

FOREIGN ECONOMIC COOPERATION AND DEVELOPMENT OF THE REPUBLIC OF KOREA THROUGH THE CONCLUSION OF FREE TRADE AGREEMENTS

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Abstract: *The article discusses changes in the foreign economic policy of the Republic of Korea in connection with the deterioration of international trade at the beginning of the XXI century. The direct motive for changing the foreign economic policy of the Republic of Korea is the decline in the role of the WTO as a multilateral trading partner. On the other hand, FTA, based on economic cooperation between the two countries, is becoming a new model for economic development and cooperation in the XXI century. Bilateral negotiations are more likely to end than multilateral ones, because they are actively conducted in accordance with the interests of two countries. Therefore, free trade agreements (FTAs) are becoming the main direction of the economic policy of the Korea's government to adapt foreign economic policy and overcome the negative trend of global economic development. An FTA has various economic effects, such as the development of trade between two countries, improving the efficiency of resource allocation, reviving investment between two countries and stimulating economic growth. In accordance with this situation, the Republic of Korea justifies the relevance of trade and economic cooperation between two countries through the conclusion of an FTA as a means of implementing an active foreign economic policy. The Republic of Korea has become an opportunity to introduce an advanced economic structure through the signing of free trade agreements with advanced countries. On the other hand, it served as an opportunity to strengthen economic cooperation through the signing of free trade agreements with developing countries. For this reason, the experience of the foreign economic policy of the Republic of Korea can serve as a good example for the economic development of developing countries.*

Keywords: *bilateral cooperation, extension of economic cooperation, stable large market, increase in trade, economic development.*

JEL Code: E60, F02, F13

Introduction

Since the beginning of the XXI century, regional trade agreements (RTAs) have begun to become a global trend, and bilateral and multilateral trade agreements on goods and services have begun to be actively concluded. The reason for sharp increase in RTAs

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around the world lies in the fact that the negotiations on the DDA (Doha Development Agenda), which have begun after the creation of the WTO, have not been conducted properly. When the negotiations were launched in 2001, it was planned to bring the negotiations to conclusion before 2005 under condition of a single undertaking. However, due to conflicts between importing and exporting countries over agricultural products and between developed and developing countries over the opening of industrial markets, the negotiations are still ongoing.

Due to the failure of the DDA negotiations, the WTO system, which pursues a multilateral free trade agreement, has gradually begun to reveal its limits. In addition, as trade tensions increase due to the war for economic supremacy between the USA and China, the WTO's role in intermediary and discussion weakens. Moreover, the emergence of new protectionism combined with political problems accelerates the rapid economic blockade of the global economy. As a result, the role of the WTO, based on free trade, shows its limits, and globalization faces serious crisis (Pak, 2004).

However, the purpose of the FTA policy is to ensure a stable large market and actively respond to the growing uncertainty in the export market due to the spread of new protectionisms. It is also aimed at extension of economic cooperation and facilitation of economic growth between two countries. In addition, the fundamental basis of the Korean government's political decision to promote FTAs is the restructuring of industry, the development of the trading system, the stable extension of export markets and the extension of friendly economic cooperation.

In this political direction, Chile was chosen as the first FTA target country for Korea. This was due to the fact that the Republic of Korea, which had no FTA experience, was able to obtain FTA experience, while minimizing the negative impact on Korea's weak agriculture. The Korean government considered that the agricultural products and wine industry of Chile, which have been characterized by opposite seasons, would complement the weak agricultural sector of Korea.

The Republic of Korea and Chile had been negotiating since December 1999, and an agreement was reached on the degree of opening of agricultural products and the agricultural sector, and a full agreement was reached in October 2002. Eventually, the free trade agreement between the two countries came into force on April 1, 2004.

As of April 2022, 17 free trade agreements with 50 countries entered into force in the Republic of Korea. The main operating countries are Chile, Singapore, EFTA, ASEAN, India, the EU, Peru, the USA, Turkey, Australia, Canada, China, New Zealand, Vietnam, Colombia, Central America, Great Britain, RCEP and Ecuador. The countries that have signed and concluded FTAs with the Republic of Korea are Indonesia, Israel, Cambodia and the Philippines. Countries negotiating with the Republic of Korea on FTAs: China-Japan, Russia and MERCOSUR, Uzbekistan; the Republic of Korea needs to resume FTA negotiations with the EAEU countries (FTA Status of Korea, 2022).

1. Literature review

The purpose of the FTA policy is to ensure a stable market and actively respond to the growth of uncertainty in the external economic environment. It is also aimed at extension of economic cooperation and facilitation of economic growth between two countries through free trade agreements. FTAs have various economic effects, such as the development of trade between two countries, improving the efficiency of resource allocation, stimulating investment between two countries and promoting economic growth. The fundamental basis of the Korean government's political decision to promote FTAs is the restructuring of industry and the development of the trading system, the stable extension of the export market and the extension of friendly economic cooperation.

This article is concerned with changes and development of the foreign economic policy of the Republic of Korea within the framework of functioning in free trade zones. At present, new protectionism is emerging all over the world. Under these circumstances, the importance of bilateral trade and economic cooperation increases in comparison with multilateral. In addition, it is necessary to take into account the state of uncertainty in international trade and political and economic sanctions against a number of countries.

Research on the FTA policy is actively conducted among Korean scientists, and the following scientists are referenced. Ahn (2011) explains the general direction of the Korean policy regarding FTAs. Pak (2004) provided the main policy directions of the Korean government in the future in the paper on the main directions of the Korean policy regarding FTAs. Cho (2019) presented a research paper on the Korean government's FTA policy over 15 years (2004-2019). According to his research paper, the advantages of the Korean government's FTA policy and the issues that need to be guaranteed are noted. His findings, the Korean government's policy in the field of FTAs is becoming a practical alternative in overcoming the uncertain foreign economic situation and in long-term economic development.

Pak (2020) and Bae (2013) represent practical trade statistics on the Korean government's free trade policy and conduct a comparative analysis of profits and losses in the Korean economy.

In particular, Jeong (2022) reports that the conclusion of the free trade agreement between Korea and the USA has led to significant reforms in the Korean economy and society. A study by Choi (2020) proves that the real beneficiaries of the FTA policy are the Korean people. In other words, through the FTA policy, Koreans are given the opportunity to choose cheaper and better products. In his dissertation, Yung (2020) presents the future direction of the Korean FTA policy. It is assumed that the future FTA policy should focus on economic cooperation with contracting countries, and not on trade.

With regard to general statistics, data from the National Statistical Office of Korea were given and expert opinions were cited. According to the general opinion of Korean experts, in the current situation, when the WTO function is weakening, the FTA becomes a practical alternative for economic development and promotion of international cooperation of the Republic of Korea. Based on these opinions, it can be said that the promotion of the

Korean government's policy regarding FTAs is a good model for the formation of a successful foreign economic policy and international economic cooperation.

2. Methodology

2.1. Prerequisites and economic effect of the conclusion of FTAs

a) The main policy of the government of the Republic of Korea regarding FTAs

After the conclusion of the FTA with Chile in April 2004, the Korea's government developed a step-by-step medium- and long-term roadmap for the future promotion of FTAs. Japan and Singapore were chosen as short-term target countries and ASEAN, Mexico and EFTA were chosen as the next step. The USA, China and the EU were chosen as target regions for medium- and long-term promotion of FTAs. The basic principle of the Korean government's free trade agreement is to explore whether the main export products of the target country, including Korean agricultural products, compete in the world market. That is, by means of FTAs, the focus was on minimizing sudden changes and damage to some vulnerable industries, such as agriculture.

In addition, the USA, China and the EU were chosen as medium- and long-term target countries that focused on maximizing economic profits by extension of the market through free trade agreements. The Korean government's policy mainly promoted the conclusion of FTAs with small countries or countries that would not have a significant impact on the Korean agricultural sector in the short term. In other words, the method of minimizing national costs was used.

However, in the FTA policy, it is more important to take into account the long-term aspect of economic development than the short-term economic benefit from the point of view of establishing foreign economic policy. For this reason, Korean government sought to gradually open up the domestic market, improve the domestic economic structure, ensure the competitiveness of domestic industry and improve the quality of life of consumers through the conclusion of FTAs. The main directions of the policy of the government of the Republic of Korea regarding to FTAs are to achieve economic development and strengthen economic cooperation through trade liberalization, improvement of the economic structure and development of the economic system (Ahn, 2011).

b) The main steps for the creation and implementation of the FTA policy by the Korean government

The issues that the Korean government has analyzed in advance to facilitate the conclusion of FTAs can be divided into two main categories. The first is the choice of partner countries, and the second is the content and scope of negotiations, including customs duties and rules of origin. The criteria for choosing FTA partner countries are classified into economic grounds, political and diplomatic grounds and strategic grounds (Table 1). Economic grounds can be analyzed by dividing them into economic benefits and economic costs. In terms of economic benefits, the size of the partner country's market,

which affects export growth through free trade agreements, and complementary relations with the industrial structure of the Republic of Korea are taken into account. In addition, the possibilities of direct investment in FTA countries and the provision of production bases abroad through technology transfer are considered. Free trade agreements, driven by political and diplomatic grounds, are aimed at ensuring Korea's political and military security and energy resources. An example is the conclusion of the FTAs with Russia and Israel.

Table 1. Criteria for choosing partner country under a Free Trade Agreement of the Republic of Korea

Economic benefit	<ul style="list-style-type: none"> - potential size of the export market - industrial structure complementary and competitive with the partner country - potential for future foreign direct investment in the partner country - lack of trade barriers for the partner country (distance, trade tensions, the presence of tariff and non-tariff barriers) - possibility of building a potential production base by transferring technology to the partner country (the technological level of the partner country, does it have the opportunity to master the technology)
Political and diplomatic grounds	<ul style="list-style-type: none"> - regional security and diplomatic necessity - resources (oil, natural gas) consistently provided - possibility of military and technical cooperation
Strategic grounds	<ul style="list-style-type: none"> - an FTA concluded with the purpose of strategic use of a third country to negotiate free trade with other countries to advantage
Economic bases for expenses	<ul style="list-style-type: none"> - costs due to restructuring of industry (an increase in the probability of potential costs in other industries due to losses in the agricultural sector) - social tensions due to the labor transfer between industries - probability of trade conflicts with other countries because of the country with which an FTA is concluded
Other	<ul style="list-style-type: none"> - is the country with which an FTA is signed interested - is there a possibility of social consensus by improving the relevant domestic laws in connection with the conclusion of the FTA

Source: Cho (2019), pp. 21-22

As the conclusion of FTAs spreads around the world, the content of free trade negotiations changes significantly in accordance with the national interests of every country. Countries around the world seek not only the abolition of tariffs through the conclusion of FTAs, but also practical assistance to the economic development of two countries. For this reason, a free trade agreement includes various sections, such as: investment agreements, service agreements, financial services agreements, intellectual property rights agreements, agreements on rules of origin, dispute settlement agreements etc. In recent years, labour standards and environmental protection have become important issues, mainly in developed countries. For this reason, the Korean government also considers labour standards and environmental protection issues as the main issues when concluding a free trade agreement. The main components of the free trade agreement of the Republic of Korea are presented in Table 2.

Table 2 – Main components of the Free Trade Agreement of the Republic of Korea

General FTA	FTA with developed countries	FTA with developing countries
Production, agriculture, tariff liberalization, transit, sanitary and phytosanitary agreement, technical barriers to trade, anti-dumping measures, compensatory duty, GATS, TRIPS, intellectual property rights	Export tax, public procurement, competition policy, investment, capital movement, labour market regulation, public administration, environment	Economic cooperation and support at the state level, cultural cooperation, energy, joint research

Source: Cho (2019), p. 24

c) Development and direction of the staged promotion of FTAs by the government of the Republic of Korea

Since the entry into force of the Free Trade Agreement between the Republic of Korea and Chile in 2004, the Korean Government has continuously expanded the FTA network, and this process has been carried out in three stages (Figure 1).

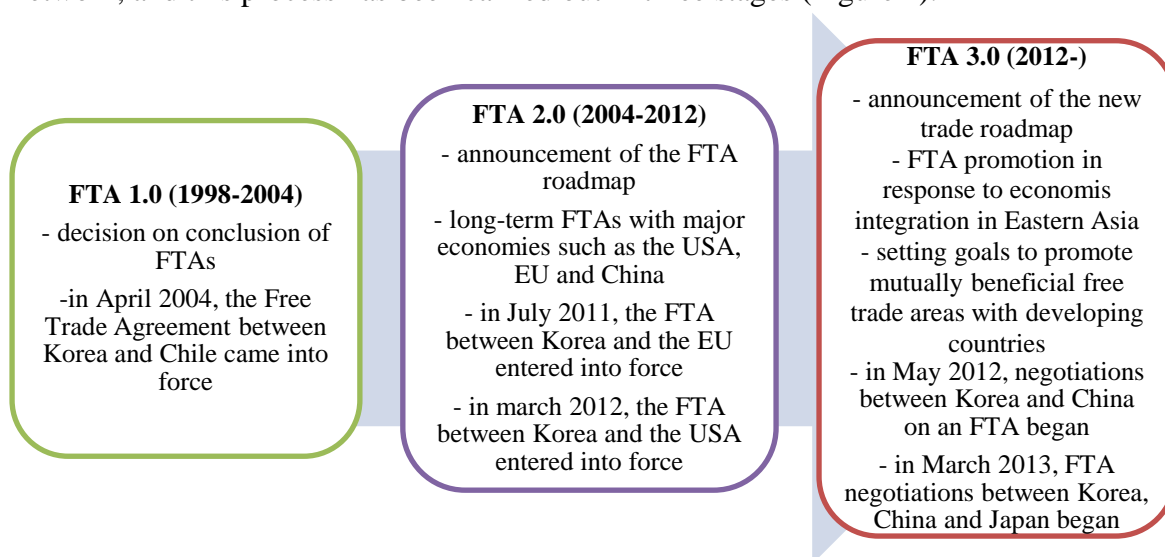


Figure 1. The process of promotion and development of FTAs by the government of the Republic of Korea

Source: Bae (2013), pp.10-11

Stage 1 (FTA 1.0): The decision to promote FTAs and the entry into force of the Free Trade Agreement between the Republic of Korea and Chile (1998-2004).

The Korean government established an export-oriented policy and focused on expanding exports within the WTO system. However, from the mid-1990s, countries around the world actively facilitated trade extension based on the spread of FTAs. It was only in the early 2000s that the Korean government faced the reality that it was falling behind on the changes in the international trading environment. As a result, the Republic of Korea faced

increased trade tensions and a reduction in export markets. Accordingly, the Korean government decided to conclude FTAs as the main direction of foreign economic policy.

In the course of overcoming the 1997 currency crisis, the main directions of foreign economic policy were to ensure export markets and attract foreign investment through FTAs. One more goal of FTAs was strengthening of the Korea's economy by improving the economic structure and accelerating restructuring of industry.

The reason why the Korea's government chose Chile as the first country to cooperate under a free trade agreement is that Chile had an additional trade structure; it means Korea exports industrial products to Chile and imports agricultural products and raw materials from Chile. In addition, it was considered that in many ways Chile would not have much impact on South Korean industry.

In addition, it was believed that the damage to agriculture in Korea is limited, since the distance between the two countries is large, the seasons are opposite, and the timing of growing crops is different. Moreover, an important role was played by the fact that the Korean government could learn know-how from Chile, which already had solid experience in concluding FTAs.

Stage 2 (FTA 2.0): Creation of a roadmap for the future promotion of FTAs and the entry into force of Free Trade Agreements between the Republic of Korea and the EU, as well as the USA (2004-2012).

After the conclusion of the Free Trade Agreement between the Republic of Korea and Chile, the Korean government prepared an FTA roadmap entitled "Free Trade Negotiation Partners and Promotion Strategies" in order to significantly accelerate the promotion of FTAs.

The roadmap aimed at promotion of FTAs with countries of great economic power, such as the USA, EU and China in the medium and long term. However, in the short term, the Korea's government facilitated the conclusion of FTAs with Singapore, Mexico, Canada and EFTA, where negotiations could begin. In other words, the strategy of the Korea's government was to first conclude FTAs with countries adjacent to large economic bloc, and then directly conclude agreements with major economic powers.

In addition, in order to maximize the economic effect, the goal was not only to abolish tariffs on goods, but also to promote a comprehensive FTA that includes services, investments and intellectual property rights. The purpose of creating these exceptional conditions for negotiations was to overcome the disadvantaged status of Korea as a latecomer to FTAs. Moreover, the Korean government tried to improve the trade environment in a short time by promoting free trade agreements simultaneously, rather than sequentially.

In accordance with this strategy, the Free Trade Agreement between the Republic of Korea and the EU entered into force in July 2011, and the Free Trade Agreement between the Republic of Korea and the USA also entered into force in March 2012. Thanks to this, Korea turned from a border country of the FTA into a country that immediately attracted the attention of the whole world.

Stage 3 (FTA 3.0): Preparation of a new trade roadmap and the stage of response to economic integration in East Asia (2012-).

After 2012, the promotion of mega free trade agreements began in earnest, such as the promotion of Korea-China-Japan, Japan-EU and USA-EU free trade agreements. As the center of the world economy moved to Asia, discussions about economic integration within Asia began to be actively conducted. The global trading environment was changing rapidly, as described above, the Korean government realized the need for a new trade roadmap.

The Korean government presented a direction to promote a mutually beneficial FTA for economic development and extension of cooperation in emerging economies at the time when economic integration in East Asia was actively discussed. That means Korea's government planned to increase opportunities for extension of foreign markets and investment through the economic development of developing ASEAN countries.

At that time, the FTA between the Republic of Korea and Turkey and the FTA between the Republic of Korea and Australia came into force, and at the same time a Free Trade Agreement with Indonesia and Vietnam was promoted among the ASEAN countries (Kim, 2019). Close economic relations within the framework of FTAs provided an opportunity to make a great contribution to the development of the Korean economy and to the provision of natural resources. Looking at the policy of the Republic of Korea regarding FTAs, it can be seen that there is a balance between developed and developing countries and regions (Table 3).

Table 3. Classification of South Korean FTA Partner Countries

Developed countries		Developing countries	
Eastern Asia	Singapore	Eastern Asia	ASEAN, China, Vietnam
Europe	EFTA, the EU	Europe	Turkey
North America	The USA, Canada	North America	Chile, Peru, Columbia
Oceania	Australia, New Zealand	Oceania	India

Source: Cho (2019), p. 22

2.2 Achievements and consequences of FTAs in accordance with the Foreign Economic Policy of the Republic of Korea

a) Trade extension effect

When the Free Trade Agreement between Korea and Chile came into force in 2004, the share of imports and exports with FTA countries was only 0.3% and 0.9%. However, as free trade agreements were concluded with ASEAN, the EU, USA and China, the share of trade increased rapidly. In particular, since the entry into force in 2015 of the FTA with China, the share of FTA partners in the total volume of trade has exceeded more than 70% (Figure 2).

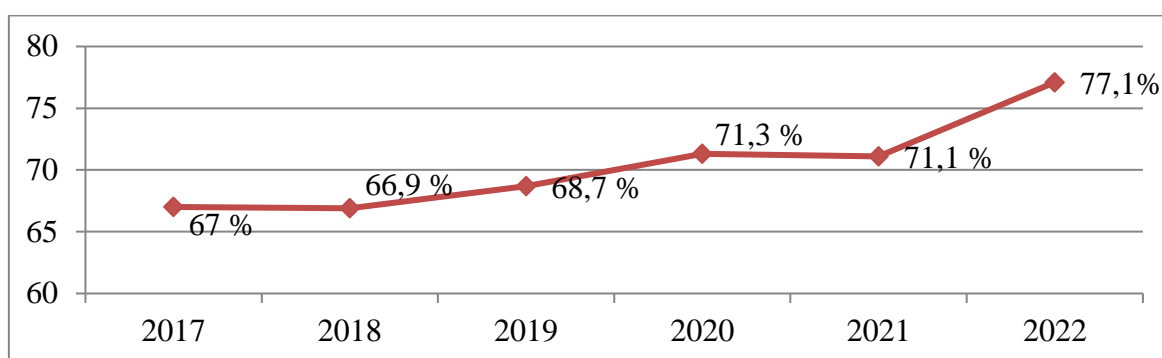


Figure 2. The share of the Republic of Korea in FTA trade (%)

Source: Korea Customs Service (2022), available at:

https://unipass.customs.go.kr/ets/index.do?menuId=ETS_MNU_00000173

In particular, if we look at the trade situation in 2020, the Republic of Korea recorded a positive balance of \$60.2 billion in trade with countries that signed FTAs, but recorded a deficit of \$15 billion in trade with non-FTA countries (Table 4).

Exports with FTA countries decreased by 3.9% compared to the previous year, while imports decreased by 1.3%, indicating a decrease in the trade surplus compared to 2019. Although the trade balance with non-FTA countries had a deficit of \$15 billion, the overall trade balance recorded a surplus of \$45.2 billion. It can be seen that FTA trade plays a key role in the development of the South Korean economy under conditions of uncertainty in the global economy due to the repeated COVID-19 outbreak (Table 4).

b) Diversification of products effect

For example, looking at (Table 5), it means that the number of countries to which Korean cars were exported from 2002 increased from 15.3 to 22.1 countries in 2020. And if in 2003 wines from 10 countries were imported to Korea, then in 2020 various types of wines were imported from 15.2 countries.

Table 4. Trade status with countries applying a Free Trade Agreement in 2019 and 2020 (USD million)

Division		Volume of trade			
		Trade	Export	Import	Trade Balance
FTA countries	2019	725,893	397,703	327,190	71,513
	2020	705,959 (-2,7%)	383,118 (-3,9%)	322,190 (-1,3%)	60,277
Non-FTA countries	2019	319,683	143,530	176,153	-32,623
	2020	274,378 (-14,2%)	129,671 (-9,7%)	144,708 (17,9%)	-15,037
Total	2019	1,045,576	542,233	503,343	38,890
	2020	980,337 (-6,2%)	512,789 (-5,4%)	467,549 (-7,1%)	45,240

Source: Kim (2021), pp. 6-7

Thus, with the diversification of imported products, a positive effect of increasing the availability of various products from the point of view of consumers can be obtained. In addition, if similar products are imported from many countries, the effect of price reduction can be expected due to competition.

In case of export, since the market of the partner country under the agreement opens after the entry into force of the FTA, it is possible to obtain the effect of improving the structure of trade by expanding the export market. At the same time, since the same product is exported to more diverse countries, it is possible to minimize the damage caused by protectionism or unilateral trade policy of a trading partner by reducing the dependence of exports on a particular country.

Table 5. Average number of trading partner countries of the Republic of Korea per unit of products (number of states)

Year	Export	Import	Year	Export	Import
2002	15.3	9.9	2011	19.2	12.4
2003	15.7	10	2012	19.3	12.6
2004	16.3	10.1	2013	20.1	13
2005	16.4	10.3	2014	20.7	13.3
2006	16.7	10.7	2015	20.6	13.7
2007	16.9	10.4	2016	20.6	13.9
2008	17.7	11.2	2017	20.8	14
2009	18.1	11.5	2018	21	14.4
2010	18.6	11.9	2020	22.1	15.2

Note: Calculation of the average number of trading partner countries of the Republic of Korea per unit of products based on 10 units.

Source: Kim (2021), p. 11

Summing up the effect of the FTA trade, it can be seen that the conclusion of FTAs has a positive impact on the total exports of the Republic of Korea and plays an important role in increasing trade. In addition, it can be noted that the effect of increasing trade leads to the phenomenon of diversification of trade items in the Korean economy. As a result, thanks to the conclusion of the FTA, Korea not only expanded its access to foreign markets, but also increased the scope of trade.

c) The effect of foreign direct investment of the Republic of Korea

On the one hand, the conclusion of FTAs helps to actively attract foreign direct investment to Korea, and on the other hand, it helps Korean companies expand foreign markets and make possible production bases abroad through foreign direct investment. Foreign companies that want to export to countries that have signed free trade agreements

with the Republic of Korea will have the opportunity to actively invest in Korea to enjoy duty-free benefits.

In particular, in the 2000s, the Korean government continued to encourage foreign direct investment in order to ensure constant energy and natural resources. These concrete efforts of the Korean government have led to significant results thanks to the conclusion of a free trade agreement. The dynamics of Korea's foreign investments in FTA partners shows that foreign direct investment (hereinafter referred to as FDI) of the Republic of Korea increased 6.3 times from 54 billion US dollars in 2006 to 339 billion US dollars in 2017. And in 2020, they reached 514 billion US dollars (Figure 3).

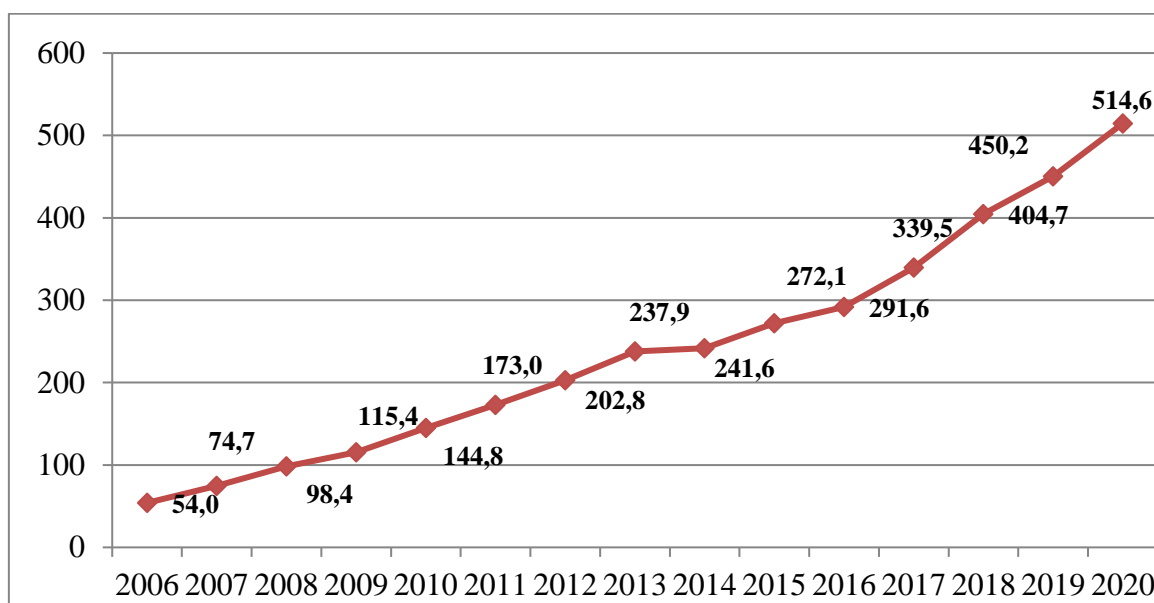


Figure 3. Dynamics of foreign investments of the Republic of Korea in FTA partners (USD billion)

Source: *Economic Performance of the Republic of Korea (2021)*, available at: https://www.index.go.kr/potal/main/EachDtlPageDetail.do?idx_cd=1065

d) Achievements of the Republic of Korea in the field of economic and social reforms thanks to the conclusion of FTAs (evolution to an advanced economic structure)

The main goal and direction of the Korean government's policy regarding FTAs is to overcome uncertain and negative foreign economic phenomena and create a new market. It is also aimed at transformation into an advanced economic structure by improving economic systems through market opening and trade liberalization. In particular, the FTA between the Republic of Korea and the USA, which entered into force in March 2012, contains many provisions that need to be improved in detail to promote the Korean economic structure. That is, the Free Trade Agreement between the Republic of Korea and the USA has become an opportunity to have a significant impact on the overall economic structure of Korea. After Korea concluded free trade agreements with other countries, the content stipulated in the Free Trade Agreement between Korea and the USA became the

basis. About 25 laws have been changed in connection with the free trade agreement between Korea and the USA.

Most importantly, the conclusion of the FTA with the USA was an important opportunity for Korea to continue negotiations on free trade agreements with other partners, such as the EU and Turkey. In addition, the conclusion of the Free Trade Agreement between Korea and the USA led to openness and liberalization in response to the trend of globalization throughout Korean society and served as an opportunity for the development of an advanced economic structure. Most importantly, after the conclusion of the free trade negotiations between Korea and the USA, many countries of the world began to use the FTA agreement between Korea and the USA as a textbook for negotiations. Thus, it cannot be denied that the conclusion of the FTA contributed to the achievement of many changes not only in the economic development of Korea, but also in society as a whole (Choi, 2020).

e) The effect of restructuring of industry (economic restructuring in developed countries)

The biggest problem in concluding an FTA is the restructuring of vulnerable industries that have lost competitiveness compared to the countries with which the agreement was signed. The agricultural sector of the Republic of Korea has been a negative factor in the promotion of free trade agreements due to its weak international competitiveness. The opening of the agricultural market in Korea directly entails the restructuring of the agricultural sector, such as the transformation of crop cultivation, the relocation of agricultural labour and the change in the use of land resources.

Accordingly, the Korean government has passed and is applying the “Special Law on Support of Agriculture within the scope of FTAs” in order to effectively compensate for the damage caused to the agricultural sector as a result of the entry into force of FTAs. So that the agricultural sector does not become an obstacle to liberalization, the restructuring of the agricultural sector should be carried out smoothly in the long term under public consultations (Yoon, 2020).

The agricultural sector in Korea is also progressively expanding due to the emergence of corporate agriculture and the transition to the cultivation of special crops as a result of restructuring. In other words, the transition to an advanced agricultural structure is gradually taking place. There is a transition from small farms to corporate farms.

After the FTA came into force in 2004, the industrial structure of the Republic of Korea was reorganized into a structure of a developed economy focused on the service industry. The value-added ratio by industry in the Korean economy is 60% in the service industry, 30% in the manufacturing industry, 5% in the construction industry and other industries. Compared with other industries, the share of the service industry has been steadily growing since 2015 (Table 6).

Table 6. Real value-added share of the main industries in the Republic of Korea (%)

Industry	2000	2010	2015	2018	2019	2020
Agriculture, Forestry and Fishing	2.18	2.00	1.99	1.93	1.93	1.9
Mining Industry	0.14	0.15	0.14	0.12	0.11	0.12
Manufacturing Industry	44.4	49.0	29.01	29.07	28.83	27.2
Electricity, Gas, Water Industry	2.75	2.64	2.72	2.59	2.65	2.55
Construction Industry	7.2	5.9	5.85	5.52	5.27	5.55
Service Industry	42.8	40.3	60.30	60.76	61.23	62.3

Source: Kim (2021), pp. 25-27

2.3 Proposals on the conclusion of Free Trade Agreements by the Republic of Korea

In order to strengthen the system of global economic cooperation through FTAs, it is necessary to promote the formation of a national consensus

The Republic of Korea strengthened the creation of a global economic network through the FTA policy, expanded the number of imported and exported goods and increased the trade balance. In addition, the foreign market and corporate operating profit improved due to the growth of foreign direct investment. The global financial crisis that occurred in 2008 and the external economic uncertainty caused by the growth of new protectionism in the countries of the world were overcome thanks to the conclusion of FTAs. In particular, free trade agreements have played a key role in expanding the trade of the Republic of Korea.

Given that Korea's domestic market is small and natural resources are limited, an export-oriented growth strategy is still relevant for the development of the Korean economy. As a result, the opening of the country's domestic market is an inevitable economic situation of the Republic of Korea. However, the assessment of the FTA policy accompanying the opening of the country's domestic market may vary depending on the point of view. Industries and social classes affected by the FTA policy negatively assess the opening of the country's domestic market. In particular, agriculture and animal breeding, as well as the service sector are still among the vulnerable sectors of Korea. For example, in Korea, the issue of opening a rice market is a very controversial topic in political terms. As a result, social conflicts are escalating. For this reason, the issue of the openness of the rice market is inevitable for the Korean government, since when concluding a free trade agreement, they enter into confrontational relations with another country.

The openness of the agricultural sector and the restructuring of the country's domestic industry are still politically sensitive issues in promoting FTAs. No matter how good a policy is, if a national consensus is not formed, it is difficult to implement and difficult to achieve an effect. For this reason, it is extremely important to form a national consensus on the promotion of the future FTA policies. In order to develop the Korean economic system and increase the competitiveness of companies through free trade

agreements, it is important that the Korean government makes constant efforts to form a national consensus.

b) Diversification of export items and strengthening the international competitiveness of small and medium businesses

Korea's economy is still heavily dependent on a small number of major export products, such as semiconductors, automobiles and household appliances. Korea's export products were not diversified but concentrated on several products. If the dependence on several major export items is high, it will be strongly affected by changes in external demand, which will act as a risk factor for long-term economic development. This economic structure of Korea can be explained by the structure of export products aimed at large enterprises and the lack of competitiveness of small and medium businesses abroad.

Therefore, as liberalization increases, the gap between large enterprises and small and medium businesses grows; this is a negative factor for the balanced development of the Korean economy. For this reason, it is necessary to diversify export items and at the same time achieve balanced growth by increasing the international competitiveness of small and medium businesses. That is, product diversification and balanced growth should be achieved by small and medium businesses' simultaneous entry to foreign markets through free trade agreements. In addition, when small and medium businesses expand abroad through free trade agreements, they play an important role in creating high-quality jobs within the country. For that purpose, to discover new FTA participants, but it is equally important to effectively use existing FTAs.

c) Control over the actual improvement of the quality of life of consumers

A typical situation when free trade agreements affect the welfare of consumers is a decrease in the prices of imported goods and an increase in their diversity. Since the entry into force of the FTA in 2004, the number of imported goods from other countries has been constantly increasing. Accordingly, thanks to the conclusion of the FTA, the quality of life of Korean consumers has increased (Figure 4).

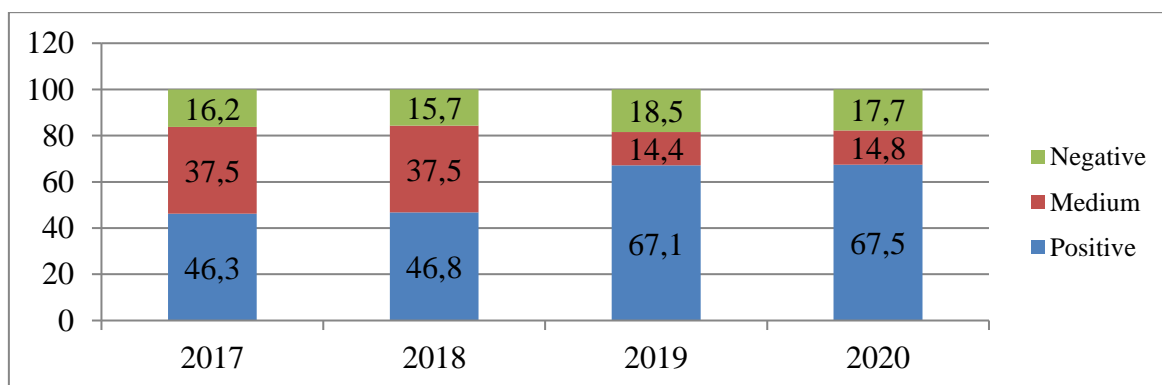


Figure 4. Research on the direct impact of the entry into force of the FTA on consumers by year (%)

Source: Choi (2020), pp. 10-11

In other words, the range of consumer choice of imported goods has expanded, and there has been a positive phenomenon of imported consumer goods cheapening (Figure 5, 6).

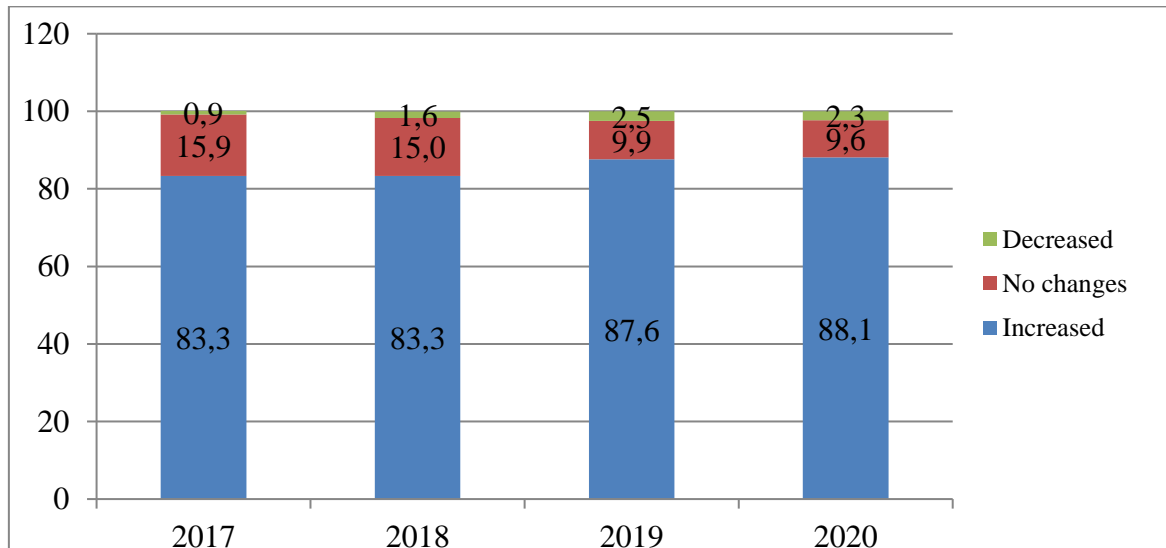


Figure 5. Changes in consumer choice by year due to the entry into force of the FTA (%)

Source: Choi (2020), pp. 22-23

So that preferential tariffs as a result of the entry into force of the FTA lead to a significant decrease in prices for consumers, the Korean government should systematically and continuously control importers and distributors.

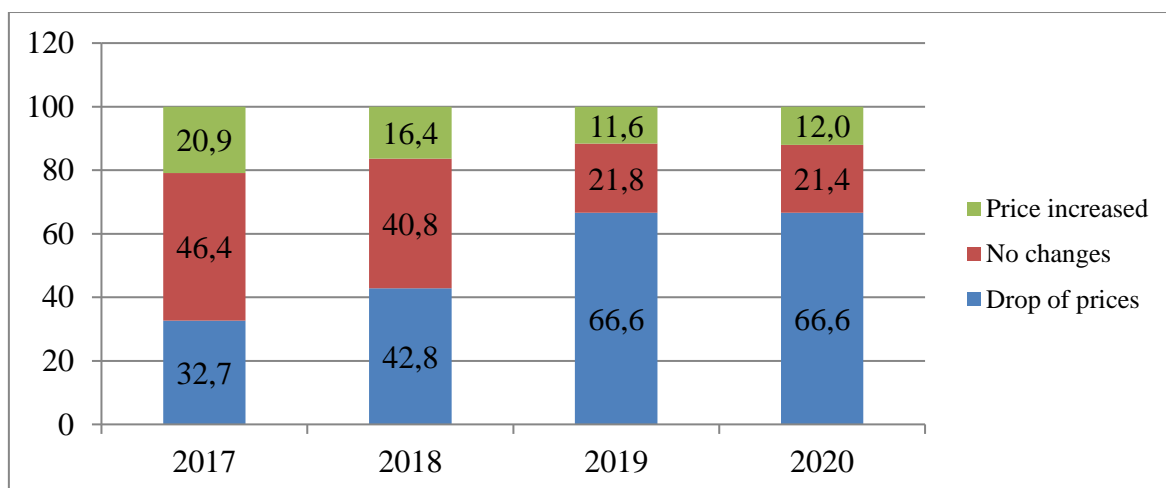


Figure 6. Change in the selling price of imported consumer goods due to the entry into force of the FTA (%)

Source: Choi (2020), pp. 35-36

That is, it is necessary to reduce the excessive market power of distributors and suppress monopoly. In addition, when improving the distribution system, constant

monitoring is required so that the decrease in prices for imported goods really leads to a decrease in consumer prices. Otherwise, the benefits of FTAs will be an advantage only to some importers and distributors.

d) Activation of continuous economic cooperation with FTA signatory countries and development of new strategies

For provision of constant energy resources, the Korean government is actively promoting the conclusion of free trade agreements with countries rich in natural resources, such as Russia and Uzbekistan. Moreover, by signing free trade agreements, the Korean government is actively not only increasing trade with developing countries, but also gaining more experience and knowledge of Korea's economic development to expand practical economic development and cooperation (Table 7).

Table 7. Measures for developing international cooperation of the Republic of Korea through the continuous extension of the global FTA network

Partner country	The main directions of international cooperation
The USA	<ul style="list-style-type: none"> - extension of supply chains such as semiconductors and electric batteries - advanced scientific and technical cooperation - extension of joint research and exchange of human resources between the two countries in the field of new technologies, such as 6G communication, quantum technologies and biotechnology
China	<ul style="list-style-type: none"> - extension of the supply chain of constant raw materials and semi-finished products - strengthening the basis of bilateral cooperation for the protection of investors and the protection of intellectual property
Russia	<ul style="list-style-type: none"> - cooperation in the construction of an industrial complex in Primorsky Krai - extension of cooperation in the shipbuilding (LNG, icebreaking) industry - extension of investment cooperation in the fields of energy, railways, ports and healthcare - internet platform development project
Uzbekistan	<ul style="list-style-type: none"> - strengthening resource cooperation based on the mining of rare metals - facilitation of the opening of cooperation models through the transfer of technologies for processing natural resources - modernization of the main infrastructure facilities supported by EDCF
Vietnam, Indonesia, India	<ul style="list-style-type: none"> - strengthening economic cooperation by development and modernization of the main social infrastructure - Vietnam: Creation of a smart housing complex - Indonesia: advising on capital transfer and cooperation in the field of natural resources development. - India: Nagpur-Mumbai Urban Development and Modernization Project

Source: Yoon (2020), pp. 4-5

Summarizing the foreign economic policy of the Korean government in the XXI century, we can say that it actively responds to the global economic situation of increasing uncertainty through the global FTA network and strengthens economic cooperation with countries around the world. This is due to the fact that only through

international cooperation it is possible to overcome the uncertainty of the current foreign economy and achieve long-term economic development.

Conclusion

The experience of the foreign trade policy of the Republic of Korea on the conclusion of free trade agreements allows us to conclude that an FTA is a complement to the multilateral cooperation system based on the WTO. This is a real alternative to overcome the current situation, in which the extension of WTO free trade is delayed worldwide, and the negative external economic environment caused by the growth of new protectionism. That is, with the help of the FTA network system, the crisis caused by changes in the international trading environment can be turned into an opportunity for economic development.

In this regard, the Korean government is successfully building a foreign economic policy towards overcoming the global economic crisis and expanding economic cooperation with the countries of the world through FTAs. Currently, the Republic of Korea is at an important stage of promoting its industrial structure and transition to a knowledge-based economy. In other words, industries in which Korea has been competitive, such as household electronics and automobiles, are being rapidly replaced by China. In addition, industries dependent on labour and low wages are rapidly moving to Southeast Asian countries such as Vietnam and Indonesia. On the other hand, the share and efficiency of the service sector in Korea is relatively low compared to developed countries. In order to achieve the development of the knowledge economy and industrial structure, it is necessary to increase the competitiveness of the service sector. In addition, it is necessary to develop new forces of industrial growth and increase the competitiveness of the country through the extension of trade and foreign direct investment. The increase in human and intellectual capital should be promoted by active attracting of foreign direct investment and advanced technologies such as 6G communications, quantum communications and biotechnology based on a free trade agreement.

The opening of the agricultural market in Korea directly entails the restructuring of the agricultural sector, such as the transformation of crop cultivation, the relocation of agricultural labour and the change in the use of land resources. In order to effectively compensate for the damage caused to the agricultural sector as a result of the entry into force of the FTA, the Korean government has passed the “Special Law on Support of Agriculture within the scope of FTAs”, which promotes the transition to an advanced agricultural structure (transition from small farms to corporate farms).

In the FTA policy, the Korean government takes into account the long-term aspect of economic development more than the short-term economic benefit. Through the conclusion of FTAs, it has sought to gradually open up the domestic market, improve the domestic economic structure, ensure the competitiveness of domestic industry and improve the quality of life of consumers. The main directions of the policy of the government of the Republic of Korea regarding FTAs are to achieve economic development and strengthen

economic cooperation through trade liberalization, improvement of the economic structure and development of the economic system.

Since the entry into force of the Free Trade Agreement between the Republic of Korea and Chile in 2004, the Korean Government has continuously expanded the FTA network, and this process has been carried out in three stages:

- Stage 1 (FTA 1.0): The decision to promote FTAs and the entry into force of the Free Trade Agreement between the Republic of Korea and Chile (1998-2004).

- Stage 2 (FTA 2.0): Creation of a roadmap for the future promotion of FTAs and the entry into force of Free Trade Agreements between the Republic of Korea and the EU, as well as the USA (2004-2012).

- Stage 3 (FTA 3.0): Preparation of a new trade roadmap and the stage of response to economic integration in East Asia (2012- present).

The Republic of Korea has no choice but to continue its open trade policy due to the small domestic market and high dependence on trade. In addition, Korea's foreign economic policy through FTAs can be considered successful, since it has contributed to the extension of the world market and trade liberalization within the export-oriented economic structure. In particular, Korea is ahead of Japan and China in terms of the potential for the development of the global market, free trade and a favorable trading environment. Under the conditions of growing uncertainty in the global trading environment, international cooperation is absolutely necessary. Compared to neighboring countries, the Republic of Korea is actively coping with this international situation.

The analysis has shown that by concluding free trade agreements with various countries of the world, the Republic of Korea has not only achieved the extension of the geography of foreign markets and economic prosperity, but also made the transition to an advanced industrial structure, improving the welfare of the people and ensuring the security of imports of natural energy resources.

FTAs also play an important role in the political, diplomatic, and security issues of the country. In this regard, the conclusion of an FTA between Korea, China and Japan is urgently needed to improve relations with North Korea. However, when concluding an FTA, it is important to take account of internal conditions in full in order to minimize the internal damage caused by the opening of the market and to form a national consensus. Because the most important thing is not the number of countries that have signed an FTA, but the stability of economic development after the conclusion of the FTA. The experience of the Republic of Korea in foreign economic policy through the conclusion of the FTA can be a good example of the successful establishment of foreign economic policy in response to increased uncertainty in international trade due to the growth of protectionism.

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