



Asia-Pacific
Economic Cooperation

2005/FTA-RTA/WKSP/013

Economy Report: Korea

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**Workshop on Identifying and Addressing
Possible Impacts of RTAs/FTAs Development on
APEC Developing Member Economies
Hanoi, Viet Nam
28-30 June 2005**

Information From Korea on FTAs/RTAs

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2005.06.27

I. Introduction

As for FTAs, Korea's policy comes from the firm conviction that FTAs will not only liberalize its trade in goods and services, but will also serve to upgrade its economic system. Trade liberalization through FTAs can bring about greater competition and higher global standards, driving us to a higher level of efficiency, advanced economic structure and strengthened competitiveness. Korea also believes that the content of FTAs should be WTO plus. The FTA policy has to offer more liberalization in trade in goods and services. It also has to include competition and government procurement.

Like any other economies, the Korean economy has sensitive areas. For example, when Korea carried out the negotiations in its first-ever FTA, the FTA with Chile, there were concerns about opening the market particularly in agricultural area. However, the FTA with Chile finally went into effect in April 2004 and the concerns have not been validated. The bilateral trade volume between Korea and Chile has increased by 66 % in the period between April 2004 and December 2004 in comparison to the same period in 2003. Now Chilean wine has become very popular with Korean consumers. More importantly, there has not been significant damage to the agricultural sector. Due to the experience with the Korea-Chile FTA, the Korean public as well as the Korean government have become more comfortable with concluding FTAs with other trading partners.

After Chile, Korea began FTA negotiations with Japan, Singapore and EFTA (Switzerland, Norway, Iceland, Liechtenstein) respectively. The Korea-Singapore FTA negotiations were substantially completed in November 2004. This year, the Korean government is planning to conclude FTA negotiations with EFTA. It has also begun Joint FTA studies with Canada, India and Mexico. The FTA exploratory discussions between Korea and Canada are smoothly progressing due to the active participation of our Canadian counterpart and both economies are preparing for the commencement of negotiations. The Korea-ASEAN FTA negotiations began in February 2005, with a

target to conclude them by the end of 2006. Both sides have already agreed to liberalize at least 80% of their tariff lines by 2009. Additionally, Korea commenced a non-governmental Joint FTA study with China.

II. Main Elements in Korea's FTAs

Until now, Korea has not had any specific model agreements for its FTAs. The general framework of the agreement texts that Korea has pursued in its negotiations with Chile, Singapore, and Japan were modeled after the text of the North American FTA (NAFTA); although the specific structure and provisions of each agreement differed, reflecting various negotiating needs. The draft text of an agreement with EFTA was based on that of the EFTA-Singapore agreement. As its experience in FTA negotiations accumulates, Korea is gradually building a database of agreement texts, which will help formulate its own agreement pattern.

In terms of substantive aspects of FTAs, however, Korea has maintained a high degree of consistency. First of all, it has pursued comprehensive FTAs, covering all sectors and substantially all trade, in line with Article XXIV of GATT 1994 and Article V of GATS. Most of its FTAs, including those still under negotiations, covered the following areas:

- Trade in goods
 - Market liberalization
 - Rules of origin
 - Trade remedy rules such as safeguards, anti-dumping measures and countervailing measures
 - Custom procedures
 - SPS, TBT, and mutual recognition, as appropriate
- Trade in services
 - Market liberalization
 - Related rules on national treatment, market access, local presence and domestic regulations, etc.
- Specific sectoral coverage (finance, telecommunications, etc) and sector-specific rules
- Investment
- E-commerce
- Government procurement

- Intellectual property rights
- Competition
- Transparency
- General exceptions
- Dispute settlement
- Institutional arrangement

Secondly, Korea has pursued a high level of liberalization in trade in goods and services. Those sectors traditionally considered sensitive, such as the agricultural sector, are in principle included in the liberalization scheme under Korea's FTAs, although certain adjustments are made for selected sensitive items in their liberalization schedules.

III. Overview of the Korea-Chile FTA

The Korea-Chile FTA covers a comprehensive range of the economic relations between Korea and Chile including trade in goods, investment and services, competition, government procurement, intellectual property rights, and dispute settlement. The FTA will eliminate import tariffs on ninety-six percent of the goods (96.2% for Korea and 96.5% for Chile), in terms of the number of tariff lines, traded between the two countries within ten years.

The FTA consists of a preamble, twenty-one chapters and annexes including the tariff elimination schedules of each Party. The FTA has four major parts as follows:

1. Trade in Goods

Tariff Elimination: Under the FTA, Korea and Chile agreed to eliminate tariffs on imports from each other, either immediately or gradually, in accordance with their respective tariff elimination schedules.

Non-Tariff Barriers: The parties must abolish all quantitative restrictions that are not covered by Article XI of GATT, as well as other non-tariff barriers including import licenses for all goods.

Rules of Origin: The scope of the country of origin is broadly defined to

provide preferential tariff treatment to a wide range of exported items from each country.

Customs Procedure: The parties should provide simplified procedures for issuance and confirmation of the Certificate of Origin. In cases where importers have overlooked preferential tariff treatment, refunds may be claimed.

Trade Remedies: Under the FTA, both parties maintain their rights and obligations under the relevant provisions of GATT and WTO Agreements regarding safeguard measures, anti-dumping and countervailing duty matters.

- Given the particular sensitivity of the agricultural market, the parties agreed on a separate Emergency Clause for Agricultural Goods, whereby a Party may apply bilateral safeguard measures on agricultural products originating in the other Party.

2. Investment and Services¹

Investment: In order to guarantee liberalization and protection of foreign investment, both parties shall provide national treatment to the investments from the other Party. Each Party shall accord most-favored-nation (MFN) treatment to the investors and the investment of the other Party made in accordance with their respective laws and regulations.² Neither Party may impose or enforce performance requirements and/or particular nationality requirements for senior management positions.

Cross-Border Trade in Services: In order to facilitate cross-border trade in services, both parties shall accord national treatment to services and service providers of the other Party and neither Party may require local presence as a condition for cross-border provision of services.

3. Competition, Government Procurement and Intellectual Property Rights

¹ Financial services are excluded from the coverage of the Korea-Chile FTA. Negotiations will be reopened to incorporate financial services four years after the FTA takes effect.

² However, a Party is not obliged to accord the MFN treatment to investments or investors of the other Party when it accords more favorable treatment to investments or investors of a non-Party by an agreement establishing, *inter alia*, a free trade area or any other form of regional economic organization to which it is a member (Korea-Chile FTA, Article 10.4.2).

Competition Policy: In order to prevent anti-competitive measures from acting as trade barriers, the parties agreed to cooperate in the area of competition policy through various ways including exchanging related information.

Government Procurement: To facilitate liberalization, the FTA applies the principles of national treatment and prohibits discriminatory conditions such as priority purchase of domestic goods and offset practices in the area of government procurement.

Intellectual Property Rights: The parties shall provide adequate and effective protection and enforcement of intellectual property rights, including well-known trademarks.

4. Administrative and Institutional Provisions

The Free Trade Commission: The parties shall establish the Free Trade Commission, comprising of ministerial-level officials, to supervise the implementation, evaluate the effects and consider any other matter that may affect the operation of the FTA.

Dispute Settlement: The parties shall endeavor to promptly resolve disputes. For issues that arise under both the Korea-Chile FTA and the WTO Agreement, parties may select either dispute settlement forum to resolve the disputes, but once dispute settlement procedures have been initiated, the forum selected shall be used to the exclusion of the other.

For more information including the full text of the FTA,
please refer to: <http://www.mofat.go.kr/en/> and <http://www.direcon.cl/>