

# Impacts of Korea-China FTA on the Korean Agriculture

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On November 10, 2014, Korea and China have reached consensus on a free trade deal at the Korea-China summit at an Asia-Pacific Economic Cooperation (APEC) forum in Beijing, China. Korea-China Free Trade Agreement (FTA) covers 17 areas including trade in goods and services, investment and trade rules, and topics such as e-commerce and government procurement. The FTA between Korea and China will remove tariffs on about 90% of goods traded between the two nations over the next two decades. The two nations agreed to open over 90% of their market based on the number of items. Under the agreement, China would eliminate tariff on 91% of goods based on the number of goods and 85% based on import value worth \$137.1 billion in two decades. Korea would abolish tariff on 92% of goods based on the number of goods and 91% based on import value worth \$73.6 billion in two decades.

FTA settlement between two nations took only two-and-half years after Korea and China officially launched FTA talks in May 2012. A successful conclusion of a free trade deal between Korea and China in a short period rather than what people expected is because two nations in the process of FTA negotiations have agreed to consider highly sensitive products which will be expected to receive the negative impacts from Korea-China FTA each other. Highly sensitive products agreed by the two nations are not subjected to tariff elimination. Therefore, the Korea-China FTA has left too many products as exceptions of tariff-free trade. Almost 10% of goods traded between the two nations will be exempted from tariff elimination in the name of highly sensitive products. In that sense, Korean government selected mostly agricultural products as highly sensitive products to minimize the negative impacts from FTA with China. As a result, nearly 36% of Korean agricultural products, including rice, beef, pork, chicken and duck meat, apple, pear, grape and Korean citrus, red pepper, garlic and onion have been excluded from tariff elimination. So, it is generally expected that the net impact of the FTA with China will not be large to Korean agricultural sector because custom duties on Korean major agricultural products will remain unchanged.

However it is no doubt that the biggest losers from of the FTA with China will be the Korean farmers although major agricultural products were excluded from tariff elimination. It is because several highly sensitive products such as soybean, sesame and red bean will be opened through duty free quota, and several sensitive products such as Kimchi and processed peanut will be partially subject to tariff reduction. Also 64% of Korean agricultural products in the name of less sensitive agricultural products including tropical fruits and most processed foods have to eliminate their tariffs within 10 or 20 years.

Actually cheap Chinese agricultural products and foods have already occupied the tables of Koreans even without FTA. Korea's trade deficit in agro-food trade with China has been increased from US\$2.4 billion in 2009 to US\$3.8 billion in 2013. This trend of Korea's agro-foods import reliance on China will become worryingly heavy after the implementation of FTA with China. FTA with China might be a great challenge to Korean agricultural sector even the level of agricultural market liberalization is not large. The FTA with China gives "significant damage" in the long run through the substitution effects of Chinese agricultural import products on Korean domestic products even though it will have a limited impact on the Korean agricultural sector in the short run.

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