

The ROK's FTA Policy:
Developments under the Lee Myung-bak Administration

Tomoyoshi Nakajima

May, 2010
Niigata, Japan

The ROK's FTA Policy: Developments under the Lee Myung-bak Administration

Tomoyoshi Nakajima
Associate Senior Economist, ERINA

The ROK, through the trade for its economic development, came to greatly depend on external markets. Consequently, regarding the elimination of trade barriers, like Japan it placed emphasis on multilateral negotiation frameworks via the systems of GATT and the WTO, and hadn't been proactive in bilateral or intraregional trade agreements, including Free Trade Agreements (FTAs).

The moves in the 1990s, however, to large-scale regional economic integration, such as the establishment of the EU joint market in Europe, and the conclusion of the North American Free Trade Agreement (NAFTA), which includes the United States, have also greatly affected the ROK, which has the aim of being a trading nation. Furthermore, as an opportunity from the 1997 Asian currency crisis, the moves on intraregional cooperation in East Asia also came to make realistic an FTA or the like in the region. Having undergone such changes in environment, from the end of the 1990s on the ROK turned around its policy to actively take the initiative, designating FTAs as an important part of trade policy. Presently, it has come to be judged as one of the nations most enthusiastic about FTAs in global terms as well.

In this paper, concerning such ROK FTA policy, we would like to make summaries, including the recent moves of the Lee Myung-bak administration, and give the outlook for the future.

1. The Development of the ROK's FTA Policy

1.1 The FTA Policy of the Roh Moo-hyun Administration

Table 1 summarizes the state of conclusion of ROK FTAs. The first FTA for the ROK, commencing negotiations in 1999 under the Kim Dae-jung administration, was the ROK–Chile FTA, signed in 2003.

Next, the Roh Moo-hyun administration, which commenced in 2003, regarding trade policy—despite originally having a foundation of left-wing political forces—placed the focus on FTAs and promoted liberalization. For concrete policy management, they created the “FTA Roadmap”¹ that showed an FTA strategy

¹ Ueda (2008) gives more detail regarding the FTA Roadmap.

prioritizing negotiations, etc., and accelerated FTA negotiations. Within it, regarding the neighboring nations of East Asia, they designated them as negotiating partners that they should prioritize in the short term, and based on these, negotiations with Japan, Singapore and ASEAN were started.

Then learning from the delay in ratification of the ROK–Chile FTA, via the opposition of agricultural groups, etc., in June 2004 the “Procedures for the Conclusion of Free Trade Agreements” was stipulated in the form of a presidential directive. Based on this, an FTA Promotion Committee for deliberating on the fundamental direction of FTA strategy, and beneath it an FTA Practice Consultation Committee, comprised of people at the vice-minister level from related ministries and agencies, and a Private FTA Council of Advisors of private-sector experts were established. Additionally, in October 2004, the FTA Negotiations Bureau (FTA Bureau) was established under the Minister of Trade of the Ministry of Foreign Affairs and Trade, taking aim at the practical work of FTA negotiations. Via these systemic adjustments, the FTA negotiation capacity of the ROK government was greatly strengthened.²

Within the FTA negotiations with the countries of East Asia, negotiations with Singapore and ASEAN have proceeded smoothly, and have gone as far as the conclusion of FTAs, yet the negotiations with Japan were suspended in November 2004. The ROK government has officially explained the reason for that suspension as the passive attitude on the Japanese side relating to the elimination of tariffs on agricultural products. The viewpoint has been offered, however, that the problem of agricultural products is not a genuine obstacle to this, and that the reason is that the ROK side was not able to uncover the advantages which would compensate for the disadvantages³ via the elimination of the tariffs on manufactured goods which were obviously expected.⁴

Via the suspension of the Japan–ROK FTA negotiations the development of policy based on the “FTA Roadmap” suffered a setback. In its place the Roh Moo-hyun administration in February 2006 commenced FTA negotiations with the United States, a large-scale advanced economy, designated in the “Roadmap” as a “long-term negotiations partner.” For the negotiations which included many areas of

² Based on Oike & Baba (2007), Okuda (2007), and Ueda (2008).

³ Concerning manufactured goods, Japan’s tariff rate is already low, and there is not much chance for the effect of an increase in exports via the elimination of tariffs on the ROK side. Concerning tariff rates, see Tables 3 and 4 shown later.

⁴ For example Yamamoto (2008) summarizes the background to the negotiations and takes the main cause for their failure as “the ROK side not having the confidence that a Japan–ROK FTA would be win-win.” Also, Cheong & Cho (2007) for more detail regarding the ROK side’s thinking in Japan–ROK negotiations.

conflicting interests, such as agricultural products, automobiles, and trade in services, initially it was viewed difficult to get an agreement, yet it was signed in June 2007 in the form of a sell-out.⁵

The ROK–US FTA, seen from criteria such as the economic scale and amount of trade of the other country, can be called an unprecedented, large FTA for the ROK. Additionally, the content of that agreement is also of a high level, and trade in commodities has been practically 100% liberalized, including agricultural products, with the exception of rice, etc.⁶ In the services sector also the degree of liberalization is high, and for East Asian FTAs it is of a type that has never been seen before.

Following this, the Roh Moo-hyun administration commenced negotiations in May 2007 with the EU, which is similarly designated a large-scale advanced economy. At this point in time it can be said that the “Roadmap” has been shelved completely, and FTA strategy has been adopted which selects the partner by placing emphasis on the scale of the economy and the amount of trade.

⁵ Oike & Baba (2007), and Okuda (2007) give more detail on the content of the ROK–US FTA.

⁶ According to Kuno & Kimura (2008), in the case calculated on a tariff-line basis (on the basis of the number of goods), the US tariff elimination is 100%, and that for the ROK is 99.7%. This is greatly above the level of other examples of FTA liberalization in East Asia, including Japan.

Table 1 The State of Conclusion of ROK FTAs (as of August 2009)

Current Situation	Partner Country / Countries	History of Negotiations	Current Situation
Signed	Chile	Commenced September 1999, Signed February 2003	Effective April 2004
	Singapore	Commenced October 2003, Signed November 2004	Effective March 2006
	EFTA ¹	Commenced December 2004, Signed July 2005	Effective July 2006
	ASEAN ²	Commenced November 2004, Signed April 2006	Effective June 2007 (goods) Effective May 2009 (services)
	United States	Commenced February 2006, Signed June 2007	
	India	Commenced February 2006, Signed August 2009	
Under Negotiation	Japan	Commenced October 2003	Negotiations suspended since November 2004
	Canada	Commenced July 2005	
	GCC ³		
	Mexico	Commenced September 2005	
	EU ⁴	Commenced May 2007, Concluded July 2009	
	Peru	Commenced March 2009	
	Australia New Zealand	Commenced May 2009 Commenced June 2009	
Joint Research (industry, government, & academia)	MERCOSUR ⁵		
	China		
Concept Stage	Japan–China– ROK FTA		
	EFTA (ASEAN + 3) ⁶		
	EAEPA (ASEAN + 6) ⁷		

- Notes:
- 1 The Free Trade Association of the four countries of: Switzerland, Norway, Iceland, and Liechtenstein
 - 2 The ten countries of: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam
 - 3 A customs union of the six countries of: Saudi Arabia, the UAE, Oman, Qatar, Kuwait, and Bahrain
 - 4 A customs union of the twenty-seven countries of: Belgium, Germany, France, Italy, Luxembourg, the Netherlands, Denmark, Ireland, the United Kingdom, Greece, Spain, Portugal, Austria, Finland, Sweden, the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia, Romania, and Bulgaria
 - 5 A customs union of the four countries of: Brazil, Argentina, Uruguay, and Paraguay
 - 6 ASEAN, Japan, China, and the ROK
 - 7 ASEAN, Japan, China, the ROK, India, Australia, and New Zealand

Sources: Compiled by the author from a variety of materials

1.2 The FTA Policy of the Lee Myung-bak Administration

Regarding the Lee Myung-bak administration, which commenced in February 2008, taking the conservative classes as a political base, the Grand National Party (*Hannara*), which became the ruling party, basically had a pro-FTA stance from the time of the Roh Moo-hyun administration when it was the opposition party. Consequently, after the change in administration, the Lee administration took a form inheriting the FTA policy of the previous Roh administration, and came to inherit the two great leftover challenges of ratifying the ROK–US FTA and the conclusion of an ROK–EU FTA.

The Obama administration, which commenced in 2009, adopted a cautious attitude concerning the ratification of the ROK–US FTA, and in spite of the enthusiasm of the ROK side there is a state of affairs where progress cannot be seen. For the ROK–EU FTA on the other hand, in spite of there being sectors with fierce conflicts of interest, such as automobiles, a conclusion was achieved in July 2009, and they have reached the stage of waiting for the formal signing.

In FTAs other than these, the negotiations with India which had continued since 2006 came to an end, and went on to be signed in September 2008. Moreover, in 2009 negotiations were commenced with Peru, Australia and New Zealand.

Table 2 shows the trade ratios with the nations with which the ROK has concluded FTAs. In terms of trade ratios with countries where an FTA is currently in effect, in the ROK case it has stalled at 12.1%, behind Japan. In the future, however, when they add the United States, India and the EU, which are prospective nations for FTAs coming into effect, the trade ratio will rise to 35.3%, and will reach a level that surpasses the likes of the United States and China. Furthermore, at the stage when those three countries or regions have been added, the GDP of the

nations with which the ROK has concluded an FTA has the promise of reaching 60% of that for the entire world. Seen from these indices, it can be read that the recent progress in FTA policy is something of significance.

Table 2 The Trade Ratios of the Major Nations which have Concluded FTAs with the ROK

	ROK (2008 trade amount basis)				Major Country (2007 trade amount basis)						
	Countries for which in effect (as of July 2009)	US	India	EU	US	China	Japan	Singapore	Chile	New Zealand	
FTA Trade Ratio (%)	Ratio	12.1	9.9	1.8	11.5	34.0	19.7	14.7	67.7	83.2	37.0
	Cum. Total	12.1	22.0	23.8	35.3						

Source: Ministry of Strategy and Finance, ROK (2009)

In the meantime, regarding FTAs with East Asian countries, except for the FTA with ASEAN that has gone into effect, swift progress cannot be seen. After the start of the Lee administration, moves to recommence the negotiations with Japan which have been suspended since 2004 have been seen, yet in the current situation these have stalled at a working-level preparatory-negotiation stage. Moreover the FTAs—including a bilateral FTA with China, a China–Japan–ROK FTA, ASEAN Plus Three, and ASEAN Plus Six—have all stalled at the joint-research or conceptual phase.

Amid such circumstances, in March 2009 President Lee Myung-bak, on a visit to Jakarta, presented the “New Asia Initiative”. Within it, as one of the most important items, “The ROK assumes the role of the hub of an Asian FTA network, and aims for the early conclusion of FTAs with all of the countries within the region” was raised. Although concrete procedures were not indicated in the initiative, the ROK again demonstrated its continuing emphasis on Asia in its FTA strategy, after the completion of FTAs with both of the large-scale economies of the United States and the EU.

2. Analysis of the Economic Effects of ROK FTAs

2.1 The Simulation Analysis Framework

Regarding the ROK FTAs we have mentioned up to this point, in what follows we shall raise the major points thereof, and analyze the economic effects. For the method of analysis we employed the Global Trade Analysis Project (GTAP) database and used the Computable General Equilibrium (CGE) model.⁷

The model used in this simulation analysis is the standard GTAP model from the GTAP 7 Database which takes 2004 as its reference year.⁸ In the GTAP model, via altering the endogenous variables of the model, it is also possible to analyze the medium- and long-term economic effects of FTAs which include capital accumulation. Furthermore, it is possible to incorporate the increase in productivity through FTAs via manipulation, assuming a value for total factor productivity, set as an exogenous variable.⁹ In this model, however, such a configuration has not been incorporated, and we have adopted a form that deals only with short-term changes in the improvement of resource allocation via the elimination of trade barriers in tariffs and the like. Considering the actual situation—partner countries are varied in the scale of their economies and industrial structure, etc.—where the agreed terms of the FTA and the content of negotiations differ respectively, and in order to compare these economic effects cross-sectorally, this is a matter based on first narrowing down the target to the direct effects of making resource allocation more efficient via the elimination of tariffs and the like, with the exception of capital accumulation and the raising of productivity, which can be called direct effects.

Additionally in the model, matching up with the target of this analysis, for countries and regions we consolidated 25 regions from the 113 regions of the GTAP Database (Appendix Table 1) and similarly for industrial sectors, 13 from the 57 sectors (Appendix Table 2).

For the conditions for the simulation, we simply assumed the complete elimination of tariffs and the like (Tables 3 and 4)¹⁰ on trade in goods. Consequently, policies such as the liberalization of trade in services are not included in the assumptions for this simulation. The projected economic effects are limited to the effects from the expansion of trade in goods.

⁷ For more details on the GTAP model and database, please see Hertel (ed.) (1997).

⁸ In Nakajima (2009), we used the GTAP 6 Database which takes 2001 as its reference year, and carried out practically the same analysis as this time for ROK FTAs.

⁹ In Korea Institute for International Economic Policy (KIEP) and others (2007), as shown later, they carried out such an analysis for the ROK–US FTA.

¹⁰ In the GTAP Database, they calculated the differences in prices arising from border measures, such as limits on import volumes, for the general tariff rates, and added them in.

Table 3: Tariff Rates of each Country, Territory, or Region for the ROK in the Analysis Model

	Australia	New Zealand	China	Hong Kong	Taiwan	Japan	Cambodia	Indonesia	Laos	Myanmar	Malaysia	Philippines
Agricultural produce (excl. rice)	0.0	0.4	16.2	0.0	37.1	5.9	7.0	3.9	0.0	4.9	19.1	6.9
Rice	0.0	0.0	0.0	0.0	0.0	0.0	7.0	0.0	0.0	0.0	0.0	50.0
Forestry products	0.0	0.0	10.0	0.0	0.0	2.7	0.0	0.0	0.0	1.5	0.0	2.0
Fishery products	0.0	0.0	12.5	0.0	13.7	5.3	0.0	4.8	0.0	0.0	15.7	5.1
Minerals	0.0	0.0	2.4	0.0	1.5	0.3	11.9	3.6	0.0	1.4	0.1	3.4
Processed foodstuffs	1.8	2.5	11.6	0.0	24.3	16.2	19.3	17.2	29.5	7.0	24.7	17.1
Textiles and apparel	10.4	3.6	12.7	0.0	6.1	8.0	9.5	9.6	9.9	11.7	15.4	6.8
Metals	2.5	3.3	5.5	0.0	3.8	0.6	12.3	9.1	5.4	2.0	8.5	3.9
Automobiles	9.0	10.4	21.8	0.0	43.0	0.0	19.8	29.1	27.1	6.1	80.6	18.4
Other transport equipment	2.5	3.5	6.2	0.0	3.3	0.0	19.7	0.3	15.5	0.9	4.1	3.1
Electronic & electrical equipment	1.0	0.4	2.7	0.0	0.2	0.0	14.9	1.6	5.1	3.7	2.6	0.2
Other machinery & equipment	4.4	4.5	6.9	0.0	3.3	0.2	15.3	3.8	5.4	1.3	5.9	3.4
Other manufactured products	5.2	3.6	8.1	0.0	3.0	2.6	9.7	4.3	8.6	2.7	7.6	4.9

(%)

	Singapore	Thailand	Vietnam	Rest of SE Asia	India	Canada	USA	Mexico	Mercosur	Chile	EU	Rest of the World
Agricultural produce (excl. rice)	0.0	28.5	3.0	0.0	17.5	1.0	1.3	5.5	7.2	4.2	18.8	8.8
Rice	0.0	0.0	0.0	0.0	0.0	0.0	7.0	0.0	0.0	6.0	31.3	1.4
Forestry products	0.0	15.0	2.1	0.0	0.0	0.0	0.4	13.1	3.7	0.0	0.7	4.5
Fishery products	0.0	43.4	5.4	0.0	2.2	0.1	0.1	21.0	7.5	6.0	1.4	7.6
Minerals	0.0	4.8	6.9	0.0	5.8	0.0	0.0	13.0	5.5	6.0	0.2	4.7
Processed foodstuffs	1.8	44.9	29.0	0.0	33.0	6.3	6.3	21.3	14.5	5.9	11.1	39.0
Textiles and apparel	0.0	21.1	32.9	0.3	15.1	11.4	11.9	20.1	16.8	6.0	8.5	12.6
Metals	0.0	10.9	5.8	0.0	16.8	0.7	1.2	14.4	13.0	6.0	1.9	9.1
Automobiles	0.0	39.9	34.3	54.4	18.5	5.8	2.4	22.0	26.5	6.0	9.8	13.6
Other transport equipment	0.0	3.6	34.3	15.1	11.5	22.6	0.0	17.6	12.2	2.1	0.9	5.8
Electronic & electrical equipment	0.0	7.9	8.8	4.6	2.2	0.1	0.3	4.7	9.7	6.0	1.3	6.5
Other machinery & equipment	0.0	9.4	7.2	16.0	14.4	0.8	1.5	14.7	12.6	6.0	1.8	10.3
Other manufactured products	0.0	16.6	12.2	1.4	14.4	2.8	2.8	13.8	12.7	6.0	3.8	9.5

(%)

Source: GTAP 7 Database

Notes:

- 1) Includes the differences between domestic and foreign prices from limits on import volumes, etc.
- 2) Being a weighted average price by the amount of trade, the value is 0% for those sectors in which there is no trade.

Table 4: Tariff Rates of the ROK for each Country, Territory, or Region in the Analysis Model

	Australia	New Zealand	China	Hong Kong	Taiwan	Japan	Cambodia	Indonesia	Laos	Myanmar	Malaysia	Philippines
Agricultural produce (excl. rice)	9.8	24.6	73.0	8.0	12.8	18.9	60.6	220.0	2.3	23.7	41.5	30.3
Rice	0.0	0.0	450.0	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Forestry products	2.0	2.0	4.8	0.0	2.4	2.6	7.6	2.5	0.0	0.0	1.4	4.5
Fishery products	10.8	16.1	15.4	10.4	10.1	17.5	29.0	19.4	0.0	10.6	21.0	22.3
Minerals	1.7	3.1	1.7	0.0	3.3	2.4	0.0	2.5	0.0	0.9	2.7	3.0
Processed foodstuffs	45.4	37.3	27.9	19.9	23.9	38.6	16.6	8.8	1.8	30.7	6.0	17.0
Textiles and apparel	3.0	6.8	11.0	11.8	6.9	9.4	11.1	8.4	11.3	11.7	8.9	10.5
Metals	3.0	3.2	3.5	3.0	4.9	2.8	7.7	3.2	0.0	0.2	3.3	3.3
Automobiles	8.0	6.9	7.7	7.9	7.5	7.9	0.0	4.6	0.0	8.0	8.5	8.1
Other transport equipment	2.1	3.3	4.8	3.1	4.3	2.2	0.1	0.2	0.0	6.0	1.2	0.6
Electronic & electrical equipment	1.0	1.7	1.9	0.8	0.2	1.5	0.4	4.1	0.0	2.5	0.8	0.2
Other machinery & equipment	5.5	5.4	6.8	5.9	5.3	6.4	6.3	5.3	8.0	2.3	6.7	6.8
Other manufactured products	6.3	4.7	7.2	5.6	5.5	6.6	1.0	4.2	6.8	6.0	4.8	5.8

	Singapore	Thailand	Vietnam	Rest of SE Asia	India	Canada	USA	Mexico	Mercosur	Chile	EU	Rest of the World
Agricultural produce (excl. rice)	34.0	5.6	312.0	56.0	87.8	9.8	19.5	15.0	8.4	43.6	11.4	80.7
Rice	0.0	450.0	0.0	440.4	0.0	0.0	450.0	0.0	0.0	0.0	0.0	329.3
Forestry products	2.4	4.4	4.0	4.2	3.1	2.0	2.0	2.0	4.4	2.2	2.5	1.6
Fishery products	12.1	19.5	19.9	17.5	18.0	19.8	19.5	12.3	9.9	27.5	18.0	18.5
Minerals	2.2	4.7	3.4	4.2	1.2	1.1	1.5	2.7	1.6	1.0	2.2	4.6
Processed foodstuffs	36.6	34.3	16.8	44.4	10.3	36.9	33.3	22.8	25.9	18.2	41.2	14.7
Textiles and apparel	8.7	9.0	10.1	10.5	8.1	8.6	9.4	9.2	8.7	5.2	10.5	9.3
Metals	4.4	3.3	5.0	5.1	2.8	3.0	3.4	3.3	2.5	4.3	4.7	2.5
Automobiles	7.7	8.1	8.1	8.1	9.0	8.2	7.9	8.0	9.5	8.0	8.0	7.4
Other transport equipment	0.8	4.7	4.4	4.0	5.3	4.2	1.5	5.1	0.0	0.0	2.3	1.6
Electronic & electrical equipment	0.1	1.0	4.4	0.0	1.7	0.9	0.4	2.7	5.5	2.9	1.1	1.1
Other machinery & equipment	5.2	7.3	7.2	8.0	6.3	5.8	5.4	7.0	5.2	6.2	6.1	5.8
Other manufactured products	6.0	4.9	6.7	5.3	6.2	2.9	6.2	6.9	5.1	2.8	6.8	5.2

Source: GTAP 7 Database

Notes:

- 1) Includes the differences between domestic and foreign prices from limits on import volumes, etc.
- 2) Being a weighted average price by the amount of trade, the value is 0% for those sectors in which there is no trade.

2.2 The Macroeconomic Effects of FTAs

In what follows we would first like to take a look at the results of the simulation regarding the effects of FTAs on the macroeconomics of the ROK.

Figure 1 is the effect seen of each FTA on the real GDP of the ROK. It can be seen that the results are large for FTAs which include ASEAN¹¹ or China as a partner: ASEAN Plus Six, ASEAN Plus Three, ROK–ASEAN, Japan–China–ROK, and ROK–China, etc. Among these the results for ASEAN Plus Six and ASEAN Plus Three, which include both the entities of ASEAN and China, are the greatest. The difference between ASEAN Plus Three and ASEAN Plus Six is small, however, and it can be seen that whether or not the three countries of India, Australia and New Zealand are included in the partner nations, they have almost no impact on the economic effects for the ROK.

¹¹ In this simulation we have set the extent of ASEAN as the nine countries of Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, and Rest of Southeast Asia in the GTAP Database.

In contrast the macroeconomic effects of FTAs with developed nations, such as Japan, the United States¹² and the EU are limited. In addition, the effects of FTAs with India and Mercosur are even smaller.

Figure 1: The Change in Real GDP via ROK FTAs

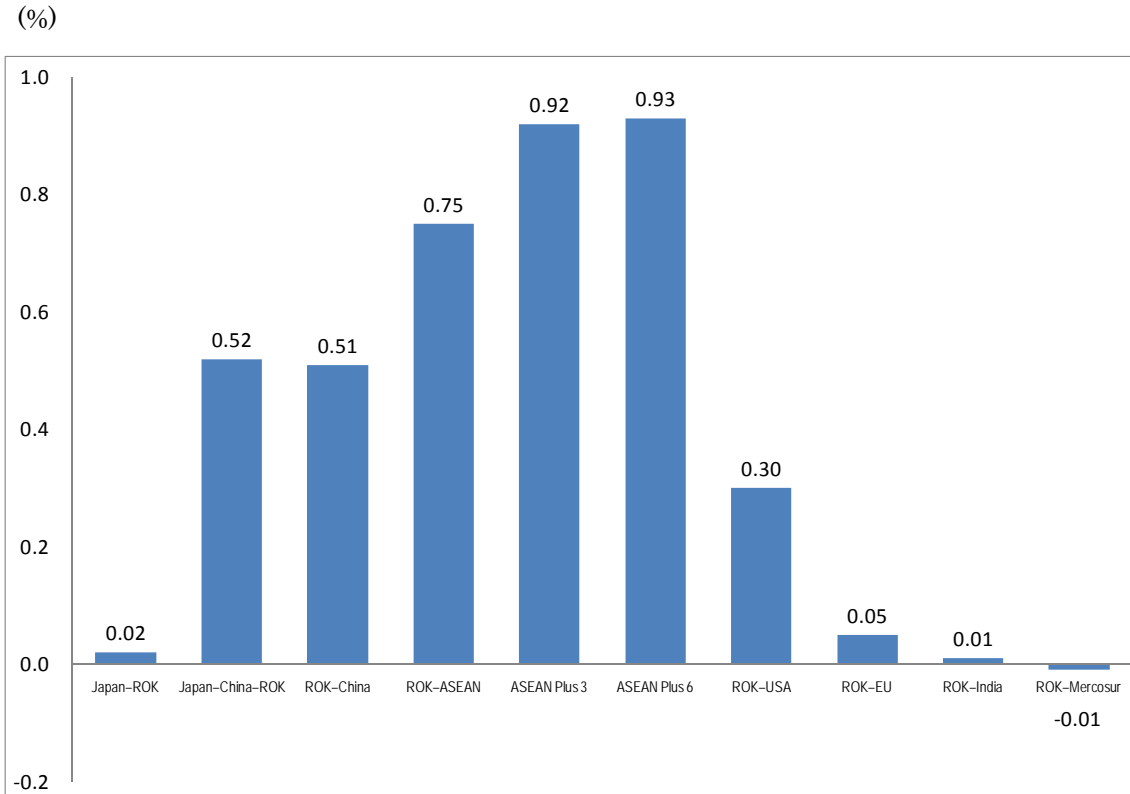


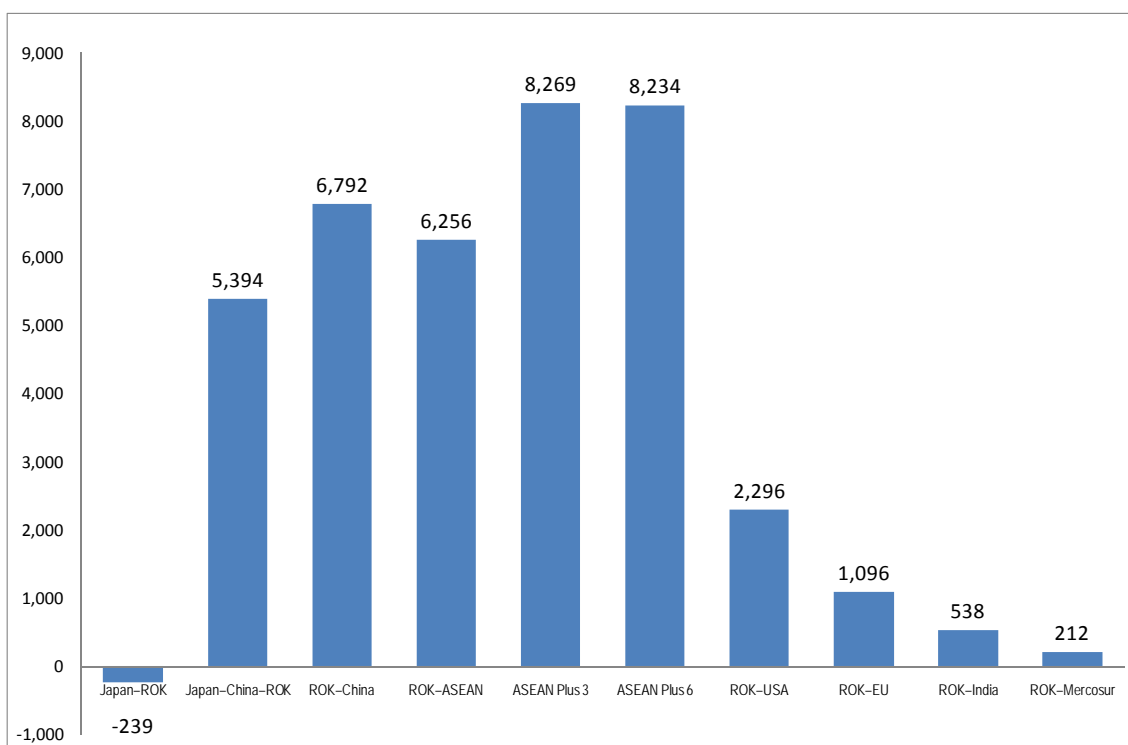
Figure 2 shows the equivalent variation (EV), an indicator of public welfare. Equivalent variation, in the case where the combined consumption realized after the FTA is carried out using the price system from before the FTA, being a calculation of the amount of additional expenditure which is necessary, can be called an indicator of the economic effect seen from the consumption side.

With these results also being practically the same as the changes in real GDP, the economic effects of FTAs which include ASEAN or China as a partner are great.

¹² We have summarized the macroeconomic effects of the ROK-US FTA according to the Korea Institute for International Economic Policy (KIEP) and others (2007) in Appendix Table 3. In the cases where they don't incorporate capital accumulation and increase in productivity, results that are practically of the same level as this simulation are shown.

Figure 2: The Equivalent Variation (EV) via ROK FTAs

US\$ million



The economic effects of FTAs can be explained by a number of factors. One is the amount of trade at the current point in time with the ROK. First, the amount of trade at the current point in time of China and ASEAN with the ROK is large. A large effect can naturally be expected for FTAs with such partner countries.

Another is the tariff rates of partner countries vis-à-vis the ROK. Where the existing tariffs are high, the economic effect via their elimination becomes large. Table 4 shows the tariff rates for each country and territory in the GTAP Database. For China and the nations of ASEAN, being developing nations, the level of tariffs at the current point in time is high. Consequently it can be understood that the economic effect via their elimination also becomes large.

On this point, the developed nations of Japan, the United States, and the European Union have been through the rounds to date of GATT and the WTO, have lowered their tariff rates, and their tariff rates are already low at the current point in time. Consequently it is thought that although the scale of trade with the ROK is great, large economic effects will not readily emerge.

Meanwhile India and Mercosur are developing countries, as with China and ASEAN, and their relative tariff rates are high, yet because the scale of their trade

with the ROK is not large, it is thought the economic effects are limited.

2.3 The Effects of FTAs by Sector

Next we would like to take a look at the simulation results regarding the effects of FTAs by industrial sector. Table 5 shows the changes in added value by sector via FTAs.

The added value for the ROK's major export commodities of electronic and electrical equipment has not necessarily increased. Where it increases is limited to the two FTAs of the Japan–ROK FTA and the ROK–EU FTA. It is thought that this reflects the fact that the tariff rates of each country for this sector are already not so high generally. The exception is the case of the Japan–ROK FTA. In this sector the rate of imported goods which intermediate inputs make up is high. Consequently, via the tariff elimination on the ROK side, a process has arisen where production costs fall, the price competitiveness in the export market rises, and exports increase. In the sectors where intra-industry international specialization has progressed, there are also cases where such an effect arises via FTAs.¹³

Meanwhile, automobiles, which are another representative export commodity, increase their added value from a number of FTAs. The largest growth is the result from the ROK–EU FTA, with an increase of 7.21%. The next largest is from the ROK–ASEAN FTA, with an increase of 4.65%. For the ASEAN Plus Three and ASEAN Plus Six FTAs, however, where Japan—a competitor nation in this sector—is added as a member of the FTA, the size of the ROK's increase of added value is small. The ROK–US FTA follows these with an increase of 1.74%. The partner countries which have shown such results all maintain tariff rates of a certain level, and are countries and regions that have a past record in imports of automobiles from the ROK.

What has a large increase of added value throughout is textiles and apparel, and it shows an increase in all the FTAs. This reflects the fact that high tariff rates globally in this sector have remained. In particular in the FTAs having ASEAN and China as partners the size of increase is large, and in the ROK–US FTA as well it shows a big increase of 13.53%.

Following this, processed foodstuffs has many examples of increases. For this

¹³ Moreover, concerning the effects on the electronic and electrical equipment sector for the Japan–ROK FTA, in Nakajima (2002), where we used the GTAP 5 Database which takes 1997 as its reference year, and Nakajima (2009), where we used the GTAP 6 Database which takes 2001 as its reference year, we obtained results similar to this time around, and showed the strength of the links between Japan and the ROK in this sector.

sector also high tariff rates globally have remained. From all FTAs excepting the ROK–EU FTA and the ROK–Mercosur FTA an increase in added value is seen.

Table 5: Changes in Added Value by Sector from ROK FTAs

	Japan–ROK	Japan–China–ROK	ROK–China	ROK–ASEAN	ASEAN Plus 3	ASEAN Plus 6	ROK–USA	ROK–EU	ROK–India	ROK–Mercosur
Agricultural produce (excl. rice)	0.34	6.82	5.89	-0.94	-1.72	-2.72	8.91	-0.84	-1.57	-0.31
Rice	-0.16	-55.14	-55.19	-52.08	-56.88	-56.61	-53.69	-0.12	0.33	0.01
Forestry products	-0.03	0.25	-0.06	-0.68	-1.42	-2.02	0.80	-0.90	-0.39	-0.19
Fishery products	0.45	0.76	-0.02	1.64	1.38	0.78	0.56	-0.71	0.09	-0.13
Minerals	-0.82	-3.90	-3.77	-2.68	-5.50	-5.44	-1.10	-1.45	-0.47	-0.31
Processed foodstuffs	1.75	6.90	4.72	10.17	11.59	8.25	3.25	-3.46	0.68	-0.61
Textiles and apparel	1.51	8.83	10.14	14.83	15.33	14.69	13.53	3.54	0.77	0.82
Metals	-1.03	-2.08	-1.66	-1.20	-2.55	-1.82	-1.28	-1.25	0.62	-0.24
Automobiles	-0.11	-0.79	0.29	4.65	0.78	0.93	1.74	7.21	-0.11	-0.09
Other transport equipment	0.20	-8.66	-10.84	-6.10	-12.00	-11.35	-2.54	-1.21	1.19	-0.75
Electronic & electrical equipment	2.82	-1.02	-4.11	-3.25	-2.03	-2.22	-0.55	0.69	-0.99	0.56
Other machinery & equipment	-1.50	-1.12	0.46	-3.38	-2.75	-2.34	-1.56	-1.54	0.06	-0.02
Other manufactured products	-0.30	2.15	2.59	0.97	2.33	2.49	0.09	-0.36	0.07	0.05

(%)

2.4 Summary of the Simulation Results

Seen from the results of the simulation analysis limited to the elimination of tariffs, it is evident that the partner countries and regions which promise significant benefit for the ROK are the East Asian developing countries of ASEAN and China. Speaking from this regard, the Lee Myung-bak administration's creation of an FTA policy, as previously mentioned, that focused on East Asia, could be called a logical strategy.

On the other hand, regarding the FTAs with the two giant developed economies, the ROK–US FTA and the ROK–EU FTA, which the ROK has actively been promoting to date, looking only at the elimination of tariffs, the economic effects thereof can be called limited. If looked at overall, however, via the multilateral trade talks which had taken place to date through GATT and the WTO, the tariff rates of the developed countries, centered on manufactured goods, have become low. If that fact were postulated in the data, then the results of such a simulation would not be particularly surprising. As with the automotive sector in the ROK–EU FTA, the case example where consolidated economic benefit arises would in a sense probably have to be taken as an exception.

Rather, in FTAs with developed economies, via the expansion of inward direct investment and in addition via improvement in productivity—by means of the promotion of investment and the liberalization of the services sector—we should probably expect a result which promotes economic growth over the medium and long term.

3. The Prospects for the Future

The FTAs with the two big developed economies of the United States and the EU, whose subsequent coming into effect is forecast, will probably have a great impact on the ROK economy. This does not stop at the expansion of trade in goods, but via such routes as the expansion of inward direct investment (foreign direct investment) and the improvement of productivity through the liberalization of the services sector it is expected it will promote the growth of the ROK economy.

On the other hand, the ROK has reached the stage of giving serious consideration to FTAs with Japan and China, which are the remaining major trading partners. Whether they will take the form of bilateral FTAs or take the configuration of East Asian regional FTAs such as a Japan–China–ROK, ASEAN Plus Three or ASEAN Plus Six will be an issue for the future.

If one were to mention relations with Japan, aside from a regional FTA, it is thought a Japan–ROK bilateral FTA should be concluded. This is because, in terms of both countries being in East Asia, they have as yet exceptionally high income-levels, and also are categorized as developed economies equipped with market systems that have been developed over many areas. Between these two countries, as in the two preceding FTAs of the ROK and United States and the ROK and the EU, the concluding of FTAs that cover a broad range of territory other than trade in goods will be possible. Meanwhile, for regional FTAs which include China and ASEAN, many difficulties are anticipated in order to realize such FTAs. As the pioneer of a higher stage of economic integration in East Asia's future, the establishment of a high-level Japan–ROK FTA is an anticipated feature.

References

In Japanese

- Cheong, Inkyo, and Cho, Jungran (2007), “The Progress of Korea's FTA Policy and Implications for an FTA between Japan and Korea”, *ERINA Report* Vol. 76, Economic Research Institute for Northeast Asia (ERINA)
- Nakajima, Tomoyoshi (2009), “The ROK's FTA Policy: Summary and Analysis of the Economic Effects” (Suh Sung and Lee Kang-kook (eds.), *The*

ROK-USA FTA and the ROK Economic Crisis, Koyo Shobo, Chapter 8)

- Oike, Atsuyuki, and Seiji Baba (2007), “The Agreement on the ROK–US FTA and its Influence on Japan and East Asian Economic Integration” *Bōeki to kanzei [Trade and Tariffs]*, July 2007 edition, Japan Tariff Association
- Okuda, Satoru (2007), “The ROK–US FTA: New developments in the ROK’s foreign economic policy”, Institute of Developing Economies, JETRO
- Ueda, Daisuke (2008), “The FTA Policies of Other Countries: The Case Examples of the ROK, the United States and China”, *Issue Brief* No. 618, National Diet Library
- Yamamoto, Eiji (2008), “Japan–ROK FTA or EPA: The Lessons and Prospects for the Recommencement of Negotiations”, *New ESRI Working Paper Series* No. 6, Economic and Social Research Institute, Cabinet Office (Japan)

In Korean

- Korea Institute for International Economic Policy (KIEP) and others (2007), *An Analysis of the Economic Effects of the ROK–US FTA*
- Ministry of Strategy and Finance (2009), *The Current State of FTA Promotion and the Anticipated Effects*

In English

- Hertel, T. W. (ed.) (1997), *Global Trade Analysis: Modeling and Applications*, Cambridge University Press
- Kuno, Arata and Fukunari Kimura (2008), “Northeast Asia and FTAs: Issues and Perspectives”, *ERINA Report* Vol. 82, Economic Research Institute for Northeast Asia
- Nakajima, T. (2002), “An Analysis of the Economic Effects of a Japan–Korea FTA: Sectoral Aspects” *The Journal of Econometric Study of Northeast Asia* (JESNA), Vol. 4, No. 1, Economic Research Institute for Northeast Asia (ERINA)
- Park, D., Park, I. and Estrada, G. E. B. (2008), “Is the ASEAN–Korea Free Trade Area (AKFTA) an Optimal Free Trade Area?”, *Working Paper Series on Regional Economic Integration* No. 21, Asian Development Bank

Appendix Table 1: Classification of Regions in the Model

25 Regions	GTAP Database (113 Regions)
Australia	Australia
New Zealand	New Zealand
China	China
Hong Kong	Hong Kong
Japan	Japan
Republic of Korea	Republic of Korea
Taiwan	Taiwan
Cambodia	Cambodia
Indonesia	Indonesia
Laos	Lao People's Democratic Republic
Myanmar	Myanmar
Malaysia	Malaysia
Philippines	Philippines
Singapore	Singapore
Thailand	Thailand
Vietnam	Vietnam
Rest of Southeast Asia	Rest of Southeast Asia
India	India
Canada	Canada
United States of America	United States of America
Mexico	Mexico
Mercosur	Argentina; Brazil; Paraguay; Uruguay
Chile	Chile
European Union	Austria; Belgium; Denmark; Finland; France; Germany; United Kingdom; Greece; Ireland; Italy; Luxembourg; Netherlands; Portugal; Spain; Sweden; Cyprus; Czech Republic; Hungary; Malta; Poland; Slovakia; Slovenia; Estonia; Latvia; Lithuania; Romania; Bulgaria
Rest of the World	Switzerland; Norway; Rest of EFTA; Russian Federation; Rest of Oceania; Rest of East Asia; Bangladesh; Pakistan; Sri Lanka; Rest of South Asia; Rest of North America; Bolivia; Colombia; Ecuador; Peru; Venezuela; Rest of

	South America; Costa Rica; Guatemala; Nicaragua; Panama; Rest of Central America; Caribbean; Rest of Eastern Europe; Rest of Europe; Albania; Belarus; Croatia; Ukraine; Kazakhstan; Kyrgyzstan; Rest of Former Soviet Union; Turkey; Armenia; Azerbaijan; Iran; Rest of Western Asia; Egypt; Morocco; Tunisia; Rest of North Africa; Nigeria; Senegal; Rest of Western Africa; Rest of Central Africa; Rest of South Central Africa; Ethiopia; Mauritius; Botswana; South Africa; Rest of Southern African CU; Malawi; Mozambique; Tanzania; Zambia; Zimbabwe; Rest of Eastern Africa; Madagascar; Uganda
--	--

Appendix Table 2: Classification of Sectors in the Model

13 Sectors	GTAP Database (57 Sectors)
Agricultural produce (excluding rice)	Wheat; Other Cereal grains; Vegetables, fruit, nuts; Oil seeds; Sugar cane, sugar beet; Other crops; Bovine cattle, sheep and goats, horses; Other animal products; Raw milk; Plant-based fibers; Wool, silk-worm cocoons
Rice	Paddy rice; Processed rice
Forestry products	Forestry
Fishery products	Fishing
Minerals	Coal; Oil; Gas; Other minerals
Processed foodstuffs	Bovine meat products; Other meat products; Dairy products; Vegetable oils and fats; Sugar; Other food products; Beverages and tobacco products
Textiles and apparel	Textiles; Wearing apparel
Metals	Ferrous metals; Other metals; Metal products
Automobiles	Motor vehicles and parts
Other transport equipment	Other transport equipment
Electronic and electrical equipment	Electronic equipment
Other machinery and equipment	Other machinery and equipment

Other manufactured products	Chemical, rubber, plastic products; Leather products; Wood products; Paper products, publishing; Petroleum, coal products; Other mineral products; Other manufactures
Services	Electricity; Gas manufacture, distribution; Water; Construction; Trade; Other transport; Sea transport; Air transport; Communication; Other financial services; Insurance; Business services; Recreation and other services; Public administration, defense, health, education; Dwellings

Appendix Table 3: The Macroeconomic Effects of the ROK–US FTA

	Static Model (CGE)	Capital Accumulation Model (CGE)	
		Without Productivity Increase Effect	With Productivity Increase Effect
Real GDP	0.32%	1.28%	5.97%
Level of Welfare	US\$1.70 billion	US\$3.08 billion	US\$20.86 billion

Source: Korea Institute for International Economic Policy (KIEP) and others (2007)