Chapter II

Linking SRTA and ECOTECH—A Consideration Based on Japan-Korea FTA

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Introduction.

The outcome of the APEC 2000 Leaders' meeting held in Brunei Darussalam, according to the press, generally lacked brilliance. This was of little wonder because such a tendency has continued since the late 1990s when the future track of the APEC tariff reduction became more or less fixed.

Nevertheless, APEC is now trying to make itself "matter more" in the region. Although somewhat untimely, APEC is coping with major economic problems facing the region after the Asian economic crisis: strengthening market structures, infrastructure, technology development and human capacity. Amongst the modesty that overwhelmed the declarations and the documents released from the Leaders' meeting in Brunei, attentive observers will discern a change which may touch upon the basic principles of APEC: the Leaders for the first time mentioned regional trade arrangements (RTAs) within the region. Also, in the APEC study community, discussions emerged over linking the three APEC pillars together[1].

Under this perception, in this paper, the author will consider a new role for APEC-ECOTECH, associated with recently manifesting RTAs within the APEC region. Specifically, the author adopts the case of Japan-Korea Free Trade Agreement (JKFTA) discussions. The rest of the paper is organized as follows. The first section overviews the current status of APEC-ECOTECH projects, as well as recent discussions about the changing role of ECOTECH. The second section deals with RTAs. Possible effects of RTAs in APEC, and the effects of JKFTA will be overviewed, along

[1] Three APEC pillars consist of ECOTECH, liberalization of trade and investment, and facilitation of trade and investment.

with major concerns about RTAs on the APEC process as a whole. The section also shows the importance of "preparatory measures" to further advance JKFTA. The third section shows the author's idea of applying the APEC-ECOTECH framework to the "preparatory measures". The section also discusses the impact of the preparatory measures when fully exerted as a catalyst for bringing about a successful regional FTA. The last section concludes.

1. APEC-ECOTECH

The official definition of ECOTECH is "One of the three pillars of APEC activity. ECOTECH covers a variety of capacity-building and information sharing activities conducted by APEC bodies. These are aimed at enhancing members', especially developing members', ability to benefit from the liberalization agenda and reducing disparities within the diverse APEC region."[2] One important principle prevailing in ECOTECH is, like other activities of APEC, "concerted unilateralism"[3]. The following overviews APEC-ECOTECH activities.

1.1 History and Recent Developments

One of the most conspicuous characteristics of APEC is its diversity among members---a forum of both developed and developing economies. So, there has been a need to bridge the gap between developed and developing members. At least partly, APEC owes its success until now to ECOTECH[4].

The 1995 Osaka Action Agenda (OAA) established ECOTECH as one of the three pillars of APEC works, and it listed 13 specific areas[5] where ECOTECH should work. In 1996, in order to materialize the imperative in OAA regarding ECOTECH, Leaders

[2] See glossary in http://www.apec-ecotech.org/help.asp.
[3] Concerted unilateralism of APEC contrasts with rather binding "reciprocity" of FTAA. See Feinberg (2000).
[4] See Osada (2000).
[5] Each area identified in OAA has a corresponding APEC working group, expert group, etc. These groups are collectively called APEC fora. The full list of these groups is: (1) Agricultural Technical Cooperation Experts Group; (2) Economic Committee; (3) Energy Working Group; (4) Finance Working Group; (5) Fisheries Working Group; (6) Human Resources Development Working Group; (7) Industrial Science and Technology Working Group; (8) Marine Resources Working Group; (9) Policy Level Group on Small and Medium Sized Enterprises; (10) Senior Officials' Meeting; (11) Telecommunications Working Group; (12) Tourism Working Group; Trade Promotion Working Group; and (13) Transportation Working Group. (APEC ECOTECH Clearing House Glossary, http://www.apec-ecotech.org/)

adopted the "Manila Declaration on Asia Pacific Cooperation Framework for Strengthening Economic Cooperation and Development." The Declaration identified 6 priority areas where ECOTECH projects should focus. This classification is useful when we need to know the nature of ECOTECH projects. The 6 priority areas are:

(1) developing human capital,
(2) developing stable, safe and efficient capital markets,
(3) strengthening economic infrastructure,
(4) harnessing technologies for the future,
(5) safeguarding the quality of life through environmentally sound growth, and
(6) developing and strengthening the dynamism of small and medium sized enterprises.

In 1998, the SOM (Senior Officials Meetings) sub-committee on Economic and Technical Cooperation (ESC) launched to expedite the completion of more than 200 ongoing projects, which APEC launched without adequate coordination with other fora.

Recent developments in ECOTECH include the launch of the ECOTECH Clearing House Website in 2000, which enables us to search ECOTECH projects. The Clearing House also "facilitates the exchange of information between potential partners in ECOTECH activity, in particular the identification of ECOTECH requirements and the capacity to provide appropriate expertise to meet those needs." [6] Also, several initiatives intend to focus ECOTECH on human capacity development. These initiatives include "Human Capital Building in APEC: Meeting the Needs of the 21st Century," released in 2000 (Brunei Human Capital Building Scheme), and The Kuala Lumpur Action Plan for human resource development promulgated in 1998.

The number of new ECOTECH projects increased after 1998, with a remarkable jump in 1999. This is due to the introduction of the TILF fund into ECOTECH in 1997 and a sharp increase in member economies' voluntary participation in ECOTECH (self-funded projects) in 1999. (See **Table 1**)

[6] Refer to SOM Sub-committee on ECOTECH, "Update of Activities", November 10, 2000 (http://www.apecsec.org.sg/committee/ecotech_upd.html)

Table 1. APEC-ECOTECH Projects by Year and Fund Source

Budget Year	APEC Operational Fund (Solely+Partially)	TILF Fund (Solely+Partially)	Solely Self-Fund	Total
1993	10		8	18
1994	8		8	16
1995	44		11	55
1996	47		12	59
1997	14	26	9	49
1998	47	26	12	85
1999	52	44	111	207
2000	49	30	19	98
2001	9	4	3	16
Total	280	130	193	603

Remarks: Numbers of ECOTECH projects of all the criteria: in process, completed, waiting for approval, and cancelled.

Source: Author's compilation.

Origin of Data: ECOTECH project profiles in APEC Project Database (as of March 10, 2001)

1.2 Current Status

According to the APEC Project Database, as of March 10th, 2001, 314 APEC-ECOTECH projects are underway, with a total budget of 30.5 million US dollars. The average budget size of a project is quite modest, about 97,000 US dollars per project. Out of 603 projects completed or underway, etc, only 18 projects' total budget exceeded 500,000 US dollars. (See Appendix Table) APEC funds, both operational funds and TILF funds, only consist of 43.0% (about 13.1 million US dollars) of the total budget. The rest of the budget comes from sources other than APEC, quite often from the host economy. (See **Table 2**)

Table 2. APEC-ECOTECH Projects Currently In Progress

(as of March 10, 2001)

APEC fora in charge	Number of Projects (number)	APEC operational fund	Self funds	APEC TILF fund	Total	Budget per project
ATC	13	0	0	0	0	0
CTI	61	366	1,082	4,665	6,113	100
EC	10	202	200	490	892	89
ESC	0	0	0	0	0	---------
EWG	18	446	630	811	1,887	105
FIN	9	241	203	0	444	49
FWG	5	218	30	159	407	81
HRD	33	400	1,847	197	2,444	74
IST	68	534	7,566	148	8,248	121
MRC	9	402	2,095	450	2,947	327
SME	11	210	2,509	535	3,254	296
SOM	2	67	16	0	83	41
TEL	32	536	703	577	1,816	57
TID	2	89	0	0	89	44
TP	10	145	83	18	246	25
TPT	29	617	403	533	1,552	54
TWG	2	53	9	0	62	31
Grand Total	314	4,525 (14.8%)	17,882 (57.0%)	8,582 (28.2%)	30,483	97

Remarks: Unit is 1,000 US dollars, unless otherwise indicated. The above list was created compiling the project profiles showing 'In Progress".

Source: Author's compilation.

Data Origin: ECOTECH project profiles in APEC Project Database (as of March 10, 2001).

Table 3 shows the current status of APEC-ECOTECH projects by Priority and Fund Source with a detailed breakdown of the fund by source. In terms of the number of projects, the largest number of projects are now underway in the field of human capital development (83 projects). In terms of budget size, future technology and sustainable development occupy larger portions (about 6.6 million US dollars, respectively). Member economies' voluntary participation in ECOTECH is relatively active in the field of future technology (about 5.6 million US dollars).

Table 3. ECOTECH Projects in Process by Priority and Fund Source

(As of March 10, 2001)

Priority	Breakdown of the Fund by Source	APEC Operational Fund Projects (Solely+Partially)	Self Funded Projects (Solely)	TILF Funded Projects (Solely+Partially)	TOTAL
Developing Human Capital	No. of Projects	24	40	19	83
	APEC operational Fund	1,179	0	26	1,205
	Self Funds	899	864	260	2,024
	TILF Fund	0	0	1,720	1,720
	TOTAL	2,078	864	2,007	4,949
Encouraging the growth of SMEs	No. of Projects	4	14	6	24
	APEC operational Fund	210	0	0	210
	Self Funds	175	1,137	1,469	2,781
	TILF Fund	0	0	924	924
	TOTAL	384	1,137	2,394	3,915
Fostering safe efficient capital markets	No. of Projects	10	1	2	13
	APEC operational Fund	377	0	0	377
	Self Funds	174	0	23	197
	TILF Fund	0	0	105	105
	TOTAL	551	0	128	679
Harnessing technologies for the future	No. of Projects	11	40	3	54
	APEC operational Fund	695	0	0	695
	Self Funds	1,034	4,537	0	5,571
	TILF Fund	0	0	377	377
	TOTAL	1,729	4,537	377	6,643
Promoting environmentally sustainable development	No. of Projects	16	33	4	53
	APEC operational Fund	844	0	0	844
	Self Funds	1,207	1,974	1,551	4,732
	TILF Fund	0	0	1,039	1,039
	TOTAL	2,051	1,974	2,590	6,615
Strengthening economic infrastructure	No. of Projects	3	13	7	23
	APEC operational Fund	148	0	0	148
	Self Funds	373	0	212	585
	TILF Fund	0	0	641	641
	TOTAL	521	0	853	1,374

Not Classified	No. of Projects	25	1	38	64
	APEC operational Fund	1,046	0	0	1,046
	Self Funds	630	0	856	1,487
	TILF Fund	0	0	3,775	3,775
	TOTAL	1,676	0	4,632	6,308
TOTAL	No. of Projects	93	142	79	314
	APEC operational Fund	4,498	0	26	4,525
	Self Funds	4,492	8,512	4,373	17,377
	TILF Fund	0	0	8,582	8,582
	TOTAL	8,990	8,512	12,981	30,483

Remarks, Source, Data Origin: Same as Table 2. Most of the projects under "Not Classified" indicate one or more priorities in the column titled "Related Priority."

1.3 Challenge of APEC-ECOTECH---New Role as a Better Catalyst

As mentioned above, APEC's ECOTECH activities have experienced some improvements since its launch in 1995. In the Asian economic crisis which dampened several member economies in 1997-98, APEC was criticized because it could not cope with the contagion of the crisis in a timely manner. Under this situation, developing members, specifically those who were severely hit by the crisis, started to expect that ECOTECH might assist the recovery of their economy after the crisis. Unfortunately, so far, ECOTECH has not been able to fully respond to or meet developing members' expectations. As pointed out above, the resources available for ECOTECH projects are very limited, even considering the TILF fund and the members' contributions. On the other hand, ECOTECH should encourage a wide and vast scope of cooperation. Nevertheless, efforts continue for ECOTECH projects in order to better serve ~~to~~ the region's prosperity.

Up to now, several proposals or priorities have been submitted to refine the function of ECOTECH. Firstly, we can point out proposals regarding the selection of priority areas where ECOTECH should act intensively in the future. Such areas include providing a safety net for a possible financial crisis in the future~~,~~ and providing members with the opportunity to adapt to the era of knowledge-based economies.[7] Secondly, funding problems can be pointed out. In reality, APEC-ECOTECH projects are trapped with fund shortages at this stage. Therefore, some scholars advocate

[7] See Elek (2000).

strengthening the fund-raising capabilities for ECOTECH activities, through, for example, linking up with ADB or through channeling bilateral cooperation funds into ECOTECH activities[8]. Thirdly, the catalyst function of ECOTECH is now being reevaluated. Though APEC may be able to relax the funds limitation as a result of successfully tying up with other institutions as mentioned above, it will not be plausible that APEC will becomes rich enough to administrate expensive cooperation projects such as building infrastructure by itself.

Lastly, the scope of recipients can be pointed out. ABAC (1997) pointed out that, among several criteria for ECOTECH project selection, "the projects should benefit at least two APEC economies to reflect ECOTECH's primary goal of building an APEC sense of community." The idea of increasing the number of beneficiaries as much as possible through expanding ECOTECH is also clearly shown in one of the four ECOTECH strands advocated by the Foundation of Development Cooperation of Australia: it stated "infrastructural-building, especially where additional capacity can benefit several Asia Pacific economies", is one of the four strands where APEC-ECOTECH should focus for the region's future prosperity[9]. And this is one of the most relevant actions which demonstrates the APEC principle of Open Regionalism.

2. Regional Trade Arrangements in APEC

In its 12-year history of APEC process, APEC delivered the Bogor goal of free trade by 2010 for advanced economies and 2020 for developing economies. In order to accelerate the pace of trade liberalization, members agreed to introduce EVSL (early voluntary sectoral liberalization) in 1997. However, the outcome of EVSL proved to be a total disappointment, as Japan strongly resisted bringing WTO-type binding concepts into the APEC process. At the same time, out of APEC, WTO saw a disagreement between developing and developed members over labor and environment issues. From around this time on, several APEC member economies started to consider using RTAs or other economic arrangements as a second-best choice to multilateral trade liberalization offered under APEC or WTO.

[8] Inspired by discussion in the 2000 Annual Meeting of Japan APEC Study Centers Consortium held in the Institute of Developing Economies, Chiba, Japan in December 2000. Especially, Dr. Medhi Krongkaew strongly advocated the new funding devices.

[9] See Elek (1998).

2.1 Increasing Number of RTAs within APEC region

Table 4 summarizes bilateral economic arrangements in the Asia Pacific region as of December 2000. As listed in the Table, there are so many bilateral arrangements under consideration.

Table 4. Bilateral Economic Arrangements in Asia Pacific

Partners		Type of Agreement	Status
Australia	New Zealand	Closer Economic Relations	Implemented
Singapore	New Zealand	Closer Economic Partnership	Signed
Mexico	South Korea	Investment guarantee pact	Signed
Mexico	Singapore	Free trade	Negotiations ongoing
Chile	South Korea	Free trade	Negotiations ongoing
Chile	New Zealand	Free trade	Negotiations ongoing
Japan	South Korea	Investment agreement	Negotiations ongoing
Japan	Singapore	Free trade	Negotiations ongoing
Singapore	United States	Free trade	Negotiations pending
Australia	Singapore	Free trade	Negotiations pending
Singapore	South Korea	Free trade	Official discussions
Canada	Singapore	Free trade	Official discussions
New Zealand	South Korea	Free trade	Official discussions and study
Japan	South Korea	Free trade	Official discussions and study
Hong Kong	New Zealand	Free trade	Official discussions
India	Singapore	Free trade	Official discussions and study
Canada	Japan	Free trade	Informal discussions and study
Japan	United States	Free trade	Informal discussions

Original Sources: Various media reports
Sources: Asia Pacific Foundation of Canada (2000)

Besides for the bilateral economic arrangements, several implemented or potential arrangements exist involving more economies: these include AFTA, NAFTA, FTAA, AFTA-CER Linkage, AFTA plus 3 (Japan, Korea and China), Northeast Asian FTA (Japan, Korea, China plus alpha), Pacific 5 (or Pac 5, New Zealand, Australia, Singapore, the United States and Chile). As seen in the Table and somewhat larger potential arrangements listed in the text, several economies appear more frequently than

others. They are Singapore, New Zealand, Japan and South Korea. Singapore and New Zealand rely heavily upon external trade, and have extensively advocated trade liberalization in the APEC fora. Their extensive efforts to seek their own RTAs are quite understandable in the sense that securing a liberal trade atmosphere means securing the future of their economies. Although the presence of external trade is rather moderate in Japan and Korea, it is still important in their economies. However, a more important point to note is that those countries listed above were traditionally firm believers of multilateral trade liberalizing frameworks, in favor of multilateral frameworks, such as APEC and WTO. Especially, Japan and Korea until now did not officially join an existing RTAs. However they are now irritated at slow pace of liberalization negotiation of multilateral frameworks, now their intention is to form a fine network of RTAs across the APEC members and eventually let the network cover all of APEC[10].

2.2 Effect of RTAs within APEC

It is widely believed and verified that the introduction of RTAs will bring about favorable trade creation effects to the RTA members. The author's past researches detect such favorable trade creation effects for the existing APEC SRTAs (sub-regional trade arrangements) [11], namely NAFTA, AFTA and ANZCERTA. Recent studies on NAFTA's effects conducted by Kim, Kang, Na and Kim (2000) also supported the Arrangement's positive outcome.

However, possible negative effects, mainly trade diversion effects, are still under dispute. Okuda (1998) once showed that the launch of NAFTA, AFTA, and ANZCERTA did not significantly diminish members' trade with non-members. Asia Pacific Economic Cooperation (APEC), Economic Committee (2000) concluded that the regionalism in APEC is "a Building Block".

On the other hand, there exists persistent skepticism about RTAs. Most agree that non-members will also indirectly benefit from the trade creation effects realized within a RTA. However, those who are cautious about RTAs worry that some sensitive industries, such as agriculture, clothes, or national-flag automobile industry, tend to be 'opted out'[12]. This kind of opt-out argument may be seen in AFTA and advocated by Malaysia, or in Japan's FTA preparatory discussions surrounding agriculture.

[10] See Kobayashi (2000).
[11] See Okuda (1998).
[12] See Asia Pacific Foundation of Canada (2000) and Elek (2000b).

2.3 Japan-Korea FTA---possible effects and obstacles

In October 1998, when the Korean President Kim Daejung visited Japan, he proposed that both countries launch a preparatory study of a Japan-Korea FTA (JKFTA). The Institute of Developing Economies (IDE) - JETRO, Japan and Korea Institute for International Economic Policy (KIEP) were appointed to carry out the joint study. Meanwhile, whenever Japan and Korea had an official diplomatic meeting, the joint statement always included a clause to mandate the two countries to continue and deepen the preparatory joint study. Other economic research bodies in Korea also carried out their own estimation of the possible impact of JKFTA. In September 2000, the two appointed research institutes jointly released the final result of the study. **Table 5** summarizes the possible effects of JKFTA released from IDE, KIEP and KIET (Korea Institute for International Economics and Trade).

Table 5. Possible Effect of Japan-Korea Free Trade Agreement

A. Static Effect---Abolition of Tariff

	KIEP	KIET	IDE
Korea's balance of payment with Japan	-$6.090 bil.	-$3.360 bil.	-34.5%
Korea's balance of payment with world	-$1.543 bil.	-$0.690 bil.	+4.1%
Korea's real GDP	-0.07%	-0.07%	+0.3%
Japan's real GDP	+0.04%	-	0.0%
Korea's welfare level	-0.19%	+0.48%	-
Japan's welfare level	+0.14%	-	0.0%

B. Dynamic Effects---FDI influx and associated TFP improvement

	KIEP	KIET	IDE
Change in Korea's real GDP (%)	2.88, p.a. for 10 years	0.35, cumulative	9.11, cumulative
Change in Japan's real GDP (%)	-	-	10.45, cumulative
Major Assumptions	FTA induces additional $3 billion of FDI → higher productivity growth in heavy industry by 1% p.a. for 10 years	FTA induces additional 1 trillion won (about $0.9 billion) FDI flow	FTA causes productivity improvement in 10 years as follows: Machinery, metal and chemical: 30% Service and other manufacturing: 10% Primary industries: 0%

Sources : Kim Yeong-han (2000), IDE-JETRO and KIEP (2000)

---JKFTA, Favorable Impact is Foreseen----

Looking at JKFTA's static effects, the projected effects on the Korean economy were mixed. Generally, the Korean side was seen skeptically, especially seeing that the bilateral trade balance would even worsen once the FTA comes into effect. However, taking into account the dynamic effect, that is, productivity effects associated with the possible increased influx of direct investment from Japan to Korea, these studies more or less foresee a favorable impact on the economies of both countries. And the estimated dynamic effects far exceed the static effects.

Despite projections that JKFTA would bring about a non-trivial benefit at least in the long run, preparatory processes towards full implementation progress slowly. Supportive signs continued to come from the diplomatic circle, but the level of 'temperature' remains almost the same all the time.

----Obstacles----

Recent studies including Yamazawa (2000), Kim, Yanghee (2000), Kim, Yeong-han (2000), and Lee and Ryu (2000) pointed out several factors that dampened the progress of the study[13]. Yamazawa depicted the following four factors prevailing in Korea: (1) a fear of increased deficits with Japan[14], (2) a fear that free competition may lead Japanese firms to dominate over the Korean economy, (3) distrust against exclusive industrial structure ("Fortress Japan" argument), or against the Japanese system itself and (4) favor for Japan-Korea-China cooperation. Kim, Yanghee was also concerned with the possible deterioration of Korea's balance with Japan. Kim, Yeong-han argued "Fortress Japan". Of the above-mentioned concerns, the concern for increased deficits and the distrust against the concrete industrial structure of Japan may be translated to "impatience against Korea's stagnant export growth to the Japanese market", given Korea's inelastic input dependency on Japan.

Yamazawa and Kim, Yanghee refer to so-called "preparatory measures" to offset possible short-term loss due to tariff cut and to overcome distrust against Japan. These measures include increasing air flights, visa waivers for Korean citizens, and a shock mitigation fund for farmers or SMEs.

[13] Dampening factors also exist in Japan. For example, the Ministry of Agriculture, Forestry and Fishery is very cautious about abolishing tariffs in primary goods.

[14] Korea's concern about its trade imbalance with Japan is not without reason. Okuda (2000) showed that Korea's exports to Japan fall significantly short of the predicted value based on bilateral GDP, distance, etc.

-------Importance of "Preparatory Measures"------

As reviewed above, JKFTA is seen as bringing about long-term benefits to both countries, and this gain is believed to indirectly benefit other trade partners. But in reality, various obstacles are hindering the realization of this potential gain. Preparatory (or trust-building) measures mentioned above are important factors in obtaining the long term gain. Among others, any measures that would improve the bilateral balance should be highly welcomed.

Okuda (2000) pointed out six industries where Korea did not fully enjoy its comparative advantage in the Japanese market. These industries are,

(1) PETROLEUM,PETROLEUM PRODUCTS AND RELATED MATERIAL,
(2) OFFICE MACHINES & AUTOMATIC DATA PROCESSING EQUIPMENT,
(3) ROAD VEHICLES (INCL. AIR CUSHION VEHICLES),
(4) OTHER TRANSPORT EQUIPMENT,
(5) PROFESSIONAL,SCIENTIFIC & CONTROLING INSTRUMENTS, and
(6) PHOTOGRAPHIC APPARATUS,OPTICAL GOODS,WATCHES.

Okuda (2000) estimated that if Korea fully enjoyed its comparative advantage, Korea's exports of these industries could increase by 1.5-2.0 billion US dollars, which is equivalent to 28-38% of Korea's trade deficit with Japan. In order for Korea to enjoys such a gain, additional measures, including investment promotion measures, technology cooperation and harmonization of parts standards are called for. Investment promotion measures are expected to accelerate strategic alliances between both countries' firms, which will eventually lead to enhanced intra-industry trade. This case is especially relevant for petroleum and road vehicle industries where Japanese investment has already penetrated to a certain degree[15]. Over the past several decades, technology cooperation has been loudly called for. Nowadays, this is relevant to IT-related industries such as computers, scientific instruments and optical instruments. Harmonization of parts standards is relevant to computers, automobile and other transport equipment, where parts are more or less standardized and mass-produced.

[15] See Shin and Shin et al. (2000). This book is also worth noting in that it suggests an APEC-typed multilateral supervisory body for Japan-Korea-China Cooperation.

3. Utilizing the APEC-ECOTECH Framework to Further Advance the JKFTA Process

3.1 Linking ECOTECH and JKFTA

The above section stressed the importance of preparatory measures. Specifically, investment promotion, technology cooperation, and harmonization of parts standards, may serve as important breakthroughs for further advancement of JKFTA.

The author then proposes that, in performing such preparatory measures, both countries should utilize the APEC-ECOTECH framework. Applying the ECOTECH framework for propelling RTAs may sound strange because the preparatory measures the author is advocating are broadly trade promotion measures, which used to be regarded exclusively with ECOTECH. But recently, in the APEC circle, the dichotomy of TILF and ECOTECH is disappearing[16]. Rather, in order to pursue the region-wide welfare, ECOTECH should be placed in the core of the APEC process as a whole. Moreover, by making the preparatory measures a part of ECOTECH projects, at least theoretically, such projects can invite other member economies, and they may also benefit from Japan and Korea's efforts given to materializing the FTA. By doing so, they can better testify to APEC's open regionalism principle. Persistent doubt against "Asia-only regionalism" might also be more or less mitigated[17].

However, in order for such preparatory measures to be admitted as ECOTECH projects, several points should be made clear. That is, they must observe GATT / WTO Article 24. The Article requires of the members the liberalization of all the items within 10 years and non-discrimination against non-members.

3.2 Effect of Successful JKFTA on APEC region---An Optimistic Scenario

If the entire JKFTA process were propelled with the help of ECOTECH-JKFTA projects, what effect would the APEC region receive? The whole process may be divided into three major steps as follows.

STEP 1--- Preparatory Measures: With the help of "preparatory measures", Korea would successfully increase exports to Japan. This increase may be assumed to be an independent one, amounting to, according to Okuda (2000), 2 billion US dollars.

STEP 2---Implementation of JKFTA: Japan and Korea would harvest the static and dynamic gain associated with the FTA. As for Korea's dynamic gain, Table 5 shows

[16] See Elek (2000).
[17] See Asia Pacific Foundation of Canada (2000).

various projections. Among these, the author adopts a moderate one. That is, IDE's estimation in IDE-JETRO and KIEP (2000) which foresaw that Korea's GDP would be accelerated by 0.91% per annum, assuming that the full implementation of the FTA would stimulate Japan's investments into Korea and that the increased investments would enhance Korea's TFP (total factor productivity). As for Japan's dynamic gain, according to Table 5, IDE foresaw that Japan would enjoy an additional GDP growth of 1.05 percentage points. However, considering the gap in the economic sizes[18], it is hard to assume that the Japan and Korea benefit similarly from the dynamic gains. Therefore, the author assumes that the dynamic gains due to the full implementation of the FTA, in terms of GDP growth, be 1 and 0.1 percentage points for Korea and Japan, respectively. This difference reflects the gap in the economic sizes of the two countries. As for the static gains, the author assumes that the two countries totally abolish tariff on the trades between them. Using the average tariff rate of the both countries, Japan's import prices from Korea are assumed to fall by 3.4%, and Korea's import prices from Japan by 2.2%[19]. Supposing that JKFTA respects GATT / WTO Article 24, and no negative impact, such as trade diversion effects, to other economies is assumed *ex ante*.

STEP 3---Expansion into AFTA plus 3 (or ASEAN+3): Suppose that JKFTA framework invited other APEC members to form a larger economic cooperation framework like AFTA plus 3 (Japan, Korea and China). Considering the regression analysis performed in the Fukumoto paper of this book, the author assumes that the linkage of AFTA and Northeast Asian economies stimulate the trade between them. The magnitude of the stimulus may be as modest as 6% drift (about 1/10 of estimated trade creation effect for each sub-region.) of the corresponding trade flows.

As a result of incorporating these exogenous impacts into the APEC macroeconomic model developed and maintained by Uemura (see his paper in this book for more details), in STEP 1, Korea enjoys an additional 0.46 percentage points' income growth, whereas Japan's loss in growth is estimated to be a mere 0.04 percentage points. In STEP 2, the both countries are projected to benefit from the full FTA. The projected sizes of the additional gains in terms of GDP growth are 0.89 and 0.10 percentage points for Korea and Japan, respectively[20]. In STEP 3, the case of "AFTA plus 3", the

[18] In 1999, according to IMF, *International Financial Statistics*, GDP size of Korea and Japan were 0.407 and 4.349 trillion US dollars. Japan's GDP size was 10.69 times as large as that of Korea.
[19] According to Uemura's paper in this book, the average tariff rates of Japan and Korea are 2.2%(1997) and 3.4%(1999), respectively.
[20] These results correspond to the Case 2-2 in the Uemura paper of this book.

additional GDP growths of Korea and Japan are estimated to be 0.50 and 0.12 percentage points[21], respectively. The cumulative gains of Korea and Japan, in terms of GDP growth, are estimated to be 1.85 and 0.18 percentage points. In STEP 3, GDP of the APEC region as a whole increases by 0.07 percentage points.

The funds that may be mobilized for APEC-ECOTECH projects is generally modest, as discussed in Section 1. If the fund is used for other purposes, then it would only generate very little impact to the region. However, such minimal funds may be fully utilized under the ECOTECH framework.

4. Summary and Conclusion

Section 1 overviewed the history of APEC's ECOTECH and its current status. The section discussed that the size of ECOTECH projects are generally small, with an average of about 97,000 US dollars per project. Even in the long run, it is not plausible that ECOTECH projects will replace bilateral ODA projects. Therefore, ECOTECH should find its way as a catalyst.

Section 2 overviewed RTAs in APEC. The section considered how and why RTAs recently manifested within the APEC region. Potential RTAs in APEC are expected to bring about favorable effects and do not conflict with important APEC principles such as open regionalism. Still, it is worth noting that persistent doubt exists against RTAs. JKFTA was then reviewed. According to various past studies, it seems to bring about non-trivial welfare to Japan and Korea, when taking into account the dynamic effect associated with increased influx of FDI. However, concern about worsening bilateral trade balances still remains in Korea, therefore "preparatory measures" for trust-building may be necessary to break through the reluctance to fully implement JKFTA.

In Section 3, the author proposed to utilize the APEC ECOTECH framework to carry out the preparatory measures. These measures range, according to the author, from investment promotion to harmonization of parts standards. By adopting theAPEC-ECOTECH framework in the JKFTA process, other members can participate in the process and share the positive outcome. Also, inviting other members may somewhat mitigate the doubt often displayed by non-Asian members. However, full

[21] These results correspond to the Case 3-2 in the Uemura paper of this book. In his estimation, China and ASEAN will see a negative impact due to AFTA plus 3. This is probably because STEP 3 does not assume preparatory measures as in the case of JKFTA and dynamic gains due to increased investment flows.

implementation of the JKFTA will not set the two governments free. They should respect GATT/ WTO Article 24, which requires that all the industries be liberalized in 10 years, and that the new RTAs do not discriminate against non-members. Lastly, the section estimated the catalyst effect of APEC-ECOTECH preparatory measures for JKFTA on the APEC region. At a maximum, the preparatory measures, intrinsically of very little monetary cost, are estimated to boost the region's GDP growth by 0.07%.

In the future, it will become necessary to compile more detailed identification of the areas preparatory measures should affect. Also, the future calls for more fine-tuned estimations of the possible impacts of the preparatory measures, JKFTA, and their impact on the APEC region. All these issues are left as future tasks.

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