In recent years, China's sales to Korea of electronic components and other products with high added value (i.e., telecommunications equipment) have been mounting steadily. Chemicals, electronics, and iron and steel are China's major imports from Korea. The specifics to the 2004 bilateral trade relationship merits further attention.

Source: KITA, various, 2005

IIF: Korea's Exports to China (Table 18 Reference)

Korea's 2004 exports to China exceeded $45 billion, a 298 percent and 146 percent increase, respectively, from 1996 and 2000 import numbers. Top ten 2004 export categories represented 86 percent of the total per annum exports to China. This is in contrast to 1996 and 2000, at 76 percent and 82 percent, respectively. Top three Korean exports in 2004 – electrical machinery and equipment, parts and mechanical appliances, and organic chemicals – represent 53 percent of total 2004 exports to China. This contrasts slightly from 1996 and 2000 numbers, when top three exports reached 36 and 40 percent, respectively. Further periodic dissimilarities in top three Korean exports to China in 1996 and 2000 include trade in plastics in 1996 and 2004, and rising trade in electronic machinery and equipment.

In addition to plastics – that fell from 12.9 percent of total export to China in 1996 to 6.7 percent in 2004 – iron and steel and man-made filaments also fall in contribution percentage and/or in total export dollar value. Emerging from outside the top ten, in the preceding 1996 and 2000 periods, copper and products thereof, optical measuring and precision equipment, and motor vehicle and parts thereof, made it to the top ten in 2004; collectively, these three represented $5 billion in export value and 11 percent of total 2004 export. The 2004 numbers emphasize the export concentration in electrical machinery and equipment, and in parts and mechanical appliances.

The gradual departure of man-made filaments from the top ten exports to China, from 6 percent in 1996, 3.6 percent in 2000, and 1.2 percent in 2004, much like other traditional large export items, is deceiving. The reduction in percentage terms does not always reflect a reduction in product export value, and thus should be measured carefully. Emerging products and their rising importance in Korea's export portfolio to the China market might simply replace the percentage value of another export, but not deplete the former exports value in real terms.

Table 18: Republic of Korea Exports to China; 1996, 2000, and 2004

Rank	1996			2000			2004 (M1-11)		
	Total Exports: $11,377,068,000			Total Exports: $18,454,540,000			Total Exports: $45,308,228,000		
-	**Commodity**	**USD in Thousands**	**% of Total Exports**	**Commodity**	**USD in Thousands**	**% of Total Exports**	**Commodity**	**USD in Thousands**	**% of Total Exports**
1	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	1,526,154	13.4%	Electrical Machinery and Equipment and Parts thereof (85)	3,430,123	18.6%	Electrical Machinery and Equipment and Parts thereof (85)	10,925,623	24.1%
2	Plastics and Articles thereof (39)	1,463,454	12.9%	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	2,033,029	11.0%	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	8,945,369	19.7%
3	Electrical Machinery and Equipment and Parts thereof (85)	1,133,525	10.0%	Plastics and Articles thereof (39)	1,908,884	10.3%	Organic Chemicals (29)	4,360,333	9.6%
4	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	822,240	7.2%	Organic Chemicals (29)	1,880,992	10.2%	Plastics and Articles thereof (39)	3,449,939	7.6%
5	Iron and Steel (72)	741,157	6.5%	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	1,854,722	10.1%	Iron and Steel (72)	3,046,994	6.7%
6	Raw Hides and Skins (Other Than Fur skins), Leather (41)	739,536	6.5%	Iron and Steel (72)	1,203,282	6.5%	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	2,510,218	5.5%
7	Man-Made Filaments (54)	678,896	6.0%	Raw Hides and Skins (Other Than Fur skins), Leather (41)	755,739	4.1%	Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus, Parts and Accessories thereof (90)	2,404,003	5.3%
8	Organic Chemicals (29)	640,590	5.6%	Man-Made Filaments (54)	665,933	3.6%	Vehicles other than Railway or Tramway Rolling-Stock, and Parts thereof (87)	1,898,823	4.2%
9	Man-Made Staple Fibers (55)	583,412	5.1%	Man-Made Staple Fibers (55)	508,733	2.8%	Copper and Articles thereof (74)	683,571	1.5%
10	Paper and Paperboard, Articles of Paper Pulp, of Paper or of Paperboard (48)	371,658	3.3%	Impregnated, Coated, Covered or Laminated Textile Fabrics (59)	896,128	4.9%	Man-Made Filaments (54)	544,139	1.2%
-	**Sum of Top 10 Exports**	**8,700,622**	**76.5%**	**Sum of Top 10 Exports**	**15,137,565**	**82.0%**	**Sum of Top 10 Exports**	**38,769,012**	**85.6%**

Source: KITA, various, 2005
Note: Numbers in parentheses refer to the HSK classification (commodity) codes.

IIG: Korea's Imports from China (Table 19 Reference)

Total imports from China neared $27 billion in 2004, rising 212 percent from 1996 import levels. The top 10 imports from China prove more concentrated in total imports, and marked a 121 and 248 percent increase from 2000 and 1996 levels, respectively. Total imports more than doubled from 2000. Korea's top three imports from China in 2004, including electrical machinery and equipment, parts and mechanical appliances, and iron and steel, represent 45 percent of total imports. The difference in top three import percentage numbers from 2004 to 1996 and 2000, respectively, is 7 and 7%. Most relevant, however, is the make-up and individual percentage changes in each import classification.

Korea's rising demand levels in iron and steel led to a near 400 percent increase, from 2000 to 2004, in iron and steel imports from China. Electrical machinery and equipment remain the top import from 2000, and nearly doubled in import value each four year period, from 1996 forward. Mineral fuels and mineral oils declined in percentage terms in 2000 to 2004, near 4 percent, following the long import decline from 13.7 percent in 1996 to 5 percent in 2004. Non knitted or crocheted apparel and clothing remains at over 4%, a consistent percentage from 1996 to 2004. Missing from the 2004 top ten list from 2000 are cereals, man-made staple fibers, and cotton, representing, collectively, near 12 percent of total imports from China in 2000.

Reductions, in percentage terms, of footwear and silk in 2000 and 2004 numbers, leave these imports outside the top ten. Fish and other aquatic invertebrates remain in the 3-4 percent range, from 1996 to 2004, and represent over $600 million in 2004. Rising into the top ten ranks in 2004 are also knitted or crocheted articles of clothing, at 3.5 percent of imports, and aluminum products, at 4.1 percent of total imports from China. Optical and medical and measuring instruments remain a large factor in 2004, rising from 2.4 percent in 2000 to 2.9 percent, in contribution percentage terms, and doubling in total trade value at near $620 million

Table 19: Republic of Korea Imports from China; 1996, 2000, and 2004

Rank	1996			2000			2004 (M1-11)		
	Total Imports: $8,538,568,000			Total Imports: $12,798,728,000			Total Imports: $26,647,249,000		
-	Commodity	USD in Thousands	% of Total Imports	Commodity	USD in Thousands	% of Total Imports	Commodity	USD in Thousands	% of Total Imports
1	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	1,172,840	13.7%	Electrical Machinery and Equipment and Parts thereof (85)	2,704,137	21.1%	Electrical Machinery and Equipment and Parts thereof (85)	6,970,568	24.5%
2	Machinery Specialized for Particular Industries (72)	1,085,041	12.7%	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	1,158,208	9.0%	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	2,846,582	5.6%
3	Electrical Machinery and Equipment and Parts thereof (85)	956,087	11.2%	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	1,051,921	8.2%	Iron and Steel (72)	2,232,393	5.3%
4	Man-Made Staple Fibers (55)	506,141	5.9%	Iron and Steel (72)	759,324	5.9%	Mineral Fuels, Mineral Oils, Bituminous Substances, Mineral Waxes (27)	1,922,491	4.9%

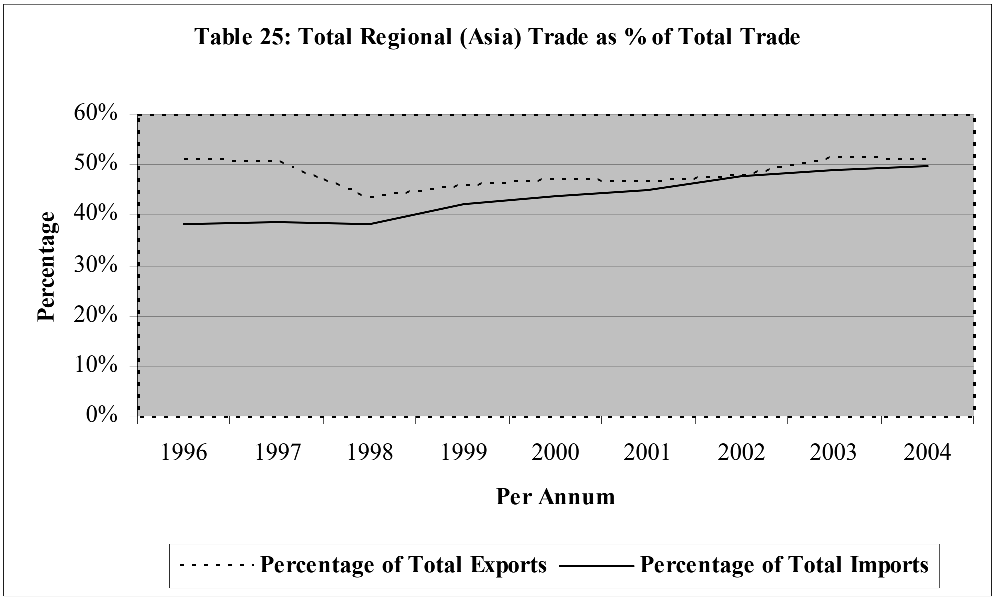
5	Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted (62)	368,803	4.3%	Cereals (10)	700,724	5.5%	Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted (62)	1,229,136	4.3%
6	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances Parts thereof (84)	325,067	3.8%	Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted (62)	560,707	4.4%	Aluminum and Articles thereof (76)	830,479	4.1%
7	Organic Chemicals (29)	296,125	3.5%	Fish, Crustaceans, Mollusks, other Aquatic Invertebrates (03)	468,447	3.7%	Fish, Crustaceans, Mollusks, other Aquatic Invertebrates (07)	736,893	3.9%
8	Silk (50)	242,262	2.8%	Man-Made Staple Fibers (55)	413,466	3.2%	Articles of Apparel and Clothing Accessories, Knitted or Crocheted (61)	706,731	3.5%
9	Footwear, Headgear, Umbrellas, Walking-Sticks, Whips, Riding Crops (64)	205,973	2.4%	Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus, Parts and Accessories thereof (90)	309,448	2.4%	Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus, Parts and Accessories thereof (90)	622,159	3.0%
10	Fish, Crustaceans, Mollusks, other Aquatic Invertebrates (03)	195,255	2.3%	Cotton (52)	309,320	2.4%	Organic Chemicals (29)	543,315	2.9%
-	**Sum of Top 10 Imports**	**5,353,594**	**62.7%**	**Sum of Top 10 Imports**	**8,435,702**	**65.9%**	**Sum of Top 10 Imports**	**18,640,747**	**70.0%**

Source: KITA, various, 2005
Note: Numbers in parentheses refer to the HSK classification (commodity) code.

IIIA: Total Korea Regional Trade as a Percentage of Total Trade:

Korea's regional imports in 2004, near 50 percent of total per annum Korean trade, represent an increase of 20 percent from 1996 trade figures. Exports in the region remained near 1996 levels in 2004, at 51 percent of total trade, and recovered from a 5 percent decline in the period 1997-1998. The subsequent table (Table 25) illustrates the rise in regional imports in 1998-1999 and the proceeding per annum rise of 1 percent through 2004.

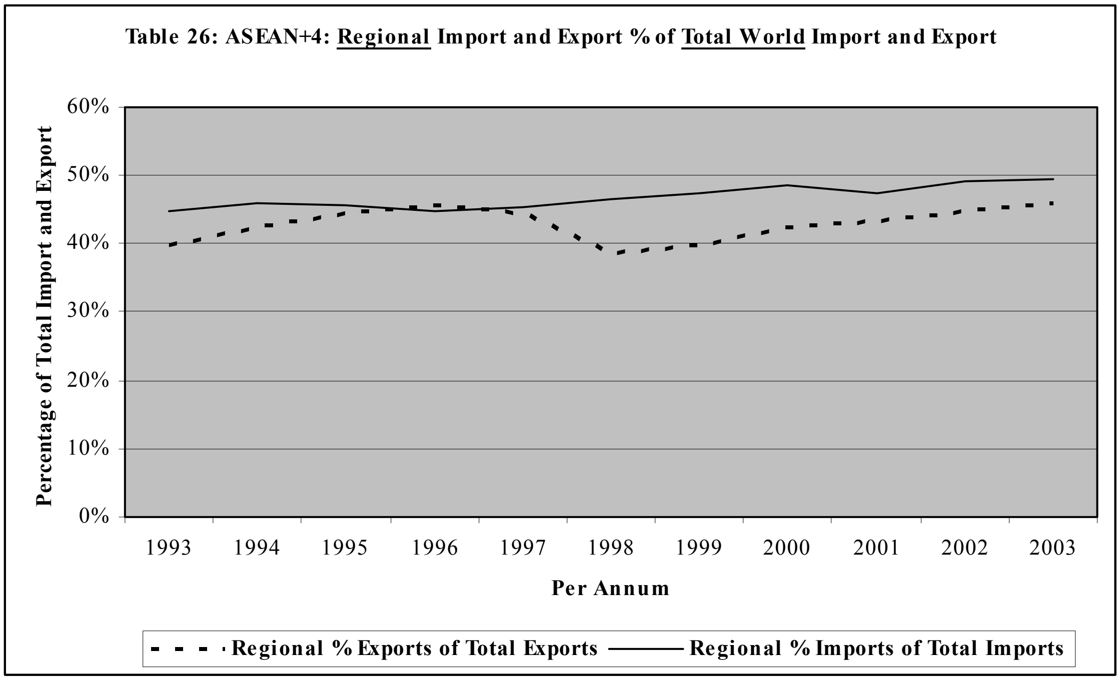
The convergence of Korea's regional imports and regional exports, as a percentage of Korea's total trade, occurs in 2002; regional imports and exports arriving near 48 percent of total Korea trade. In 2003, however, regional exports exceed 50% of total trade, and imports reach close to 50 percent, at 49 percent. The increasing regional contribution, imports and exports, of Korea's total trade has no precedence (Tables 9 and 11).



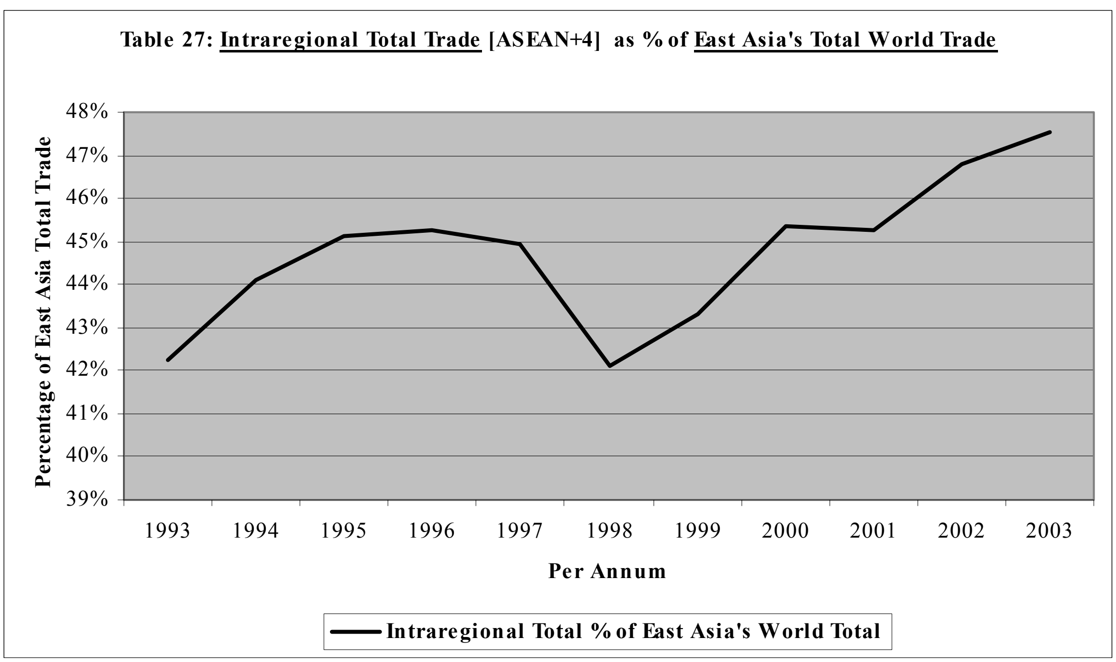
Source: KITA, various, 2005

Nation and trade bloc specified intraregional trade numbers further reflect the regional preferences, and also exhibit the pace of per annum regional trade growth. Tables 26 and 27 illustrate the regional import and export trends throughout East Asia. From the data and trade flows portrayed, there is clearly more disparity in the respective regional export percentages over time than in the regional import flows. Near 50 percent, the regional import figures are the most striking, altering the non-regional demand patterns in trade dependence and flows that previous decades reflected. Regional export patterns remain more cyclical, responding more acutely to global economic demand/ market patterns than regional imports; thus, regional import levels prove measured and in the last 10 years, constantly rising.

Total regional trade levels (Table 27) are evaluated using ASEAN+4 consolidated numbers (including Japan, Korea, China (mainland), and Hong Kong. The benefit in this particular East Asia grouping is the removal of large south Asian nations, like India, that tend to skew the trade East Asian measurements. Having previously in this reported included all Asia and NEC data sets, the ASEAN+4 measures thus provide the most logical and concise intraregional trade depiction, in light of this report's purpose.



Source: IMF Direction of Trade, 1993-2003



Source: IMF Direction of Trade, 1993-2003

IIIB: East Asia Regionalism and Formal Institutional Arrangements

The first premonitions of the rise of East Asian regionalism rose initially from the ashes of a proposal put forward in 1991-1992 by Malaysian Prime Minister Mahathir Mohamad for an East Asian Economic Group (EAEG), consisting of the ASEAN countries – plus, Japan, China and Korea – but conspicuously excluding the U.S. This proposal foundered through the force of U.S. objections, but at the same time a less hostile (to the U.S.) effort by Australia and Japan to create an Asia Pacific Economic

Cooperation (APEC) forum gained impetus when the newly installed Clinton administration adopted and upgraded the concept as the major vehicle for its trade policy for East Asia.

Thus, began what might be called an APEC phase of East Asian integration, when the U.S. led a region wide trade liberalization movement, anchored by the first high-level meetings of chiefs of state in Seattle in 1993, and followed by the Bogor declaration in 1994, whereby APEC countries pledged to achieve free trade in the region by 2010 for developed countries and 2020 for developing countries. Ultimately, APEC proved far too ambitious, not the least because the various leading parties had very different goals for the negotiating forum. For the East Asian members, APEC represented a means possibly of curbing U.S. unilateral trade sanctions, while keeping Asian trade a top priority for the U.S.T.R. Instead, the U.S. made it clear that its trade remedy actions were not on the negotiating table, and with the conclusions of NAFTA in 1994 and the Miami declaration the same year, pledging free trade in the Americas by 2005, the U.S. seemed to veer back toward a hemisphere-first trade policy. The drift of U.S. policy away from APEC was hastened by the failure of its strong drive for APEC-based trade liberalization in the Early Voluntary Sectoral Liberalization (EVSL) initiative. (Munakata, 2002)

Meanwhile, APEC also did not satisfy the desire of Asian countries for a regional forum of economic cooperation, short of drastic trade liberalization. At this point, the onset of the Asian financial crisis in 1997 changed all of the equations and calculations of the major players, both inside and outside the region. It marked the end of the APEC phase of East Asian integration – despite the fact that, to the dismay and anger of Asian APEC members, the U.S. continued to press for the EVSL even as the crisis deepened in 1997. In turn, disappointment in the lack of momentum for APEC liberalization caused the U.S. to shift its focus to China's WTO accession as the top priority within the region and to place more resources in the FTAA process in the Americas.

Against the background, the ASEAN+3, a gathering of ASEAN countries plus China, Japan and Korea, held its first leaders' meeting in December 1997. Though it would become an important forum for intra-East Asian policy discussions, ASEAN+3 was too diverse to form the basis for economic integration through a formal free trade arrangement. Thus, from the outset – even as the Asian financial crisis caused a wholesale revamping of individual economies – a search began for more practical alternatives, such as bilateral or smaller sub regional trade agreements. The key change, as noted above, were the decisions by Japan and Korea in 1999 to break with their long-standing policy of exclusive multilateralism and launch multi-track trade policies that included bilateral, sub regional, and even cross-regional trade arrangements. Within Asia, Singapore led the way; acting independently of its ASEAN partners, Singapore announced that it intended to become the hub of a number of FTAs (Table 1). Thus, Singapore started negotiations with New Zealand and Australia, followed by talks with the U.S. and then Japan. Similarly, Korea started negotiations with Chile and also with Singapore. Singapore's independent moves sparked a response among its ASEAN partners, and ASEAN began exploring FTAs with Australia and New Zealand and then with China, Korea and Japan.

In 2001, as it was completing the accession process for membership in the WTO, China entered the regionalism equation with some force. Earlier, China had proposed discussions with ASEAN of an FTA, and then in November 2001 China and ASEAN agreed to negotiate an FTA within 10 years. The sweetener that sealed the deal was the offer by China of an "early harvest" by which China would reduce tariffs of interest and concern to new ASEAN members (Vietnam, Cambodia et. al.) early on. China, as always the "elephant in the room," both fascinated and alarmed its regional trading partners. On the one hand, they greatly feared that China would swamp them in third markets such as the U.S. and Europe; and the governments feared the "hollowing out" effect as Japanese, Taiwanese and Korean businessmen poured billions of dollars into green field plants on the mainland. On the other hand, there was the huge allure of the internal Chinese market itself – and the division from within each nation caused by businessmen seeking to counter "hollowing out" fears with the prospect of repatriated profits and re-exports to other continents.

Meanwhile, in the January 2002, Japanese Premier Koizumi proposed a Japanese/ASEAN "economic partnership," and his announcement was followed by an announcement from Seoul that Korea likewise was considering a future FTA with ASEAN. In March 2002, during a trip by Japanese PM Koizumi to Korea, the two nations announced that, despite continuing political problems, they would officially begin discussions leading to a Japan-Korea FTA. The bottom line is that by mid-2004 all East Asian countries (plus Hong Kong and Taiwan, separately) were engaged in talks or negotiations leading to bilateral or sub regional preferential trade arrangements. Japan had successfully completed negotiations with Singapore and Mexico; Korea had signed an agreement with Chile and was moving toward serious negotiations with Japan, Mexico, New Zealand and Singapore; China completed its negotiations with ASEAN in 2004; and on the periphery, the U.S. had concluded FTAs with Singapore and Australia and was in serious talks with Thailand (Table 1). (Inkyo Cheong, 2004)

IIIC: The Rise of Asian Regional Agreements: U.S. and Korean Perspectives

The sudden increase in the number of negotiated and proposed regional and sub regional trade agreements over the past few years has taken both trade officials and scholars by surprise. Although trade economists have long studied the potential effects of various FTAs around the world, recent events and proposals have spawned a veritable cottage industry of studies by academics and national departments of trade. Economic effects constitute one important basis for judging the pros and cons of individual new trade agreements; however, a number of geopolitical factors – security, diplomatic, and political goals and realities – are also relevant and must be factored in.

Costs and benefits of new trade agreements by Asian countries – whether with one another or with other trading partners – will likely depend as much on geopolitical factors as economic consequences. This is particularly true with regard to the U.S. and Korea because the exigencies created by the Cold War and a divided Korean peninsula (never more intrusive than at present) created a relationship in which political and security issues are inextricably entwined with economic issues.

Selected larger sub regional trade arrangements would have other economic effects and impacts on the U.S. and Korean economies as well as non-economic consequences. To simplify this analysis, the results of one set of simulations (Scollay and Gilbert 2001) will form the basis for judgment. [The two economists construct their simulations using a *computable general equilibrium* model (CGE).] This model takes cross-sectional date from a single base period, not only for trade but also for production and consumption, and imposes a detailed theoretical structure on the interactions among different data elements. Using certain constraining assumptions, the models are put to use by changing the underlying data and observing how the remaining variables adjust.

Scollay and Gilbert (2001) used a static CGE model that captures only short-term effects, but not dynamic, longer-term effects, such as the exploitation of economies of scale and the impact over time of positive changes in investment and productivity. Their model is therefore likely to be at the lower bound of positive effects. These results are not, of course, exact and should be taken as giving the range and direction of change. In many circumstances, CGE models such as these have produced conflicting results, but simulations of liberalization by various APEC countries have shown a broad consistency among earlier and current studies. For Korea, from a purely welfare gain–loss perspective, the larger Asian FTAs yield the most positive results:

- An APEC preferential liberalization under which APEC members remove tariffs against each other, but not against nonmembers, would boost Korea's economy by an additional 1.63 percent of GDP;
- A western Pacific (AFTA12-CER13-Japan-Korea-China) FTA would boost Korea's GDP by 1.20 percent;
- An AFTA-Japan-Korea-China (East Asia) FTA would add 1.18 percent;
- An APEC most-favored-nation (MFN) liberalization under which APEC members remove tariffs against each other *and* against nonmembers would add 0.94 percent of GDP to Korea's economy;
- An APEC FTA, excluding the United States, would boost Korea's economy by 0.94 percent; and
- An APEC FTA, excluding Japan, would boost it by 0.93 percent.

The Scollay-Gilbert model indicates that potential bilateral FTAs with Japan have a negative effect on Korea's GDP: –15.0 percent, with agriculture excluded; 0.28 percent, with agriculture included.

Table #21 – Effects of Various Asian Trade Agreement Formations on Korea's and U.S. Welfare and Trade

Formation Table Key: Welfare # = % of initial GDP Exports # = Export value FOB, % Δ from base Imports # = Import value CIF, % Δ from base	**Korea** Δ in…			**U.S.** Δ in…		
	Welfare	**Exports**	**Imports**	**Welfare**	**Exports**	**Imports**
[APEC Formation]						
APEC MFN basis	1.08	23.4	23.15	0.01	7.16	6.56
APEC preferential basis	1.63	26.28	26.08	-0.01	7.26	6.69
APEC MFN (excluding U.S.)	0.94	22.17	21.92	0.06	1.58	1.43
APEC MFN (excluding U.S. and Japan)	0.93	22.06	21.81	0.05	1.34	1.2
AFTA-CER-Japan-Korea-China (Western Pacific)	1.2	23.66	23.54	-0.06	-1.33	-1.26
[East Asia and Western Pacific Formation]						
Japan-Korea	-0.28	8.21	8.12	-0.01	-0.25	-0.23
Japan-Korea (excluding agriculture)	-0.15	6.24	6.16	-0.01	-0.23	-0.22
Japan-Korea-China	0.8	19.49	19.42	-0.02	-0.35	-0.34
AFTA-Japan-Korea	0.18	12.07	11.96	-0.02	-0.67	-0.64
AFTA-Japan-Korea-China (East Asia)	1.18	22.96	22.85	-0.03	-0.8	-0.78
AFTA-CER-Japan-Korea-China (Western Pacific)	1.2	23.66	23.54	-0.06	-1.33	-1.26
AFTA-CER-Japan-Korea	0.19	12.94	12.83	-0.05	-1.16	-1.08
AFTA-CER	-0.05	-0.3	-0.3	-0.01	-0.21	-0.2
[FTAA, APEC, East Asian Bloc Formation]						
FTAA	-0.1	-0.62	-0.62	0.06	3.69	3.43
APEC MFN and FTAA	1.01	22.9	22.65	0.07	9.59	8.82
APEC preferential and FTAA	1.56	25.71	25.5	0.06	10.02	9.26
Western Pacific bloc and FTAA	1.12	23.13	23.01	0.01	2.29	2.1
[Global]						
Global liberalization	**1.83**	**39.96**	**39.38**	**-0.05**	**19.98**	**18.48**

Source: Scollay and Gilbert, 2001

[Explanation Note to Table: ***APEC MFN basis***: Basic scenario in which it is assumed that APEC members continue to practice "open regionalism," understood in the sense of collective implementation of unconditional MFN liberalization, or "concerted unilateralism." ***APEC preferential basis***: It is assumed that members remove tariffs against each other, but not against nonmembers. ***CER***: Australia-New Zealand Closer Economic Relations Trade Agreement. ***FTAA***: Free Trade Area of the Americas. ***AFTA***: ASEAN Free Trade Area.]

For the U.S., the picture is more complicated; several explanatory points need to be made before tracking the impact of individual FTAs on U.S. GDP. First, in most cases, the impact is miniscule, and, given the imprecision of CGE model results, the best interpretation would be that these FTAs would have practically no positive or negative impact on U.S. GDP. Second, given the size of the U.S. economy, it may well be (though this is not inevitable) that the future dynamic effects (economies of scale and productivity enhancement) of trade liberalization that are not captured would produce much more positive results. Third, given the relative openness of the U.S. market in manufacturing and agriculture, the real welfare gains from future liberalization may come in the services sectors, where current models are inadequate and may well understate future positive benefits.

In general, however, progressively more comprehensive East Asian–western Pacific trade blocs that exclude the U.S. result in progressively greater welfare losses for the U.S. Thus, the U.S. would be negatively impacted most by a western Pacific FTA (–.06 percent of GDP); followed by a Japan-Korea-CER-AFTA (South Asia, plus Japan and Korea) FTA at –0.015 percent and an East Asia FTA (Japan-Korea-China-AFTA) at –0.013 percent. On the other hand, various APEC-based liberalizations generally yield small but positive welfare gains for the U.S.

For many of the proposed or consummated Asian FTAs, trade diversion from countries excluded from each particular pact is pervasive though often small. For Korea, particularly, the impact of trade diversion from U.S. companies will present an important calculation and problem. For the U.S., although the amount of diversion may be small in terms of GDP, for the affected industries and sectors the impact might provoke substantial constituent opposition and pressure from the U.S. Congress.

In the end, geopolitical factors in both the U.S. and Korea will play significant roles, especially given recent events and trends in Asia. For example, China in the past several years has begun to move decisively toward a leadership role in trade with Southeast Asia, as evidenced by its persistent wooing of the nations of ASEAN for an FTA. Japan has signaled a redirection of its trade policy toward more intra-Asian trade agreements; however, unlike China and possibly because of a general stasis in Japanese internal politics, Japan has largely failed to carry through its new goals. Korea must decide whether it really wants to pursue bilateral or trilateral trade arrangements (Korea-Japan, Korea-China, or Korea-China-Japan) that will quite possibly lead to greater political involvement with these two powers and less with the U.S. Would a move toward integrating with U.S. and Latin America make more sense for Korea from both an economic and a political standpoint?

While the U.S. is much the larger economic and political power – indeed, the only superpower – it, too, faces real challenges in responding to the rapidly evolving patterns of Asian regionalism. Both economics and geopolitics dictate that the U.S. cannot afford to be left out of these Asian trends; yet, little thought seems to have gone into the specifics of a U.S.-Asia regional policy. U.S.T.R. has trumpeted "competitive liberalization" and has announced its intent to negotiate FTAs with many and sundry nations – Chile, Singapore, Jordan, Morocco, Australia, and Central America – but neither incumbent U.S. Trade Representative Robert Zoellick/nominee Rob Portman, nor any other U.S. official has provided a sense of priority or order to this process.

IIID: Optimal Choices for the United States and Korea

The best option for both the U.S. and Korea is to take a leadership role and summon the political courage to make the necessary compromises to achieve a successful outcome to the WTO Doha Round (Gordon 2003). A proliferation of numerous bilateral or trilateral FTAs would be the most negative outcome among the choices of various Asian regional pacts. For small-scale FTAs, in almost all cases the economic welfare of the participants is little enhanced; more important, each such arrangement would increase the level and complexity of trade diversion and create a bewildering set of new trade rules and rules of origin – Bhagwati and Panagariya's spaghetti-bowl effect. A plethora of small FTAs would also most likely lead to greater trade tension and conflicts. Finally, the attention and resources that would need to be devoted to these small FTAs would divert human resources and political capital from the attainment of larger trade and investment goals.

Thus, as the economic studies cited above amply demonstrate, the first and best regional options revolve around APEC. For both the region as a whole and for individual nations, APEC-wide liberalization yields the most significant economic welfare gains. Politically, negotiations within the APEC framework get around the problem of integrating Taiwan, Hong Kong, and China into a trade framework. And both Australia and New Zealand, which are often left out of sub regional FTA proposals, could be included.

The largest challenge to APEC today is the modality that hitherto has governed the negotiating process. So-called concerted unilateralism, by which each APEC nation liberalizes unilaterally and no reciprocal rules are applied, has not to date produced meaningful results; and APEC liberalization seems to have stalled. The U.S. and Korea – and, most significantly, Japan and China, as the other major forces behind APEC liberalization – face crucial choices in the immediate future. One path, which seems increasingly unlikely, is to reinvigorate concerted unilateralism. The other is to explore the possibility of adopting a more traditional modality: that is, converting APEC into a reciprocity-based and binding FTA.

Economic simulations show that, whatever the means to get there, an APEC preferential agreement does result in the greatest welfare gains for APEC members, both large and small; however, the problems inherent in this approach are enormous. Would Japan and Korea, for instance, agree to binding rules for agriculture? Would the U.S. make unacceptable demands regarding labor and the environment? In addition, an APEC-wide FTA would have the strongest negative impacts on other regions such as Europe and Latin America in the multilateral trading system. This could increase trade friction and conflict; or, conversely, it could spur these regions to take the lead in greater MFN liberalization through the WTO.

Two other obvious potential configurations in Asia are a western Pacific FTA or an East Asian FTA. A western Pacific trade bloc, joining Northeast Asia, Southeast Asia, and Australia-New Zealand would also generate substantial welfare gains for participants; but, as with an APEC FTA, it would have a negative impact on the economic welfare and terms of trade of nations outside the agreement – most notably the U.S. For Korea, and for other nations, the political consequences of joining such a bloc could be damaging if their membership produced a backlash from U.S. industry that would translate into protectionist intervention by the U.S. Congress. It is, therefore, in the interest of both the U.S. and Korea to work to avoid either a western Pacific or East Asian FTA that does not include the U.S. Both Korea and the U.S. face the immediate problem of the disjuncture between the economic logic underlying Asian regional proposals and political realities. Asian nations today are busily proposing and negotiating small, bilateral FTAs, largely because they present fewer political problems. This trend, however, will result in a bad economic outcome and in greater political tensions and conflicts. Thus, it is in the interest of both the U.S. and Korea to think beyond the short-term economic and political attractions of small FTAs and use their influence to channel the pressures for greater Asian regional arrangements toward large-scale economic agglomerations such as APEC or an inclusive western Pacific-based FTA.

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[i] As in 2002, world trade accounted for US$ 6,347 billion, with China's annual total trade representing US$ 621 billion. As means of comparison, world trade hit the level of US$ 3,382 billion in 1990, and China's annual total trade reached US$ 117 billion (IMF, 2003).

[ii]Various studies suggest that official figures may overstate China's average real growth during the reform period by about 2 to 3 percentage points. Improvements in statistical methods during the 1990s and other factors probably have reduced the overstatement on average, but the bias probably varies with other circumstances. Alternative estimates developed by Rawski (2002), suggest that real growth in 1998 may have been less than half the official figure of 8 percent. But even so, China's performance appears broadly comparable with that of other countries that have grown exceptionally rapidly during the post-war period, notably Japan and the Republic of Korea, and more recently several other "Asian Tigers."