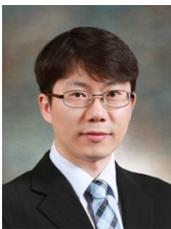


## A Decade of FTAs: Evaluation and Policy Implications



Young Gui Kim

Ph.D., Head of Regional Trade Agreement Team  
Korea Institute for International Economic Policy 

The year 2014 marks a decade since Korea concluded its first FTA ever, with Chile. Moving into the 2000s, stalled WTO DDA negotiations served as a backdrop for the rapid proliferation of FTAs, and being a nation with high trade dependency, Korea responded to such developments by shifting its trade policy direction from multilateralism to bilateralism.

Korea's FTA policy has been based on an FTA Roadmap formulated in 2003, which includes strategies, criteria and priorities in FTA partner selection, and so forth. The three principles are: multi-track approach with simultaneous negotiations, as opposed to phased or sequential; FTAs with comprehensive and high-quality coverage; and promotion based on public consensus.

Looking back on the past decade, in terms of extensive growth Korea has managed to successfully build an FTA network thanks to the simultaneous promotion of multiple FTAs with comprehensive and high-quality coverage. Starting off with the Korea-Chile FTA in 2004, as of 2014 Korea has effectuated nine FTAs with 46 countries including the US, EU and ASEAN and concluded three. Until recently, it has been beneficial to seek the position of an FTA hub by concluding as much FTAs with as many countries as possible, in order to lessen the damage of trade diversion and to create a favorable competitive environment. However, discussions on regional economic integration involving multiple countries have recently been in full swing, and it has become more important to serve as an intermediary in the FTA network to create a more favorable trade order. Having already concluded broad, high-quality FTAs with massive advanced economies such as the US and EU, Korea is equipped to actively join in discussions centered on these advanced nations, for instance the TPP. It is true, however, that in the East Asian region, where developing countries account for the majority, Korea falls behind Japan or China in terms of production networks or economic cooperation. Hence, it is time Korea looks into its role, in the long term, as an intermediary between the TPP and RCEP.

Meanwhile, the soundness of an FTA can be assessed by how much deeper the economic relationship with the FTA partner has become since effectuation. An analysis of FTA achievements from the perspective of bilateral trade shows that almost all FTAs have led to a positive effect. A case in point is the Korea-Chile FTA, which has raised exports by approximately 18.21% and imports by 18.07% on a yearly average. Depending on the FTA partner, industries were affected in different patterns, and in some cases the FTA had no impact whatsoever. Also, FTA-backed export surges generally occurred in items that were already being actively exported, thus on occasions resulting in a concentration in certain items. This implies that while FTAs were overall beneficial for exports and economic growth, there were some limitations in diversifying export markets or items. Thus, Korea should go beyond its focus on the trade of competitive goods to reflect the counterpart's market or growth potential in FTA negotiation strategies.

In the eyes of the Korean public, the past decade's FTA policy has not fully lived up to expectations. On one hand, negotiation procedures did not involve smooth internal communication, and on the other hand the benefits of FTAs were not shared equally. The Korean government has been implementing FTA follow-up measures providing support in various forms with an aim to boost the SME utilization rate of these agreements, but many have pointed out that

there was a lack of effort to reflect the voices of SMEs before or during negotiations. SMEs have enough problems with FTA utilization - due to labor shortages - to be voicing opinions in negotiation stages. This calls for a swift preparation of an institutional tool to ensure that SMEs have a say in the pre-negotiation stages. Meanwhile, if we look at the FTA benefits shared between large conglomerates and SMEs, the former appear to have enjoyed a relatively larger advantage in average export growth or export item diversification with the FTA partner country. Although exporting SMEs in part benefited from the higher number of FTA partners, since the global financial crisis there has not been much activity in this domain. On top of this, the import market has been opened to a larger degree, negatively affecting domestically-oriented SMEs and undermining the distribution structure of SMEs overall. More attention should be directed toward the equal distribution of FTA achievements, via supportive measures for exporting SMEs which are vulnerable to external shock, and effective safety nets for domestically-oriented SMEs harmed by liberalization.

Institutional advancement in the course of FTA promotion with developed economies has been an important policy goal for the Korean government. The groundwork has been laid, as FTAs with the US and EU include provisions on institutional advancement such as streamlining, enhancing transparency and aligning regulations. For this, however, to translate into stronger competition by boosting trade and investment, and further on to the higher competitiveness of Korean enterprises, we must continuously monitor whether this linkage remains firmly connected, and also accompany this with independent efforts to further advance institutions. **KIEP**