# THE FUTURE OF KOREAN TRADE POLICY

## KOREA'S TRADE STRUCTURE AND ITS POLICY CHALLENGES

*By Lee Junkyu*

### Abstract

In 2011, Korea achieved one trillion dollars in international trade amidst the global crisis, which marked a new page in Korea's history. Korean trade will no doubt continue to strengthen its economy. Only eight countries are ahead of Korea in terms of achieving one trillion dollars in trade, and Korea should no longer be a follower, but instead a country which sets the course of trade policy within the global economy. It cannot be emphasized enough that Korea should be recognized as a model for its past economic accomplishments and to illustrate the beneficial cycle between trade and growth for the future. The following sections will first investigate changes of Korea's trade structure over a longer period, and its recent export structure by product and destination as well as of the import structure. The next section will look further ahead with trajectories of Korea's trade policies and a dramatic policy shift jumping onto the active FTA policy stance as well as with the FTA roadmap. Furthermore, it will review the comprehensive and high-quality FTAs pursued by Korea since the implementation of the FTA roadmap. Finally, it concludes with challenges facing Korea's future trade policy, including an enhancement of the competitiveness of the service sector, and discusses how to support inclusive and sustainable economic growth with an indispensable pillar, which is free trade policy in the Korean economy.

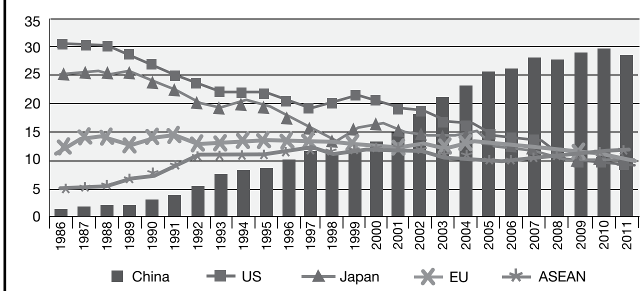
## Trade Structure Change

Over the past decades, Korea's trade structure by country has changed greatly. Specifically, as seen in Figure 1, in 1986, the United States took the largest share of 30.8 percent in Korea's total trade, and was followed by Japan with 24.6 percent. The share of China in 1986 was 1.1 percent. But, in 2011, the situation became very different. The largest trade share in Korea's total trade became China with 20.4 percent, followed by ASEAN (11.6 percent), by Japan (10 percent), the EU (9.6 percent) and the United States (9.3 percent). In a nutshell, trade partners became more diverse by country and the rapid rise of the Chinese share is catching attention. Notably, Korea's trade depends much more on China in 2011 than in 1986, but it is not as high as Korea dependence on the United States in 1986. It points out that Korea's efforts to diversify its international trade by country have worked to a certain extent, but that it should not stop its efforts to further reduce excessive concentration of by-country trade.

Moreover, there has been a great deal of change to Korea's regional trade structure with emerging economies receiving bigger shares.

Compared to the trade structure in 1971, in 2011 Korea traded much less with advanced economies and much more with emerging and developing countries. During the past four decades, Korea's trade share with emerging economies rose from 17.5 percent to 67 percent. Since the 2008 global financial crisis, advanced economies continue to face major brakes on growth while emerging economies appear to maintain solid growth momentum. Accordingly, although Korea was not immune to weak recovery with the major advanced economies, Korea's recent high trade share with emerging economies has definitely played an important role in lowering the risks of negative spillovers from the crisis.

**Figure 1** Share Changes by Country in Korea's Trade



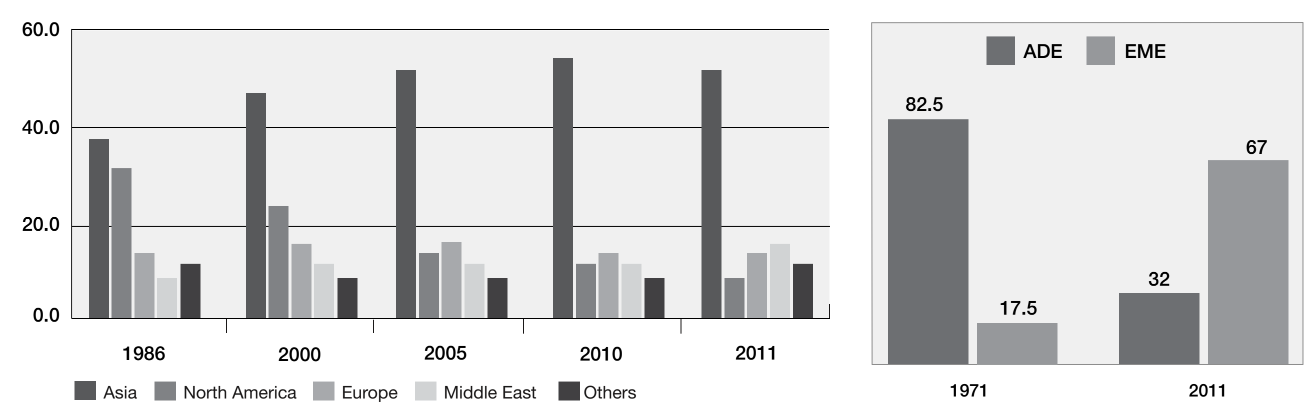

Source: KITA (2012)

Similarly, by region, from 1986 to 2011, Korea traded much more with Asia (37.0 percent→50.8 percent) and the Middle East (7.2 percent→14.1 percent), and much less with North America (33.8 percent→10.4 percent). According to the IMF (WEO, April 2012), in 2011 the United States grew 1.6 percent and developing Asia registered an economic growth rate of 7.8 percent, which is higher than that of any other region in the world. Asian exports have also recovered strongly since the global financial crisis, contrasted with those of developed economies. Notwithstanding continued anemic growth in advanced economies, Korea's high trade share with Asia helped counter the negative impact of the recent Great Recession on its trade performance in 2011, although the latest Korean exports data (April 2012) show moderation in export momentum. Korea is expected to continue its rising trend of intra-regional trade over the next decades.

## Product Composition Change of Trade

There has also been a great deal of trend change in Korea's exports by industry over the past decades. In the 1960s, more than 72 percent of Korea's exports were primary industry goods.

**Figure 2** Share Changes by Region and Economy




Source: KITA (April 2012)

| Table 1 | Trend in Product Composition of Korea's Exports |
|---|---|

| Share (%) | 1962 | 1972 | 1980 | 1995 | 2000 | 2011 |
|---|---|---|---|---|---|---|
| Primary industry goods | 72.3 | 11.1 | 7.7 | 4.9 | 2.8 | 2.8 |
| Industrial products | 27.7 | 88.9 | 92.3 | 95.1 | 97.2 | 97.2 |
| Light | NA | 67.4 | 48.4 | 19.9 | 16.2 | 6.2 |
| Heavy | NA | 21.5 | 43.9 | 75.2 | 81 | 91 |

Source: KITA (April 2012)
Note: NA means not available

As seen in Table 1, since the 1970s, Korea's major exports have been composed of industrial products. For example, in 2011 the share of industrial products was 97.2 percent.

Among them, heavy and chemical products increased greatly from 21.5 percent in 1972 to 91 percent in 2011. In the 1960s, Korea exported labor intensive products like clothes and textiles. In the 1970s, the Korean government strongly pushed the development of heavy and chemical industries, such as steel, shipbuilding, and automobiles. From the 1980s until now, the Korean economy has been exporting a great deal of capital and technology intensive goods. This trend change explains why Korea's top exports include ships, automobiles, semiconductors, displays and mobile communication devices.

## Recent Exports Structure

Korea's exports have been a useful indicator and a barometer to gauge Korea's economic vitality and the soundness of global economic growth. The following sections highlight Korea's recent export structure by product and destination.

## By Product

Korea's exports in 2011 registered 19.3 percent growth from a year earlier and reached the historic figure of $556.5 billion. While the global economy remained in a heightened state of uncertainty due to the euro zone sovereign debt crisis beginning in the second half of 2011, the Korean economy exported its largest value thanks to the competitiveness of Korea's major exports products and its FTA policies. According to MTI3 digit classification, vessels, articles of petroleum, automobile, and parts of automobiles reached their highest level, while semiconductors, flat display, and wireless communication apparatus declined respectively by 1.1 percent, 4.9 percent, and 1.1 percent year-on-year.

It is worth noting the significant rise in exports such as vessels, automobiles and their parts, and petroleum products. Despite the euro zone debt crisis in the second half of 2011, vessels and ocean structure exports rose significantly in 2011 to $54.5 billion year-on-year. Growth rates of vessel exports were 3.7 percent in 2009, 10 percent in 2010, and the rate rose by 15.2 percent in 2011. The share of vessels was the highest, with 10.2 percent of total exports. In terms of growth rates, petroleum was the highest with 63.7 percent year-on-year and reached $52 billion in 2011 due to high oil prices. Although Korea is not an oil-producer, it exported a large amount of refined oil products—even to OPEC countries, such as Indonesia. In 2011, Korea's petroleum exports equaled $11 billion to China, $8.6 billion to Japan, and $6.5 billion to Indonesia. This momentum is expected to continue due to high oil prices

| Table 2 | 2011 Top Five Major Exports (in U.S. millions) |
|---|---|

| Export items | 2010 | | 2011 | |
|---|---|---|---|---|
| | Value | Growth (%) | Value | Growth (%) |
| Total | 466,384 | 28.3 | 555,214 | 19 |
| Vessel, ocean structure and part of vessel, ocean | 49,112 | 8.8 | 56,588 | 15.2 |
| Articles of petroleum | 31,531 | 37.3 | 51,600 | 63.7 |
| Semiconductor | 50,707 | 63.4 | 50,146 | -1.1 |
| Automobile | 35,411 | 39.4 | 45,312 | 28 |

Source: Korea International Trade Association (2012) and strong demand for refined products from emerging economies. Automobile exports in 2011 rose by 28 percent year-on-year to the amount of $45.3 billion, which was an 8.2 percent share in total exports. Of Korea's total automobile exports, the United States received the highest (19.7 percent), followed by Russia (7.1 percent), and China (5.2 percent). Exports of automobile parts continued to rise every month and reached $23.1 billion with a growth rate of 21.8 percent in 2011 compared to the previous year. Due to its competitiveness and active FTA policies, an increase in auto parts exports is expected in the following years.

## By Destination

In 2011, Korean exports increased by more than two digits to most countries. However, exports to the EU appeared to grow at a weaker pace, by just 4.2 percent, due to the negative impact of the European sovereign debt crisis. While the debt crisis did negatively impact Korea's export performance, the Korean economy was able to withstand the adverse impact due to a larger share of its exports to developing economies. The share of emerging economies to Korea's total exports rose from 65.9 percent in 2007 to 72.5 percent in 2011, which contributed to safeguarding the economy against the debt crisis.

Regarding Korea's 2011 exports to China, they reached their largest value of $134.2 billion with a growth rate of 14.9 percent year-on-year. The share of Korea's exports to China compared to total world exports fell from 25.1 percent in 2010 to 24.2 percent in 2011, but the share has remained above 21 percent since 2005. During 2009, the share rose to 23.9 percent and, during 2010, it jumped to 25.1 percent. Accordingly, even a little hiccup in the Chinese economy would likely produce a major impact on the Korean economy. Except for in 2009, Korean exports to China have remained on an upward trend of two-digit growth rates. From 2002-2011, average annual growth rates of Korea's exports to China registered 21.2 percent.

Korea's exports to the United States reached a level of $56.2 billion in 2011 with a 12.8 percent growth rate year-on-year. In 1971, Korea's export share with the U.S. reached its maximum level of 49.8 percent. Subsequently, it is surprising to observe the rapidly declining share of Korea's exports to the United States in Korea's total exports. As of March 15, 2012, the Korea-U.S. FTA entered into effect, which will likely contribute to a rise of the U.S. share in Korea's exports, thereby reducing a risk of high dependency on trade with China. It is too early to confirm that Korea's exports point to a balance between China and the U.S. However, according to the Customs Office, from January to March 2012, the share of exports China received fell by one percentage point while the share of exports to the U.S. rose by 1.5 percentage points.

With the Korea-EU FTA coming into effect on July 1st, 2011—at the height of the euro zone debt crisis—it is important to gauge the impact of the FTA on Korea's exports in that context. From August-September 2011, Korea's exports to the EU rose, but turned negative in October 2011 due to the deepening concern of the euro zone debt crisis. In sum, Korea's exports to the EU reached $55.7 billion with a just 4.2 percent rise in 2011. However, the rise of only 4.2 percent does not necessarily reflect the full effect of the FTA on Korea's exports to the EU.

According to a report[1] by the Korea International Trade Association (KITA, March 2012), the group showing "an effect of tariff removals," in particular, had a great deal of export performance compared to exports of other countries to the EU over July-November in 2011. The report argued that, over the period, Korea's exports of the group to the EU presented a 14.8 percent rise compared to Chinese exports of a 0.5 percent rise, Japanese exports of a 2.6 percent rise, and the world's exports of a 7.9 percent rise to the EU. Evidently, while there is surely a positive effect of the FTA on the export items of tariff-reduction schedules, there remains an issue of how Korea and the EU can enhance the overall positive effects of the FTA on the economy as a whole regardless of tariff-reduction schedules. Regarding Korea's exports to Japan, Korea achieved $39.7 billion with a rapid rise of 40.9 percent year-on-year and Korea's trade deficit with Japan decreased from $36.1 billion in 2010 to $28.6 billion in 2011 due to the impact of the Japanese earthquake.

## Korea's Recent Import Structure

During 2011, Korea's imports reached $524.4 billion with a growth rate of 23.3 percent from a year earlier. The largest value of imports is mainly due to persistently high commodity prices such as crude oil. Recent import statistics point to high growth in raw materials (31.4 percent) and consumer goods (25.6 percent) and slower growth in capital goods year-on-year.

Imports of raw materials during 2011 grew 31.4 percent from the previous year, a share of 62.5 percent in Korea's total exports. The average annual growth rate of imports of raw materials is 14.9 percent, which is almost double the rate of imports of capital goods, 8.0 percent over 2005-2011. The main driver behind the high rate is due to increased volume and prices of crude oil. Compared to 2010, the volume grew 6.6 percent and the unit import price per barrel rose 37.8 percent.

The growth rate of imports of capital goods dropped substantially from 28.2 percent in 2010 to 7.8 percent in 2011. The share of capital goods in Korea's total imports has steadily fallen from 34.7 percent in 2005 to 27.4 percent in 2011. A steady rise of the import share of raw materials and a continuous fall of the share of capital goods are likely becoming a long-term issue to the Korean economy.

**Table 3** Korea's Recent Imports by Use (in U.S. billion, as a %)

| Export items | 2005 | | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|---|---|
| | Value | Share | Value | Share | Value | Share | Value | Share |
| Total | 261.2 | 100 (16) | 323.1 | 100 (-25.8) | 425.2 | 100 (32) | 524.4 | 100 (23) |
| Raw materials | 142.3 | 54.5 (20.9) | 186.1 | 57.6 (-31.5) | 249.5 | 58.7 (34.1) | 327.8 | 62.5 (31.4) |
| Capital goods | 90.7 | 34.7 (11.7) | 104.0 | 32.2 (-15.4) | 133.4 | 31.4 (28.2) | 143.8 | 27.4 (7.8) |
| Consumer goods | 26.4 | 10.1 (13.3) | 32.7 | 10.1 (-18.4) | 41.9 | 9.8 (27.8) | 52.4 | 10.0 (25.2) |

Source: KITA (2012)
Note: ( ) shows growth rates

The share of consumer goods has remained stable at around 10 percent while consumer goods grew 27.8 percent in 2010 and 25.2 percent in 2011 year-on-year. This increase in consumer goods is mainly driven by a rise in imported automobiles, clothes, beef and pork.

## Korea's Trade Policies to Date

During the 1950s, the key policies for the Korean economy were import substitution industrialization. The policies helped protect domestic import-substitution industries, but also impeded exports. A big shift from import substitution to export-oriented policy was introduced in the early 1960s by the Korean government. During the 1970s, the government provided much support to the heavy and chemical industries. In the 1980s, the government initiated the Comprehensive Liberalization Policy, including the Import Liberalization Five Year Plan, which was implemented from 1983-1988. The simple average tariff rates were 23.7 percent in 1983 which fell to 18.1 percent in 1988. The ratio of import liberalization in 1983 was 80.3 percent and it rose to 95.2 percent in 1988. In 1995, it rose to 99 percent. During the 1980s, the government transformed its trade and industrial policy from government led to liberalization and competition led policy. During the early 1990s and the beginning of the WTO, Korea further strengthened its policy direction of market openness, deregulation, and free trade. During the early 2000s, building on its continued policy stance of openness and competition promotion policy, Korea expedited its trade liberalization in pursuing Free Trade Agreements with developing and advanced economies around the world. From the early 2000s until now, Korea's trade policy, being in line with the GATT/WTO, has been centered on pursuing active FTA policies more than any other country in the world.

## A Policy Shift Towards FTA Policies

The proliferation of the regional trade agreements since the 1980s has been an important factor for encouraging free trade and liberalization in the world trade order. Before the 1997 Asian financial crisis, Korea had put more policy weight on the multilateral trade front. Since the 1997 crisis, Korea had no choice but to push forward complete structural reforms across the economy and to promote trade liberalization. Accordingly, the crisis made Korea well-poised to benefit from taking free trade agreements, which would impact the whole economy by revamping its economic health and structure.

With the proliferation of regional trade agreements, if Korea did not jump on the wagon of free trade agreements during the 2000s, it would be in a difficult situation. In the short-run, Korea would have a relative disadvantage in the global market and in the long-run, it would hamper the country's economic growth potential. The Korean government, mainly thanks to its determination to survive in the global market, turned FTA promotion into critical policy tools and measures to enhance its industrial and national competitiveness.

## The FTA Roadmap and its Step Forward

Korea concluded an FTA negotiation with Chile in October 2002. Following that effort, in September 2003, the Korean government announced "the FTA Roadmap" as its national economic development agenda. The FTA Roadmap marked a dramatic policy shift as it changed the country's passive FTA stance to an active one.

The Roadmap reflects two important policy principles. First, if Korea can conclude as many FTAs as possible in a short period of time, it can recover its competitiveness in the global market and reduce opportunity costs for Korean companies, which have observed rising disadvantages in the markets where Korea did not conclude FTAs. Second, the Roadmap pursues multi-track and simultaneous FTA negotiations with large economies. The main reason is to maximize whole economic benefits while minimizing negative costs from FTA negotiations. Building on those two principles, the Roadmap heavily pursues comprehensive and high-quality FTAs in terms of sectors and commitments.

In 2010, the share of Korea's trade with its FTA partners versus Korea's total trade was just 14.6 percent, which is much lower than that of the world average, 49.2 percent according to KITA's estimates (April 2011). The U.S. had a 34.1 percent share with FTA partners, and the EU had more than a 70 percent share. However, during 2011, Korea's trade share with its FTA partners rose to 27.4 percent due to the Korea-EU and Korea-Peru FTA. Over this period, Korea's exports to its FTA partners increased 18.4 percent ($166.8 billion) and the imports from them increased 20.6 percent ($129.4 billion).

The KORUS FTA entered into effect on March 15, 2012. Although it is too early to present an accurate analysis from the KORUS FTA, according to the Korea Customs Service (May 2012), in its initial two months Korea's exports to the United States rose by 11.3 percent and the imports from the United States rose by 2.0 percent. This increase occurred despite weakening Chinese economic growth and the deepening euro zone crisis. Korea's trade with the United State appears to have grown more stable due to the FTA.

In analyzing the FTAs Korea has concluded to date, it is reasonable to say that Korea established a global FTA network and became a hub country in the region. It made itself well-poised to benefit from the FTAs by liberalizing the market and enhancing the investment environment.

## Comprehensive and High Quality FTAs Pursued

As argued, Korea has pursued comprehensive and high-quality commitments, that is to say, the NAFTA style, complemented with the South-South style. From the eight FTAs in force, Korea's average concession rate is 97.5 percent with due consideration of sensitive sectors, such as the agricultural sector in the KORUS FTA.

By sector coverage, the KORUS FTA comprehensively includes all sectors, for example, from goods to services and investment, MRA, competition, IPR, Investor-State Dispute Settlement, e-commerce, labor and environment.

## Trade Policy Challenges Facing Korea

In 1966, Korea's total trade was about $1 billion and within a half century it topped $1 trillion. Membership in the $1 trillion dollar club is all the more important because the Korean economy achieved such a surprising performance amidst the heightened global economic crisis. Korea's effective economic policy demonstrated that an economy could grow through trade. Despite its eye-popping trade performance, there are challenges and opportunities facing Korea's trade policy for the future. Specifically, Korea faces the challenge of evaluating its trade performance not only by quantity, but also

**Table 4** Korea's FTA Progress

| Status | FTA partner | Dates in force |
|---|---|---|
| FTAs in force (8 FTAs, 45 countries) | Chile | Apr 2004 |
| | Singapore | Mar 2006 |
| | EFTA | Sept 2006 |
| | ASEAN | Jun 2006 (goods) |
| | | May 2009 (service) |
| | | Sept 2009 (investment) |
| | India | Jan 2010 |
| | EU | Jul 2011 |
| | Peru | Aug 2011 |
| | US | Mar 2012 |
| FTAs, signed recently | Turkey | Mar 2012 |
| FTAs, under negotiation | Canada, Mexico, GCC, Australia, New Zealand, Colombia, China | |
| FTAs, under examination | Japan, Korea-China-Japan, Mercosur, Israel, Vietnam, Central America, Indonesia, Malaysia | |

Source: Ministry of Foreign Affairs and Trade (as of April 2012)

| Table 5 | Korea's Concession Rates in the FTAs |
|---|---|

| FTA | Korea's concession rates (%) |
|---|---|
| Korea-Chile | 99.8 |
| Korea-Singapore | 91.6 |
| Korea-EFTA | 99.1 |
| Korea-ASEAN | 99.2 |
| Korea-India | 93.2 |
| Korea-US | 99.8 |
| Korea-EU | 99.6 |

Source: MOFAT, KIEP, and author calculation

by quality. Accordingly, Korea should look at what should be done to sustain economic growth and to continue its high performance in international trade.

First, the Korean economy should continue to diversify its trading partners and products to reduce the risks of external shocks. If the crisis does not subside, it will impact the Korean economy through trade channels as well as financial channels. As seen in Figure 1 and Figure 2, the Korean economy has been making a great deal of effort to minimize its risk of too much dependence on a small number of trading partners. The effort to lower its excessive exposure has worked, but the economy should not become complacent.

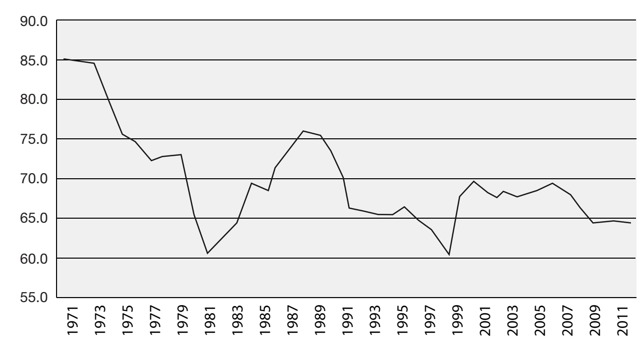
Furthermore, while the export share of China-US-Japan-EU-ASEAN in Korea's total exports has been in a falling trend as indicated in Figure 3, the 2007-2011 share appears to stay at around 65 percent. This means that Korea has yet to run away from its high-trade dependency on its big five trading partners.

In 2011, according to the MTI 3 digit, Korea's top ten export products had a share of 60.3 percent, which shows much greater product concentration compared to the numbers of other economies. According to a KITA report,[2] in average, from 2008 to 2010, the share of top ten export products was 27.1 percent for the U.S., 28.8 percent for China, 24.2 percent for Germany, and 34.7 percent for the UK. The shares of these countries were much lower than that of Korea, which was 51.1 percent in the report. Accordingly, it is desirable for SMEs to enhance their competitiveness and reduce concentration by exporting a variety of goods and services. This is easier said than done, requiring a longer term effort and continued commitment by the government and SMEs.

Second, the Korean economy needs to enhance the competitiveness of its services sector and increase the share of its service exports in the world.

As seen in Table 6, the share of Korea's service exports in the world rose from 2.1 percent in 2007 to 2.3 percent in 2011, while China rose from 3.6 percent to 4.4 percent over the same period. Specifically, during the last decade (2001-2011), according to the WTO (2012), the share of Korea's merchandise exports rose from 2.4 percent to 3.0 percent while the share of Korea's service exports rose from only 2.0 percent to 2.3 percent. Moreover, the annual average growth rate of

**Figure 3** Exports Share of China-US-Japan-EU-ASEAN (as a %)



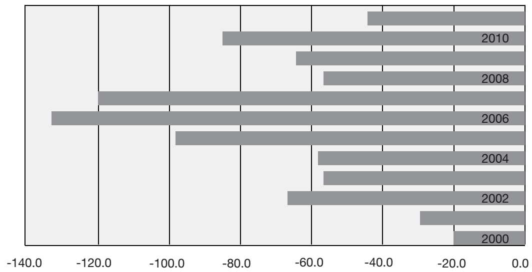

Source: KITA (2012)

| Table 6 | Export Shares in Commercial Services by Country |
|---|---|

| Share (%) | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| United States | 13.7 | 13.4 | 14.1 | 13.9 | 13.9 |
| UK | 8.4 | 7.3 | 7.1 | 6.6 | 6.6 |
| Germany | 6.3 | 6.5 | 6.7 | 6.2 | 6.1 |
| China | 3.6 | 3.8 | 3.8 | 4.5 | 4.4 |
| Japan | 3.7 | 3.8 | 3.7 | 3.7 | 3.4 |
| Korea | 2.1 | 2.3 | 2.1 | 2.3 | 2.3 |

Source: WTO (2012)

**Figure 4** Korea’s Service Trade Balance (in U.S. 100 million)




| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Service balance | -20.4 | -29.7 | -64.4 | -57.9 | -59.6 | -99.5 | -133.3 | -119.7 | -57.3 | -66.4 | -86.3 | -43.8 |

Source: Bank of Korea (2012)

Korea’s merchandise exports is 13.9 percent, which is higher than that of its service exports, 12.3 percent.[3]

However, while Korea’s ranking in merchandise exports rose from 13th to 7th from 2001-2011, Korea’s ranking in the services exports fell from 13th to 15th. According to the Bank of Korea, in regards to Korea’s services’ balance between 2000- 2006, it has continued to widen the trade deficit. As seen in figure 4, while reaching its peak deficit in 2006, Korea still maintained a substantial amount of the service trade deficit. Economic evidence builds that the service sector helps promote job-creation and economic growth. Yet, Korea’s trade policy thus far has been centered on strengthening the manufacturing sector, leading up to an inevitable rising gap between goods and services in terms of trade balance.

Imperatively, the Korean economy will not be able to sustain itself or promote more balanced growth in the mid-to-long term without enhancing the competitiveness of the service sector.

Third, Korea must implement policy measures to further enhance the effectiveness of its FTAs. There should be domestic reform measures commensurate with free trade agreements. For example, domestic reform measures in distribution services should be implemented to make consumers feel price cuts through tariff reductions. Should consumers not reap the benefits of price reductions, static welfare effect will not be materialized, and thereby the non-competitive market structure will eventually erode the support of consumers for further trade liberalization. Domestically, it is imperative to make the market more competitive to benefit from the FTAs and to raise the utilization rates in those FTAs in force. According to a recent KIEP[4] report, except for the Korea-Chile FTA which has around 95 percent utilization, most of the existing FTAs have low utilization rates. For example, the Korea-India FTA maintained just a 25 percent rate for exports.

Last but not least, Korea has to continue gathering internal constituent support for FTA policies. It must also enhance policy communications with a variety of groups and sectors across the economy, including opponents to its FTA policies. As trade liberalization moves forward, it is natural to see some sectors win and other sectors lose, while achieving a net positive gain for the whole economy. Frequently, widening income gap between winners and losers would cause conflicts among the sectors or the groups in the economy, which can play a negative role by impeding economic growth and stalling consumer benefits.

Therefore, it is important to prepare a compensation mechanism as well as promote competitiveness in the specific sector which is adversely affected by free trade policy. Legitimate concerns of the sector should be properly addressed by the government and a mutual consensus should be pursued among the members of the society. Conclusively, free trade policy has been an indispensable pillar of support for economic growth in Korea. Building on free trade agreements already concluded, Korea should pursue an inclusive and sustainable growth trajectory with strong support of its citizens for future FTAs. It must also continue to figure out a new growth opportunity by implementing measures such as promoting R&D, expanding the FTA network in Asia and other regions, and advancing high valued-added technology.

*Dr. Lee Junkyu is a Senior International Economic Adviser, Ministry of Strategy and Finance, Republic of Korea.*

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[1] *Trade Focus*, Vol.11, No.15, p.8-14. March, 2012, Korea International Trade Association (KITA-IIT)

[2] *Trade Focus*, Vol.10 No.55, November 2011, KITA: The data comes from the UN Comtrade by HS 4 digit.

[3] According to the calculation based on the WTO (2012), the annual average growth rate of world merchandise exports was 11.4 percent and that of the world services exports was 10.8 percent from 2001 to 2011.

[4] *Korea’s FTA Networks and its Global Leadership*, Young gui Kim, May 8, 2012, KIEP.