



# **FTA Policy of Korea: History, Market Barriers, and Market Opening**

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# Objective

- ◆ Provide brief history of Korean trade policy
- ◆ Analyze barriers of Korean market in the areas of agriculture, fishery, manufacturing, and services
- ◆ Report the Korean market opening through FTAs, especially Korea-US FTA and Korea-EU FTA

# C O N T E N T S



- I. Brief History of Korean Trade Policy**
- II. Korean Market Barriers**
- III. Market Opening through FTA**
- IV. Evaluation**

**Part-I | Brief History of Korean Trade Policy**



# I-1. Before 2000

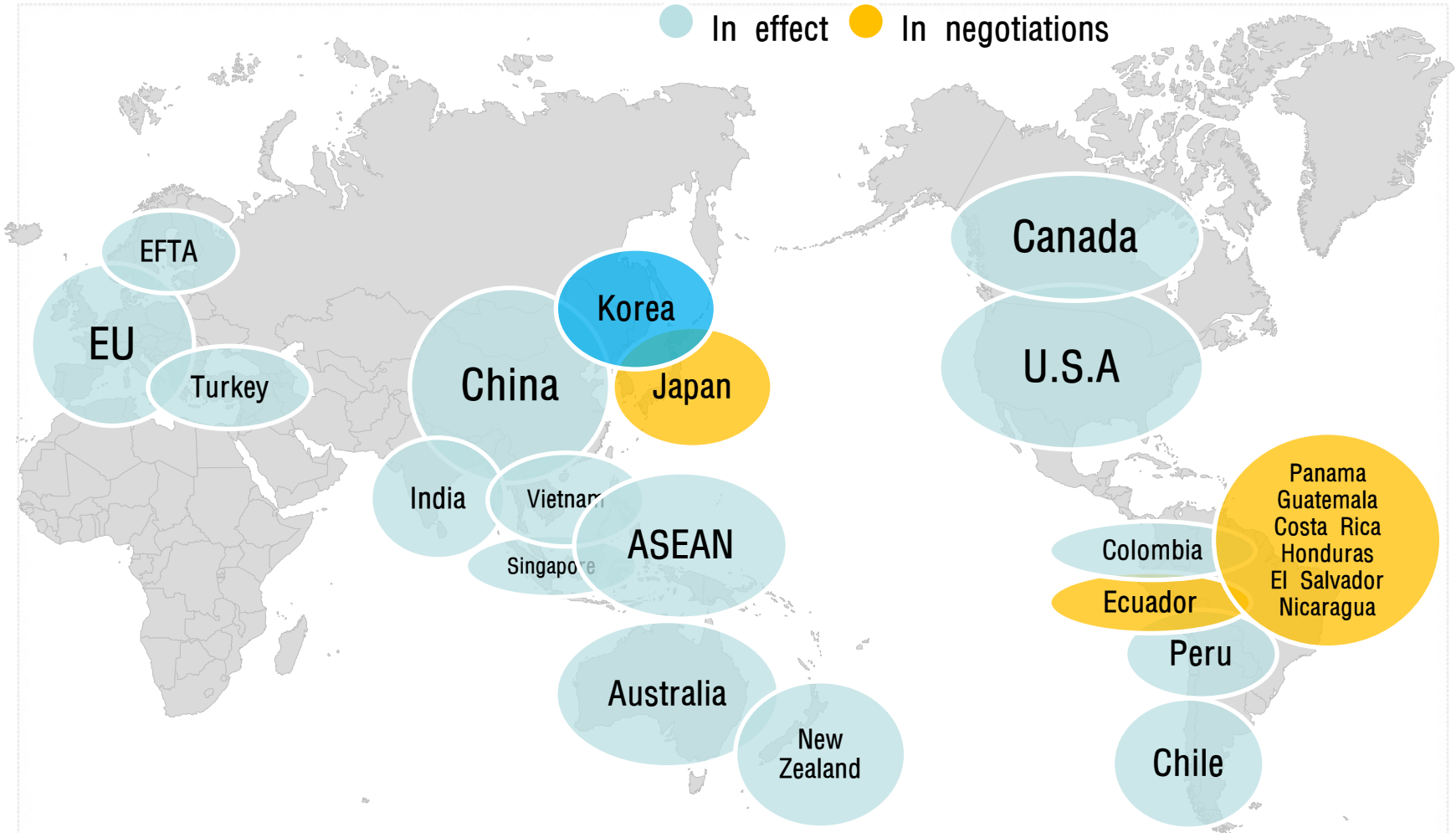
- ◆ Up until the early 1990s, Korea relied on the multilateral trading system
  - GATT member (since April, 1967.)
  - WTO member (since the establishment)

## I-2. After 2000

- ◆ FTAs in effect:
  - Chile (2004), Singapore (2006), EFTA (2006), ASEAN (2009), India (2010), EU (2011), Peru (2011), US (2012), Turkey (2013), Australia (2014), Canada (2015. 1.), China (2015. 12.), New Zealand (2015. 12.), Vietnam (2015. 12.)
- ◆ Concluding Negotiation: Columbia
- ◆ Negotiating:
  - Korea-China-Japan (since 2012. 11.), RCEP (since 2012. 11.), Panama · Guatemala · Costa Rica · Honduras · El Salvador · Nicaragua (2015. 6.), Ecuador(2015. 8.)

# I-3. Current FTA Network of Korea

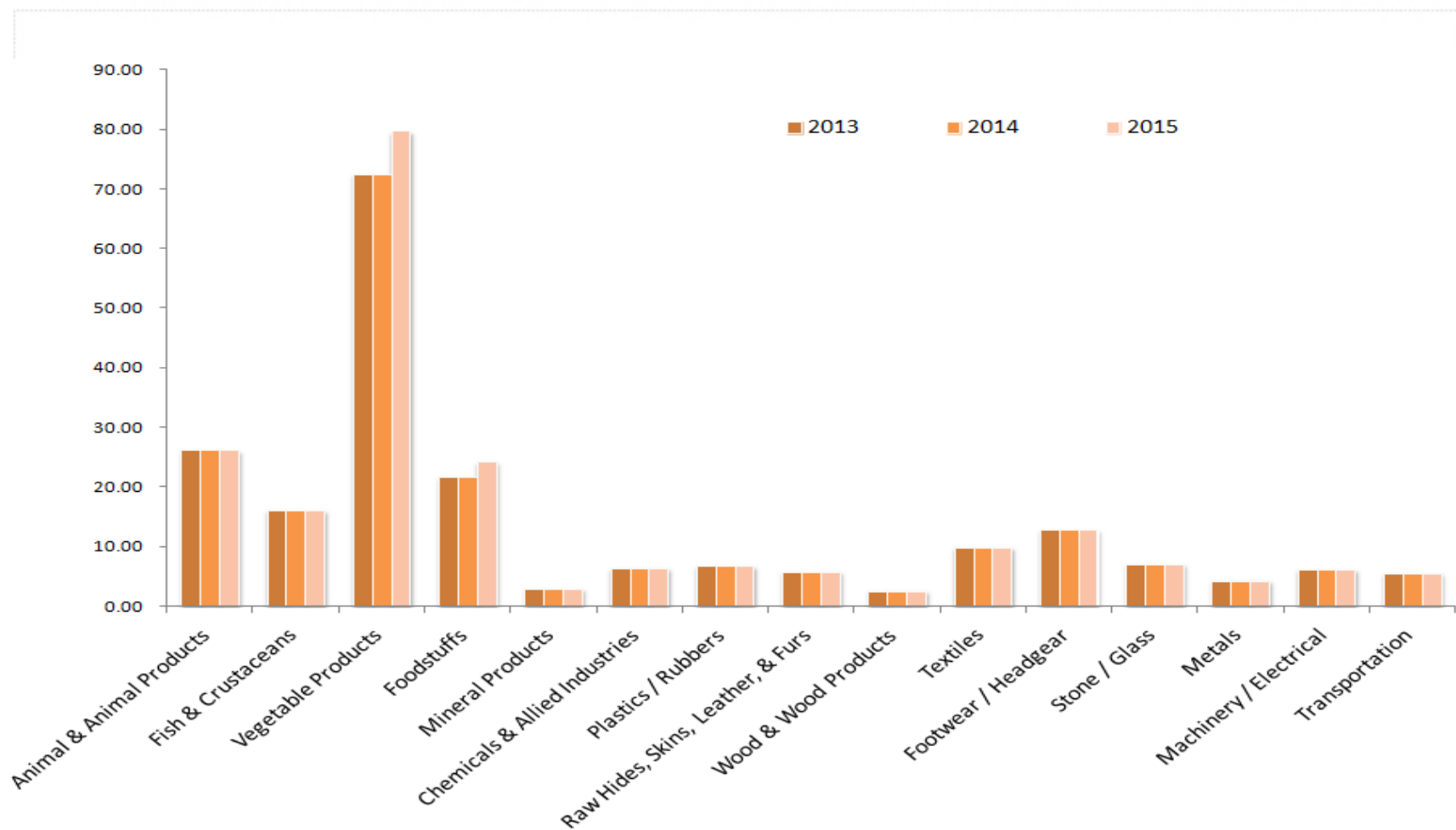
● In effect ● In negotiations



**Part-II | Korean Market Barriers**



# II-1. MFN Tariff structure of Korea



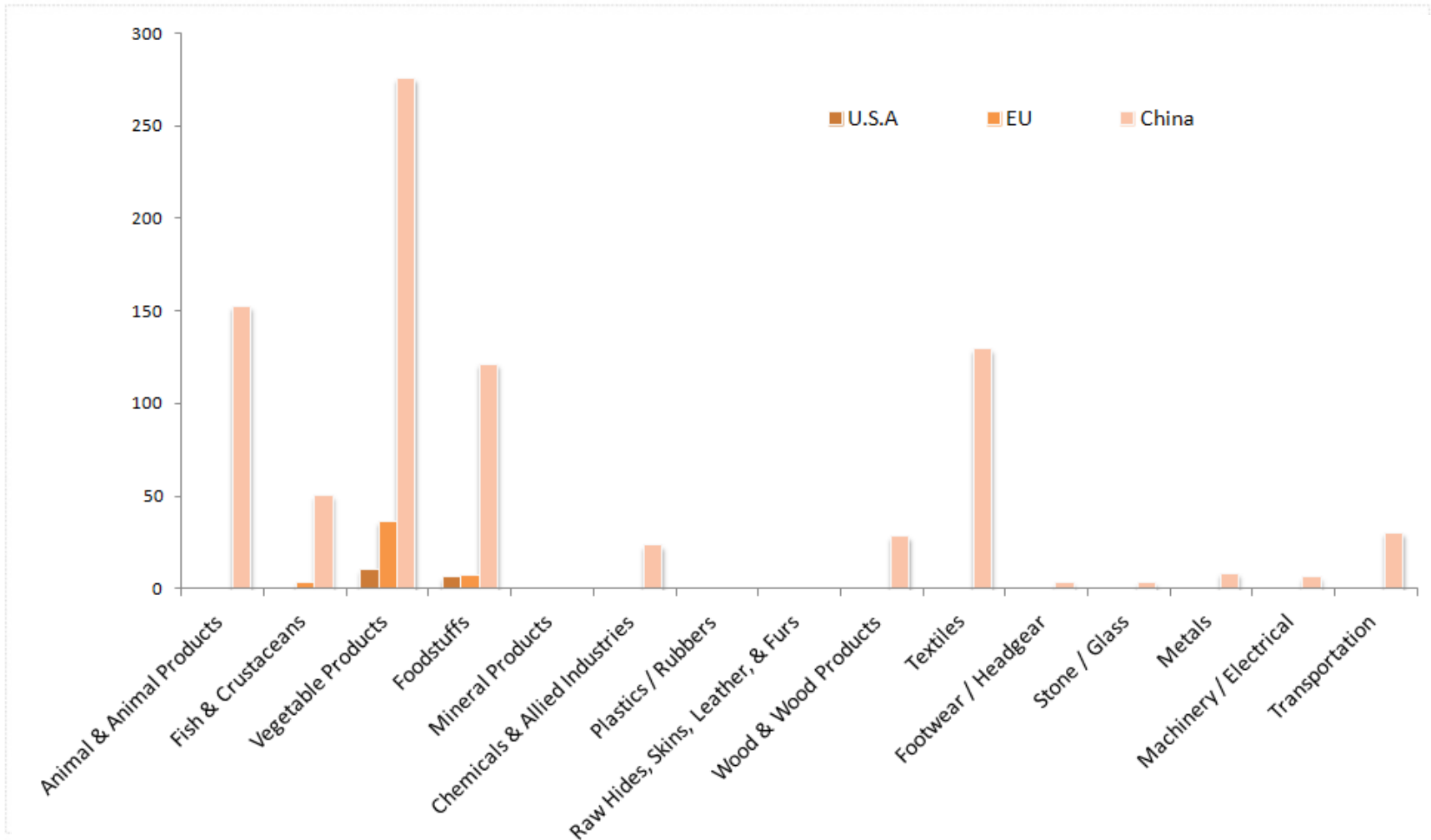
Source: Calculated from WTO tariff database.

## II-2. Tariff elimination in US and EU FTAs

HS code	Descriptions	Items immediately eliminated in both US and EU FTAs
01, 02, 04, 05	Animal & Animal Products	27.7%
03	Fish & Crustaceans	5.1%
06-15	Vegetable Products	36.3%
16-24	Foodstuffs	18.5%
25-27	Mineral Products	91.6%
28-38	Chemicals & Allied Industries	88%
39-40	Plastics / Rubbers	75.7%
41-43	Raw Hides, Skins, Leather, & Furs	87.3%
44-49	Wood & Wood Products	61.1%
50-63	Textiles	97.5%
64-67	Footwear / Headgear	98.1%
68-71	Stone / Glass	81.5%
72-83	Metals	90.4%
84-85	Machinery / Electrical	83.9%
86-89	Transportation	75.7%
90-97	Miscellaneous	83.1%

Source: Yeongkwan Song (2012), "KORUS FTA Compared with Korea-EU FTA: Why the Difference?," Academic Paper Series, vol. 5.

# II-3. Number of Excluded items



Source: Calculated from Korean tariff schedules in each FTA.

## II-4. Services

### 1) Transportation

- Maritime pilotage services: not open
- Air transportation services: less than 50% of the equity

### 2) Telecommunication: less than 50% of the equity

### 3) Professional services: not open to foreign firms

- Legal services
- Patent attorney
- Accounting and auditing services
- Tax accountant

## II-4. Services

### 4) Media

- News agency services: not open to foreign persons and enterprise, more than 25% of the equity
- Radio station license: not open to foreign persons and enterprise
- Terrestrial broadcaster: not open to foreign persons and enterprise
- Program provider for multi-genre programming and news reporting: not open to foreign persons and enterprise
- Program provider(not multi-genre programming, news reporting): less than 49% of the equity
- Satellite broadcasting operator: less than 33% of the equity
- Cable system operator: less than 49% of the equity
- Publishing of Periodicals (Excluding Newspapers): not open to foreign persons and enterprise with more than 50% of the equity

## II-4. Services

### 5) Energy

- Electric Power Generation (other than Nuclear Power):  
less than 30% of the equity
- Electric Power Transmission, Distribution and Sales:  
less than 50% of the equity

### 6) Distribution Services

- Meat wholesaling: less than 50% of the equity

## Part-III | Market Opening through FTA



# III-1. Tariff

## 1. Overview

table1. liberalization ratio by country

Country Name		Chile	Singapore	EFTA	ASEAN	EU	Peru	U.S.A	Turkey	Australia	Canada	China	New-Zealand	Vietnam
Effect year		2004	2006	2006	2009	2011	2011	2012	2013	2014	2015	2015	2015	2015
Korea	Total	99.80%	91.60%	99.10%	99.20%	99.60%	99.10%	99.8	93.30%	94.30%	97.50%	92%	98.30%	95.40%
Liberalization Ratio	Immediate	77.20%	59.70%	86.30%	90.80%	81.70%	84.50%	78.2	80.50%	72.40%	81.90%	51.80%	48.30%	92%
Period(Years)		16	10	10	7	10	5	15	10	20	10	20	20	15
FTA Country	Total	99%	100%	100%	99.2-100	99.60%	67.90%	100	91.2	100%	97.50%	91%	100%	89.90%
Liberalization Ratio	Immediate	41.80%	100%	100%	89.9-100	94%	100%	81.3	53.80%	86.30%	76.40%	20.10%	92.00%	87.80%
Period(Years)		8	Immediate	Immediate	15	10	5	12	10	8	10	20	20	15

# III-1. Tariff

Table III-2. Number of product (Normal, Sensitive, Highly Sensitive)

	Chile	Singapore	EFTA	EU	Peru	U.S.A	Turkey	Australia	Canada	China	New Zealand	Vietnam
Normal	10,745	10,315	9,770	11,048	11,570	11,068	10,952	11,201	11,599	9,690	11,157	496
Sensitive	13	0	187	169	204	177	134	509	88	1669	513	3
Highly sensitive	412	946	157	44	107	16	795	171	213	873	211	564

Source: Calculated from Korean tariff schedules in each FTA.

# III-1. Tariff

Table III-3. List of product, excluded (not exhaustive)

Country Name	Products Name
Chile	rice, apple, pear, garlic, chili, dairy product
Singapore	petroleum product, a ball bearing, TV receiver, rice, apple, pear, garlic, beef, culturing live fish or shellfish, aquarium fish, plywood, fiberboard.
EFTA	rice, meat, all products related to rice.
EU	rice, all products related to rice.
Peru	rice, all products related to rice.
U.S.A	rice, all products related to rice.
Turkey	beef, pork, fresh fruits, seasoning vegetable

# III-1. Tariff

Table III-3. List of product, excluded (not exhaustive), (continued)

Country Name	Products Name
Australia	rice, meat, all products related to rice, particle board, fork(frozen), natural honey, onion, deer antlers, chili, garlic, welsh onion, watermelon, apple, tangerine, hulled barley, rye, sesame, pea nut, ginseng, abalone, pollack(frozen), oyster(frozen), eel
Canada	rice, beef, chicken(frozen), duck meat(frozen), dry milk powder, cheese, pine mushroom, shiitake mushroom, chestnut, tangerine(fresh/ dry), ginseng, red pepper paste, leaf tobacco
China	cast-iron pipe, copperplate, nickel-lump, ethyl acetate, plate glass, tile, pure cotton, worsted, polyesters, textile clothing(coat and sweater for man), knitted clothing, shoes, ball bearing, electric drill, car, truck, engine chassis(except car), plywood, granite, barley, potato, beef, fork, chicken, milk powder, cheese, butter, honey, tangerine fruits orange, apple, pear, grape, kiwi, pumpkin, chili, garlic, onion, ginseng, croaker(frozen), hairtail(live, frozen), mackerel (live, frozen, preserve with salt), flatfish(frozen, live), ray(frozen), octopus, conch, anchovy(dry), snapper(frozen, live), squid, croaker(frozen, live), dried pollack, rockfish(frozen), blue crab(frozen, live)
New Zealand	rice, rye, natural honey, artificial honey, chicken(frozen), fork(bacon), milk sugar, antler, persimmon, chili, ginseng, garlic(live, frozen, dry), apple, pear, grape, tangerine, squid(frozen), abalone, pollack(frozen)
Vietnam	rice, meat, all products related to rice

Source: Tariff schedules in each FTA.

# III-1. Tariff

## 2) Sector

### A. Agriculture

Table. III-4 Comparison of Overall Agriculture Tariff Reduction Schedules of Korea

Time Frame	Korea-US FTA		Korea-EU FTA	
	Item (%)	Value (%)	Item (%)	Value (%)
Immediate	38.1%	55.2%	42.1%	19.5%
Within 3 years	38.5%	55.4%	43.3%	37.4%
Within 5 years	59.2%	67.0%	62.5%	65.3%

Source: Calculated from Korean tariff schedules in both FTAs.

# III-1. Tariff

Table III-5. Comparison of Sensitive Products in Agriculture Tariff Reduction Schedules of Korea

Product		KORUS FTA	Korea-EU FTA
Rice		Excluded	Excluded
Barley	Malt (269%) and malting barley (513%)	15 year + ASG + TQR	16 year + ASG + TQR
	Unhulled (324%) and naked (299.7%)	15 year + ASG + TQR	Tariff remains
Maize	Popcorn (630%)	7 year + ASG	14 year
	For Feeding (328%)	immediate	6 year
Beans (Urd, Adzudi, Mung) (420.8%, 607.5%)		15 year + ASG + TQR	16 years
Beef (40%)		15 year + ASG	16 year + ASG
Pork	Fresh or chilled (22.5%)	10 year + ASG	11 year + ASG
	Frozen belly(25%)	2014.1.1	11 year
	Frozen Others(25%)	2016.1.1	6 year
Milk Products	Milk powder (176%) and Evaporated milk and Butter milk (89%)	Tariff remains + TQR	Tariff remains + TQR
	Food whey (49.5%)	10 year +TRQ	11 year + TRQ

# III-1. Tariff

Table III-5. Comparison of Sensitive Products in Agriculture Tariff Reduction Schedules of Korea (continued)

Product		KORUS FTA	Korea-EU FTA
Cheese	Cheddar (36%)	10 year + TQR	10 year + TQR
	Others (36%)	15 year + TQR	16 year + TQR
Butter (89%)		10 year + TQR	11 year + TQR
Natural Honey (243%)		Tariff remains + TQR	Tariff remains + TQR
Orange (50%)		Seasonal tariff + TQR	Seasonal tariff + TQR
Grape (46%)		Seasonal tariff	Seasonal tariff
Pepper	Fresh, chilled, or dried (270%)	15 year + ASG	Tariff remains
	Frozen (27%)	15 year	15 year
Garlic	Fresh, chilled, or dried (360%)	15 year + ASG	Tariff remains
	Frozen (27%)	15 year	16 year
Onion	Fresh, chilled, or dried (136%)	15 year + ASG	Tariff remains
	Frozen (27%)	12 year	13 year

Source: Calculated from Korean tariff schedules in both FTAs.

## III-1. Tariff

### ➤ *Beef*

- Korean duty: 40%
- Tariff phased out over 15 years for US, 16 years for EU.
- ASG for 15 years for the US, 16 years for EU.
  - The first year trigger point is 279,000 metric tons for the US, 9,900 metric ton for the EU.
- US favorable: in 2009, beef import from the US is \$273 million, less than \$3,000

## III-1. Tariff

### ➤ *Pork*

- Fresh and chilled (HSK 0203.19.1000, 0203.19.9000)
  - Korean duty: 22.5%
  - Tariff phased out over ten years for the US and eleven years for the EU
  - ASG for ten years for the US and eleven years for the EU
    - First year trigger level is 8,250 metric tons for the US and 163 metric tons for the EU
  - US favorable: US exports is more than 19 million dollars compared to less than 8 million dollar EU import in 2009

# III-1. Tariff

## ➤ *Pork*

- Belly part of frozen pork (HSK 0203.29.1000)
  - Korean duty: 25%
  - Tariff phased out over 11 years for the EU and completely eliminated from January 1, 2014 for the US
  - US favorable: EU export is ten times more than US export
- Other part of frozen pork (HSK 0203.29.9000)
  - Korean duty: 25%
  - Tariff phased out over 6 years for the EU and completely eliminated from January 1, 2016 for the US
  - Similar: similar level of exports

# III-1. Tariff

## B. Fishery

Table III-6. Comparison of Overall Fishery Tariff Reduction Schedules of Korea

Time Frame	Korea-US FTA		Korea-EU FTA	
	Item (%)	Value (%)	Item (%)	Value (%)
<b>Immediate</b>	14.2%	1.5%	12.3%	6.8%
<b>Within 3 years</b>	54.9%	38.9%	44.2%	27.1%
<b>Within 5 years</b>	62.5%	64.8%	67.2%	78.0%

Source: Ministry of Foreign Affairs and Trade, Republic of Korea, "The Detailed Explanation of Korea-EU FTA (Korean).

# III-1. Tariff

## C. Manufacturing

Table III-7. Comparison of Overall Manufacturing Tariff Reduction Schedules of Korea

Time Frame	Korea-US FTA		Korea-EU FTA	
	Item (%)	Value (%)	Item (%)	Value (%)
Immediate	89.9	81.0	90.7	69.4
Within 3 years	96.2	94.3	95.8	91.8
Within 5 years	98.1	95.8	99.5	98.7

Source: Ministry of Foreign Affairs and Trade, Republic of Korea, "The Detailed Explanation of Korea-EU FTA (Korean)".

# III-1. Tariff

## \* Automobile

### ➤ *Tariff reductions*

Table III-8. Comparison of Korean Automobile Tariff Reductions

	KORUS FTA	Korea – EU FTA
<b>Passenger cars (HS 8703)</b>	Reduce from 8% to 4% immediately and fully eliminate in year 5	Eliminate over 6 years
<b>Electric cars/Plug-in hybrid</b>	Same as above	Same as above
<b>Light trucks</b>	Eliminate immediately	Eliminate immediately or over 4 or 6 years depending on truck size

Source: Calculated from Korean tariff schedules in both FTAs.

## III-1. Tariff

### ➤ *Korean Auto taxation*

- Korean government agreed to revamp its engine displacement taxation system in the KORUS FTA, so that larger vehicles will not be liable to pay higher taxes.
  - Upon the enforcement of the FTA, the special consumption tax on vehicles with engines of more than 2000 cubic centimeters (cc) will be taxed at 8% instead of current 10%.
  - The rate will be reduced to 5% within 3 years of the enforcement of the agreement, which is the same as the vehicles with engines of more than 1000 cc.
  - Korea also agreed to amend its Annual Vehicle Tax so that automobiles with engines of more than 1600 cc are taxed at a single rate.
- This agreement is also applied to the Korea-EU FTA.

# III-1. Tariff

## ➤ *Safety standards*

- The new KORUS FTA accepts US safety regulations for imported US cars up to 25,000 vehicles per each US automaker.
  - US exporters sell up to 25,000 vehicles per year in South Korea built to US safety standards without any additional modification
  - This limit is four times the level of 6,500 units permitted in the original unit.
  - annual US exports to Korea from all companies have averaged 5,000 to 7,000 cars
- the Korea-EU FTA takes a regulatory convergence approach based on the United Nations Economic Commission for Europe (UNECE) standards.
  - It recognizes the World Forum for Harmonization of Vehicle Regulations within the framework of the UNECE as the relevant international standard-setting body for the auto products
  - includes provisions in which both countries commitments to regulatory standard harmonization

## III-1. Tariff

### ➤ *Fuel economy and greenhouse gas emission regulation*

- Korean government agreed that US imports would comply with fuel economy and emissions standards if the cars do not exceed 119 per cent of current Korean emissions limits from 2012 to 2015.
  - Korea's fuel efficiency standard will require automakers to reduce greenhouse gas emissions to 140 grams per kilometer and improve fuel economy to 17 kilometers per liter by 2015, which translates into an effective standard of 40 miles per gallon
  - the United States will require automakers to achieve 36 miles per gallon by 2016.
- This agreement is also applied to the Korea-EU FTA.

## III-2. Services

### ➤ *Legal services*

- Current Korea Law prohibits foreign law firms from opening offices in Korea, forming partnerships with Korean law firms and recruiting Korean lawyers
- Opening schedule
  - No later than the date the KORUS FTA enters into force, Korea will allow U.S. law firms to establish representative offices in Korea, and provide legal advisory services.
  - No later than two years after that, Korea agreed to allow U.S. law firms to enter into specific cooperative agreements with Korean law firms in order to be able to jointly deal with cases where domestic and foreign legal issues are mixed, and to share profits derived from such cases.
  - No later than five years after the date the agreement enters into force, Korea will allow U.S law firms to establish joint venture firms with Korean law firms and employ Korean-licensed lawyers as partners or associates.
- This commitment was also provided to EU law firms in the Korea-EU FTA.
- The opening of Korean markets of *accounting and taxation services* were agreed in similar way to legal services in both FTAs.

## III-2. Services

### ➤ *Telecommunications*

- Current Korea Law Korea allows foreign ownership up to 49 percent of total voting shares.
- Opening schedule
  - Korea relaxed the foreign ownership requirements and allowed 100% indirect ownership 2 years after the entry into force of the FTA, except for the ownership of two major Korean telecommunication service providers, KT and SK Telecom.
- This commitment was also provided to EU firms in the Korea-EU FTA.

## III-2. Services

### ➤ *Audiovisual services*

- Current Korean restrictions: Screen quota, domestic content quota, foreign ownership restrictions.
- Opening schedule
  - Cut half the screen quota to 73 days per year at each screen, which is applicable to the theatrical exhibition of US motion pictures.
  - Decrease the domestic content quotas applicable to the broadcast of films and animation programming.
  - Increases US quota applicable to single-country sources of foreign content broadcast in Korea.
  - No later than three years after this agreement enters into force, Korea will permit 100% foreign ownership of a program provider that is not engaged in multi-genre programming, news reporting, or home shopping.
- This commitment was provided only to US firms.

## III-2. Services

### ➤ *Financial services*

- All financial firms from the US and the EU will be able to freely transfer data from their branches and affiliates to their headquarters.

### ➤ *Environmental services*

- No later than five years after the Korea-EU FTA enters into force, Korea will grant nondiscriminatory treatment to EU service suppliers in competition procedures for management contracts.

### ➤ *Television and radio signals transmission services through satellite facilities*

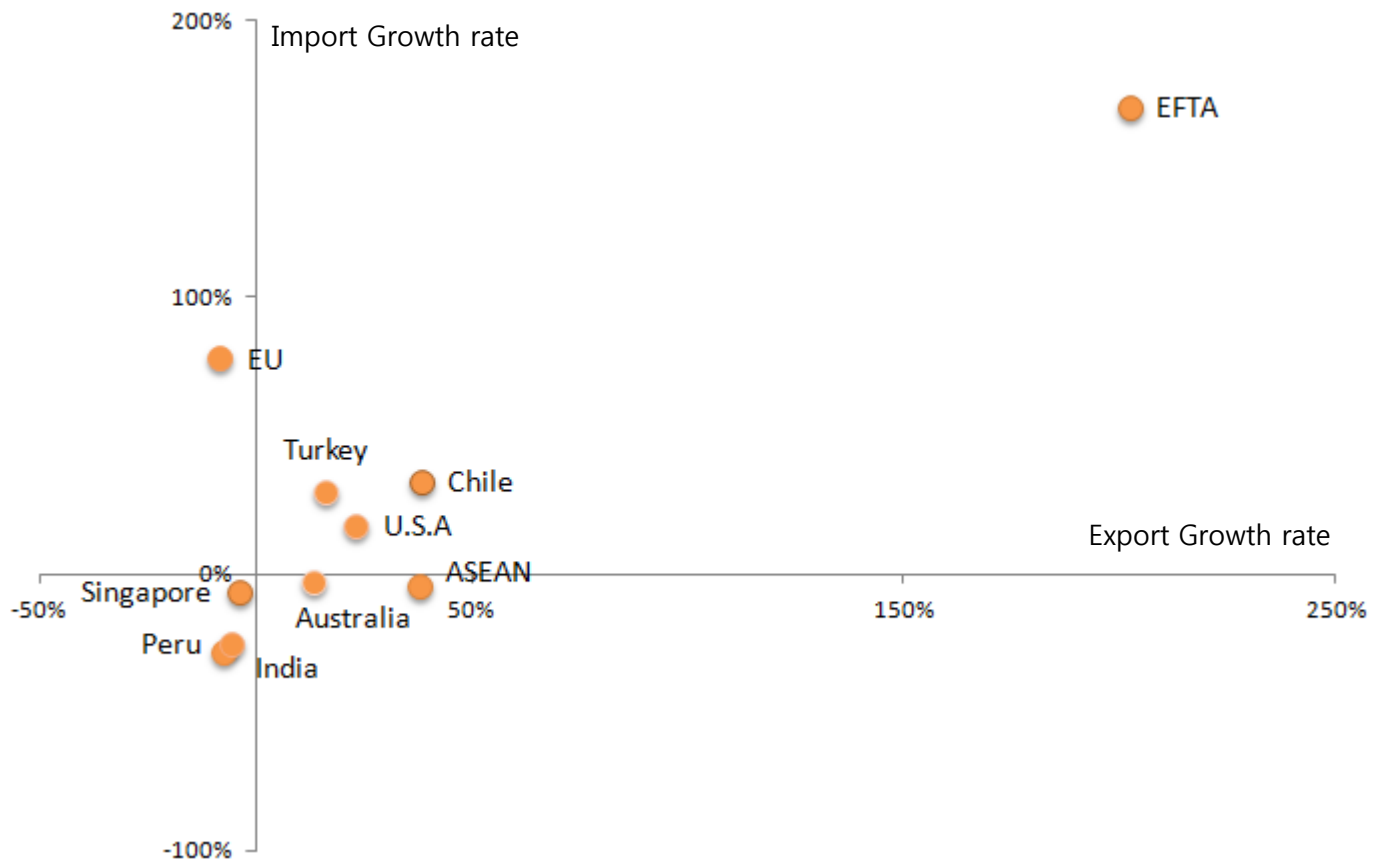
- Korea will permit cross-border supply to EU service providers without commercial arrangements with Korean suppliers, no later than two years after the Korea-EU FTA enters into force.

**Part-IV** | **Evaluation**



# IV-1. Changes in Trade

Graph IV-1. Changed in Trade (deviation from average trade changes of Korea)



## IV-2. Way forward

- ◆ Conclusion of TPP
- ◆ Negotiating RCEP and TTIP
- ◆ Possibility of ‘Free Trade Area of the Asia-Pacific(FTAAP)’ ?
  - Including China and Russia

Thank You