



## Opening statement

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### **1. Who are the winners and the losers? Actual impact on growth and welfare**

■ Considering the expansion of globalization and the entailing changes to the global trade environment, trade liberalization represented by neoliberalism may be an inevitable trend. From its first negotiation for a Free Trade Agreement (FTA) with Chile in 1999 to the most recent Canada-South Korea FTA officially signed this September, Korea has signed 13 FTAs with its counterparts and is currently negotiating six others, including Korea-China and Korea-China-Japan FTAs. Currently, South Korea accounts for up to 60% of FTAs with other countries.

■ Have Korea's FTAs benefited the producers and consumers?

■ For the Korea-Chile FTA, the Korean government projected that annual exports would grow by \$660 million, while imports would be limited to an increase of \$260 million. However, the balance of trade in 2013 showed exports at \$2,461 million and imports at \$4,657 million, resulting in a trade deficit of \$2,196 million.

Then, the automotive industry was expected to be the biggest beneficiary of the FTA; however, the market share of Korean carmakers in Chile showed little change from 18.1% to 17.9%. Meanwhile, the import price per kilogram of Chilean grapes increased by 104% from \$1.49 in 2003 to \$3.04 in 2013. Over the same period, the import price of US grapes increased a mere 42% from \$1.86 to \$2.56. This is because the Chilean exporters continuously raised the export price; thus, the benefits of the FTA favored the Chilean exporters, not the Korean consumers.

■ The Korea-EU FTA, which marked its third anniversary this year, has turned into a deficit from a \$20 billion surplus prior to its enforcement. The deficit gap increased to \$7.3 billion last year. Meanwhile, the Korea-ASEAN FTA indicated further opening of the market is necessary for export expansion – only 38.7% of the FTA is utilized by the Korean companies for their exports due to the tariff concessions and the lower level of market opening in sectors such as petrochemicals, metals, and the automotive industry, which are the major export items for Korea.

■ What about the Korea-US FTA?

According to the press release by the Korean government this March, exports to the US for the past year increased by 5.4%. However, a careful examination of the main index for items reveals a contrary result, thus contradicting the government's report. For the past year, the export growth rate to the US for non-beneficiary items (items excluded from tariff elimination or suspension) was 5.7%, while the same rate for beneficiary items (tariff elimination items) was limited to 4.9%.

In the automotive sector, cars which are a tariff item, picked up by 14.7% in the second year after the agreement, while auto parts which are a non-tariff item, grew only 8.3%. Unlike the government's claim, the Korea-US FTA has not contributed much to exports to the US.

■ If the past provides any guidance, Korea's FTAs do not result in as rosy a picture as proclaimed. FTAs are like a double-edged sword. It should be noted that the conclusion of an FTA itself is not enough; the key is how we utilize it, as this will decide the future of our nation.

**2. Government responses: Challenges and limitation of compensation mechanism**

■ The biggest victim in the process of Korea's trade liberalization is the agriculture sector.

■ From the Uruguay Round negotiation in 1992 until 2013, the Korean government injected 221 trillion won into the agricultural sector. The government aid came in various forms including rice subsidies to compensate for farmer's loss of income, subsidies to improve facilities, and low-interest long-term loans.

■ Despite such measures, and with the agriculture policies since the FTAs, the current status of the agricultural sector is a bit dismal.

■ As part of its post-FTA measures, the government encouraged a corporate farming policy in order to induce larger farm lands- then most farmers were small scale land owners and less competitive. By that policy, the government intended to increase the sector's competitive edge through economies of scale.

■ The results was undesirable. The gap between the rich and the poor in rural areas has only deepened compared to urban areas. In 2000, the upper 20% of rural households in terms of income earned 7.6 times more than the average income of the lower 20%, but the gap widened significantly to 11.7 times in 2010.

- Due to the low value creation in agricultural production, the aging of the rural population has accelerated. The rural population-aging rate (population ratio of those 65 years or older) in 1995 was a mere 16.2%, but the rate rapidly increased to 37.5% in 2013. This is three times higher than the national rate of 12.2%.
- Worse still, there was a large illegal social scandal in 2008 surrounding the rice subsidies fund allotted for farmers. It is reported that 173,947 people, including 40,421 public officials and 8,442 government-owned corporation employees who were not engaged in farming fraudulently received 168.3 billion won.
- Previously, Korea had encouraged farmers to leave the rural areas to meet the labor demands in cities. The farming subsidy fund measures could have worked as useful incentives for these workers to return to the farming industry. However, in the wake of the fraudulent rice subsidy scandal, the government amended the subsidy measures by making only large-acreage farms eligible for the subsidy - increasing the eligible farm size by 10 times compared to the previous program. Accordingly, small farming house-holds could no longer benefit from the subsidy, now only benefiting larger corporate farming.
- Due to such ineffective government policies, the 2013 OECD survey conducted on the 34 member countries showed a poor performance for Korea. Korea's agriculture market share ranked 25th, its Revealed Comparative Advantage (RCA) 33rd, and its Trade Specification Index 32nd.
- The agriculture industry is still a valuable public good despite its vulnerable comparative advantage. We should shed new light on the agriculture industry as it contains a number of values, such as food security, national land management, the environment, and ecosystem conservation, which cannot only be measured through 'the theory of comparative advantage'. Only then can sustainable national growth be guaranteed.
- Though protecting free trade is important, we cannot give up preserving agriculture. We do not need to trade off one against the other; both of the goals should be achieved simultaneously.
- However, the Korean government is not fully recognizing this. Although the impoverished status of the agriculture industry draws national attention, the government treats the voices of farmers as mere resistance from some farmers who are disadvantaged in the industry, leading it to only dole out short-term measures.

- Thus, the Korean government must break from the existing conceptual framework of FTAs to secure sustainable growth.

### **3. Long-term effects: economic, political, and social implications**

#### **Korea-Japan FTA**

- In March 2002, the heads of state of Korea and Japan agreed to establish the Korea-Japan FTA Joint Study Group with representatives of the business, government, and academic communities. With the first Korea-Japan FTA Joint Study Group meeting in July 2002, the Group adopted and announced the final report.

Since the first Korea-Japan FTA negotiation in December 2003, the negotiations effectively stalled with the 6th negotiation in November 2004 as the last meeting. Working level meetings followed to renew the FTA negotiations; however, the third working level meeting in June 2012 was the final meeting between the two countries with no developments for further negotiations.

- The prospect of renewing the FTA talks is unclear, considering the relations between the two countries are strained to their worst state since the normalization of diplomatic relations.

#### **Korea-China FTA**

- The Korean government is pursuing the Korea-China FTA to secure an economic advantage in the rapidly growing Chinese domestic market. The first negotiation was held in May 2012 with a total of 13 official meetings up until September 2014.

- The summit meeting at the Beijing between Korea and China have concluded substantive negotiations on a bilateral free trade agreement (FTA) in November 10, 2014 and will finalize the agreement's wording by the end of 2014.

- As is known, the biggest issue in the Korea-China FTA is the agriculture industry. While the Korea-EU and Korea-US FTA have disadvantages for some fruit products and livestock, the Korea-China FTA will have more across-the-board disadvantages for the agricultural sectors.

- Due to the geographical proximity and similar food consumption pattern and agricultural and fishery production structure, the impact of the Korea-China FTA is expected to increase imports from China, thus significantly lowering the domestic production of these products.

- In particular, China, with its massive labor force, will have far more price competitiveness in virtually the same kind of agricultural products that are produced in Korea. For example, chili pepper imported from China, which has a basic tariff rate of 270%, amounted to 95,635 tons

(import amount of \$112million) last year, close to Korea's domestic production amount of 117,816 tons. In addition, Korea imported \$91 million of Chinese sesame seed despite the basic tariff rate of 630%.

- It will be virtually impossible for Korean agricultural products to compete against their Chinese counterparts once the tariffs are reduced with the enforcement of FTA, which in turn will have a significant negative impact on Korea's agricultural industry.

- Korea has become the biggest exporter to China, outpacing Japan for the first time last year. However, exports to China are dropping this year, and Korea's market share is also declining in most sectors except machinery and electronic products. A case in point is the IT sector. Although Korea is known to much competitive in the IT sector, the technical gap between Korea and China is being narrowed.

- The most recent case in point is Xiaomi. The Chinese smartphone manufacturer has surpassed Samsung Electronics in China's mobile phone market. China already claims 1st place for seven of the 22 items in the International Standard Industrial Classification (ISIC). In addition, China is also in 1st place in the production of 220 items among the world's 500 major industrial products. Accordingly, Korea will likely suffer sluggish exports and a shrinking market share for items that have no technological gap with China once the FTA goes into effect.

#### **Korea-China-Japan FTA**

- The three countries launched the FTA negotiations in November 2012, and the 6th round of negotiations is scheduled for November 2014.

- The Korea-China-Japan FTA will create the world's third largest market in the region, accounting for up to 20% of the total world GDP and amounting to \$1.4 trillion with a population of 1.5 billion.

- The FTA will have the political implication of loosening the tension in the region. Currently, the three countries suffer the so-called "Asian paradox", which describes the economic interdependence of the three countries while also experiencing political and security conflicts.

#### **4. Conclusion**

- Korea has aggressively reached FTA agreements with other countries since the 1990s. Korea is now the 'FTA-hub country' with agreements with 60% of the countries around the globe, securing 41% of the world's population as its consumer market. The government has been actively promoting the various economic effects of FTAs. However, as previously seen, the results

of the Korea-Chile, Korea- ASEAN, and Korea-US FTAs have not been as significant as the government claimed.

- The global trend of world market integration is unavoidable. The summit meeting between Korea and China declared the FTA agreement within this year. However, Korea faces the stark reality that the agricultural industry might have to consider giving up farming, while the expected benefits in the manufacturing sector are also decreasing due to the narrowing technological gap with China.

- The Chinese government reportedly is rigid in amending its domestic rules to comply with the FTA in the current FTA negotiations with its Korean counterpart.

- The goal of FTAs is to eliminate each country's trade barriers in order to integrate the global market. The industrial sector and groups with capital and competitiveness will benefit from realizing economies of scale, while the disadvantaged sector and individuals in competition will suffer the negative ramifications. Now is the time to reflect and examine the excessive emphasis on the speed of FTA agreements without providing proper safeguards for the industries and individuals that are vulnerable to the FTAs.