



ECONOMIC RELATIONS WITH SOUTHEAST ASIA

KOREA'S ECONOMIC RELATIONS WITH ASEAN AND RCEP

By Chang Jae Lee and Ho Kyung Bang

Abstract

Over the past twenty years, economic relations between ASEAN and Korea have evolved quite rapidly. As a result, ASEAN has now become the second largest trading partner and FDI destination for Korea.

Various important institutional frameworks have also been established. The ASEAN-Korea Summit has become an annual event, and the ASEAN-Korea Centre was established with the mandate to promote economic and socio-cultural cooperation. With regard to formal economic integration, the ASEAN-Korea FTA as well as the Korea-Singapore FTA went into force, and the Korea-Indonesia CEPA and the Korea-Vietnam FTA negotiations are under way. Additionally, RCEP negotiations are currently under way, with the aim of conclusion by the end of 2015, among ASEAN, China, Japan, Korea, India, Australia and New Zealand.

Introduction: Evolution of Korean-ASEAN Economic Relations

Since the establishment of the Sectoral Dialogue Partnership in 1989, Korea-ASEAN economic relations have evolved rapidly. Korea became a Full Dialogue Partner in 1990, the Joint Declaration on Comprehensive Cooperation Partnership and the Treaty of Amity and Cooperation in Southeast Asia (TAC) were signed in 2004, and the Joint Declaration on ASEAN-ROK Strategic Partnership for Peace and Prosperity was adopted in 2010.

In addition, the first ASEAN+3 (China, Japan and Korea) Summit was held in 1997 and has become an annual event. The ASEAN-ROK Summit has also taken place regularly. In particular, the ASEAN-ROK Commemorative Summit was held on Jeju Island, on June 1-2, 2009, to celebrate the 20th year anniversary of ASEAN-Korea dialogue relations. The heads of state of each ASEAN member country, the President of Korea, and the Secretary General of ASEAN attended the summit.

Furthermore, the ASEAN-Korea Centre, an intergovernmental organization, was established in Seoul in March 2009 with the mandate to promote economic and socio-cultural cooperation between ASEAN and Korea. In October 2012, the Permanent Mission of the ROK to ASEAN was launched in Jakarta, Indonesia. In addition, the ASEAN-Korea FTA on Trade in Goods went into force in June 2007 and the ASEAN-Korea FTA on Services and on Investment went into effect in May and September 2009, respectively.

Current Status of Korea-ASEAN Economic Relations

Trade

Korea's trade with ASEAN has increased significantly since 1990. Korea's exports to ASEAN jumped from \$5 billion in 1990 to \$79 billion in 2012, while Korea's imports from ASEAN rose from \$5 billion to \$52 billion during the same period. And ASEAN's shares in Korea's total exports and imports also increased from 7.5 percent and 6.8 percent in 1990 to 14.3 percent and 10.0 percent in 2012, respectively (see Figure 1).

As shown in Figure 2, ASEAN's share in Korea's trade rose from 7.2 percent in 1990 to 12.2 percent in 2012. Meanwhile, the shares of NAFTA and the EU in Korea's trade diminished from 28.4 percent and 13.4 percent in 1990 to 11.6 percent and 7.4 percent in 2012, respectively. Thus, in 2012, ASEAN became a trading partner more important to Korea than the NAFTA and EU. In fact, ASEAN has become

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Korea's second most important trading partner, after Korea's largest trading partner, China, which represents 20.3 percent of Korea's total trade.¹

For 1992-1996, Korea's major export products to ASEAN consisted of radio, television and communication equipment (representing 29.1 percent of Korea's total export to ASEAN), basic metals (14.3 percent), chemicals (10.9 percent), and textiles (10.3 percent). For 2008-2012, these products were coke, refined petroleum and nuclear fuel (19.8 percent), radio, television and communication equipment (18.1 percent), basic metals (13.2 percent), chemicals (10.9 percent), and other transport equipment (8.4 percent). (See Annex Table 3).

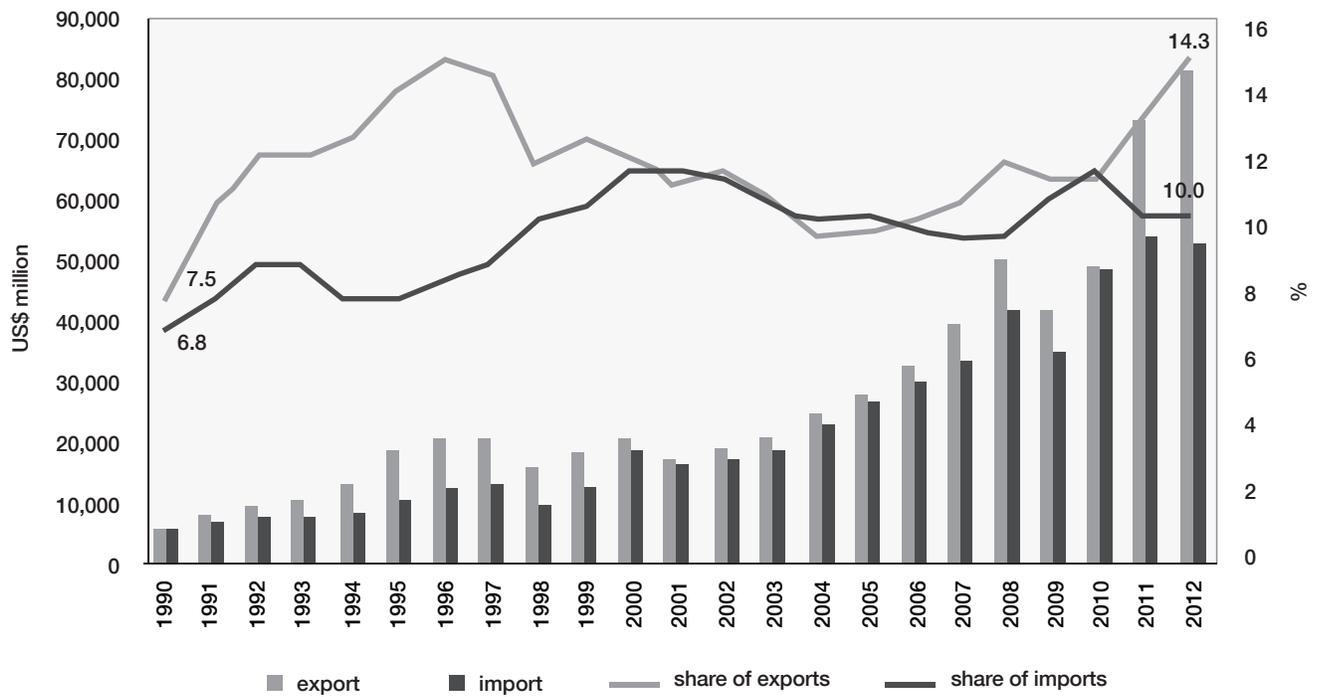
Korea's major import products from ASEAN consisted of crude petroleum and natural gas (28.5 percent), radio, television and communication equipment (13.9 percent), wood and cork (10.2 percent), and agricultural products (6.1 percent) in 1992-1996. For 2008-2012, these products included crude petroleum and natural gas (25.9 percent), radio, television and communication equipment (20.7 percent), coal and lignite (6.9 percent), chemicals (6.7 percent), coke, refined petroleum and nuclear fuel (6.2 percent). (See Annex Table 3).

Investment

Korea's foreign direct investment (FDI) to ASEAN increased from \$321 million in 1992 to \$4,291 million in 2012. As shown in Figure 3, it was only \$178 million in 1993 and amounted to \$4,898 million in 2011. As for ASEAN's share in Korea's total outward FDI, it fluctuated between 7.8 percent (in 2001) and 23.7 percent (in 1992), while it was 18.5 percent in both 2011 and 2012.

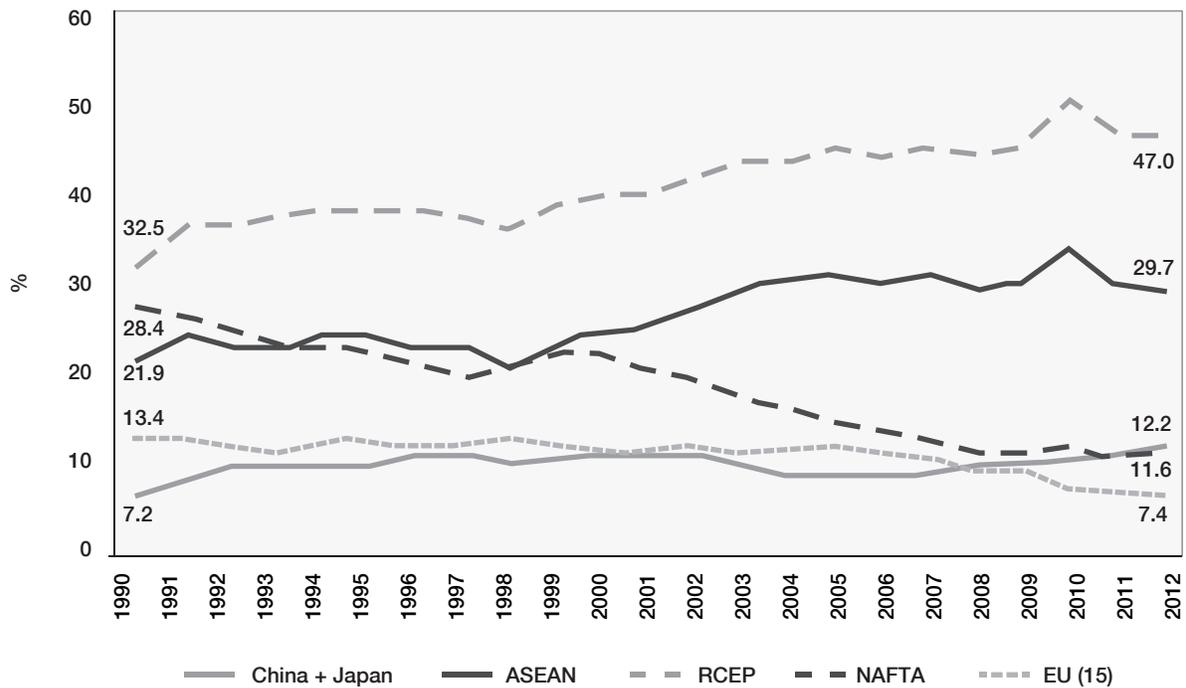
For 1992-1996, most (77.8 percent) of Korea's investment to ASEAN was concentrated in manufacturing, while other investments were in mining and quarrying (6.3 percent) and in a limited number of service sectors such as in wholesale and retail trade (4.6 percent), financial and insurance activities (2.8 percent), construction (2.1 percent), and real estate activities and renting and leasing (2 percent). For 2008-2012, manufacturing continued to be Korea's most favored investment sector in ASEAN but its share diminished to 42.3 percent, while the share of mining and quarrying rose

Figure 1 Trends of Korea's Exports and Imports Vis-à-Vis ASEAN



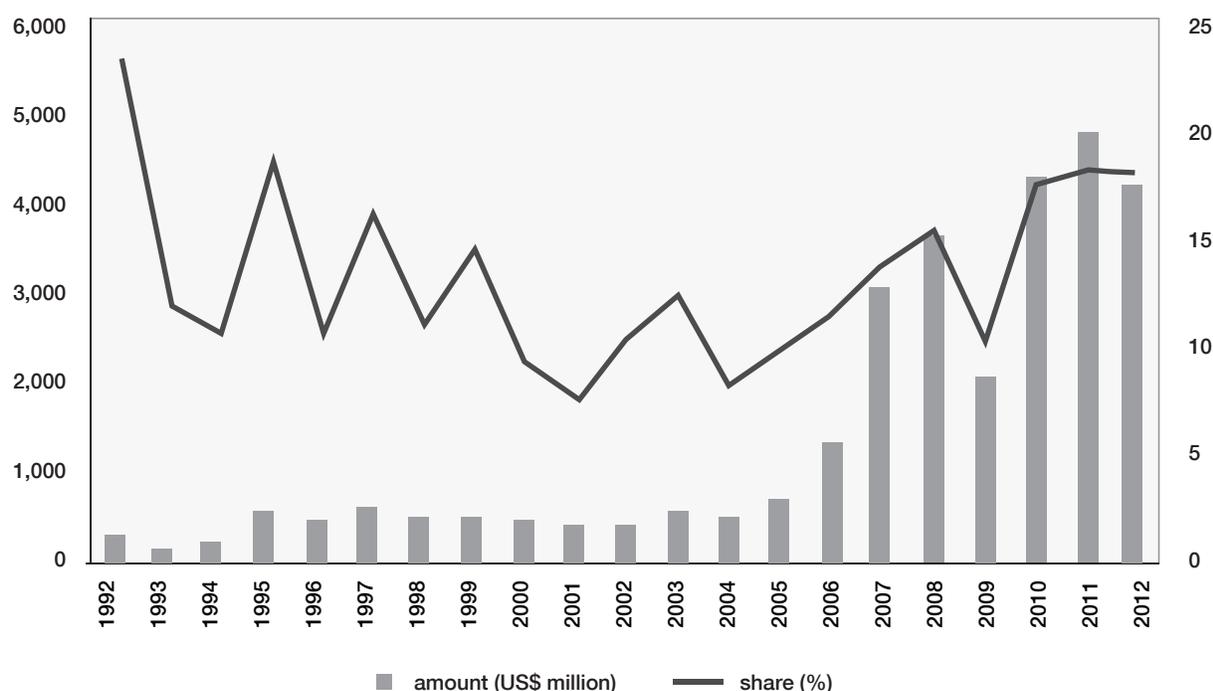
Source: Annex Table 1.

Figure 2 Shares of ASEAN and Other Major Economic Regions in Korea's Trade



Source: Annex Table 2.

Figure 3 Trends of Korea's Foreign Direct Investment to ASEAN



Source: Annex Table 4.

to 22.9 percent and the shares of various service sectors also increased as follows: financial and insurance activities (6.3 percent), real estate activities and renting and leasing (5.3 percent), wholesale and retail trade (5.2 percent), construction (3.9 percent), professional, scientific and technical activities (3.0 percent), and transportation (2.8 percent).

Korea's Economic Relations with ASEAN Countries

Trade

Among ASEAN member states, in 1990 Korea's export destinations were, in order of importance, Singapore, Indonesia, Thailand, Malaysia and the Philippines. In 2012, Singapore was still the most important export destination, accounting for 28.9 percent of Korea's total exports to ASEAN, whereas Indonesia (17.6 percent), Thailand (10.4 percent), the Philippines (10.4 percent), and Malaysia (9.8 percent) also continued to be major destinations. However, it is remarkable that Vietnam has become the second most important market among ASEAN member states, accounting for 20.1 percent of Korea's total exports to ASEAN (see Table 1).

As for Korea's import sources, Indonesia, Malaysia, Singapore, Thailand and the Philippines were the most

important countries among ASEAN member states in 1990. In 2012, Indonesia was still the largest partner accounting for 30.2 percent of Korea's total imports from ASEAN, followed by Malaysia (18.8 percent), Singapore (18.6 percent), Vietnam (11.0 percent), Thailand (10.3 percent), and the Philippines (6.3 percent).

With regard to Korea's major export and import products vis-à-vis individual ASEAN countries, they naturally varied from one country to another for 2008-2012.²

During the same period, Korea's major export products to Singapore were coke, refined petroleum and nuclear fuel (representing 28.4 percent of Korea's export to Singapore), radio, television and communication equipment (26.4 percent), and other transport equipment (23.7 percent); while Korea's major import products from Singapore were radio, television and communication equipment (54.7 percent), chemicals (13.5 percent), and coke, refined petroleum and nuclear fuel (9.6 percent).

Korea's major export products to Indonesia were coke, refined petroleum and nuclear fuel (38.1 percent), chemicals (13.3 percent), basic metals (11.7 percent), and textile (9.7 percent); while Korea's major import products from Indonesia were crude petroleum and natural gas (40.5 percent), coal and lignite (21.7 percent), and metal ores (6.3 percent).

Table 1 Shares of ASEAN Member States in Korea's Exports (%)

| | Brunei | Cambodia | Indonesia | Laos | Malaysia | Myanmar | Philippines | Singapore | Thailand | Vietnam |
|------|--------|----------|-----------|------|----------|---------|-------------|-----------|----------|---------|
| 1990 | 0.0 | - | 21.2 | - | 13.9 | 0.7 | 9.8 | 35.4 | 19.0 | - |
| 1995 | 0.1 | - | 16.5 | - | 16.4 | 0.5 | 8.3 | 37.2 | 13.5 | 7.5 |
| 2000 | 0.1 | 0.5 | 17.4 | 0.0 | 17.5 | 1.4 | 16.7 | 28.1 | 10.0 | 8.4 |
| 2005 | 0.2 | 0.5 | 18.4 | 0.1 | 16.8 | 0.4 | 11.7 | 27.0 | 12.3 | 12.5 |
| 2006 | 0.1 | 0.6 | 15.2 | 0.1 | 16.3 | 0.4 | 12.3 | 29.6 | 13.2 | 12.2 |
| 2007 | 0.1 | 0.7 | 14.9 | 0.1 | 14.7 | 0.8 | 11.4 | 30.8 | 11.6 | 14.9 |
| 2008 | 0.1 | 0.6 | 16.1 | 0.1 | 11.8 | 0.5 | 10.2 | 33.1 | 11.7 | 15.8 |
| 2009 | 0.1 | 0.7 | 14.6 | 0.1 | 10.6 | 0.1 | 11.1 | 33.2 | 11.0 | 17.4 |
| 2010 | 0.1 | 0.6 | 14.6 | 0.1 | 9.2 | 0.9 | 9.6 | 34.1 | 15.4 | 15.3 |
| 2011 | 0.8 | 0.6 | 18.9 | 0.2 | 8.7 | 0.9 | 10.2 | 29.0 | 11.8 | 18.8 |
| 2012 | 0.1 | 0.7 | 17.6 | 0.2 | 9.8 | 1.7 | 10.4 | 28.9 | 10.4 | 20.1 |

Source: IMF. *Direction of Trade Statistics*, 2013.

Table 2 Shares of ASEAN Member States in Korea's Imports (%)

| | Brunei | Cambodia | Indonesia | Laos | Malaysia | Myanmar | Philippines | Singapore | Thailand | Vietnam |
|------|--------|----------|-----------|------|----------|---------|-------------|-----------|----------|---------|
| 1990 | 5.3 | - | 31.4 | - | 31.2 | 0.1 | 5.3 | 17.6 | 9.1 | - |
| 1995 | 3.7 | - | 32.8 | - | 24.8 | 0.1 | 6.0 | 21.4 | 9.2 | 1.9 |
| 2000 | 2.7 | 0.0 | 29.1 | 0.0 | 26.8 | 0.1 | 10.0 | 20.5 | 9.0 | 1.8 |
| 2005 | 3.0 | 0.0 | 31.4 | 0.0 | 23.1 | 0.2 | 8.9 | 20.4 | 10.3 | 2.7 |
| 2006 | 4.1 | 0.0 | 29.8 | 0.1 | 24.4 | 0.3 | 7.4 | 19.8 | 11.2 | 3.1 |
| 2007 | 2.8 | 0.0 | 27.5 | 0.2 | 25.5 | 0.2 | 7.4 | 20.7 | 11.4 | 4.2 |
| 2008 | 4.2 | 0.0 | 27.7 | 0.1 | 24.2 | 0.3 | 7.6 | 20.4 | 10.5 | 5.0 |
| 2009 | 2.8 | 0.1 | 27.2 | 0.1 | 22.2 | 0.2 | 7.8 | 23.1 | 9.5 | 7.0 |
| 2010 | 2.2 | 0.0 | 29.0 | 0.0 | 16.3 | 0.2 | 5.7 | 33.2 | 8.3 | 5.1 |
| 2011 | 3.8 | 0.2 | 32.4 | 0.0 | 19.7 | 0.6 | 6.7 | 16.9 | 10.2 | 9.6 |
| 2012 | 3.8 | 0.2 | 30.2 | 0.0 | 18.8 | 0.7 | 6.3 | 18.6 | 10.3 | 11.0 |

Source: IMF. *Direction of Trade Statistics*, 2013.

Korea's major export products to Vietnam were chemicals (14.3 percent), radio, television and communication equipment (14 percent), basic metals (13.9 percent), textile (12.8 percent), coke, refined petroleum and nuclear fuel (10.9 percent), machinery and equipment (7.9 percent), and motor vehicles, trailers and semi-trailers (7.6 percent); while Korea's major import products from Vietnam were crude petroleum and natural gas (16.1 percent), food products and beverages (13.1

percent), apparel, dressing and dyeing of fur (12.9 percent), textiles (12.7 percent), and leather and footwear (6.3 percent).

Korea's major export products to Malaysia were radio, television and communication equipment (21.5 percent), basic metals (18 percent), chemicals (13.8 percent), medical, precision and optical instruments (10.7 percent), coke, refined petroleum and nuclear fuel (6.9 percent), and machinery and equipment (6.9 percent); while Korea's major import products

from Malaysia were crude petroleum and natural gas (34.1 percent), radio, television and communication equipment (19.3 percent), coke, refined petroleum and nuclear fuel (12.7 percent), and chemicals (7.6 percent).

Korea's major export products to Thailand were basic metals (29.3 percent), chemicals (19.5 percent), machinery and equipment (11.9 percent), and radio, television and communication equipment (10.0 percent); while Korea's major import products from Thailand were radio, television and communication equipment (23.4 percent), agricultural products (15.1 percent), food products and beverages (12.3 percent), and chemicals (8.5 percent).

Korea's major export products to the Philippines were radio, television and communication equipment (30.5 percent), coke, refined petroleum and nuclear fuel (17.2 percent), basic metals (14.1 percent), and chemicals (10.7 percent); while Korea's major import products from the Philippines were radio, television and communication equipment (39.9 percent), crude petroleum and natural gas (12.6 percent), basic metals (10.2 percent), and agricultural products (9 percent).

Korea's major export products to Brunei were other transport equipment (54.9 percent), motor vehicles, trailers and semi-trailers (22.2 percent), and basic metals (11 percent); while Korea's major import products were crude petroleum and natural gas (98.8 percent)

Korea's major export products to Myanmar were fabricated metal products (25.3 percent), basic metals (21.7 percent), machinery and equipment (15.6 percent), and textiles; while Korea's major import products from Myanmar were apparel, dressing and dyeing of fur (69.8 percent), food products and beverages (9 percent), agricultural products (8.1 percent), and crude petroleum and natural gas (6.6 percent).

Korea's major export products to Cambodia were textiles (44 percent), and motor vehicles, trailers and semi-trailers (18.4 percent); while Korea's major import products from Cambodia were apparel, dressing and dyeing of fur (33.8 percent), textiles (21.4 percent), and agricultural products (20.1 percent).

Finally, Korea's major export products to Laos were motor vehicles, trailers and semi-trailers (85.2 percent); while Korea's major import products from Laos were metal ores (50.4 percent) and basic metals (34.8 percent).

Investment

Korea's FDI to ASEAN used to be concentrated on several ASEAN countries. For 1992-1996, Indonesia was the most important destination of Korea's FDI accounting for 36.8 percent of Korea's total FDI to ASEAN, followed by Vietnam (24 percent), Malaysia (11.9 percent), the Philippines (9.5 percent), Singapore (9.3 percent), and Thailand (7.4 percent) (see Table 3).

Table 3

Shares of ASEAN Countries in Korea's FDI in ASEAN (%)

| | 1992-1996 | 2008-2012 |
|-------------|-----------|-----------|
| Brunei | 0.1 | 0 |
| Cambodia | 0.3 | 5.3 |
| Indonesia | 36.8 | 20.2 |
| Laos | 0.2 | 0.7 |
| Malaysia | 11.9 | 15.6 |
| Myanmar | 0.5 | 6.8 |
| Philippines | 9.5 | 8.7 |
| Singapore | 9.3 | 13.5 |
| Thailand | 7.4 | 4.4 |
| Vietnam | 24.0 | 24.9 |

Source: The Export-Import Bank of Korea, *Overseas Investment Statistics* [Online].

Table 4

ASEAN-Korea FTA Utilization Rates (%)

| | June 2007-May 2008 | June 2008-May 2009 |
|--------------|--------------------|--------------------|
| Brunei | - | 58.3 |
| Cambodia | - | 6.3 |
| Indonesia | 47.3 | 63.5 |
| Laos | - | 1.2 |
| Malaysia | 32.3 | 36.8 |
| Myanmar | 83.0 | 87.9 |
| Philippines | 15.1 | 38.2 |
| Vietnam | 58.6 | 66.5 |
| Total | 38.0 | 49.1 |

Source: Kim, H.S and M.S Kim. 2009. "Effective Implementation of Korea-ASEAN FTA: Trade in Goods." *KIEP World Economy Update 9* (26). Korea Institute for International Economic Policy (in Korean).

Recently, however, Korea's FDI destinations seemed to expand into a growing number of countries. For 2008-2012, Vietnam became the most important recipient of Korea's FDI accounting for 24.9 percent of Korea's FDI to ASEAN, followed by Indonesia (20.2 percent), Malaysia (15.6 percent), Singapore (13.5 percent), and the Philippines (8.7 percent). Additionally, Myanmar and Cambodia also became relatively important destinations of Korea's FDI accounting for 6.8 percent and 5.3 percent of

Korea's FDI to ASEAN, respectively, ahead of Thailand, which received 4.4 percent.

Korea's FTAs with ASEAN Countries

The ASEAN-Korea FTA on Trade in Goods, in Services and in Investment went into force in June 2007, May 2009, and September 2009, respectively. Since October 2009, committee meetings have been held regularly to discuss the implementation of the agreements as well as to discuss possibilities of further liberalization.³

As shown in Table 4, Korean firms' average utilization rate of the ASEAN-Korea FTA, when they imported goods from ASEAN countries, rose from 38 percent for June 2007-May 2008 to 49.1 percent in June 2008-May 2009. This increase can largely be explained by the fact that the implementation date of the ASEAN-Korea FTA differed from one country to another. For June 2007-May 2008, it was implemented only in five out of eight countries, while its utilization rate for imports from Laos was only 1.2 percent during June 2008-May 2009, because its implementation started only in October 2008.

During June 2008-May 2009, the utilization rate was 87.9 percent for Myanmar, while it was 36.8 percent in Malaysia. A further analysis on the utilization rates by industry provides an answer to such a gap. In fact, the average utilization rate for primary products, most of which were totally produced in ASEAN countries, was over 90 percent during June 2008-May 2009, while the average utilization rates for motor vehicles, other transport equipment, and electrical machinery were less than ten percent.⁴

In addition to the ASEAN-Korea FTA, Korea has pursued bilateral FTAs with individual ASEAN member countries. The Korea-Singapore FTA went into effect in March 2006, and two bilateral FTA negotiations with Indonesia and Vietnam, respectively, are under way. The fifth round of Korea-Indonesia CEPA negotiations was held on September 8-13, 2013, and the third round of Korea-Vietnam FTA negotiations took place on October 15-18, 2013.

Regional Comprehensive Economic Partnership (RCEP)

Background

The idea of forming a region-wide FTA in East Asia dates back to the turn of the century. In October 2001, the East Asia Vision Group (EAVG) recommended the establishment of an East Asian Free Trade Area (EAFTA) in a report to the leaders of ASEAN+3. In November 2002, the East Asia Study Group (EASG) also proposed the formation of an EAFTA.

Then, in 2004, ASEAN+3 Economic Ministers (AEM+3) decided to set up an expert group initiated by China to conduct a feasibility study on an EAFTA. The Joint Expert Group reported the outcome of the study to AEM+3 in August 2006. Korea then proposed a follow-up in-depth study, which was welcomed by the leaders at the 10th ASEAN+3 Summit in January 2007. The outcome of the EAFTA Phase II Study was presented at the AEM+3 Consultations in Bangkok on August 15, 2009. On the other hand, at the second East Asia Summit (EAS) in January 2007, the leaders also agreed to launch a Track Two study on the Comprehensive Economic Partnership in East Asia (CEPEA), which was initiated by the Japanese government, among ASEAN+6 (CJK, Australia, New Zealand and India) to deepen integration. The outcome of the Track Two study on CEPEA was also presented at the AEM+3 Consultations in Bangkok on August 15, 2009.

The Ministers welcomed the final reports of both EAFTA and CEPEA and, on the basis of their recommendations, agreed to upgrade the joint studies for a region-wide FTA in East Asia conducted by the region's experts to government-level discussions. They sought to establish working groups on rules of origin, tariff nomenclature, customs-related issues, and economic cooperation. Later, this decision was confirmed at the 12th ASEAN+3 Summit and the 4th East Asia Summit.

However, due to the different positions between China and Japan regarding the initial participating countries in those working groups, ASEAN+3 vs. ASEAN+6, the process of forming a region-wide FTA in East Asia has been delayed.

In November 2011, ASEAN leaders agreed to establish an ASEAN-led process by setting out principles under which ASEAN will engage interested ASEAN FTA partners in establishing a region-wide FTA, i.e., ASEAN Framework for Regional Comprehensive Partnership (RCEP). Thus, ASEAN finally decided to take the leadership role in establishing a region-wide FTA. Then, following the ASEAN leaders' agreement in April 2012 to announce the launch of the RCEP negotiations at the next summit meeting, the leaders of 16 East Asian countries declared the start of RCEP negotiations in Phnom Penh on November 20, 2012.

ASEAN's decision to launch the RCEP seemed to have been motivated by three factors. First, as mentioned above, the process of forming a region-wide FTA in East Asia was delayed due to the discord between China and Japan. Second, given the possibility of forming an FTA among the three Northeast Asian countries, namely the China-Japan-Korea FTA, ASEAN likely felt its centrality was being threatened. Third, the fast-moving Trans-Pacific Partnership (TPP) became a major competitor to a region-wide FTA in East Asia and could also be a dividing factor among ASEAN countries, since four ASEAN members (Singapore, Brunei, Malaysia and Vietnam) already decided to participate in the TPP.

Economic Status of RCEP

Over the past ten years, RCEP's shares in the world have increased markedly in terms of GDP, export, import and FDI. Only its share of population has decreased. As a result, in 2012, RCEP represented almost half (49 percent) of the world's population, 29.5 percent of the world's GDP, 28.6 percent of the world's export, 28.2 percent of the world's imports, and 14.4 percent of the world's foreign direct investment (see Table 3).

Thus, as of 2012, in terms of GDP, RCEP's share was larger than those of NAFTA (26.1 percent) and the EU (23.1 percent); in terms of trade, RCEP's share was larger than that of NAFTA but smaller than that of the EU; and in terms of FDI, RCEP's share was smaller than those of the EU and NAFTA. Overall, RCEP's economic status was comparable to those of the EU and NAFTA.

Compared to TPP, RCEP's shares were smaller than those of TPP in terms of GDP and FDI, but RCEP's share was slightly higher than that of TPP in terms of trade.

Challenges

The first round of RCEP negotiations was held in Bandar Seri Begawan, Brunei, on May 9-13, 2013, and the second round of RCEP negotiations took place in Brisbane, Australia, on September 23-27, 2013. At the first meeting, the participating countries discussed the basic framework of negotiations. They agreed to form Working Groups (WG) on Trade in Goods, Services, Investment and Other Issues, and that the Trade Negotiating Committee (TNC) would be responsible for overall coordination of issues and making decisions. At the second round, the modality of goods concession was discussed.⁵

“Overall, RCEP’s economic status was comparable to those of the EU and NAFTA.”

RCEP aims to be a comprehensive, high-quality and mutually beneficial economic partnership agreement among ASEAN member states and ASEAN's FTA partners. In addition, taking into consideration the different levels of development, RCEP is supposed to include provisions on special and differential treatment to developing ASEAN member states, plus additional flexibility to least-developed ASEAN member states. Negotiations are scheduled for completion by 2015.⁶

However, it remains to be seen whether a high-quality RCEP in terms of trade and investment liberalization could be concluded

Figure 4 FTAs Among East Asian Countries

| | | | | | | |
|-------------|-------|-------|-------|-------|-------|-----------|
| China | ● | | | | | |
| Japan | ● | | | | | |
| Korea | ● | | | | | |
| India | ● | | ● | ● | | |
| Australia | ● | | | | | |
| New Zealand | ● | ● | | | | ● |
| | ASEAN | China | Japan | Korea | India | Australia |

Table 5 Economic Status of RCEP and Other Major Economic Regions (shares in world's total, %)

| | Population* | | GDP* | | Export | | Import | | FDI | |
|---------|-------------|------|------|------|--------|------|--------|------|------|------|
| | 1992 | 2012 | 1992 | 2012 | 1992 | 2012 | 1992 | 2012 | 1992 | 2012 |
| CJK | 24.0 | 22.1 | 19.2 | 21.4 | 13.3 | 18.5 | 10.2 | 17.4 | 2.4 | 5.2 |
| ASEAN+3 | 33.3 | 30.9 | 21 | 24.6 | 18.3 | 25.4 | 15.4 | 23.9 | 6.0 | 11.0 |
| RCEP | 50.4 | 49.0 | 23.7 | 29.5 | 20.2 | 28.6 | 17.3 | 28.2 | 9.9 | 14.4 |
| EU(27) | 8.9 | 7.2 | 33.7 | 23.1 | 43.7 | 31.6 | 44.5 | 31.9 | 34.8 | 34.2 |
| NAFTA | 6.9 | 6.7 | 30.1 | 26.1 | 16.7 | 13.0 | 19.3 | 17.2 | 34.6 | 21.4 |
| TPP | 11.6 | 11.4 | 48.3 | 38.4 | 30.3 | 23.8 | 30.3 | 28.0 | 42.2 | 30.5 |

Note: * Estimates are used for some countries.

Sources: Oxford Global Economic Databank; IMF, World Economic outlook Database; WTO Statistics Database; UNCTAD Statistics.

by 2015, considering the diversity of the sixteen participating countries. So far, ASEAN has concluded five ASEAN+1 FTAs with China, Japan, Korea, India and Australia-New Zealand. Yet, despite some elements that would be helpful to consolidating the five ASEAN+1 FTAs, the consolidation process would not be easy. In particular, some ASEAN member countries and India are likely to face serious difficulties in liberalizing numerous products, and given the low level of service liberalization in the existing ASEAN+1 FTAs, their consolidation will not be enough to achieve a high level RCEP in terms of liberalization.

In fact, the consolidation among ASEAN+1 FTAs will not be enough to form an RCEP. First, the ASEAN+1 FTAs are not complete. Neither the Trade in Services Agreement nor the Investment Agreement is currently available for both ASEAN-Japan CEP and ASEAN-India FTA. More importantly, when it comes to FTAs among ASEAN FTA partners, only Australia-New Zealand CER, India-Japan FTA, India-Korea-FTA and China-New Zealand FTA have been concluded. There remain eleven bilateral missing links among them (see Figure 4).

Furthermore, one of the main reasons for forming a region-wide FTA in East Asia is to overcome the “Spaghetti Bowl Phenomenon” caused by the proliferation of bilateral and plurilateral FTAs with different rules of origin and tariff schedules. So far, the RCEP does not seem to be intended toward replacing all the existing bilateral and plurilateral FTAs. In that sense, it could only be a symbolic region-wide FTA in East Asia, along with many bilateral and plurilateral FTAs among East Asian countries.

The rapid progress of the TPP negotiations and its pursuit of a high standard FTA are expected to speed up RCEP’s progress and help raise the level of trade and investment liberalization. However, considering the levels of liberalization of trade in goods and trade in services of ASEAN+1 FTAs, it would be difficult for the RCEP to meet those expectations. Instead, given the size and composition of participating members, RCEP should come up with its own strategy.

Additionally, competition between TPP and RCEP seems to be interwoven with geo-politics. In other words, there is the U.S.-China rivalry with respect to establishing a regional economic integration framework. Furthermore, Japan’s recent decision to join the TPP negotiations could be a huge boost for the TPP, while being a big blow to the RCEP, especially if other RCEP members follow suit. Indeed, at the very early stage of RCEP’s formation, ASEAN’s leadership is being tested. Compared to the TPP which is firmly and effectively led by the United States, ASEAN leadership for RCEP seems to have been less visible so far.

Conclusion: Future Prospects for the Relationship

Over the past 20 years, economic relations between ASEAN and Korea have evolved quite rapidly. As a result, ASEAN has now become the second largest trading partner and FDI destination for Korea.

Various important institutional frameworks have also been established. The ASEAN-Korea Summit has become an annual event, and the ASEAN-Korea Centre was established with the mandate to promote economic and socio-cultural cooperation. With regard to formal economic integration, the ASEAN-Korea FTA and the Korea-Singapore FTA have been implemented, while the Korea-Indonesia CEPA and the Korea-Vietnam FTA negotiations are under way. Additionally, RCEP negotiations are currently under way, with the aim of conclusion by the end of 2015, among ASEAN, China, Japan, Korea, India, Australia and New Zealand.

Furthermore, given the fact that East Asia has been the most dynamic economic region, and that it is expected to continue to be the economic growth engine of the global economy, ASEAN-Korea economic relations are quite likely to prosper further in the future.

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¹ Japan and the United States accounted for 9.63 percent and 9.59 percent, respectively, of Korea’s total trade in 2012 (IMF, *Direction of Trade Statistics*, 2013).

² Calculated by authors on the base of UN Comtrade Database. Industrial classification was based on ISIC Rev.3 (International Standard Industrial Classification). UN Correspondence Table was used to convert HS 1992 into ISIC Rev.3.

³ The most recent meeting was held in Seoul on September 16-17, 2013.

⁴ H.S Kim and M.S Kim, “Effective Implementation of Korea-ASEAN FTA: Trade in Goods.” *KIEP World Economy Update* 9, no. 26 (2009). Korea Institute for International Economic Policy (in Korean).

⁵ The third round of RCEP negotiations was held in Malaysia in January 2014.

⁶ At the first RCEP Economic Ministers’ Meeting held on August 10, 2013, it was agreed that the tenth and last round of RCEP negotiations would take place in Korea in September 2015.

Annex 1

Trends of Korea's Export and Import
Vis-à-Vis ASEAN (US\$ million, %)

| | Export | Import | Share in Korea's total export | Share in Korea's total import |
|------|--------|--------|-------------------------------|-------------------------------|
| 1990 | 5099 | 5090 | 7.5 | 6.8 |
| 1991 | 7332 | 6162 | 10.1 | 7.5 |
| 1992 | 9049 | 7118 | 11.7 | 8.6 |
| 1993 | 10110 | 7312 | 11.8 | 8.4 |
| 1994 | 12485 | 7847 | 12.3 | 7.7 |
| 1995 | 17978 | 10138 | 13.7 | 7.5 |
| 1996 | 20304 | 12071 | 14.7 | 8.0 |
| 1997 | 20366 | 12485 | 14.1 | 8.6 |
| 1998 | 15352 | 9146 | 11.6 | 9.8 |
| 1999 | 17711 | 12248 | 12.3 | 10.2 |
| 2000 | 20135 | 18173 | 11.7 | 11.3 |
| 2001 | 16459 | 15916 | 10.9 | 11.3 |
| 2002 | 18401 | 16757 | 11.3 | 11.0 |
| 2003 | 20253 | 18458 | 10.4 | 10.3 |
| 2004 | 24024 | 22383 | 9.4 | 10.0 |
| 2005 | 27432 | 26064 | 9.6 | 10.0 |
| 2006 | 32066 | 29743 | 9.8 | 9.6 |
| 2007 | 38749 | 33110 | 10.4 | 9.3 |
| 2008 | 49283 | 40917 | 11.5 | 9.4 |
| 2009 | 40979 | 34053 | 11.0 | 10.5 |
| 2010 | 48045 | 47709 | 10.9 | 11.5 |
| 2011 | 71915 | 53111 | 12.8 | 10.1 |
| 2012 | 79145 | 51977 | 14.3 | 10.0 |

Source: IMF. *Direction of Trade Statistics*, 2013.

Annex 2

Shares of ASEAN and other major
economic regions in Korea's total trade (%)

| | China + Japan | ASEAN | RCEP | NAFTA | EU (15) |
|------|---------------|-------|------|-------|---------|
| 1990 | 21.9 | 7.2 | 32.5 | 28.4 | 13.4 |
| 1991 | 24.6 | 8.7 | 36.9 | 27.3 | 13.8 |
| 1992 | 23.4 | 10.1 | 37.0 | 25.4 | 12.7 |
| 1993 | 23.6 | 10.1 | 38.1 | 23.4 | 12.2 |
| 1994 | 24.8 | 10.0 | 38.5 | 23.2 | 12.7 |
| 1995 | 24.8 | 10.6 | 38.9 | 22.7 | 13.0 |
| 1996 | 23.3 | 11.2 | 38.5 | 21.1 | 12.7 |
| 1997 | 22.9 | 11.4 | 38.1 | 20.0 | 12.4 |
| 1998 | 21.0 | 10.8 | 36.5 | 21.5 | 12.9 |
| 1999 | 23.7 | 11.4 | 38.9 | 22.8 | 12.5 |
| 2000 | 25.1 | 11.5 | 40.1 | 22.3 | 11.8 |
| 2001 | 25.5 | 11.1 | 40.5 | 20.6 | 11.8 |
| 2002 | 27.3 | 11.2 | 42.3 | 19.9 | 12.3 |
| 2003 | 29.6 | 10.4 | 43.8 | 17.8 | 11.9 |
| 2004 | 30.7 | 9.7 | 44.1 | 16.9 | 12.0 |
| 2005 | 31.6 | 9.8 | 45.4 | 15.1 | 12.0 |
| 2006 | 30.9 | 9.7 | 44.8 | 14.3 | 11.0 |
| 2007 | 31.2 | 9.8 | 45.2 | 13.5 | 10.8 |
| 2008 | 29.9 | 10.5 | 45.1 | 12.0 | 9.5 |
| 2009 | 30.5 | 10.8 | 46.1 | 11.8 | 9.2 |
| 2010 | 34.5 | 11.2 | 50.5 | 12.5 | 7.9 |
| 2011 | 30.2 | 11.5 | 47.0 | 11.5 | 7.7 |
| 2012 | 29.7 | 12.2 | 47.0 | 11.6 | 7.4 |

Source: IMF. *Direction of Trade Statistics*, 2013.

| | Export | | Import | |
|---|-----------|-----------|-----------|-----------|
| | 1992-1996 | 2008-2012 | 1992-1996 | 2008-2012 |
| Agriculture | 0.1 | 0.1 | 6.1 | 3.9 |
| Forestry | 0.0 | 0.0 | 2.2 | 0.0 |
| Fishing | 0.1 | 0.0 | 0.1 | 0.1 |
| Mining of Coal and Lignite | 0.0 | 0.0 | 0.8 | 6.9 |
| Extraction of Crude Petroleum and Natural Gas | - | 0.0 | 28.5 | 25.9 |
| Mining of Uranium and Thorium Ores | - | 0.0 | - | 0.0 |
| Mining of Metal Ores | 0.0 | 0.0 | 1.4 | 2.2 |
| Other Mining and Quarrying | 0.0 | 0.0 | 0.3 | 0.1 |
| Food Products and Beverages | 0.8 | 1.0 | 5.7 | 4.5 |
| Tobacco Products | 0.0 | 0.1 | 0.0 | 0.2 |
| Textiles | 10.3 | 5.1 | 2.0 | 2.1 |
| Apparel, Dressing and Dyeing of Fur | 0.2 | 0.4 | 0.5 | 1.9 |
| Leather and Footwear | 3.5 | 0.6 | 0.5 | 0.8 |
| Wood and Cork | 0.0 | 0.0 | 10.2 | 1.5 |
| Pulp and Paper | 0.7 | 0.7 | 1.2 | 1.3 |
| Printing and Publishing | 0.1 | 0.1 | 0.2 | 0.3 |
| Coke, Refined Petroleum and Nuclear Fuel | 2.2 | 19.8 | 4.8 | 6.2 |
| Chemicals | 10.9 | 10.9 | 5.2 | 6.7 |
| Rubber and Plastics | 1.7 | 1.3 | 0.6 | 0.9 |
| Other Non-metallic Mineral Products | 0.8 | 0.3 | 0.7 | 0.7 |
| Basic Metals | 14.3 | 13.2 | 2.9 | 3.2 |
| Fabricated Metal Products | 2.3 | 2.4 | 0.3 | 0.4 |
| Machinery and Equipment | 9.0 | 6.4 | 1.9 | 2.4 |
| Office, Accounting and Computing Machinery | 2.5 | 1.3 | 5.7 | 2.3 |
| Electrical Machinery and Apparatus | 3.8 | 3.0 | 1.6 | 1.9 |
| Radio, Television and Communication Equipment | 29.1 | 18.1 | 13.9 | 20.7 |
| Medical, Precision and Optical Instruments | 1.0 | 2.4 | 1.2 | 1.8 |
| Motor Vehicles, Trailers and Semi-trailers | 3.1 | 4.0 | 0.1 | 0.2 |
| Other Transport Equipment | 2.9 | 8.4 | 0.6 | 0.2 |
| Manufacturing N.E.C | 0.8 | 0.5 | 1.0 | 0.8 |

Note: Industrial classification was based on ISIC Rev.3 (International Standard Industrial Classification). UN Correspondence Table was used to convert HS 1992 into ISIC Rev.3.

Source: UN Comtrade Database [Online].

Annex 4

Trends of Korea's Foreign Direct Investment to ASEAN

| | Amount (US\$ million) | Share (%) |
|------|-----------------------|-----------|
| 1992 | 321 | 23.7 |
| 1993 | 178 | 12.2 |
| 1994 | 258 | 10.9 |
| 1995 | 610 | 19.0 |
| 1996 | 485 | 10.7 |
| 1997 | 643 | 16.5 |
| 1998 | 539 | 11.2 |
| 1999 | 505 | 14.9 |
| 2000 | 502 | 9.6 |
| 2001 | 418 | 7.8 |
| 2002 | 425 | 10.6 |
| 2003 | 599 | 12.6 |
| 2004 | 551 | 8.5 |
| 2005 | 733 | 10.1 |
| 2006 | 1,377 | 11.7 |
| 2007 | 3,137 | 14.1 |
| 2008 | 3,728 | 15.6 |
| 2009 | 2,126 | 10.4 |
| 2010 | 4,369 | 17.9 |
| 2011 | 4,898 | 18.5 |
| 2012 | 4,291 | 18.5 |
| 2011 | 71915 | 53111 |
| 2012 | 79145 | 51977 |

Source: The Export-Import Bank of Korea, *Overseas Investment Statistics* [Online].

Annex 5

Industrial Structure of Korea's Foreign Direct Investment to ASEAN

| Industry | 1992-1996 | 2008-2012 |
|---|-----------|-----------|
| Agriculture, forestry and fishing | 0.5 | 1.7 |
| Mining and quarrying | 6.3 | 22.9 |
| Manufacturing | 77.8 | 42.3 |
| Electricity, gas, steam and water supply | - | 2.7 |
| Sewerage, waste management, materials recovery and remediation activities | 0.0 | 0.0 |
| Construction | 2.1 | 3.9 |
| Wholesale and retail trade | 4.6 | 5.2 |
| Transportation | 0.4 | 2.8 |
| Accommodation and food service activities | 1.7 | 1.3 |
| Information and communications | 1.4 | 1.8 |
| Financial and insurance activities | 2.8 | 6.3 |
| Real estate activities and renting and leasing | 2.0 | 5.3 |
| Professional, scientific and technical activities | 0.1 | 3.0 |
| Business facilities management and business support services | 0.2 | 0.1 |
| Education | - | 0.1 |
| Human health and social work activities | - | 0.0 |
| Arts, sports and recreation related services | 0.0 | 0.6 |
| Membership organizations, repair and other personal services | 0.0 | 0.1 |
| Activities of households as employers; undifferentiated goods and services-producing activities of households for own use | - | 0.0 |

Source: The Export-Import Bank of Korea, *Overseas Investment Statistics* [Online].