The following are the comments on the effects and prospects of Korea’s FTA with the U.S. by professor Kay-yu Wong.

Korea Times: Some experts in Korea predict the FTA negotiation between the two countries will resume next year and talks on forming a bilateral FTA will pick up speed next year. What is your prospect on the Korea-U.S. FTA?

Wong: The current fever in FTAs and BITs is to a large extent due to the success of the European Union and North America Free Trade Area (NAFTA). Another reason for the rising popularity of FTAs is the interest of the U.S. in FTAs.

Currently, the U.S. has free trade agreements with a handful of countries, including Canada, Mexico, Israel, Australia, Jordan, Chile and Singapore. However, the U.S. plans to extend NAFTA to cover most South and Central American countries, and is negotiating with other countries about the possibility of signing new free trade agreements.

South Korea has concluded FTAs with Chile and Singapore, and is negotiating with countries, including Japan, China and ASEAN about the formation of new free trade areas. Korea is eager to have FTA relations with more countries.

Against this background, it is in fact very natural to expect that Korea and the U.S. will begin talks about FTA and BIT agreements between them.

KT: What are the benefits Korea will gain from the Korea-U.S. FTA? In your opinion are there any possible negative consequences for Korea in forming the FTA?

Wong: The Korean economy can benefit a lot from an FTA with the U.S. First, the U.S. is a huge market for many Korean products such as computers, microchips, monitors, TV sets, digital cameras, cellular phones, cars and other types of machines. Removing the U.S. restrictions on the import of these products can significantly increase the profits of a lot of Korean firms.

Second, these Korean firms are in fact competing with firms in some other countries selling similar products in the U.S. market.

For example, Samsung is competing with Sony in terms of cellular phones, computers and monitors, and Hyundai and Kia are competing with Honda, Toyota, Nissan and so on in terms of cars. If Korea can have an FTA with the U.S. while Japan does not, then Samsung, Hyundai and Kia can gain a big competitive edge over their Japanese rivals. So these Korean firms can gain a lot at the expense of these Japanese firms.

Third, the U.S. is a big exporter of agricultural products such as wheat, rice and fruits. Consumers in Korea can gain a lot if Korea removes the trade barriers on these products.

Fourth, BIT between Korea and the U.S. could encourage more investment from the U.S. This will help the external balance of Korea, especially at a time when Korea is experiencing big drops in foreign investment in the last two years.

The Korean government may have concerns about such an FTA with the U.S. because the expected inflow of agricultural products could likely draw strong opposition and resistance from the domestic agricultural sector. How to overcome such resistance could be a big challenge to the government.

KT: Korea began its belated efforts to form FTAs with foreign trade partners. But Korea is still lagging behind in the global FTA race. Some local experts say that Korea will be at a great disadvantage if it falls behind. Do you agree with that opinion?

Wong: I think there are some misconceptions here.

First, there is no formal FTA race internationally. A country’s economic welfare is not measured by the number of FTAs the country has formed with other countries.

Second, in Asia, Korea has more FTAs than countries such as Japan, which has an FTA with Singapore.

As a matter of fact, Asia is a latecomer in terms of FTAs. Asia did get into the FTA business when the ASEAN agreed to transform itself into a free trade area back in 1992. So in the "FTA race," Korea is not doing poorly.

Sometimes, however, a country will care about what its competing countries are doing. When a competing country has formed an FTA with a country that is a common and significant market of the products from both rivalry countries, there are good reasons to form a similar FTA with the market country.

This explains why Japan is eager to form an FTA with Mexico, as it is a good way to remove the disadvantages its automobile firms are facing at a time when American cars are not under any trade restrictions when entering Mexico.

KT: Last year, the World Bank said in a report that it is difficult to jump to a conclusion that signing of the Korea-U.S. BIT will result in an increase in foreign direct investment in Korea. Do you agree with the World Bank’s opinion?

Wong: How a BIT will affect investment flows, if it does involve capital movement, is an empirical question. I have not read that report, but I suppose that the World Bank must have done some empirical studies before coming to that conclusion.

I think it is important for economists and government planners in Korea to examine the work of the World Bank before accepting this conclusion. I have heard that there are some empirical research on this matter.

KT: What’s your prospect for Korea-U.S. economic relations in 2005?

Wong: The two countries have been having good economic relations, and their economies have been getting closer and closer. Despite some minor conflicts on the whole, the relations between the two economies are very healthy, and I do expect that they will get even closer next year.

Wong is an economics professor at the University of Washington and director of the Research Center for International Economics (RCIE). Wong specializes in international trade, Asia studies and economic development and growth. He gave a lecture on "Trade Stability and Intellectual Property Rights Protection" at a seminar organized by the Korea Institute for International Economic Policy (KIEP) on Dec. 22.