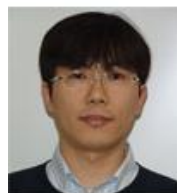



Time to Concentrate Efforts on Effective FTA Utilization



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On December 20, 2015, Korea's FTAs with New Zealand, Vietnam, and China entered into effect. As a result, Korea has successfully built an FTA network comprising of 14 bilateral FTAs with its trading partners including major economies such as the US, EU, ASEAN, and China by adopting a multi-track approach since the Korea-Chile FTA in 2004. Meanwhile, discussions on regional economic integration have been further inspired as the Trans-Pacific Partnership (TPP) was signed in February and 12 TPP member countries initiated ratification procedures. This is a clear illustration of the current shifts in the global trade environment. In such times, we should seek to benefit more from FTAs and prepare for regional integration by looking back on how FTAs have been performing.

Some people liken FTAs to highways of economic exchange. It is important for the highway to be well-designed and properly constructed, but it is even more important to ensure the active use and management of the road so it can fulfill its purposes. It is also essential that we reflect our industrial interests in FTA negotiations, but this is still second to the active utilization and implementation management of FTAs.

It is widely known that the Korean government is striving to better utilize FTAs, and this direction of policy is indeed desirable. Since the first FTA implementation and utilization agencies council on December 11, 2015, the Ministry of Trade, Industry and Energy (MOTIE) has held the council four times to check on the performance of FTAs in effect and to share examples of implementation. The more extensive use of FTAs requires a reflection on the following matters.

First, there is a need to define the accurate measurements and concepts of FTA utilization. The utilization rate is an index for measuring how well FTAs are being implemented. It is measured as the share of exports or imports actually receiving preferential tariffs out of total exports or imports eligible for preferential treatments. The accurate measurement of an export utilization rate, however, is a more difficult task than it seems. The customs authorities of the partner countries determine whether or not preferential tariffs under FTAs should be applied. Even in the case of receiving goods from exporters who provide certificates of origin for preferential treatment, importers may not necessarily receive preferential tariff on account of various reasons. In order to understand the current state FTA implementation, we must make accurate calculations of export utilization rates. To this end, the parties concerned should discuss the exchange of statistics at the FTA implementation committee.

Another problem regarding the FTA utilization rate is that this calculation excludes companies which do not currently export but have plans to do so. Furthermore, this measurement does not distinguish newly traded firms or products (extensive margin) from already-traded ones (intensive margin). To assess whether an FTA creates a new export opportunity, it is necessary to use measurements that distinguish between all of the cases listed above.

Second, the implementation status of the FTA should be evaluated from a variety of angles. According to Article 15 of the Trade Treaty Conclusion Procedure Act, the Minister of MOTIE should report the evaluation and implementation status of the trade treaty every five years after the treaty enters into effect. The report is expected to contain economic effects and industrial damage incurred by the trade treaty, and an evaluation of the effectiveness of domestic measures. Under the Enforcement Decree of the Act, the evaluation of the implementation status of the trade treaty should be based on objectively verifiable data and methodologies.

It is inevitable to focus on indices that can be obtained from objective analysis through a statistical approach. However, it must be noted that each trade treaty may have different policy

objectives and negotiation goals. Given that each treaty has a different area of specific priority, it is not appropriate to evaluate treaties through the same approach. Instead, we should focus on whether each treaty achieves its policy objectives.

Finally, we shed light on consumer surplus and importers' utilization. Judging by articles that cover FTA negotiations and implementation achievements, import growth is viewed in a negative light. To be sure, everyone must agree that FTAs bring benefits by pioneering new export markets and ensuring export competitiveness. At the same time, however, we should understand that import growth on the back of FTAs plays an important role: enhancing the competitiveness of products using imported intermediate goods, building a healthy competitive environment, reducing consumption prices, and introducing a wide variety of products. Therefore, policymakers should also exert efforts to increase utilization rates of imports, which can in turn promote competition and lower consumer prices. 