Korea’s Strategic Options for Asia Economic Integration in FTA and RCEP Negotiations

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1. Introduction

Start of the Korea-China-Japan FTA and Regional Comprehensive Economic Partnership (RCEP) negotiations was announced officially at the summit meeting and ministers’ meeting among the nations in East Asia in Phnom Penh, Cambodia, November 2012 18~20. The need for RCEP, which is the FTA for the East Asia level and for the Korea-China-Japan FTA was emphasized until now, for the development of stable relationship for political cooperation by strengthening of relationship for economic cooperation besides other positive aspects such as increase in the competitiveness in the service field in the regional market that can replace the decreased demand in the existing advanced nations’ markets after the global financial crisis that convenience the macro economy. Considering the existence of multi-track sub-regional and bilateral FTAs in the region, the RCEP negotiations will likely be tedious and complex. The 16 leaders have attempted to overcome this challenge by endorsing RCEP’s Guiding Principles and Objectives for Negotiating, a document that leaves open the possibility of other regional economic partners eventually being drawn into the agreement. To conclude the RCEP negotiations by 2015 will not be an easy task given the agreement’s objective to attain a

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comprehensive, high-quality and mutually beneficial economic partnership agreement that involves deeper engagement than existing ASEAN FTAs. Korea-China-Japan FTA and RCEP will provide a framework within which business can use the region’s resources to best effect in generating higher living standards and welfare for the region’s people. Because of the prevailing uncertainties of the world economy and the threat of rising protectionist pressures in recent years, it is in the interests of both East Asia and the world as a whole that East Asia should be the engine of growth for the world economy.²

When Korea-China-Japan FTA agreement is to get started, additional burden resulting from Korea’s participation in RCEP is not expected to be significant since Korea would be in a position of signing FTA with all the RCEP participating nations or pursuing after agreements. However, given that the share that the Korea-China-Japan and participating nations comprise in the Korea’s total trade will be 30.2% and 47% in 2011, Korea needs to contribute to the liberalization and facilitation of investment and trade within East Asia. RCEP participating nations include 16 nations including 10 ASEAN member-nations, and Korea, China, Japan, Australia, New Zealand, and India.³ In particular, the Korean government needs to clarify its position and to develop specific strategies when it comes to the question on how to pursue the FTAs, by linking them since RCEP agreement, which is the FTA at the East Asia level and Korea-China-Japan FTA are being pursued at the same time. To this, this paper seeks to search Korea’s coping measures for this issue after examining the changes and progress of the Korea, China and Japan and economic status and relationship of trade interdependence.

2. Change of the economic status and relationship of trade interdependence among the Korea-China-Japan and RCEP

² Immediate progress and timely conclusion of the Regional Comprehensive Economic Partnership (RCEP), as endorsed by ASEAN Leaders at the 21st ASEAN Summit in Phnom Penh, 19 November 2012 is a major step in this direction, giving the ASEAN Economic Community (AEC) an appropriate regional and global setting while also promoting living standards and welfare in the region itself.
A. Korea-China-Japan and RCEP’s economic status

Korea, China and Japan and RCEP’s economic status increased fast from 1992 to 2011 (refer to Table 2.1). Share that the three nations, Korea, China and Japan takes up in the world economy increased from 19.2% in 1992 to 20.5% in 2011, while the share of the RCEP member-nations increased from 23.7% to 26.8% during the same period. During this period, share that Korea, China and Japan takes up in the total world exports (product + commercial service) increased from 12.1% to 16.5% while share of the RCEP member-nations increased from 18.8% to 26.8%. Share that Korea, China and Japan takes up in the total world imports (product + commercial service) increased from 10.6% to 16.2% while share of the RCEP member-nations increased from 17.6% to 26.7%.

Table 2.1 Economic Status of Korea-China-Japan

<table>
<thead>
<tr>
<th></th>
<th>population</th>
<th>GDP</th>
<th>Export</th>
<th>Import</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea-China-Japan</td>
<td>24.0</td>
<td>22.3</td>
<td>19.2</td>
<td>20.5</td>
<td>12.1</td>
</tr>
<tr>
<td>Asean+3</td>
<td>33.3</td>
<td>30.9</td>
<td>21.0</td>
<td>23.6</td>
<td>16.9</td>
</tr>
<tr>
<td>RCEP</td>
<td>50.4</td>
<td>49.1</td>
<td>23.7</td>
<td>28.4</td>
<td>18.8</td>
</tr>
<tr>
<td>EU(27)</td>
<td>8.9</td>
<td>7.4</td>
<td>33.7</td>
<td>25.2</td>
<td>42.4</td>
</tr>
<tr>
<td>NAFTA</td>
<td>6.9</td>
<td>6.7</td>
<td>30.1</td>
<td>25.8</td>
<td>18.6</td>
</tr>
<tr>
<td>TPP</td>
<td>9.7</td>
<td>9.6</td>
<td>32.4</td>
<td>29.8</td>
<td>23.0</td>
</tr>
</tbody>
</table>

Data: Oxford Global Databank IMF, World Economic Outlook Database, WTO Statistics Database, UNCTAD Statistics

As a result, RCEP’s economic status does not lag behind the EU and NAFTA as well as the TPP participating nations. When the share among the total population in the world is examined, share of Korea, China and Japan (22.3%) and RCEP (49.1%) is significantly higher than that of the EU (7.4%), NAFTA (6.7%) and TPP (9.6%). TPP participating nations include the US, Peru, Chile, Canada, Singapore, Brunei, Malaysia, Vietnam, Australia, New Zealand and others.

Even the size of economy, RCEP’s size is bigger than that of the EU and NAFTA, and it is
comparable to the size of the TPP as well. Although RCEP member-nations’ share of the total world exports and imports is smaller than that of the EU, it is larger than that of the NAFTA and TPP.

B. Change in the Korea-China-Japan and RCEP’s economic status and relationship of trade interdependence

Intra-regional trade among Korea, China and Japan and RCEP member-nations tended to increase from 1990 to 2011. Likewise, relationship of trade interdependence among the nations in a region increased as well (refer to Figure 2.1).

**Figure 2.1 Intraregional Trade Shares of Korea-China-Japan and RCEP**

![Intraregional Trade Shares of Korea-China-Japan and RCEP](chart.jpg)

**Data: Direction of Trade Statistics, IMF (2012)**

Intra regional trade share is \( \frac{T_{ii}}{T_i} \)

\( T_{ii} = \) exports of region i to region i plus imports of region i from region i

\( T_i = \) total exports of region i to the world plus total imports of region i from the world

Intra-trade share among Korea, China and Japan increased from 12.3% to 21.3% during the period subjected to the analysis while increase was from 33.0% to 43.7% in case of RCEP, exceeding the NAFTA (3939%) in 2005. However, it is still low compared to the EU
As for the formula for obtaining intra-trade share, there is a natural limitation in which share of the intra-regional trade grows naturally when the total trade volume of the nations in a region is greater. To overcome this limitation, Asian Development Bank (ADB) and others use the concept of regional trade introversion index to identify the relationship of trade interdependence among the nations in a region.

Regional trade introversion index was obtained to complement the limitation of the share of the intra-regional trade, which demonstrated that Korea, China and Japan and RCEP manifest intra-trade reliance. However, level of interdependence is lower compared to the EU and NAFTA. If the index is equal to zero, then the region’s trade is geographically neutral. If it is more than zero, then the region’s trade has an intra regional bias; if it is less than zero, then the region’s trade has an extra regional bias.

**Figure 2.2 Regional Trade Introversion Index of Korea-China-Japan and RCEP**

Data: Direction of Trade Statistics, IMF (2012)
Regional Trade Introversion Index = (Hli – Hei) / (Hli + Hei). Where,
Hli = (Tii / Ti) / (TOi / TO) and HEi = (1 – (Tii / Ti)) / (1 – (TOi / TO))
Tii = exports of region i to region i plus imports of region i from region i
Ti = total exports of region i to the world plus total imports of region i from the world
TOi = exports of region i to outsiders plus imports of region i from outsiders
TO = total exports of outsiders plus total imports of outsiders
As for the noteworthy characteristics, Korea, China and Japan, and ASEAN manifested almost similar share in case of the share of the intra-regional trade. However, Korea, China and Japan manifest lower reliance on intra-trade compared to ASEAN nations in case of regional trade introversion index. Moreover, Korea, China and Japan and RCEP’s regional trade introversion index decreased since 2004, which is because extra-area trade of Korea, China and Japan and RCEP member-nations increased relatively faster than intra-trade. This signifies that although functional economic cooperation in which market initiated relationship of trade interdependence is strengthened was carried out fast in Korea, China and Japan and RCEP member-nations until recently, this is reaching its limitation without the mitigation and elimination of shore custom duties and non-tariff barriers.

As shown on [Figure 2.2]’s regional trade introversion index, relationship of intra-trade dependence of the ASEAN, NAFTA and EU member-nations that signed the same regional trade

![Figure 2.3 Korea’s Export by countries (unit: %)](image)

*Data: Direction of Trade Statistics, IMF (2012)*

![Figure 2.4 Korea’s Import by countries (unit: %)](image)
agreement manifest relatively stable characteristic during the period subjected to analysis while Korea-China-Japan and RCEP manifest relatively faster decrease these days. In particular, Korea’s reliance on China and Japan, and RCEP member-nations for exports is high. Thus, there is a need to develop stable environment for export with these nations. Among Korea’s total exports, share taken by China, Japan and RCEP member-nations recorded 18.4% and 32.3% in 1992, but it increased significantly to 30.9% and 47.6% in 2011.

3. Progress on the Korea-China-Japan FTA and RCEP negotiations

A. The Analysis of Korea, China and Japan FTA effects
At first, it will be necessary to review economic status of three countries and the economic effects of Korea-China-Japan FTA. The economic effects consist of several parts shown as Figure 3.1. In this paper I will focus on tariff reduction and NTB effects only.

Lots of Korea research institutes\(^4\) analyzed the economic effects of RCEP with Korea-EU FTA and Korea-US FTA. The results of economic effects from RCEP shows 0.32-0.44 % GDP

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\(^4\) The Economic Effects of Tariff elimination with K-C-J FTA, (KIEP 2012, calculate by Kim Y.K)
growth rate 5 years after RCEP, and 1.17-1.45% growth rate 10 years after RCEP. The size of current tariffs, NTBs and the level of service sector’s tariff equivalent are shown in table 3.1, 3.2. If these trade barriers are removed, the economic effects will be greater than expected level.

**Figure 3.1 The Economic Effects and Contents of FTA**

**Figure 3.2 Macro Effects of K-C-J FTA with Korea-US FTA and Korea-EU FTA**
Discourse on three nations when it comes to Korea, China and Japan FTA was started by the joint research conducted by the representative research institution of the three nations, Korea, China and Japan which was launched according to the Korea’s proposal during the Korea-China-Japan summit meeting held in Manila in 1999. Korea Institute for International Economic Policy (KIEP), China Development Research Center (DRC) and National Institute for Research Advancement (NIRA) conducted joint research as the institutions representing each nation. In 2009, Institute of Developing Economies (JETRO-IDE) was designated as the research
institution from the Japanese side. Research institutions of the three nations started the Phase 2 joint research called the ‘Long-term Economic Vision and Medium-term Policy Directions’ according to the agreement reached by the top figures of the three nations starting from 2008. The topic, ‘Economic Effects of a Possible FTA between China, Japan and Korea’ was selected as the first topic. This research was conducted from 2003 to 2008. In 2009, Phase II Korea-China-Japan FTA joint research was conducted additionally due to the recommendation made by the governments of the three nations that realized the importance of the Korea, China and Japan FTA.

In the Phase 2 joint research held in 2009, the representative research institutions of the three nations recommended to the leaders of the three nations to promote the joint research conducted on the Korea, China and Japan FTA to the rank of official government level research. Accordingly, the leaders of three nations agreed to promote the joint research held by the representative research institutions into the rank of joint research among the business, public sector and academic community during the Korea, China and Japan summit meeting hosted in Beijing, China on October 2009. Total of seven meetings were held from May 2010 to December 2011 to promote the joint research to the rank of Korea, China and Japan FTA joint research among the business, public sector and academic community, and the results of the joint research were reported during the 5th Korea-China-Japan summit meeting in 2012.

During the 5th Korea-China-Japan summit meeting held in Beijing, China on May 2012, the leaders of three nations agreed to immediately carry out preparations for the start of the regional FTA agreements within the year by revamping domestic procedure and by making working level preparations as well. Total of three working level meetings for the Korea-China-Japan FTA were held, and discussion was held within the range and method pertaining to the agreements.

Figure 3.3 The Map of Korea-China-Japan FTA and RCEP Agreement
Initially, start of the Korea-China-Japan FTA agreements was to be declared during the Korea-China-Japan summit meeting with the November 2012 East Asia summit meeting serving as the turning point, but the three nation summit meeting was not hosted. As such, start of the agreement was announced during the meeting of three nations’ commerce ministers.

**B. The background and goals of RCEP**

After the ASEAN+3 (Korea-China-Japan) summits meeting was hosted in December 1997, it was held periodically. As such, ASEAN+3 cooperation system was formed as the systemic basis for holding discussions on the economic cooperation among East Asian nations. East Asia Vision
Group (EAVG) and East Asia Study Group (EASG) were established under the ASEAN+3 cooperation system with Korea’s proposal. On October 2001, EAVG proposed establishment of East Asia community as the vision during the ASEAN+3 summit meeting. As a measure to realize this, formation of East Asia Free Trade Area (EAFTA) and East Asia Investment Area (EAIA) was suggested. In 2002, EASG adopted establishment of EAFTA as mid to long term initiative.

Joint Expert Group for the EAFTA viability study was formed based on the decision reached during the ASEAN+3 economy ministers’ meeting(AEM+3: ASEAN Plus Three Economic Ministers’ Meeting) in 2004 and on the approval of the ASEAN+3 summit meeting. On August 2006, AEM+3 decided to pursue the 2nd EAFTA joint research (EAFTA Phase II Study) proposed by Korea. As such, it was adopted during the Cebu ASEAN+3 summit meeting held on January 2007. Meanwhile, another joint research (CEPEA: Comprehensive Economic Partnership in East Asia) with the participation of the experts from ASEAN+6(Korea, China and Japan, Australia, New Zealand, India) was started with the proposal made by Japan, almost at the same time as when the 2nd EAFTA’s joint research was being carried out. Results of the 2nd EAFTA’s joint research and CEPEA’s joint research were reported almost around the same time on August 2009 at the AEM+3. ASEAN+3 ministers agreed to the following based on the recommendations made by these researches:

1. regulation concerning rules of origin
2. tariff classification system
3. customs clearance issue and
4. formation of economic cooperation related working group while detailed method will be discussed at the Senior Officials’ Meeting (SEOM+3: ASEAN+3 Economic Senior Officials’ Meeting).

FTA discourse at the East Asia level was promoted to the level of the government instead of the expert level. However, discourse at the government level was not carried out in a full-fledged manner in order to form the FTA at the East Asia level. This is the result of the conflict among the participating nations, specifically Japan that prefers CEPEA and China that prefers EAFTA. ASEAN basic framework ⁵ (ASEAN Framework) concerning Regional Comprehensive Economic Partnership (RCEP) was presented in the ASEAN summit meeting held on November

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⁵ At the 18th ASEAN Economic Ministers (AEM) Retreat on Feb. 26, 2011 in Naypyitaw, priority was given to developing an ASEAN regional consensus on how the association would approach future trade liberalization agreements with its main economic partners. The outcome of the retreat was a draft document entitled the ASEAN Framework on Regional Comprehensive Economic Partnership (RCEP).
2011. ASEAN basic framework presents the basic principle from the ASEAN position pertaining to the FTA at the East Asia level, and the six nations (Korea, China, Japan, Australia, New Zealand, and India) that signed the FTA and the ASEAN nations are set as the RCEP target nations.

RCEP should be designed so as to develop and deepen an integrated production base in East Asia, and to be open to the rest of the world. The modalities by which RCEP is developed should follow the precedent of the ASEAN. Economic Community in being guided by the “ASEAN way”, given an assurance of commitment to realizing the agreed objectives based on consensus. The design of RCEP should be genuinely forward-looking, and in particular should take full account of facilitating effective operations of international production networks. RCEP should therefore seek an optimal outcome in all aspects of regional integration, at the same time should acknowledge the different levels of development of participating economies and provide flexibility in adjustment paths towards agreed end-points, along with appropriate processes for research-informed peer review. Also, RCEP should have an open accession clause, and a welcoming stance towards processes that allow the participation of any ASEAN FTA partner which chooses not to participate immediately, and any other external economic partner. RCEP should build on all existing ASEAN + 1 FTAs and not retreat on any provision for integration which already exists.

Tariffs on substantially all goods, particularly on materials and intermediate goods should be eliminated. Priority should be given to tariff elimination on products of most interest to least-developed ASEAN members. RCEP should seek to supplement liberalization of services under GATS and the ASEAN + 1 FTAs. Liberalization in services should be prioritized in sectors that contribute to or take advantage of the formation and development of regional production and distribution networks which contribute to strengthening East Asia’s link with the global production chains. All sectors and modes of supply should be included in negotiations. In addition to the AEC five priority service sectors, air transport, e-ASEAN, healthcare, tourism, and logistic services, RCEP should also focus on transportation, distribution, telecommunication and financial services to expedite the construction of “regional supply chains” in East Asia. RCEP should achieve a high level of investment liberalization, including national and most-favoured-nation treatments with minor exceptions. The four pillars of promotion, protection, facilitation and liberalization should be included.
RCEP should be accompanied with economic cooperation on enhancing three kinds of “connectivity”, i.e., physical connectivity, institutional connectivity, and people-to-people connectivity, among member economies. Trade facilitation should be promoted through RCEP with reference to the ASEAN’s experience. This includes assisting SMEs to benefit from RCEP whether or not through membership of international production networks. RCEP should promote domestic regulatory reforms which ensure that regulators consider regional interests. Transparency should always be fostered. Intellectual property rules in RCEP should promote innovation as part of economic integration, and be supported by cooperation in the utilization, protection, and enforcement of intellectual property rights. RCEP should discourage the imposition of nontariff measures which unreasonably discriminate against imports and thus have non-tariff barrier effects. All measures affecting trade must be well-defined, with considered tradeoffs between facilitating and liberalizing trade and promoting objectives such as consumer safety or optimal adjustment to best use of domestic skills and resources.

RCEP should promote economic cooperation that has the character of “learning together” so as to maintain momentum towards its overall objective. RCEP should be designed so as to be user-friendly and business-friendly. Each member should have a simple tariff concession schedule that applies commonly to all partner countries, rather than having a complicated format, for example, with bilateral commodity-by-commodity reciprocity. Business-friendly product specific rules of origin and the procedure of obtaining certificates of origin in RCEP should be established by choosing the most liberal and business-friendly rule among existing FTAs in East Asia. RCEP should be accompanied with economic cooperation for enlightening firms, particularly small- and medium-sized enterprises, on the practices of taking advantage of the RCEP scheme. An “Accumulation rule”, which plays a central role in maximizing the potential benefits from region-wide FTAs, should be included. Special and Differential treatment for CLMV countries should be on the basis of a longer transition period, instead of a lower threshold to avoid inefficiency and misallocation of scarce resources.

4. Korea’s Options for Korea-China-Japan FTA and RCEP Negotiations

A. Direction of the Korea-China-Japan FTA and RCEP progress and Korea’s position
1) The Direction of Korea-China-Japan FTA negotiations

Priority initiative when pursuing the Korea-China-Japan FTA is to draw out the agreement on the Korea-China-Japan FTA agreement method. There are three-party agreement method that entails three nations adopting the same concession draft and the two-party agreement method. Ideally, three nation agreement method is recommended. However, in terms of the reality, two-party agreement method is expected to be preferred. From Korea’s viewpoint as well, two-party agreement method is expected to be advantageous when the trade structure among three nations, Korea, China and Japan is factored in. Korea is sensitive to the agricultural and fishery products and labor intensive industry when it comes to the trade with China while it is sensitive to the technology intensive industry in case of the trade with Japan. However, due to the nature of the three-party FTA, Korea-China-Japan FTA’s joint agreement method and element are needed. Thus, three-party agreement needs to be carried out in case of the areas such as service, investment and norms. Korea needs to leverage this fully as it already signed FTA with immensely large advanced nations such as the US and EU, and needs to pursue after the Korea-China-Japan FTA into the direction of prioritizing liberalization in the field of service.

The 5th Korea-China-Japan summit meeting hosted on May 2012 had signed the agreement to guarantee investment among the three nations, Korea, China and Japan. However, there is a need to include measures for greater protection of the investment and for greater liberalization in the Korea-China-Japan FTA in order to vitalize investment among the three nations. Agreement concerning Korea-China-Japan investment is characterized by higher level compared to the existing agreement for investment between Korea and China, but it is lower than the agreement for investment between Korea and Japan. Korea has to play a more active role when pursuing the Korea-China-Japan FTA. Encouraged by the rapid economy growth, China’s position is increasing steadily while conservative swing phenomenon is becoming stronger in Japan due to economic difficulty. Amidst this situation, conflict among China and Japan will likely to grow. Japan that was rather passive when it comes to the Korea-China-Japan FTA in the past is now relatively active when it comes to the Korea-China-Japan FTA as Japan was affected by the pursuit of the FTA between Korea and China. Meanwhile, China that was most active when it comes to the Korea-China-Japan FTA is taking on a rather reserved position due to the recent
dispute with Japan on the territory. Accordingly, Korea’s role is important during the Korea-China-Japan FTA agreement reaching process. In particular, the Korean government’s effort is required so that the Korea-China-Japan FTA agreement won’t face difficulty based on the external economic situations.

2) The Direction in RCEP negotiations

RCEP was pursued because of the complex political and economic situation in the East Asia and Asia Pacific region. First, it was launched due to delay at the East Asia level since the conflict between China that prefers EAFTA at the ASEAN+3 level and Japan that prefers CEPEA at the ASEAN+6 level continued. Second, there was a concern that the ASEAN Centrality could be threatened at the ASEAN as the pursuit of the FTA among three nations, Korea, China and Japan became more tangible. Third, as the Trans-Pacific Partnership (TPP) got carried out speedily, and as the four nations among 10 ASEAN nations (Singapore, Brunei, Malaysia, and Vietnam) participated, TPP emerged as a competitor of the agreement at the East Asia level, and emerged as a latent element that could lead to the crevice within the ASEAN region.

As the 16 nations including ASEAN nations+6 member-nations declared that they will be participating in the RCEP agreement, signing of the FTA at the regional level with high level of liberalization is likely to be difficult. Unlike the other ASEAN+1 FTA with over 90% in average level of liberalization, the reality is that the ASEAN-India FTA does not even reach 80%. Moreover, single concession draft is being discussed as a product concession approach method. Thus, high liberalization is difficult to realize in this case. When 10 ASEAN nations are perceived as one, if the two-party agreement among seven nations (group) is carried out, 21 agreements are needed. Thus, to overcome this complexity, single concession draft method was suggested. If the single concession drafts method that is applied jointly to all the participating nations, level of liberalization is bound to decrease even more from the viewpoint of each nation. In the case of Indonesia, other ASEAN+1 FTA manifest at least 90% level of liberalization while ASEAN-India FTA recorded 48.7% level of liberalization.

While claiming that the RCEP is a high level FTA, it presents the principle that it co-exists with all other signed FTAs in the region. Thus, multi-level structures FTAs are likely to co-exist in
East Asia going forth. Even after the RCEP is signed, there will be other signed FTAs, and there is a possibility that new two-party FTA in the region will be pursued continually. This signifies that there is a limit in realizing the goal of overcoming the spaghetti bowl phenomenon which is a key motivation factor for the formation of regional level FTA. In the end RCEP could replace ASEAN+1 FTA, but it will be difficult for it to become the full-fledged FTA at the East Asia level. ASEAN+1 FTA refer to ASEAN-Korea FTA, ASEAN-China FTA, ASEAN-Japan FTA and others. However given that Korea is a key beneficiary of the East Asia trade liberalization, Korea needs to actively pursue the RCEP agreement. If RCEP is signed, Korea’s real GDP is expected to grow; 0.38%~0.68% during five years after effectuation, and 1.21%~1.76% during 10 years. Meanwhile, Korea that already signed FTA with the US and EU, can support the RCEP agreement led by the ASEAN nations based on this experience.

The Korean government needs to make an effort so that liberalization and facilitation of East Asia intra-trade and investment can take place in actuality not just high level liberalization through the regulation concerning rules of origin or customs clearance related measures. From Korea’s point of view, if the Korea-China-Japan FTA agreement is to start, there will be no significant additional burden since it already signed or is pursuing after the two-party FTA with all the RCEP participating nations. Korea already signed FTA with ASEAN and India, and is pursuing after the FTA with Australia, New Zealand and China. Moreover, given that the level of liberalization in the area of service trade and investment is low when it comes to the signed ASEAN+1 FTA, Korea needs to pursue after increased competitiveness and increased production network in the region through the liberalization of these areas.

**B. Priority and considerations related to Korea-China-Japan FTA and RCEP**

1) **Priority in Korea-China-Japan FTA and RCEP negotiation**

From the viewpoint of three nations, Korea, China and Japan that need to pursue after Korea-China-Japan FTA and RCEP almost around the same time, ①it is recommended to pursue after the Korea-China-Japan FTA first and foremost, playing a leading role in case of the RCEP agreement, however, ②there is a need to prepare for the situation in which the three nation FTA
is pursued at the RCEP level to prepare for the instance in which Korea-China-Japan FTA may be delayed. From the viewpoint of the three nations, Korea, China and Japan, it is recommended to exert actual leadership when it comes to the RCEP that the ASEAN nations are pursuing actively by pursuing after the three-party FTA first and foremost. In actuality, there is a greater possibility that the FTA among three nations, Korea, China and Japan may be pursued first and foremost since it is technically simpler compared to the RCEP with the participation of 16 nations

2) Considerations in Korea-China-Japan FTA and RCEP negotiation

Amidst the situation in which Korea-China-Japan FTA and RCEP negotiations are about to start, it is necessary to consider the linkage with Korea-China FTA and Korea-Japan FTA should be factored in as well. Whereas RCEP and Korea-China-Japan FTA are about to be started, Korea-China FTA is already underway while Korea-Japan FTA is yet to be subjected to detailed negotiation on the resumption of the agreement. Just like the relationship between Korea-China-Japan FTA and RCEP, Korea-China-Japan FTA, Korea-China FTA and Korea-Japan FTA overlap as well. Thus, these FTAs must be pursued harmoniously. Japan started to adopt active role due to the start of the Korea-China FTA agreement whereas it was rather passive when it comes to Korea-China-Japan FTA.

If Korea-China-Japan FTA adopts two-party concession method, three-party FTA can be carried out effectively in parallel with each two-party FTA. Towards this end, negotiation on the joint parts including regulations on basic framework of Korea-China-Japan FTA and rules of origin must be reached promptly. Moreover, it is possible to decide whether to pursue the Korea-Japan FTA separately while pursuing after the Korea-China-Japan FTA. Of course, if Korea-China-Japan FTA is carried out in the form of concession draft agreement using two-party method, negotiation between China and Japan needs to be carried out as well. If the negotiation between Japan and China should be delayed compared to the agreements reached between Korea and China, and Korea and Japan, Korea has to sign the two-party FTA first, naturally. However, the Korean government needs to take on a more active role when it comes to the Korea-China-Japan FTA since Korea-China-Japan FTA is needed for the RCEP and since Korea-China-Japan FTA can contribute to the improvement of overall relationship at the regional level.
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