

Eurasia Foundation International Lectures, Fall 2020 Semester
The Construction and Transformation of East Asiaology” Lecture Series (15)
Title: South Korea’s FTA Strategy and its Political and Economic Effects

For the 15th Eurasia Foundation International Lecture, we invite Professor Hao-Yao Chen from the Department of Korean Language and Literature at our university to analyze the South Korea’s Free Trade Area (FTA) strategy and its political and economic effects. From the very beginning, Professor Chen points out that our relations with South Korea is more competitive than cooperative and the two countries’ trading partners are highly overlapped. The FTA is not purely an economic and trade issue but an issue involving diplomatic, security, and political considerations. The speech can be divided into the following seven sections:

1. The background and multiple considerations for promoting negotiation and signing FTA

Affected by regional economic integration and the liberalization of world trade in the mid-1980s, South Korean government believed that FTA could eliminate trade barriers, increase the effect of trade diversion and promote investment; thus, it began to discuss policy in pursuing FTA. However, South Korea government soon gave up this policy because FTA would have brought negative impacts on domestic agriculture. In 1992, the North American region successfully signed the North American Free Trade Agreement (NAFTA), and the South Korean government once again conducted a comprehensive review on the policy of pursuing FTA.

In 1993, Kim Young-sam took office and proposed the “New Korea” policy concept. Through the “New Five-Year Economic Plan,” he started economic reform, which aimed at transforming the long-term government-led economic system into private-led one and encouraging enterprises to innovate independently. In 1994, Kim Young-sam administration launched the “Globalization Policy” to enhance the overall international competitiveness.

In 1997, when the Asian financial crisis broke out and after the process of rebuilding economic structure, the Korean government reassessed the feasibility of FTA policies, established the “Trade Negotiation Headquarters,” and started to initiate FTA-related operations.

2. Strategic planning

South Korea’s strategy for pursuing FTA was two-folded: Externally, it actively negotiated with other countries and particularly prioritizes negotiations with countries which had strong will and less demand. Internally, it sought public consensus and

provided reasonable compensation plans for groups negatively impacted by the FTA. The second strategy was to conduct multi-track negotiation and pursue negotiations with multilateral communities and large economies. Negotiation targets are divided into short-term and medium- to long-term targets. The short-term targets included Japan, Singapore, and the Association of Southeast Asian Nations (ASEAN), while the long-term targets selected countries which was economically appropriate and has political and diplomatic importance such as the United States (U.S.), the European Union (EU), and China. Its strategy can be divided into three phases. From 1998 to 2004, it mainly accumulated negotiation experience. From 2004 to 2012, it was a period of multi-track and gaining progress, because it negotiated with countries or communities with huge markets such as the U.S. and the EU. Finally, after 2013, it is the period of utilizing the benefit after signing FTA with many countries.

There are two criteria of classification when Korea selects targets to sign FTA. The first is based on the consideration of a huge market, technological cooperation, a window to enter a huge market, and abundant resources. The second is based on the consideration of national security, making up for the lack of natural resources, expanding markets, and responding to the rise of developing countries.

3. Policy planning & political challenges

South Korea's considerations for pursuing FTA include international political and economic development, policy compensation and distributive justice, national legislation supervision, and adjustment of negotiation institutions. In response to the policy of pursuing FTA, South Korea has improved laws and regulations and integrated its ministries and institutions to strengthen international negotiations. According to the "Trade Treaty," the government established a "Trade Promotion Committee" for external affairs and an "Domestic Countermeasure Committee" for internal ones in the legal level. The government also established the "FTA Direct Victim Remedy System" to cope with the FTA's damages to various industries. For example, Chile, the first country to sign an FTA with South Korea, imposes seasonal tariffs on Korean agriculture (grapes).

4. Operating Procedures & Congressional Supervision Mechanism

The custom in South Korea is to enact legislation first and then review. It can be divided into internal and external parts. The intention is to gain understanding from the Congress, treat remedial measures to domestic enterprises as priority, let citizen feel that the Congress is doing its duty, and avoid the issue like reversing a ban on US beef imports arises after the signing of the Korea-U.S. FTA. The remedial measures are implemented in two stages. The first stage occurred before entering negotiation. In

this stage, the government reports to the Congress about what industries may be harmed after signing FTA, so that the Congress may capture the whole situation before entering the negotiation. The second stage occurred after the FTA is signed. The Congress can still exercise its right of consent to implement remedial measures through legislation to improve the inadequate parts of the first stage.

5. Political and economic impact on society

Signing an FTA undoubtedly brought political and economic impacts to South Korea. South Korea economy is dominated by large companies, for example, Samsung's GDP accounts for 30% of South Korea's GDP. Large companies expect that the government will break non-tariff trade barriers, while other companies probably would not benefit from it. Signing an FTA may cause problems such as high price, class friction, unequal interests, disparity between the rich and the poor, and rising inflation.

6. Strategic layout, effectiveness, current situation of signing FTA

South Korea's FTA strategic path began with the negotiation with Chile, as a stepping stone, and targeted at Mexico, a member of the NAFTA, as a window to enter the American market. South Korea took advantage of the strategy of "external stimulus" and "multi-track" and treated Canada, Singapore, and the European Free Trade Association (EFTA) as stepping stones to attract major trading partners, such as the US, ASEAN and the EU, to the table of FTA negotiations with South Korea. In addition, using the effects of the Korea-U.S. FTA negotiations, South Korea persuaded major exporters of agricultural and livestock products such as Australia and New Zealand to actively launch FTA negotiations.

After accumulating negotiating energy, South Korea started FTA negotiations with mainland China, its largest trading partner, and actively participated in regional economic integration such as the Regional Comprehensive Economic Partnership Agreement (RCEP) and the Trans-Pacific Partnership Agreement (TPP).

The current situation of South Korea's FTA signing is that currently the agreement with 16 countries were enforced, agreements with 4 countries have reached or signed yet not enforced, and South Korea is still under FTA negotiation with 7 countries (Korea, China, and Japan have reached agreement).

7. The implications of South Korea's FTA strategy to Taiwan

(1) Negotiation institution planning and operation model: In addition to negotiator personnel, the negotiating team also includes behind-the-scenes personnel and personnel who would be in charge of the next stage. The negotiating team should be

given enough authority, so it can increase the bargaining chip and speed up the negotiation.

(2) Cultivating talents for international economic and trade negotiations: (a) The government employs contractual employment methods to attract professionals specializing in economics, trade and law. (b) Large companies set up think tanks to recruit and train college students who would then return to school after the training is completed.

(3) Preparations for liberalization and opening up: Taiwan's FTA negotiation is restricted by diplomatic and political constraints and difficult to carry out. However, South Korea, using its status as a developing country, can take safeguard measures to protect domestic industries.

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