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Analysis on Sino-Korean Structure of Trade in Goods and Economic Effects in the Framework of Free Trade Agreement

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Abstract: Since the establishment of diplomatic ties between China and Korea in 1992, the bilateral economic and trade relations developed rapidly, two nations have become important trade partner and investment object country each other. Especially entered into 21st century, as the continuous changes of the world economic pattern and rising tide of regional economic cooperation, the Sino-Korea free trade agreement (FTA) has become hot issues in research. In May 2012, Sino-Korea FTA entered into the important negotiation stage under the active pushes from two nations lasting for seven years. In the negotiation of Sino- Korea FTA, measures of trade in goods liberalization and their arrangements will be a bone of contention, two nations will certainly discuss bilateral structure of trade in goods and economic effects in the frame of FTA.

Keywords: Sino-Korea FTA, structure of trade in goods, economic effects

1. INTRODUCTION

China established the diplomatic relations with Korea in August 1992, and then signed a trade agreement in September. As the rapid development of economies in two nations, the bilateral economic and trade relations grow fast and increasingly deepening, and now China is the largest trade partner and the largest investment object country, and Korea is one of China's important trade partners and investment object countries. China and Korea declared *Ministerial Joint Statement* on May 2nd 2012 and announced that Sino-Korea FTA formally start to negotiate, which became another important milestone in the regional economic cooperation between China and Korea. To build Sino-Korea FTA not only can further strengthen and expand economic and trade cooperation, deepen the strategic cooperation relation between two nations but also has important significance in promoting respective regional economic cooperation strategy, establishing and improving regional economic cooperation system in North Asia even in Asian Pacific region, balancing regional economic cooperation layout. The higher level of liberalization is in the trade in goods in the framework of FTA, the larger trade volume and the more trade advantages. Thus, measures of trade in goods liberalization and their arrangements will be two nations' bone of contention in the framework of Sino-Korea FTA, two nations will certainly discuss bilateral structure of trade in goods and economic effects in the frame of FTA. This paper will analyze Sino-Korean structure of trade in goods and economic effects in the framework of free trade agreement, explore mutual developing direction and joint beneficial point so that to promote smooth Sino-Korea FTA negotiation and help to achieve mutual benefits.

2. THE DEVELOPMENT PROCESS OF SINO-KOREA FTA

Since entered into 21st century, as the continuous changes of the world economic pattern and rising tide of regional economic cooperation, Both China and Korea have increasing wishes to push and deepen bilateral economic and trade cooperation, the idea of building Sino-Korea FTA swept through two nations and they also

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make big efforts. Till now, the development process of Sino-Korea FTA has experienced two stages: nongovernmental research and government-industry-university research, at the present, it is in the negotiation stage [1].

2.1 Nongovernmental research stage of Sino-Korea FTA

In February 2004, China put forward the proposal of building Sino-Korea FTA on the first session of trade and cooperation between China and Korea; in November, leaders in two nations jointly announced starting nongovernmental research on Sino-Korea FTA. In March 2005, China and Korea concluded an agreement on ‘nongovernmental research on the feasibility and policy proposal of starting Sino-Korea FTA’. Two nations will carry out research on bilateral trade, mutual investment, current situation of economic cooperation and macroeconomic effect of Sino-Korea FTA and its effects on investment; the effects on respective industries and policy proposal were discussed respectively [2]. Thereafter, Development Research Center of the State Council and Korea Institute International Economic Policy studies carefully on the feasibility and policy proposal of Sino-Korea FTA and submitted respective reports. China’s research report showed that the contribution rate of Sino-Korea FTA to respective GDP would be 0.5% and 5%; Korea’s research report showed that the contribution rate of Korea-China FTA to its own GDP would be 3%, which was lower than Korea-America FTA while higher than Korea-Europe FTA and Korea-Japan FTA. Though the conclusions of the research on the bilateral FTA were different, establishing Sino-Korea FTA would certainly be mutual benefits and win-win to each other [3].

2.2 Government-industry-university research stage of Sino-Korea FTA

In November 2006, China and Korea held commerce talks and agreed starting research on the feasibility of Sino-Korea FTA joint Government-industry-university, which was the continuation of last stage of nongovernmental research and the process of further knowing more each other. The field of research included the macroeconomic effects and the agreement coverage of Sino-Korea FTA, the effects of trade and investment liberalization on industries, the dealing style of sensitive products and fields, and so on. From March 2007 to Six 2008, China and Korea held five Sino-Korea FTA joint Government-industry-university meetings, during which parties carried out deepening and overall discusses on bilateral trade in goods and services, mutual investment and then submitted respective research reports. The joint research report on Sino-Korea FTA concluded that building Sino-Korea FTA can bring net economic and trade benefit, strengthen two nations’ economic synergistic effects, upgrade the status in multilateral economic cooperative field, such as WTO, APEC, promote deepening development of regional economic integration in East Asian [4]. In May 2010, China and Korea declared the close of joint Government-industry-university research, trade ministers in two nations signed a memorandum of understanding, made an important step forward in the process of Sino-Korea FTA, and lay a solid foundation for building Sino-Korea FTA.

2.3 Negotiation stage of Sino-Korea FTA

In May 2012, China and Korea held Sino-Korean trade ministers meeting in Beijing, China, two parties exchanged views in deepening development of Sino-Korean trade relation. Two ministers believed that building Sino-Korea FTA can not only further strengthen and broaden bilateral economic and trade cooperation, but also be favorable to deepen Sino-Korean strategic cooperative relationship, issued *Ministers Joint Statement* on the meeting and announced to start formally the negotiation of Sino-Korea FTA. The negotiation was divided into two stages: mode and bargaining. In the first stage, two nations had a consultation about the negotiation mode in trade in goods and services, investment and other fields, from May 2012 to September 2013, two nations held

seven rounds of negotiation, as shown in table 1. Two nations negotiated actively and completed the stage of negotiation mode and reached consensus on level of liberalization in trade in goods, scope of the agreement and the negotiation rule, framework and content elements in every field. At the same time, two nations made an appointment to hold the eighth round of negotiation and bargaining stage which means Sino-Korea FTA entering into a key period.

3. THE ANALYSIS OF SINO-KOREAN STRUCTURE OF TRADE IN GOODS

Since the establishment of diplomatic ties between China and Korea in 1992, two nations signed many bilateral agreements on scientific technology, international trade and investment in order to promote the development of bilateral economic and trade relationship and do so.

3.1 Scale of bilateral trade in goods enlarges rapidly

According to Chinese statistics, the volume of Sino-Korean bilateral trade was only USD 5.03 billion, in which Chinese export volume was USD 2.41 billion, import volume was USD 2.62 billion, thereafter the volume of bilateral trade in goods enlarged rapidly. By 2012, the volume of bilateral trade in goods amounted to USD 256.33 billion, 50 times the number in 1992, in which Chinese export volume was USD 87.6841 billion, import volume was USD 168.65 billion, 36 and 64 times the number in 1992 respectively. As shown in Figure 1, the volume of Sino-Korean bilateral trade increased for 20 years, the average annual growth rate was 24.5%, during which only in 1998 and 2009, the growth rate was negative due to Southeast Asian financial crisis and American subprime crisis, bilateral trade has become an important part in respective foreign trade. According to the foreign trade in two nations, the volume of Sino-Korean bilateral trade was equal to 4/5 of Sino-ASEAN FTA, 2.6 times the number of Sino-Australia FTA which is in process, 2.5 times the number of Korea-America FTA, 2.6 times the number of Korea-EU FTA. Thus, the establishment of Sino-Korea FTA will have a far-reaching effect on the development of two nations' foreign trade [5].

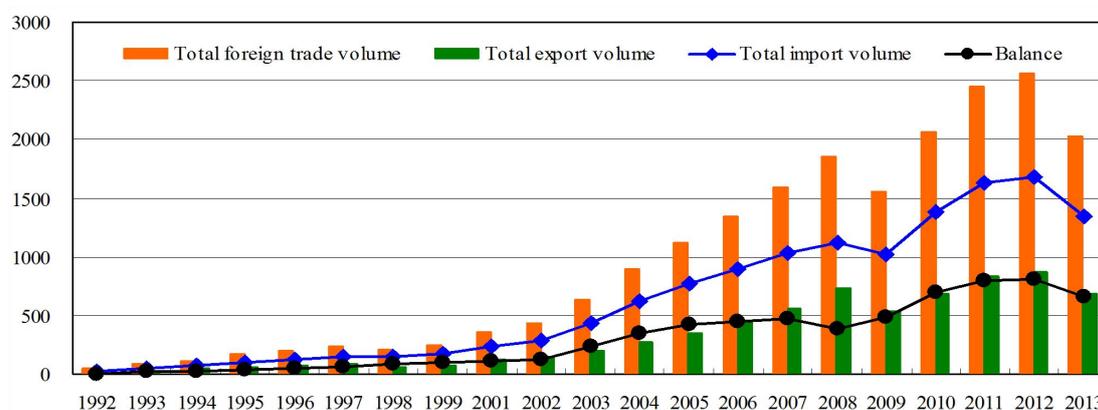


Figure 1. The situation of Sino-Korean bilateral trade 1992-2013 (Unit: 100 million dollars)

Sources: derived from the data issued by 1993-1994 China Foreign Economy and Trade Yearbook, 1995-2012 China Statistical Yearbook and 2012-2013 National Bureau of Statistics of the People's Republic of China.

Note: data in 2013 are from January to September.

3.2 Manufactured goods are the main object of bilateral trade in goods

During more than 20-year development process of Sino-Korean bilateral trade in goods, manufactured goods are always Korean exports to China, while Chinese exports to Korea changed a lot [6]. In the early 1990s, primary goods were main Chinese exports to Korea, while till the early 2000, the proportion of exporting manufactured goods to Korea reached above 70% and was increasing, In 2012, the proportion of bilateral

exports was both higher than 90%. The top three exports from China to Korea was mechanical and electrical products, base metals and articles thereof, chemical products, which accounted for 65.7% of total Chinese export trade volume; the top three exports from Korea to China was mechanical and electrical products, optical, medical or surgical instruments and clocks and watches, chemical products, which accounted for 69.0% of total Korean export trade volume, as shown in table 2. Thus, two nations' bilateral structure of trade in goods changed dramatically, from manufactured goods as Korean main exports to China, primary goods as Chinese main exports to Korea to manufactured goods as main exports to both nations, which showed that the bilateral trade changed from inter-industrial trade determined by comparative advantages to intra-industrial trade determined by the features of products. Thus, after building Sino-Korea FTA will promote the development of bilateral trade.

Table 1. The Situation of the composition of Sino-Korean bilateral trade in goods 2012

(Unit:100 million dollars, %)

Composition of exports from Korea to China					Composition of exports from China to Korea			
Order	HS code	Categories of products	Amount	Share	HS code	Categories of products	Amount	Share
1	84-85	Mechanical and electrical products	335.56	41.5	84-85	Mechanical and electrical products	522.15	38.9
2	72-83	Base metals and articles thereof	133.88	16.6	90-92	Optical, medical or surgical instruments and clocks and watches	238.06	17.7
3	28-38	Chemical products	61.39	7.6	28-38	Chemical products	166.04	12.4
4	50-63	Textile and materials	54.79	6.8	39-40	Plastics; Rubber	108.79	8.1
5	90-92	Optical, medical or surgical instruments and clocks and watches	41.78	5.2	25-27	Minerals	107.93	8.0
6	86-89	Transport equipments	25.55	3.2	72-83	Base metals and articles thereof	83.07	6.2
7	68-70	Ceramic products; Glass	25.14	3.1	86-89	Transport equipments	57.12	4.3
8	94-96	Furniture; Toys; Miscellaneous manufactured articles	21.83	2.7	50-63	Textile and materials	26.95	2.0
9	39-40	Plastics; Rubber	21.20	2.6	94-96	Furniture; Toys; Miscellaneous manufactured articles	7.28	0.5
10	25-27	Minerals	18.29	2.3	16-24	Food; Beverages; Tobacco	6.21	0.5
11	64-67	Footwear; Umbrellas	12.76	1.6	47-49	Pulp of wood or of other fibrous cellulosic material; Paper	4.10	0.3
12	16-24	Food; Beverages; Tobacco	12.14	1.5	41-43	Articles of leather; handbags and similar containers	3.53	0.3
13	06-14	Products of plants	11.54	1.4	01-05	Live animals; Products of animal origin	3.38	0.3
14	01-05	Live animals; Products of animal origin	10.29	1.3	68-70	Ceramic products; Glass	3.34	0.3
15	41-43	Articles of leather; handbags and similar containers	9.07	1.1	71	precious metals and articles thereof	2.26	0.2
16		Others	12.57	1.6		Others	309	0.2

Sources: data issued by 2013 Country Report of Ministry of Commerce of the People's Republic of China.

3.3 Unbalanced structure exists in the bilateral trade in goods

As the scale of bilateral trade enlarging, the unbalanced phenomenon in the structure on bilateral trade is also prominent, China is always in trade deficit. The trade deficit was only UDS 0.21 billion in 1992, while reached UDS 80.97 billion by 2012, which was near 400 times the number of 1992, as shown in figure 1. Chinese trade deficit to Korea mainly come from Optical, medical or surgical instruments and clocks and watches, mechanical and electrical products, chemical products, plastics, rubber, transport equipments, while Chinese trade surplus to Korea mainly come from base metals and articles thereof, textile and materials, furniture, toys, miscellaneous manufactured articles, ceramic products, glass, live animals, products of animal origin, food, beverages, tobacco, handbags and similar containers, as shown in table 2. Thus, the severe unbalanced structure of Sino-Korean bilateral trade is due to China exports such manufactured goods to Korea that focus on intermediate goods and goods as raw materials; while Korea exports such manufactured goods to China that focus on final goods, such as all kinds of machinery, electronic products. These show that there exist vertical differences in two nations' structures of import and export, the unbalanced trade is represented by unbalanced structure. Thus, building Sino-Korea FTA will adjust the structure of bilateral trade, promote to upgrade and adjust industrial structures and help to resolve the problem of unbalanced structure of bilateral trade^[7].

Table 2. The Situation of the composition of Sino-Korean bilateral trade in goods balances 2012

(Unit:100 million dollars)

HS code	90-92	84-85	28-38	25-27	39-40	86-89	Others
Trade deficit	-196.28	-186.59	-104.65	-89.64	-87.59	-31.57	-278.49
HS code	72-83	50-63	68-70	94-96	01-05	16-24	41-43
Trade surplus	50.81	27.84	21.8	14.55	6.91	5.93	5.54

Sources: derived from the data issued by 2013 Country Report of Ministry of Commerce of the People's Republic of China.

4. THE ANALYSIS OF ECONOMIC EFFECTS AFTER SINO-KOREA FTA COMPLETED

4.1 Rebound to two countries' macroeconomic growth

From the Sino-Korean structure of bilateral trade, two nations belong to vertical intra-industrial trade and are complementary in industrial structure. While once the Sino-Korea FTA was built, it will be inevitable to further enhance productivity and increase capital accumulation so that increase consumption, investment, government spending, net export substantially and promote the macroeconomic growth in two nations. According to the joint research report on Sino-Korea FTA, Sino-Korea FTA will contribute to two nations' GDP by 0.395% and 2.443% respective in static mode, 0.584% and 3.313% respective in capital accumulating mode. In addition, from nation's welfare, Sino-Korea FTA will improve efficiency of resources allocation and trade term so that enhance the level of welfare in two nations. According to the research report issued by Samsung Economic Research Institute, established Sino-Korea FTA will make people in two countries consume more plentiful and abundant goods with cheaper prices as the decline in tariff, the welfare of Chinese people will increase 0.03%-0.23%, and the welfare of Korean people will increase 0.64%-1.98% derived by some calculation^[8].

4.2 Rebound to two countries' upgrade in industrial structure

The differences in natural endowment determined the stronger complement in two countries' economies, especially in natural resources, capital, technology and labor force. China has richer natural resources, lower cost of labor force and larger consuming market, these conditions afford an export market with immense potential for Korea; while Korea has the advantages of capital and technology, is an important source of introducing capital and technology. At the same time, two countries are all developing countries, but have different economic development degrees and locate different sites in the world industrial chain, in which Korea locates in medium end, China stands in the bottom end. As Korean upgrading and adjustment of the industrial structure, some relative surplus industries and obsolete industries will be transferred so that Korea can concentrate on the development of technology-intensive high-tech industries, while China may undertake the transferred industries from Korea and take comparative advantages of labor-intensive and resources processing industries. China may learn from Korean successful experiences to promote own upgrading and adjustment of the industrial structure. In words, building Sino-Korea FTA will help two nations to further take respective advantages, enlarge export of advantageous products, promote the development of related industries, enhance the international competitiveness and realize the upgrading and adjustment of the industrial structure [9].

4.3 Promote the process of regional economic cooperation in East Asia

Currently, economic cooperative framework includes '10+3' mechanism, Sino-Japan-Korea FTA and three '10+31' mechanisms, in which three '10+31' mechanisms develop smoothly, while '10+3' mechanism and Sino-Japan-Korea FTA develop slowly. The immense differences in interest demands affect the process of Sino-Japan-Korea FTA. In March 2013, China, Japan and Korea finished the first round of negotiation about Sino-Japan-Korea FTA and be willing to endeavor to promote the process of Sino-Japan-Korea FTA. At present, under such underground, Sino-Korea FTA will be the breakout of promote Sino-Japan-Korea FTA even regional economic cooperation in East Asia. Once Sino-Korea FTA is built, it is inevitable to speed up the process of Japan-Korea FTA and Sino-Japan FTA. Technically, bilateral negotiation is easier to be concluded than trilateral negotiations. The negotiation of Sino-Japan-Korea FTA will be smoother on the basis of these bilateral negotiations and will realize earlier [10].

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