

# Korea's Trade Strategies for Mega Free Trade Agreements in Regional and Global Economic Integration

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*Korea has developed rapidly since the 1960s. It is one of the four Asian tiger economies and a good model for developing countries. Korea shows the world how a developing country can develop its economy rapidly and become industrialized. Its development strategy has mainly been an export-oriented trade policy. As a result, its trade volume grew from \$1 billion in 1966 to \$1 trillion in 2011, which is a 1,000-fold increase within five decades. Since 2011, Korea has become one of seven countries with a trade volume over \$1 trillion. However, the Korean economy has experienced turbulence as well as positive growth. It underwent severe economic crises such as the Asian financial crisis in 1997 and the global financial crisis in 2008. Its economy has been extremely vulnerable to the external economic environment, although it has improved and strengthened, particularly since the global financial crisis. During those two crises, the government carried out an appropriate trade policy with a strategic approach to upgrade its industrial structure and competitiveness in global markets.*

*This article comprehensively discusses Korean trade policy and strategy over the last five decades, and how its national economy has developed rapidly. It also explores how the government sets its strategic targets in Asia and the Asia Pacific region. It considers two mega free trade agreements (FTAs) — the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership — as new opportunities for further development. Therefore, it is wise to analyze these regional mega FTAs in order to maximize the national interest.<sup>1</sup>*

**Key words:** trade policy; development strategy; free trade agreement; Regional Comprehensive Economic Partnership (RCEP); Trans-Pacific Partnership (TPP)

## Introduction

Korea was the fifth largest exporter and sixth largest importer in the world in 2014, registering growth in exports of 29 percent of GDP in 1995 and 54 percent in 2014. Such a rapid increase in exports has helped the nation to grow from a low-income to an industrialized economy in less than 50 years. The trade volume of Korea already exceeded USD1 trillion in 2011. Since then, Korea joined the 1-trillion trade club along with China, the USA, Germany, Japan, the UK, France, Italy, and the Netherlands. It became the ninth nation in world trade history [WTO, 2015].

Four factors account for this success. Firstly, Korea has continuously maintained a proper environment for doing business, particularly by keeping down the tax burden, which is one of

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the lowest in the OECD. Secondly, the government has promoted exports strategically since the 1960s and recognized their importance, while many developing countries have been engaged in import substitution as their development strategies. Based on the export-driven policy, Korea has been aggressive in negotiating free-trade agreements (FTA) with large and growing countries. Thirdly, it has taken advantage of neighboring countries such as Japan and China by attracting Japanese investment and investing in the Chinese market. Last but not least, it has diversified its global markets [World Bank, 2010, 2012]. In 2014, 25.4 percent of Korean exports went to China, 9.1 percent to the EU, 12.3 percent to the USA, and 5.6 percent to Japan. In 2009, just after the global financial crisis, China accounted for over 85 percent of Korea's export growth. Korea's diversification of markets and its growing diversity of exported goods contributed to the highest export growth in the OECD in 2009<sup>2</sup> [European Commission, 2016].

The government carried out industrial policies during the 1960s and 1970s in order to boost exports, mainly based on government-led trade and industry [Frank Jr. et al., 1975]. During the 1980s, the government transformed its policies from a government-led to a liberalization and competition-led policy. Furthermore, the government strengthened its policy direction toward market openness, deregulation, and free trade during the early 1990s. It built on its policy stance of market openness and competition promotion continuously in the 2000s in order to expedite trade liberalization, in pursuing free trade agreements with developing and developed economies around the world [Noland, 2007; Todaro & Smith, 2012]. As a result, Korea's trade policy has been centered on pursuing active FTA policies more than any other nations, since the 2000s [Lee, 2012; Solis, 2013].

In fact, Korea's FTA policy was initially a reactive response to the rapid proliferation of preferential trade agreements around the world. Its position in trade negotiations was based on a defensive strategy, focusing on limiting market openness in sensitive industrial sectors. Later on, the transformation of Korea's FTA policy towards an ambitious trade strategy dealing with major economic partners, minimizing exclusions, and tackling non-tariff barriers, was based on institutional changes to the trade policy-making setup at the beginning of the 21<sup>st</sup> century. The entrusting of trade policy to the Ministry of Foreign Affairs and Trade (MOFAT),<sup>3</sup> and the efficient coordination of bureaucratic interests between various ministries, has enabled Korea to become an international trade hub. At the same time, however, trade policy has been a very sensitive issue, and the government has struggled to ensure greater inclusivity, transparency, and the development of an effective safety net for disadvantaged sectors.

Since concluding FTAs with three major economic powers – the USA, China, and the EU – Korea has faced a new struggle to choose two mega FTAs, namely RCEP and TPP. This could be either a dilemma or a new opportunity to enter the mega-FTA era, because the Korean trade system can become more regionally and globally integrated than ever before. On the other hand, a negative perspective also arises due to competition backed by economic superpowers such as the USA and China in Asia, as well as the Asia Pacific area. As a result, mega FTA shave become a hot economic and trade policy issue for the Korean trade strategy.

This study is based on a practical approach to strategy and policy analysis instead of arguing the theoretical or conceptual backgrounds to global trade. It focuses on how Korea practices trade strategies as policy tools to generate economic growth. The research questions of this paper are what roles trade policies played in dealing with the global financial crisis in 2008,

<sup>2</sup> The Korea International Trade Association [KITA]. Available at: <http://stat.kita.net/stat/world/major/KoreaStats06.screen> [accessed 16 November 2016].

<sup>3</sup> MOFAT had been in charge of trade policy from the Roh Moo-Hyun government (2003 – 2008) to the Lee Myung-Bak government (2008–2013). The new Park Geun-Hye government switched the assignment of trade policy to the Ministry of Trade, Industry, and Energy (MOTIE) in 2013.

and the EU's sovereign debt crisis in 2011. Moreover, it explores which strategies the government has been carrying out in order to achieve economic growth in the period since the global financial crisis. Last but not least, the paper discusses how to maximize the national interest by choosing mega FTAs – between RCEP and TPP.

## Global Trend of Trade Since Global Financial Crisis

### ***Background***

The global financial crisis in 2008 hit the world economy severely. The International Monetary Fund (IMF) projected that global economic activity would contract to 0.5 to 1 percent growth in 2009, the lowest in 60 years. Most countries experienced a simultaneous downturn, with the developed economies of North America, the EU, and Japan falling into recession, and a significant downturn in growth rates in developing economies. These declines in economic activity were estimated at trillions of US dollars lost in equity markets, and a credit squeeze that affected not only households and global business, but also world trade and oil exploration [IMF, 2010; Nanto, 2009].

The global financial crisis hit the world labor market negatively as well. The International Labor Organization (ILO) estimated that the number of unemployed increased by 14 million in 2008 after four years of consecutive declines in world unemployment. However, it expected that the number of unemployed worldwide could increase at least by 38 million at the end of 2009 as the financial crisis continued [ILO, 2009]. Moreover, the global financial crisis severely influenced exports of goods and services. Exports of goods and services generate foreign exchange for export countries that enable them to pay for imports and repay international debt. The trade deficit depresses the value of currency in the deficit country, which increases the cost of debt servicing for governments, businesses, and households that have borrowed in international currencies. In February 2009 compared with the previous year, exports in advanced economies and emerging economies were estimated to decline by about 25 percent. However, exports in developing economies declined by more than a third. These represent a historic contraction in trade, which caused a shrinking of international trade, low global economic growth, and the creation of more poverty in the world. This negative trend turned around sharply in 2010 due to a massive unconventional monetary policy in major economies. However, the trend did not last long. Since 2011, growth of trade and GDP became lower than the average export and GDP growth between 2007 and 2014 [Nanto, 2009; WTO, 2015] (See Fig. 1).

### ***Global Trend of Trade***

The global financial crisis escalated existing anti-globalization sentiments, and created views of opposition in liberalized trade resulting from neo-liberalism. Under these conditions, many countries have attempted to curtail imports and impose other restrictions on trade. As a result, the G20 summit, and the meetings of finance ministers and central bank governors resulted in an agreement to fight against all forms of protectionism in trade, and to maintain open trade. Despite such a clear political economic statement from the major countries, the World Trade Organization (WTO) gave its official views on the new trend of increased trade protectionism as a result of the deepening global economic crisis. During the crisis period between September 2008 and March 2009, 23 countries imposed 85 verified trade measures in the WTO [WTO, 2009]. The vast majority of imposed cases were trade restrictive, and some were in line with trade liberalization. The largest number of measures were imposed by India, and the

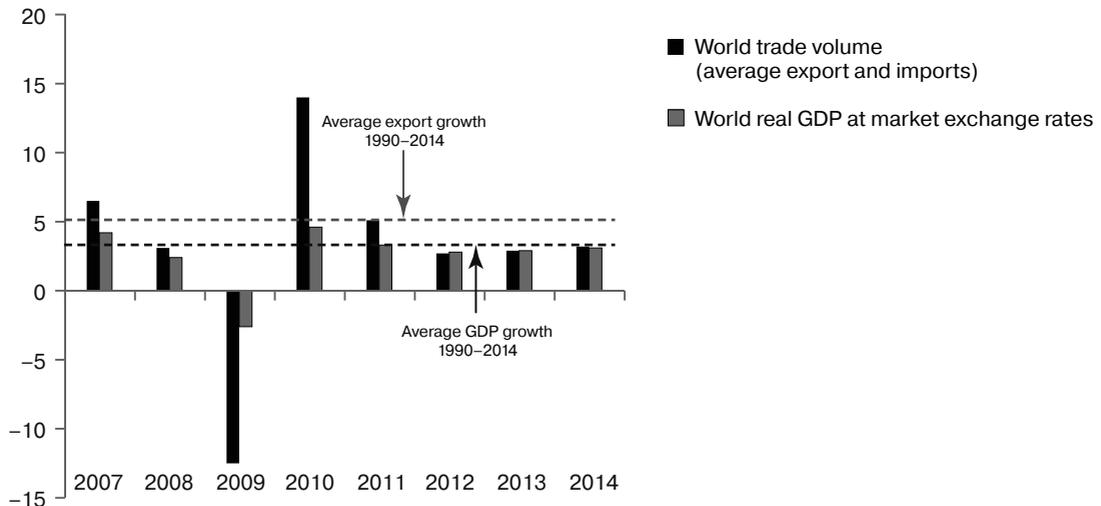


Figure 1: Growth Trend of World Trade and GDP (2007–2014, %)

Source: [WTO, 2015].

EU, China, Indonesia, and Russia. In these imposed trade measures, there is a clear pattern of increased import licensing, import tariffs, surcharges etc. Additionally, investigations of anti-dumping have increased [Ahearn, 2009; Nanto, 2009].

In fact, protectionism or beggar-thy-neighbor policies based on monetary policies, are limited by the rules of the WTO. Despite such a regulatory system based on rules and obligations in the WTO, there is a clear tendency to increase tariffs among member nations, to higher-bound levels that could cause world trade to shrink by up to 8 percent and reduce global welfare by up to USD350 billion [WTO, 2009]. Therefore, major countries have tried to adhere to the WTO rules in order to prevent the world economy from the same path of the Great Depression in the 1930s, when a proliferation of destructive protectionist trade measures prolonged the global economic depression [UNCTAD, 2010].

At the outbreak of the global financial crisis, all leaders of the Group of 20 stressed that the conclusion of the Doha Round could play a pivotal role in the world economy. Under such a circumstance, G20 leaders agreed to reach an agreement on modalities at the G20 summit in Washington DC in 2008, which could lead to a successful conclusion of the WTO's Doha Development Agenda (DDA) with an ambitious and balanced outcome.<sup>4</sup> This message has been stressed continuously at subsequent G20 summits as well as at other international meetings. However, the conclusion of DDA has unfortunately been delayed until December 2013. Finally, WTO ministers were able to agree the Bali Package in December 2013, which marked the first occasion on which a multilateral trade deal was agreed by WTO members since its foundation in 1995. The final agreement includes three pillars: trade facilitation, selected agricultural issues, and selected development-focused provisions [Bendini, 2013].

Owing to the long delay of agreements in DDA, the number of bilateral and regional free trade agreements significantly increased from 2005 and 2010. There were 546 bilateral and regional FTAs notified by the WTO in 2013. Among these, 241 FTAs were in force, while 305

<sup>4</sup> It is the declaration of the G20 Summit on Financial Markets and the World Economy. Washington D. C., November, 2008.

FTAs were in the negotiation stage according to the world trade report 2013.<sup>5</sup> This indicates that the global business community regards bilateral and regional FTAs as a more effective means of market opening than multilateral trade negotiations. The EU and the USA are major players in bilateral and regional FTAs, and East and South Asia follow after these two major economies. The EU is involved in 27 FTAs, 17 of which entered into force after 2000, while the USA is involved in 9 bilateral FTAs, eight of which entered into force after 2000. In East and South Asia, numerous FTAs are under negotiation. Major and emerging economies in the region such as China, India, Japan and Korea are involved in FTA negotiations with one another, which will have massive implications not only for the region, but also for the world, if the negotiations are concluded. Additionally, there are two mega FTAs competing with each other in the Asia and Pacific region, which are RCEP and TPP. The former is initiated by China, while the latter is led by the USA. These mega FTAs are on the way to being realized in the near future. This means that bilateral and regional FTAs will continue due to their effectiveness, despite the completion of DDA in 2013 [UNCTAD, 2010; Das, 2013].

There are four core reasons why bilateral and regional FTAs have recently increased. Firstly, it is based on practical considerations. FTAs may be preferred to multilateral trade agreements because sensitive industrial sectors can be excluded between participating countries. Moreover, partners can be selected, and customization of the contents is also possible.

Secondly, the concept of competitive liberalization has been proliferated particularly in Asia, which has influenced an increase in FTAs. In practice, one major FTA and its market opening could change trade policy in a country from import-competing industries to exporters, which could enable governments to reduce domestic tariffs in exchange for opening markets in partner countries. In the concept of competitive liberalization, the principle of reciprocity is key. Therefore, competitive liberalization works better in a FTA framework than in a multilateral framework. Additionally, market opening by partners in FTAs is clearer and more immediate than in multilateral trade agreements, particularly if big trade partners such as China and India are involved [Bergsten, 1997; Baldwin, 2006].

Thirdly, developing countries could regard FTAs as a proper means of attracting foreign direct investment (FDI), not only from FTA partners but also from major economies outside FTA partners [UNCTAD, 2010]. Last but not least, FTAs may have played a role in regularizing trade and investment between partners, which has enabled the regional integration process in the East Asian region. East Asian free trade pacts codify the integrated production networks already operating in the region, which are linked by expanding flows of intra-regional trade and investment. This means that regional integration is evident in the market, and the governments of partners acknowledge such a fact, and even facilitate its future evolution [Hufbauer and Schott, 2007].

The proliferation of bilateral and regional FTAs has shaped a new trend in the international trade environment. There are still discussions as to whether or not such a new trade environment could undermine the fair and equitable international trading system. Compared to the previous regionalism, based on strengthening trade blocs such as the EU and the North American Free Trade Agreements (NAFTA) in the 1990s, the new regionalism since the 2000s has a different structure. The former was characterized as regional FTAs, while the latter is regarded as a large number of bilateral FTAs. As a result, almost all WTO members become parties of one or more FTAs. Therefore, the most-favored nation (MFN) principle in the WTO is gradually becoming an exception rather than the rule [UNCTAD, 2010].

<sup>5</sup> World Trade Report 2013. World Trade Organization. Available at: [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_trade\\_report13\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_trade_report13_e.pdf) (accessed 16 November 2016).

In the Asia Pacific region, we are experiencing a new trend, after most nations completed their bilateral FTAs since 2013. Two major economies (G2) initiated mega FTAs in order to strengthen their economic interests because the region has the highest potential to grow rapidly in the next two decades. In the two mega FTAs, many nations are overlapped and all possible member nations have calculated their own economic interests. Korea is not an exception.

## Korean Trade Policy and Strategy

### ***Development of Trade Policy***

During the 1950s, the economic development policy in Korea was import-substitution industrialization. This policy helped protect domestic import substitution industries. However, at the same time, it impeded export growth. The export-oriented policy started in the early 1960s as the military regime came into power. It was a big policy shift from import-substitution industrialization to export-driven economic development. Although the government shifted its trade policy, the total volume of exports in 1966 accounted only for USD1 billion, because major export goods were mainly in the primary sector as well as light industrial products. During the 1970s, the government initiated a heavy and chemical industry policy in order to maximize export volumes. The government supported these industrial sectors strategically, and large companies such as Samsung and Hyundai participated in the policy direction, and became conglomerates. It is the Korean version of corporatism between government and private companies, and it succeeded in producing high economic growth, which was followed by the Japanese model [Park, 1997, 2000; Park & Lee, 2004; Sakong & Koh, 2010].

In the 1980s, the government carried out a Comprehensive Liberalization Policy, including the Import Liberalization Five Year Plan. This plan was implemented from 1983 to 1988. By implementing the plan, average import tariff rates declined from 23.7 percent in 1983 to 18.1 percent in 1988. As a result, the ratio of import liberalization increased from 80.3 percent to 95.2 percent in the same period. The ratio continuously rose, reaching 99 percent in 1995. A further step was made by the government in terms of trade policy in the 1980s, which was transformed from government-led to liberalization and competition-led policy in order to step up the national industrial structure. By the time the WTO was founded in 1995, Korea had strengthened its trade policy, focused on market openness, deregulation, and free trade [Sakong & Koh, 2010; Lee, 2012].

The proliferation of regional FTAs has played a significant role in encouraging free trade and liberalization in the world trade system since the 1980s. However, Korea had put policy weight on multilateral trade more than bilateral and regional FTAs until the Asian financial crisis in 1997. Owing to the crisis in 1997, Korea had to complete structural reforms across the whole economy and promote trade liberalization [Todaro & Smith, 2012]. As a result, Korea was able to benefit from bilateral and regional FTAs, which could impact the whole economy based on a restructuring process. Moreover, the failure to launch a new multilateral round in Seattle in 1999 also gave rise to doubts over the ability of the WTO to move the liberalization agenda forward. Therefore, many governments including Korea started to negotiate bilateral and regional FTAs as an insurance mechanism for their national economies [Sakong & Koh, 2010].

As a result, a rapid proliferation of bilateral and regional FTAs prompted Korea and other East Asian countries to participate in this new trend of trade, in order to avoid the possible negative effects of trade discrimination, particularly since the 2000s [Mansfield and Reinhardt, 2003]. If Korea had not shifted its trade policy from multilateral trade agreements to bilateral

and regional FTAs, it would have had a relative disadvantage in the world market in the short term. However, it would have reduced economic growth potential severely in the long term. Accordingly, Korea chose bilateral and regional FTAs as critical policy tools and measures for enhancing its industrial and national competitiveness, in order to strengthen its position in the global market [Lee, 2012; Solis, 2013] (See Fig. 2).

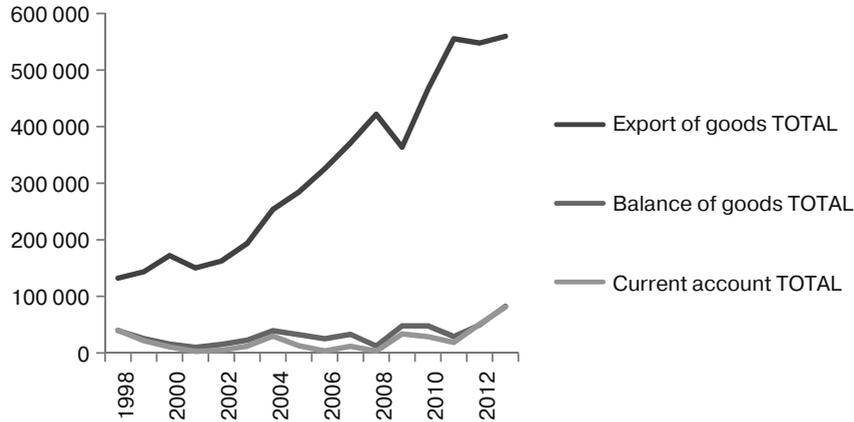


Figure 2: Export Trend after FTAs (1998–2013, USD million)

Source: [Bank of Korea, 2014].

### ***Bilateral and Regional FTAs as a Trade Policy Strategy***

Korea started to negotiate a bilateral FTA with Chile in 1999 for the first time in its history, and completed the agreement in October 2002. It was aimed at building an extensive network of FTAs and learning FTA negotiations. The reason why Korea launched the FTA negotiation with Chile was that the two countries are geographically distant, and the opposite seasonal climate could mitigate a sudden increase in agricultural imports. Despite this political and economic consideration, the FTA with Chile generated anti-FTA sentiments, particularly from farmers and interest-related groups, which hindered further FTA negotiations. Despite such a political barrier, the government announced an FTA roadmap as its national economic development agenda. It indicated a trade policy shift from a passive FTA stance to an active one. As a result, Korea was able to negotiate FTA talks with Singapore in 2003 and with the European Free Trade Area (EFTA) in 2004 [Park and Koo, 2008; Ahn, 2010].

The FTA Roadmap is based on two significant principles. Firstly, Korea can recover its competitiveness in the global market and reduce opportunity costs for Korean companies if it can conclude as many FTAs as possible in a short period.<sup>6</sup> Secondly, the FTA Roadmap pursues multi-track and simultaneous FTA negotiations with large economies such as the USA and the EU. The main reason it is to maximize economic benefits and minimize negative costs from FTA negotiations. Based on those two principles, it aims at comprehensive and high-quality FTAs in terms of sectors and commitments [Lee, 2012].

Based on the FTA Roadmap, 14 FTAs have been ratified, and these are in effect at the end of 2015. The share of exports with these trade partners accounted for 67 percent of total exports

<sup>6</sup> Opportunity costs for Korean companies have been observed as rising disadvantages in the markets, where Korea did not conclude FTAs.

in 2015. Additionally, seven FTAs are under negotiation. In total, 21 trade partners have either concluded FTAs or been in negotiations with Korea at the end of 2015. The share of exports with 12 countries under FTA negotiations reached 56.1 percent of total exports in the same year. In total, the share of exports with 21 trade partners which are major trade partners for Korea accounted for 77.6 percent [IIT, 2015].

In fact, after completing massive FTAs with major economies such as the EU, the USA, and India, as well as developing economies such as Chile, ASEAN, and Turkey, and negotiating mega FTAs with RCEP and TPP, the trade volume has increased continuously. In 2010, the share of Korea's trade with FTA partners versus Korea's total trade accounted for only 14.6 percent. This share was much lower than that of the world's average, at 49.2 percent. A year later, however, Korea's trade share with FTA partners increased to 27.4 percent after completing FTAs with the EU and Peru. During this period, Korea's exports to its FTA partners accounted for USD 166.8 billion, and imports from them reached USD 129.4 billion. This indicates that Korea generated a trade surplus of over USD37 billion with its FTA partners [Korea International Trade Association, 2012].

The most exciting trade negotiation of the Korean government was that with the USA in 2007, which was seen by the Korean people as rather controversial, as the Roh Moo-Hyun government was regarded as a progressive government.<sup>7</sup> Despite such a political philosophy, the government policy aimed at generating economic growth based on trade strategies. Therefore, the government initiated the FTA Roadmap in 2003 [Lee, 2012]. The KORUS FTA was ratified, and came into effect in March 2012. After completing the FTA with the USA, Korea was able to increase its exports to the US market, while imports from the USA slightly declined, although Chinese economic growth was weakened and the Eurozone crisis was deepened in 2012. Despite such a global economic environment, Korea's trade with the USA has moderately increased. As a result, the trade surplus of Korea to the USA increased in the same year. This means that Korea benefited more than the USA from its FTA [Cooper et al., 2013].

Right after the negotiation with the USA, Korea aggressively launched an FTA negotiation with the EU, which was the second largest economy, in May 2007. After eight formal rounds of talks, the FTA was initialed by both sides in October 2009, and the two parties approved the FTA in September 2010. The agreement was officially signed on October 2010 during the EU-Korea Summit in Brussels. The parliaments of the EU and Korea ratified the FTA bills in 2011, and the EU-Korea FTA has become in effect since July 2011 [Song, 2011]. Compared to the KORUS FTA, the EU-Korea FTA caused less resistance, except in the agricultural sector. The EU-Korea FTA is the world's largest FTA since NAFTA in 1994. The EU was the third-largest importing and exporting partner of Korea and the second largest trade partner of Korea in 2013 [European Commission, 2014].

In Korea, the EU-Korea FTA was regarded as a win-win negotiation, and vice versa. From the EU's point of view, it needs a close trade partner based on solid economic criteria in order to enhance market access for European companies in the highly dynamic and competitive markets of East Asia. It was estimated that the EU-Korea FTA could create an increase in goods and services worth EUR19.1 billion (c.a. USD24.9 billion) for the EU and EUR12.8 billion (c.a. USD16.8 billion) for Korea in 2011. The EU's exports of goods and services to Korea amounted to EUR 47.4 billion, while Korea's export to the EU reached EUR 42.6 billion in 2012 [European Commission, 2011, 2014].

After completing the EU-Korea FTA, the trade volume in goods increased up to USD103 billion, which is a historical record to reach over USD100 billion for bilateral trade between the

<sup>7</sup> Progressive governments use to carry out passive FTA policy in their policy framework. However, the Roh Moo-Hyun government carried out proactive FTA policies in its mandate period.

two partners. It increased continuously until 2013. By increasing the trade volume in goods, the EU marked a trade surplus to Korea in 2012 for the first time since 2004. In 2013, the EU's exports to Korea increased continuously, while Korea's exports to the EU declined. This caused an enlarged trade deficit in goods and services for Korea [European Commission, 2014] (See Fig. 3).

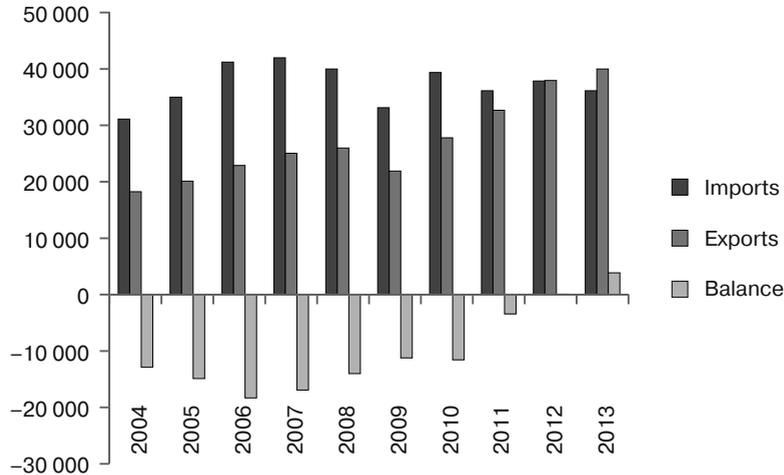


Figure 3: EU trade flows and balances in goods with Korea (2004–2013, million euro)

Source: [European Commission, 2014].

### **Strategy for Comprehensive and High Quality Oriented FTAs**

Korea is the only Asian country to conclude bilateral FTAs with the two major economies, the USA and the EU. After the establishment of FTAs with these economies, Korea marked a trade surplus with the USA and a trade deficit with the EU, in 2012 and 2013. Korea, as a medium-sized economy, actively pursued FTAs with the two major economies. The reason for this is that Korea needs these two major economies more than they need Korea as a market. In this asymmetrical economic interdependence, the USA was the third-largest trade partner, the second-largest export market, and the fourth-largest source of imports for Korea, while Korea was the seventh-largest trade partner, the eighth-largest export market, and the sixth-largest source of imports for the USA in 2013 [US Department of Commerce, 2013; Bank of Korea, 2013; European Commission, 2014]. In the same year, the EU was the second trade partner, the third-largest export market, and the third-largest source of imports for Korea, while Korea was the eighth trade partner, the tenth-largest export market, and the ninth-largest source of imports for the EU in the same year [European Commission, 2014; Bank of Korea, 2013]. In these two major markets, gaining only a large increase in market access was not a critical priority for Korea, because Korean exporters already have a significant competitive position in consumer electronics, automobiles etc., in which they already face low or zero tariffs. The strategy of Korea's FTA with the two major economies is rather to preserve its market share in the face of growing competition from other East Asian producers, particularly China. Moreover, Korea aimed to strengthen its competitive position in the two major markets vis-à-vis Japan, where the elimination of low tariffs with FTAs could generate price advantages for Korean exporters [Cooper et al., 2013; European Commission, 2011].

Additionally, these two economies have been fostered by their own economic blocs such as NAFTA and the European Union, which generate disadvantages for non-member countries. Therefore, it was necessary for Korea to conclude FTAs with these economies, although a trade deficit could occur. Despite possible trade deficits, FTAs with these economies can be regarded as strategic, aiming to extend economic territory in dealing with around 50 percent of the world's economy. Additionally, total trade volume has increased continuously since the conclusion of FTAs with nine partners. Therefore, it is reasonable to say that Korea has established a global FTA network and has become an FTA hub country in the East Asian region. As a result, has benefited from its FTAs by liberalizing the market and enhancing the investment environment.

In line with its trade policy strategy, Korea has pursued comprehensive and high-quality commitments with its partners. From the eight FTAs in force, the average degree of liberalization in Korea's FTAs is 97.5 percent. The concession rate could vary with due consideration of sensitive sectors such as agricultural products. If some or all agricultural goods are excluded, this rate declines slightly with EFTA, the USA, the EU and India. Despite such a slight decline, the average concession rate of Korea's FTA is much higher than the average rate of the WTO, which accounts for 90 percent [Lee, 2012; WTO, 2008, 2012] (See Table 1).

Additionally, the KORUS and the EU-Korea FTAs include all sectors, from goods to services, investment, MRA, competition, IPR, Investor-State Dispute Settlement, e-commerce, and labor and the environment, which can contribute to upgrading Korea's industrial structure and competitiveness, particularly in the service sector. It is worth noting that the EU-Korea FTA includes regulatory transparency and a new approach on trade and sustainable development. It also includes a protocol on cultural cooperation in accordance with the UNESCO Convention. In fact, the EU-Korea FTA is a much more comprehensive agreement than the KORUS FTA [European Commission, 2011].

Overall, the KORUS and EU-Korea FTAs are regarded as strategically successful FTA models for Korean FTA policy in terms of comprehensive and high quality-oriented FTAs. The former has a 99.8 percent degree of liberalization, while the latter accounts for 99.6 percent. Certainly, the Korea-Chile FTA reaches the highest degree of liberalization along with KORUS FTA. However, it is an FTA policy test and a valuable learning process.

*Table 1: Degree of liberalization in Korea's FTAs with partners*

FTA	Degree of liberalization (%)
Korea – Chile	99.8
Korea – Singapore	91.6
Korea – EFTA	99.1
Korea – ASEAN	99.2
Korea – India	93.2
Korea – USA	99.8
Korea – EU	99.6

*Source:* [MOFAT, 2012; KIET, 2012].

Korea has been able to diversify its trade destinations on a global scale. In total, the trade share with the three major advanced economies declined from 35.4 percent in 2007 to 28.5 percent in 2012, while its share of developing economies increased from 63.6 percent to 71.5

percent during the same period [KITA, 2013]. This indicates two trade policies of the Korean government. Firstly, the structure of Korea's trade has been more diversified since the global financial crisis, expanding its share in developing countries such as ASEAN and the rest of the world as all major advanced economies faced a severe economic downturn. Secondly, the trade share with China declined in the same period because Korea was keen to reduce its high trade dependency on a single country [Lee, 2012] (See Fig. 4).

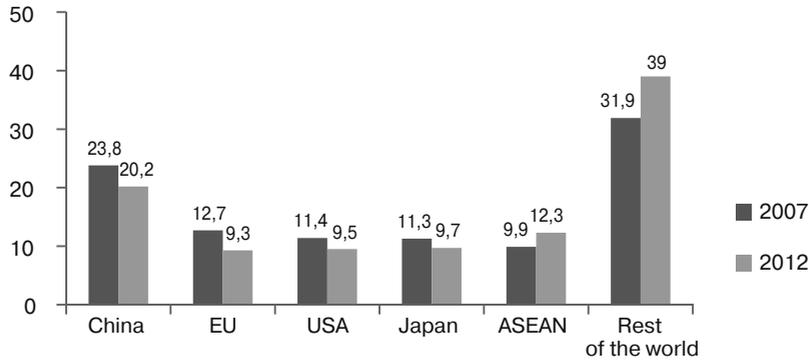


Figure 4: Change of Korea's trade share (as of 2007–2012, %)

Source: [KITA, 2013].

## New Challenge for Mega FTAs in RCEP and TPP

### **Mega FTAs in Asia Pacific Region**

Asia's economies have become increasingly vital to each other and to the rest of the world. In 2013, Asia's economic output was roughly equal to that of Europe and North America. By 2020, it will be 50 percent larger than theirs in terms of purchasing power parity (PPP). Additionally, two major economies – the USA and the EU – are recovering slowly with 1 to 2.5 percent economic growth per annum, while Asian emerging economies such as China and India are growing by over 7 percent per year. As a result, the center of the recovery of the global economy has decisively shifted from Europe and North America to Asia. Based on these factors, two different approaches to trade liberalization have become clear in the Asia Pacific Region. One is ASEAN-led or de facto China-led Regional Comprehensive Economic Partnership (RCEP), and the other is the US-led Trans Pacific Partnership (TPP). These approaches were discussed during the ASEAN summit in November 2012.

In fact, the reason for discussing these two mega FTAs at the ASEAN summit was that the Doha Development Agreement (DDA) was delayed at the multilateral level, and bilateral FTAs were able to generate marginal gains for private sectors in ASEAN member nations. Therefore, Asian countries started to raise concerns that a small number of FTAs such as RCEP and TPP could represent the next generation of the trade liberalization process. They regarded these FTAs as easily negotiated and flexible FTAs for their domestic interests. The two mega FTAs have the relatively similar objectives of trade liberalization and economic integration. However, the differences are substantial [Basu Das, 2013].

Furthermore, there is another mega FTA along with RCEP and TPP, namely the Free Trade Area of the Asia Pacific (FTAAP), which could enhance the economic benefits for all countries in the region. FTAAP includes all member nations in RCEP except India and TPP.

It also includes Russia and Taiwan. FTAAP was proposed by the APEC Business Advisory Council (ABAC) in 2004 in order to accelerate progress toward the achievement of trade and investment liberalization. A study carried out by APEC concluded that APEC should target a high-quality and comprehensive FTAAP agreement. Indeed, FTAAP is a super-mega FTA, and the possibility of it being competed may be still under question [APEC, 2009; Petri and Plummer, 2014a] (Fig. 5).

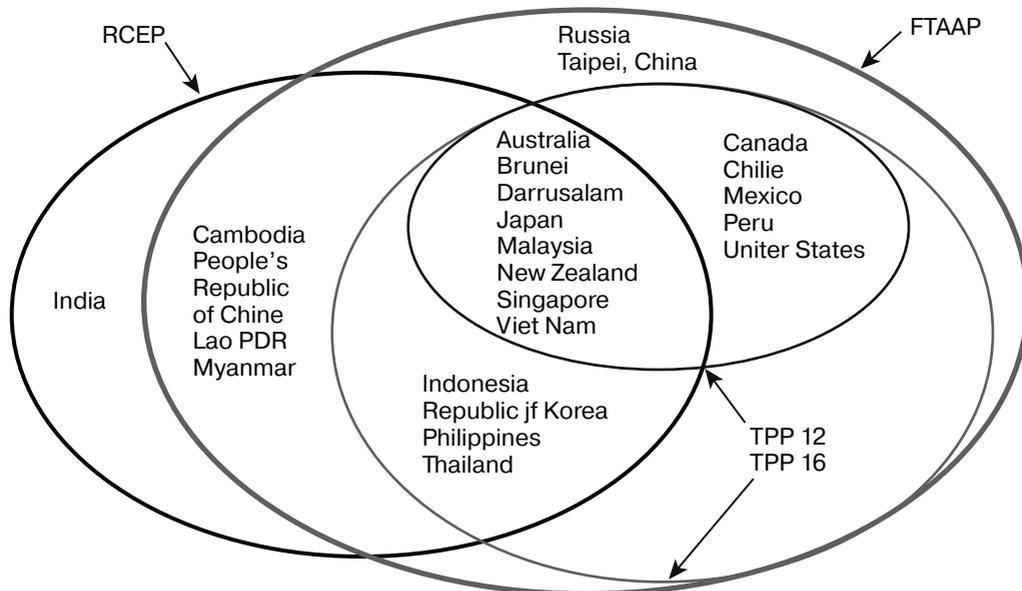


Figure 5: Mega FTAs in Asia Pacific Region

Source: [Petri and Plummer, 2014].

### **Comparison of Mega FTAs between RCEP and TPP**

RCEP, driven by ASEAN and supported by China, is a free trade agreement (FTA) between ASEAN and its trade partners such as Australia, China, India, Japan, New Zealand, and South Korea. It aims to be a high-quality and mutually beneficial economic partnership that can strengthen current FTA engagements in the region. Moreover, it is based on an open accession clause, and allows any ASEAN FTA partners to participate in it later, if they wish to do so. RCEP is expected to be completed by the end of 2016. After concluding RCEP, its share of GDP and of trade in goods in the global economy will be about 32 percent and 28 percent respectively.

Unlike RCEP, TPP is a US-led FTA. The precedent of TPP is the P4 Agreement, which was initiated by Brunei, Chile, New Zealand, and Singapore. The P4 agreed that it will forge a high-standard comprehensive FTA, allowing for full goods market access without exclusion. After the USA joined the P4 Agreement in 2005, it played a leading role and attracted several nations in the region such as Australia, Canada, Malaysia, Mexico, Vietnam, and Japan. It aimed to conclude TPP in October 2013, but delayed until October 2015 due to disputes in the agricultural sector of Japan [Lewis, 2009; Financial Times, 2015].

The two mega FTAs have extraordinary significance in the global economy. Their size and volume are overwhelming even compared with existing large trade blocs such as NAFTA and the EU. Only APEC is larger than the two mega FTAs in economic size and trade volume.

However, APEC is not an FTA. It is a framework for economic cooperation in the Asia Pacific Region (Fig. 6).

On the functional level, RCEP and TPP aim to seek different directions. The former will be built on ASEAN's experience and seek to integrate all ASEAN Plus One FTAs into a regional framework. RCEP is guided by ASEAN's centrality in that objectives and commitments are driven by a process of consensus. Additionally, it will provide flexibility and adjust its mechanisms in line with development differences among member nations, in order to meet the end goals. Furthermore, RCEP is keen to create more physical, institutional, and human resource connectivity in order to narrow development gaps between member nations [Basu Das, 2013; Petri and Plummer, 2014a].

In comparison with RCEP, TPP is regarded as a more demanding set of commitments, which consist of intellectual property rights (IPR), labor standards, competition policy, investment rules, the environment, and the role of state-owned companies. These issues are not directly related to trade, but to challenges in free trade in the 21<sup>st</sup> century. Therefore, it may be difficult for TPP to reach consensus on optimal standards, because all member nations have a different level of economic development. Additionally, it pursues a gold standard of FTA in 21<sup>st</sup> century, dealing with next-generation issues such as cross-cutting and new trade challenges. As a result, it may divide ASEAN, undermining ASEAN centrality [Basu Das, 2013].

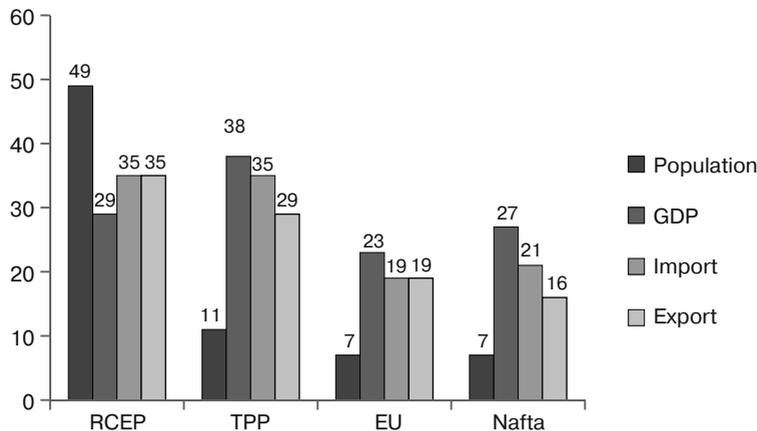


Figure 6: RCEP's Share of World in Population, GDP, and Trade (As of 2014, %)

Source: IMF, World Economic Outlook Database, 2014;<sup>8</sup> WTO, World Trade Statistics, 2014.<sup>9</sup>

### **Economic Benefits of Two Mega FTAs in the Region**

The two mega FTAs are able to expand trade volumes and market access, and benefit from economies of scale. In addition, they also facilitate trade and investment, promote factors of production of allocation, and create more jobs in member nations. However, in reality visible and invisible trade barriers still exist in developing and developed economies. While some products maintain high tariffs in spite of a significant decline in most products in recent years,

<sup>8</sup> World Economic Outlook Database, 2014. Available at: <https://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx> (accessed 21 October 2016).

<sup>9</sup> International Trade Statistics, 2014. Available at: [https://www.wto.org/english/res\\_e/statis\\_e/its2014\\_e/its14\\_toc\\_e.htm](https://www.wto.org/english/res_e/statis_e/its2014_e/its14_toc_e.htm) (accessed 21 October 2016).

non-tariff barriers such as quantitative control measures and technical barriers to trade have become predominant [Urata, 2011].

Economic benefits for RCEP and TPP have been calculated by a computable general equilibrium (CGE) model based on templates using accords previously negotiated by ASEAN for RCEP and the USA for TPP. The CGE model indicates that the two mega FTAs generate substantial economic benefits for each of the member nations. RCEP generates a total increase in income estimated at USD 644 billion, which accounts for 2 percent of Asian GDP by 2025 based on its GDP in 2007. TPP could create a total increase in income of USD223 billion in the same year. For TPP, China must bear the largest share of costs resulting from the trade diversion effect [Petri and Plummer, 2014b].

RCEP and TPP could reduce the noodle-bowl effect of overlapping many bilateral FTAs in the region. The noodle-bowl effect has reduced the potential benefits from economic integration, because the private sector must pay attention to different rules and regulations. As a result, the cost of utilizing preferential concessions for the private sector has increased. Additionally, the two mega FTAs are able to achieve a complete set of free-trade principles.

Last but not least, RCEP and TPP could contribute to paying more attention to the publication of customs laws and regulations, trade procedures and documentation, product standard and conformation, and trade-related infrastructure and services. These frameworks could facilitate better trade performances, particularly in developing nations of the region. Additionally, SMEs in the region could benefit if specific assistance to SMEs is provided by the RCEP and TPP processes. By doing so, the majority of ASEAN countries, China, and India can reduce time and costs in their trade.

## Analysis on Trade Policy Strategy and National Interests for RCEP and TPP

### ***Trade Policy Strategy***

Korea's trade policy can be regarded as one of the most successful measures of how to generate high economic growth in several decades. In 1966, Korea's total trade volume was only USD1 billion, and it increased to USD1.1 trillion in 2014. It is a tremendous performance for Korea to become a member of USD1 trillion club in 2011. The Korean experience demonstrates that an export-led development strategy based on competitive advantages and structural change is very reliant on other developing economies [Porter, 1990; Todaro & Smith, 2012]. However, despite such a successful result, the Korean trade policy strategy faces various challenges that need to be continuously overcome if it is analyzed by evaluating trade performance not only in terms of quantity, but quality.

First of all, Korea needs to diversify its trade partners and export goods in order to reduce the risk of external economic change, because its economic growth is mainly dependent on trade in global markets. In 2013, Korea's five major trade partners were China, ASEAN, the USA, the EU, and, Japan, which accounted for 64.4 percent of total trade in goods. Korea has made an effort to minimize the risk of high dependence on a small number of trade partners since the 1970s, because the global economic crisis could have a negative impact on its economy through trade and financial channels. This effort has proved successful. As a result, Korea was able to reduce its trade dependency on these five major trade partners from 85 percent in 1971 to 64.4 percent in 2013.<sup>10</sup> Trade dependence on five major trade partners declined by over 20 percent

<sup>10</sup> Trade with China officially started in 1992. Between 1971 and 1991 trade with China was mainly intermediate trade through Hong Kong.

in the last four decades. However, the dependency ratio has remained since 2000 at between 60 percent and 70 percent, which must be corrected [KITA, 2012, 2014] (See Fig. 7).

The second challenge is that Korea's top ten export products are heavily concentrated. In 2011, its share of total exports accounted for 60.3 percent, which was a higher concentration than in other major economies. This heavy concentration has hardly changed, even in 2013. In this regard, the share of top ten export products was 27.1 percent for the USA, 28.8 percent for China, 24.2 percent for Japan, and 34.7 percent for Germany, which were calculated on average between 2008 and 2010, while it was 51.1 percent for Korea in the same period [KITA, 2011]. The reason why Korea's share of top ten export products was so concentrated is mainly based on the industrial structure oriented towards large companies. As a result, small and medium-sized companies cannot achieve competitiveness on the global market to export their various products, compared to the major economies [Lee, 2012].



Figure 7: Korea's export share of China, USA, Japan, the EU, and ASEAN (As of 1971–2013, %)

Source: [KITA, 2014].

The third challenge of the trade policy strategy is that the Korean economy needs to develop its service industry and increase the share of service exports on the global market. The share of Korea's service exports on global markets only accounted for 2.1 percent in 2009, and increased slightly up to 2.4 percent in 2013. This share is very low compared with other major economies. Although the Korean share of service exports has increased along with the USA and China, its capability of increasing is lower than the Chinese capability. The Chinese share of service exports increased from 3.8 percent to 4.4 percent during the same period. During the period from 2001 to 2013, the share of Korea's goods exports to the world increased from 2.4 percent to 3.7 percent, while its share of service exports rose from 2.0 percent to 2.4 percent. The former marked an annual growth rate of 13.9 percent, while the latter generated 12.3 percent of the annual growth rate. Accordingly, Korea's service exports need to be emphasized in order to strengthen export capability, although these annual average growth rates were higher than those of the world average<sup>11</sup> [WTO, 2012, 2015] (See Table 2).

<sup>11</sup> The annual average growth rate of goods exports was 11.4 percent, and that of world service exports was 10.8 percent from 2001 to 2011.

The lower growth of Korea's service exports compared to that of goods caused a deficit in the balance of trade for services. It peaked in 2006 at USD 13.3 billion, declined to USD 4.4 billion in 2011, and increased to USD 6.5 billion in 2013. From 2002 to 2013, Korea maintained a substantial amount of the service trade deficit. As a result, its ranking in service exports remained at 13<sup>th</sup> in the world, while the ranking in goods exports rose from 13<sup>th</sup> to 7<sup>th</sup> during the same period. This indicates that Korea's trade policy has been strengthened in the manufacturing sector instead of the service sector, causing a rising gap between goods and services in terms of trade balance. Therefore, this must be tackled wisely in order to promote balanced growth in the mid to long term. Otherwise, the Korean economy cannot be sustained without increasing the competitiveness of the service sector [Bank of Korea, 2014] (See Table 3).

Table 2: Shares of service exports by major economies (As of 2009–2013)

Share (%)	2009	2010	2011	2012	2013
USA	14.1	13.9	13.9	14.1	14.3
UK	7.1	6.6	6.6	6.4	6.3
Germany	6.7	6.2	6.1	5.9	6.2
China	3.8	4.5	4.4	4.4	4.4
Japan	3.7	3.7	3.4	3.2	3.1
Korea	2.1	2.3	2.3	2.5	2.4

Source: [WTO, 2012, 2015].

Table 3: Korea's service trade balance (As of 2001–2013, USD 100 million)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Deficit	64.4	57.9	59.6	99.5	133.3	119.7	57.3	66.4	86.3	43.8	52.1	65.0

Source: [Bank of Korea, 2014].

As the fourth challenge, the effectiveness of FTAs must be improved. For this to happen, domestic reforms in distribution services should be implemented, in order to meet the expectations of consumers. By reducing tariffs, domestic consumers must benefit from the price advantages of imported goods and services. Otherwise, they will not support further trade liberalization as a trade policy strategy. Moreover, it is imperative to make the domestic market more competitive, to benefit from FTAs and to maximize the utilization rates of FTAs which are in force. In fact, the utilization rates of FTAs vary to a high degree. The Korea-Chile FTA has a utilization rate of up to 95 percent, while the Korea-India FTA accounts only for 25 percent [Kim, 2012].

Last but not least, the government needs continuously to create internal constituent support for the trade policy. It is wise for the government to enhance dialogue with a variety of groups and sectors, even including opponents to its FTA policies. It is natural that winners and losers in different sectors may arise while trade liberalization moves forward, even though the national economy could gain overall from growth [Lee, 2012]. As a result, the widening income gap between winners and losers could cause economic and political conflicts that could impede economic growth and consumer benefits. Therefore, the government must deal with this issue

wisely by providing compensation measures and promoting competitiveness in specific sectors which are affected negatively by FTA policies [Solis, 2013].

### ***National Interests for RCEP and TPP***

Korea has to deal with two mega FTAs in the region. It declared its interest in participating in the Regional Comprehensive Economic Partnership (RCEP) in 2012 and the Trans-Pacific Partnership (TPP) at the end of 2013, after long deliberation. Both mega FTAs are regarded as very significant for Korean national interests due to their economic scale and the size of their markets. The economic benefits of Korea's negotiations on RCEP with 16 member nations is calculated as larger than in the negotiation of a TPP with 12 countries, although this estimation does not include the impact of non-tariff barriers, which are a major issue in TPP negotiations [Jeong, 2012]. Despite taking a comprehensive estimate including non-tariff barriers, obstacles to foreign direct investment, and utilization rates of tariff preferences into account, RCEP may generate more economic benefits for Korea than TPP, because of the opening of the Chinese market via RCEP.

Korea is in a unique position as it has FTAs with many RCEP and TPP members including the USA and China, but not with Japan. Therefore, it can play a catalytic role in shaping the outcome of the two mega FTAs. Regarding RCEP, Korea has its membership preference, which is similar to the Chinese preference. Korea prefers to have an agreement among ASEAN+3 first, with others joining only after setting up institutions. Regarding TPP, it is not yet clear whether Korea will benefit from what could be a de facto FTA with Japan. Despite the uncertainty, the Korean government decided to participate in TPP negotiations because its industries need to maintain a level playing field with those of Japan. TPP is rules-based and offers little flexibility to member nations compared with RCEP, being goods-centric [Petri et al., 2012; Cheong, 2013; Steven and Wang, 2014].

From the macroeconomic perspective, it is clear that the two mega FTAs could generate a positive impact on Korean economic growth. There is no doubt that RCEP and TPP could be beneficial. At the same time, it is also necessary to analyze which of them could generate greater economic benefits, in order to approach the two mega FTAs strategically. For this, it may be useful to explore trade interdependency with the member nations of the two mega FTAs. In 2002, the Korean interdependency ratio with RCEP member nations accounted for 21.72 percent, and increased to 41.16 percent in 2012. The interdependency ratio almost doubled. The Korean trade interdependency ratio with TPP member nations was 22.30 percent in 2002, which was more or less the same level as RCEP dependency. It increased moderately to 28.33 percent in 2012. The Korean interdependency ratio in the two mega FTAs is particularly high compared to Chinese and Japanese interdependency ratios, because of the high trade dependency in the national economy. Based on the trade interdependency ratio, RCEP can generate more economic benefits for the Korean economy than TPP (See Table 4).

Based on the CGE model, the macroeconomic effects for Korea with RCEP and TPP have been calculated. In terms of real GDP, Korea could gain an additional 2.5% with RCEP, while increasing 1.54% with TPP. In welfare, Korea increases USD 21.4 billion with RCEP, while adding USD 13.4 billion with TPP. In exports, Korea could add 5.41% with RCEP, while increasing 5.05% with TPP. In imports, Korea gains 5.39%, while increasing 5.07% with TPP. In trade balance, Korea increases USD756 million with RCEP, while declining USD66 million with TPP. As a result, RCEP can affect the Korean macro economy more positively than TPP [Ko, 2014].

*Table 4: Trade Interdependency Ratio in Different Member Nations (2002 – 2012, %)*

	ASEAN+3		RCEP		TPP	
	2002	2012	2002	2012	2002	2012
Brunei	61,57	74,99	68,75	91,99	54,97	62,32
Cambodia	25,19	48,11	25,68	49,37	33,63	38,64
Indonesia	22,61	25,83	25,55	29,04	22,98	19,08
Laos*		84,5		85,7		
Malaysia	85,25	77,84	91,79	87,49	89,13	55,63
Myanmar*		80,8		90,5		
Philippines	39,89	24,98	42,09	26,34	52,4	20,1
Singapore	123,14	131,28	133,95	148,22	124,18	83,09
Thailand	48,62	67,69	52,35	74,67	52,61	51,05
Viet Nam	48,94	80,8	54,4	86,89	37,87	48,44
Chine	14	11,98	14,96	14,39	17,77	15,78
Japan	6	11,68	7,1	13,31	6,94	7,88
Korea	20	36,75	21,72	41,16	22,3	28,33
Australia	15	19,28	17,1	21,27	15,07	11,5
India	4	9,71	4,05	10,6	5,17	8,22
New Zealand	13	17,11	22,52	25,39	23,78	19,18
USA	5	6,52	4,96	7,17	7,76	8,87

*Source:* Adopted by NEAT working Group based on UN Comtrade and WDI Database, 2014.

Given the analysis of the CGE model, Korea can benefit both from RCEP and TPP. Therefore, Korea needs to create synergy effects from its role in bridging the two mega trade negotiations. If Korea is able to deal with these mega FTAs properly, it can expect better outcomes in opening up foreign markets with higher-quality trade agreements, not only for RCEP, but also for TPP [Petri et al., 2012].

## Conclusions

In the last five decades the Korean economy has grown tremendously. Its rapid economic growth is mainly based on an export-oriented development strategy that resulted in a rapidly increasing trade volume from USD1 billion in 1966 to USD 1.1 trillion in 2014. As a result, Korea succeeded in becoming a member of the USD1 trillion trade club, along with other major world economies in 2011. The Korean experience can be a model of how a nation creates high economic growth through exports, which is in line with trade policy.

Korean trade policy has suffered turbulence twice in its economic growth periods. During the Asian Financial Crisis in 1997, the Korean economy was hit severely and saw negative economic growth. The currency was heavily devalued against the US dollar, and the domestic market was forced to become more open, through deregulation and liberalization. The IMF bailout package of USD 21 billion was provided to Korea, and the government carried out an export-driven trade policy in order to maximize the advantages of the weak currency on the global

market. As a result, the trade balance turned from a trade deficit of USD8.5 billion in 1997 to a trade surplus of USD40 billion and USD19 billion in 1998 and 1999 respectively. Such record high trade surpluses enabled Korea to pay back its bailout completely in December 2000.

The second period of turbulence was the Global Financial Crisis in 2008. Since the Asian Financial Crisis in 1997, Korea has become one of the most open market economies in the world, as a result of deregulation and liberalization processes. This means that the market is fully dependent on the external economic environment. Therefore, the national economy experienced a low economic growth rate of 2.4 percent in 2008. Although the Global Financial Crisis is regarded as the most severe economic crisis in the world since the Great Depression in 1929, the Korean economy was in better shape compared with other major economies, because it had increased its foreign reserves, and industries had strengthened their competitiveness. Along with major economies, the Korean government expanded fiscal expenditure in order to boost the domestic economy, and at the same time carried out an export-oriented policy focused particularly on developing countries, as the most advanced economies had suffered severely from the Global Financial Crisis. The trade policy strategy was very effective even during the Global Financial Crisis, and resulted in strong economic growth of 6.2 percent in 2009, which was the highest economic growth rate in OECD countries. It showed the world that a small, open economic system focused on an active trade policy was able to overcome the Global Financial Crisis effectively and efficiently.

In order for the small, open economy to be competitive on global markets, Korea has concluded 21 FTAs with major economies and other small economies since the 2000s. Bilateral and regional FTAs have boosted Korean trade and contributed strongly to economic growth. Thanks to the conclusion of FTAs with the EU and USA, Korea was able to minimize its decline in market share and trade volume in the major markets during the Global Financial Crisis and sovereign debt crisis, while it was able to expand its trade volume in emerging markets, particularly in China and ASEAN. Since 2012, Korea has had to deal with the two mega FTAs, which are RCEP and TPP. These mega FTAs could strongly influence not only the Korean economy, but also the regional economy, due to the massive scale of their economies and markets. Based on analysis of the trade interdependency ratio, Korea has a higher ratio in RCEP than in TPP. This indicates that RCEP can generate more economic benefits for the Korean economy than TPP. Given the analysis of the CGE model, RCEP could also generate more economic benefits for Korea than TPP. However, Korea should not neglect TPP either. It is absolutely necessary for Korea to participate in the two mega FTAs actively, in order to create synergy effects as well as handle security issues.

In sum, Korean trade policy has been successful in strengthening the nation's rapid economic growth and successfully overcoming two major financial crises. It also creates national competitiveness on global markets. Korean trade policy has focused on strategies of how to develop specific industrial sectors and choose special markets in order to maximize trade volume and to minimize market dependency on a few trade partners. Despite such tremendous success, Korean trade faces several challenges, which must be overcome in order to upgrade the structure of trade, with a greater focus on value-added products and services. Otherwise, the successful Korean model cannot be sustainable, as other competitors, particularly China, develop rapidly in order to catch up with advanced economies on global markets. It may be wise to say that in any event, trade policy and strategy are the most important tools for the Korean economy, as it seeks to grow further.

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