



Korea's FTA Policy

Inkyo Cheong, Ph.D
Research Fellow

Korea Institute for International Economic Policy (KIEP)

May 2003

Table of Content

1. Background to Korea's FTA Policy

2. FTA Policy of Korea

3. Business Hub Northeast Asia

1. Background to Korea's FTA Policy

◆ Diversification of Trade and Investment Relationship

- Since the 1960s, Korea has considered the global community as its main partner for economic cooperation. However, recently, trade and investment have been concentrating in a regional context.
- More specifically, it is necessary to diversify trading and investment partners within the region. This is why Korea chose Chile as its first FTA partner.
- Another positive effect of this diversification appears to be the stabilizing effect on the Korean economy.

Background to Korea's FTA Policy

◆ Avoiding Isolation

- The most notable aspect of today's regionalism is the 'bandwagon effect'. In other words, fear of isolation is a major reason why countries pursue FTAs, and this trend has been expanding into a domino effect. The effect is common in East Asia and Korea is no exception.

◆ Lock-in effects

- FTA agreements reduce the average import tariffs of the participating parties, and also serve as a device to ensure the continuation of reforms.

2. FTA Policy of Korea

◆ Korea's Basic FTA Policy

- Korea plans to actively pursue FTAs with its major trading partners in response to the worldwide spread of regionalism.
- In selecting prospective FTA partners, Korea carefully takes into account all key factors such as economic benefits, political and diplomatic considerations, and domestic constraints, including the vulnerability of the agricultural sector.
- Accordingly, Korea concluded its first FTA with Chile in October last year and is currently conducting joint studies on FTAs with Japan and Singapore.
 - In addition, Korea is positively considering promoting an FTA with ASEAN.

◆ Korea-Japan FTA

- Korea launched an FTA Joint Study Group with Japan in July last year and has held five meetings so far.
- The Korea-Japan FTA, if concluded, is expected to have a profound effect on the economic and political relations between the two countries. Furthermore, the bilateral FTA will also contribute to the establishment of the East Asian Free Trade Area (EAFTA) - a trilateral FTA consisting of Korea, Japan and China - in the long run.
- Korea will decide when to start formal negotiations based on the discussions of the Joint Study Group and after considering the suggestions of domestic constituencies.

◆ Korea-Singapore FTA

- Korea and Singapore have launched the Joint FTA Study Group as the first step towards the promotion of a bilateral FTA. The first meeting of the Joint Study Group was held in March in Seoul.

◆ Korea-ASEAN FTA

- The issue of an FTA with ASEAN has been given careful consideration, taking into account ASEAN's strategic importance and close trade and investment relations with Korea. However, given the diversity of ASEAN countries, in terms of stage of economic development, political systems and variety of sensitive sectors in the ASEAN countries, it will require a great deal of time and effort to establish a single FTA between Korea and ASEAN.

- In this context, Korea believes that it may be necessary to pursue FTAs with individual ASEAN countries as well as with ASEAN as a whole.
- Therefore, Korea is pursuing the Korea-Singapore FTA, assuming that such efforts will eventually serve as building blocks for the establishment of a Korea-ASEAN FTA.

3. Business Hub of Northeast Asia

- The new Korean government adopted its trade policy goal of becoming the business hub of Northeast Asia. That is, to make Korea into a business hub and commercial gateway to Asia, as well as to the Pacific Rim.
- Korea has many existing qualities that make it suitable a location for a regional business hub, including its ideal geographic location, world-class infrastructure, and human capital.

- However, Korea is currently far behind reaching its goal. I believe Korea's FTA policy, combined with the ongoing reforms, will help us achieve our ultimate goal.
- We hope the new government will be active in establishing FTAs with major trading partners.



*Thank you for
listening*