


## Korea-China FTA: Expected Effects and Future Directions



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**K**orea's exports to China stood at USD 130.2 billion as of 2012, which is 24.5% of total exports during the same period. If the Korea-China FTA is settled, Korea's exports to China are expected to increase considerably due to the eliminated tariffs and trade barriers. Also, according to the KIEP report on the analysis of the Korea-China FTA's economic effects, in the ten years after the FTA is concluded, Korea's GDP is expected to increase by 3.04%.

Moreover, the FTA can be used as a stepping stone for Korean companies seeking to enter the Chinese domestic market. Korea's exports to China are currently concentrated on interme-

diary goods for export use, and recently began to face some difficulties. Since the Korea-China FTA will lead to price reduction effects in all items, this may serve as an opportunity for key export items to be diversified into capital, intermediary and consumer goods.

In addition to this, if the Korea-China FTA leads to improved investment conditions, reduced non-tariff barriers and open trade in the services sector, the consequent economic benefits will be as large as those arising from liberalization in the goods sector. As of now, industrial circles in Korea are voicing concerns that China's reluctance will result in limited liberalization in the services sector. However, the China-Hong Kong CEPA negotiations show that China, in the course of eight rounds of additional negotiations, increasingly, albeit gradually, has opened its services sector. Considering such experiences, depending on how negotiations proceed, the FTA can be expected to bring considerable positive effects to the Korean economy.

Meanwhile, the joint statement announcing the launch of Korea-China FTA negotiations included an article on offshore processing zones designated by each side. If such an article is implemented effectively, the Korea-China FTA may even have a considerable positive impact on the issue of peace settlement on the Korean Peninsula. The Gaeseong Industrial Complex, a key contributor to easing tensions between North and South as well as promoting economic interests, has recently been undergoing some difficulties. If China and North Korea find a way to successfully manage offshore processing zones in the Rajin-Sonbong-Hunchun and Hwanggumpyong-Wihwado regions, South Korean companies will be able to take part, and this will also greatly contribute to opening up North Korea and establishing the groundwork for reunification.

Until recently, Korea and China have been engaged in active negotiations since the agreement to pursue a bilateral FTA was first announced in May, 2012. Initially, the plan was to hold six rounds of negotiations in 2012, but only four were actually held due to differences in opinion and changes in the political landscape.

Currently, the priority issue for both sides in the ongoing FTA negotiations is what percentage of the highly sensitive product list should be liberalized. Presumably, if the two countries agree to exclude all such items from the tariff elimination list, they will possibly conclude the first stage of the Korea-China FTA negotiations very soon. It is inadvisable, however, to conclude the FTA as a less ambitious agreement that liberalizes the goods sector in a limited

scope. A low-level FTA of such kind may be in violation with WTO regulations, and such an agreement would hardly reap any practical benefits.

Therefore, it would be advisable to minimize the shares of highly sensitive items in trade value and tariff lines, and maximize the degree of liberalization. From Korea's perspective, an appropriate level of liberalization would be that of the 'Korea-ASEAN FTA plus.' Meeting this level for the Korea-China FTA would secure the practical benefits of liberalization while at the same time protecting a considerable portion of Korea's sensitive items.

The significance of the Korea-China FTA goes beyond strengthened cooperation between two countries. Recently, major countries have been in hot pursuit of bilateral and multilateral FTAs. The US is pushing ahead with the Trans-Pacific Strategic Economic Partnership (TPP) with nations on the pacific coast, and is now proceeding with the Transatlantic Trade and Investment Partnership (TTIP) with the EU. Japan, recognizing that the country's loss of growth engine results from a lack of FTAs with major countries, has recently announced its plan to participate in TPP negotiations. In the East Asian region, negotiations on the Korea-China-Japan FTA have begun last year, in addition to the RCEP (Regional Comprehensive Economic Partnership) negotiations involving Korea, China, Japan, ASEAN nations, Australia, New Zealand and India

Under such circumstances, concluding a Korea-China FTA will help establish Korea as the FTA hub of East Asia, enabling the country to lead discussions on intra- as well as inter-regional economic integration. Of particular note is the fact that Korea is the only Asian country to have concluded FTAs with both the US and EU, and can therefore play a bridging role between these two giant economies. **KIEP**