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Korea's FTA Initiatives in the Asia Pacific

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Korea's FTA Initiatives in the Asia Pacific

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1. Background

- Korea was one of the few WTO member countries without any bilateral or regional FTAs.
- Korea has adhered to ‘multilateralism’ for such reasons as:
 - A bilateral approach was not attractive because its trade relations were diversified. By taking the bilateral route, Korea would have run the risk of ultimately distorting its trade structure (Bhagwati, 1993; Thurow, 1992). At the first WTO Ministerial Conference in 1996, Korea demanded tighter regulations on regionalism against expansion
 - The Korean agricultural sector was desperately resistant to liberalization. Bilateral liberalization could provide additional ammunition to the political controversy already triggered by the process of multilateral liberalization in the wake of the end of the GATT UR negotiations.

2. Factors

- Korea's strong reluctance to join bilateralism was often interpreted as resistance to trade liberalization while regionalism emerges as new paradigm.
 - Market liberalization as early as in 1980s through unilateral, bilateral, multilateral negotiations
- Mushrooming RTAs all over the world increased discrimination and trade diversion against Korea.
- Unprecedented financial crisis, 1997-1998
 - Every measure to improve the external sector
 - Increased readiness for restructuring
 - Need to follow-up the regional integration movement
- Consumer-oriented trade policy to maximize the welfare of the general public
- New thinking about the national strategy to be a regional business hub
 - China emerging as Korea's No. 1 FDI and exports destination
 - Engagement policy toward North Korea

3. Korea-Chile FTA Negotiation

- August 1995: “Special partnership”
- Nov 5, 1998: Korean government (Coordinating Committee for International Economic Policy) decided to proceed with FTAs, with Chile at the first partner.
- Nov 17, 1998: Presidents agreed to start formal discussions for FTA in Kuala Lumpur.
- Dec 1998-June 1999: High-level working group meetings discussed timetable and negotiating modalities
- Sept 1999: Presidents agreed to formally embark negotiations

- Dec 1999-Dec 2000: Four rounds of negotiations, but differences of positions conspicuous over vulnerable industries.
- Deadlocked for 20 months
- Aug 2002: 5th round in Santiago
- Sept-Oct 2002: Separate talks on goods concession
- Oct 2002: 6th & final round in Geneva
- Feb 2003: Signed
- August 2003-Feb 2004: Legislative ratifications
- April 1 2004: Going into effect

Market Opening Timetable

(Korea 10 categories, Chile 6)

- Instant tariff removal
 - K (87.2%): Assorted feed, animal food and additives, flour, wool, tomatoes, paste
 - C (41.4%): Car, machinery, electric & electronic appliances (mobile handsets), plastics (PVC, film, etc.), textiles, apparel, steel products, accessories
- Tariff-free after 5 yrs
 - K: Mutton and lamb, edible beef offal, globe artichokes
 - C: Plastic goods (polyethylene), electric & electronic appliances, car parts

Market Opening Timetable (2)

- Tariff-free after 7 yrs
 - K: Fruit juice (grapes, strawberries), canned peaches, turkey meat, leguminous vegetables
 - C: centrifuge
 - Tariff-free after 9 yrs
 - K: Other fruit juices
 - Tariff-free after 10 yrs
 - K: Dried fruits, peach, pork, skate fish, sardines
 - C: Tires (industrial-use), car batteries, vacuum cleaners, textiles, apparel, steel products
- * In 10 years, the FTA will provide for duty-free treatment of 96.2 percent of imports originating in Chile and 96.4 percent of imports from Korea.

Market Opening Timetable (3)

- Seasonal tariff (to be abolished after 10 yrs)
 - K: Grapes (non-harvest season, Nov-Apr)
- Tariff-free within 13 yrs
 - C: Tires (passenger car & bus-use), textiles & apparel, steel products
- Tariff-free within 16 yrs
 - K: Mixed fruit juice
- Tariff Rated Quota+DDA
 - K: Beef, poultry, plums & tangerines

Market Opening Timetable (4)

- Postponed after DDA
 - K (370 agricultural items): Food spices (garlic, red pepper, onion)
- Excluded
 - K (21 items): Rice, apples, pears
 - C (54 items): Washing machines, refrigerators

Key Issues

- Market access (Ch.3)
 - Korea emphasized specificity in Korea's agricultural tariff structure and sensitivity in some items
 - Chile made it a principle to liberalize all agricultural goods in 10 years
 - Chile, competitive: 107 ha farm household, Korea 0.5 ha.
- Bilateral Agricultural Safeguard (Ch. 3: exception from Ch. 6)
 - Chile wanted to minimize safeguard but with Korean concern, agreed for serious injury or market disturbances (NO OBJECTIVE CRITERIA such as market share, operation rate, employment; NO TERM)
 - Halt tariff reduction or tariff increase not beyond MFN

Key Issues (2)

- Rule of Origin (Ch. 4)
 - Based on NAFTA, EU-Chile FTA
 - For agricultural goods, strict rule for change in tariff criterion, and higher value-added criterion; for manufactured goods, less strict CTC, lower VAC
- Anti-Dumping (Ch. 7)
 - Chile wanted to rule out bilateral application of anti-dumping, but both finally agreed to remain WTO-consistent.

Key Issues (3)

- Government procurement (Ch. 15)
 - Chile as non-WTO GPA member, wanted GPA-plus liberalization
 - Korea opened WTO GPA institutions, and Chile opened Chile-EU FTA institutions
 - Korea maintained SME protection policy
- Renegotiation in 4 yrs
 - C: Financial service market

4. Early Results of KCFTA

1. Visible increase of bilateral trade

	Apr 03(A)	J-M 04(B)	Mar 04	Apr 04(C)	V C/A	V C/B
Exports	40	45	59	61(65)	51(35)%	35%
Imports	102	154	181	193(127)	88(59)%	25%
Balance	-62	-109	-121	-132	112%	23%

*Unit: million

*Source: Korean Customs Administration.

*In parentheses, data from Chilean source.

3. Exports to Chile (thousand)

	Apr 03(A)	J-M 04(B)	Apr 04(C)	V C/A	V C/B
Automo	12,679	15,901	19,443	53%	22%
Cellular	912	2,235	6,967	664%	212%
HApplian	4,546	4,776	5,982	32%	25%
Petroch	7,092	4,464	4,767	-33%	7%

4. Imports from Chile (thousand)

	Apr 03(A)	E-M 04(B)	Apr 04(C)	V C/A	V C/B
Nonf(copp)	33,718	74,560	98,511	192%	32%
Metal	48,622	46,947	60,554	24%	29%
Chemic	8,389	19,899	17,543	109%	-12%
Agri/fish	11,212	12,592	15,998	43%	27%

5. Imports of Chilean grape (thousand)

-	J 04	F 04	M 04	A 04(C)	V C/A	V C/B
	739	1,228	2,493	4,972	235%	13%

- Seasonal preference, November-April

6. Imports of Chilean wine (thousand)

-	J 04	F 04	M 04	A 04(C)	V C/A	V C/B
	713(463%)	349(39%)	274(61%)	755	70%	264%

- Tariff reduction in five years, 12.5%
- Counts for 11% of total wine imports
- Impact of FTA appeared in advance

5. Significance for Korea

- Multiple trade policy from the traditional multilateralist approach, free from fear of marginalization
- Acquiring experience for future FTA negotiations
- FTA with a Latin American country, renewed focus on South American markets
- New test of market liberalization and domestic reform
 - Agricultural sector's protest came from restructuring since 1980s following changes of meal culture, investment on fruit industry and farmers' debt
 - Agricultural sector, only 4.2% of GDP, but politically powerful

6. Implications for Trans-Pacific Relations

- First trans-Pacific FTA between East Asian and Latin American economies
- FTA between the relative priority traders
 - Korea exports 6+ percent to Latin America, the highest
 - Chile exports 30+ percent to East Asia, the highest
- Contributing to intra-APEC trade acceleration

7. Ongoing Negotiations

- With the successful launching of the Korea-Chile FTA, pursuing FTAs has become a major pillar of Korea's trade policy.
- FTA roadmap announced in September 2003
- Korea is currently negotiating FTAs with Japan (3rd R) and Singapore (3rd R), and will negotiate soon with ASEAN.
- Korea explores possibilities of an FTA with Mexico, EFTA, Canada, India, MERCOSUR, EAFTA, etc.
- Long-term partners: China, US, EU
 - Cost-minimizing approach rather than securing market access

FTA Negotiation with Japan

- The first official government proposal for a joint study on a Korea-Japan FTA was made during Korean President Kim Dae-Jung's state visit to Japan in October 1998.
- The two governments appointed KIEP and IDE as joint research institutions, to examine the economic feasibility of an FTA.
- In summit talks of March 2002, the two countries agreed to form a Joint Study Group, composed of representatives from government, business and academia, to continue probing the possibility of establishing an FTA.
- After discussions over eight meetings, the Joint Study Group recommended that the two countries enter into negotiations at an early date to bring forth mutual benefits arising from an FTA.

- Negotiations commenced in December 2003 with the aim of concluding an agreement in 2005.
- Korea and Japan will be holding negotiations every two months.
- 7 areas under negotiation:
 - Trade in goods
 - Non-tariff measures (NTM)
 - Investment and trade in services
 - Other trade related issues (government procurement, competition policy, IPR),
 - Mutual recognition
 - Dispute settlement
 - Cooperation.
- Both sides reaffirmed the principle of comprehensive liberalization in the trade of goods and services to achieve substantial economic integration and maximize the benefits of the FTA.

FTA Negotiation with Singapore

- Korea and Singapore agreed to establish a Joint Study Group at the Trade Ministerial of the two countries in November 2002.
- The Joint Study Group, comprised of representatives from government, business and academia, held three meetings March through September 2003 to examine the feasibility and desirability of establishing an FTA.
- The Joint Study Group concluded that the Korea-Singapore FTA would bring about mutual benefits by providing greater and new opportunities, as well as larger economy of scale.
- JSG also concluded that an FTA would help to develop the competitiveness of both countries and to exploit emerging opportunities by strengthening Korea's economic engagement in Southeast Asia and Singapore's engagement in Northeast Asia.

- The first round of negotiations for the Korea-Singapore FTA was held in Singapore from January 27-29 2002.
- Korea and Singapore agreed that the FTA should be in accordance with WTO rules and should set a standard for other FTAs in terms of its quality.
- Both parties are aiming to conclude negotiations within a year and have agreed to hold a total of five rounds of negotiations to this end.
- The two countries have established nine working groups:
 - Market access, SPS/TBT/MRA, services, investment, government procurement, competition, IPR, cooperation, and dispute settlement.

Thank you!