

An Assessment of the Korea-China Free Trade Agreement

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Timeline of Korea-China FTA

- Long gestation period:
 - 8 year joint-feasibility studies by government and academia before FTA negotiations launched in May 2012.
 - Negotiations concluded on November 10, 2014, but not signed until June 1, 2015.
 - Korean National Assembly ratified the FTA on November 30, and the deal will enter into force on December 20, 2015.
- Complements existing Bilateral Investment Treaty and Trilateral CJK Investment Pact.
- FTA is important for bilateral relations and will influence course of intra-Asian and Asia-Pacific economic integration going forward.

Korea-China Trade and Investment

Year	Two-way trade in goods (US\$ billions)	Share of total Korea trade (%)	Two-way trade in services (US\$ billions)	Share of total Korean trade (%)	Korean FDI in China (US\$ billions)	Share of Korean outward FDI (%)	Inward FDI from China (US\$ billions)	Share of Korean inward FDI (%)
2000	31	9	5	7	n.a	n.a	n.a	n.a
2001	31	11	5	7	n.a	n.a	n.a	n.a
2002	41	13	6	9	7	9	3	1
2003	57	15	8	10	10	10	3	1
2004	79	17	11	11	15	11	4	1
2005	101	18	13	12	20	12	7	1
2006	118	19	16	12	26	11	11	2
2007	145	20	19	12	58	17	14	2
2008	168	20	25	13	46	14	6	1
2009	141	21	20	13	56	16	10	1
2010	188	21	26	14	64	16	18	2
2011	221	20	27	14	74	16	23	3
2012	215	20	28	13	80	15	29	3
2013	229	21	32	15	109	18	36	4
2014	235	21	36	16	132	18	44	4

Source: World Bank WITS database and Bank of Korea Economic Statistical System

Why FTA with China is important for Korea

- While Korea-China goods trade sharply increased from \$31 billion in 2000 to \$235 billion in 2014, the growth has slowed in recent years; China's share of Korea's global trade has hovered around 21% since 2007.
- Korea's service trade with China also rose from \$5 billion in 2000 to \$36 billion in 2014. But many non-tariff barriers remain. OECD STRI is higher for China (36.6) than Korea (23.1).
- Though China has become the second largest recipient of Korea's FDI abroad, Korean investments still affected by performance requirements and exceptions to national treatment.
- Enhances economic cooperation regarding trade and investment in Outward Processing Zones (OPZs).

Tariff Schedule of Korea-China FTA

Tariff schedule	Korea				China			
	Number of tariff lines	% of number of tariff lines	Imports by value (US\$ billion)	% of imports by value, 2012	Number of tariff lines	% of number of tariff lines	Imports by value (US\$ billion)	% of imports by value, 2012
Normal track								
Immediate	6,108	50	42	52	1,649	20	73	44
5 years	1,433	12	3	4	1,679	21	6	4
10 years	2,149	18	17	21	2,518	31	31	19
Subtotal	9,690	79	62	77	5,846	71	110	66
Sensitive list								
15 years	1,106	9	8	10	1,108	14	22	13
20 years	476	4	3	4	474	6	9	6
Subtotal	1,582	13	11	14	1,582	20	31	19
Highly sensitive list								
Partial reduction	87	1	2	3	129	2	10	6
Tariff-rate quotas	21	0	1	1				
Exclusions	852	7	4	5	637	8	15	9
Subtotal	960	8	7	9	766	9	25	15
Total	12,232	100	81	100	8,194	100	167	100

Source: Ministry of Trade, Industry and Energy (2014).

Slower and more limited tariff reforms compared to KORUS and KOREU

	% of number of tariff lines			% of imports by value		
	Immediate	≤ 10 yrs	≤ 20 yrs	Immediate	≤ 10 yrs	≤ 20 yrs
Korea-China FTA						
Korea	50	79	92	52	77	91
China	20	71	91	44	66	85
KORUS FTA						
Korea	80	98.3	99.7	77.6	97.4	99.1
US	82.1	99.2	100	69.2	100	100
KOREU FTA						
Korea	81.7	98.1	99.6	66.7	99.5	100
EU	94	99.6	99.6	76.6	100	100

Source: Ministry of Trade, Industry and Energy (2012a, 2012b and 2014).

Sectoral outcome of Korea-China FTA

- Agriculture accounts for 581 of 960 products excluded by Korea or subject to partial reform; China lists 102 farm products out of 766 exceptions.
- Major manufacturing products (autos and electronics) are excluded from tariff liberalization or have a long tariff phase-out.
- New Information Technology Agreement (ITA-2) covers some Korean exports excluded from the FTA (eg. television cameras, and receivers for televisions), but excludes key items like OLED panels for TVs.

Kaesong Industrial Complex

- Unlike KORUS, 310 products made in OPZs such as Kaesong Industrial Complex (KIC) will qualify for preferential treatment.
- Liberal origin rules for goods produced in OPZs.
- Short term: South Korean manufacturers in the KIC can expand their market to China.
- Medium term: FDI from China will reduce the business risks associated with the KIC.
- Long term: Deeper economic integration with North Korea can pave the road toward reconciliation between the two Koreas.

Sectoral outcome of Korea-China FTA

- The Korea-China investment and service negotiations on market access are scheduled to commence with a “negative list” approach two years after the agreement enters into effect.
- The investment chapter includes standard features such as national and MFN treatment and ISDS, but similar to the CJK trilateral investment pact, the “pre-establishment” phase of investment is not covered under national treatment.
- For services, the FTA includes limited liberalization for telecommunication, financial, and entertainment services. Liberalization could expand with the follow up negotiations and China’s potential participation in the plurilateral TiSA.
- Regarding mode 4 services, intra-corporate transferees working in each country can stay up to 3 years, but this is less than the terms provided by KORUS FTA.

Sectoral outcome of Korea-China FTA

- Intellectual property rights in China remains a concern for Korean protection of audiovisual, entertainment and media products in particular.
- Korea-China FTA primarily upholds TRIPS agreement: extends copyright protections, protects against circumvention of technological measures, and calls for remedies for IP infringements, though less extensive than KORUS.
- Chapter on environment improves on past Chinese practice, but does not have enforcement provision.
- No labor chapter. Recent Korean FTAs included labor obligations.

Implications for Asia Pacific Economic Integration

- The limited outcome in the Korea-China talks has two clear implications for economic integration among the northeast Asia countries.
- First, prospects for the ongoing China-Japan-Korea talks will be limited and unlikely to exceed the Korea-China outcome. Means lower ambition for RCEP as well.
- Second, lower expectations for CJK trade pact means that Korea and Japan need to strengthen their bilateral trade ties beyond CJK and RCEP.
- The best way for them to do so is by negotiating a deal in the context of the broader regional TPP. Korea should ask to join TPP as soon as the pact enters into force.

Conclusion

- By completing FTAs with United States, EU, and now China, Korea reinforces its global FTA network. But the FTAs are not fully comparable.
- The level of trade liberalization and scope of new rulemaking in the Korea-China FTA is lower than KORUS and KOREU FTA. Back-end loaded reforms and key exceptions dilute pact's stimulative effect.
- Korea-China FTA could be upgraded after follow-up negotiations on services and investment later this decade.
- Sets low bar for ongoing intra Asian initiatives like RCEP and CJK pact.
- Increases importance of TPP participation, especially for Korea-Japan relations.