

Japan-Korea Free Trade Agreement

Joint Study Group Report

October 2, 2003

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Summary

In July 2002, Japan and Korea established a Joint Study Group, composed of representatives from the government, business and academia of both countries, to appraise the possibility of establishing the Japan-Korea Free Trade Agreement (JKFTA).

The Joint Study Group reviewed an across-the-board range of issues for the possible scope of the negotiations. After intensive discussions over eight meetings, the Joint Study Group concluded that the JKFTA would bring forth mutual benefits by creating a win-win situation for both countries and become a cornerstone for peace and prosperity in East Asia. In order to maximize the benefits, the Joint Study Group accentuated that the JKFTA should be firmly built on the principles of comprehensiveness, substantial liberalization, enhancement of mutual benefits and consistency with WTO rules and regulations.

The Joint Study Group has now completed its work and recommends that :

1. Japan and the Republic of Korea enter into negotiations at an early date with a view to concluding the JKFTA within a reasonable period of time.
2. both governments would forge a comprehensive FTA that would bring about mutual benefits and greater efficiency, and eventually lead to further economic development in both economies.
3. taking into account the importance of NTMs on the JKFTA and the overall economic relationship between the two countries, the works on NTMs should be continued under the FTA negotiation framework as one of the sub-groups.

4. the business sectors in both countries actively utilize the JKFTA in facilitating restructuring and strengthening of their competitiveness, and further expand bilateral cooperation by pursuing strategic alliances taking the opportunity of the JKFTA and revitalizing various existing business-to-business fora.
5. the both governments take full account of the views of business sector in the negotiations for the JKFTA.
6. the academic sectors of both countries continuously carry out relevant studies with a view to giving advice to respective governments on various aspect of the JKFTA as well as presenting a vision for the future of both economies and the bilateral relationship between them.
7. further to the suggestions above, the governments, the businessmen, and the members of academia of both countries collectively exert efforts in promoting public awareness of the JKFTA and generating support for the JKFTA among the peoples of Japan and Korea, so that the formal negotiations would be launched soon and successfully concluded in time.

Background

1. In the summit meeting held in Tokyo on October 8, 1998, Prime Minister Keizo Obuchi of Japan and President Kim Dae-jung of the Republic of Korea (ROK) signed the “The Joint Declaration of the New Japan-ROK Partnership for the 21st Century” to build a future-oriented relationship on the basis of the spirit of reconciliation and friendship. With a view to reinforcing economic partnership between the two countries, Japan and Korea announced the “Japan-Korea Economic Cooperation Agenda 21” at the summit held on March 20, 1999 in Seoul and concurred to promote cooperation in a wide range of areas.
2. Against this backdrop, the ‘21st century Japan-Korea Economic Relations Study Group’ was established in December 1998 under the initiative of research institutions, Institute of Developing Economies (IDE) of Japan and Korea Institute for International Economic Policy (KIEP), to examine the economic feasibility of a FTA between the two countries. The respective studies of the two institutions concluded that a bilateral FTA would have a positive impact on both economies in the long run and would be an effective mechanism to further advance the economic relations between Japan and Korea¹.
3. In September 2000, to take into consideration the views of the business sector, Prime Minister Yoshiro Mori and President Kim Dae-jung concurred to establish the Japan-Korea FTA Business Forum, comprising business leaders from both countries. The Forum issued a Joint Declaration in January 2001 recommending, *inter alia*, that the two governments exert utmost efforts to create a comprehensive economic partnership agreement, Japan-Korea Free Trade Agreement (JKFTA). ² Furthermore, Nippon Keidanren and the Federation of Korean Industries together established the Japan-Korea Industrial Cooperation Study Group and released a joint communiqué in November 2001, which recommended the early conclusion of the JKFTA.
4. In March 2002 in Seoul, Prime Minister Junichiro Koizumi and President Kim Dae-jung concurred to launch a Joint Study Group, composed of

¹ KIEP, IDE, 2000.5, “Toward a Korean-Japan FTA: Assessments and Prospects”, Joint Symposium in Seoul. For details, see www.kiep.go.kr and www.ide.go.jp

² For further details of the Business Forum, see KORCHAM, 2002.3, “Position of Business Sector on the KJFTA”, in Korean

Background

representatives from the government, business and academia, to appraise the possibility of establishing a bilateral FTA. The Joint Study Group, later on, was established with the terms of reference as follows:

- a. The Joint Study Group should examine the feasibility and desirability of establishing the JKFTA, benefits of the FTA, the potential scope of the FTA, and basic elements of individual issues.
 - b. Bearing in mind that the scope of the FTA should be comprehensive, the Joint Study Group should examine ways to accelerate liberalization and facilitation of trade in goods, services and investment and reinforce bilateral cooperation in a wide array of areas.
 - c. The Joint Study Group would meet alternately in Japan and Korea every two to three months and prepare a final report on the results of the meetings within two years from the first meeting.
5. The Joint Study Group held eight meetings from July 2002 to October 2003. In the course of this period, the Joint Study Group reviewed current bilateral relations between Japan and Korea and explored means to fortify these relations, especially in the economic arena. The Joint Study Group also discussed an across-the-board range of issues that are to be included in the scope of the negotiations. As a result of the discussions, both sides gained greater understanding of each other's position on a variety of issues, including the vulnerabilities existing in the sensitive sectors in each country.
6. In June 2003, in Tokyo, at the Summit Meeting between Prime Minister Junichiro Koizumi and President Roh Moo-hyun, it was decided to make efforts to launch the FTA negotiations at an early date and to step up the efforts to create an environment conducive to promoting the JKFTA. On this occasion of President Roh Moo-hyun's visit to Japan, the business leaders of the two countries held a roundtable meeting and called on the leadership of the two leaders for an early launch of the negotiations, given the positive role of the FTA in promoting the restructuring of both economies and enhancing the global competitiveness of the business sector.

Background

7. This report contains a summary of the deliberations carried out in the Joint Study Group, followed by the recommendations of the Joint Study Group to the governments of Japan and Korea. Part I gives an overall picture of the present global trend of regional integration, the respective FTA policies of Japan and Korea, and the bilateral economic relations between Japan and Korea. Part II carries a detailed study of the economic effects of the FTA. Part III explores the overall scope of the JKFTA. Lastly, Part IV ends with the conclusions and recommendations of the Joint Study Group and examines the strategic significance of a bilateral FTA, including the possibility of the JKFTA working as a catalyst or building block for wider economic integration in East Asia.

PART I. Overview

Global Trend Towards Regional Trade Agreements (RTA)

8. In recent years, the proliferation of Regional Trade Agreements (RTAs) has become a global trend. The fact that 130 RTAs, out of the 255 RTAs notified to the GATT and the World Trade Organization (WTO) to date,³ have been concluded after the launch of the WTO in 1995 bears witness to this rapidly growing trend of regionalism. Existing RTAs, notably the North American Free Trade Agreement (NAFTA) and the European Union (EU), are further accelerating their course of regional expansion and integration. There is mounting widespread recognition that RTAs are in effect a constructive and reliable vehicle for facilitating liberalization of trade and investment.

9. A variety of reasons can be attributed to the rapid growth of regionalism. Most notably, major trading nations in the global economy, including the US and the EU, are proactively pursuing RTAs as an effective means of attaining trade liberalization. The successful integration of the NAFTA and the EU substantiated the great benefits that RTAs generate. In addition, countries that have not concluded RTAs are gradually encountering economic isolation and consequently increased opportunity costs, and are now endeavoring to pursue RTAs.

RTAs in Asia

10. In comparison to other regions such as Europe and the Americas, it is true that Asia manifested nominal interest in regional economic integration until the recent past. However, in the aftermath of the Asian financial crisis in 1997, North East Asian countries became aware of the need for closer regional economic cooperation. Observing the great economic benefits that a FTA may bring forth, countries in Asia, notably Japan and Korea, are pursuing FTAs in earnest.

11. As an illustration, Japan set up a working group to pursue a Comprehensive Economic Partnership (CEP) with ASEAN. A Framework Agreement on ASEAN-China Comprehensive Economic Cooperation came into

³ WTO, October 2002, Annual Report of CRTAs, WT/REG/11

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effect in July 2003. The US announced its Enterprise for ASEAN Initiative in 2002 and established Trade and Investment Framework Agreements with some ASEAN countries. India is pursuing enhancement of economic partnership with ASEAN countries. Singapore is actively pursuing FTAs with other countries and has already concluded FTAs with New Zealand, Japan, Australia, EFTA, and the US. At the ASEAN+3 Summit in November 2002, the leaders welcomed the report recommending the establishment of an East Asia Free Trade Area (EAFTA). And, ASEAN Free Trade Area (AFTA) has been virtually realized in January 2003.

FTA Policies of Japan and Korea

12. Japan and Korea are two of the greatest beneficiaries of the liberalized global trade regime. The roots of their fundamental trade policies are therefore embedded in supporting a strong multilateral trading system represented by the WTO. Both countries' committed participation in the Uruguay Round (UR) negotiations and the current Doha Development Agenda (DDA) negotiations of the WTO can be understood in this context.

13. Recent endeavors to pursue FTAs on the part of Japan and Korea do not imply a shift of the focus of their foreign economic policies. In effect, their exploration of FTAs is not intended to undermine their long-standing policy of supporting the multilateral trading system. Rather, Japan and Korea are resolutely committed to continuous trade and investment liberalization, and are open to any means promoting freer trade and creating more open, transparent economies. In sum, as major global trading nations, both countries attach great importance to the complementary nature of FTAs in promoting global trade liberalization and the multilateral trading system as a whole.

14. It is true that Japan and Korea were not forerunners in the global trend of FTAs. But, by regarding FTAs as an important vehicle in carrying out their respective trade policies, Japan and Korea are now expending great efforts to conclude FTAs.

PART I. Overview

15. In the case of Korea, in October 2002 Korea concluded its first FTA with Chile, the first trans-Pacific FTA ever. Korea has completed Joint Study with Singapore to examine the feasibility of a potential bilateral FTA. Korea is also currently pursuing FTA discussions with ASEAN and Mexico. Furthermore, Korea is exploring the feasibility of concluding a trilateral FTA among Japan, Korea, China and as well as on the EAFTA.

16. In the case of Japan, Japan signed its first FTA with Singapore in January 2002. Japan is now under FTA negotiations with Mexico, and working towards strengthening its economic partnership including a possible FTA with ASEAN countries under the Japan-ASEAN Comprehensive Economic Partnership Initiative. Under this initiative, both the regional and the bilateral approach are being sought simultaneously. Efforts for the bilateral approach are now being conducted with Thailand, the Philippines, Malaysia and Indonesia.

Bilateral Economic Relationship between Japan and Korea

17. As neighboring countries, Japan and Korea are two influential economies in Asia and beyond. Aside from sharing similar heritage and cultural values, partly on account of the geographical proximity, the economies of the two countries have much in common.

18. More specifically, the two countries recorded astounding economic development by having pursued open trade policy and are now members of the Organization for Economic Cooperation and Development (OECD). Both countries adhere to the universal values of democracy and market economy principles. The two countries are also active members in the multilateral fora, such as the WTO and the United Nations (UN). In this context, Japan and Korea are pondering upon the benefits of reinforcing cooperation in the region to pave the way for an East Asia era in the 21st century.

19. Since the normalization of diplomatic relations in 1965, Japan and Korea have become mutually important economic partners. Japan is currently the second largest trading partner for Korea, while Korea is the third largest partner for Japan. Japan is also the second largest source of foreign direct investment

PART I. Overview

for Korea, which is anticipated to increase even further since the Japan-Korea Bilateral Investment Treaty (JKBIT) came into effect early this year.

20. Bilateral trade between Japan and Korea has steadily increased over the years and reached its peak in the year 2000 by registering 52.3 billion US dollars. It is noteworthy that Korea has been recording a constant trade deficit with Japan of approximately 10 billion US dollars on an annual basis since 1994. The majority of the deficit can be attributed to imports of machinery, materials and parts from Japan.

<Table 1> Bilateral Trade between Japan and Korea

Japan's Trade with Korea

(unit: US \$ hundred million⁴)

	1997	1998	1999	2000	2001	2002
Exports	261.9	152.5	227.9	308.2	254.0	284.4
Imports	146.4	120.0	159.5	205.4	172.7	154.2
Balance	115.5	32.5	68.4	102.8	81.3	130.2
Total	408.3	272.5	387.4	513.5	426.6	438.6

Source: Ministry of Finance, Japan

Korea's Trade with Japan

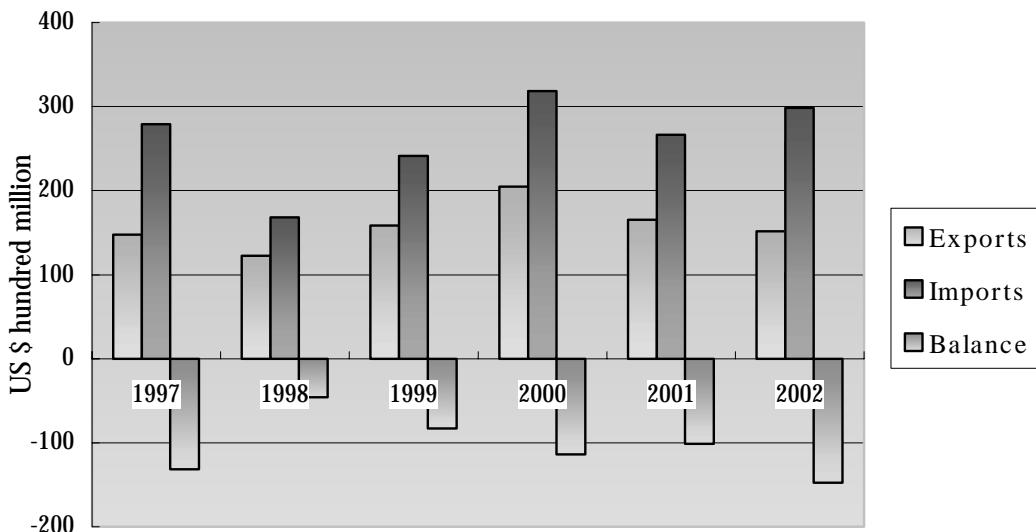
(unit: US\$ hundred million)

	1997	1998	1999	2000	2001	2002
Exports	147.7	122.4	158.6	204.7	165.1	151.4
Imports	279.1	168.4	241.4	318.3	266.3	298.6
Balance	-131.4	-46	-82.8	-113.6	-101.2	-147.2
Total	426.8	290.8	400	523	431.4	450

Source: Korea Customs Service

⁴ These figures are converted according to annual weighted average exchange rate provided by Article 4-7 of Customs Tariff Law.

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21. In the year 2002, Korea's principal exports to Japan consisted of semiconductors, textile products, oil products, computers and plastic products. Japan's main exports to Korea were semiconductors, hot-rolled steel, automotive parts, plastic products, and chemical products.

22. A breakdown of the bilateral investment demonstrates that Japan's investment in Korea sharply increased from 1999 to 2000 and peaked in 2000 by reaching 2.5 billion US dollars. In 2001, due to the economic downturn in both countries, Japan's investment declined by 68.5 percent to 770 million US dollars. Japan's investment in Korea sharply rebounded in 2002 by 81.8 percent. Japan's total investment to Korea since 1962 amounts to 13.1 billion US dollars and accounts for 1.5 percent of its total foreign direct investment, and 15 percent of the total foreign direct investment in Korea, following the US whose investment accounts for 31 percent. Japanese companies in Korea are mostly engaged in business in areas such as electronics and electric appliances, chemicals, and services.

23. The level of Korean investment in Japan, on the other hand, is relatively low. Statistics show that Korean investment in Japan stood at an average of 83 million US dollars per annum from 1995 to 2002. Korea's total investment to Japan amounts to 913 million US dollars, which accounts for 1.5 percent of its

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total foreign direct investment and 0.3 percent of total foreign direct investment in Japan.

<Table 2> Bilateral Investment between Japan and Korea

(unit: US\$ hundred million)

	1995	1996	1997	1998	1999	2000	2001	2002
Japan's Investment in Korea	4.2	2.6	2.7	5	17.5	24.5	7.7	14
Number of Cases	169	154	134	330	392	615	591	474
Korea's Investment in Japan	1.05	0.57	1.01	0.24	0.98	1.19	0.87	0.74
Number of Cases	30	25	25	20	37	135	117	82

Source: Korea EXIM Bank

(unit: hundred million yen)

	1996	1997	1998	1999	2000	2001	2002
Japan's Investment in Korea	438	208	558	418	1166	793	543
Korea's Investment in Japan	60	97	27	54	52	46	79

Source: Ministry of Finance, Japan

24. Both countries have been conducting across-the-board cooperation in a wide range of areas. Business people created an assortment of channels to search for new arenas of cooperation. For instance, Nippon Keidanren and the Federation of Korean Industries, the two major economic institutions in Japan and Korea, held 19 meetings to date, while the Japan-Korea Business Conference, composed of prominent business people from both sides, held its 35th meeting in Daegu in April 2003. Business sectors of both countries have pursued technology cooperation in parts and materials, joint development of products and cooperation in the third country market.

25. The governments of both countries have also conducted technical cooperation to promote industrial cooperation among small and medium-sized companies in the two countries. Industrial Technology Cooperation Foundation was instituted in each country to this end. Cooperation between local governments is also on the rise. The Japan (Kyushu)-Korea Economic Cooperation Conference was set up in 1993 to strengthen economic cooperation between Korea's local governments and the Kyushu province of Japan.

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26. However, it is noteworthy that there is still much room for further cooperation between Japan and Korea that would benefit both countries.

PART II. Economic Effects of the JKFTA

Overview

27. The overall economic effects of a FTA can be examined from two fronts: static (short-term) effect and dynamic (long-term) effect. The static effect can be examined by measuring the interplay of the trade-creation and trade-diversion effects. The dynamic effect of a FTA would most likely result from: (1) economies of scale; (2) increased efficiency due to the intensification of competition; and (3) the use of integrated production factors, such as capital and labor, between member countries.

28. The JKFTA would expand the bilateral trade and investment through enhanced liberalization, including the abolition of tariff and non-tariff measures and strengthened bilateral cooperation. The reduction in domestic prices of imported items would result in an increase in import volume. Given the complementary trade structure of the two countries, a bilateral FTA is expected to promote intra-industry trade, and expand bilateral trade and investment.

29. In addition, the JKFTA would contribute to integrating both economies. It is noteworthy that the integrated size of the two economies accounts for virtually 17 percent of the total global GDP, while the combined population reaches 170 million. This would generate large economies of scale, contributing to efficient production and distribution in both Japan and Korea.

30. Furthermore, the JKFTA is anticipated to ameliorate the problem of over-capacity in a number of industries, contributing to an effective allocation of resources among industries. By promoting cooperation and competition between Korean and Japanese companies, the JKFTA would bring about other wide-ranging benefits, *inter alia*, surge of strategic alliances, vitalization of the economy and improved competitiveness of the industries.

31. It is anticipated that the inflow of foreign direct investment (FDI) into both countries, along with technology transfer especially into Korea will reach greater heights. Liberalization in the services sector would bring forth increased movement of people between the two countries.

PART II. Economic Effects of the JKFTA

32. In the long run, this gradual economic integration would serve as an important vehicle in pursuing necessary economic reform in both countries. In short, enhanced efficiency and productivity of both economies alike attained through the JKFTA would reinforce their economic footings in Asia, not to mention the rest of the global economy.

33. The integrated economy could make joint advances into third markets. In light of the significant economic importance of both countries in the global market, the integrated economy could set global standards in the high-tech industries by attaining critical mass. The JKFTA would also be beneficial to both sides by collectively addressing mutual concerns and reinforcing standing in the international fora. In sum, the JKFTA would significantly contribute to the economic growth of both countries.

34. Aside from the aforementioned positive effects, there may be also possible negative ones arising from the JKFTA. Most notably, difficulties may arise in some sensitive sectors in each country. In addition, there are concerns in the Korean side that the JKFTA might aggravate Korea's existing chronic trade deficit with Japan. Both sides agreed that relevant measures should be prepared to avoid excessively severe changes in several sectors of both countries while such measures should be carefully designed not to hinder the benefits of the JKFTA.

PART II. Economic Effects of the JKFTA

Studies conducted on the JKFTA

35. With the purpose of systemically studying the economic effects of the JKFTA, KIEP⁵ and IDE⁶ conducted the first joint study on the feasibility of the FTA between the two countries from 1999 to 2000.

36. The results of the study conducted by KIEP show that the FTA may have an adverse impact on Korea in the short-term through increased deficits. But, the report mentions that increased inflow of foreign direct investment would substantially augment Korea's benefits in the long-term.⁷

37. IDE's research concluded that the JKFTA would benefit both countries, especially Japan, in the short-term. Taking into consideration the long-term dynamic effect, however, IDE's study suggests that Korea's industrial productivity would increase by 10 percent to 30 percent during a 10-year period, resulting in improved welfare and trade surplus with the rest of the world.⁸

⁵ For general information on Korea Institute for International Economic Policy (KIEP), see www.kiep.go.kr.

⁶ For general information on Institute of Developing Economics (IDE), see www.ide.go.jp.

⁷ KIEP, Economic Effects of and Policy Directions for a Korea-Japan FTA (May 2000)

⁸ IDE, Toward Closer Japan-Korea Economic Relations in the 21st Century (May 2000)

PART II. Economic Effects of the JKFTA

<Table 3> Economic Impact of the Japan-Korea FTA⁹

		Static Effects		Dynamic Effects	
		KIEP	IDE	KIEP	IDE
Korea	Welfare level (%)	-0.19	0.34	11.43	7.09
	GDP (%)	-0.07	0.06	2.88	8.67
	Trade balance with Japan (US\$100 million)	-60.90	-38.85	-4.40	-24.60
	Total trade balance (US\$100 million)	-15.43	-2.7	30.14	408.00
Japan	Welfare level (%)	0.14	0.03	-	9.29
	GDP (%)	0.04	0.00	-	10.44
	Trade balance with Korea (US\$100 million)	60.90	38.85	-	24.60
	Total trade balance (US\$100 million)	-	54.79	-	182.00

Source: KIEP and IDE Reports

38. Apart from the aforementioned joint report, a number of other individual studies on the economic effect of the JKFTA have been carried out in both countries. For instance, in 2001 the KIEP carried out a study, of which the results indicated that, on the proviso that non-tariff barriers are significantly eliminated in Japan, the JKFTA would help reduce Korea's trade deficit with Japan and boost Korea's GDP by 0.22 percent to 0.33 percent in the short-term and 0.82 percent to 1.90 percent in the long-term. It is also predicted that the JKFTA would increase Korea's employment by 0.06 percent. And according to the study conducted by Korea Economic Research Institute (KERI) in 2001, Korea's trade deficit with Japan would increase up to 1.95 billion US dollars during the first 10-year period of the JKFTA, while Korea's GDP increases by 0.23 percent and employment by 0.06 percent. And in 2001, Korea Rural Economic Institute (KREI) analyzed the effect of the JKFTA on the bilateral trade on agricultural products and expected the increase of Korea's ten major exporting products¹⁰ up to 58 million US dollars in the Japanese market.

⁹ The studies conducted by each institute were based on different assumptions. The IDE assumed free movement of capital whereas the KIEP's study was based on limited capital movement across the border.

¹⁰ Kim-chi, Tomatoes, Aubergines(egg-plants), Fruits of the genus capsicum (including

PART II. Economic Effects of the JKFTA

39. In the case of Japan, according to Kawasaki's study¹¹, the JKFTA would increase Japan's GDP by 0.04 percent to 0.12 percent and Korea's GDP by 1.13 percent to 2.45 percent. In case of Nakajima¹², Japan's GDP would increase by 0.01 percent (static effect) to 0.02 percent (dynamic effect) and Korea's GDP by 0.29 percent (static effect) to 1.09 percent (dynamic effect).

pimenta), Roses, Lilies, Chestnuts, Chrysanthemums, Cucumbers, Meat of swine

¹¹ Kawasaki, K(2003), "The Impact of Free Trade Agreements in Asia", RIETI Discussion Paper Series 03-E-018, Research Institute of Economy, Trade and Industry

¹² Nakajima, T(2002), "An Analysis of the Economic Effects of a Japan-Korea FTA : Sectoral Aspects", The Journal of Econometric Study of Northeast Asia, Vol.4, No.1,2002, Economic Research Institute for Northeast Asia

PART III. Scope of the JKFTA

A. Basic Principles of the Japan-Korea FTA

40. With the view of maximizing the positive economic effects that the JKFTA may create for both countries, members of the Joint Study Group arrived at a mutual understanding that the JKFTA should be in line with the following fundamental principles.

Comprehensiveness

41. The JKFTA should be comprehensive and cover all sectors, not excluding a particular sector from the liberalization process as a whole. First and foremost, the JKFTA should comprise the elimination of tariff and non-tariff barriers in all sectors, not to mention liberalization and facilitation in such areas as services, investment, government procurement, mutual recognition and intellectual property rights. Taking into consideration the complementary role of economic cooperation for trade liberalization, the JKFTA should also concentrate on ways to promote bilateral cooperation in a range of arenas, among others, trade and investment promotion, competition, science and technology, transportation, broadcasting, environment, and human resources development.

Meaningful and Substantial Liberalization

42. Even though the JKFTA may negatively impinge on several individual sectors in the short-run, both Japan and Korea should pursue meaningful and substantial liberalization in all sectors, including the agriculture sector, to comply with Article XXIV of the GATT. In particular, the JKFTA should incorporate means to substantially eliminate non-tariff barriers and realize comprehensive liberalization of trade in services. The transition period for tariff elimination should not be so extensive as to be inconsistent with the relevant WTO provisions.¹³

¹³ Para. 3 of “Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994”

PART III. Scope of the JKFTA

Enhancing Mutual Benefits

43. The JKFTA should pave the way for stronger economic relations between Japan and Korea and greatly contribute to continued economic growth and mutual prosperity of both countries. In this regard, the JKFTA should seek ways to ensure mutual benefits based on a win-win strategy through liberalization and facilitation of trade in goods and services, and particularly cooperation in comprehensive areas with the view of achieving economic integration.

44. In light of the present trend of globalization, both countries need to keep abreast with the rapidly changing international trade environment. The JKFTA can contribute to this end by facilitating ongoing structural reform and abolishing inefficient practices not in line with global standards.

Consistency with WTO Rules and Regulations

45. The JKFTA should abide by the letter and spirit of the WTO, complying with all the requirements stipulated in Article XXIV of the General Agreement on Tariffs and Trade (GATT) 1994 and Article V of the General Agreement on Trade in Services (GATS). Accordingly, as for the trade in goods, the JKFTA should liberalize substantially all the trade between the two countries and the duties and other regulations of commerce should not be higher or more restrictive than the existing ones. The JKFTA should also reflect the current discussions and developments in the WTO on RTAs and set an example for other FTAs to follow.

46. At the same time, the JKFTA should not become a fortress toward outside countries. The negotiation of the JKFTA should be open and transparent to the extent possible so that the JKFTA could act as a building block for the multilateral regime.

PART III. Scope of the JKFTA

Model of Regional Economic Integration

47. Considering that the interest in pursuing FTAs has been rapidly emerging of late in East Asia, namely Japan, Korea, China and ASEAN countries, the Joint Study Group noted that the JKFTA should serve as a catalyst for creating broader integration in the region and eventually embark upon serious discussions on pursuing the EAFTA and a trilateral FTA among Japan, Korea and China.

48. Furthermore, the JKFTA should strive to become an exemplary model for other regional economic integrations in East Asia, by achieving such ends as high-level of liberalization in all sectors. If the FTAs in the region share a greater degree of similarities than differences, it would be easier to consolidate them into a greater FTA, including all countries in the region in the long run. To this end, the JKFTA should make efforts to contribute to the future discussions in the pursuit of FTAs in this region.

PART III. Scope of the JKFTA

B. Scope of the Japan-Korea FTA

(1) Liberalization and Facilitation

Tariffs

49. Under the common understanding that it would be important to properly comprehend the current trade regime of each country, the two sides touched upon the tariff status of their respective countries.

<Table 4> Imports According to Tariff Rate

	Import Value		Share (%)		Tariff Line	
	Korea (US\$ million)	Japan (billion Yen)	Korea	Japan	Korea	Japan
Free	8,446	1,086.4	28.3	57.3	849	3,303
0<X<10%	20,895	472.8	70	24.9	8,368	3,823
10%≤X	508	57.1	1.7	3.0	1,944	1,109
Others	7	279.3		14.7	76	1,068
Total	29,856	1,895.6	100	-	11,237	9,303

Source: Trade Statistics, Ministry of Finance in Japan,
Ministry of Finance and Economy in Korea

50. The import-weighted average applied tariff rate in Japan and Korea is 2.5 percent and 7.9 percent¹⁴, respectively in 2001. However, Japan and Korea, both net importers of agricultural goods, have relatively high tariff rates in the agricultural sector in order to protect the domestic agricultural industry. And Japan maintains relatively high tariff rates on several industrial goods such as leather goods, footwear, petrochemicals and textiles, while Korea has high tariff rates in clothing and footwear. In particular, Japan has a larger proportion of specific duties than Korea in agricultural products and also has specific duties in

¹⁴ source : WTO IDB(Integrated Data Base), 2001

PART III. Scope of the JKFTA

such areas as footwear and textiles. The average tariff rate in each sector is as follows.

<Table 5> Tariff comparison between Japan and Korea

	Import-weighted average applied tariff rate		Import-weighted average bound tariff rate	
	Korea	Japan	Korea	Japan
All Goods	9.19%	2.7%	11.74%	3.6%
Agriculture excluding Fish	84.04%	10.6%	93.94%	15.8%
Fish and Fish Products	13.04%	4.4%	13.15%	4.4%
Petroleum Oils	4.51%	0.9%	5.04%	3.7%
Wood, Pulp, Paper and Furniture	3.97%	1.4%	4.93%	1.9%
Textiles and Clothing	9.76%	9.3%	22.78%	9.4%
Leather, Rubber, Footwear and Travel Goods	6.73%	11.0%	10.80%	11.0%
Metals	3.88%	0.6%	5.68%	0.7%
Chemical & Photographic Supplies	6.86%	2.0%	10.18%	2.0%
Transport Equipment	4.95%	0.0%	7.40%	0.0%
Non-Electric Machinery	4.65%	0.0%	6.83%	0.0%
Electric Machinery	2.29%	0.1%	3.20%	0.1%
Mineral Products, Precious Stones & Metals	2.94%	0.6%	5.25%	0.3%
Manufactured Articles, n.e.s	5.54%	0.7%	7.44%	0.7%

* Source : APEC IAP 2002

51. Against this backdrop, the Joint Study Group agreed on the following conditions for the JKFTA.

- a. The negotiations for the JKFTA should take into account the need to be consistent with GATT Article XXIV:8(b), i.e. the “substantially all the trade” criterion.

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- b. The JKFTA should cover all sectors without excluding a particular sector as a whole from the liberalization process.
- c. At the same time, the JKFTA should address the sensitive sectors of each country and come up with appropriate measures to resolve the issue, while exercising flexibility.

52. Presently, duty-free goods constitute 57.3 percent of Japan's imports from Korea, and 28.3 percent of Korea's imports from Japan. Emphasizing that duty-free imports account for as much as 57.3 percent of Japan's total imports from Korea, the Japanese side pointed out that Japan has already reduced its duties to a considerable extent. At the same time, the Japanese side mentioned that although the remaining dutiable goods are sensitive to imports, Japan is ready to bring every item onto the negotiation table.

53. The Korean side reaffirmed that no particular sector should be excluded from the liberalization process under the JKFTA and, therefore substantial improvement of market access for agricultural products should be an essential part of the negotiations. The Japanese side responded that it had no intention to exclude the whole agriculture sector.

54. With regard to the agriculture sector, both sides found that the two countries share similarities in many aspects, including the small scale of production and low rate of self-sufficiency. In addition, both sides shared the view that JKFTA would provide an opportunity to develop both countries' agriculture, forestry and fisheries sectors by expanding bilateral trade. In this regard, the Korean side explained that Japan is the largest export market for Korean farmers and fishers, occupying 36% of agricultural exports and 70% of the fisheries exports. The Japanese side also expressed its view that Korea is one of Japan's most valuable markets for exporting agriculture, forestry, and fisheries products. However, the Joint Study Group also noted that both countries have sensitivity in agriculture, forestry and fisheries sectors.

55. The Joint Study Group agreed that given the difference in the average tariff rate and the economic size of the two countries, the impact of the JKFTA

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on Korea's industries would be more serious than that on Japan's industry in general.

56. The Korean side commented that such impacts on several Korean manufacturing sectors could be too serious to accommodate within a short period and appropriate measures need to be considered in this respect. The Japanese side responded that there are also several sensitive sectors in Japan. The Joint Study Group shared the view that both countries would mitigate aforementioned impacts by coming up with relevant ways, such as setting up implementation periods and/or establishing bilateral safeguard scheme. Both sides concurred that such measures should be minimal and carefully designed not to hinder the benefits of the JKFTA. In addition, the Japanese side mentioned that eliminating tariff would strengthen the industrial competitiveness of both countries in general.

Non-Tariff Measures (NTMs)

57. In light of the significant impact of NTMs on trade and investment, the Joint Study Group agreed that the task of eliminating NTMs in tandem with tariff removal is essential for an effective JKFTA.

58. The Joint Study Group noted that NTMs have no general definition and vary in scope. However, the Joint Study Group found that NTMs could be generally referred to as restrictive measures, whether direct or indirect, other than tariffs that have adverse effects on international trade and are used by domestic entities to discriminate between imports and domestic products.

59. The Korean side expressed its view that it was necessary to categorize the types of NTMs in order to have a clear and common understanding of NTMs. In this connection, the Korean side examined materials regarding NTMs from a myriad of sources. Based on the examination, the Korean side classified NTMs into quantitative restrictions, technical barriers, SPS, distribution barriers, and others. Each category was then divided into government and non-government measures.

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60. The Korean side highlighted the trade restrictive nature of NTMs in Japan and called for concerted efforts to eradicate such NTMs. The Korean side brought to attention the fact that Korean companies doing business in Japan have been facing problems related to NTMs and emphasized the importance of exerting continuous efforts to address anti-competitive practices restricting market access to foreigners.

61. In response, the Japanese side pointed out that Japanese companies operating in Korea have been also suffering from Korean NTMs and reducing NTMs of both countries contributes to enhancing business relations between Japan and Korea. The Japanese side also pointed out that it is important to review concrete issues one by one through consultation with relevant authorities for better understanding of facts and/or related regulations.

62. Through the discussions, the Joint Study Group recognized that eliminating NTMs would benefit both sides by abolishing inefficient practices not in line with the global standards and facilitating structural reforms in each country, and agreed to establish the NTM Consultation Meeting under the umbrella of the Joint Study Group, composed of government officials and private experts.

63. The Joint Study Group mandated the NTM Consultation Meeting to identify concrete NTMs with a view to bringing about common recognition of concrete issues, and to come up with resolutions through existing channels between relevant authorities and/or within the NTM Consultation Meeting itself.

64. The NTM Consultation Meeting was held two times since its first meeting on May 27, 2003. In the NTM Consultation Meetings, both sides brought forth many issues raised by the business sector of each side as obstacles hindering business activities. The details of the discussions in the Meeting are attached in the Annex. The Joint Study Group recognized that the NTM Consultation Meeting has provided a useful venue for exploring and identifying NTMs. As a result, the NTM Consultation Meetings was able to achieve resolving a number of NTMs and removing some misunderstandings. However, it was also pointed out that the Meeting showed certain limitations in

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addressing NTMs, considering the complexity of NTMs and lack of time to discuss them in-detail.

65. The Joint Study Group noted that further discussions for the effective elimination and monitoring of NTMs would be desirable, considering the importance of the issue. The Korean side expressed its view that discussions on NTM could take place at different stages depending on the nature of the NTMs as follows:

- a. NTMs for which solutions can be reached before embarking upon negotiations of the JKFTA;
- b. NTMs that could be addressed in the course of the negotiations; and
- c. Newly emerging NTMs that could be dealt with after the conclusion of the JKFTA at a separate consultative body.

66. In this respect, the Joint Study Group agreed that the works conducted by the NTM Consultation Meetings should be continued under the FTA negotiation framework as one of its subgroups. The terms of reference of the subgroup would be determined in the FTA negotiations. The Joint Study Group, furthermore, recommended both governments to hold another meeting to discuss NTMs with participation of private experts by the end of the year 2003.

Rules of Origin

67. The Joint Study Group recognized that rules of origin (ROO) provide with a set of criteria used to determine the origin of a particular product and are classified as rules related to preferential or non-preferential treatment; preferential ROO are used to identify whether goods qualify for preferential treatment under a particular FTA.

68. The Joint Study Group examined the discussions for the Harmonized ROO in the WTO as well as relevant provisions in other FTAs such as NAFTA for reference in its discussions of the ROO in the JKFTA. It was noted that the

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negotiations for the harmonization of ROO in the multilateral context were launched in 1995 and in the past seven years an agreement on the specific ROO has been reached on only 71.6 percent of all products, which indicates the difficulty of making ROO.

69. The Joint Study Group agreed that the ROO for the JKFTA should abide by the following principles:

- a. Only goods originating from Japan and Korea should be allowed to benefit from tariff elimination under the JKFTA.
- b. Circumvention from third countries should be prevented.
- c. The ROO should be developed and applied in an impartial, transparent, clear, predictable, consistent, and neutral manner.
- d. Given that both countries have been trade-oriented, it is necessary to set simple and user-friendly ROO, rather than unnecessarily complicated ones. This is important to guarantee the effective implementation of the ROO and thus to facilitate bilateral trade between Japan and Korea.

70. The Joint Study Group pointed out the following criteria that can be explored in determining the ROO:

- a. Criteria of goods wholly obtained;
- b. Criteria of substantial transformation, which could be further specified as:
 1. Criterion of change in tariff classification;
 2. Manufacturing or processing operation criterion; and
 3. Value added criterion.

71. The Joint Study Group also noted that both countries would basically adopt the criterion of change in tariff classification, supplemented by or

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combined with a value-added criterion and/or a specified process criterion, taking into consideration the characteristics of products, the structure of industry and the impact on bilateral trade and investment.

72. The Korean side, taking into account the complexity of ROO and the necessity to proceed to the negotiations effectively, proposed to conduct a joint study to examine the economic impact of the JKFTA and to improve understanding on the production structure of manufacturing industries in the two countries. The Japanese side pointed out that technical and specialized consultations should take place during the negotiations for the FTA in order to determine ROO of each product, considering the respective characteristics of the products.

Customs Procedures

73. The Joint Study Group took note of the recent developments in each country to improve customs procedures. The two sides explained their respective efforts to shorten the lead-time for customs procedure through such measures as computerization of customs procedures, pre-arrival documents examination system, and 24-hour full open system.

74. The Japanese side also explained that not only import/export clearance but also almost all customs procedures could be electronically processed by introducing Customs Procedure Entry System (CuPES) and that invoices can also be filed electronically. The Japanese side added that Japan has made efforts to promote a Single Window System, where users can complete all the necessary import/export procedures or port related procedures in a single input and transmission by linking Nippon Automated Cargo Clearance System (NACCS) and relevant system of the government.

75. The Korean side explained its measures to simplify customs procedure and shorten the lead-time such as paperless export and import clearance system, electronic duty payment system and comprehensive cargo risk management system. The Korean side also gave its presentation on its on-going progressive programs, including the single window system, web-based

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clearance system, sea and air transshipment system and on-site cargo release system, which enable traders to handle customs procedures by using Personal Digital Assistance (PDA) or laptop computer without having to visit the Customs.

76. The Joint Study Group highly evaluated the cooperation between Japan and Korea on customs procedures and the dialogue between the customs authorities of the two countries on ways to further enrich existing cooperation. The Japanese side explained that the two countries had been preparing to conclude the Agreement on Mutual Assistance in Customs Matters, which would clarify procedures for information exchanges and promote cooperation between the customs authorities of the two countries. The Japanese side expressed its view that relations between such agreement and JKFTA should be clarified and details would be discussed in the negotiations for the JKFTA.

77. The Korean side proposed to establish a "Joint Committee on Customs Cooperation" in order to facilitate bilateral cooperation for harmonization of customs procedures, mutual origin verification assistance and exchange of relevant information between the two countries. Furthermore, the Korean side also proposed to establish a "Customs Expert Group" under the Joint Committee in order to discuss and make recommendations on technical conflicts or disputes between the traders and the customs authorities or between the customs authorities in the two countries.

78. As a way to simplify customs procedures, reduce costs and promote efficiency, the Korean side introduced to deliberate on the issue of including an autonomous issuance system of certificate of origin by the exporters and producers themselves and standardization of procedure on origin verification. In addition, the Korean side suggested the introduction of advanced ruling on origin of imported goods by customs authorities in order to ensure transparency and predictability.

Paperless Trading

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79. Paperless trading has been pursued as a means of strengthening the bilateral economic relationship in terms of promoting trade facilitation. Since the "IT Cooperation Initiative" agreed in the Japan-Korea summit in September 2000, paperless trading has been pursued experimentally in a wide array of areas.

80. The Joint Study Group also recognized that paperless trading infrastructure would lower the transaction costs. According to a recent study conducted by Korea International Trade Association (KITA), paperless trading could reduce bilateral transaction costs around 10 percent of current costs amounting to 6.2 billion US dollars, or 12.5 percent of the 50 billion US dollars in transactions. It is anticipated that the lowered transaction cost will contribute to promoting trade facilitation between the two countries.

81. The Japanese side explained various cooperation programs between Japan and Korea on areas such as mutual connection of the local electronic systems that are already at work, namely, Trade Electronic Data Interchange (TEDI) and Korea Trade Network (KTNET)¹⁵.

82. The Korean side pointed out that customs clearance and distribution are unified through KTNET in Korea, while in Japan, several standards - TEDI, Japan Electronic Open Network Trade Control System (JETRAS), Port Logistics Information Network (POLINET), NACCS, and port Electronic Data Interchange (EDI) - are used. The Korean side then expressed its expectation that Japan's Single Window System introduced in July 2003 for export-import procedures and port related procedures would further facilitate customs procedures.

83. The Korean side pointed out that electronic transactions must be given the same level of protection as off-line transactions in order to promote EDI, and that both sides should introduce necessary legal measures for this purpose.

84. With regard to the certificate of origin, the Joint Study Group also discussed the possibility of handling the certificate of origin through electronic

¹⁵ KTNET is a VAN service provider established in 1992 by Korea International Trade Association (KITA)

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means such as paperless trading. The Joint Study Group noted that although Korea issues electronic certificates of origin (e-C/O), they are only for domestic use and are not valid for international transactions.

85. The Joint Study Group acknowledged the importance of the e-C/Os for realizing paperless trading between the two countries, and emphasized the need to cooperate for its implementation. The Joint Study Group highlighted that it is important to accept the e-C/O as authentic in order to expedite the importing procedures of the customs clearance between the two countries

Trade Remedies

Safeguards

86. Safeguard measures are by and large classified as a multilateral safeguard measure applied indiscriminately to all countries according to the WTO Agreement and a bilateral safeguard measure applied only to the other party(ies) of the FTA. The Joint Study Group examined whether it would be necessary to incorporate a bilateral safeguard mechanism in the JKFTA to respond to increased imports from the other party to the extent of causing serious injury to the market.

87. The Joint Study Group noted the following points that could be used as a reference in devising a safeguard mechanism for the JKFTA:

- a. The emergency measure is to be applied only during the transition period.
- b. The safeguard measure will allow suspension of further reduction of customs duties or increase customs duties to a lesser MFN rate.
- c. The duration of a safeguard measure will not exceed one year, and in exceptional circumstances, three years.

Anti-Dumping and Countervailing Measures

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88. The Joint Study Group was in agreement that anti-dumping and countervailing measures were useful policy enforcement measures for importing countries to address unfair trade practices but that such measures should not be abused to distort the trade flow.

89. The Joint Study Group noted several options, which could be considered in establishing a FTA in general, as follows:

- a. The two parties can maintain the rights and obligations on anti-dumping and countervailing measures under the WTO Agreement;
- b. While resorting to the WTO Agreements, additional provisions can be incorporated so as to exercise greater discipline to anti-dumping and countervailing investigations, hence reducing the possibility of using anti-dumping and countervailing measures in an arbitrary or protectionist manner;
- c. A party can impose anti-dumping or countervailing measures only against predatory pricing practices of the other party's exporters;
- d. The two countries can mutually exempt from imposing anti-dumping and countervailing measures.

90. As to whether to stipulate WTO-plus provisions in the JKFTA, such as strengthening the requirements for initiating anti-dumping and countervailing measures, the Japanese side mentioned that it would be appropriate to focus on negotiations at the WTO, rather than to come up with WTO-plus provisions in the JKFTA.

91. The Korean side suggested that WTO-plus provisions would be more appropriate in the JKFTA, given the necessity to discipline excessively protective and abusive use of anti-dumping measures. In this connection, the Korean side proposed to examine the possibility of reflecting the current

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discussions in the WTO on improving relevant agreements, such as the sunset review provisions, in the JKFTA.

Technical Barriers to Trade - Mutual Recognition

92. The Joint Study Group confirmed that a Mutual Recognition Agreement (MRA) would facilitate trade between the two countries by reducing the costs associated with testing and certification and shortening the time-to-market for products covered under the MRA. In this respect, the Joint Study Group welcomed the Joint Statement between the leaders of both countries in June 2003 to accelerate preparations to embark upon MRA negotiations, while taking into consideration the current activities of the experts.

93. With a view to reinforcing economic partnership between the two countries, Japan and Korea announced the "Japan-Korea Economic Cooperation Agenda 21" at the Summit held on March 20, 1999 in Seoul, and concurred to promote possible cooperation in the area of mutual recognition and standards by exchanging information and holding discussions. As part of such efforts, the two countries held two seminars in July and November of 1999 and exchanged information on the standardization and conformity assessment procedures in each country. Japan and Korea also held a total of nine expert meetings to study the feasibility of mutual recognition in six areas - electronic appliances, telecommunications devices, pressure containers, pharmaceuticals/medical devices, and Japanese Industrial Standards (JIS) /Korean Industrial Standards (KS).

94. The Joint Study Group explored the possibility of pursuing mutual recognition under the framework of the JKFTA and reviewed various types of mutual recognition that might be adopted under the JKFTA. Both sides recognized the necessity to start consultations between both governments to examine the feasibility, possible level and scope of mutual recognition under the JKFTA.

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Sanitary and Phyto-sanitary (SPS) Measures

95. The WTO/SPS Agreement provides that the members have the right to take SPS measures necessary for the protection of human, animal or plant life or health but also should consider the trade restrictive aspects of such measures. In this regard, the Joint Study Group concurred that SPS measures in the JKFTA should be applied only to the extent necessary based on scientific principles and not be applied in a manner which would constitute a disguised restriction on the bilateral trade. The Joint Study Group also agreed to consider the relevant international norms such as the WTO/SPS Agreement, and the international standards, guidelines and recommendations developed by Codex Alimentarius Commission, International Office of Epizooties (OIE) and International Plant Protection Convention (IPPC) in the negotiations for the JKFTA.

96. For this purpose, the Joint Study Group noted that it would be necessary to strengthen cooperative relationship between relevant authorities with a view to promoting technical cooperation between the two countries. And the Joint Study Group discussed on the necessity to establish a separate committee on SPS comprising government experts, in order to expedite consultations for resolution of disputes and promote technical cooperation between the two countries under the JKFTA.

Trade in Services

97. The role of services as a source of economic activity is rapidly expanding in the global economy. Global trade in services amounted to 2,973 US billion dollars in 2000, representing 23.6 percent of the total trade in goods worldwide. Korea's exports of services increased from 7.1 billion US dollars in 1991 to 30.5 US billion dollars in 2000¹⁶. Japan's exports of services also increased more than 50 percent during the same period, from 45.3 US billion dollars in 1991 to 69.5 US billion dollars in 2000.

¹⁶ Bank of Korea(2002), Annual Statistics

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98. As for bilateral trade in services between Japan and Korea, Japan is the second largest importer of Korean services exports and also the second largest exporter to Korea. 23.4 percent of Korea's total services exports goes to Japan and 16.4 percent of Korea's services imports comes from Japan. Meanwhile, Korea ranks the sixth largest importing country of Japan's services and the third largest exporting country to Japan.

<Table 6> Trade in Services by Trading Partners in 2000

Reporting Country	Services exports				Services imports			
	Partner	Rank	Value (million USD)	Share	Partner	Rank	Value (million USD)	Share
Japan	World	-	69,245	100.0	World	-	116,882	100.0
	United States	1	23,429	33.8	United States	1	38,304	32.8
	EU	2	11,606	16.8	EU	2	21,575	18.5
	Singapore	3	4,309	6.2	Korea	3	6,366	5.4
	Hong Kong	4	3,986	5.8	Singapore	4	4,945	4.2
	Chinese Taipei	5	3,607	5.2	Hong Kong	5	4,855	4.2
	Korea	6	3,398	4.9	China	6	4,189	3.6
	China	7	2,356	3.4	Chinese Taipei	7	3,298	2.8
Korea	World	-	30,533	100.0	World	-	33,423	100.0
	United States	1	8,985	29.4	United States	1	12,114	36.2
	Japan	2	7,155	23.4	Japan	2	5,492	16.4
	EU	3	3,593	11.8	EU	3	5,122	15.3
	China	4	1,926	6.3	China	4	2,311	6.9

Source: Statistics on International Trade in Services, OECD, July 2002.

99. Liberalization of trade in services in general can promote competition, lower prices and improve the quality of services. These benefits of liberalization lead to gains in real income. A simulation using the Computable General Equilibrium (CGE) modeling shows that a 33 percent reduction in the services barriers would raise the welfare of Japan and Korea by 0.95 percent and 0.91 percent, respectively.¹⁷

100. Benefits arising from liberalization in services are not limited to the services sector alone. A range of services sectors – such as

¹⁷ Hoekman, Bernard. 2000. "The Next Round of Services Negotiations: Identifying Priorities and Options." *Federal Reserve Bank of St. Louis Review* 82: 31-47.

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telecommunications, finance and transportation – not only provide final consumer services, but also serve as essential inputs in the production of other goods and services. This linkage between the services sector and other sectors produces substantial benefits that can potentially contribute to the two countries' economic performance.

101. Considering the ever-increasing importance and benefits of the trade in services, the Joint Study Group noted that it would be necessary to achieve a high level of liberalization in this area through a bilateral FTA that extends beyond the commitments made in the WTO.

Modality of Negotiations in the Services Sector

102. The Joint Study Group noted that the commitment schedule of trade in services is usually inscribed either as a positive list or negative list – the former is a modality used in the GATS and the latter in the NAFTA. Korea adopted the negative list formula in the Korea-Chile FTA (KCFTA) while Japan chose the positive list formula in the Japan-Singapore Economic Partnership Agreement (JSEPA). It was pointed out that while both approaches could in theory generate broadly equivalent outcomes in liberalization terms, as a practical matter a negative list approach can be more effective and ambitious in producing liberalization¹⁸.

103. The Japanese side explained that the JSEPA provides services and investment in different chapters, respectively, and that the former is committed in the positive list formula while the latter is in the negative list formula.

104. The Korean side explained that the investment chapter of the KCFTA applies to all kinds of investment, not only in goods but also in services conducted through commercial presence. Emphasizing the benefits of the negative list formula such as transparency and predictability, the Korean side suggested that Mode three of the commercial presence under the GATS be incorporated into the investment chapter. The Korean side also pointed out that

¹⁸ OECD(2002), "The Relationship Between Regional Trade Agreements and The Multilateral Trading System", page 5, TD/TC/WP(2002)27/Final

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Mode one (cross-border supply) and Mode two (consumption abroad) of the cross-border trade in services, as well as Mode four (movement of natural persons) could be dealt in separate chapters.

105. The Joint Study Group concurred on the idea that the JKFTA should cover all services sectors and modes of supply with the exception of a limited number of services, and that the commitments made under the JKFTA should be consistent with Article V of the GATS. The Joint Study Group also identified major elements to be addressed in order to achieve a GATS-plus FTA – i.e. transparency, national treatment, local presence, quantitative restriction and domestic regulation.

106. The Joint Study Group came to an understanding that further liberalization in the services sector could be pursued through additional periodic negotiations to reduce and eliminate any remaining restrictions after the conclusion of the JKFTA.

107. Both sides explained their commitments under the GATS and individual FTAs that each country concluded to date, namely the JSEPA and the KCFTA. Both sides also shared information on the general request in several services areas, which includes information, telecommunications, education, legal and financial services in the Korean market and MRA for medical services providers, air transportation and financial services in the Japanese market.

108. In particular, the Korean side requested to enter into the negotiations for conclusion of a MRA on qualification of medical experts such as medical doctor, nurse and midwife, taking into account both countries' similar training system and its positive effect on both countries' medical systems. In response, emphasizing the necessity to keep the quality of medical services, the Japanese side commented that it is necessary to obtain domestic license in order to engage in medical services in Japan, and it is difficult to establish MRAs on such qualifications at this time. A member from the Japanese academic sector pointed out a positive effect of a MRA on medical experts.

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109. Given that negotiations for the JKFTA would reflect the result of WTO/DDA negotiations, the Korean side explained the progress made in the bilateral negotiations in services in the DDA framework. The Joint Study Group was in agreement that the concessions in services under the JKFTA should be greater than those in the context of DDA negotiations.

Investment

110. The Joint Study Group recognized that the JKBIT, which came into effect on January 1, 2003, is one of the most advanced BITs concluded to date and stipulates not only the protection but also the liberalization of investments between the two countries at the highest level covering most of the business sectors.

111. The Joint Study Group noted that the JKBIT included following elements in order to increase bilateral investment by building a institutional framework.

- a. Principles of National Treatment (NT) and Most Favored Nation (MFN) treatment both in pre-establishment and post-establishment
- b. Provisions to prohibit performance requirements which are likely to have distorting effects on business activities
- c. Provisions on transparency
- d. Provisions on expropriation and compensation with a view to preventing indiscriminate expropriation and/or unfair compensation of foreign investment
- e. Provisions on free transfer of payments
- f. Provisions on settlement of disputes between a Party and an investor of the other Party through consultation, negotiation and arbitration mechanisms

112. The Joint Study Group noted that it should be determined whether the JKBIT would be included as a part of the JKFTA or not. In addition, the Korean side mentioned that the possibility of further liberalization of bilateral investment between the two countries should be examined in the negotiations for the FTA.

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113. The Joint Study Group observed that there is great room for improvement in investment between the two countries, considering the size of the two economies and the volume of bilateral trade. In this regard, the Joint Study Group expressed its wish that recently concluded JKBIT would serve as a catalyst for expanding bilateral investment.

Movement of Natural Persons

114. The Joint Study Group noted that the movement of natural persons constitutes important elements of economic partnership between the two countries. Given that the movement of natural persons represents Mode four of services supply, the Joint Study Group recognized the need to promote movement of natural persons especially engaged in the services sector. In this respect, it was pointed out that it is necessary to examine the requirements for work in each other's countries.

115. In this regard, the Korean side highlighted the significance of a bilateral visa waiving arrangement between the two countries. The Korean side explained its recent efforts to reduce forgery of Korean passports through such measures as building a network of sharing information on passport photos among relevant authorities, preparing a plan to issue biometric passports within a near future and strengthening immigration control. The Korean side also proposed to pursue provisional measures, namely visa exemption for business people and improvement of measures related to multiple visas.

116. In addition to visa exemption, Korea emphasized the importance of pursuing measures such as mutual recognition of certifications, as means to promote the movement of business people between the two countries.

117. The Japanese side responded that before moving forward to discuss issues concerning visa exemption, Korea would need to expend further efforts to improve the illegal entry and stay of Koreans in Japan. The Japanese side, especially members from the business sector, nevertheless, pointed out that exemption or relaxation of requirements of visas would contribute to promoting business between the two countries.

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118. The Joint Study Group noted the progress made in this area such as mutual recognition of information technology (IT) engineers' certification, relaxation of visa issuance requirements for licensed people and the Asia-Pacific Economic Cooperation (APEC) Business Travel Card Scheme. The Joint Study Group also welcomed the results of the recent Summit Meeting between Japan and Korea, in which the leaders agreed to consider visa exemptions for Korean students visiting Japan on school trips and to reconsider the granting of visa exemptions during a limited period as a first step in making further efforts to realize visa exemption at an early date with a view to creating a one-day life area between Japan and Korea.¹⁹

Intellectual Property Rights (IPR)

119. Highlighting the importance of protecting IPR, the Joint Study Group shared the view that Intellectual Property Rights (IPR) is an essential element for economic and cultural development.

120. The Joint Study Group noted that the patent offices of the two countries would continuously pursue the Patent Examiner Exchange Program for the effective sharing of information related to searches and examination.

121. The Joint Study Group agreed that the IPR-related provisions in the JKFTA should comply with the existing treaties on copyrights of which both sides are members, including the Berne Convention, particularly regarding the principles of the most-favored nation and national treatment.

122. The Japanese side expressed its appreciation for the Korean government's efforts to enforce its IPR regime. In addition, the Japanese side submitted to the Korean side a request list regarding improvements that need to be made in the Korean intellectual property system. The request list included simplification of the procedures, expansion of the scope of protection, change of references dates for later/earlier-filed trademark applications, and introduction of effective dead copy regulation. The Korean side requested the Japanese side

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that the Japan Patent Office (JPO) and the Korean Intellectual Property Office (KIPO) should appoint each other as competent International Search Authority (ISA)/International Preliminary Examination Authority (IPEA) for Patent Cooperation Treaty (PCT) applications written in English and share the examination results.

123. A member from the private sector of the Japanese side expressed a view that the greater efforts of the Korean government to enhance the IPR protection would contribute to attracting more Japanese investments and increasing the trade of products related to cultural industries between the two countries.

Government Procurement

124. The Joint Study Group noted that both Japan and Korea are parties to the WTO Government Procurement Agreement. The Joint Study Group welcomed the measures taken by both sides in order to enhance fairness and transparency as well as to promote liberalization in government procurement. With a view to identifying the current situation, both sides exchanged statistics on the government procurement contracts awarded to foreign companies. The figures indicated that Japan and Korea have not actively taken part in the government procurement market of the other side so far.

¹⁹ Joint Statement at the Summit between Japan and Korea in June 2003

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<Table 7> Government Procurement Statistics

(Korea)

(unit: million Korean Won)

	Suppliers			Contract Value
Total				61,021,536
Construction Services				36,161,551
Services				5,165,007
Supplies				19,694,978
Supplies Contracts covered by WTO GPA	Foreign Suppliers	GPA Members	USA	198,248
			JAPAN	114,654
			Germany	102,972
			Others	132,910
			Total	548,784
		Non-GPA Members		129,048
			Total	677,832
		Korean Suppliers		6,485,957
		Total		7,163,789
Supplies Contracts uncovered by WTO GPA				12,531,189

Source : Ministry of Finance and Economy, Republic of Korea (2002)

(Japan)

(unit: thousand SDRs)

				Contract Value	
Total				33,951,482	
Amounts of contracts above the threshold	Total			10,498,857	
	Construction Works			4,969,004	
	Services			1,346,360	
	Goods	Foreign Suppliers	USA	475,283	
			EU	117,499	
			Korea	424	
			Others	98,602	
			Total	691,808	
	Japanese suppliers			3,491,685	
	Total			4,183,493	
Amounts of contracts below the threshold	Total			23,452,625	

Source : WTO (statistics for 2000 as reported by Japan under the Article XIX:5 of the GPA)

125. The Joint Study Group acknowledged the necessity for developing the electronic procurement system to simplify the current bidding procedures and to enhance transparency in government procurement in order to make a friendly environment for active participation of both domestic and foreign companies.

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126. The Korean side commented that development of the electronic procurement system contributed to enhancing fairness and transparency of government procurement procedures. The Korean side explained its National Electronic Government Procurement (G2B) System introduced in September 2002. The G2B system processes all government procurements for the purchase of goods and services and construction projects through the Internet, which covers all procurement procedures from notice of tender to payments. As a result, 84 percent of all government procurement tenders are processed via the G2B system in Korea.

127. The Japanese side explained that electronic tendering had been implemented in part for public works and would be expanded to all construction works directly conducted by the Ministry of Land, Infrastructure and Transport in 2003.

128. The Joint Study Group also pointed out the necessity to encourage companies of the two countries to form a consortium and to support their advancement into the global markets.

Competition Policy

129. The Joint Study Group came to the understanding that it is important to enhance competition law enforcement by addressing cross-border anti-competitive activities and strengthen cooperation between the competition authorities of the two countries with a view to maximize the benefits from trade and investment liberalization through the JKFTA. In this regard, the Joint Study Group shared the view that competition policy should be included in the JKFTA.

130. The Korean side stated that, although current cooperation between the competition authorities of the two countries remains at an initial stage, it is necessary to enhance cooperation in law enforcement by establishing a formal cooperative framework. The Korean side suggested that competition policy in the JKFTA could include specific cooperation items such as notification of law enforcement activities that may affect the interests of the other side, negative

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comity, positive comity, confidentiality of information, and mutual assistance on law enforcement activities.

131. The Japanese side responded that it would like to start consultations on these matters between the competition authorities of the two countries, since it would be possible to strengthen such cooperation before concluding the JKFTA.

132. The Korean side pointed out that Korean companies voice concerns over the business practices in the Japanese distribution system, which restrain fair competition and discriminate against foreign companies, and proposed to include the competition authorities at NTM negotiations. The Japanese side explained its efforts to create a competitive environment by devising the guidelines for the distribution systems and business practices, and expressed its wish to be informed if there is any suspected violation against the Anti-Monopoly Act of Japan.

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(2) Cooperation

Information and Communications Technology (ICT)

133. As members of the Information Technology Agreement (ITA), which entered into force in July 1997, both Japan and Korea removed tariffs on the information and telecommunication items according to their respective concession schedule. The volume of the IT industry of the two countries in 2002 amounted to 26.0 percent of the world total production, valued at 180 billion US dollars. Japan ranks second with 19.6 percent, and Korea ranks third with 6.4 percent of the world total production.²⁰

134. The Joint Study Group appreciated that trade in the IT sector between the two countries is rapidly increasing and emphasized that the current active bilateral cooperation in this sector needs to be further expanded. The Joint Study Group recommended that Japan and Korea, as major producers of the IT related goods and services in East Asia, need to work together to promote bilateral IT trade and investment and stimulate exchange of technology and human resources.

135. The Joint Study Group recognized that Japan and Korea have been promoting cooperation in various areas of electronic commerce such as mutual recognition of privacy mark, trust mark alliances, as well as electronic signature and certification. Given the rapid development of IT related technologies, the Joint Study Group recommended that the two countries should not only pursue new areas of cooperation within the framework of the JKFTA, but also consider the possibility of using existing cooperation channels without waiting for the conclusion of the JKFTA. In this vein, proposals were made to set up a joint standardization of mobile telecommunication and digital electronics.

Small and Medium Enterprises (SMEs)

136. The Joint Study Group noted that, taking into account the fact that more than 99.7 percent and 99.8 percent of the businesses are SMEs respectively in

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Japan and Korea, creating a sound framework for the growth of small and medium enterprises (SMEs) is crucial to the development of the two economies.

137. The Joint Study Group also agreed that cooperation between SMEs of the two countries would bring about growth of SMEs in both countries. In this respect, the Joint Study Group shared the view that both governments should explore effective ways to support business cooperation among the SMEs of the two countries so that SMEs can fully exploit the business opportunities created by the JKFTA. The Joint Study Group recognized that cooperation in SMEs sector would adhere to the principle of market economy and should be effectively conducted to ensure economic soundness.

138. Referring to the survey conducted by the Korea Small Business Institute, the Korean side pointed out that the Korean SMEs expected the expanded business opportunities by the JKFTA in general. However, the Korean side also pointed out that the survey also showed the grave concern among the Korean SMEs that the tariff elimination might cause too much damage to them, and claimed that appropriate measures should be considered to mitigate drastic and severe changes among SMEs. In response, the Japanese side pointed out that such concerns would be also found among Japanese SMEs in several sectors.

139. In this respect, the Korean side emphasized that the two countries should seek ways to ensure mutual development of SMEs in both countries and called for reinforcement of industrial cooperation and technology transfer between SMEs of the two countries, and increased investment by Japanese SMEs in Korea. To this end, the Korean side proposed various programs to promote cooperation among the SMEs in the two countries, including tax benefits for joint investment between the SMEs of both countries and the establishment of a mechanism for technology cooperation. In addition, the Korean side suggested that two governments should explore ways to introduce a mechanism that can help Korean SMEs to hire retired technician from Japan. Furthermore, given that both countries established supporting institutions to help respective SMEs, which could be a gateway for successful cooperation in

²⁰ source : Reed Electronics Research, 2002

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the SMEs sector, the Korean side suggested to enhance cooperation between these institutions.

140. In response, the Japanese side emphasized that cooperation among the SMEs of the two countries should not be one-sided assistance but a horizontal cooperation, and commented that both governments should make utmost efforts to create a favorable environment to promote business interaction.

Trade and Investment Promotion

141. The Joint Study Group concurred on the importance of expanding cooperation in the areas of trade and investment between the two countries in order to facilitate trade and investment. The Joint Study Group shared the view that further efforts should be taken to enhance existing trade and investment relations as well as to explore new business opportunities by forming strategic alliances among companies of the two countries.

142. The Joint Study Group acknowledged the various measures that were implemented to promote bilateral trade and investment between the two countries, including the conclusion of the JKBIT and establishment of the Japan-Korea Industrial Technology Co-operation Foundation (JKF) and the Korea-Japan Cooperation Foundation for Industrial Technology (KJC). Both sides shared the view that "Joint Committee" under JKBIT should work effectively and that the supporting projects carried out by the JKF and KJC have been constructive and are necessary for fortifying bilateral cooperation. The Joint Study Group also noted that the partnership between the trade promotion agencies of the two countries, namely the Japan External Trade Organization (JETRO) and the Korea Trade-Investment Promotion Agency (KOTRA) has effectively contributed to the development of the trade and investment between the two countries and should be further intensified. However, the Joint Study Group also observed that there is still great room for strengthening bilateral cooperation between the two countries, considering the economic size and the geographical proximity of the two economies.

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143. The Korean side made specific proposals in this respect. The Korean side emphasized that, despite the conclusion of the JKBIT, more specific programs might be necessary to actually increase the volume of investment between Japan and Korea and asked for Japan's cooperation in promoting the public awareness of the BIT and vitalization of the business network. In addition, the Korean side emphasized that Japanese investment in Korean parts and materials sector should be further expanded in order to improve the trade imbalance between the two countries. The Korean side also proposed to strengthen the activities of the recently established Japan-Korea Joint Investment Promotion Committee. In addition, the Korean side underlined the importance of industrial and technological cooperation, mainly in the industries of parts and materials. In this context, the Korean side proposed various forms of cooperation, such as production and sales cooperation, joint investments and technology transfer between the companies located in the parts and material manufacturing clusters of Japan and Korea, including Korea's Namdong Industrial Complex and Japan's Otaku.

144. The Japanese side pointed out that the industrial technology development levels are not substantially different between Japan and Korea. The Japanese side stressed that meaningful technology transfers are conducted, not by assistance of government programs, but when private firms find mutual benefits from such transactions. The Japanese side also expressed its view that large Korean firms could have a huge potential to induce investment from Japanese firms, because Japanese small and medium enterprises often make investment decisions when large Korean firms show business opportunities in Korea. The Japanese side emphasized that the two governments should rather focus on fostering more transparent and liberalized business environments.

Science and Technology

145. The Joint Study Group noted that the importance of science and technology in pursuing knowledge-based economies cannot be emphasized enough. Continuous development of science and technology is crucial to the promotion of bilateral trade, investment and other economic activities.

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146. In this regard, the Joint Study Group confirmed that science and technology cooperation would be mutually greatly beneficial, and noted that current bilateral cooperation in the field of science and technology between the two countries is active, as both countries regularly hold “Committee on Scientific and Technological Cooperation” and science and technology forum under ‘the Agreement between Japan and Korea on Cooperation in the field of Science and Technology’ concluded in 1985. The Korean side emphasized that technology cooperation between the two countries is essential in maximizing the benefits of the FTA and that both countries should make joint efforts to this end.

147. With a view to reinforcing current cooperative partnership, the Korean side made following specific proposals: the establishment of joint research fund for promotion of joint studies in common interested areas of both countries such as bio-technology and nano-technology; establishment of exchange programs to expand the exchange of human resources in the science and technology sector; and promotion of programs for joint use of large-sized expensive research facilities in both countries. In addition, the Korean side proposed to elevate the Joint Committee, which is currently being held at the senior officials' level, to the ministerial level in order to facilitate aforementioned cooperation.

148. In response, the Japanese side agreed on the importance to advance bilateral cooperation in the field of science and technology, but expressed its view that those proposals made by Korea could be discussed within the existing framework of cooperation between the two countries and it is important and necessary to identify issues that could not be dealt with within the existing framework.

Transportation

149. The Joint Study Group noted that the JKFTA would increase bilateral trade, investment and tourism flows and that transportation cooperation would be essential to increase the exchange of personnel and goods between the two

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countries. The Joint Study Group concurred that cooperation in this field would be further expanded to this end.

150. The Korean side proposed to foster liberalization in the maritime and air transportation sectors between the two countries. In particular, the Korean side pointed out that it would be necessary for the respective air and sea transportation authorities of both sides to expend efforts to liberalize the present transportation regimes.

151. The Joint Study Group welcomed the Joint Statement of the Summit meeting of June 2003 in which the leaders shared the view concerning the introduction of flights between Gimpo and Haneda airports, creating a one-day life area between the two countries.

Broadcasting

152. The Joint Study Group recognized that it is important to advance broadcasting cooperation with a view to promoting friendship and mutual understanding between the two countries.

153. Emphasizing the importance of digital broadcasting in a knowledge-based economy, the Korean side proposed several programs for cooperation between institutions related to broadcasting, including broadcasting companies, government authorities and non-government organizations (NGOs).

154. Welcoming Korea's recent liberalization schedule on Japanese movie, disc and game, the Japanese side expressed its interest in Korea's plan for further liberalization in broadcasting sector.

Tourism

155. The Joint Study Group noted that the number of Korean visitors to Japan is increasing while the number of Japanese visitors to Korea is on the decline. Given the geographic proximity of Japan and Korea, it was pointed out that various kinds of bilateral cooperation in the tourism sector could be

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explored to promote exchange of tourists between the two countries as well as to attract tourists from other countries into both countries. In particular, the Korean side pointed out that the visa waiver arrangement should be concluded and transportation cooperation should be expanded to increase the number of Japanese and Korean tourists in the two countries.

Environment

156. Recognizing that trade and environment should be mutually supportive as reaffirmed in the WTO and the Johannesburg Summit²¹, the Joint Study Group agreed that the two countries should explore ways to embark upon various cooperation activities in the area of environment. The Joint Study Group reaffirmed that it is important to include the measures for protection of the environment in the JKFTA in order to undertake trade and investment liberalization with due consideration for the environment.

157. The Joint Study Group noted that each side has been conducting the studies on Environmental Impact Assessment (EIA) in order to evaluate the effect of trade liberalization on the environment. The Joint Study Group shared the view that environmental impact assessment of the FTA could be helpful as it serves for devising effective environmental policies if accurate evaluations of the actual effects of the FTA on the environment are made to be possible. Based on such idea, it was agreed to exchange information of the studies in each country on the method of environmental impact assessment.

158. The Joint Study Group confirmed that eco-labeling is a valid tool to enhance production and consumption of environment-friendly products, and that it is effective to proceed with mutual recognition of the Eco-Mark in Japan and the Eco-labeling in Korea to support the distribution of environment-friendly products through the JKFTA. Both sides agreed to make efforts to prevent the Eco-labeling system from acting as a barrier to trade, hindering the entrance of

²¹ The UN World Summit on Sustainable Development was held in Johannesburg in September 2002 with a view to deciding on concrete policies and setting qualifiable targets for implementing Agenda 21.

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foreign firms into the market and discussed ways to promote mutual recognition in this area.

159. The Korean side highlighted the importance of environmental technology in promoting environment-friendly goods and services in both countries and proposed to come up with various ways to facilitate exchange of environmental information available on Internet between the two countries with the view of supporting business activities between the two countries.

Finance

160. Recalling the experiences of the Asian foreign exchange crisis in 1997, the Joint Study Group acknowledged the need to brace financial cooperation in bilateral and regional levels to stave off another crisis in the region, through such means as the establishment of bilateral currency swap exchange mechanism and utilization of regional bond issued in Asian currency. Both sides also noted the importance to use the JKFTA as an opportunity to strengthen cooperation in this field.

Human Resources Development

161. The Joint Study Group noted across-the-board exchange of human resources between Japan and Korea through exchange of students, teachers and academic researchers. The Joint Study Group also took notice of the Japan-Korea joint program that sends approximately 100 Korean students to Japanese technology and engineering universities every year.

162. The Joint Study Group emphasized that exchange of human resources would pave the way for better understanding between the two peoples and contribute to human resources development between the two countries. It was pointed out that a range of programs should be developed to vitalize the exchange between Japan and Korea.

163. The Korean side pointed out that the exchange of technical experts as well as students would also be beneficial to both sides, and proposed that the

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two countries seek various means such as provision of managerial and technical advices by retired CEOs or technical experts to this end. The Korean side proposed establishing an educational information network for exchange of relevant information.

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(3) Dispute Settlement

164. There was a mutual agreement on the importance of instituting transparent, simplified and clear dispute settlement procedures so as to reduce administrative costs and prevent avoidable conflicts that may arise from ambiguity of the procedures.

165. The Korean side proposed a set of directions for the dispute settlement procedures in the JKFTA by weighing against comparable provisions in the KCFTA and JSEPA. First, the scope of the dispute settlement would include both violation and non-violation disputes. Unlike the JSEPA, the procedures of consultations would be single channeled with more simplified provisions on panel composition and drawing up the roster of panelists. An interim report may be presented prior to the issuance of the final report. The Japanese side looked forward to in-depth discussions on this issue in the future.

PART IV. Conclusion and Recommendations

Conclusion

For a Mutually Beneficial Economic Partnership

166. The Joint Study Group reaffirmed that Japan and Korea have been making significant strides in advancing their bilateral economic relationship, and, more importantly, searched for ways to capitalize their untapped potential through a bilateral FTA.

167. The Joint Study Group confirmed that the JKFTA would bring forth a wide range of benefits by creating a win-win situation for both countries. The JKFTA would be a mutually irreplaceable FTA in the light of the two countries' geographical proximity. One of the key benefits of the JKFTA would be enhanced cooperation in the areas of trade and investment, not to mention other areas encompassing society and culture. In this regard, the Joint Study Group concluded that a bilateral FTA would be an effective instrument in alleviating remnant historical tensions between the peoples of the two countries and further strengthening the future-oriented partnership. In other words, JKFTA would be a symbol of Japan-Korea Partnership in the twenty-first century.

168. In order to maximize the benefits, the Joint Study Group accentuated that the JKFTA should be firmly built on the aforementioned principles of comprehensiveness, substantial liberalization, enhancement of mutual benefits and consistency with WTO rules and regulations. Furthermore, the JKFTA should not only advance the benefits of the parties - Japan and Korea - but also set an exemplar for others to follow, thereby contributing to the economic growth of East Asia and the rest of the international community.

169. The Joint Study Group also highlighted the importance of contemplating on practical ways to achieve trade liberalization. Although the benefits of liberalization are evidently important, several sectors may have to bear the burden of liberalization. The Joint Study Group noted the necessity to address the concerns of these groups.

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170. The Joint Study Group endeavored to come up with the tangible benefits that both Japan and Korea can gain from the FTA, including the economic and strategic implications. In order to gain public support in pursuing the JKFTA, the Joint Study Group believed it to be important to convey to them the benefits the FTA would bring to the respective economies.

171. As an after note, however, the discussions of the Joint Study Group were subject to certain limitations in addressing several issues in detail and providing specific agenda for cooperation between the two countries. This was mainly due to the fact that the mandate of the Joint Study Group is to identify issues and exchange positions with respect to the FTA between Japan and Korea.

172. During the discussions, the two sides showed differences of opinion on some issues such as the elimination of NTMs, promotion of bilateral direct investment and importance of enhancing industrial cooperation. The Korean side underlined that there were critical issues that would help to ensure mutual benefits of the JKFTA. The Korean side emphasized expansion of cooperative mechanism with a view to achieving high-level economic integration between the two countries, while the Japanese side expressed its hope to strive toward the same goal through existing channels.

173. However, taking into account the long-term benefits to be accrued by the JKFTA, both sides reached a common understanding that they would make utmost efforts to overcome negative views that were focused on short-term effects, and seek ways to achieve mutual benefits based on a win-win strategy so as to build a prosperous and future-oriented relationship.

For Peace and Prosperity of East Asia

174. As proposed by former President Kim Dae-jung of Korea, the leaders of ASEAN countries, China, Japan, and Korea agreed to establish the East Asia Vision Group (EAVG) and the East Asia Study Group (EASG) in December 1998 and November 2000, respectively. In their final reports, both the EAVG and the EASG recommended the formation of EAFTA as a medium to long-term

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goal. At the ASEAN+3 Summit in Cambodia in November 2002, the leaders expressed their support in principle to the establishment of the EAFTA as a future goal.

175. The Joint Study Group recognized that the JKFTA might eventually serve as a catalyst in strengthening regional cooperation in East Asia and in turn a stepping-stone for establishing the EAFTA. The Joint Study Group expressed its hope that the JKFTA would become a cornerstone for peace and prosperity in East Asia. The vision of the EAFTA is to create an East Asian Community (EAC) of peace, prosperity and progress based on the full-fledged development of all peoples in the region²². Concurrent with this vision is that the future of the East Asian community would make a positive contribution to the rest of the globe.

176. Furthermore, the Joint Study Group was of the view that the JKFTA would contribute to regional security by increasing mutual dependency. Discussions on regional security are underway in the ASEAN Regional Forum (ARF) and confidence-building measures are being undertaken therein. The Joint Study Group expressed its belief that enhanced economic cooperation in East Asia would be another pillar in guaranteeing regional security.

²² The East Asian Vision Group(2001), “Towards an East Asian Community”

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Recommendations

177. The Joint Study Group recommends that the governments of Japan and Korea enter into negotiations at an early date with a view to concluding the JKFTA within a reasonable period of time. The Joint Study Group wishes that the governments of the two countries would forge a comprehensive FTA that would bring about mutual benefits and greater efficiency, and eventually lead to further economic development in both economies. In particular, taking into account the importance of developing business-friendly environment by reducing NTMs, the Joint Study Group recommends that NTMs should be duly addressed during the negotiations as the Joint Study Group so agreed.

178. The Joint Study Group wishes that the business sectors in both countries actively utilize the JKFTA in facilitating restructuring and strengthening of their competitiveness. The Joint Study Group further wishes that bilateral cooperation between business sectors of the two countries would be further expanded by pursuing strategic alliances taking the opportunity of the JKFTA and revitalizing various existing business-to-business fora. The Joint Study Group recommends that both governments take full account of the views of business sector in negotiations for the JKFTA.

179. The Joint Study Group also wishes that the academic sector of both countries continuously carry out relevant studies with a view to giving advice to respective governments on various aspects of the JKFTA as well as presenting a vision for the future of both economies and bilateral relationship between them.

180. Further to the suggestions above, the Joint Study Group recommends the governments, the businessmen, and the members of academia of both countries to collectively exert efforts in promoting public awareness of the JKFTA and generating support for the FTA among the peoples of Japan and Korea, so that the formal negotiations would be launched soon and successfully concluded in time.

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1. Members of Joint Study Group

Korea	Japan
<u>Government</u>	
Mr. CHO Hyun Deputy-Director General Ministry of Foreign Affairs and Trade (MOFAT)	Mr. Chihiro ATSUMI (2002 July to 2003 July), Deputy Director-General, Asian and Oceanian Affairs Bureau, Ministry of Foreign Affairs (MOFA)
Mr. NAM Jin-woong Director Ministry of Finance and Economy (MOFE)	Mr. Shinichi NISHIMIYA (2003 August to 2003 October) Deputy Director-General, Asian and Oceanian Affairs Bureau, MOFA
Mr. KIM Byong-seop Director, Ministry of Foreign Affairs and Trade (MOFAT)	Mr. Tomoyoshi URANISHI (2002 July to 2003 June), Deputy Director-General, Customs and Tariff Bureau, Ministry of Finance (MOF)
Mr. Seo Sung-yeol Director Ministry of Foreign Affairs and Trade (MOFAT)	Mr. Yukiyasu AOYAMA (2003 July to October), Deputy Director-General, Customs and Tariff Bureau, MOF
Mr. CHO Chae-ho Director Ministry of Agriculture and Forestry (MAF)	Mr. Hidenori MURAKAMI (2002 July to 2003 June) Director-General, International Affairs Department, Ministry of Agriculture, Forestry and Fishery (MAFF)
Mr. Lee Byeong-cheol Director Ministry of Commerce Industry & Energy (MOCIE)	Mr. Kunio NAITOU (2003 July to 2003 October) Deputy Director-General, International Affairs Department, MAFF
Mr. CHUN, Young-sik Director Ministry of Maritime Affairs and Fisheries (MOMAF)	Mr. Yoshinobu NISAKA (2002 July) Deputy Director-General, Trade Policy Bureau, Ministry of Economy and Industry (METI)

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	<p>Mr. Osamu NARUMIYA (2002 July to 2003 June) Deputy Director-General, Trade Policy Bureau, METI</p> <p>Mr. Satoshi KUWAHARA (2003 July to 2003 October) Deputy Director-General, Trade Policy Bureau, METI</p>
<p><u>Business sector</u></p> <p>Mr. Mr. BAE Myung-han Federation of Korean Industries</p> <p>Mr. JEONG Jae-hwa Korea International Trade Association (KITA)</p> <p>Mr. Mr. Yoon Cheol-min Korea Chamber of Commerce (KorCham)</p> <p>Mr. KIM Jong-hwan Korea Federation of Small and Medium Business (KFSB)</p> <p>Mr. HWANG Hyung Sung National Agricultural Cooperation Federation</p>	<p>Mr. Yoshiaki ONUKI Chair of Japan-Korea Industrial Cooperation Study Group, Committee on Asia & Oceania, Nippon Keidanren</p> <p>Mr. Yoshitaka ISHII (2002 July) Senior Executive Advisor, Kyusyu Railway Company</p> <p>Mr. Masahiro KONNO Manager, International Policy and Strategic Planning Affairs, Agricultural Policy Department, Central Union of Agricultural Co-operatives (JA-ZENCHU)</p>

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<u>Academia</u>	
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Dr. KIM Yang-hee Korea Institute for International Economic Policy (KIEP)	Ms. Yukiko FUKAGAWA Professor, Tokyo University
Dr. KIM Do-hoon Korea Institute for Industrial Economy and Trade (KIET)	
Dr. CHOI, Se-kyun, Korea Rural Economic Institute (KREI)	

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2. Dates of the Meetings

	Date & Venue	Note
1 st meeting	July 10-11, 2002, Seoul	
2 nd meeting	Oct 1-2, 2002, Tokyo	
3 rd meeting	Dec 4-5, 2002, Busan	
4 th meeting	Feb 6-7, 2003, Tokyo	
5 th meeting	Apr, 14-15, 2003, Seoul	
1 st NTM meeting	May, 27, 2003, Tokyo	
6 th meeting	July 11-12, 2003, Fukuoka	
2 nd NTM meeting	Sep1, 2003, Seoul	
7 th meeting	Sep 2-3, 2003, Seoul	
8 th meeting	Oct 2, 2003, Seoul	

PART V. Annexes

3. Statistics of Bilateral Trade, Investment and Services

< Table 1> Korea's Major Trading Partners (2002)

(Unit: US \$ million)

Ranking	Country	Export	Import	Trade Volume	Portion (%)
1	United States of America	32,780	23,009	55,789	24
2	Japan	15,143	29,856	44,999	19
3	China	23,754	17,400	41,154	17
4	Hong Kong, China	10,146	1,695	11,841	5
5	Chinese Taipei	6,632	4,832	11,464	5
6	Germany	4,287	5,472	9,759	4
7	Saudi Arabia	1,259	7,551	8,810	4
8	Australia	2,340	5,973	8,313	4
9	Indonesia	3,145	4,723	7,868	3
10	Singapore	4,222	3,430	7,652	3
11	Malaysia	3,218	4,041	7,259	3
12	United Kingdom	4,255	2,437	6,692	3
13	United Arab Emirates	2,269	4,210	6,479	3
14	Philippines	2,950	1,867	4,817	2
15	Italy	2,217	2,274	4,491	2
Total		118,617	118,770	237,387	100

*source : Korea Trade Information Services (KOTIS)

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< Table 2> Major Trading Partners of Japan (2002)

(Unit: US \$ million .%)

Ranking	Country	Export	Import	Balance	Volume	Portion
1	U.S.A.	118,409	57,616	60,793	176,025	23.4
2	China	39,645	61,522	-21,877	101,167	13.5
3	R. Korea	28,441	15,419	13,022	43,860	5.8
4	Taiwan	26,122	13,525	12,597	39,647	5.3
5	Hong Kong	25,287	1,417	23,870	26,704	3.6
6	Germany	14,058	12,362	1,697	26,420	3.5
7	Thailand	13,125	10,466	2,659	23,590	3.1
8	Australia	8,270	13,959	-5,689	22,228	3.0
9	Malaysia	10,967	11,156	-189	22,124	2.9
10	Indonesia	6,208	14,123	-7,915	20,331	2.7
11	Singapore	14,127	4,990	9,138	19,117	2.5
12	Great Britain	11,925	5,392	6,533	17,317	2.3
13	Saudi Arabia	3,741	11,582	-7,841	15,323	2.0
14	Philippine	8,420	6,512	1,908	14,933	2.0
15	U.A.E.	2,935	11,546	-8,610	14,481	1.9
Total		414,847	336,179	78,668	751,027	100.0

(Source) Trade Statistics, Ministry of Finance, Japan (These figures are converted according to annual weighted average exchange rate provided by Article 4-7 of Customs Tariff Law.)

PART V. Annexes

< Table 3> Bilateral Trade Between Korea and Japan

(Unit: US \$ million)

Year	Export			Import			Trade Balance	
	Total	Japan	Portion	Total	Japan	Portion	Total	Japan
1990	65,016 (4.2)	12,638 (-6.1)	19.4	69,844 (13.6)	18,574 (6.4)	26.5	-4,828	-5,936
1991	71,870 (10.5)	12,356 (-2.2)	17.1	81,525 (16.7)	21,120 (13.7)	25.9	-9,655	-8,764
1992	76,632 (6.6)	11,599 (-6.1)	15.1	81,775 (0.3)	19,458 (-7.9)	23.7	-5,143	-7,859
1993	82,236 (7.3)	11,564 (-3.0)	14	83,800 (2.5)	20,016 (2.9)	23.8	-1,564	-8,452
1994	96,013 (16.8)	13,523 (16.9)	14	102,348 (22.1)	25,390 (26.8)	24.8	-6,335	-11,867
1995	125,058 (30.3)	17,049 (26.1)	13.6	135,119 (32.0)	32,606 (28.4)	24.1	-10,061	-15,557
1996	129,715 (3.7)	15,767 (-7.5)	12.1	150,339 (11.3)	31,449 (-3.5)	20.9	-20,624	-15,682
1997	136,164 (5.0)	14,771 (-6.3)	10.8	144,616 (-3.8)	27,907 (-11.3)	19.2	-8,452	-13,136
1998	132,313 (-2.8)	12,238 (-17.1)	11.8	93,282 (-35.5)	16,840 (-39.7)	13.2	39,031	-4,602
1999	143,685 (8.6)	15,862 (29.6)	11	119,752 (28.4)	24,142 (43.4)	20.2	23,933	-8,280
2000	172,268 (19.9)	20,466 (29.0)	11.9	160,481 (34.0)	31,828 (31.8)	19.8	11,786	-11,362
2001	150,439 (-12.7)	16,506 (-19.4)	11	141,098 (-12.1)	26,633 (-16.3)	18.9	9,341	-10,127
2002	162,471 (8.0)	15,143 (-8.3)	9.3	152,126 (7.8)	29,856 (12.1)	19.6	10,344	-14,713

*source : KOTIS

PART V. Annexes

< Table 4> Japan's Export and Import with Korea

(Unit: US\$ million, %)

YEAR	Export			Import			Trade Balance	
	Total	Korea	Portion	Total	Korea	Portion	Total	Korea
1990	285,693	17,352	6.1	233,307	11,643	5.0	52,386	5,709
(Rates of increase)	3.7	4.4		10.5	-10.6			
1991	314,149	20,055	6.4	236,578	12,332	5.2	77,571	7,723
(Rates of increase)	10.0	15.6		1.4	5.9			
1992	339,294	17,775	5.2	232,921	11,563	5.0	106,373	6,211
(Rates of increase)	8.0	-11.4		-1.5	-6.2			
1993	360,237	19,031	5.3	240,380	11,625	4.8	119,857	7,406
(Rates of increase)	6.2	7.1		3.2	0.5			
1994	394,598	24,256	6.1	273,841	13,445	4.9	120,756	10,811
(Rates of increase)	9.5	27.5		13.9	15.7			
1995	441,959	31,157	7.0	335,732	17,263	5.1	106,227	13,894
(Rates of increase)	12.0	28.5		22.6	28.4			
1996	412,917	29,469	7.1	350,719	16,019	4.6	62,198	13,450
(Rates of increase)	-6.6	-5.4		4.5	-7.2			
1997	423,038	26,188	6.2	339,992	14,640	4.3	83,046	11,548
(Rates of increase)	2.5	-11.1		-3.1	-8.6			
1998	385,368	15,253	4.0	278,905	12,002	4.3	106,463	3,251
(Rates of increase)	-8.9	-41.8		-18.0	-18.0			
1999	415,735	22,788	5.5	308,368	15,951	5.2	107,367	6,837
(Rates of increase)	7.9	49.4		10.6	32.9			
2000	481,131	30,819	6.4	381,319	20,536	5.4	99,812	10,284
(Rates of increase)	15.7	35.2		23.7	28.7			
2001	404,954	25,398	6.3	350,687	17,266	4.9	54,268	8,132
(Rates of increase)	-15.8	-17.6		-8.0	-15.9			
2002	414,847	28,441	6.9	336,179	15,419	4.6	78,668	13,022
(Rates of increase)	2.4	12.0		-4.1	-10.7			

(Source) Trade Statistics, Ministry of Finance, Japan (These figures are converted according to annual weighted average exchange rate provided by Article 4-7 of Customs Tariff Law.)

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< Table 5 > Korea's Major Export Items to Japan (Top 50)

(unit: US \$ million)

Rank	Commodity Code	Commodity	Value	Proportion to total export
		Total	16,506	
1	<u>2710001050</u>	Naphtha	1,364	8.3
2	<u>2710003000</u>	gas oils	664	4.0
3	<u>8542199011</u>	Dram(dynamic random access memory)	513	3.1
4	<u>8542199090</u>	other monolithic integrated circuits	474	2.9
5	<u>8471602023</u>	lcd(liquid crystal display)monitor	473	2.9
6	<u>8473309000</u>	Other	460	2.8
7	<u>2710002010</u>	Kerosene	419	2.5
8	<u>2710002020</u>	jet fuel	364	2.2
9	<u>8471300000</u>	portable digital automatic data processing machines, weighing not more than 10kg, consisting of at least a central processing unit, a keyboard and a display	251	1.5
10	<u>8525401010</u>	for digital type	185	1.1
11	<u>8542199012</u>	sram (static random access memory)	170	1.0
12	<u>2710001010</u>	motor spirit	165	1.0
13	<u>8517509000</u>	Other	156	0.9
14	<u>8471509000</u>	Other	153	0.9
15	<u>8542199013</u>	flash memory	150	0.9
16	<u>8473304060</u>	dram modules	148	0.9
17	<u>8542199019</u>	Other	146	0.9
18	<u>303491000</u>	big eye tunas(frozen, excluding livers and roes)	140	0.8
19	<u>8480719000</u>	other , injection or compression types	126	0.8
20	<u>8522902000</u>	laser pickup	121	0.7
21	<u>8542191000</u>	chips, dice and wafers not yet cut into chips (other monolithic integrated circuits)	95	0.6
22	<u>2208904000</u>	so ju	87	0.5
23	<u>6109101000</u>	t-shirts, singlets, other vests, knitted or crocheted, of cotton	87	0.5
24	<u>8523132020</u>	magnetic tapes, unrecorded, of a width 12.7mm, for video recording	86	0.5
25	<u>7326909000</u>	other articles of iron or steel	75	0.5
26	<u>7308909000</u>	other, roofs, roofing frame-works, plates, rods, prepared for use in structures	75	0.5
27	<u>7209170000</u>	flat-rolled products in coils, cold-rolled, thickness 0.5-1mm	75	0.5
28	<u>7615192000</u>	table, kitchen articles of aluminum	74	0.4
29	<u>2710004030</u>	bunker c	72	0.4
30	<u>8708700000</u>	road wheels and parts and accessories thereof	71	0.4
31	<u>802402000</u>	chestnuts(<i>castanea</i> spp., shelled, fresh or dried)	68	0.4
32	<u>6106100000</u>	Women's or girl's blouses, shirts, of cotton, knitted or crocheted	66	0.4

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33	<u>2005901000</u>	kim-chi(not frozen)	65	0.4
34	<u>7209160000</u>	flat-rolled products in coils, cold-rolled, thickness 1-3mm	62	0.4
35	<u>303420000</u>	Yellow fin tunas(frozen, excluding livers and roes)thunnus albacares	62	0.4
36	<u>8541219000</u>	Other	61	0.4
37	<u>7208510000</u>	other, flat-rolled products, not in coils, hot-rolled, of a thickness exceeding 10mm	60	0.4
38	<u>8519993090</u>	Other	60	0.4
39	<u>8471491090</u>	other digital processing-units	54	0.3
40	<u>8532240000</u>	fixed capacitors, ceramic dielectric, multilayer	54	0.3
41	<u>7210490000</u>	other flat-rolled products, otherwise plated or coated with zinc	54	0.3
42	<u>6109903010</u>	t-shirts of man-made fibres, knitted or crocheted	53	0.3
43	<u>307101090</u>	other oysters(live, fresh, chilled)	52	0.3
44	<u>8708999000</u>	other parts and accessories of the motor vehicles	50	0.3
45	<u>7208390000</u>	other flat-rolled products in coils, hot-rolled, less than 3mm thickness	49	0.3
46	<u>3923100000</u>	boxes.cases.crates and similar articles, of plastics	49	0.3
47	<u>7208270000</u>	flat-rolled products in coils, hot-rolled, thickness of less than 3mm	48	0.3
48	<u>1604302000</u>	caviar substitutes prepared from fish eggs	48	0.3
49	<u>2902200000</u>	benzene	48	0.3
50	<u>8471702020</u>	hard disk drive	46	0.3

*source : Korea Customs Service

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< Table 6 > Korea's Major Import Items from Japan (Top 50)

(unit: US \$ million)

Rank	Commodity Code	Commodity	Value	Proportion to total Import	Applied Tariff Rate
		Total	26,633		
1	8542199090	other monolithic integrated circuits	999	3.8	0.0%
2	8542191000	chips,dice and wafersnot yet cut into chips (other monolithic integrated circuits)	640	2.4	0.0%
3	8529909910	of transmission apparatus other than apparatus for radio-broadcasting or television, transmission apparatus incorporating reception apparatus, digital still image video cameras, portable receivers for calling, alerting or paging	403	1.5	0.0%
4	8708400000	gear boxes.	392	1.5	8.0%
5	8542139000	other (metal oxide semiconductors)	382	1.4	8.0%
6	7208380000	other flat-rolled products incoils, hot-rolled, thickness 3-4.75mm	367	1.4	2.0%
7	8473309000	other	322	1.2	0.0%
8	7208390000	other flat-rolled products incoils, hot-rolled, less 3mm thickness	309	1.2	2.0%
9	8479899099	other machines(other machines for vehicles of chapter 87, surface mount machines for electronic parts)	302	1.1	8.0%
10	2902430000	p-xylene	274	1.0	5.0%
11	8507802000	lithium ion	269	1.0	8.0%
12	7208510000	other, flat-rolled products, not in coils, hot-rolled, of a thickness exceeding 10mm	258	1.0	4.0%
13	8542199019	other	255	1.0	0.0%
14	8541609000	other mounted piezo-electric crystals	200	0.8	0.0%
15	3818001000	chemical elements doped for use in electronics	193	0.7	0.0%
16	9001200000	sheets and plates of polarising material	180	0.7	8.0%
17	9030820000	for measuring or checking semiconductor wafers or devices	179	0.7	3.6%
18	8522909090	other , other parts and accessories of apparatus of recording or reproducing	175	0.7	8.0%
19	8534002000	of tape type or obtained by forming with circuits which function as lead frames	166	0.6	0.0%
20	9001909000	other optical elements of any material unmounted	153	0.6	8.0%
21	7204490000	other ferrous waste and scrap	152	0.6	1.0%

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22	3824909090	other chemical preparations and residual products of chemical industry(excluding poly chlorinated biphenyls, micro-element fertilisers, chewing gum base)	152	0.6	8.0%
23	8539390000	other discharge lamps, other than ultra-violet lamps	150	0.6	8.0%
24	2710003000	gas oils	146	0.5	5.0%
25	2707300000	xylol (xylenes)	146	0.5	5.0%
26	8536902000	connector, for a voltage not exceeding 1,000v	139	0.5	0.0%
27	9013909000	other , parts(liquid crystal devices, lasers, other optical appliances)	135	0.5	8.0%
28	8479892020	machines for depositing membrane or sputtering metal on wafers	135	0.5	0.0%
29	8531200000	indicator panels incorporating lcd or led	131	0.5	0.0%
30	8537102000	automatic control panels, for a voltage not exceeding 1,000v	127	0.5	8.0%
31	8471602023	lcd(liquid crystal display)monitor	116	0.4	0.0%
32	7219130000	flat-rolled products, in coils, hot-rolled, thickness 3-4.75mm	112	0.4	2.0%
33	9010420000	step and repeat aligners	108	0.4	0.0%
34	8525409000	other (other video camera recorders)	105	0.4	8.0%
35	8541109000	other	102	0.4	0.0%
36	8534009000	other printed circuits	101	0.4	0.0%
37	8540913000	shadow mask	99	0.4	8.0%
38	7501201090	other , nikel oxide sinters and other intermediate products of nickel metallurgy	98	0.4	1.0%
39	8528300000	video projectors	98	0.4	8.0%
40	8542309000	other (monolithic integrated circuits)	97	0.4	0.0%
41	3824907600	liquid crystal preparations	96	0.4	8.0%
42	8479909090	parts of eyeletting machines,coating machines or auto-dooroperators	95	0.4	8.0%
43	2901220000	propene(propylene)	94	0.4	2.0%
44	8532240000	fixed capacitors, ceramic dielectric, multilayer	94	0.4	0.0%
45	9031809099	other	89	0.3	8.0%
46	7402002000	copper anodes for electrolytic refining	88	0.3	2.0%
47	8529909400	parts of radio-broadcast receivers	87	0.3	8.0%
48	2901210000	ethylene	84	0.3	2.0%
49	7225990000	other (not otherwise plated or coated with zinc)	83	0.3	4.0%
50	8542909000	other parts	83	0.3	0.0%

*source : Korea Customs Services

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< Table 7 > Japan's Major Export Items to Korea (Top 50)

HS	Items	Tariff rate Korea, 2002	Export value 2001, thousand yen	Proportion to total export	Proportion to total trade
'847989900'	Other machines and mechanical appliances	8% or 0%	94,002,313	3.19%	1.88%
'854213900'	Other metal oxide semiconductors (cased)	0.0%	58,064,625	1.97%	1.16%
'854213190'	Other metal oxide semiconductors (uncased)	0.0%	51,657,233	1.75%	1.03%
'900120000'	Sheets and plates of polarising material	8.0%	50,676,708	1.72%	1.01%
'852990900'	Other parts (for television, telephone, etc.)	8% or 0%	47,349,909	1.61%	0.95%
'870840000'	Gear boxes	8.0%	46,934,533	1.59%	0.94%
'854213320'	MCU (Microcontroller unit)	0.0%	39,083,191	1.33%	0.78%
'720838100'	Flat-rolled products of iron or non-alloy steel (hot-rolled, in coils, containing by weight less than 0.6% of carbon, width : 3mm 4.75mm)	2.0%	38,139,478	1.29%	0.76%
'382490000'	Other chemical products, preparations and residual products of the chemical or allied industries	8.0%	37,131,601	1.26%	0.74%
'854213230'	ROM (Read only memory)	0.0%	36,561,310	1.24%	0.73%
'290243000'	p-Xylene	5.0%	33,546,359	1.14%	0.67%
'854389000'	Other electrical machines and apparatus	8% or 0%	33,216,045	1.13%	0.66%
'850780200'	Lithium-ion accumulators	8.0%	32,592,188	1.11%	0.65%
'854230900'	Other monolithic integrated circuits (cased)	0.0%	32,576,609	1.10%	0.65%
'720839110'	Flat-rolled products of iron or non-alloy steel (hot-rolled, in coils, containing by weight less than 0.6% of carbon, width : 1.5mm 3mm)	2.0%	32,426,491	1.10%	0.65%
'853400000'	Printed circuits	0.0%	28,244,020	0.96%	0.57%
'847330000'	Parts and accessories of automatic data processing machines	0.0%	27,990,059	0.95%	0.56%
'720851100'	Flat-rolled products of iron or non-alloy steel (hot-rolled, not in coils, containing by weight less than 0.6% of carbon, width : 10mm)	4.0%	24,926,155	0.85%	0.50%
'381800100'	Silicon	0.0%	24,588,070	0.83%	0.49%
'901042000'	Apparatus for the projection or drawing of circuit patterns (Step and repeat aligners)	0.0%	19,647,545	0.67%	0.39%
'853710000'	Boards, panels, etc. for electric control or the distribution of electricity	8.0%	19,474,493	0.66%	0.39%
'854160900'	Other mounted piezo-electric crystals	0.0%	18,802,590	0.64%	0.38%
'271000300'	Gas oils	5.0%	18,216,519	0.62%	0.36%
'370790000'	Other chemical preparations for photographic uses	8% Photo-resist for making semi-conductors : 6.5%	17,310,964	0.59%	0.35%
'900190000'	Other optical elements	8.0%	17,023,504	0.58%	0.34%
'841989000'	Other machinery, plant and equipment for the treatment of materials by a process involving a change of temperature	8.0%	15,723,274	0.53%	0.31%
'903089100'	Caracter measuring testers for integrated circuits or semiconductors	8.0%	14,544,516	0.49%	0.29%
'854091000'	Parts of cathode-ray tubes	8.0%	14,536,183	0.49%	0.29%
'852540000'	Still image video cameras and other video camera recorders	8% Still image video cameras for digital type : 0%	14,415,352	0.49%	0.29%
'853690210'	Connector	0.0%	14,239,767	0.48%	0.28%
'854140910'	Light emitting diodes	0.0%	13,822,505	0.47%	0.28%
'903180190'	Other measuring or checking instruments, appliances and machines	8% For the purpose of semiconductor manufacturing : 0%	13,806,916	0.47%	0.28%

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'721913000'	Flat-rolled products of stainless steel (hot-rolled, in coils, width : 3mm - 4.75mm)	2.0%	13,689,991	0.46%	0.27%
'853224000'	Ceramic dielectric, multilayer	0.0%	13,678,641	0.46%	0.27%
'901049000'	Other apparatus for the projection or drawing of circuit patterns	0.0%	13,484,916	0.46%	0.27%
'854240000'	Hybrid integrated circuits	0.0%	12,558,373	0.43%	0.25%
'854213120'	Micro-computers (uncased)	0.0%	12,258,421	0.42%	0.25%
'720449900'	Other ferrous waste and scrap	1.0%	11,869,460	0.40%	0.24%
'750120000'	Nickel oxide sinters and other intermediate products of nickel metallurgy	2% Containing by weight less than 8% of nickel : 1%	11,412,832	0.39%	0.23%
'854290000'	Parts of electronic integrated circuits and microassemblies	0.0%	10,897,557	0.37%	0.22%
'740200000'	Unrefined copper and copper anodes for electrolytic refining	2.0%	10,395,584	0.35%	0.21%
'852830000'	Video projectors	8.0%	10,027,291	0.34%	0.20%
'854890000'	Other electrical parts of machinery or apparatus	8.0%	9,967,553	0.34%	0.20%
'845691000'	Machine-tools for dry-etching patterns on semiconductor materials	0.0%	9,738,086	0.33%	0.19%
'722550900'	Other flat-rolled products of other alloy steel (cold-rolled)	4.0%	9,614,551	0.33%	0.19%
'290122000'	Propene	2.0%	9,134,863	0.31%	0.18%
'290244000'	Mixed xylene isomers	5.0%	8,888,527	0.30%	0.18%
'741021000'	Refined copper foil (backed)	8.0%	8,554,341	0.29%	0.17%
'701120000'	Glass envelopes, open, and glass parts thereof for cathode-ray tubes	8.0%	8,443,072	0.29%	0.17%
'901380000'	Other liquid crystal devices, optical appliances	8% For electronic calculators : 0%	8,386,510	0.28%	0.17%
-	Total	-	2,948,223,470	100.00%	58.98%

* Source : Trade Statistics, Ministry of Finance, World Tariff Online Database

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< Table 8 > Japan's Major Import Items from Korea (Top 50)

HS	Items	Applied tariff rate	WTO-concession rate	Import value (2001, thousand yen)	Proportion to total import	Proportion to total trade
'271000181'	Petroleum spirits (intended for use in the manufacture of ethylene, benzene, etc.)	12yen/kl 9yen/kl from April 2002	-	169,281,306	8.26%	3.39%
'854213021'	DRAM (Dynamic random access memory)	0.0%	0.0%	78,710,951	3.84%	1.57%
'847330010'	Parts of automatic data processing machines	0.0%	0.0%	62,120,481	3.03%	1.24%
'271000150'	Gas oils	1270yen/kl 1257yen/kl from April 2002	-	61,074,311	2.98%	1.22%
'271000149'	Kerosenes (excluding alkylanes and normal paraffins)	570yen/kl 564yen/kl from April 2002	-	54,995,522	2.68%	1.10%
'847160010'	Incorporating liquid crystal devices (LCD)	0.0%	0.0%	52,755,823	2.57%	1.06%
'854219090'	IC, Other monolithic digital integrated circuits (cased)	0.0%	0.0%	48,136,064	2.35%	0.96%
'854213090'	IC, Other metal oxide semiconductors (cased)	0.0%	0.0%	35,018,747	1.71%	0.70%
'852290000'	Parts and accessories of video recording apparatus, magnetic tape recorders, record-decks, etc.	0.0%	0.0%	31,989,504	1.56%	0.64%
'852540000'	Still image video cameras and other video camera recorders	0.0%	0.0%	31,630,085	1.54%	0.63%
'847130000'	Portable digital automatic data processing machines	0.0%	0.0%	31,526,530	1.54%	0.63%
'854213023'	ROM (Read only memory)	0.0%	0.0%	24,602,278	1.20%	0.49%
'854213031'	MPU (Microprocessor unit)	0.0%	0.0%	22,565,187	1.10%	0.45%
'854213022'	SRAM (Static random access memory)	0.0%	0.0%	18,336,337	0.89%	0.37%
'847150000'	Digital processing units	0.0%	0.0%	17,968,224	0.88%	0.36%
'030349020'	Big-eye tunas (frozen)	3.5%	3.5%	17,908,296	0.87%	0.36%
'848071000'	Moulds for rubber or plastics (injection or compression types)	0.0%	0.0%	17,755,920	0.87%	0.36%
'851750000'	Other apparatus, for carrier-current line systems or for digital line systems	0.0%	0.0%	16,966,852	0.83%	0.34%
'271000163'	Heavy fuel oils for use in agriculture, forestry and fishery	0.0%	-	16,511,744	0.81%	0.33%
'847149000'	Other automatic data processing machines	0.0%	0.0%	15,700,417	0.77%	0.31%
'901380000'	Liquid crystal devices, other optical appliances and instruments	0.0%	0.0%	12,332,350	0.60%	0.25%
'271000137'	Petroleum spirits (fuels for motor vehicles)	1400yen/kl 1386yen/kl from April 2002	-	10,851,158	0.53%	0.22%
'220890129'	Other distilled alcoholic beverages	16.0%	16.0%	10,346,952	0.50%	0.21%
'730890010'	Other structures and parts of structures of iron or steel	0.0%	0.0%	10,313,337	0.50%	0.21%
'854213032'	MCU (Microcontrolloer unit)	0.0%	0.0%	10,251,149	0.50%	0.21%
'852313021'	Magnetic tapes for video recording (width: 6.5mm 12.7mm)	0.0%	0.0%	9,890,588	0.48%	0.20%
'382490490'	Chemical products, preparations and residual products of the chemical or allied industries	2.6%	2.6%	9,760,852	0.48%	0.20%
'271000143'	Kerosenes (fuels for jet engines)	570yen/kl 564yen/kl from April 2002	-	9,695,777	0.47%	0.19%
'030710100'	Oysters (live, fresh, chilled or frozen)	7.0%	7.0%	9,408,552	0.46%	0.19%
'030199290'	Other live fish	3.5%	3.5%	9,335,209	0.46%	0.19%

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'761519000'	Table, Kitchen or other household articles and parts thereof	0.0%	0.0%	9,113,445	0.44%	0.18%
'720917019'	Flat-rolled products of iron or non-alloy steel (width : 0.5mm 1mm, containing by weight less than 0.6% of carbon)	1.2% (0.8% from January 2002)	1.2% (0.8% from January 2002)	9,072,349	0.44%	0.18%
'870870090'	Road wheels and parts and accessories thereof (not for tractors)	0.0%	0.0%	9,066,342	0.44%	0.18%
'271000139'	Other petroleum spirits	1400yen/kl 1386yen/kl from April 2002	-	8,801,206	0.43%	0.18%
'854213011'	IC, Memories (uncased)	0.0%	0.0%	8,665,401	0.42%	0.17%
'854230090'	IC, Other monolithic integrated circuits (cased)	0.0%	0.0%	8,003,277	0.39%	0.16%
'200590299'	Other vegetables and mixtures of vegetables	9.0%	9.0%	7,995,477	0.39%	0.16%
'392690029'	Other articles of plastics and rubber	3.9%	3.9%	7,902,841	0.39%	0.16%
'720916019'	Flat-rolled products of iron or non-alloy steel (width : 1mm 3mm, containing by weight less than 0.6% of carbon)	1.2% (0.8% from January 2002)	1.2% (0.8% from January 2002)	7,824,453	0.38%	0.16%
'847170040'	CD-ROM units	0.0%	0.0%	7,699,468	0.38%	0.15%
'030342000'	Yellowfin tunas (frozen)	3.5%	3.5%	7,549,214	0.37%	0.15%
'720851011'	Flat-rolled products of iron or non-alloy steel (width : 10mm 50mm, containing by weight less than 0.6% of carbon, hot-rolled and not in coils)	1.2% (0.8% from January 2002)	1.2% (0.8% from January 2002)	7,316,562	0.36%	0.15%
'080240000'	Chestnuts (fresh or dried)	9.6%	9.6%	7,312,947	0.36%	0.15%
'852990000'	Parts of communication equipment such as television, telephone (other than aerials)	0.0%	0.0%	7,186,211	0.35%	0.14%
'160420014'	Hard roes of tara (prepared or preserved)	9.0%	9.0%	7,049,219	0.34%	0.14%
'721049000'	Flat-rolled products of iron or non-alloy steel (plated or coated with zinc)	1.2% (0.8% from January 2002)	1.2% (0.8% from January 2002)	6,940,178	0.34%	0.14%
'271000175'	Heavy fuel oils (more than 0.9037 of specific gravity, containing by weight more than 0.3% of sulphur)	3410yen/kl 3202yen/kl from April 2002	-	6,784,052	0.33%	0.14%
'420310200'	Other articles of apparel	10.3% 10% from January 2002	10.3% 10% from January 2002	6,770,563	0.33%	0.14%
'390230010'	Propylene copolymers	2.8%	2.8%	6,770,331	0.33%	0.14%
'732690090'	Other articles of iron or steel	0.0%	0.0%	6,750,708	0.33%	0.14%
-	Total	-	-	2,050,389,637	100.00%	41.02%

* Source : Trade Statistics, Ministry of Finance, Japan

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< Table 9 > Foreign Direct Investment in Korea

(unit : US \$ thousand)

	1999		2000		2001		2002		Total (1962-2002)	
	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount
Int'l Organizations	4	16,695	2	17,592	1	15,625	1	320	117	271,799
Americas	666	4,202,925	999	6,039,613	766	5,584,067	588	4,858,960	6,353	33,259,149
U. S.	554	3,738,999	803	2,922,306	658	3,889,094	488	4,499,552	5,536	26,298,874
Canada	48	347,134	54	519,887	26	1,506,425	32	260,907	262	2,919,312
Others	64	116,792	142	2,597,420	82	188,548	68	98,501	555	4,040,963
Asia	1,081	4,772,783	2,702	4,721,128	2,077	2,343,371	1,421	2,269,195	13,717	24,763,651
Japan	392	1,749,716	614	2,448,222	591	772,184	474	1,403,312	7,225	12,715,137
Singapore	46	414,064	82	304,192	58	189,564	48	146,187	409	2,494,268
Hong Kong	59	460,226	68	123,462	71	167,484	86	234,148	613	1,758,026
Malaysia	76	1,793,858	151	1,408,185	117	784,777	70	209,963	531	6,077,139
China	323	26,586	1,165	76,496	812	70,422	441	249,357	3,101	471,885
Taiwan	41	31,674	73	250,922	32	314,186	29	8,785	269	703,720
Others	144	296,659	549	109,649	396	44,754	273	17,443	1,569	543,476
E U	312	6,250,715	375	4,391,469	306	3,061,939	264	1,662,850	3,138	24,578,982
Germany	61	959,547	112	1,599,400	62	459,410	68	283,664	857	5,205,961
England	54	479,209	44	83,956	51	431,976	36	115,441	519	1,960,596
France	49	750,239	45	607,189	35	425,546	39	110,826	429	3,120,384
Belgium	9	484,777	16	164,679	15	200,833	9	73,019	90	974,870
Netherlands	80	3,321,848	67	1,768,403	64	1,244,808	43	450,516	598	10,359,631
Ireland	14	19,904	18	48,533	16	174,376	10	22,592	125	1,375,311
Others	45	235,191	73	119,309	63	124,990	59	606,792	520	1,582,229
Others	110	298,429	193	46,909	268	286,842	161	309,769	1,179	1,775,989
Total	2,173	15,541,547	4,271	15,216,711	3,418	11,291,844	2,435	9,101,094	24,504	84,649,570

* source : Ministry of Commerce, Industry and Energy

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< Table 10 > Foreign Direct Investment in Japan

(Unit: hundred million yen)

	1999	2000	2001	2002	TOTAL(1999 ~ 2002)
Total	14,513	8,969	7,585	11,585	42,652
Asia	955	1,063	157	15	2,190
P. R. China	4	1	1	2	8
	239	320	200	-29	730
	54	52	46	79	231
	577	613	114	-17	1,287
	73	89	24	156	342
	11	-16	-237	-168	-410
	-1	0	0	-7	-8
	-1	2	14	-2	13
	-0	6	0	1	7
	0	1	1	-0	2
North America	823	63	5,168	3,920	9,974
U.S.A	748	-1,052	4,247	3,213	7,156
	75	1,116	921	708	2,820
Central and South America	1,173	3,107	-1,229	-237	2,814
Mexico	-	-0	-0	2	2
	1	-1	-0	0	0
	-	-	-1,276	-143	-
Oceania	118	383	-53	-21	427
Australia	113	392	16	-1	520
	1	-9	-1	-7	-16
Western Europe	11,419	4,363	3,557	7,915	27,254
Germany	-56	2,082	295	696	3,017
	199	242	-1,482	678	-363
	8,514	2,454	515	2,888	14,371
	2,110	1,822	3,106	2,143	9,181
	6	-29	466	144	587
	23	162	-	-	-
	-	-	217	62	-
	-	-	91	491	-
	547	106	155	1,309	2,117
	-8	-25	302	-426	-157
Spain	12	21	-2	2	33
Eastern Europe, Russia, etc.	10	1	5	2	18
Russia	10	0	5	1	16
Middle East	-6	-6	-19	-21	-52
Saudi Arabia	-3	-3	-13	-11	-30
	0	-	-0	0	0
	-	-	-	-	-
Africa	13	-7	-1	0	5
R. South Africa	-	-	-	-	-
International Organization	-	-	-	-	-
Unallocated	-	-	-	-	-

(Notes) Negative sign shows capital outflow (an increase in assets).

(Source) Balance of Payments, Ministry of Finance, Japan

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< Table 11 > Korea's Foreign Direct Investment

(unit: US \$ thousand, notified cases)

	1999		2000		2001		2002.1-12		Total (81-2002.12)	
	No. of Cases	Amount	No. of Cases	Amount						
U.S.	349	1,809,029	704	1,299,661	513	1,821,552	461	1,374,999	3,586	14,574,491
Canada	13	19,491	35	41,061	30	51,393	22	8,815	193	1,843,180
Brazil	4	115,000	4	5,000	4	41,000	3	14,430	45	591,896
Mexico	10	11,395	15	38,121	2	7,298	10	43,135	93	369,262
Argentine	1	29,000	2	8,640	1	4,310	0	0	48	306,324
ASEAN	125	450,392	197	675,590	217	499,525	265	432,701	2,850	9,227,781
Japan	37	98,588	136	138,623	117	100,854	83	75,415	639	913,403
China	552	480,668	898	921,066	1,116	960,401	1,446	2,901,776	9,024	11,136,106
Singapore	10	78,279	19	215,705	15	28,407	13	41,157	152	856,141
HongKong	28	397,929	56	291,063	46	73,815	58	211,874	568	2,222,960
India	5	216,383	4	11,759	11	33,345	8	43,040	133	1,315,387
Australia	17	53,689	26	123,082	16	10,715	17	54,081	248	2,451,077
EU	32	321,677	49	172,709	52	2,190,450	52	766,813	575	7,025,343
England	4	153,177	15	54,852	8	323,028	10	31,547	120	2,082,288
France	8	17,871	7	8,720	5	31,289	6	50,390	65	473,044
Germany	7	78,748	13	64,122	19	117,716	26	144,226	171	1,132,537
Netherlands	4	10,386	4	23,293	11	1,684,612	1	382,397	53	2,521,028
Belgium	1	33,265	1	5,215	1	25,468	0	9,008	11	112,127
Italy	1	16,194	1	11,839	2	30	2	99,235	31	229,427
Sweden	1	5,000	1	30	0	0	1	1,650	5	21,781
Spain	3	795	0	0	2	2,075	1	18,137	20	152,665
Switzerland	0	2,900	0	0	1	138	1	9,285	10	34,044
Russia	8	3,376	12	10,152	11	20,856	13	46,572	186	352,957
Saudi Arabia	1	800	1	1,418	2	305	2	1,466	42	77,866
Total	1,266	5,001,251	2,258	5,907,026	2,285	6,236,272	2,587	5,317,258	19,873	62,684,100

* source : Korea EXIM Bank

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< Table 12 > Japan's Foreign Direct Investment

(Unit: hundred million yen)

	1999	2000	2001	2002	TOTAL (1999 ~ 2002)
Total	-25,906	-34,008	-46,586	-40,476	-146,976
Asia	-2,234	-2,342	-9,523	-10,246	-24,345
P. R. China	-414	-1,010	-2,626	-3,270	-7,320
	5	112	-440	-571	-894
	-418	-1,166	-793	-543	-2,920
	180	133	-612	-281	-580
	-757	1,630	-1,179	-2,356	-2,662
	144	-639	-1,932	-657	-3,084
	-228	-634	-587	-380	-1,829
	377	1	-697	-327	-646
	-682	-551	-335	-1,371	-2,939
	-301	-188	-185	-187	-861
North America	-7,468	-15,266	-9,328	-10,838	-42,900
U.S.A	-8,081	-15,209	-8,605	-9,513	-41,408
	613	-62	-723	-1,325	-1,497
Central and South America	-6,281	-4,294	-5,259	-5,103	-20,937
Mexico	-1,301	-403	-3	-301	-2,008
	-756	349	-1,075	-929	-2,411
	-	-	-1,813	-4,332	-6,145
Oceania	-57	-313	-813	-1,784	-2,967
Australia	454	-173	-673	-1,431	-1,823
	-72	-103	-188	-36	-399
Western Europe	-9,360	-11,791	-21,767	-12,235	-55,153
Germany	-249	-591	-834	-722	-2,396
	-1,874	-7,329	-15,624	-2,572	-27,399
	-696	-315	-274	-5,024	-6,309
	-7,538	-2,450	-3,738	-1,823	-15,549
	-37	-19	-41	-373	-470
	673	-12	-	-	-
	-	-	-791	-2,209	-
	-	-	175	7	-
	512	111	-155	-195	273
	-12	-895	134	409	-364
Spain	117	-197	89	-109	-100
Eastern Europe, Russia, etc.	-155	-178	-85	-179	-597
Russia	-21	-16	-12	-33	-82
Middle East	-120	45	0	-112	-187
Saudi Arabia	-157	30	-43	-101	-271
	-1	8	47	-33	21
	48	1	1	-1	49
Africa	-237	208	223	-285	-91
R. South Africa	-79	-13	-11	-133	-236
International Organization	-	-	-	-	-
Unallocated	-	-	-	-	-

(Notes) Negative sign shows capital outflow (an increase in assets)

(Source) Balance of Payments, Ministry of Finance, Japan

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< Table 13 > Korea's Total Trade in Services

(unit: US million \$)

	2001	2000	1999	1998
Total Services	-3827.5	-2889.2	-651	1024.1
credit	29055	30533.6	26528.8	25564.6
Debit	32882.5	33422.8	27179.8	24540.5
1. Transportation	2472	2808	1486.3	1221.1
Credit	13180.2	13687.3	11466.1	10204
Debit	10708.2	10879.3	9979.8	8982.9
2. Travel	-1232.9	-297.6	1959.7	3438.2
Credit	6384.1	6834.3	6840.6	6908.2
Debit	7617	7131.9	4880.9	3470.0
3. Other Services	-5066.6	-5399.6	-4097	-3635.2
Credit	9490.7	10012	8222.1	8452.4
Debit	14557.3	15411.6	12319.1	12987.6
3.1. Communication Services	-344.3	-235.2	-276.8	-477.5
Credit	397.5	387.4	400.2	655.6
Debit	741.8	622.6	677	1133.1
3.2. Insurance Services	-313.8	-77.8	162.6	-91.3
Credit	60.1	68.2	48.4	51.5
Debit	373.9	146	-114.2	142.8
3.3. Royalties and License Fees	-2129.4	-2533	-2205.9	-2109.2
Credit	923.5	688.1	455.1	260.1
Debit	3052.9	3221.1	2661	2369.3
3.4. Business Services	-3124.7	-3338.8	-2240.4	-1136.5
Credit	6388.4	7199.8	6034.7	6579.5
Debit	9513.1	10538.6	8275.1	7716
3.5. Gov't Services	498.6	362.8	355.9	307.7
Credit	952.4	787.4	762.8	736.6
Debit	453.8	424.6	406.9	428.9
3.6. Others	347	422.4	107	-128.4
Credit	768.8	881.1	520.9	169.1
Debit	421.8	458.7	413.3	297.5
Total Income	-1198.1	-2421.3	-5159	-5638.3
Credit	6649.6	6375.4	3244.6	2674.9
Debit	7847.7	8796.7	8403.6	8313.2
1. Compensation of Employees	496.8	531.1	484.7	404.1
Credit	566	581.7	527	446.3
Debit	69.2	50.6	42.3	42.2
2. Investment Income	-1694.9	-2952.4	-5643.7	-6042.4
Credit	6038.6	5793.7	2717.6	2228.6
Debit	7778.5	8746.1	8361.3	8271
Current Transfers	-227.3	680.1	1915.8	3352.3
Credit	6686.7	6500.1	6421.3	6736.6
Debit	6914	5820	4595.5	3384.3

* source : Bank of Korea

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< Table 14 > Japan's Total Trade in Services

(Unit:100 million yen)

Year		1996	1997	1998	1999	2000	2001
Total Service	Credit	73,657	83,883	81,647	69,353	74,621	78,342
	Debit	141,447	149,308	146,192	130,859	125,959	131,491
Transportation	Credit	23,496	26,398	27,815	26,050	27,595	29,169
	Debit	36,563	37,602	37,153	34,776	37,834	39,336
Sea Transportation	Credit	15,702	17,539	18,629	17,030	18,115	19,949
	Debit	23,269	24,731	25,816	22,196	22,713	24,805
Air Transportation	Credit	7,769	8,839	9,163	8,998	9,451	9,195
	Debit	13,235	12,779	11,238	12,506	15,034	14,426
Travel	Credit	4,447	5,241	4,906	3,909	3,637	4,018
	Debit	40,329	39,890	37,645	37,196	34,366	32,188
Other Services	Credit	45,713	52,245	48,924	39,394	43,391	45,152
	Debit	64,557	71,814	71,395	58,886	53,758	59,969
Communications Services	Credit	1,499	1,650	1,518	874	885	873
	Debit	2,033	2,077	2,085	1,604	1,239	1,300
Construction Services	Credit	6,450	9,500	10,145	6,555	6,296	5,816
	Debit	5,239	6,601	7,236	4,928	4,313	4,638
Insurance Services	Credit	531	420	79	(84)	186	(126)
	Debit	2,084	2,461	3,114	2,672	2,182	3,227
Financial Services	Credit	3,086	2,237	2,106	2,316	3,087	3,295
	Debit	3,241	3,237	2,794	3,089	2,028	2,001
Computer and Information Services	Credit	1,330	1,713	1,737	1,427	1,691	1,714
	Debit	2,658	4,221	4,619	3,366	3,307	3,204
Royalties and License Fees	Credit	7,257	8,839	9,659	9,310	11,024	12,689
	Debit	10,684	11,634	11,706	11,213	11,863	13,490
Other Business Services	Credit	23,910	26,189	22,324	17,947	19,088	19,721
	Debit	35,901	38,608	36,718	29,605	26,182	28,934
Personal, Cultural, and Recreational Services	Credit	194	284	553	276	125	143
	Debit	1,316	1,316	1,645	1,284	1,375	1,690
Government Services, n.i.e.	Credit	1,456	1,413	803	771	1,008	1,027
	Debit	1,400	1,660	1,478	1,126	1,268	1,485
Total Income	Credit	122,092	135,248	131,425	105,140	104,724	125,145
	Debit	63,959	64,877	59,983	39,399	39,672	41,135
Compensation of Employees	Credit	278	426	435	402	290	259
	Debit	280	413	411	354	294	309
Direct Investment Income	Credit	15,866	19,451	16,231	7,036	8,905	20,447
	Debit	3,913	4,806	3,253	2,692	2,826	5,013
Portfolio Investment Income	Credit	62,039	71,455	69,541	62,444	66,085	76,633

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		Debit	18,448	17,979	16,777	13,080	14,959	14,363
Other Investment Income	Credit	43,913	43,913	45,221	35,259	29,444	27,807	
	Debit	41,318	41,675	39,541	23,266	21,593	21,450	
Current Transfers	Credit	6,547	7,272	7,187	7,045	7,940	7,472	
	Debit	16,323	17,985	18,650	20,914	18,536	17,077	

* Source : Balance of Payments, Ministry of Finance

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< Table 15 > Korea's Trade in Services with Japan

(unit: US million \$)

	2001	2000	1999	1998
Total Services	1934	1807.3	1750.7	1993.9
Credit	6136.2	7299.2	6450.7	6130
Debit	4202.2	5491.9	4700	4136.1
1. Transportation	254.3	102.4	-298.5	-412.2
Credit	1756.9	2231.3	1730.6	1282.3
Debit	1502.6	2128.9	2029.1	1694.5
2. Travel	1666.3	2145.3	2370.2	2446.1
Credit	2940.3	3615.9	3549.7	3418
Debit	1274	1470.6	1179.5	971.9
3. Other Services	13.4	-440.4	-321	-40.4
Credit	1439	1452	1170.4	1429.7
Debit	1425.6	1892.4	1491.4	1469.7
3.1. Communication Services	-46.9	-32.9	-19.7	-25.1
Credit	91.2	82.2	81.4	121.5
Debit	138.1	115.1	101.1	146.6
3.2. Insurance Services	-9.4	-8.4	1.2	-3.2
credit	4.2	3.8	9.4	6.9
debit	13.6	12.2	8.2	10.1
3.3. Royalties and License Fees	-347.3	-552.1	-510.6	-503.7
credit	108.9	2.6	0.3	2.1
debit	456.2	554.7	510.9	505.8
3.4. Business Services	416.4	173.7	230	521.7
credit	1158.5	1307.6	1036.3	1272.1
debit	742.1	1133.9	806.3	750.4
3.5. Gov't Services	-19.6	-36.6	-22.2	-27.7
credit	24.4	16.9	23.2	14.3
debit	44	53.5	45.4	42
3.6. Others	20.2	15.9	0.3	0.8
credit	51.8	38.9	19.8	12.8
debit	31.6	23	19.5	14.8
Total Income	-789.9	-652.6	-1129.4	-1199.9
credit	22.3	420.6	-90.2	-227.8
debit	812.2	1073.2	1039.2	972.1
1. Compensation of Employees	53.8	61.8	91.2	52.7
credit	59.5	65.2	92.5	53.5
debit	5.7	3.4	1.3	0.8
2. Investment Income	-843.7	-714.4	-1220.6	-1252.6
credit	-37.2	355.4	-182.7	-281.3
debit	806.5	1069.8	1037.9	971.3
Current Transfers	732.3	835.3	1057.5	1074.4
credit	1332.5	1373.8	1412.3	1355.5
debit	600.2	538.5	354.8	280.7

* source : Bank of Korea

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< Table 16 > Japan's Trade in Services with Korea

(Unit: 100 million yen)

Year		1998	1999	2000	2001
Total Service	Credit	3,073	3,034	3,661	3,904
	Debit	6,624	6,387	6,860	6,531
Transportation	Credit	1,265	1,593	2,000	2,027
	Debit	1,776	1,769	2,124	2,099
Sea Transportation	Credit	938	1,071	1,286	1,322
	Debit	1,022	914	1,026	1,072
Air Transportation	Credit	327	520	714	705
	Debit	753	854	1,098	1,027
Travel	Credit	494	456	451	508
	Debit	3,631	3,553	3,692	3,347
Other Services	Credit	1,315	985	1,210	1,370
	Debit	1,215	1,063	1,044	1,085
Communications Services	Credit	98	65	55	97
	Debit	95	52	48	57
Construction Services	Credit	45	15	26	26
	Debit	97	81	61	69
Insurance Services	Credit	18	16	34	6
	Debit	32	29	31	31
Financial Services	Credit	22	43	20	20
	Debit	8	19	14	9
Computer and Information Services	Credit	41	20	18	21
	Debit	43	37	36	33
Royalties and License Fees	Credit	373	330	376	351
	Debit	13	7	11	26
Other Business Services	Credit	663	418	520	679
	Debit	891	809	799	805
Personal, Cultural, and Recreational Services	Credit	7	7	9	9
	Debit	13	6	17	24
Government Services, n.i.e.	Credit	48	71	151	160
	Debit	24	23	25	30
Total Income	Credit	1,706	1,265	1,233	1,303
	Debit	561	348	475	350
Compensation of Employees	Credit	6	0	2	3
	Debit	43	40	32	43
Direct Investment Income	Credit	122	118	140	415
	Debit	17	17	12	7
Portfolio Investment Income	Credit	424	400	357	322
	Debit	1	18	31	69
Other Investment Income	Credit	1,156	983	732	564
	Debit	500	274	400	230
Current Transfers	Credit	59	71	75	84
	Debit	807	828	724	735

*Source: Balance of Payments, Ministry of Finance, Japan

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4. Summary Report of the NTM Consultation Meetings

At the meeting of the Japan-Korea FTA Joint Study Group in February 2003, both sides agreed to establish a sub-committee, composed of government officials and private experts under the Study Group, to consult on non-tariff measures (NTMs).

As a result, the two sides held two series of NTM Consultation Meetings on May 27 and September 1, 2003. Specific issues discussed at the two meetings are listed in the appendix of this report.

At the NTM Consultation Meetings, the two sides itemized what each side recognized as NTMs in the other on the basis of information from business sector, and then discussed those itemized issues one by one. The NTM Consultation Meetings also confirmed that the participation of competent authorities is necessary to clarify the rules and regulations related to those issues and to explore ways to solve the NTMs.

Both sides concurred that the NTM consultations have been a productive procedure. The two NTM Consultation Meetings enhanced mutual understanding on NTM issues raised by the two sides through intensive discussions. The two sides shared the view that it is difficult to resolve NTMs in a short period due to NTMs' complicated nature. In this respect, the two sides were in agreement that it is necessary for both sides to make consistent and thorough efforts aiming at in-detail review and examination of each NTMs case.

Both sides were in the same opinion that the works conducted by the NTM Consultation Meetings between the two countries should be continued even after the end of the activities of the Joint Study Group in order to facilitate business activities in respective countries and to promote free and fair bilateral trade.

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Appendix

List of the Requests made by the Two Countries at the NTM Consultation Meetings

< Korean Side >

1. Increase in the import quota for Korea's fisheries products
2. Amendment of the "recycling fee charging system" for home electronic appliances, which currently imposes equal amount of fees regardless of their size
3. Granting of exemptions from overlapping inspections for Digital Versatile Readers (DVRs), which have already been certified by Underwriters Laboratories Inc (UL), Technical Inspection Association (TUV), or ETLSEMKO²³
4. Amendment of the criteria for board members of mobile broadcasting joint ventures to allow foreign shareholders to become board members with voting rights
5. Granting of permission to Korean special-purpose vehicles carrying live fish to drive on Japanese roads
6. Reduction of expensive port fees
7. Amendment of the current requirement for insurance policy to also recognize letter of guarantee issued by a bank in bidding for public works conducted by Japanese local governments
8. Allowing construction companies to bid for public works without forming a joint venture
9. Allowing foreign businesspersons to apply for extension of period of stay

²³ Electrical Testing Laboratories + Svenska Elektriska Materielkontrollanstalten

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through his/her spouse

10. Reducing difficulties concerning acquisition of visas and/or extension of period of stay
11. Disclosure of information on estimated values of the real estates for public auctions held in court
12. Allowing money deposits to courts made in checks issued by any Japanese bank and through on-line transfers for lawsuits (Currently, such deposits can only be made in cash or in checks issued by the Bank of Japan)
13. Clarification of the standards regarding defining premix flour at customs inspections and Improvement of the practice of classifying sugar-added premix flour
14. Written notification to importers of foodstuffs on customs inspection analysis methods, results of the inspections, and expected date for notification of such results
15. No taxation on interests on non-performing loans, even prior to declaration by the Japanese court
16. Clarification of the qualification criteria for liquor retailers
17. Creating a different tariff line for Korean carpets for vehicles exported to Japan with a documented evidence of their final purpose
18. Creating a different tariff line for Korean fabric material for vehicle seats with a documented evidence of its final purpose
19. Allowing foreigners to open bank accounts by identifying themselves with their passports
20. Streamlining the Preferential Handling Procedure (PHP) regarding the inspection of newly imported cars

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21. Limiting the inspection period on imported Korean shellfish for paralyzing toxins to the major outbreak season and establishment of a joint consultation meeting between the relevant authorities of the two countries to exchange information on Korea's efforts to improve sanitation for its shellfish
22. Relaxing quarantine measures against Korean raw oysters and increasing shelf-life for Korean raw oysters in Japanese market
23. Abolition of the obligation for the shipping companies' to hold consultation with the Japan Harbor Transportation Association prior to loading and unloading the cargo
24. Abolition of the limitation in the number of inspections per day for imported fresh vegetables
25. Lifting of the ban on the import of Korean steamed ground leather
26. Allowing a food sample obtained by a buyer in Japan from the manufacturer to be used as a sample for pre-inspection by designated laboratories
27. Amendment of the Japan Hygienic Olefin and Styrene Plastics Association (JHOSPA)'s rules i.e., to ease the criteria for new membership and lower the membership fee
28. Disclosure of the result of IT-related biddings, including the names of successful bidders and the final price, and amending unfair practices in the biddings

< Japanese side >

1. Abolishment of the regulation on prioritized allocation of newly issued stocks to Employee Stock Ownership Association or granting of exemption to foreign companies operating in Korea from such regulation
2. Further efforts by the Korean Labor Commission to resolve labor-

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management disputes

3. Guarantee of the “no-work no-pay” principle
4. Clarification of the employers’ no obligation to buy back employees’ or workers’ unused vacations
5. Greater flexibility in calculation of retirement allowances
6. Strict and swift measures against illegal activities of the labor
7. Improvements of the provision regarding the status of drivers attached to rent cars
8. Shortening of the tax inspection period, allowing enough time for companies under inspection to prepare required documents, and provision of appropriate guidelines to those companies
9. Using the total capital of the head office of the foreign banks as the basis for determining the loan ceilings of their branch offices in Korea
10. Exempting foreign financial institutions operating in Korea from a mandatory contribution to the small and medium business loan guarantee fund
11. Reform of the Korean legal system to allow for greater competition in the Korean legal market
12. Further deregulation of import restrictions on Japanese popular culture
13. Korea’s participation to the “Agreement concerning the Adoption of Uniform Technical Prescriptions for Wheeled Vehicles, Equipment and Parts which can be fitted and/or be used on Wheeled Vehicles and the Condition for Reciprocal Recognition of Approvals Granted on the Basis of These Prescriptions” and adoption of the terms in UN/ECE/WP29