

# Korea's FTA Policy, KORUS FTA and East Asian Economic Integration

---

Taeho Bark, Ph.D

Minister for Trade, Republic of Korea

May 16, 2012

*Prepared for Peterson Institute for International Economics*

# Contents

---

I. Korea's Trade Performance

II. Korea's FTA Policy

III. Korea-US FTA

IV. East Asian Economic Integration

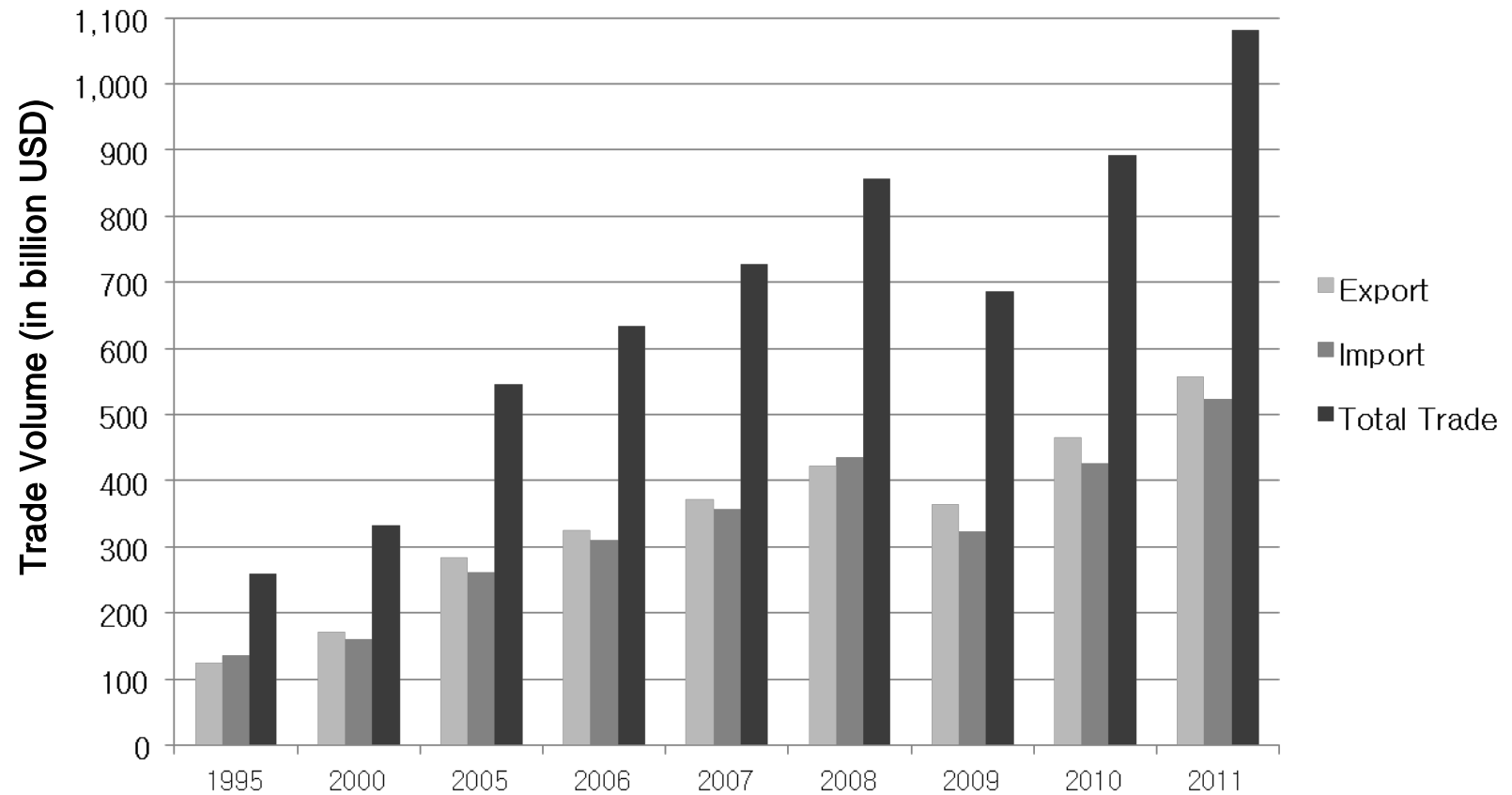
# I. Korea's Trade Performance

---

1. Recent Trade Performance
2. Trade Patterns with Major Trading Partners

# I. Korea's Trade Performance

---



# I-1. Recent Trade Performance

---

- n In 2011, total trade volume reached over 1 trillion USD
  - o Export : 556.5 billion USD
  - o Import : 524.4 billion USD
  
- n Trade surplus : 32.1 billion USD

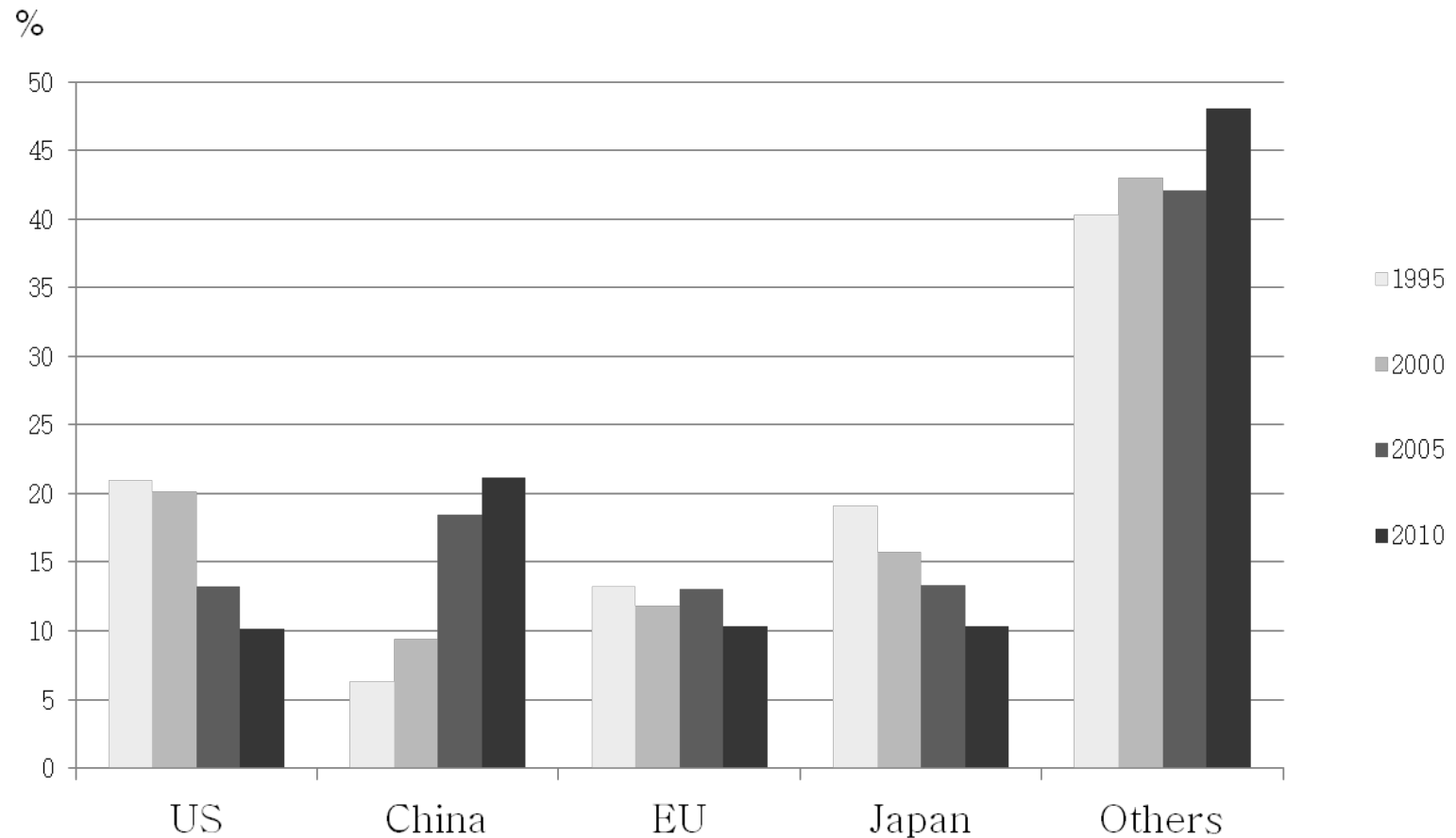
# I-1. Recent Trade Performance

---

- n 7th largest exporting country
  - o Export grew more than 55 times in 34 years (10 billion USD in 1977)
  - o 3% of the global export market share
  
- n 9th country with trade volume over 1 trillion USD
  - o Countries trading more than 1 trillion USD: US, China, Japan, Germany, France, UK, Italy, the Netherlands

## I-2. Trade Patterns with Major Trading Partners

---



## I-2. Korea-US Trade

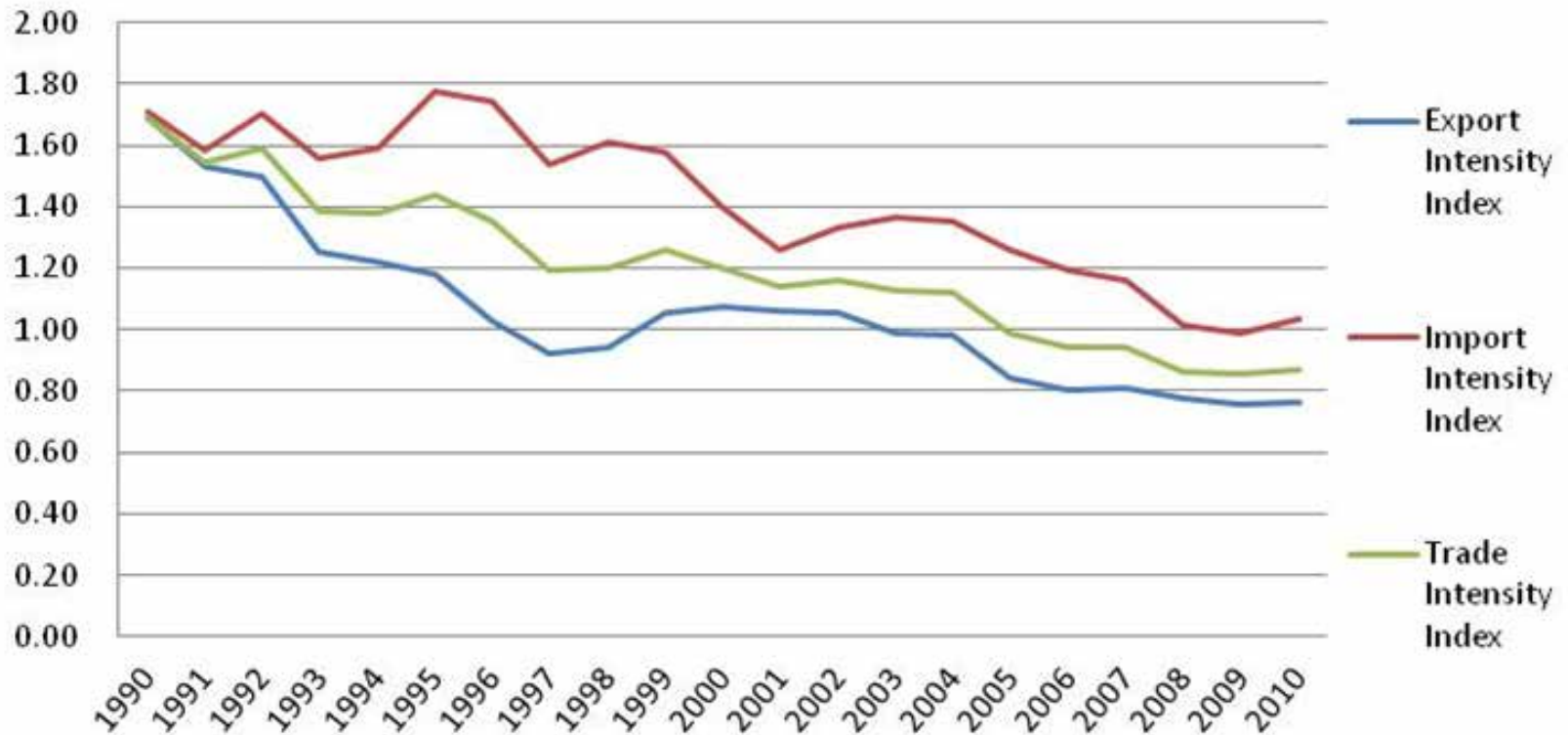
---

- n Korea-US trade reached **100.8 billion USD** in 2011, with Korea at 11.6 billion USD in surplus
- n Korea's Trade Intensity Index (TII) relating to exports to the US dropped to **below 0.8**



## I-2. Korea-US Trade

Trade Intensity Index : Korea - US



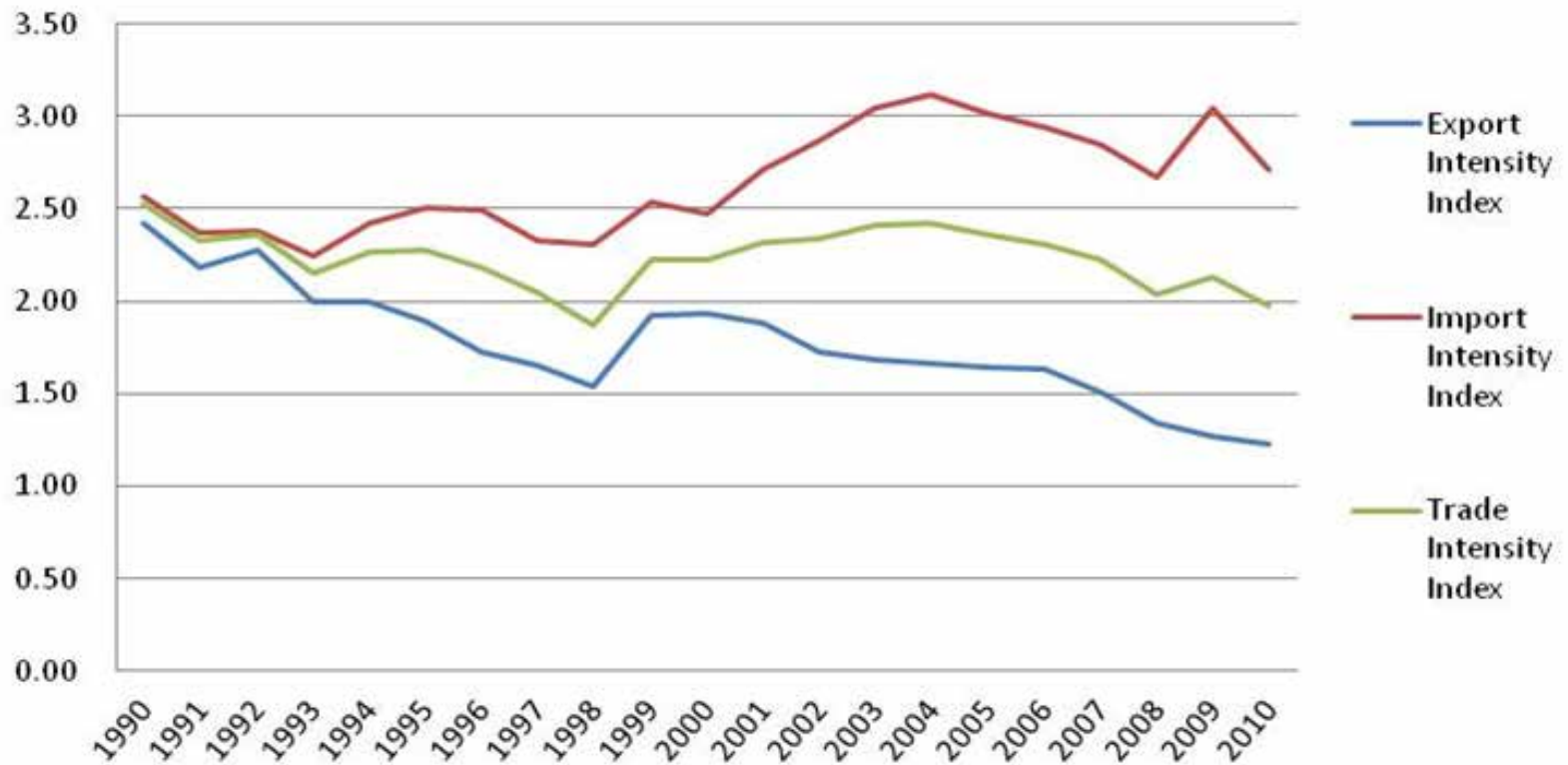
## I-2. Korea-Japan Trade

---

- n In 2011, Korea-Japan trade volume reached a record high at 108 billion USD with Korea at 28.6 billion USD in deficit
- n Main causes for the trade deficit is Korea's high dependence on parts, materials, and intermediate goods from Japan

## I-2. Korea-Japan Trade

Trade Intensity Index : Korea - Japan

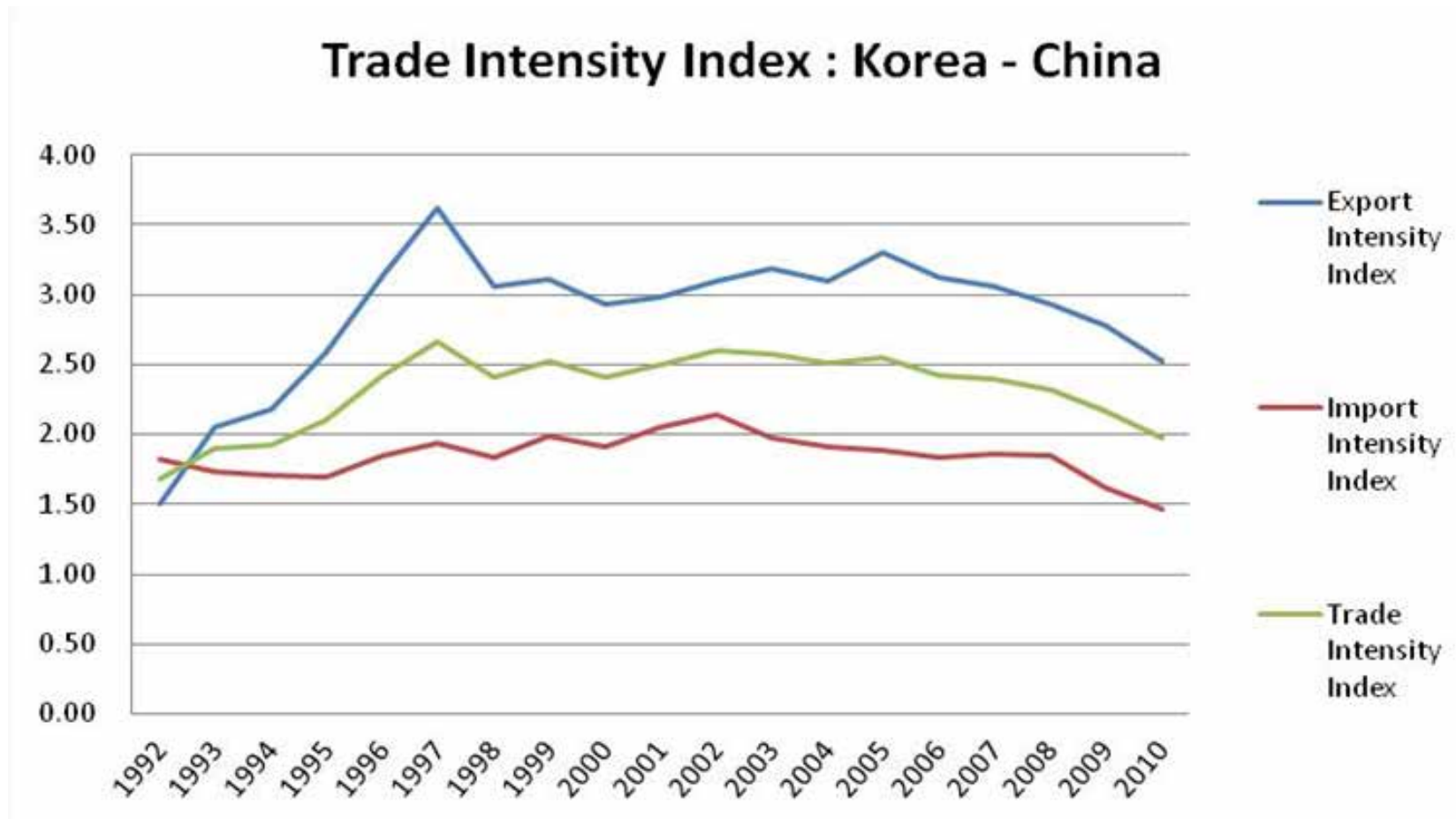


## I-2. Korea-China Trade

---

- n Korea-China trade increased from 6.3 billion USD in 1992 to 220.6 billion USD in 2011, which is a 35-fold increase
- n Reflecting the close Korea-China trade relations
  - o geographical proximity and complementary industries
- n In 2011, Korea's trade surplus reached 47.8 billion USD

## I-2. Korea-China Trade



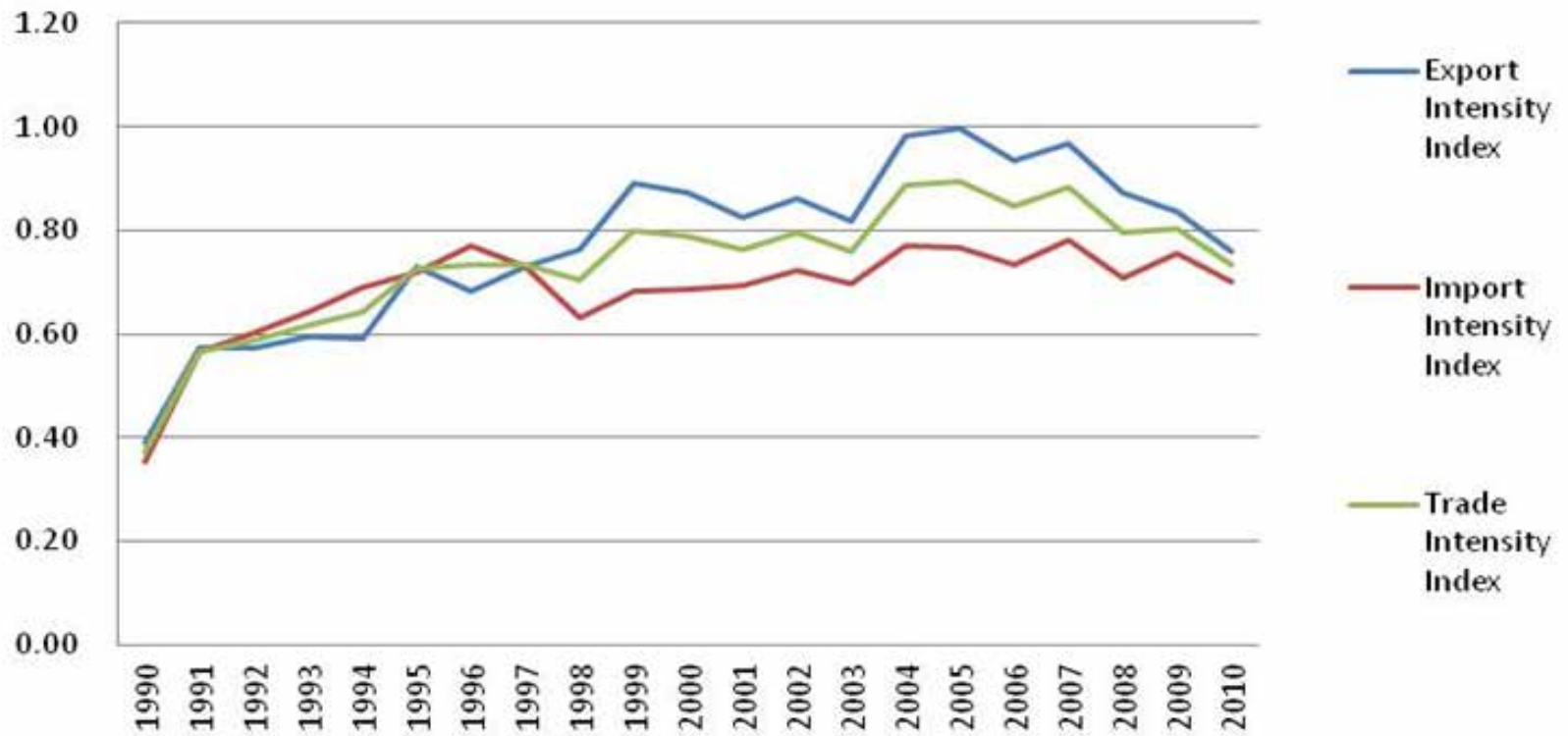
## I-2. Korea-EU Trade

---

- n In 2011, Korea-EU trade reached a record level of 103.1 billion USD with Korea at 8.3 billion USD in surplus
- n Recent TII relating to exports and imports was close to 1 in the mid-2000's but since then dropped to levels lower than 1

## I-2. Korea-EU Trade

Trade Intensity Index : Korea - EU



## I-2. Trade with other regions

---

- n Korea's trade volume with ASEAN reached 125 billion USD in 2011 with Korea at 18.8 billion USD in surplus
- n However, trade volume with India, the Middle East, African and Latin American countries and Russia is still relatively small



## I-2. Implications (1/2)

---

1. To improve Korea's trade performance in the advanced markets such as the US and EU, and to maintain competitive edge, Korea needed FTAs with the US and EU
2. To benefit from China's policy of reducing reliance on processing trade and increasing domestic demand, Korea may need an FTA with China

## I-2. Implications (2/2)

---

3. To increase export to Japan and to stabilize parts procurement chain, Korea needs to consider restarting the FTA negotiations with Japan
4. There is a tremendous potential for Korea's trade expansion with India, the Middle East, African and Latin American countries and Russia

## II. Korea's FTA Policy

---

1. Objectives for FTAs
2. Evolution of Korea's Trade Policy
3. Current State of Korea's FTA

## II-1. Objectives for FTAs

---

- n Generally recognized objectives for pursuing FTAs :
  - p Penetrating into foreign markets
  - p Attracting foreign investments and technology
  - p Coping with the multiplying FTAs among other countries and regions (Domino Effect)
  - p Weakening of the multilateral trading system of the WTO
  - p Establishing international production network
  - p Regulatory reforms through opening of domestic market
  - o Competition for regional hegemony
  - o Enhancing negotiating power

## II-2. Evolution of Korea's Trade Policy (1/2)

---

- n Up until the early 1990s, Korea relied on the multilateral trading system of the GATT
- n Korea's interest in FTA began with the conclusion of NAFTA in 1993, and the global spread of RTAs, in spite of establishment of the WTO
- n Korea drew its first FTA roadmap in 2003 (revised in 2004)

## II-2. Evolution of Korea's Trade Policy (2/2)

---

- n Pursuing FTAs with a priority on large advanced markets, emerging large economies and countries with rich natural resources
  
- n Expanding its trade with FTA partner countries
  - o Currently, trade volume with FTA partners accounts for approximately 35% of Korea's total trade (including KORUS FTA)

## II-3. Current State of Korea's FTA

---

### n FTAs in effect:

- Chile (2004), Singapore (2006), EFTA (2006), ASEAN (2009), India (2010), EU (2011. 7.1), Peru (2011. 8.1), US (2012.3.15)

### n Countries Korea is negotiating FTAs with:

- Canada, Australia, New Zealand, Colombia, Turkey, China (2012.5)

### n Countries Korea may start negotiating FTAs with:

- Japan (negotiations in suspension since 2004), Korea-China-Japan (trilateral FTA), Indonesia, Vietnam

# III. Korea-US ('KORUS') FTA

---

1. Negotiation History
2. Korea's Motivation for KORUS FTA
3. Major elements of February 2011 additional negotiations
4. Values of KORUS FTA to Korea
5. Korea's FTA Network



## III-1. History of KORUS FTA

---

- n February 2006, Announcement of official negotiations
- n June 2007, Treaty text officially signed
- n February 2011, Additional negotiations were completed
- n October 2011, Domestic procedures were completed in the US
- n November 2011, Domestic procedures were completed in Korea
- n March 15 2012, KORUS FTA enter into force

## III-2. Korea's Motivations for KORUS FTA

---

- n Secure the largest and most advanced market in the world
- n Diversify Korea's trade relations into areas outside the Northeast Asia
- n Introduce more competition in the domestic market
- n Reform domestic regulations and institution
- n Enhance the competitiveness of Korea's services sectors
- n Induce more foreign direct investment

## III-3. Major elements of Additional negotiations

---

- n Major results from the additional negotiations taken place in November – December 2010
  - o US postpones its tariff elimination on passenger cars (US tariff rate on cars is currently 2.5%) by 4 years
  - o Korea immediately reduces its tariff rate on passenger cars from the current rate of 8% to 4% and will completely eliminate the remaining 4% after 4 years
  - o Korea postpones its pork market opening by 2 years
  - o The length of L-visa for Koreans working at Korean companies in the US will be extended up to 5 years

## III-4. Values of KORUS FTA (1/2)

---

- n Among FTAs Korea has completed, KORUS is **the most comprehensive** in terms of coverage, **the most ambitious** in terms of scope and speed of liberalization
- n Revitalize Korea's trade relations with the US, the largest market in the world (14.5 trillion USD, 23% of global GDP)
  - o 5.7% Increase in GDP, 350 thousand new jobs expected in next 10 years
  - o Promoting diversification of export products through increased participation of SMEs

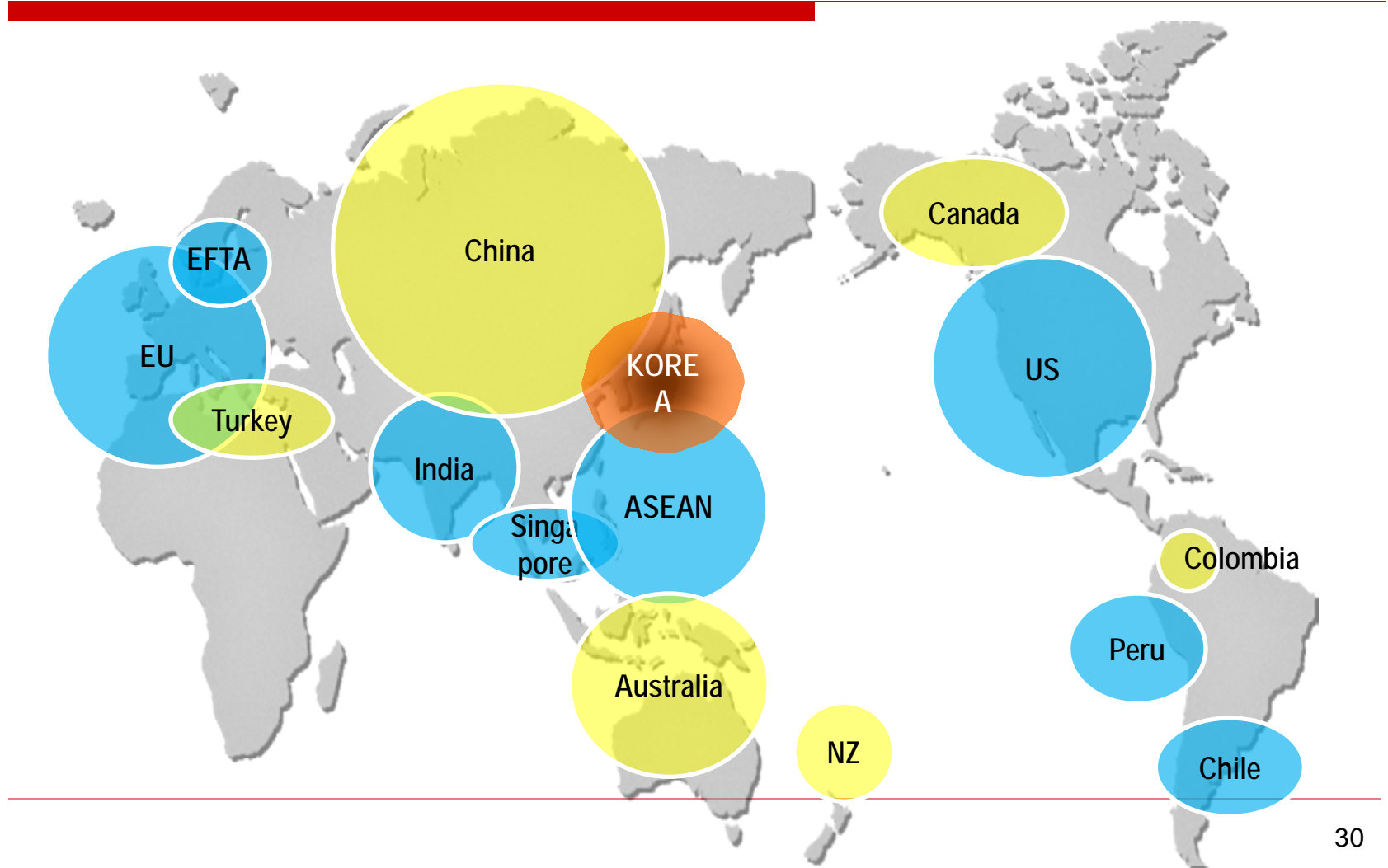
## III-4. Values of KORUS FTA (2/2)

---

- n Contribute toward job creation and development of services industries
- n Induce other countries to have interests in having FTAs with Korea (EU, China, and Japan)
- n Gives Korea the advantage of being at a discretionary position regarding the on-going TPP negotiations

# III-5. Korea's FTA Network (1/2)

● In effect    ● In negotiations



## III-5. Korea's FTA Network (2/2)

---

- n Korea provides numerous market access opportunities to its FTA partner economies (60% of global GDP)
- n Foreign Direct Investments will flow into Korea to utilize Korea's FTA networks

# IV. East Asian Economic Integration

---

1. Recent Developments in East Asia
2. Prospects of East Asian Economic Integration and TPP
3. Korea's Role in East Asian Economic Integration



## IV-1. Recent Developments in East Asia (1/2)

---

- n On May 2, Korea announced the start of FTA negotiations with China
- n At the Trilateral Summit held in Beijing on May 13, the leaders agreed to launch Trilateral FTA negotiations within this year
- n There is also a possibility that FTA negotiations with Japan may resume

## IV-1. Recent Developments in East Asia (2/2)

---

- n If Korea-China-Japan Trilateral FTA is formed, it can form the core of East Asian economic integration, as all three countries already have a separate FTA with ASEAN
  - è forming the 'ASEAN+3 FTA' : EAFTA
- n Recently, ASEAN proposed to launch the 'Regional Comprehensive Economic Partnership (RCEP)' agreement which includes ASEAN+3, India, Australia and New Zealand
  - è forming the 'ASEAN+6 FTA' : CEPEA

## IV-2. Prospects of East Asian Economic Integration and TPP

---

- n These various types of economic integration of East Asia are expected to progress in parallel with the Trans-Pacific Partnership (TPP) negotiations
- n Between the “East Asian pact” and the “Trans-pacific pact”, which one make faster progress, depends on the political commitment of participating countries
- n Possibility of an overarching ‘Free Trade Area of the Asia-Pacific’ may be on the longer-term horizon

## IV-3. Korea's Role in East Asian Economic Integration

---

- n In this process, Korea is committed to achieve a high-standard RTA, as recommended by WTO
- n KORUS FTA can be the linchpin of East Asian economic integration
  - o For the time being, Korea may be the only country to have concluded FTAs with both the US and China
- n KORUS FTA will be an important building block in the longer-term Asia-Pacific trade order