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Korea's Role in the Development of RTAs in East Asia

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I. Expanding RTAs

📄 **Five economies in East Asia (Korea, Japan, China, Taiwan, Hong Kong) are not members of any Regional Trading Arrangements.**

⇒ **Northeast Asia as the only region in the world without any strong regional integration forces.**

Table 1. GDPs and FTAs of the World's Major Economies

Rank	Country	GDP (bil. dollars)	World Share	Participating FTAs
1	USA	7341.9	25.7%	NAFTA
2	Japan	4599.7	16.1%	
3	Germany	2353.2	8.2%	EU
4	France	1540.1	5.4%	EU
5	Italy	1207.7	4.2%	EU
6	United Kingdom	1145.8	4.0%	EU
7	China	815.4	2.9%	
8	Brazil	748.9	2.6%	MERCOSUR
9	Spain	581.6	2.0%	EU
10	Canada	579.3	2.0%	NAFTA
11	Korea	484.8	1.7%	
12	Russia	440.6	1.5%	CIS Economic Union
13	Australia	392.5	1.4%	ANZCER
14	Netherlands	392.4	1.4%	EU
15	India	356.0	1.2%	SAPTA
16	Mexico	334.8	1.2%	NAFTA
17	Argentina	294.7	1.0%	MERCOSUR
18	Switzerland	293.4	1.0%	EFTA
19	Taiwan	272.3	1.0%	
20	Belgium	264.4	0.9%	EU
21	Sweden	250.2	0.9%	EU
22	Austria	226.1	0.8%	AFTA
23	Indonesia	225.8	0.8%	AFTA
24	Thailand	185.0	0.6%	EU association
25	Turkey	181.5	0.6%	agreement, FTA with
26	Denmark	174.2	0.6%	EFTA
27	Norway	157.8	0.6%	EU EFTA
28	Hong-Kong	154.8	0.6%	
29	Poland	134.5	0.5%	CERTA
30	Republic of South Africa	126.3	0.4%	SADC
	Subtotal	26255.8	91.9%	
	World	28583.7	100.0%	

II. Why an FTA?

Increasing importance of RTAs in the world trade

Table 2. Number of Regional Trade Agreements Notified to GATT/WTO

	1948	1955	1960	1965	1970	1975	1980	1985	1990	1995
	~ 1954	~ 1959	~ 1964	~ 1969	~ 1974	~ 1979	~ 1984	~ 1989	~ 1994	~ 2001.3
Number of notifications	2	3	12	9	21	19	6	5	47	101
Total notified	2	5	17	26	47	66	72	77	124	225 ¹⁾

Changes in the international perception on RTAs

II. Why an FTA?

📄 **Securing export and investment markets**

📄 **Accelerating restructuring and opening of the Korean economy**

📄 **Strengthening political and economic ties**

III. Current Status of Korea's FTA Initiatives

1. Korea-Chile FTA : Current Status & Economic Effects

📄 FTA negotiation currently in stalemate due to strong opposition from agricultural sector

Table 3. Expected Economic Effects of a Korea-Chile

(Unit: US\$ million)

	Overall Tariff Liberalization	50% Tariff Reduction in Agriculture	With Agriculture Excluded
Welfare	960	960	950
GDP (%)	0.01	0.01	0.01
Exports ¹⁾	660	660	660
Imports ¹⁾	260	250	240
Trade Balance	400	410	420

1. Korea-Chile FTA : Future Challenges

- ▣ **Geographical distance**

- ▣ **Response of sensitive sectors**

- ▣ **Need for support and active participation of private sectors**

- ▣ **Compatibility with multilateral initiatives**

2. Korea-Japan FTA : Economic Effects (1)

Table 4. Economic Effects of a Korea-Japan FTA

(Unit: US\$ billion)

Economic Indicators(Korea)		KIEP	KIET	IDE
Welfare (%)		-0.19	0.48	-
Real GDP (%)		-0.07	-0.07	-
Changes in Total Exports (%)		2.32	0.43	2.80
Changes in Total Imports (%)		3.40	1.00	2.47
Trade Balance	Changes in Trade Balance with Japan	-6.09	-3.36	-3.88
	Changes in Trade Balance with Other Regions	4.56	2.77	4.17
	Changes in Total Trade Balance	-1.54	-0.59	0.29

2. Korea-Japan FTA : Economic Effects (2)

Table 5. Overall Economic Effects of a Korea-Japan FTA

(Unit: US\$ billion, %)

Economic Indicators(Korea)		Overall Economic Effects
Welfare (%)		11.24
Real GDP (%)		2.81
Trade Balance	Changes in Trade Balance with Japan	-6.53
	Changes in Trade Balance with Other Regions	8.01
	Changes in Total Trade Balance	1.48

2. Korea-Japan FTA : Future Challenges

- ▣ Further deterioration of the trade balance
- ▣ Stagnation of bilateral direct investment
- ▣ Similarity in production structure: from inter-industry to intra-industry trade
- ▣ Need for a comprehensive business initiatives

3. Korea-U.S FTA : Economic Effects (1)

**Table 6. Economic Effects of a Korea-U.S. FTA
on the Korean Economy (KIEP)**

(Unit: US\$ billion, %)

	Comprehensive Liberalization (100%)	Agriculture	
		Partial Liberalization (50%)	Whole Exclusion
Welfare Index (%)	1.73	1.51	1.19
Equivalent Variation	4.8	4.2	3.3
Real Income (%)	1.47	1.10	0.78
Price Index (%)	-3.11	-0.07	0.22

3. Korea-U.S FTA : Economic Effects (2)

**Table 7. Economic Effects of a Korea-U.S. FTA
on the Korean Economy (IIE)**

(Unit: US\$ million, %)

Economic Effects	Comprehensive FTA		Agriculture Excluded	
	Medium Run	Long Run	Medium Run	Long Run
Welfare Effects ²⁾	4,099.6 (0.91)	10,860.7 (2.41)	1,712.2 (0.38)	4,923.4 (1.09)
Exports to U.S. (%) ³⁾	26.2	30.3	23.8	25.5
Imports from U.S. (%) ³⁾	46.1	49.4	22.1	23.3

3. Korea-U.S FTA : Future Challenges

▣ **Strong opposition from sensitive sector**

⇒ **Korea: agricultural sector**

⇒ **U.S.: textiles, wearing apparel and automobile sectors**

4. Other FTAs Under Consideration

☰ Joint feasibility study of other FTAs :

- ⇒ Korea-New Zealand FTA: interim report exchanged in March 2001
- ⇒ Korea-Thailand FTA: expected to be released soon
- ⇒ Korea-Singapore FTA, etc

☰ Talks on the need for the formation of ASEAN+3 (Korea, Japan and China)

IV. Selection of FTA Partners

- ▣ **Structure of Comparative Advantage**

- ▣ **Income Level**

- ▣ **Level of Outstanding Trade Barriers**

- ▣ **Market Size**

- ▣ **Geographical Proximity**

1. The Structure of Comparative Advantage

📄 Competitive vs. Complementary ?

⇒ Competitive ⇒ Intra-industry trade

⇒ Complementary ⇒ Inter-industry trade

Table 8. Matrix of Spearman's Rank Correlation of RCA

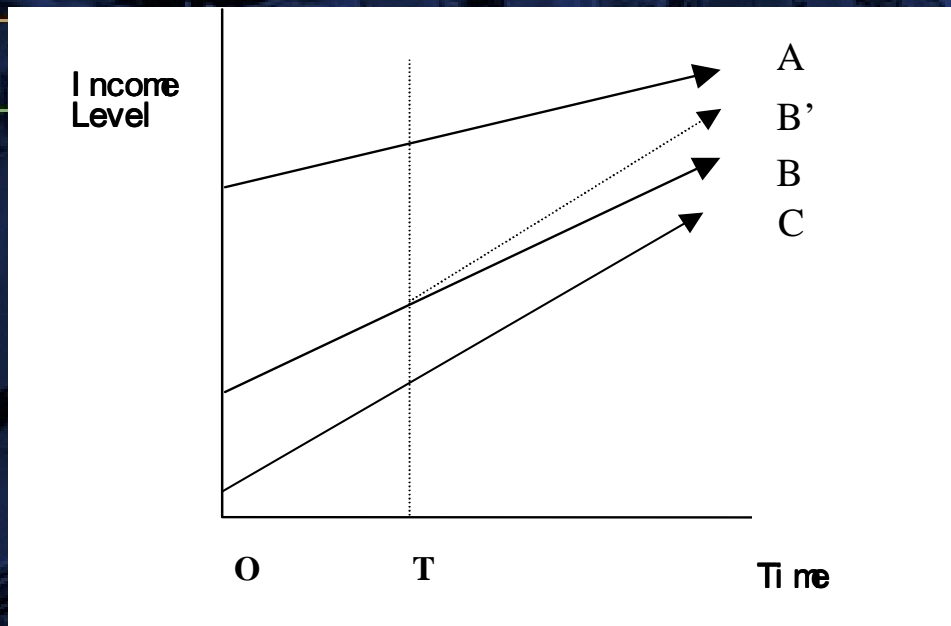
	Japan	China	U.S.
Korea	0.584	0.2852	-0.0576
Japan		0.1754	0.3094
China			-0.3049

2. Income Level

 **With a high income country or low income country?**

⇒ Increasing convergence of income levels

Figure 1. Accelerated Income Convergence Effect of FTAs



3. The Level of Outstanding Trade Barriers

With Gravity model analysis

Table 9. The Size of Missing Trade

Country	Actual Trade (T)	Potential Trade (\hat{T})	T/ \hat{T} (%)
Chile	1,583	668	237
Italy	4,400	3,293	134
Malaysia	5,001	4,105	122
U.S.	50,184	45,845	109
Australia	5,039	4,717	107
Taiwan	6,166	6,123	101
New Zealand	989	1,003	99
China	19,165	22,343	85
Canada	3,830	5,616	68
Japan	46,896	70,059	67
Thailand	3,342	5,231	64

4. Overall Assessment

Table 10. Assessment of Selection Criteria of Korea's Major Trade Partners

	U.S.	China	Japan	EU	AFTA
Structure of Comparative	Complementar	Middle	Competitive	Competitive	Complementar
Geographical Proximity	Distant	Close	Close	Distant	Mid
Income Level	High	Low	High	High	Low
Market Size	Big	Big	Big	Big	Small
Level of Missing Trade	Low	High	High	Low	Mid

V. Implications to the East Asian RTAs

1. The Need for Northeast Asian FTA

▣ **Response to the strengthening of regionalism in the world economy**

- ⇒ Expansion of intra-regional trade
- ⇒ Gaining easier market access and stimulating foreign direct investment
- ⇒ Pursuit of common interest

2. Approaches to Northeast Asian FTA

▣ Cooperation in multilateral context

- ⇒ China's accession to the WTO
- ⇒ Cooperation in Doha Development Agenda
- ⇒ Pursuit of common interest

▣ Regional economic cooperation scheme

- ⇒ Cooperation in APEC
- ⇒ Korea-China-Japan FTA

① A trilateral FTA among Korea, Japan and China

② Two staged economic integration:

 bilateral FTA between Korea and Japan
 and incorporation of China at a later stage

3. Approaches to East Asian FTA

▣ East Asian Economic Integration

⇒ Natural Selection in the Region = East Asian FTA

⇒ Southeast Asian FTA (AFTA) + Northeast Asian FTA

▣ Other approaches to Northeast Asian Integration

⇒ ASEAN+3 Process

▣ CMI (Chiang Mai Initiatives)

VI. Challenges Ahead

☰ Two challenges ahead for East Asian FTA

⇒ China's capability for tariff cuts for the Northeast Asian FTA

-WTO entry criteria: 16.8% to 9.44%

-FTA: zero tariff

⇒ From Enabling Clause to GATT XXIV for the Southeast Asian FTA

-Ensuring compatibility with the WTO for East Asian FTA