

# **The Prospects for Korea's Participation for Mega FTAs in the Asia-Pacific Region**

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## **1. Korea's FTA performance**

The world economy has been confronting increasing number of regional trade agreements (RTAs). The number of RTAs including free trade agreement (FTA) has reached approximately 350 according the WTO statistics (as of October 2013), and crustal movements have been thus taken place with FTA oriented. Korea has been successful in concluding bilateral FTAs with its major trading partners such as the U.S. EU, India, ASEAN, Turkey and Colombia. Korea has formed free market for trade with 46 countries through the conclusion of 9 FTAs, and ranked as the 3<sup>rd</sup> in the world in term of the number of FTA partner countries.

The country is negotiating an FTA with China, expecting negotiations to be concluded by mid-2014. Korea commenced negotiations for a China-Japan-Korea (CJK) FTA and the Regional Comprehensive Economic Partnership (RCEP) agreement in the first half of 2013. FTAs with Australia, New Zealand, Canada, Mexico, and the Gulf Cooperation Council (GCC) are progressing slowly, compared to other FTAs, and Korea is in discussions for FTAs with Japan, Russia, and the South American Common Market (MERCOSUR).

Table 1: Korea's FTA Performance

	Country, Region, Economic Bloc
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Implemented (Concluded)	Chile(Implemented in April 2004) Singapore(March 2006) EFTA(September 2006) ASEAN(June 2007) India(January 2007) EU(July 2009) US(March 2007) Turkey(May 2013) Colombia(Will be implemented in 2014 after ratification)
Official Negotiation	China, Japan, China-Japan-Korea Regional Comprehensive Economic Partnership(RCEP) Mexico, Canada, Gulf Cooperation Council(GCC), Australia, New Zealand,

Sources: Compiled from various sources

It can be said that Korea was one of most successful countries in concluding FTAs with major trading partners in the world during the last decade. Its performance was not limited only to the number of FTAs. In the context of FTA quality, Korea's FTAs are very broad in terms of market access and comprehensive in coverage. In European terminology, the country has concluded "deep and comprehensive FTAs." The Korea-US (KORUS) FTA, in particular, has emerged as a basic textbook for FTA negotiations, and the U.S. has suggested it as a benchmark in the Trans-Pacific Partnership (TPP) negotiations. This article tries to analyze the background behind the performance of Korea's FTA policy with regard to several aspects such as the adoption of a national roadmap for FTA promotion, the establishment of a legal promotion system, and the improvement of public support for FTA promotion.<sup>1</sup>

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<sup>1</sup> Except where mentioned otherwise, the information presented in this chapter is sourced from Cheong (2007, 2010, 2013a, 2013b), Cheong and Cho (2009, 2010, 2011), Cheong and Tongzon (2013), Ministry of Trade (2004, 2005, 2011).

## **2. Possibility for Seeking a Mega FTA**

In general, Korea has been active in promoting FTAs with neighboring East Asian countries. It implemented the FTA with Singapore in March 2006 and the ASEAN-Korea FTA in June 2007. The negotiation for the China-Korea FTA began in May 2012 and is expected to be concluded mid-2014. Korea officially decided to participate at the negotiations for the CJK FTA and the RCEP agreement in late 2012. The first round of the negotiation for the CJK FTA was held in Seoul in March 2013, and the negotiation for the RCEP at the similar time. Although the country was invited for the TPP negotiation, Korea is not positively disposed toward the TPP, since the net impact of the trade bloc appears to be very mild for Korea. This section discusses Korea's approach to forming large trading blocs in East Asia, based on the author's previous studies, namely Cheong (2007, 2013a, 2013b) and Cheong and Tongzon (2013).

### **East Asian FTA<sup>2</sup>**

East Asian countries have been discussing a region-wide FTA since the launch of the East Asian Vision Group (EAVG). The East Asian member countries of the EAFTA have not reached a consensus about the inclusion of new countries as members toward forming a large trading bloc in East Asia. In the East Asian FTA expert study group led by China during 2005–2006, the issue of membership in EAFTA was hotly debated. China preferred ASEAN+3(CJK) members, while Japan proposed ASEAN+6 including Australia, New Zealand and India into ASEAN+3. One of Japan's arguments supporting the proposal of the ASEAN+6 format is based on the fact that the economies of Australia, New Zealand and

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<sup>2</sup> This subsection is based on Cheong (2007) and Cheong and Tongzon (2013).

India are closely connected with East Asia, and the larger trading bloc would bring higher economic gains for East Asian countries.

The Korean government has confirmed its position in favor of the ASEAN+3 format for the membership of East Asian FTA, assuming that it was not desirable for the number of member countries to increase when a binding regional trading agreement is yet to be concluded. Regarding additional members, Korea argued that it would be more realistic to recommend these countries to join only after a system for pushing forward a region-wide trading bloc is determined. This early group would assume the role that the European Economic Community (EEC) in Europe played in 1960s. After the bloc is formed, doors would be open to Australia, New Zealand, and India as well, and for higher economic effects.

Currently the RCEP could be regarded as an EAFTA, and its members are ASEAN+6 countries. Although members have held rounds of negotiations irregularly, the people of the three countries have not paid attention to the negotiation. While no countries lead the negotiation for the RCEP, more than half of ASEAN countries are negotiating the TPP. Considering these factors, the prospect for the RCEP does not seem to be bright.

### The TPP<sup>3</sup>

The proposed TPP has offered another path to economic integration, having the following merits: first, the U.S. would be a member of the bloc; second, depending on the policy intentions of the TPP member countries, the TPP could be a milestone in the realization of the Asia Pacific Economic Cooperation (APEC) FTA, which envisions a free trade area encompassing the entire Asia-Pacific region.

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<sup>3</sup> This subsection is based on Cheong (2013a) and Cheong and Tongzon (2013).

The widest possible membership in the TPP has been sought for economic and strategic purposes, and TPP proponents proposed bringing Japan and Korea in as a priority, envisioning this as a way to help decrease China's influence on regional trade arrangements. However, the potential effects of the TPP on the Korean economy, of course, do not seem to be plausible, since Korea already has bilateral FTAs with most of the TPP member countries (see Table 1 below) and is currently engaged in talks with Australia and New Zealand. Given this fact, the only way to determine if membership will be beneficial for Seoul is to analyze the TPP's marginal economic impact. As seen in Table 2, Korea's total exports were \$466 billion in 2010, of which nine TPP member countries absorbed 19.8 percent of the exports, a total of \$93 billion. Eighty percent of these exports went to the U.S., Singapore, and Vietnam.

Table 2. Relationship between Korea and the TPP member countries

Country		Nominal GDP (billion\$)	Korean Exports		Status of FTAs with Korea
			Value (billion\$)	Proportion (%)	
P4 member countries	Singapore	223	15	3.27	concluded
	Chile	203	3	0.63	concluded
	New Zealand	140	1	0.20	in negotiation
	Brunei	13	0.1	0.01	concluded
New member countries	U.S	14,658	50	10.68	concluded
	Australia	1,236	7	1.42	almost concluded
	Malaysia	238	6	1.31	concluded
	Peru	153	1	0.20	concluded
	Vietnam	104	10	2.07	concluded
Toward world			466	19.80	

Source: Assembled from various sources such as IMF and KITA Trade Data, recited from Cheong (2013a)

Since the terms relating to market access of existing FTAs would be included in the TPP agreement without changes,<sup>4</sup> Korea's potential gains from the TPP would only come from the FTA with New Zealand. For Korea, New Zealand is a small market, absorbing only \$900 million, or 0.2 percent, of Korea's global exports. According to a government report published when the negotiations for a Korea-New Zealand FTA began in 2009, South Korea's GDP would increase by 0.05 percent, while New Zealand's would grow 0.25 percent, following conclusion of an FTA.<sup>5</sup> Therefore, even if Korea joins the TPP, the net economic effects would not be considerable. In addition to the meager economic impact, it can not be ignored that the negotiations needed to settle the Korea-New Zealand differences would be difficult. Indeed, the history of attempts to forge an FTA between the two countries has not been promising.

This difficulty will be conveyed into the negotiations for the TPP, implying pessimistic prospects for Korea in the RCEP negotiations. In addition to this, the RCEP seems to have progressed slowly over long periods of time. Even though China announced joining the RCEP negotiation, China and Japan are not likely to cooperate with one another during the negotiations. Without close collaboration between the largest economies in the region, the RCEP negotiation may not see completion. For a group of members to lead the negotiations in East Asia is not an easy task.

Other than those by Korea, the FTAs concluded by most Asian countries so far are qualitatively poor in terms of market access and coverage, excluding most sensitive products from the liberalization package. ASEAN's FTAs narrowly define the trade of goods with long-term implementation periods, and Japanese

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<sup>4</sup> According to the current modality of TPP negotiations, if members have a FTA, the market access concession is to be adopted for the TPP.

<sup>5</sup> The economic effects of the Korea-New Zealand FTA on the Korean economy can be found in Newsis, "Han-Nuziland FTA Chegueli GDP 0.5% Zeungga" (The FTA between Korea and New Zealand brings about 0.05% GDP growth for Korea), March 3, 2009.

version of FTAs, which is called as Economic Partnership Agreement, basically allow sensitive agricultural items from tariff elimination. China concluded a high-quality FTA with New Zealand, but other FTAs by China are relatively poorer in the context of coverage, excluding major elements in investment and services. Thus, it is not likely that East Asian countries would adopt negotiation modalities, needless to mention conclude the negotiation.

#### Prospects for Korea's Seeking a Mega FTA

Although the government of Korea was not very enthusiastic towards building large trading blocs now, there are some possibilities for exploring mega FTAs. President Park Geun-hye emphasized Korea's strong position toward building a region-wide FTA in the Asia-Pacific region in 2013 APEC Leaders' meeting. The government held a public hearing on the TPP November 2013, and is under review for joining the TPP. In addition to these evolvments, there are some factors for Korea's involvement of large trading blocs.

First, Japan's participation into the TPP works in favor of Korea's consideration of a TPP membership. The position of no participation of the TPP is widely spread in Korea, but the losses of trade diversion from no membership of the TPP became to be raised recently.

Second, the contents of the TPP could be critical in Korea's decision for the TPP participation. If the TPP members agree a very comprehensive FTA with wide market access and substantial improvement of non-tariff barriers, Korea is likely to change its position towards the TPP. For example, if complete accumulation of regional origin is adopted, it could be a big concern for Korean companies. However, Korean authorities assess that complete accumulation of regional origin is not feasible in the current TPP.

Third, the progress of the TPP could produce both positive impacts and negative ones for the CJK FTA and the RCEP. Non-TPP countries such as China could promote those FTAs more actively, but the interest of Japan for those may be weakened with the progress of the TPP. Here, Korea's position may be important in building the CJK FTA or the RCEP, assuming the conclusion of a FTA negotiation with China. If the conclusion of the negotiation for the FTA with China is delayed, the country may pay more attention to the progress of the TPP.

Finally, new government of Korea, which took power February 2013, announced active role in forming a regional trading blocs in East Asia and Asia-Pacific region at the APEC Leaders' meeting October 2013. The government may pursue the TPP membership and(or) promote the RCEP more actively, depending on its assessment of the benefits and costs for policy changes.

### **3. Conclusion**

Because of the many FTAs concluded by it so far, the hurdles Korea faces when it promotes a FTA have decreased in difficulty. If the country concludes the FTA with China 2014, it will be more ready for additional FTAs as well as region-wide FTAs such as the TPP and the RCEP. Japan and Korea could improve political environment for a bilateral FTA in future. Unless Korea concludes negotiations for a FTA with Japan, it will not able to take an active position in the CJK FTA and the RCEP.

A key factor in deciding the promotion of a new FTA will be economic gains. If the RCEP adopts shallow market access and coverage, the RCEP incentive for most countries will be smaller, and the driving force for it is not likely to be generated. Before ASEAN proposes the RCEP, the ASEAN countries should be confident in drawing a deep and comprehensive FTA in the regional context, or



else the RCEP may end up as a mere discussion forum as done in the APEC's discussion for a FTA in the Asia Pacific (FTAAP).

China and Japan, the largest economies in East Asia, should cooperate in dealing with regional economic integration issues. While the same point could be applicable in the context of the Japan-Korea relationship, China and Japan have been competing for regional leadership in economic integration. As a result, the prospect for the CJK FTA negotiation is not optimistic as long as the current relationship in Northeast Asia is maintained. The RCEP will not be feasible without the CJK FTA.

From Korea's experience in concluding many FTAs, one can see that domestic procedures for promoting FTAs and improving public sentiment are important in minimizing the objections and criticism against active promotion of FTAs and that trade policy makers must maintain an open approach for negotiating FTAs. A trade policy entailing lowering trade barriers, such as the promotion of FTAs, can have considerable influence on stakeholders' interests and can induce a backlash from affected groups.

It is quite important to improve the political environment in promoting FTAs. All ten FTAs implemented/concluded by Korea have been controversial, but among these, the KORUS FTA has attracted the most resistance from various groups at the national level, sparking a fierce and wide controversy over political and economic issues as well as social and cultural ones. The fact that the FTA features the widest trade liberalization and deepest deregulation to date made it difficult for the trade authority to respond to a diverse range of domestically raised issues over the FTA. Owing to the firm opposition by civic organizations, the opposition party, and various special interest groups in the FTA negotiation process, the situation worsened, threatening the authority of the negotiators and even the administration. However, the government mobilized its resources to

spread the merits of an open trade system including the KORUS FTA, and finally, the majority of Koreans supported the FTA with the U.S. (Cheong 2013b).

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