

The Decade-Long Journey of Korea's FTAs

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I. The Decade-Long Journey of Korea's FTAs

1. Historical Progress

(1) Development of Korea's FTA Policies

Over the last 10 years since the entry into force of its first free trade agreement (FTA) with Chile in April 2004, Korea has been steadily expanding its network of FTAs worldwide. This process can be divided into three main phases.

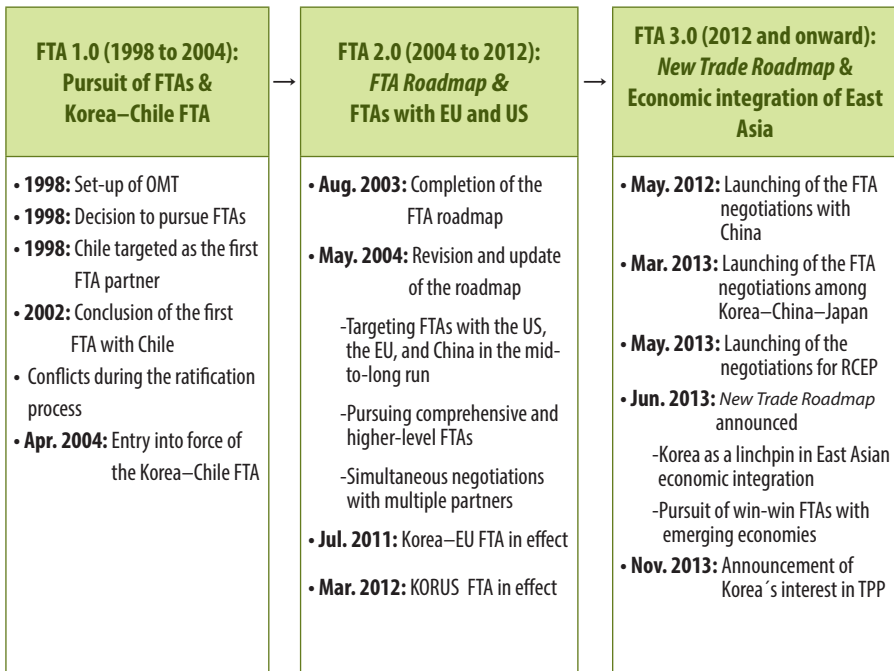
FTA 1.0 spans from 1998 to 2004, during which Korea made a decision to pursue FTAs and its first FTA, with Chile, entered into force. Korea had originally benefited from the multilateral trade regime, but the Korean companies faced disadvantages in the late 1990s as the rest of the world kept moving toward pursuing FTAs. In addition, as part of overcoming the Asian Financial Crisis in 1997, the Korean government sought to retain more markets, attract greater foreign investments, advance economic institutions, and accelerate its restructuring process through FTA deals. Therefore, the Office of the Minister of Trade (OMT) was set up in the Ministry of Foreign Affairs in 1998 and the decision to negotiate an FTA with Chile was made. The two countries finally concluded their negotiations in December 2002, and their FTA took effect in April 2004.

During the period of FTA 2.0, an FTA roadmap was developed and FTAs with the European Union (EU) and the United States entered into force. Expediting the processes for concluding FTAs with other countries,

the Korean government published, following the conclusion of the FTA with Chile, the FTA Roadmap in August 2003, delineating target partners and strategies for FTA deals. The roadmap was revised and updated in May 2004. It outlined a pursuit of comprehensive and higher-level FTAs with major and advanced economies in the world, including the United States, the EU and China, and also provided strategies for simultaneous negotiations with multiple countries, which were meant to help Korea catch up with the rest of the world in the area of FTAs. As a result, the Korea's FTAs with the EU in July 2011 and with the US in March 2012 successfully took effect and, thus, Korea rose out of the periphery and became a central player in the area of FTAs.

The era of FTA 3.0 dawned in 2012 and the new Korean government published the New Trade Roadmap in 2013 responding to the efforts for economic integration in East Asia. The aim of the roadmap was to manage rapid changes in international trade environment, including the mega-FTAs, the rise of emerging economies and the spread of protectionism. The New Trade Roadmap discusses the need for Korea to play a pivotal role in the economic integration of East Asia with its FTAs with both the United States and China, thus serving as the linchpin between the US-led Trans-Pacific Partnership (TPP) and the China-led Regional Comprehensive Economic Partnership (RCEP). The New Trade Roadmap also delineates a win-win strategy of FTA deals with emerging economies, encompassing greater cooperation with emerging economies over industries and resources that allow those economies to grow and also Korean companies to expand worldwide.

<Three Phases in Korea's FTA History>



① FTA 1.0: Launching the pursuit of FTAs and ratification of Korea's first FTA with Chile (1998 to 2004)

Paradoxically, it was with the establishment of the World Trade Organization (WTO) in 1995 that FTAs began to multiply and flourish all over the world, and Korea and Japan were among the few countries that remained reluctant to join the movement toward regional trade blocs. As the rest of the world kept moving toward FTAs, the Korean government, having concentrated solely on increasing exports under the WTO regime, found itself suffering increasing disadvantages in the mid-1990s.

When the Asian Financial Crisis broke out, however, the Korean

government came to recognize the need to transform and strengthen the Korean economic structure, and came to see FTAs as crucial to securing reliable markets abroad, increasing foreign investments, advancing Korean economic institutions, and accelerating its restructuring.

Accordingly, the Office of the Minister of Trade (OMT) was set up in March 1998, which coordinated the positions and interests of different ministries and handled all trade negotiations with foreign states. Chile became Korea's first FTA partner. In November 1998, the Committee for Coordination on International Economic Issues, chaired by the Prime Minister, made a decision to launch negotiations on an FTA deal with Chile. There were a number of reasons behind the choice of Chile as Korea's first FTA partner. First, the bilateral trade structure between the two countries is mutually complementary, as Korea exports manufactured goods and imports raw materials in turn. Such a structure promised to have only a minimal impact on Korean industries. Second, Chile was geographically distant from Korea and located in the southern hemisphere. Farmers in the two countries harvest their crops at different times of the year, thus, imports from Chile would have little impact on Korean farmers. Finally, Korean officials also hoped to learn from Chile's experience with and expertise on FTAs.

The Korea–Chile FTA, until its entry into force in April 2004, took strenuous efforts and a long time throughout the negotiation and ratification processes. There were four official negotiations held between December 1999 and December 2000, but the negotiations ground to a halt for the following 20 months because of the persisting difference on the levels of concessions to be reached. The negotiations resumed in August 2002 and

separate negotiations on market access were held. The FTA was finally concluded in October 2002, three years after the first negotiation began.

The signing of the FTA, however, only fueled controversy in Korea. The Korea–Chile FTA bill was introduced on the floor at the National Assembly for a total of four times beginning in July 2003 until it finally passed a plenary session in February 2004. The National Assembly members demanded that compensatory measures for domestic industries and a systematic procedure for FTAs be devised. At the same time, the Korea–Chile FTA engendered much opposition from farmers and politicians, but this experience proved to be quite informative in the preparations for subsequent FTA deals.

② FTA 2.0: The *FTA Roadmap* and conclusion of FTAs with the EU and the US (2004 to 2012)

After concluding the FTA with Chile, the Korean government published an *FTA roadmap* in August 2003 to facilitate the preparation processes for subsequent FTAs. The roadmap envisioned reaching FTAs with major and advanced economies, including the United States, the EU, and China, in the mid-to-long run. However, it also prompted Korea to negotiate and conclude FTAs with more accessible partners, such as Singapore, Mexico, Canada, and the European Free Trade Association (EFTA) as the necessary bridgeheads to the FTAs with the larger markets.

On the other hand, with the negotiations on the Doha Development Agenda (DDA) stalled and other changes sweeping across the trade environment worldwide, the Korean government revised and updated the

roadmap in May 2004. As for maximizing the economic effects of FTAs, the roadmap recommended comprehensive FTAs that would encompass not only the tariff elimination on goods but also liberalization of the service sector, investments, government procurement, and intellectual property rights. It also advised simultaneous negotiations with multiple partners so that Korea could overcome the disadvantage of being a latecomer to the FTA race.

As the roadmap envisioned, the FTAs with the EU and the US went into effect in July 2011 and March 2012, respectively. As for the Korea-EU FTA, a total of eight negotiations were held from May 2007. The EU's demand for the ban on the duty drawbacks emerged as the most hotly contested issue, but the two sides eventually reached a compromise, agreeing to limit such drawbacks only if and when real losses arise in the five years following the ratification of the FTA. The negotiations finally came to an end in July 2009 and the FTA took effect in July 2011.

The negotiations for the Korea-US FTA began in June 2006 and reached a conclusion in April 2007. However, the outbreak of the global financial crisis in 2008 and the vehement opposition from Korean farmers and the US auto industry delayed its ratification. It was after the additional negotiation in December 2010 and against countless objections and demonstrations that the political and economic leaders of the two countries finally succeeded in having the FTA ratified in March 2012. The additional negotiation helped to secure a mutual compromise, with some of the demands from the US auto industry, Korean farmers, and fishery, and pharmaceutical industries met.

With regard to the procedure for FTAs, the experience of the Korea-Chile FTA had taught the Korean government the need to set up

procedures for hearing and coordinating various stakeholders' interests in the preparation process. Therefore, the Rules on FTA Negotiations and Signing were established in June 2004. The Rules on FTA Negotiations and Signing, introduced by a presidential decree, sought to systematize the process in which the FTAs were prepared for and promoted, and also to institutionalize public advisory boards and public hearings. During the period leading up to the Korea–US FTA, the Trade Procedure Act (TPA), giving the National Assembly greater authority to monitor the process, was enacted in December 2011. The TPA which became and effective as of July 2012 made it mandatory for the government to report FTA deals to the National Assembly, thus enhancing the legislature's control and authority over the whole trade negotiation process.

On the other hand, it was with the experience of the FTAs with the EU and the United States that the Korean government began to devise and implement an increasing range of measures to compensate domestic industries for losses due to the increase in imports under the FTAs. Such compensatory measures in Korea, initially confined to agriculture only at the time of the FTA with Chile, were gradually extended to the manufacturing and services sectors and even to employees after the FTA with the United States. The measures, first introduced in November 2007, include financial assistance to affected industries as well as technical assistance for enhancing their competitiveness.

③ FTA 3.0: The *New Trade Roadmap* and movement toward economic integration in East Asia (2012 and onward)

The international trade environment has been experiencing gigantic shifts, with discussions for the Korea–China–Japan FTA, the RCEP, the TPP, the Japan-EU FTA, and the US-EU Transatlantic Trade and Investment Partnership (TTIP) underway. The Korean government has accordingly published the *New Trade Roadmap* in June 2013. The new roadmap envisions Korea to serve as a linchpin between the US-led TPP and the China-led RCEP based on its FTAs with both the United States and China, and thus to play an active role in the current discussions for an East Asian economic integration.

In line with the strategy, the Korean government launched negotiations for the Korea–China FTA, the Korea–China–Japan FTA, and the RCEP in May 2012, March 2013, and May 2013, respectively, and also disclosed its interest in joining the negotiations for the TPP in November 2013. The *New Trade Roadmap* recommends that, while maintaining the open trade policy and extending the FTA network worldwide consistently, the Korean government should also pursue win-win FTA strategies with emerging economies, giving them the development assistance and cooperation they need. Korea's FTA network is consistently expanding, with the FTA with Turkey in May 2013, the FTA deal with Australia signed in April 2014, and the FTA with Canada concluded in March 2014. In the meantime, the Korean government has also launched separate bilateral FTA negotiations with some of the ASEAN states, such as Indonesia and Vietnam, in an effort to promote exports and investments by Korean businesses.

The new roadmap also proposes interdisciplinary approaches to trade issues based on stronger relations between industries and trade as dealing with trade issues and negotiations was transferred to the Ministry of Trade, Industry and Energy (MOTIE, previously the Ministry of Knowledge Economy) from the Ministry of Foreign Affairs and Trade in 2013. Therefore, in order to strengthen the ties between industries and trade, the Ministry of Trade, Industry and Energy and the Korea International Trade Association (KITA) joined forces to launch the Trade and Industry Forum (TIF) in May 2013. The 22 subcommittees of the TIF continue to gather opinions and suggestions from industries regarding FTAs and other trade issues. It also runs the Non-Tariff Barrier Council (NTBC) to conduct research on non-tariff barriers and develop solutions.

Regarding the compensatory measures for the injured domestic industries, Korean policymakers are examining measures to enhance their effectiveness and to prevent damage and losses to domestic industries. They are considering raising the rate of financial compensations to the farming, livestock, and fishery industries from 90% to 100% in the process of negotiating an FTA with China as part of their efforts to enhance support for farmers and fishers.

(2) Outcome of Korea's FTA Policies

Korea has nine FTAs in effect with 46 countries.¹⁾ Over the past 10 years, Korea's FTA network worldwide has expanded not only quantitatively

1) Can be 47 countries if Croatia is included, which became a new member of the EU in July 2013.

in terms of the number of partner countries, but also qualitatively by encompassing all the major regions and economic blocs in the world. Korea has signed and ratified FTAs with Chile, Singapore, the European Free Trade Association (EFTA), the Association of Southeast Asian Nations (ASEAN), India, the EU, Peru, the United States, and Turkey, having worked hard to conclude FTAs with various states worldwide over the last decade since 2004. Korea is now the only country in the world to have FTAs in effect with not only major and advanced economies, such as the EU and the United States, but also with developing and emerging economies, including the ASEAN.²⁾ Korea is now about to ratify a new FTA with Colombia, having recently concluded negotiations for the FTAs with Canada and Australia. It is also in the process of negotiating an FTA with China, arguably a new center of the world economy.

2) There are only a handful of countries that have signed the FTAs with both the US and the EU: namely, Israel, Mexico, Jordan, Chile, Korea, Peru, Colombia, and the six countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama). Of these, Korea and Mexico have comparative advantages in the manufacturing sector.

<Korea's FTAs>

Status	Partner	Description
In effect (9)	Chile	In effect since April 1, 2004.
	Singapore	In effect since March 2, 2006.
	EFTA ³⁾	In effect since September 1, 2006.
	ASEAN ⁴⁾	Goods: in effect since June 1, 2007. Services: in effect since May 1, 2009. Investments: in effect since September 1, 2009 (implemented in Singapore, Thailand, and Vietnam). - Efforts to upgrade the Korea–ASEAN FTA underway (with the first public hearing held in Korea in May 2013).
	India (CEPA)	In effect since January 1, 2010. - Agreed to improve the CEPA on the Summit on January 17, 2014
	EU (28)	Provisionally in effect since July 1, 2011. Croatia became a new member of the EU since July 1, 2013. - 47th EU member country to become subject to the Korea–EU FTA. Initial on the revised Korea-EU FTA text to include Croatia on November 8, 2013
	Peru	In effect since August 1, 2011.
	US	In effect since March 15, 2012.
	Turkey	In effect since May 1, 2013. The 5th round of negotiations for services and investment agreements in November 2013.

Status	Partner	Description
Signed / or Concluded (3)	Colombia	Negotiations concluded on June 25, 2012. FTA text initialed on August 31, 2012. FTA officially signed on February 21, 2013. Under scrutiny by the Korean National Assembly. Ratified by Colombian Senate on November 12, 2013.
	Australia	Negotiations launched in May 2009, but stalled since the 5th round in May 2010. Negotiations resumed (6th round) in November 2013. Negotiations effectively concluded in December 2013. FTA initialed on February 10, 2014 and officially signed on April 8, 2014.
	Canada	Negotiations launched in July 2005, but stalled since the 13th round in March 2008. Unofficial meeting held in January 2013. Negotiations resumed (14th round) in November 2013. The 15th round held in January 2014. Negotiations concluded on March 11, 2014.

Status	Partner	Description
Under negotiations (6)	China	The 1st round launched in May 2012. The 7th held in September 2013, with parties agreeing to the first phase of negotiations on modality. The 8th round held in November 2013 with the second phase of negotiations. The 10th round held in May 2014.
	Korea–China–Japan	The 1st round launched in March 2013, followed by the 2nd round in July 2013 and the 4th and latest round in March 2014.
	RCEP ⁵⁾	The 1st round launched in May 2013, followed by the 2nd round in January 2014.
	Indonesia (CEPA)	The 1st round launched in July 2012 and the 7th and latest round held in February 2014.
	Vietnam	The 1st public hearing held in Korea in April 2012. The 1st round of negotiations launched in September 2012. Unofficial meeting among chief negotiators held in December 2012. The 3rd round of negotiations begun in October 2013.
	New Zealand	Negotiations launched in June 2009, but stalled since the 4th round in May 2010. Negotiations resumed (5th round) in February 2014.
Awaiting negotiations to resume	Japan	Negotiations launched in December 2003, but stalled since the 6th round in November 2004. The 1st directorial meeting held in September 2010, followed by the 1st managerial working-level meeting in April 2012 and the 3rd managerial working-level meeting in June 2012.
	Mexico	Negotiations launched in February 2006, but soon ran into impasse. Negotiations resumed in December 2007 with the 2nd round held in June 2008 to elevate SECA into FTA (with final agreement reached on e-Commerce).
	GCC ⁶⁾	Negotiations launched in July 2008, but stalled since the 3rd round in July 2009.

3) The four member states of the EFTA are Switzerland, Norway, Lichtenstein, and Iceland.

4) The 10 member states of the ASEAN are Singapore, Thailand, the Philippines, Indonesia, Malaysia, Brunei, Vietnam, Cambodia, Laos, and Myanmar.

5) Currently in negotiations over the RCEP are 16 states, including the 10 ASEAN member states, Korea, China, Japan, Australia, New Zealand, and India.

6) The Gulf Cooperation Council (GCC) includes Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, Qatar, and Oman as its members.

Status	Partner	Description
Under review / in joint research	TPP ⁷⁾	First public hearing held in Korea in November 2013. The Korean government disclosed interest in TPP negotiations in November 2013. Preliminary bilateral negotiations launched over WTO ministerial meeting in December 2013. Preliminary bilateral negotiations begun in January 2014: with the US (Jan. 13), Mexico (Jan. 15), Chile (Jan. 17), Peru (Jan. 21), Malaysia (Jan. 21), Singapore (Jan. 23), Canada (Feb. 7), Australia (Feb. 11), Brunei (Feb. 13), New Zealand (Feb. 14), Vietnam (Feb. 16), and Japan (Mar. 6).
	Malaysia	Feasibility study launched in May 2011 and completed in December 2012.
	Central America ⁸⁾	Joint research completed in April 2011. Feasibility review meeting held in October 2012.
	Thailand	The 1st joint study held in November 2013.
	MERCOSUR ⁹⁾	Final joint study report received in October 2007. MOU on Korea–MERCOSUR Trade Agreement signed in July 2009.
	Israel	Private-sector joint research launched in August 2009 and completed in August 2010.

Source: MOTIE

Korea has rapidly expanded its network of FTAs, but the country's share of trade with its FTA partners in its total trade stood at a mere 13.8% as of 2009, far behind those of China, Japan, and other rivals. In 2009, the shares of Korea's, China's and Japan's trade with their respective FTA partners were 13.8%, 20.7% and 17.7%. With the FTAs concluded with the EU and the United States, however, Korea's figure has dramatically increased to 35.3% as of the end of 2013, surpassing those of rival economies. The figures for the three countries were 35.3%, 21.2%, and 18.9%, respectively,

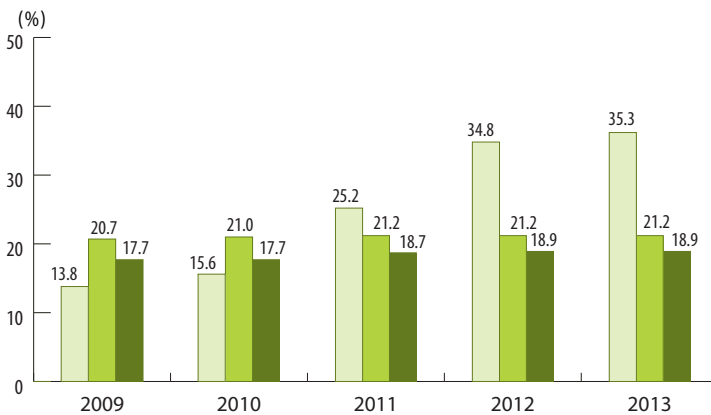
7) Currently in negotiation over the TPP are 12 countries, including Chile, Brunei, New Zealand, Australia, the United States, Peru, Vietnam, Malaysia, Canada, Mexico, and Japan.

8) That is, Panama, Costa Rica, Guatemala, Honduras, and El Salvador.

9) Mercado Común del Sur (MERCOSUR): includes Brazil, Argentina, Paraguay, Uruguay, and Venezuela.

as of the end of 2013. As Korea continues to conclude FTAs with an ever-increasing number of states, it will likely maintain its lead over the other two Asian countries. Once the FTAs with Colombia, Australia, and Canada take effect, the share of Korea's trade with FTA partners will increase to 39.5%. China's share may rise to 21.9% when its FTAs with Iceland and Switzerland are concluded. Japan has not signed any new FTAs recently.

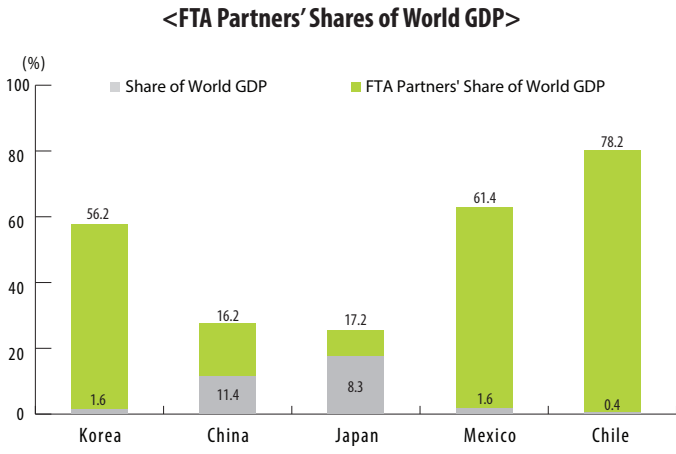
<Comparison of Shares in the FTA Partners>



Source: Excerpted from the International Monetary Fund (IMF)'s Direction of Trade Statistics (DOTS)

Korea's GDP accounts for only 1.6% of the world GDP, but the share of Korea's FTA partners in the total world GDP amounts to 56.2%. In other words, Korean businesses can now freely access countries whose economies account for more than a half of the world GDP. Korea's share of the world GDP, at 1.6%, falls far short of their China's or Japan's (11.4% and 8.3%, respectively). The share of Korea's FTA partners in the world GDP, however, is 56.2%, which is far higher than those of either for China or Japan (at 16.2% and 17.2%, respectively). In terms of the FTA partners'

total share of the world GDP, Korea boasts the third-largest FTA coverage, next only to Chile (78.2%) and Mexico (61.4%). Once Korea’s FTAs with Australia, Canada, and Colombia take effect, the share of Korea’s FTA partners in the world GDP will grow to 61.4% and further to 72.8% when Korea’s FTA with China comes to a completion.



Note: Counting only the FTAs that were in effect as of the end of 2013.

Source: IMF's World Economic Outlook (WEO) Database.

2. FTA Strategies

Since concluding the FTA with Chile, the Korean government has sought to systematize and articulate its vision and strategy for future FTAs, first with the *FTA Roadmap* and later with the *New Trade Roadmap*. The *FTA Roadmap*, first announced in August 2003 and revised and updated in May 2004, delineates the mid-to-long term goals and tactics of the future FTAs of Korea as a latecomer to the FTA trend. The *New Trade Roadmap*,

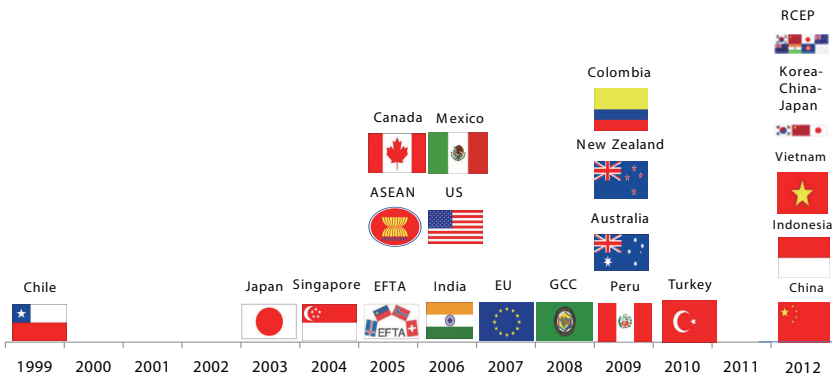
published a decade after the *FTA Roadmap*, outlines main pillars of Korea's new FTA strategy for managing profound changes in the international trade environment, including, among others, the movement toward mega-FTAs that covers intra-regional or inter-regional groups of countries.

The *FTA Roadmap* envisioned comprehensive FTAs that lead to the major and advanced markets worldwide in the long run and recommended that Korea engage in trade negotiations with multiple states simultaneously to that end. The ultimate targets of Korea's FTAs, according to the *FTA Roadmap*, were such advanced and major economies as the United States, the EU, and China. The strategy advised the Korean government to negotiate and conclude FTAs first with relatively minor economies surrounding major ones, and simultaneously to enhance its prospects with these larger economies. Accordingly, Korea first launched negotiations for FTAs with countries that surround the larger markets, such as Singapore (Jan 2004), the EFTA (Jan 2005), and Canada and Mexico (Jul 2005 and Feb 2006), which led to the negotiations for FTAs with the larger markets, such as the ASEAN (Feb 2005), the EU (May 2007), and the United States (Jun 2006).

Korea also vigorously pursued FTAs of far-reaching scopes, encompassing services, investment, intellectual property rights, and government procurement in addition to high levels of market access on goods, in the hopes of maximizing the economic effect of FTAs. For example, the FTA with the United States involves the elimination of tariffs on 94.9% of Korean goods (based on eight digit HS codes) in five years, while the FTA with the EU involves the EU's elimination of tariffs on 99.6% of Korean goods. These FTAs, in other words, have substantially

enhanced Korean businesses' access to these lucrative markets in relatively short spans of time. On the other hand, the Korea–ASEAN FTA, the Korea–India CEPA, and other such FTAs with relatively smaller scopes of market access are subjects of ongoing negotiations for improvement. At the same time, Korea, as a latecomer to FTAs, immediately launched negotiations simultaneously with multiple countries to catch up with its competitors.

<Timeline for FTA Negotiations>

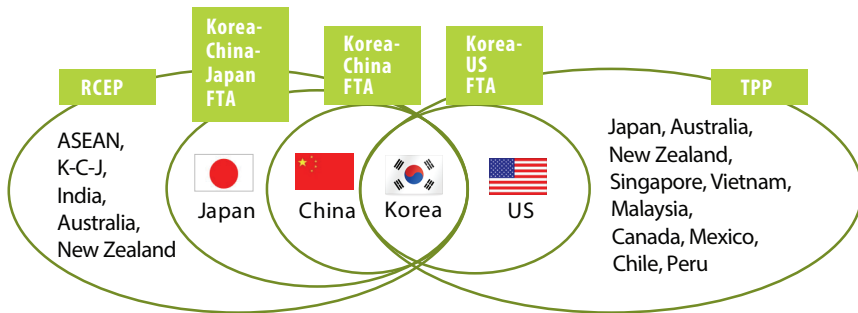


Source: FTA negotiation logs on MOTIE Web site (<http://www.fta.go.kr>)

The *New Trade Roadmap* outlined a new FTA strategy in light of the changes afoot in the international trade environment, including the rise of mega-FTAs and emerging economies. The new roadmap discusses the economic integration of East Asia and FTAs with emerging economies, emphasizing the need to boost the Korean private sector's participation and cooperation throughout the process. Since its inauguration, the Park Geun-hye administration has been having active discussions over issues in economic integration and mega-FTAs, such as the TPP (negotiations launched in March 2010, with Japan joining in March 2012), the RCEP

(negotiations launched in May 2013), the Japan–EU FTA (negotiations launched in April 2013), and the US–EU TTIP (negotiations launched in July 2013). The *New Trade Roadmap* envisions Korea’s role as a linchpin in East Asia between the US-led TPP and the China-led RCEP, based on the Korea-US FTA as well as the Korea-China FTA that is currently under negotiations. Korea also expressed its interest in joining the TPP negotiations in November 2013 and is currently conducting preliminary bilateral negotiations with each of the other 12 states.

<Economic Integration in the Asia-Pacific Region and Korea’s Role>



Source: MOTIE, “The *New Trade Roadmap* of the New Administration” (press release), June 14, 2013.

As the emerging markets are still closed off to the outside world to a large extent, the Korean government pursues win-win FTAs with developing countries, encouraging them to open up by meeting their development needs and promoting Korean businesses’ expansion in turn. While discussing the additional market opening in the Korea–ASEAN FTA context, the Korean government also launched separate bilateral negotiations with Indonesia and Vietnam in an effort to increase the opportunities for Korean businesses

and provide enhanced support for the industrial cooperation with the two countries.

<Comparison of the Two Strategies>

	FTA Roadmap (May 2004)	New Trade Roadmap (June 2013)
External environment	Proliferation of bilateral FTAs	Rise of mega FTAs
Strategies	Focus on FTA negotiations; Simultaneous and comprehensive FTAs with advanced economies such as US and EU	Focus on cooperation with industries; Pursuit of win-win FTAs with emerging economies; Strengthening internal communication with domestic stakeholders.
Objective of negotiations	Korea as an “FTA hub”.	Korea as a “linchpin” of regional integration
Relationship between the actors	Government (leading) and the private sector (advisory).	Public-private partnership; Unification of negotiation, implementation and compensation policies

Source: MOTIE, “The *New Trade Roadmap* of the New Administration” (press release), June 14, 2013.

3. Development of FTA Procedures

The early FTA negotiation process raised much controversy in Korea, and revealed the need to establish a well-defined procedure for the involved activities. Therefore, the Rules on FTA Negotiations and Signing were first established, and later led to the enactment of the Trade Procedure Act (TPA), encompassing all types of trade treaties, thus opening up channels of public opinion and strengthening the National Assembly’s control and authority.

The Rules on FTA Negotiations and Signing were established under

a presidential decree in June 2004, shortly after the Korea–Chile FTA took effect. The Rules provided institutional guarantees for hearing the public opinion on key FTA issues. The Rules, furthermore, systematized the government’s decision-making process by requiring it to undergo the scrutiny of the FTA Working-level Committee, the FTA Steering Committee, and the Ministerial Meeting in International Economy. The FTA Private Advisory Meeting was set up as part of the FTA Steering Committee to gather public opinions and suggestions on FTA issues. Public hearings were held before any new negotiations were launched, with the remarks written down and reported to the Ministerial Meetings in International Economy.

The Act on the Procedures for Signing and Implementing Trade Treaties, known as the Trade Procedure Act (TPA), was enacted in December 2011, shortly after the Korea–US FTA was ratified, and went into effect in July 2012. The coverage of the legislation was extended not only to FTAs, but also to all trade treaties, and the procedure for gathering public opinion and role of the National Legislature to monitor trade procedures were also strengthened. Subject to the TPA are therefore not only trade agreements, but also the treaties that are signed for comprehensive market liberalization that requires the approval of the National Assembly, such as those for joining international organizations like the WTO, and regional or bilateral trade agreements.

The TPA also requires that public opinions be heard on trade issues; that plans be established and reported before launching any new FTA negotiations; that public hearings be held; that opinions and suggestions be received from the people; and that feasibility studies of proposed treaties

be conducted. The TPA also requires government negotiators to report to the National Assembly and seek its advice on important matters that arise during negotiations, and also to submit the results of negotiations to the National Assembly's scrutiny. Regarding the implementation, economic effects of each FTA, the effectiveness of the domestic compensatory measures and the implementation by partner countries of their obligations are to be reported to the National Assembly in every five year for up to 10 years after the entry into force of each FTA. Although the negotiations for the Korea–China FTA began in May 2012, two months before the TPA went into effect, the negotiators sought to comply with the TPA given the gravity of the matter, and submitted the negotiation plan to the responsible National Assembly committee in April 2012, and also reported to the National Assembly on the negotiation plan for the Korea–China–Japan FTA and the RCEP in November 2012. The plans outlined the objectives of the FTAs, the main issues involved, the schedules of negotiations, the anticipated effects, the responses to controversial issues, and FTA trends in other major countries.

4. Communication between Government and Industries

The relationship between the Korean government and industries has evolved over time, from unilateral lead by the government to increasing systematization of the private sector's advisory role and voluntary activities, and finally to maintaining permanent communication by setting up a joint public-private organization.

At the time of the Korea–Chile FTA, the FTA Steering Committee included only a few representatives of Korean industries, limiting the range and depth of communication between the government and Korean businesses. Public-private communication on FTA issues began to improve and multiply as the Korean government pursued a number of new FTA deals after the FTA with Chile. In addition to the FTA Private Advisory Meeting set up by the government, Korean industries themselves have formed the FTA Industry Alliance. The FTA Domestic Measures Committee, a joint public–private partnership, followed suit.

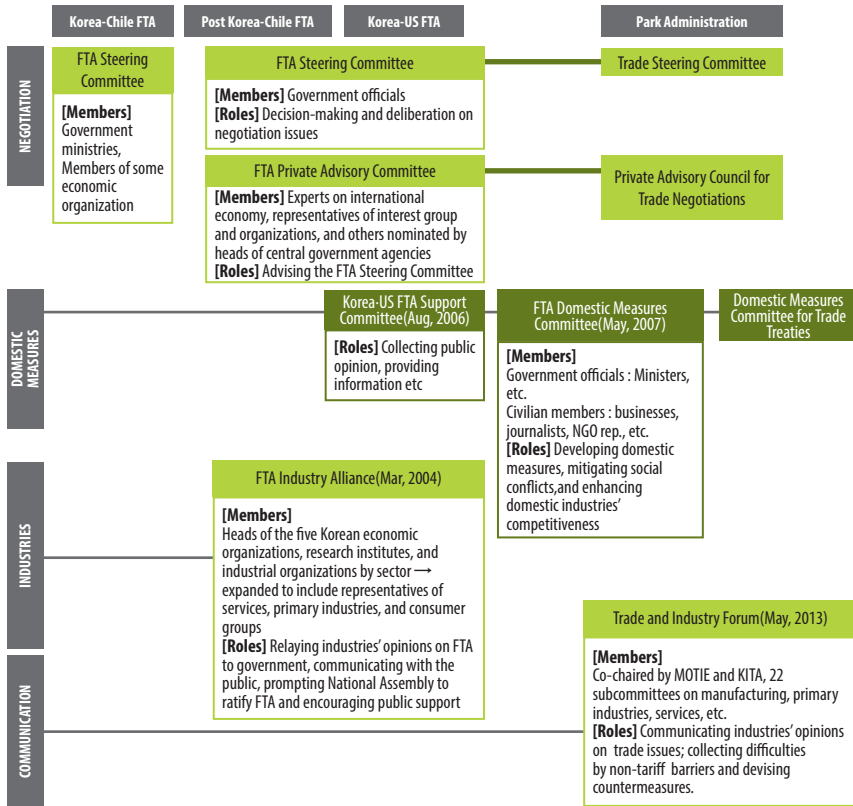
The FTA Private Advisory Meeting, set up as part of the FTA Steering Committee according to the Rules on FTA Negotiations and Signing in the aftermath of the FTA with Chile, includes 30 private-sector experts and industry representatives, and institutionally guarantees industries' participation in FTA negotiations. Korean businesses also formed their own FTA Industry Alliance in June 2004 to relay their opinions to the Korean government and persuade stakeholders in and outside industries during the FTA ratification process. The Korea–US FTA Support Committee, originally conceived to intermediate social conflicts and controversies, gained a greater scope and organization as the FTA Domestic Measures Committee in May 2007. Its members, including ministers and representatives of Korean businesses, journalism, academia, and civil society, exchange their views to develop effective measures for protecting Korean industries.

In strengthening the relationship between industries and trade, the new Park administration has also set up the Trade and Industry Forum (TIF), enlisting and maintaining participation from both the public and private sectors all year round in discussing and finding solutions for FTAs and

other trade issues. In particular, the FTA Industry Alliance has, rapidly expanded its scope to include representatives of not only manufacturing, but also agriculture, fishery, the service sector, and even consumer groups. It has been actively involved in expediting the FTA ratification process. Formed around the time of the Korea–US FTA negotiations, the FTA Industry Alliance¹⁰⁾, as the leading representative of diverse interests, has actively lobbied government negotiators on behalf of the interests and positions of various industries in Korea. Even after the negotiations for Korea’s FTAs with the United States and the EU drew to a close, the alliance continued to inform the public of Korean businesses’ active support for the deals and lobby the National Assembly to expedite the ratification processes. Furthermore, the Alliance has conducted outreach activities and other measures of lobbying with respect to members of the European Parliament and the US Congress.

10) The FTA Industry Alliance is co-chaired by the heads of the five Korean economic organizations: namely, KITA, the Federation of Korean Industries, the Korean Chamber of Commerce, and the Korea Federation of Banks, and represents 42 organizations in total, including manufacturing and service companies, agricultural and fishery enterprises, research institutes, among others.

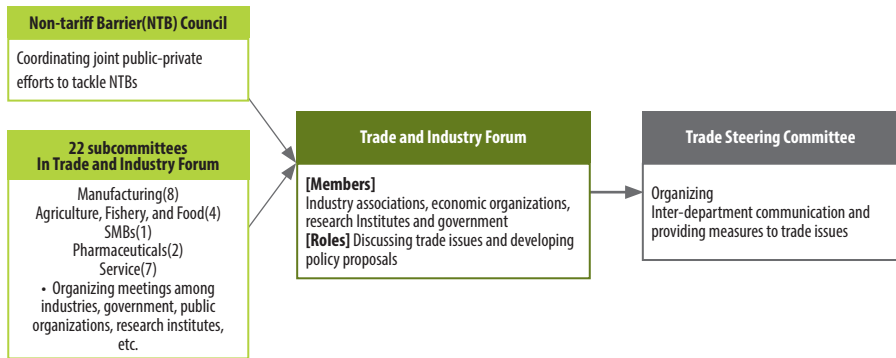
<Changing Structure of Government–Industries Communication>



The Trade and Industry Forum (TIF), which came into being in May 2013 along with the new Park administration, is expected to serve as an around-the-clock channel of communication between the government and industries. Comprising representatives of the Korean primary, manufacturing, and service sectors, the TIF is co-chaired by the Minister of Trade, Industry and Energy and the Chairman of KITA, and oversees 22 subcommittees. Over the 10 months since its inception, the TIF has seen a total of 52 subcommittee meetings take place, occasioning active exchange of views on the key current trade issues, such as the Korea–China FTA and the TPP.

The TIF not only organizes discussions on FTA issues, but also researches and develops effective solutions for other trade problems, such as trade remedies and nontariff barriers, thus striving to remove barriers in Korean businesses' expansion overseas and enhancing the effectiveness of trade policies. Regarding nontariff barriers, in particular, The Non-Tariff Barrier Council (NTBC) was set up as part of the TIF in September 2013 to counter nontariff barriers and other obstacles to free trade.

<TIF's Role in Tackling Trade Issues>



Source: Compiled excerpts from the press releases of the government and the TIF.

5. FTA Utilization

Notwithstanding early detractors, Korean businesses are getting better at making use of FTAs, with support from the government and other agencies. While the utilization rate of the Korea–ASEAN FTA and the Korea–India CEPA still remain relatively low because of low-level market opening and cumbersome customs procedures, other FTAs come in handy in the vast majority of all Korea’s imports and exports, representing 66.9% and

【 Change of the Utilization Rates (%) 】

	FTA partner	Year 1	Year 2	Year 3	Year 4	2010	2011	2012	2013
Exports	Chile	93.1	95.8	96.7	98.7	97.0	-	75.2	78.8
	EFTA	N/A				N/A		79.8	80.0
	ASEAN	14 (est.)	14 (est.)	N/A		28.7	33.1	37.7	38.7
	India (CEPA)	N/A				16.4	35.8	36.2	42.9
	EU	N/A				N/A	65.7	81.4	80.8
	Peru	N/A				N/A	61.3	78.0	91.8
	US	N/A				N/A		68.9	76.1
	Turkey	N/A				N/A			70.0
	Overall	N/A				N/A		62.7	66.9
Imports	Chile	77.7	93.8	93.6	93.3	94.0	95.8	97.9	98.5
	Singapore	28.2	31.4	N/A		N/A	56.8	N/A	
	EFTA	43.2	41.9	N/A		N/A	55.7	61.9	41.4
	ASEAN	38.0	49.1	N/A		58.5	73.8	73.8	75.6
	India (CEPA)	N/A				44.7	53.6	52.7	61.0
	EU	N/A				N/A	47.1	66.8	67.8
	Peru	N/A				N/A	52.6	92.0	97.9
	US	N/A				N/A		61.0	67.3
	Turkey	N/A				N/A			69.0
Overall	N/A				N/A		67.0	69.0	

Notes

1. The utilization rate means the total volume of exports and imports eligible for preferential tariffs, divided by the volume of exports and imports that actually benefitted from preferential tariffs. Some of these rates, however, are estimates.
2. The table above summarizes all the available data gathered and measured by multiple agencies, and may show some discrepancies in terms of the time series.

Sources

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- Korea Customs Service, "Trends in Imports and Exports with Respect to FTA Partners, 2013," February 2014.

69.0% of exports and imports, respectively, in 2013. The number of approved exporter certified to use the Korea-EU FTA also increased from 4,012 in 2011

to 5,264 in 2012, and again to 5,986 in 2013.

In general, the larger a business, the better and more actively it utilized FTAs in exports than its smaller counterparts. However, an increasing number of small and medium enterprises (SMEs) in Korea are also making use of FTAs in exports. The utilization rate of Korea's large corporate exporters in the Korea-US FTA increased from 74.8% in 2012 to 84.1% in 2013. The figure for the SMEs also increased from 59.4% to 69.2% over the same period.¹¹⁾ The utilization rate of the Korea-EU FTA among large corporate exporters in Korea remained high, at 85.1% in 2012 and at 84.1% in 2013. The figure for the SMEs also increased from 73.5% to 76.3% over the same period.

The Korean government and its agencies continue to provide various types of support pertaining to all areas of FTAs, including consulting, education and training, information, systems, distribution networks, and verification services. The types and number of support-providing agencies are also multiplying, to include public-private partnerships and domestic and overseas supports. Examples of utilization support include educational and training programs for specialists (e.g., managers, CEOs, rules of origin inspectors, students and faculty members at universities, retirees from trading businesses, etc.), on-site consulting, origin verification systems, and other elements of business environment, including corporate sponsorship and systems. As for facilitating origin verification and management system, the Korean government has developed and provided such programs as FTA Korea (KTNET) and FTA-Pass (Customs Service) free of charge,

11) Korea Customs Service, "Trends in Imports and Exports Involving FTA Partners, 2013" (press release), February 25, 2014.

【FTA Utilization Rate by Business Size (%)】

While larger corporations make better and greater use of FTAs in exporting their goods than their smaller counterparts, Korean SMEs are also increasing their use of FTAs, except the FTA with ASEAN and the CEPA with India, with the government and other agencies providing increasing policy support.

<Export FTA Utilization Rate by Business Size, as of the End of 2013>

	Chile	EFTA	ASEAN	India	EU	Peru	US	Turkey	Total
Large corporations	82.7	95.6	57.7	48.9	84.3	98.1	84.5	73.1	76.9
SMEs	70.6	67.9	29.6	35.4	76.4	56.3	69.2	66.6	57.3
Total	78.4	80.5	38.5	43.0	80.9	92.0	76.4	70.2	66.9

Source: Korea Customs Service, "How Well Are Korean Businesses Making Use of FTAs?" (press release), December 2013.

connecting them to the enterprise resource planning (ERP) systems of SMEs.

In addition, the Korean government provides FTA support down the supply chains to ensure close cooperation between exporting corporations and their suppliers, as well as verification services in response to the rising demand. Free and detailed information is available on such resources as the Integrated Trade Information System (www.tradenavi.or.kr), FTA Information and Business Support Center (FTA IBSC) (fta1380.or.kr) (okfta.or.kr), Korea for FTA (www.fta.go.kr), and the FTA portal of the Korea Customs Service (fta.customs.go.kr), among others. As successful utilization of FTAs require close cooperation between exporting corporations and their suppliers, the Korean government also supports the partnership and mutual growth between large corporations and SMEs, providing services such as third-party verification of origin and designating

and awarding companies with exemplary origin verification records.¹²⁾ The demand by businesses in FTA partner countries for origin verification is also growing at an explosive pace, prompting the Korean government to support the advanced preparations for post-export verifications and the submission of other required documents.

<Number of Origin Verifications Demanded in Exports under FTAs>

FTA partner	2011	2012	September 2013
EFTA	24	10	3
ASEAN	19	31	39
EU	41	181	164
US (est.)	N/A	7	84
Total	84	229	290

Source: Korea Customs Service, “Customs Service Completes Total Support System for FTA Origin Verifications” (press release), October 2013.

As for organizational support, the FTA Utilization Promotion Council facilitates the effective cooperation among the involved ministries, departments, and other organizations on FTA utilization. The FTA IBSC, conceived as a public–private partnership, and its 16 Regional FTA Centers also support Korean businesses’ use of FTAs. Korean diplomatic establishments¹³⁾ abroad also help Korean businesses solve difficulties they encounter with regard to customs procedures. The FTA IBSC, set up in February 2012 as a public–private partnership, launched the FTA Call Center 1380 in June 2013 to support Korean businesses better.

12) Larger corporations keep making requests for additional proof because of their lack of confidence in the rule of origin certificates submitted by suppliers, thus increasing the burden on suppliers. Third-party agencies with independence and credibility are thus brought in to review and confirm the appropriateness of rule of origin certificates.

13) These establishments operate FTA Support Task Forces in their respective locales.

6. Domestic Compensatory Measures

The Korean government has devised and implemented a number of policy measures to compensate industries for losses they suffer directly as results of FTAs, and also to help those industries enhance their competitiveness. The major objectives of these measures are to make direct compensations for losses caused by market opening and to provide measures to secure competitiveness of corporations hurt by imports. They are extended not only to the relatively weaker primary industries of agriculture, dairy farming, and fishery, but also the manufacturing and service sectors.

Measures of direct compensation include: the direct financial compensations for losses suffered by agriculture, livestock, and fishery; support for business closure; and trade adjustment assistance for manufacturers and service providers. Measures for enhancing competitiveness involve modernizing agricultural, livestock, and fishery facilities; improving distribution channels; fostering the seed industry; promoting agricultural and food exports; facilitating investment in research and development and exports by manufacturers and service providers.

<Compensatory Measures for Injured Industries by FTAs>

Industry/Support type		Specific Measures
Agriculture, livestock, and fishery	Direct financial compensations	Cash benefit for compensating losses ¹⁴⁾
		Cash benefit for supporting business closure ¹⁵⁾
	Measures to enhance competitiveness	Improving the weakness in production, processing, and distribution
		Modernizing facilities and expanding production infrastructure
		Setting up local logistics centers
		Ensuring food safety and fostering seed industry
	Promoting agricultural and food exports	
Restructuring	Restructuring in the agricultural industry, income stabilization, etc.	
Manufacturing and services	Direct financial compensations	Trade adjustment assistance program ¹⁶⁾
		Support for individual entrepreneur whose businesses shut down
	Measures to enhance competitiveness	Investing in R&D and promoting exports

Source: Excerpts from the MOTIE and other governmental ministries and agencies compiled by the authors.

The current regime of compensatory measures gained its form in November 2007 over the Korea–US FTA and gradually grew in range, scope and depth as Korea’s FTAs with the EU and the United States

14) The program provided monetary compensations for part of the losses, such as drops in prices, caused by the increase of imports under FTAs. The amount of compensation = (the size of the production area or the number of livestock)*[(the three-year average price during the five years preceding the FTA’s ratification except the highest and lowest prices)*90% - the market price in the relevant year]* 90%.

15) Monetary support for business closure was provided for farmers who wished to quit their businesses as they were no longer able to sustain those enterprises because of the increase in imports under FTAs. In the case of business closure, the amount of the monetary support = (the size of the business area)* (the net profit from each unit area per year)* three (years). In the case of business transfer, the amount of compensation = (the size of the business lot being transferred)* (net profit from each unit area per year) * one (year).

were debated and ratified. At the time of the FTA with Chile in 2004, the compensatory measures in Korea amounted to KRW 1.2 trillion and mostly concerned compensating for the losses in the fruit industry. In the process leading up to the FTA with the EU, in November 2010, the Korean government additionally invested KRW 2 trillion, on top of the KRW 8.8 trillion already set aside, to enhance the competitiveness of the livestock industry. The Korean government also invested in the competitiveness-enhancing research and development in cosmetic and medical device manufacturing industries, and supported the expansion of their production infrastructure, as these were the two industries that were most likely to suffer under the new FTAs.

The first set of general compensatory measures was introduced in anticipation of the Korea–US FTA in November 2007. The range of measures was further expanded and supplemented twice to provide measures amounting to KRW 24.1 trillion in total as of January 2012. On the other hand, the tax cut support, amounting to KRW 29.8 trillion, is also provided by extending sunset periods on the tax-free oil and the value-added tax-free farming equipment, and by expanding the scope of beneficiaries of farming electricity with preferential rates.

16) It includes consulting, mortgage loans, and information programs, were provided for businesses likely to be affected negatively by FTAs so as to ensure that they retain or improve their competitiveness. Should the gross revenue or output of a given business during six months drop by 5–10% compared to the same period the previous year, the business is made eligible for government mortgage loans at an interest rate lower by 0.3 percent point than the standard rate for policy funds. Such a business can also apply for a loan of up to KRW 4.5 billion a year for the subsequent eight years to have its facilities built and expanded; a loan of up to KRW 500 million for the subsequent five years to facilitate its operation; or for a “consulting fund” to support 80% of the actual consulting cost it requires up to KRW 40 million per a company.

<Compensatory Measures by FTA>

FTA	Measures effective since	Value (KRW)	Main contents
Korea–Chile FTA	2004	1.2 Tn.	-Enhancing competitiveness of fruit industry, and compensating for direct losses. -KRW 1.2 Tn. spent between 2004 and 2010. Absorbed into measures against Korea–US FTA in 2009.
Korea–EU FTA	Measures to Boost Competitiveness of Korean Industries under Korea–EU FTA (November 2010).	2 Tn. (10.8 Tn.)	-KRW 10.8 Tn. to be spent between 2011 and 2020, including KRW 8.8 Tn. already invested in livestock farming and the additional KRW 2 Tn. invested to enhance livestock farming competitiveness.
		Manufacturing	-Investments into R&D and infrastructure to enhance competitiveness of cosmetic and medical equipment industries.
Korea–US FTA	Domestic Compensatory Measures (November 2007)	21.1 Tn.	-Value of compensatory measures incrementally rose from KRW 21.1 Tn. to KRW 22.1 Tn. to KRW 24.1 Tn.
	General Measures to Enhance Competitiveness of Farming and Fishing (August 2011)	22.1 Tn.	-KRW 24.1 Tn. to be provided in investments and loans between 2008 and 2017. -KRW 22.5 Tn. for enhancing competitiveness and KRW 1.6 Tn. for direct financial compensation.
	Additional Compensatory Measures in Response to Ratification of Korea–US FTA (January 2012)	24.1 Tn.	-Value increases to KRW 54 Tn. if tax cuts and reductions, worth KRW 29.8 Tn. in total (on oil-free taxes and preferential electricity rates for farming) are counted.

Source: Excerpts from the MOTIE and other governmental ministries and agencies compiled by the authors.

The Korean government is enhancing the effectiveness of these compensatory measures by loosening the eligibility criteria, expanding the pool of eligible beneficiaries, and increasing the value of compensations provided. For example, the varieties of fruit eligible for the direct compensatory program increased from kiwi and mass-produced grapes, at the time of the Korea–Chile FTA,

to include almost all varieties of fruit produced in Korea after the Korea–US FTA. At the time of the FTA with Chile, fruit farmers were able to apply for these compensations only when the prices of their fruit fell to 80% or less of the standard price. The price limit, however, was later raised to 85% in November 2010, and again to 90% in January 2012. The number of beneficiaries has increased significantly accordingly (see the Note below). The rate of compensation, which was 80% of the margin between the prior price and the new price lowered by increases in imports, was raised to 85% in November 2007 and again to 90% in November 2010. Policymakers are now contemplating whether to raise the rate of compensation to 100% as they prepare for concluding the FTA deal with China.

The trade adjustment assistance program, initially introduced for the benefit of manufacturers and manufacturing-related service providers affected by FTAs only, were extended to benefit the entire manufacturing and service sectors after the Korea–US FTA was signed. As of November 2007, eligible businesses were able to apply for trade coordination services only when their revenue or output over the preceding six months had dipped by 25% or more in comparison to the same period the previous year. The limit was later reduced to 20% in September 2011 and again to 5–10% in January 2012, to increase the number of eligible businesses significantly. The number of businesses eligible for trade adjustment assistance has therefore increased significantly since 2012.

<Expansion of the Direct Compensatory Program>

		Apr. 2004	Nov. 2007	Nov. 2010	2011	Jan. 2012
Direct compensatory program for farmers and fishers	Eligibility	Kiwi and mass-produced grapes	All varieties of agricultural products, after review.			
	% of price difference	80%	80%	85%	85% (Jul.)	90%
	Compensation rate	80%	85%	90%	90%	90%
Trade Adjustment Assistance	Eligible varieties	Manufacturing and related services	Entire manufacturing and service sectors			
	Eligible dip in revenue/output	N/A	25%	25%	20% (Sep.)	5% consulting 10% loans

Source: Excerpts from the MOTIE and other governmental ministries and agencies compiled by the authors.

【Note: Cases of Direct Compensations and Other Measures¹⁷⁾】

Direct financial compensations for Korean beef and calves (April 2013)

- The relaxed eligibility criteria allowed more calf farmers to receive the benefits they needed.
- The first instance of government compensation that satisfied the conditions of both the import quantity and compensation criteria.
- KRW 13,545 for each cow and KRW 57,343 for each calf (as of the date of slaughter) for a total of KRW 24.8 billion.

Trade adjustment assistance provided for the first time for a pork processor (August 2012)

- The first beneficiary to benefit from the relaxed eligibility criteria for trade adjustment assistance (20% loss requirement lowered to 5% consulting and 10% loans).
- The pork processor's losses because of the increase in pork imports under the Korea–EU FTA were recognized and entitled the business to a government loan of KRW 200 million for its operation.

17) MOTIE, "FTA-Related Financial Losses of Spring and Women's Apparel Companies Determined" (press release), December 2013.

- **Status of trade adjustment assistance:** A total of 52 businesses applied for trade adjustment assistance program until the end of 2013. Of these, 39 had their losses recognized as eligible for government support, while the other 12 were denied and 1 case is under investigation.
 - The numbers of applications and beneficiaries have increased significantly since the eligibility criteria were relaxed in 2012.
 - Between 2008 and 2011, there were only 8 applications, 7 of which were granted. In 2012 and 2013, 44 applications were submitted, with 32 granted.
- **Granted applications by product:** Of the 39 applications granted, 16 involved processed pork; two, women's purses and wallets; two, golf wear; one, muscadine wine; one, wristwatches; one, salted mackerels; one, rubus coreanus wine; one, paint hardener; one, T-shirts; one, a hair loss-preventing shampoo; one, chocolate; one, textile machinery parts; one, wines; one, hiking shoes; one, sport shoes; one, ethylene glycol; one, paints; one, hair dyes; one, dress shoes; one, basic skincare products; one, springs; and one, women's apparel.
- **Applications by FTA:** Of the 52 applications for trade adjustment assistance, 30 concerned the FTA with the EU; 12, the FTA with the ASEAN; 4, the FTA with Chile; 4, the FTA with the EFTA; one, the FTA with the US; and one, the FTA with Singapore.
- **Total assistance amount:** KRW 9.655 billion provided for 30 businesses in total so far, including KRW 9.449 billion in loans and KRW 206 million in consulting.

<Applications Recognized for Trade Adjustment Assistance>

(in KRW 100 million)

Application status		2008	2009	2010	2011	2012	2013	Total
Pending (under investigation)		3	3	2	-	13	31 (1)	52 (1)
Determination of injury		2	3	2	-	8	24	39
Determination of no injury (revoked)		1	-	-	-	5 (3)	6 (2)	12
Value of support provided	Loans	5.5	6.0	22.37	-	25.12	35.5	94.49
	Consulting	0.32	0.16	0.16	-	0.78	0.64	2.06
	Total (for 30 businesses)	5.82	6.16	22.53	-	25.90	36.14	96.55

Note: as of December 20, 2013.

Source: MOTIE, "FTA-Related Financial Losses of Spring and Women's Apparel Companies Determined" (press release), December 2013.

II. Conclusion and Implications

1. Conclusion

Korea's FTA network has expanded rapidly and also achieved much progress in terms of quality. Today, Korea's FTA policy is evolving toward the institutionalization, systemization and expansion of public participation.

In terms of historical development of Korea's FTAs, the Korean government successfully concluded its first-ever FTA with Chile ("FTA 1.0"), established the *FTA Roadmap* and signed the FTAs with the EU and the United States ("FTA 2.0") and devised the *New Trade Roadmap* and other measures for regional economic integration ("FTA 3.0"). During the last 10 years since the entry into force of the FTA with Chile, Korea's FTA network grew rapidly to include 9 FTAs with 46 countries¹⁸⁾ in total. Korea is now the only country in the world to have signed FTAs with all the major economic blocs in the world, including the United States, the EU and the ASEAN.

The *FTA Roadmap*¹⁹⁾ of the past prompted the Korean government to launch and engage in FTA negotiations with multiple states simultaneously, with a view to concluding comprehensive FTAs with such advanced, major economies as the United States and the EU. The *New Trade Roadmap*, published a decade later in June 2013, envisions Korea's role as a "linchpin" in economic integration in the Asia-Pacific between the United States and

18) Can be 47 states, if one counts Croatia which became a new member of the EU in July 2013.

19) Revised and updated in May 2004.


China.

During the negotiation and implementation processes, FTA deals amplified much social conflict and revealed the pressing need to systematize and organize the negotiation procedure. Accordingly, the Korean government established the Rules on FTA Negotiations and Signing in June 2004. In December 2011, the National Assembly enacted the Trade Procedure Act (TPA)²⁰, mandating channels of public communication and enhancing the National Assembly's control over the negotiation process. With regard to public communication, the FTA Public Advisory Committee, the FTA Domestic Compensatory Measures Committee, and the FTA Industry Alliance were organized to facilitate effective communication between the government and industries. The Trade Industry Forum (TIF), launched in May 2013, also provides a channel of communication that is open all year round.

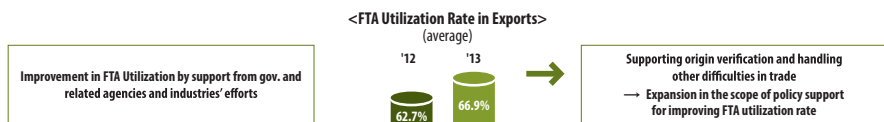
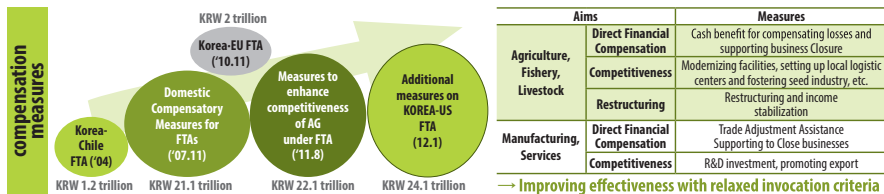
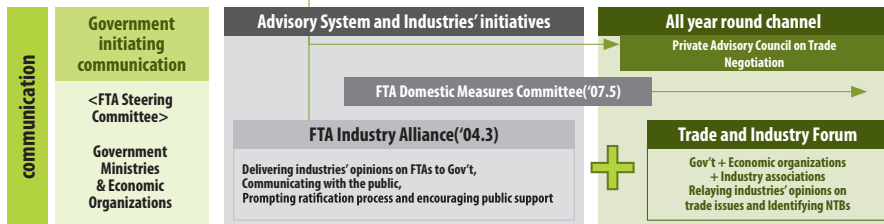
Thanks to the hard work and support from industries, the government and other public organizations, the ratio of Korean businesses utilizing and benefitting from FTAs continues to increase steadily, i.e., as the FTA utilization rate has risen to 66.9% in exports and 69.0% in imports in 2013. The Korean government has also introduced diverse compensatory measures to protect vulnerable Korean industries and enhance their competitiveness. Over the years, the eligibility criteria of these measures have significantly loosened and the scale and scope of compensation have been expanded to more effectively benefit increasing numbers of producers and businesses.

20) Also known as the Act on the Signing and Implementation of Trade Treaties, effective as of July 2012.

	FTA 1.0	FTA 2.0	FTA 3.0
launching FTAs	Launching FTAs	FTA Roadmap / FTAs with US and EU	NTR / East Asian Integration
	Multilateralism → FTA Proliferation → Age of FTA dawns	- FTA Roadmap('04.5) - Simultaneous FTA negotiations with major advanced economies	- Trade Ministry relocated - New Trade Roadmap('13.6) - Serving as linchpin in East Asian Integration - Enhancing industry-trade ties
	<in force> Chile <signed> '04 <in negotiations>	Singapore EFTA '06 ASEAN '07.6 India '10.1 EU Peru '11.7-8 US '12.3 Turkey '13.5 Colombia('13.2, signed)	Canada(concluded) '13.11 TPP (interest) RCEP (3rd) '14.1 China(10th) K-C-J(4th) '14.3 Australia (signed) '14.4

strategy		FTAs with major advanced economies	Industry-trade ties enhanced
		Bilateral FTAs FTAs with major advanced economies : started from their neighboring countries - Singapore('04.1) → ASEAN('05.2) - EFTA('05.1) → EU FTA('07.5) - Canada('05.7), Mexico('06.6) → US('06.6) *Figures in parentheses indicate the dates on which the first negotiation launched Comprehensive and High-level FTAs - Including not only goods, but also services, investment, IPR, GPA, etc. Simultaneous Negotiation strategy	Mega FTAs Korea serving as TPP-RCEP linchpin  - Enhancing economic cooperation with emerging economies - Systematizing communication channel btw public and private sectors

process		Rules on FTA Negotiation and Signing('04. 5)	Trade Procedure Act('12.7)
		Systematizing government decision-making process : FTA Working-level Committee → FTA Steering Committee → Ministerial Meeting in int'l Economy Systematizing communication channel : FTA Private Advisory Meeting	Applied to all trade treaties Enhancing National Assembly's supervisory role : duty on reporting negotiation schedule, outstanding issues, outcomes, and reports on progress to the relevant committees

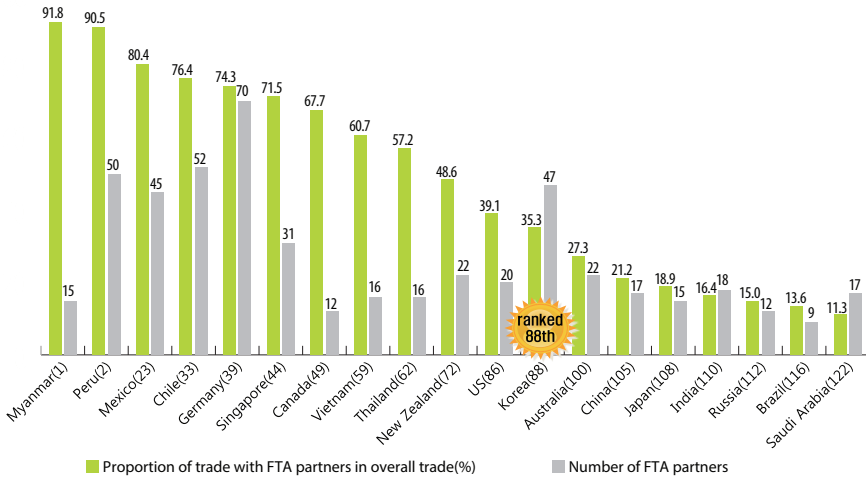


2. Implications

Thanks to the aggressive pursuit of FTAs and open trade over the last decade, the Korean government has succeeded in developing a trade environment that holds more advantage to those of its rivals. Nevertheless, Korea still has much to catch up with the international standard. The proportion of trade with FTA partners in Korea's overall trade²¹⁾, which is an important indicator of free and open environment for trade, was 35.3% as of the end of 2013, which puts Korea far ahead of China (21.2%) and Japan (18.9%). However, on the list of countries most active in terms of FTA trade, Korea barely manages to come in the 88th place. Given its significant dependency on international trade, Korea needs to continue its pursuit of FTAs with steadfast rigor. For example, Myanmar, a member ASEAN, is placed high on the list of active FTA-trading countries because of its exceptionally high dependency on trade with the neighboring ASEAN countries. EU member states, including the traditional manufacturing stronghold, Germany, Mexico (a NAFTA signatory) and the United States, also surpass Korea.

21) The proportion of trade with FTA partners in each country's overall trade volume.

<Country Rankings by Trade Ratio with FTA Partners>



Note: The FTA trade volume was measured in 2012 and the number of FTA signatories was measured in March 2014.

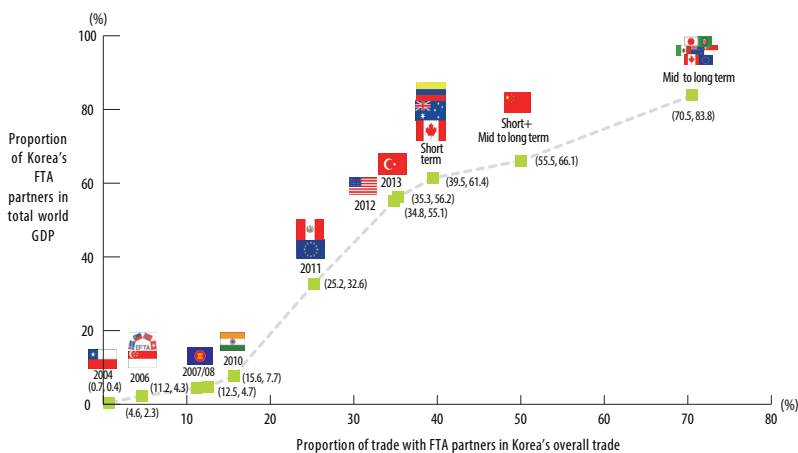
Source: IMF DOTS and WTO statistics, compiled by the authors.

The size of available markets abroad in terms of GDP and the degree of freedom in the trade environment have steadily increased as Korea kept expanding its FTA network. The proportion of Korea’s FTA partners in the world GDP represents the size of the available markets that Korea can more freely access and enter. As of the end of 2013, Korea’s FTA partners accounted for 56.2% of the world GDP, indicating that Korea could freely enter over the majority of all markets worldwide.

The increase in the volume of trade with FTA partners indicates that the international trade environment is growing more and more favorable for Korea. As the ratio of Korea’s trade with FTA partners rose to 35.3% by the end of 2013, one-third of Korea’s overall trade lies in an even freer environment. Once Korea’s FTAs with Canada, Australia, and Columbia

enter into force, the proportion of Korea's trade with the FTA partners in its total and the ratio of its FTA partners in the world GDP will rise to 35.3% and 56.2% respectively. Once the Korea–China FTA enters into force, the figures will further rise to 55.5% and 66.1% respectively. Once all the FTAs Korea is currently negotiating materialize, the figures will increase to 70.5% and 83.8% respectively.

<Economic Trajectory of Korea's FTAs>



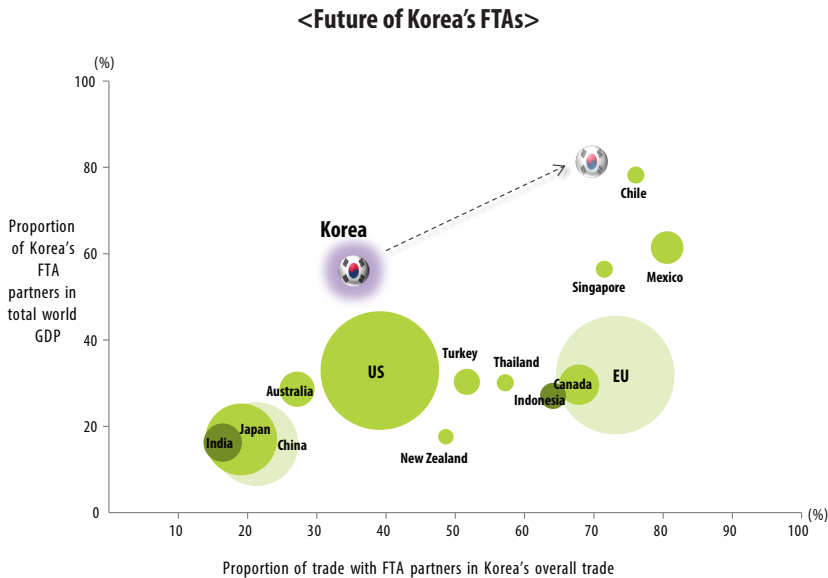
Note: The proportions of the GDP and trade volumes were measured in 2012.

Source: KITA statistics, compiled by the authors.

Given the small size of its domestic market and its growing dependency on international trade, Korea needs to maintain its open trade policy in order to survive the increasingly fierce competition over favorable trade conditions and market access worldwide. Notwithstanding the limits inherent to its domestic market, Korea has achieved considerable success in securing its access to available markets worldwide (as represented by the proportion of its FTA partners in the world GDP) and the freedom of trade (as

represented by the proportion of trade with its FTA partners in its overall trade). Korea possesses a much smaller domestic market than its rivals, such as China and Japan. However, it has managed to get ahead of these rivals in terms of access to available markets and freedom of trade.

Although the competition worldwide over concluding FTA deals continues to grow fierce, Korea will come out of this competition as a winner once it successfully concludes all its current negotiations for future FTA deals, which will give the country much more favorable and open market conditions around the globe. Japan has set out to beat Korea in this game, aiming to increase the proportion of its trade with FTA partner countries in its overall trade volume to 70% from the current 18.9% by 2018.



Note 1: The size of each ball represents each country's relative nominal GDP (2012).

Note 2: The proportions of the GDP and trade volumes were measured in 2012.

Source: IMF, KITA and WTO statistics, compiled by the authors

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Ministry of Trade, Industry, and Energy (www.motie.go.kr)

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**The Decade-Long
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