

Korea-China FTA: Evaluation and the Way Forward



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Korea-China FTA negotiations, which commenced in May 2012, were effectively finalized as of last November. Being Korea's largest trade partner and the world's second-largest economy, China marks a significant piece of the puzzle that completes Korea's FTA network encompassing the US, EU and ASEAN.

The Korea-China FTA is a comprehensive one, consisting of 22 chapters in total. A notable accomplishment is the individual chapters on finance and communications, a first for China to include in a free trade deal. The FTA's liberalization rate, which signifies the percentage of tariff lines subject to tariff elimination, will be 91% for China and 92% for Korea over the next 20 years. Compared to Korea's FTAs with other economies, this is not an impressively high figure.

However, an excessively high degree of liberalization could bring about unforeseen side effects and cause considerable damage, given the trade increase rate between the two countries and the speed at which the bilateral trade structure is changing. In addition to this, if the extent of liberalization was broadened in Korea's agricultural sector with the aim of raising the FTA's overall liberalization rate, ratification by the National Assembly may have proved to be a much costlier procedure. Thus, the Korea-China FTA can be said to have reached a reasonable liberalization rate, minimizing risk while seeking practical interest.

Amid the recent rapid growth of the Chinese economy, the Chinese government has been underlining a balance between exports and domestic demand. This is expected to benefit competitive small and medium-sized manufacturers in Korea that produce high-quality consumer goods. Meanwhile key items chiefly exported by large conglomerates have been generally excluded from tariff concessions, forecasting no particular changes in the export domain for large companies. Contrary to initial concerns over an import upsurge in agricultural products, most agricultural items have been protected from liberalization. On top of this, China is witnessing a rise in domestic demand for agricultural products, leaving less room for exports to Korea, and consequently lowering the possibility of import growth in the short term.

In services and investment, legal services, architecture, construction, distribution and entertainment were included in the concessions made for a segment of the service sector. ISD (investor-state dispute) settlement clauses were included to protect investors, and contact points in the central government and in each province are set to be designated to help solve the difficulties faced by Korean companies operating in China. It has been agreed that liberalization for the rest of the services and investment sector will be discussed in follow-up negotiations which will commence two years after this FTA takes effect. The agreement is considered to have well reflected industry views, in that the negotiations thoroughly dealt with issues that were continuously raised by Korean companies. Once the FTA is effectuated, Korean companies are expected to enjoy better business conditions in China, and the two countries are likely to witness more active culture and tourism exchanges.

Since the true value of an FTA lies in its implementation rather than its conclusion, we are now at the stage for seeking measures that encourage the full utilization of the Korea-China FTA. The agreement can become a stepping stone for competitive SMEs venturing overseas, for not only is China a close neighbor geographically, but it is also an active partner in the exchange of human resources. Also, as income levels in China continue to rise, so does the

interest toward food safety, opening possibilities for the increased export of domestic agricultural products. Therefore, existing FTA utilization measures should be modified and tailored to the Chinese market, to boost exports from the domestic manufacturing and agricultural sectors.

At the same time, the Korean government should prepare mid- to long-term measures for smaller Korean SMEs and the agriculture and fisheries industries. Since this Korea-China pact focuses on protecting agricultural and marine products, this will have inevitably led to weaker protection for small SME manufacturers. Even agriculture and fisheries, which are considered to have been sufficiently protected, will have to guard against the possibility of a heavier import inflow from China. If trade liberalization is an unavoidable trend, then it is advisable to prepare measures on restructuring and building competitiveness with a mid- to long-term vision. **KIEP**