Peterson Institute for International Economics

Policy Brief

NUMBER PB15-24 DECEMBER 2015

An Assessment of the Korea-China Free Trade Agreement

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The free trade agreement (FTA) signed by Korea and China in 2015 governs almost $300 billion in trade in goods and services. Of all the FTAs concluded by Korea with its major trading partners since the turn of the century, the Korea-China FTA may be the largest in trade terms. It is, however, far from the best in terms of the depth of liberalization and the scope of obligations on trade and investment policies. Korea and China agreed to liberalize a large share of bilateral trade within 20 years, but both sides incorporated extensive exceptions to basic tariff reforms and deferred important market access negotiations on services and investment for several years.

Simply put, the Korea-China FTA disappointed both business leaders and trade experts, who had expected the deal to both bolster commercial ties and set a new standard for Chinese trade liberalization. But political interests trumped economic objectives, and the negotiated outcome cut too many corners to achieve such a comprehensive result. If Korea wants to achieve substantial gains from trade, it should ask to join the Trans-Pacific Partnership (TPP), while continuing to work with China on other regional trade initiatives.

To be sure, the Korea-China FTA could be upgraded as a result of the investment and services negotiations to commence later this decade. Those talks could be influenced by what happens in the current negotiations on a US-China bilateral investment treaty (BIT). China is expected to narrow the list of sectors it plans to exclude from liberalization, commit to protections for pre-establishment phases of investment, and expand restrictions on technology transfer and other policies beyond past practice—all absent from the Korea-China FTA. That said, although the US-China talks gained momentum over the past few years, the probability that the talks could conclude in the near term is low.

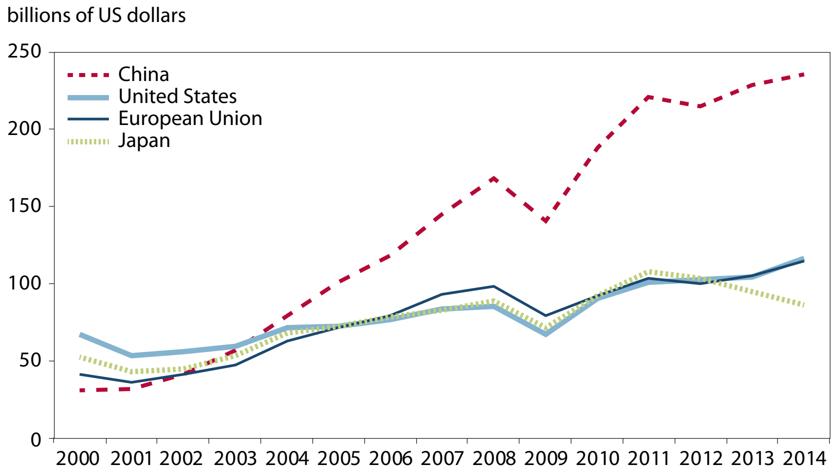
Of all the FTAs concluded by Korea, the Korea-China FTA may be the largest in trade terms. It is, however, far from the best in terms of the depth of liberalization and the scope of obligations.

The limited outcome in the Korea-China talks has two clear implications for economic integration among the northeast Asian countries. First, prospects for the ongoing China-Japan-Korea talks will be limited and unlikely to exceed the Korea-China outcome. Second, Korea and Japan need to strengthen their bilateral leg of the northeast Asian trilateral. The best way for them to do so is by negotiating a deal in the context of the broader regional TPP.

BACKGROUND: KOREA-CHINA TRADE AND INVESTMENT

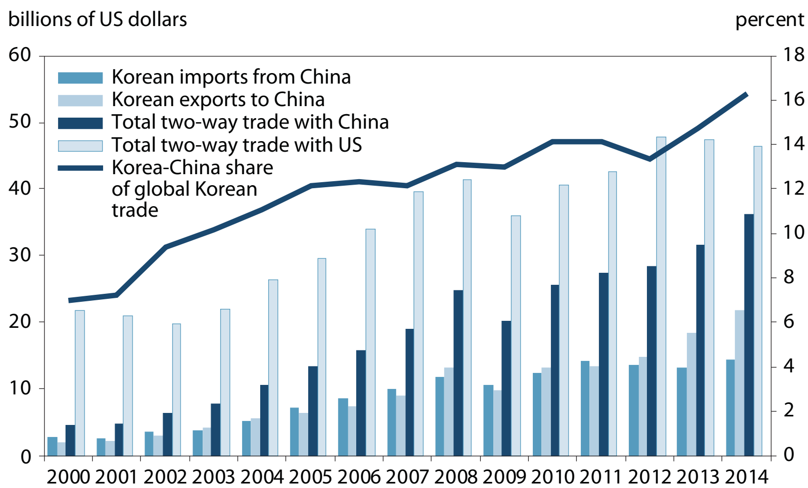
In 2000 the United States was Korea's top trading partner, followed by Japan and the European Union. Since then Korea's two-way trade has continued to expand modestly with these countries, but their share of Korean global trade has steadily declined, as a result of significant expansion of trade with China (figure 1). From 2000 to 2014, as Korea's global trade tripled from $333 billion to $1.1 trillion, Korea-China trade

Figure 1 Korea's total two-way merchandise trade with top trading partners, 2003–14



Source: UN Comtrade via World Bank's World Integrated Trade Solutions (WITS) database.

Figure 2 Korean services trade with China and the United States, 2000–14

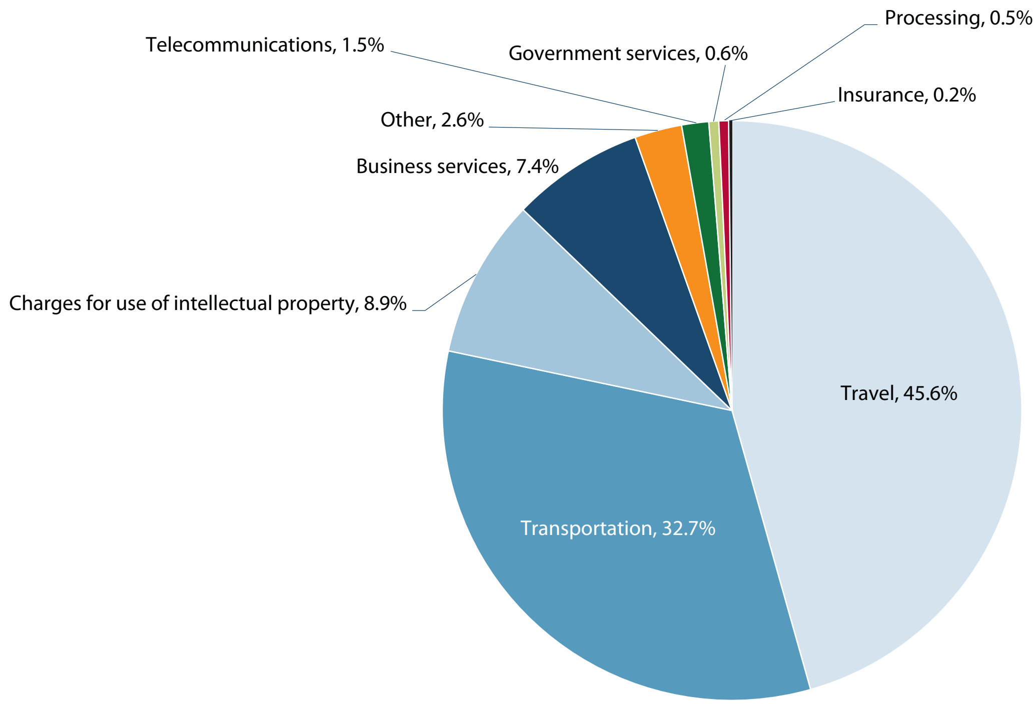


Source: Bank of Korea, Economic Statistics System.

rose eight-fold, from $31.2 billion to $235.4 billion. As a result, China's share of Korean merchandise trade rose from 9 to 21 percent, and China became both the top source of imports and the top export destination for Korean goods. Over the same period, the US share of Korean total trade fell from 20 to 11 percent, and shares by Japan and the European Union dropped sharply as well. China's share of Korea's global trade has been basically stagnant for the past eight years, however. Pursuing an FTA therefore seemed like a good way to regain the momentum of a decade ago.

Although trade in services between Korea and China remains much smaller than goods trade, growth has also been significant over the past two decades. Total two-way trade in services increased from $4.6 billion in 2000 to $36.1 billion in 2014, growing on average 17 percent a year (figure 2). The United States remains Korea's top partner, accounting for 21 percent of total services trade. The Chinese share is 16 percent, up from 7 percent in 2000. Korean services exports to China grew an average of 21 percent a year since 2000, compared with growth of Korean services exports to the United States of just

Figure 3 Korean service exports to China by sector, 2014



Source: Bank of Korea, Economic Statistics System, 2014.

Table 1 International investment position in Korea, 2005–14

	Korean outward FDI stock			Korean inward FDI stock		
		China			China	
Year	World (billions of US dollars)	Billions of US dollars	Percent of total FDI abroad	World (billions of US dollars)	Billions of US dollars	Percent of total inward FDI
2005	160	20	12.3	514	7	1.4
2006	228	26	11.3	622	11	1.8
2007	333	58	17.3	782	14	1.8
2008	336	46	13.6	607	6	1.0
2009	360	56	15.5	730	10	1.3
2010	406	64	15.8	828	18	2.1
2011	453	74	16.3	841	23	2.7
2012	534	80	14.9	955	29	3.1
2013	621	109	17.5	1,005	36	3.6
2014	717	132	18.5	998	44	4.4

FDI = foreign direct investment

Source: Bank of Korea, Economic Statistics System.

5 percent a year. In 2014 travel services represented nearly half (45.6 percent) of Korean exports to China, followed by transportation (32.7 percent) and royalties for the use of intellectual property (8.9 percent) (figure 3).

Investment will be a large component of bilateral expansion of service industries in both markets, but it still remains centered largely in manufacturing. The stock of foreign direct investment (FDI) in Korea doubled over the past decade, from $514 billion in 2005 to $998 billion in 2014, but China's share rose from only 1.4 to 4.4 percent (table 1).

Korean FDI abroad rose 349 percent in the past decade, and Korean investment in China increased almost seven-fold. In 2014 China's share of Korean outward FDI reached 18.4 percent ($132 billion out of the total $717 billion of FDI in China). Much of this investment is channeled into production facilities in the automobile and information technology (IT) sectors, but it is also targeted toward capturing China's growing domestic demand for consumer goods such as cosmetics.[1]

ASSESSMENT OF THE FREE TRADE AGREEMENT

Market Access

Historically, Korea has primarily exported intermediate goods such as electronics to China for final assembly, and China has exported finished goods to third markets. More than three-quarters of Korea's exports to China are in electrical machinery; optical, measuring, and medical instruments; chemicals; nuclear reactors and parts; and plastics (table 2). Korea continues to run a large trade surplus with China, a position it has maintained since the early 1990s.

China generally imposes low tariffs on raw materials and intermediate goods and high tariffs (as high as 65 percent) on final goods. Demographic shifts and a growing middle class, however, have transformed China into the largest global market, creating increased opportunities for exports of Korean finished goods in which Korea has a competitive advantage, such as televisions and automobiles. The share of exports of Korean final goods to China facing a 9.5 percent tariff or higher rose from 33 percent of total Korean exports in 2007 to 49 percent in 2012.[2]

Eliminating tariff barriers through the Korea-China FTA should reinforce that trend and expand key Korean exports. But both Korea and China maintained protection for many agricultural, automotive, and other manufacturing products, as examination of provisions of the agreement reveals.

Tariff Liberalization

Korea and China agreed to remove tariffs on more than 90 percent of products within 20 years. Korea will eliminate tariffs on 92 percent of products ($73.6 billion of import value), and China will eliminate tariffs on 91 percent ($141.7 billion of import value) (table 3). Upon the FTA's entry into force, Korea and China will fully eliminate 50 percent and 20 percent of tariff lines, respectively. Within 10 years Korea and China will liberalize 79 and 71 percent of tariff lines, respectively.

Liberalization commitments will cover the majority of Korea-China trade in terms of import value (85 percent for China, 91 percent for Korea) within 20 years—an important achievement. But with some tariff liberalization loaded in the back end (phaseouts occurring in years 10–20), the commitments become less meaningful from a commercial perspective and do not encourage new investment in anticipation of the tariff reforms. The trade coverage in the near term (5–10 years) represents a much lower level of liberalization than Korea negotiated with either the United States (under the Korea-US Free Trade Agreement [KORUS FTA]) or the European Union (under the Korea-EU Free Trade Agreement [KOREU FTA]). In the KORUS FTA, Korea and the United States agreed to eliminate tariffs on 98.3 percent and 99.2 percent of products, respectively, within 10 years; in the Korea-EU FTA, Korea and the European Union agreed to eliminate tariffs on 93.6 percent and 99.6 percent of products, respectively, within five years (MOTIE 2012a). Under KORUS, tariff liberalization within 10 years covered 97 and 100 percent of US and Korean import value, respectively (MOTIE 2012b). The pace and scope of liberalization in the Korea-China FTA is thus much less ambitious. The main reason for the lower ambition was that neither side wanted to use the FTA to push domestic reform but both wanted to reinforce good existing trade relations.

The pact also excludes a very large number of tariff lines from full liberalization—960 for Korea and 766 for China. Agricultural products account for 60 percent of Korea's exclusions (581 out of 960) but only 13 percent of Chinese tariff exclusions (102 out of 766). This difference is not surprising: Most other Korea FTAs also tread softly on farm reform.

In addition, both Korea and China maintain tariffs on a significant number of manufacturing goods, such as automobiles, electronics, steel, and petrochemical products. China and Korea agreed that automobiles and auto parts would either be excluded from their tariff reforms or subject to the long phaseout schedules accorded to "highly sensitive products" (discussed below). China maintains a 25 percent import tariff on Korean automobiles; tariffs range from 10 to 45 percent for auto parts such as mufflers. Korean companies like Hyundai and Kia already produce in China, but the maintenance of tariffs impedes their ability to restructure regional production efficiently. And, of course, Korean auto workers will not benefit.

The FTA excludes several electronic products from liberalization. In particular, China excludes lithium batteries, televisions, and organic light-emitting diode (OLED) panels for televisions. The 5 percent tariff on liquid crystal display

1. "Investment in China in the First Half of This Year, Inversion of Korea and Japan in 7 Years," Korea International Trade Association, August 28, 2014, http://global.kita.net/engapp/board_view.jsp?titleId=02&menuId=01&menuCd=00&grp=S2&no=1575&code=S2001(accessed on February 17, 2015).

2. For more detail, see Hwan Woo Jung, 한중 무역구조의 특징과 FTA 협상 시사점 [Korea-China Trade Structure and Implication for FTA Negotiation], *Trade Focus*, June 2013, www.kita.net/newtri2/report/iitreporter_view.jsp?sNo=1004 (accessed on February 20, 2015).

Table 2 Korea-China merchandise trade by top imports and exports, 2014

2-digit HS code	Description	Billions of US dollars	Percent of total trade with China	Percent of total global trade
	Korean imports from China			
85	Electrical machinery and equipment and parts; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	27.7	31	5
84	Nuclear reactors, boilers, machinery and mechanical appliances	11.0	12	2
72	Iron and steel	8.9	10	2
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories	4.3	5	1
73	Articles of iron or steel	3.5	4	1
29	Organic chemicals	2.6	3	0.5
62	Articles of apparel and clothing accessories, not knitted or crocheted	2.3	3	0.4
39	Plastics and articles thereof	2.1	2	0.4
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	2.0	2	0.4
94	Furniture, lighting, signs, prefabricated buildings	1.5	2	0.3
Subtotal		65.9	73	13
Total imports		90.1	100	17
	Korean exports to China			
85	Electrical machinery and equipment and parts; sound recorders and reproducers, television image and sound recorders and reproducers, parts and accessories	51.0	35	9
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories	21.2	15	4
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts	14.1	10	3
29	Organic chemicals	13.6	9	2
39	Plastics and articles thereof	10.4	7	2
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	7.8	5	1
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories	7.4	5	1
72	Iron and steel	3.9	3	1
74	Copper and articles thereof	1.6	1	0.3
28	Inorganic chemicals, precious metal compounds, isotopes	1.1	1	0.2
Subtotal		132.1	91	24
Total exports		145.3	100	25

HS = Harmonized System

Source: UN Comtrade via World Bank's World Integrated Trade Solutions (WITS) database.

(LCD) panels will phase out within 10 years.[3] Among the top 20 products, representing 55 percent of total exports to China in 2014, 10 are already treated as duty free because they are covered by the expanded Information Technology Agreement (ITA) currently being negotiated as a World Trade Organization (WTO) plurilateral agreement in which both Korea and China participate. This means that Korean firms will not have preferential tariff treatment over other foreign suppliers when they export those products to China—assuming the ITA is completed in the near term and enters into force. ITA participants aim to wrap up the talks in early December, before the next WTO Ministerial in Nairobi, but they are having last-

3. As a number of electronic products under the ITA are already duty free, China and Korea focused on products not covered by ITA. Not surprisingly, these products are generally the most politically sensitive and resistant to reform, as discussed in the section on IT products.

Table 3 Korea-China FTA tariff schedule

	Korea				China			
Tariff schedule	Number of tariff lines	Percent of number of tariff lines	Imports by value (billions of US dollars)	Percent of imports by value, 2012	Number of tariff lines	Percent of number of tariff lines	Imports by value (billions of US dollars)	Percent 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: MOTIE (2014).

minute problems resolving demands by China for longer tariff phaseouts for some products.[4]

For iron and steel products, China agreed to zero tariffs for basic materials but maintained protection on high value-added products through longer tariff phaseouts, partial liberalization, or total exemption from tariff cuts. As an example of such tariff escalation, the 7 percent Chinese tariff on free-cutting steel in cold form (a basic input for other steel products) will be phased out within 10 years, while products with higher value added, such as steel that is electrolytically plated or coated with zinc, faces a tariff of 8 percent and is exempt from tariff elimination.

Agriculture

Korea maintained significant protection for its agricultural sector. It agreed to remove tariffs on 64 percent of agricultural products within 20 years (table 4). Within 10 years it will eliminate tariffs on 36.6 percent of products; 36 percent of "highly sensitive" products, including rice, will be either permanently excluded from liberalization or face only partial tariff reduction. By contrast, in the KORUS FTA, Korea agreed to remove tariffs on 97.9 percent of all agricultural products within 20 years. The "highly sensitive" list in KORUS covers 31 tariff lines, compared with 581 in the Korea-China FTA. In KOREU, Korea agreed to liberalize 96.2 percent of all agricultural products, exempting 55 tariff lines, including rice. Certain agricultural goods are also subject to tariff-rate quotas, seasonal tariffs, and extra safeguards on more sensitive products.

China agreed to eliminate tariffs on 91 percent of agricultural products within 20 years. Almost two-thirds of Korean agricultural imports will be able to enter the Chinese market duty-free in 10 years; processed food, such as instant noodles, and kimchi will face zero tariffs within 20 years. China excluded only 9 percent of its tariff lines and committed to shorter tariff phaseout periods than did Korea.

The exemption of rice from tariff liberalization is consistent with Korea's past practice. In the KORUS negotiation, rice was one of the most contentious issues. The Korean government attempted to assuage domestic opposition by exempting rice and agreeing to assistance programs that compensate farmers for income losses caused by the opening of the Korean agricultural market to other US products. It also agreed to additional adjustment programs for local farmers to compensate income losses resulting from the Korea-China pact and support further development of the domestic agriculture sector.[5] Korean reluc-

4. See "China Stands Firm in Resisting Calls to Shorten Phaseouts under ITA Deal," *Inside US Trade*, October 29, 2015, www.insidetrade.com (accessed on November 24, 2015).

5. 쌀밭 조건불리 직불금 신청개시 [Rice and Agricultural Product Subsidy Begins], Korean Ministry of Agriculture, Food and Rural Affairs,

Table 4 Korea-China FTA tariff schedule on agricultural products

	Korea				China	
	Korea-US FTA		Korea-China FTA		Korea-China FTA	
Tariff schedule	Number of tariff lines	Percent	Number of tariff lines	Percent	Number of tariff lines	Percent
Normal track						
Immediate phaseout	550	37	216	13.4	221	19.5
5 years	329	22.7	209	13	54	5.7
10 years	384	26.4	164	10.2	439	38.8
Subtotal	1,263	87	589	36.6	725	64.1
Sensitive list						
15 years	148	10.2	202	12.5	203	17.9
20 years	10	0.7	239	14.8	101	8.9
Subtotal	158	10.9	441	27.4	304	26.9
Highly sensitive list						
Tariff-rate quotas	15	1	7	0.4	n.a.	n.a.
Partial reduction	n.a.	n.a.	26	0.7	1	0.1
Exclusions	16	1.1	548	34	101	8.9
Subtotal	31	2.1	581	36.0	102	9
Total	1,452	100	1,611	100	1,131	100

n.a. = not applicable

Source: MOTIE (2014); Uh, Lee, and Chung (2014).

tance to liberalize rice in its FTA with China and other FTAs reflects the fact that WTO obligations require Korea to partially increase rice imports by 2015: Korea will increase its rice tariff-rate quota to 409,000 metric tons (MT) with a 5 percent tariff for in-quota shipments and a penalty rate of 513 percent tariff on over-quota imports (that is, imports above 409,000 MT).[6]

Korea's more modest ambition regarding liberalizing agricultural trade is not surprising. Several feasibility studies on the impact of the Korea-China FTA report that a majority of Korean agricultural products have weaker price competitiveness against Chinese products in the Korean wholesale market—the cause of domestic concerns that further liberalization would adversely affect Korean farmers.[7]

March 1, 2015, www.mafra.go.kr/list.jsp?&newsid=155446523&section_id=b_sec_1&pageNo=1&year=2015&listcnt=10&board_kind=C&board_skin_id=C3&depth=1&division=B&group_id=3&menu_id=1125&reference=&parent_code=3&popup_yn=&tab_yn=N (accessed on March 2, 2015).

6. "Update 2 S. Korea Sets Rice Import Tariff at 513 Pct from 2015," Reuters, September 18, 2014, http://in.reuters.com/article/2014/09/18/rice-southkorea-idINL3N0RI67L20140918 (accessed on January 26, 2015).

7. 한중 FTA와 농업 부문의 대응 방안 [Korea-China FTA and Agricultural Sector's Response], *Nongjong Focus* 17, May 3, 2012, Korean Rural Economic Institute; "한중FTA 최대 난관은…`한-농업· 중-서비스`" [Largest Obstacle of Korea-China FTA Is Agriculture for Korea and Services for China], *Joongang Daily*, January 15, 2012, http://money.joins.com/news/article/article.asp?total_id=7139316&ctg=11 (accessed on March 2, 2015).

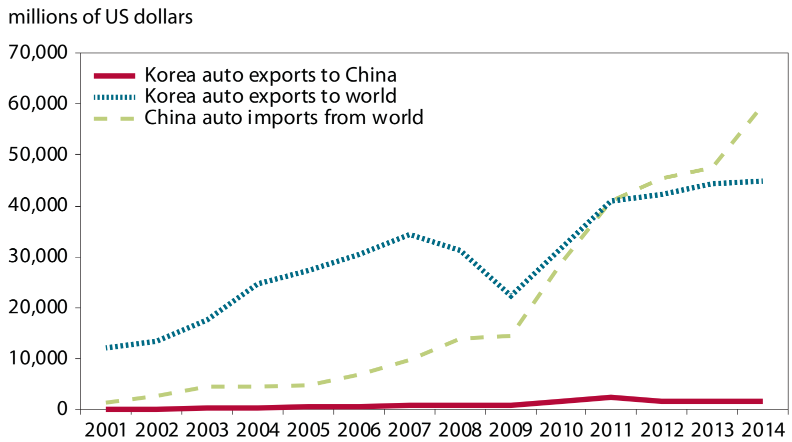
Auto Sector

The automobile sector was a key issue for bilateral negotiations and the outcome a major disappointment. Passenger vehicles (HS8703) were excluded from tariff liberalization, with some small exceptions subject to limited tariff reduction. As a result, China and Korea will continue to impose 25 and 8 percent tariffs, respectively, on auto imports.

The outcome is disappointing because the auto industry has been an engine of Korean economic growth. Korean global auto exports steadily increased, from $12 billion in 2001 to $45.8 billion in 2014, and automobiles remain Korea's third-largest export. Over the same period, China became the world's largest auto market. Total Chinese auto imports expanded from just $1.3 billion in 2001 to $59.7 billion in 2014. Korean brand Hyundai accounted for 6 percent of Chinese passenger auto *sales* in 2014, or 1.1 million cars out of 19.7 million.[8] Korean auto *exports* to China, however, represent a small share of total Chinese imports at just $1.7 billion out of $59.7 billion (2.9

8. Volkswagen and GM have the largest shares of automobile sales to China, at 17.8 and 17.5 percent, respectively, followed by Hyundai. See Hu Junfeng, "2014年汽车销量超2300万辆 同比增6.86%" [2014 passenger and commercial car sales of over 23 million up by 6.86%], Sina Auto, January 12, 2015, http://auto.sina.com.cn/news/2015-01-12/14071387548.shtml (accessed on December 7, 2015).

Figure 4 Korean auto exports to China and world, 2001–14



Note: Auto trade based on HS 8703.

Sources: International Trade Centre, UN Comtrade statistics.

percent) in 2014 (figure 4). Automobiles represented only 1.2 percent of total Korean exports to China in 2014.[9]

High Chinese tariffs on automobiles have propelled FDI, which is permitted if foreign companies form alliances or joint venture partnerships with Chinese domestic companies (see Tang 2012). Within this policy framework, China prefers that Korean automobile manufacturers invest in assembly production in China rather than increase access through exports (China applies this tactic to other major foreign automakers as well).[10] In part, this preference explains why automobiles represent a relatively small share of total Korean exports to China: China is forcing Korea automakers to jump high tariff walls to assemble in China. Korean investors in the automobile sector have some rights under the China-Japan-Korea trilateral investment treaty, which provides national and most favored nation (MFN) treatment for post-establishment investments and recourse to investor-state dispute settlement, but pressure to source locally in China is strong.

Korea hoped to use the Korea-China FTA to increase its share of the Chinese market. By agreeing to exclude automobiles from tariff liberalization, however, it forces its auto producers to invest more in China to increase market share. This result is markedly different from what was done on automobiles in the KORUS FTA, under which the United States and Korea agreed to remove their tariffs (of 2.5 and 8 percent, respectively) by January 2016. But given the importance of FDI and related nontariff barriers, provisions involving regulatory policies were more important than tariff liberalization (see Schott 2010). The lack of ambition in the Korea-China case missed a key opportunity for liberalization, but the way in which the pact addresses investment moving forward could be important.

Information Technology

IT is a critical sector for both China and Korea. Discussions about it prolonged negotiations. The two countries agreed to remove 5 percent (China) and 8 percent (Korea) tariffs on LCD panels within 10 years. Rechargeable batteries and television and camera parts are on China's sensitive list; they will be subject to phaseout periods of 15–20 years. China continues to impose a 15 percent tariff on OLEDs, a major Korean export.

These results are important in light of recent developments in the plurilateral ITA negotiations. Following a breakthrough compromise between the United States and China on the list of products to liberalize as part of the ITA deal, talks stalled in December 2014 over disagreements among other members regarding the exclusion of certain priority items. Specifically, Korea pressed China to agree to tariff liberalization on flat-panel displays or a combination of other IT products, including OLEDs, glass substrate, rechargeable batteries, television and camera parts, and certain kinds of monitors.[11] China was unwilling to make additional concessions beyond the terms

9. By contrast, auto exports represent 21 percent of total Korean exports to the United States (www.trademap.org).

10. Indeed, in December 2014, Hyundai announced construction of two additional plants in the northeastern Hebei Province and the southwestern city of Chongqing, with total production capacity of 600,000 cars a year. Beijing Hyundai has three plants in Beijing. See "Hyundai Motor to Build Two China Plants amid Slowing Economy," Reuters, December 30, 2014, www.reuters.com/article/2014/12/30/us-hyundai-motor-china-idUSKBN0K809K20141230 (accessed on January 23, 2015).

11. See "ITA Expansion Negotiators Fail to Reach Deal; Next Steps Still Unclear," *Inside US Trade,* December 18, 2014, www.insidetrade.com (accessed on February 2, 2015).

agreed to with the United States.[12] After a lengthy standoff, Korea took a step back from its insistence on further tariff concessions, and in July the 54 WTO members reached agreement on 201 IT products. As a result, 26 Korean products that did not get the free pass under the Korea-China FTA will be able to enter Chinese market with zero tariffs under the ITA, which provides an opportunity for Korean IT companies to boost exports to China.[13] However, if the ITA members commit to three- to seven-year tariff phaseout periods—which are much shorter than the Korea-China FTA's phaseout periods of 10–20 years—Korea's economic benefits from its bilateral deal with China on IT products are likely to diminish.

Rules of Origin

The Korea-China FTA establishes rules that determine whether products qualify for originating status and thus enjoy the benefits of the pact. Product-specific rules have two components for determining the status: regional value content (RVC) and a change in tariff classification (CTC).[14] If the product fails to meet either component, it will not be eligible for preferential treatment. The more complex the origin rules, the more likely that the cost of compliance will be high, so that firms will not use the FTA provisions and instead continue to pay the MFN tariff.

In agriculture, fresh agricultural and fishery products must meet "wholly obtained or produced" status, whereas processed products are required to comply with a change in tariff heading (known as CTH).[15] Most steel, petrochemical, and electronic products are subject to a similar tariff requirement, namely, a change in the first four or six digits of the HS code, with some exceptions that allow a minimum RVC of 40 percent.

Passenger vehicles (HS8703) face more complicated rules: They must satisfy both a CTH and a minimum 60 percent RVC threshold to get preferential treatment in China. Some view the dual requirement as more constraining and restrictive for producers (see Estevadeordal, Harris, and Suominen 2009). These rules, coupled with the extensive tariff exceptions, reinforce China and Korea's intention to shield their auto markets from import competition. Buses (HS8702), trucks (HS8704), and special purpose vehicles (HS8705) such as breakdown lorries are subject to a lower RVC of 50 percent. For context, the KORUS FTA allows automakers to choose one of three options for measuring RVC, which is seen as a more liberalized rule.[16]

For textiles, exporters can opt to meet either a CTC rule or a 40 percent RVC. For apparel exporters either a change in the first two digits of the HS code or a 40 percent RVC threshold must be met for Korean clothing made of imported fabrics to be recognized as made in Korea. As producers have more than one option, this rule is perceived as more liberal than the rule under KORUS, under which clothing is eligible for preferential treatment only if it is made of yarn or fabric from Korea or the United States, the so-called yarn forward rule. Because Korea, like many countries, uses largely imported fabric, this KORUS rule has been a challenging barrier.

Korea and China agreed to provide preferential treatment to certain products made in existing outward processing zones (OPZs) and additional OPZs of the Korean peninsula. The originating status for goods produced in OPZs will be considered under two conditions: (1) "the total value of nonoriginating materials shall not exceed 40 percent of the FOB price of the final goods for which originating status is claimed" and (2) "the value of originating materials exported from the Party concerned shall not be less than 60 percent of the total value of materials used in the processing of those goods." As the Kaesong Industrial Complex (KIC) is recognized as an OPZ, some products made there will qualify for preferential treatment. In particular, the fact that the "value of nonoriginating materials" does not include the wages of the OPZ will help products made in KIC meet the two conditions to qualify.[17]

Kaesong Industrial Complex

Like Korea and Singapore in their FTA, Korea and China agreed to include the KIC as an OPZ. Under this agreement China will provide preferential treatment for 310 products made in the KIC.

12. For detail, see Carter Dougherty, "ITA Trade Deal Evades WTO amid China-South Korea Dispute," *Bloomberg*, December 12, 2014, www.bloomberg.com/news/articles/2014-12-12/ita-trade-deal-evades-wto-amid-china-south-korea-dispute; Shawn Donnan, "Talks to Lower IT Tariffs Break down," *Financial Times,* December 12, 2014, www.ft.com/intl/cms/s/0/da82ec72-822b-11e4-ace7-00144feabdc0.html#axzz3QDv3HQCe.

13. These products include television cameras (HS852580) and receivers for televisions (HS852871), on which China imposes 30 percent and 35 percent MFN tariffs, respectively.

14. RVC requires that the product reach a minimum percentage of regional value in the exporting country. A change in tariff classification means that the product should alter its chapter, heading, or subheading of the HS code in the exporting country.

15. CTH means that nonoriginating materials used in the production of the good must have undergone a change in tariff classification at the first four-digit level.

16. The options are the build-down, build-up, and net cost methods. A minimum RVC for the build-down method is 55 percent; the RVC for the build-up and net cost methods is 35 percent.

17. 한·중 FTA 가서명:개성공단 생산제품 발효즉시 관세혜택 부여 [Korea-China FTA Signed: Made in Kaesong Will Have Preferential Treatment], Korea International Trade Association, February 25, 2015, www.kita.net/newsBoard/domesticNews/view_kita.jsp?pageNum=1&nGubun=3&s_con=&s_text=&sStartDt=&sEndDt=&sOrder=&sClassification=1&search_word=&rowCnt=20&s_date1=&s_date2=&actionName=&sNo=18634 (accessed on February 26, 2015).

This arrangement differs from the one agreed to in the KORUS FTA. Under KORUS, KIC products are not eligible for FTA preferences. Instead, Annex 22-B established a committee on outward processing zones to set criteria for providing preferential treatment, including "progress toward the denuclearization of the Korean peninsula, the impact of the outward processing zones on intra-Korean relations; and the environmental standards, labor standards and practices, wage practices and business and management practices prevailing in the outward processing zone."[18]

For Korea the inclusion of the KIC is meaningful for three reasons. In the short term, South Korean manufacturers in the KIC can expand their market to China as well as Korea. Since 2005 only 10.5 percent of production in KIC has been exported; the rest was consumed in Korea. In the medium term, foreign investment, particularly from China, is expected to increase, with hopes that such FDI inflow will reduce the business risks associated with the KIC. In the longer term, deeper economic integration with North Korea is viewed as a pathway toward reconciliation between the two Koreas (see Haggard and Noland 2012).

The appeal of the KIC to Chinese and foreign investors is its low wages, proximity to South Korea, and infrastructure and tax benefits. The monthly average wage of North Koreans in the KIC was $138 in 2013 (Na and Hong 2014); the comparable wage in China's manufacturing sector is $629, according to the National Bureau of Statistics of China. The Korean government views increased involvement of non-Korean investors as a means of incrementally constraining North Korea's behavior and institutionalizing the KIC with respect to improved protection for investor's property rights, a step that would attract more investment.

Despite Korean efforts to boost foreign investment in the KIC, results have been mixed, largely because the KIC is deeply intertwined with the fractious political relations between the two Koreas.[19] As Haggard and Noland (2012) explain, the KIC is "a product of South Korean public policy" that "has a substantial impact on the level and composition of economic integration in the KIC, affecting entry, the modality of operations, and their sustainability." Deterioration of political and security relations directly affects business in the KIC: Its shutdown in May 2010—imposed by South Korea following North Korea's attack on its warship Cheonan—is a prime example. Uncertainty regarding the rules governing the KIC is another major factor, in particular North Korean attempts to unilaterally revise the rules agreed to by the two governments. In January 2015, for example, North Korea released a revised draft establishing that should "South Korean firms withdraw businesses from the zone at the decision of the South's authorities, the North will be able to demand reparation, seize properties and even detain businessmen involved if needed."[20] Political risk in the KIC thus remains high and will likely continue to cloud its future for foreign investment.

The Korea-China FTA departs from past practice in Korean FTAs with the United States and European Union in the interpretation of OPZs, both of which agreed to establish a committee on OPZs to monitor implementation of preferential treatment on goods and review possible expansion of such zones. The FTA broadens OPZs to include not only the KIC but also China–North Korea special economic zones (SEZs) such as the Rason and Hwanggumphyong-Wihwado SEZs, which both countries agreed to jointly develop in 2010.[21]

The main incentives for China to include its SEZs in the FTA are similar to those for South Korea: cheap labor and proximity to South Korea, among other benefits mentioned previously. Since the fall of Jang Song Taek in 2013, however, the Rason and Hwanggumphyong-Wihwado SEZs headed by Jang have been halted, reaffirming that political change and complications in North Korea can undermine official agreements even with China. It is too soon to conclude whether the broader inclusion of economic zones in the Korea-China FTA will have a significant long-term impact on attracting FDI.

Investment

Investment liberalization is a key priority for Korea given the sizable flows of FDI to China in recent years as well as the significant potential of the Chinese market for Korean service industries. As China experiences significant growth in investment and services, the quality of its FTA provisions has improved incrementally (table 5). The investment chapter of the China–New Zealand FTA (signed in 2008) was widely acknowledged to advance Chinese liberalization commitments; the China-Canada BIT (signed in 2012) and China-Japan-Korea investment pact

18. Marcus Noland characterizes the annex as a "a face-saving gesture creating a binational commission to study the KIC issue with the tacit understanding that the United States would never agree to duty-free treatment under the current economic and political conditions prevailing in North Korea." See "Extraterritoriality and the Kaesong Industrial Complex," North Korea: Witness to Transformation blog, Peterson Institute for International Economics, March 10, 2015, http://blogs.piie.com/nk/?p=13932 (accessed on April 1, 2015).

19. Haggard and Noland have written extensively on the associated challenges of investment in the KIC. See, for example, Marcus Noland, "Kaesong to Re-Open, Terms about as Expected," North Korea: Witness to Transformation blog, Peterson Institute for International Economics, September 11, 2013, http://blogs.piie.com/nk/?p=11687.

20. "S. Korea Foils N. Korea's Rule Revision Plan on Kaesong," *Yonhap News*, January 29, 2015, http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20150127004600315 (accessed on February 2, 2015).

21. See "Rason Economic and Trade Zone; Today and Tomorrow," interview with Choe Hyon Chol, section chief of the State Economic Development Commission of DPRK, *Naenara News,* March 20, 2014, www.nkeconwatch.com/category/economic-reform/special-economic-zones-2/special-economic-zones/sinuiju/ (accessed on February 3, 2014).

Table 5 Comparison of investment provisions in Korean and Chinese agreements

Article	Key issue	Korea-US FTA	China-New Zealand FTA	Korea-China BIT	China-Japan-Korea BIT	Korea-China FTA
Scope and coverage	Includes services mode 3	O	X	X	O	O
National treatment	Covers preestablishment phase	O	X	X	X	X
MFN treatment	Covers preestablishment phase	O	O	O	O	O
Minimum standard of treatment (MSOT)	Protects investor property rights	O	X	*	*	O
Performance requirements	WTO TRIMs	O	X	X	O	O
Senior management and boards of directors	Nationality requirement	O	X	X	X	X
Nonconforming measures (NCM)	Positive or negative list approach	Positive	Negative	**	**	**
Investor-state dispute settlement	International arbitration	O	O	O	O	O

FTA = free trade agreement; BIT = bilateral investment treaty; MFN = most favored nation; TRIMs = Agreement on Trade-Related Investment Measures

X = agreement does not include the provision
O = agreement includes the provision
* = MSOT article does not use customary international terms
** = NCM article does not include specific measures

Sources: Jung (2012); MOTIE (2014).

(signed in May 2012 and entered into force in 2014) followed the path of incremental progress (see Schott and Cimino 2015).

As in services, the Korea-China investment negotiations on market access are scheduled to commence two years after the agreement enters into effect. This two-year delay effectively allowed the Korea-China pact to proceed expeditiously to conclusion. It may work in Korea's favor, as China faces pressure from the United States to further open sectors to FDI as part of ongoing BIT negotiations. The 21st round of the US-China BIT negotiations, held in early September 2015, focused on reducing the size of the negative list (the list of sectors that would be excluded from investment liberalization in a prospective deal), with the goal of substantially narrowing the number and scope of excluded sectors. Although China's revised list was an improvement over its original offer, it fell short of significant market opening.[22] The resulting list will not only apply to the US-China BIT negotiations, but also inform China's nationwide investment law, with the hope of upgrading the terms of China's Foreign Investment Catalogue and practices in the Shanghai free trade zone (FTZ), China's main test bed for investment liberalization.[23]

Although the market access negotiations have yet to take place, the terms of investment protections have been established in the Korea-China FTA. In large measure the features of the investment chapter reflect the terms of the China-Japan-Korea trilateral investment treaty,[24] but it also expands some areas. The investment chapter includes standard features, such as nondiscriminatory national and MFN treatment for post-establishment investment; ensures that investments are afforded "fair and equitable treatment and full protection and security" consistent with the customary international law minimum standard of treatment; provides safeguards against expropriation and the provision of prompt and adequate compensation; and creates a functional investor-state dispute settlement mechanism. Some distinctions merit attention:

- *Pre-establishment versus post-establishment protection*. The "pre-establishment" phase of investment is not covered under national treatment, which is afforded only to the "management, conduct, operation, maintenance, use, enjoyment and sale or other disposition of investments." Korea made this concession based on Chinese past practice. Both sides, however, committed to conducting future investment negotiations through pre-establishment national treatment and via a negative list.[25] This shift came largely after China agreed to pre-establishment protection in its BIT negotiations with the United States. Moreover, national treatment does not apply to "nonconforming measures…existing at the date of entry into force made by each Party under its laws and regulations." These lists of exceptions could be extensive.

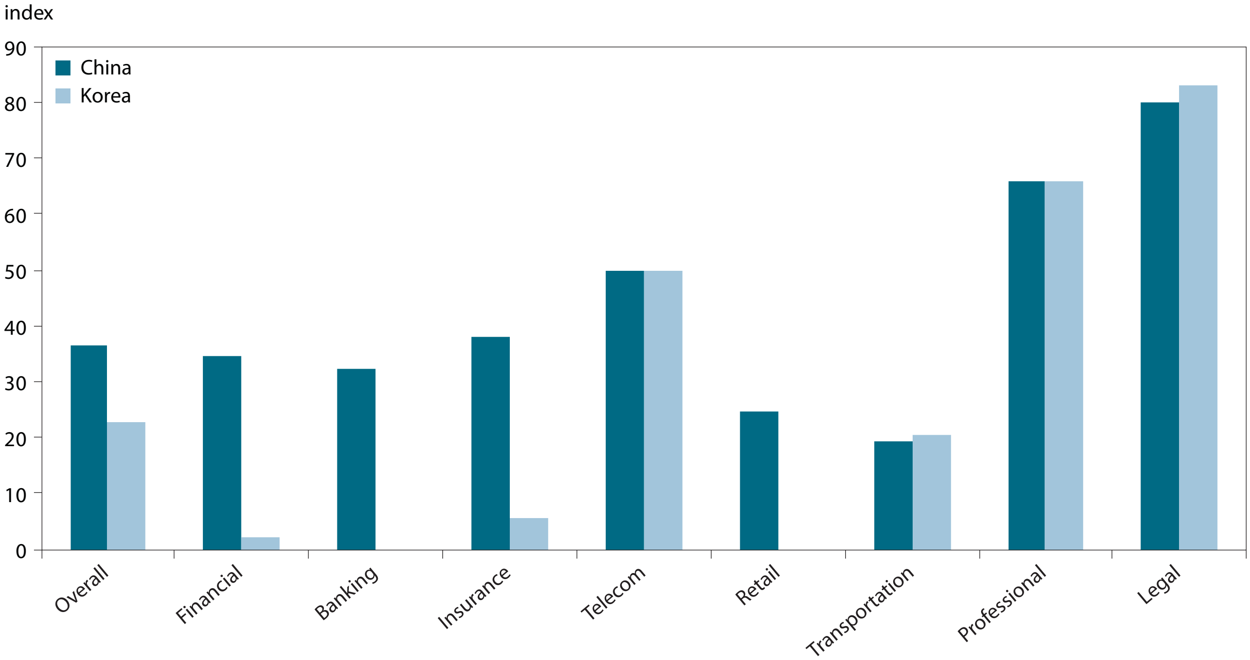
22. Cathleen Cimino-Isaacs, "US BIT Talks with China and India: A Recap," Trade and Investment Policy Watch blog, Peterson Institute for International Economics, September 30, 2015, http://blogs.piie.com/trade/?p=429 (accessed on November 18, 2015).

23. "U.S., China Agree to Exchange New BIT Negative Lists By Septembers," *Inside US Trade*, June 25, 2015, www.insidetrade.com (accessed on November 13, 2015).

24. See Schott and Cimino (2015) for a comparison of the major features of the China-Japan-Korea treaty with the US model BIT, KORUS, and Chinese BITs.

25. "Chinese Commerce Ministry Holds Press Briefing on China–ROK FTA Negotiations," Press Release, November 20, 2014, http://english.mofcom.gov.cn/article/newsrelease/press/201411/20141100811629.shtml (accessed on April 1, 2015).

Figure 5 Services Trade Restrictiveness Index (STRI) for China and Korea



Note: Index based on scores with 0 meaning "completely open" and 100 meaning "completely closed."
Source: World Bank, STRI Database, http://iresearch.worldbank.org/servicetrade/default.htm.

- *Performance requirements*. Provisions on performance requirements only affirm the preexisting terms of the WTO Agreement on Trade-Related Investment Measures (TRIMs). By contrast, the KORUS FTA is TRIMs-plus, covering more explicit and extensive policies, including technology transfer and indigenous innovation policies.
- *Environment*. Similar to the China-Japan-Korea treaty, Korea and China commit loosely to uphold environmental standards: Parties "should not waive or otherwise derogate from such environmental measures as an encouragement for the establishment, acquisition or expansion of investments in its territory." The language, while weaker than the US model BIT, improves on past practice.
- *Investor-state dispute settlement mechanism (ISDS)*. Provisions follow customary procedures; they do not explicitly include exemptions for intellectual property rights or prudential measures, as the China-Japan-Korea treaty does. Services and financial services are also subject to ISDS (with some conditions) to the extent that they relate to a covered investment. Somewhat similar to KORUS, the annex on expropriation distinguishes direct versus indirect expropriation and asserts that "nondiscriminatory regulatory actions adopted by the Party for the purpose of legitimate public welfare do not constitute indirect expropriation." These provisions are key to limiting the scope for frivolous claims by investors that challenge regulations.

Services

The significant expansion of Korea's bilateral services trade with China has made further opening of the Chinese services market and lowering of nontariff barriers a key priority for Korea, particularly in financial services, intellectual property, and telecommunications. Both sides still restrict key business services, including professional and legal services, but China has by far the more restrictive services sector (figure 5).

The Korea-China services chapter establishes national treatment with respect to market access for service providers, subject to scheduled exceptions. The agreement does not establish MFN treatment, which is a common feature of Korean FTAs but less common for China (though there is some precedent: China included MFN treatment in its FTA with New Zealand).[26] Instead, Korea and China agreed to "consider" MFN treatment in follow-up negotiations to be held two years after the agreement comes into effect. The current agreement reflects a "positive list" (a list on which each sector and mode of supply is explicitly listed on a schedule that indicates the type of access and treatment given to foreign services suppliers), but follow-up services negotiation will be conducted under a "negative list" approach, which means that all sectors will be liberalized unless specifically indicated on the list of exceptions.

26. In the China–New Zealand FTA, the MFN provision is limited to environmental services, construction and related engineering services, computer and related services, and tourism and travel-related services.

Expectations were low that China would commit to liberalization of services that went beyond the terms agreed to in the General Agreement on Trade in Services (GATS) or commit to negotiating market access based on a negative list approach (see Park et al. 2014). China and Korea did agree on some liberalization in several service industries, including legal, engineering, construction, distribution, environmental, and entertainment services.[27] Specific measures include the following:

- *Legal services*. Korean law firms with branches in the Shanghai FTZ are permitted to incorporate with Chinese law firms.
- *Engineering services*. Construction works of Korean companies overseas are to be treated favorably in Chinese licensing decisions.
- *Environmental services*. Wholly Korea-owned enterprises are permitted in sewerage and four other areas.
- *Entertainment industry*. A Korean company can own up to 49 percent of a Chinese entertainment firm.

Compared with KORUS, the level of liberalization in the Korea-China deal remains low, but it could change as a result of follow-up negotiations. It could also change if China is admitted to the plurilateral negotiations on the Trade in Services Agreement (TiSA) (Korea is already a participant). Regarding Mode 4 services, both countries agreed to modestly extend the length of stay for intracompany transfers of Korean and Chinese professionals working in each country. China's Z visas for intracompany transfer of Korean professionals were extended from one to three years. Korea's D-8 corporate investment and D-7 intracompany transfer visas for Chinese professionals were made valid for three years. Both sides also agreed to streamline procedures for issuing work permits in China and certifying alien registrations in Korea. The concessions are less expansive than past practice, however. Under KORUS, for example, the length of stay for Korean professionals under the US L-1 visa was extended from one or three years to five years.

Intellectual Property Rights

Despite China's recent efforts to reform its legal protections and improve enforcement of intellectual property rights (IPR), serious problems remain regarding data flows, internet and broadcast piracy, unauthorized software use, and protection of trade secrets (see USTR 2014). IPR is a particularly important issue for Korea given China's growing position as a market for audiovisual, entertainment, and media products.[28] Under KORUS Korea agreed to enhanced IPR provisions; the coverage of IPR in Chinese FTAs has generally been much weaker or primarily reaffirming key features of the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS).[29]

The intellectual property rights chapter of the Korea-China FTA includes provisions on copyrights, trademarks, and patent protections:

- The terms improve the coverage and length of protection of copyright and related rights for the works of authors, performers and producers of music, and broadcasting organizations. Specifically, broadcasting organizations maintain exclusive rights and have extended protections for 20–50 years after an on-air broadcast.
- Related rights include protection against "circumvention of technological measures" that control access to protected works and protect against unauthorized use and piracy in addition to protection of rights management information (information that identifies a work, author, or owner of rights).
- The terms of patent protection are standard TRIPS provisions; unlike KORUS the pact does not include enhanced protections for pharmaceuticals patents, such as term extension or data exclusivity provisions.

The IPR chapter establishes remedies for infringements, criminal procedures, and border measures, but in general these provisions are less extensive than the terms of KORUS, which includes substantive TRIPs-plus rules. For example, the China-Korea FTA applies criminal procedures and remedies to "cases of willful trademark counterfeiting or copyright piracy on a commercial scale." KORUS makes more pointed distinctions, applying criminal procedures to cases including "(a) significant willful copyright or related rights infringements that have no direct or indirect motivation of financial gain; and (b) willful infringements for purposes of commercial advantage or private financial gain." These distinctions can be important in cases

27. A separate chapter specifies the terms of financial services liberalization, which is subject to a broad list of exceptions for national treatment and market access afforded to financial institutions.

28. Korean concerns center on counterfeiting and IPR infringement relating to unauthorized reproduction and downloading of Korean music, dramas, and films. One study suggests that 59 percent of all IPR infringements of Korean firms were reported to have occurred in China, with the resulting economic damage estimated at $2.8 trillion. See Mikyong Jung, "한-중 FTA와 콘텐츠 산업 주요 쟁점" [Korea-China FTA and Core Issues in Contents Industry], *KOCCA Focus*, December 30, 2013, http://www.kocca.kr/cop/bbs/view/B0000141/1820709.do?searchCnd=&searchWrd=&cateTp1=&cateTp2=&useAt=&menuNo=200898&categorys=0&subcate=0&cateCode=&type=&instNo=0&questionTp=&uf_Setting=&recovery=&pageIndex=2 (accessed on March 2, 2015).

29. For an overview, see chapter 9, "Intellectual Property Rights," in Bergsten, Hufbauer, and Miner (2014).

Table 6 Comparision of environmental provisions in Korean and Chinese FTAs

Provision	Korea-China FTA (2014)	Korea-US FTA (2012)	China-Switzerland FTA (2014)	China-New Zealand FTA (2008)
Separate chapter	Yes	Yes	Yes	No
Multilateral environmental agreements (MEAs)	Adopt, maintain, and implement MEAs	Adopt, maintain, and implement MEAs	Reaffirms international commitments	Reaffirms international commitments
Enforcement of environmental law	Fulfill obligations under covered agreements	Fulfill obligations under covered agreements	No	No
Penalties for violations	No	Sanctions or remedies	No	No
Enforcement coverage	Central and provincial	Central	Not specified	Not specified
Institutional arrangements	Environmental Committee	Environmental Affairs Council	Joint Committee	Bilateral consultations
Dispute settlement mechanism	Only consultations	Yes	Only consultations	Only consultations
Environmental cooperation	Yes	Yes	Yes	Yes

Note: Year in parentheses indicates the year the trade pact entered into force, or in the case of Korea-China FTA, the year concluded.

Sources: MOTIE (2014); Korea-US FTA text, https://ustr.gov/trade-agreements/free-trade-agreements/korus-fta/final-text; China-New Zealand FTA text, www.chinafta.govt.nz/1-The-agreement/2-Text-of-the-agreement/index.php?>; China-Switzland FTA text, www.seco.admin.ch/themen/00513/00515/01330/05115/index.html?lang=en.

where an infringer earns little revenue, such as software piracy within businesses.

Under KORUS trade in counterfeit or pirated goods, trafficking in counterfeit labels or packaging on computer programs, and literary or audiovisual works are also subject to criminal procedures and penalties; similar language is absent in the Korea-China FTA. That said, the pact does specify penalties, including imprisonment, monetary fines, and seizure and destruction of counterfeit or pirated goods, an improvement over past FTAs such as the China–New Zealand, which did not include extensive enforcement measures.

Environment and Labor

The Korea-China FTA includes a separate chapter on the environment. Expectations were low given that Chinese FTAs include limited coverage of environmental issues. Before the Korea-China pact, China's FTA with Switzerland was the only agreement to include a separate environment chapter in which both sides reaffirmed commitments to environmental protection and the terms of multilateral environmental agreements (MEAs), but the provisions are not subject to dispute settlement. The China–New Zealand FTA does not establish a separate chapter, but it agrees to broad areas of "environmental cooperation."

The environment chapter in the Korea-China FTA is the most comprehensive of any Chinese FTA (table 6). It establishes commitments to environmental protection, upholds the application and enforcement of environmental law, and commits to obligations of select MEAs. Both sides agree to enforce environmental measures, but the FTA does not address penalties for violations. Moreover, the obligations are not subject to dispute settlement; instead, the two sides established a committee on environment and trade to oversee the chapter's implementation and facilitate consultations to resolve disputes. By contrast, the KORUS FTA subjects its environmental chapter to dispute settlement.

There is no labor chapter in the Korea-China FTA, which is not surprising given the lack of labor provisions in most Chinese FTAs. Chinese FTAs have included commitments to labor standards and sometimes the International Labor Organization, but they have done so in side agreements or memoranda of understanding, as with New Zealand and Switzerland. In contrast, Korean FTAs, including with Australia, Canada, the European Union, and the United States, include labor obligations. In KORUS the labor chapter was fully enforceable, consistent with the recently concluded TPP.

IMPLICATIONS FOR ASIA-PACIFIC ECONOMIC INTEGRATION

What does the Korea-China FTA presage for the broadening of economic integration in northeast Asia and the development of a Free Trade Area of the Asia-Pacific? At the outset of negotiations, there were high expectations that the Korea-China talks could spur China to accept more comprehensive reforms and deeper trade liberalization than it had done in its previous regional trade pacts. Such a result would have given a big boost to the Korean economy and narrowed the gap between Chinese commitments in FTAs and international best practice, defined as the obligations of the KORUS FTA and TPP. In most respects the Korea-China FTA fell short of those lofty ambitions. China did not import KORUS FTA standards; instead, Korea accepted KORUS-minus results in many areas.

Rather than a high-water mark for Chinese FTAs, the Korea-

China FTA reconfirmed China's deliberate and incremental approach to trade and investment liberalization. Negotiators deferred to the demands of domestic lobbies seeking to maintain protection for key farm and industrial products. The long list of tariff exceptions on both sides tells the story very clearly. With few exceptions, reforms to create new opportunities for trade and investment in services were postponed until a second tranche of bilateral negotiations later this decade.

The limited outcome in the Korea-China talks has two clear implications for economic integration among the northeast Asian countries. First, the deal is likely a precedent for what can be done in the trilateral China-Japan-Korea FTA talks. The good news is that those talks continue to advance, albeit slowly, despite the political frictions that color other aspects of bilateral relations between Japan and its neighbors. But a prospective China-Japan-Korea FTA seems unlikely to produce a more integrated economic zone in northeast Asia. That is one reason why Japan has invested so much effort and political capital in joining the TPP and why Korea will have to follow suit. Second, the long-stalled component of northeast Asian integration—the bilateral pact between Korea and Japan—will likely be revived in the context of Korean accession to the TPP.

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