

The Current Status of and Challenges for the ROK's Economic Relations with China

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Summary

Economic cooperation between the ROK and China has reached a new turning point. Above all, 2013 will likely be regarded as the most important year in the promotion of economic cooperation between the ROK and China. The ROK-China Joint Statement for Future Vision was adopted at the summit meeting between the ROK and China held in June 2013, enhancing the institutional foundations for economic cooperation between the two countries, while also substantially expanding the scope of cooperation. In the Joint Statement, the two countries agreed to expedite high-level discussions aimed at the conclusion of an ROK-China FTA. Moreover, the term of the ROK-China currency swap, which was due to expire, has been extended by three years, and joint responses to external economic uncertainties have been enhanced by such means as an increase in the amount of the two currencies used in trade settlement and the strengthening of intraregional financial cooperation. Furthermore, seven MOU were concluded, covering fields including industry, technology, energy, finance, and customs, and the scope of cooperation has also been expanded considerably. The agreement between the two leaders has expedited the promotion of an ROK-China FTA, with an agreement being reached to hold discussions in September concerning the modality of an ROK-China FTA.

In addition, at the Third Plenary Session of the 18th Communist Party of China Central Committee, the plenum formulated key policies on medium- to long-term reforms of China's economic systems, along with an external economic management policy focused on extensive promotion of openness to the outside world. Based on the principle of expanding overseas investment by Chinese companies and encouraging reform through greater openness, the plenum also presented a strategy of establishing a Pilot Free Trade Zone in Shanghai, as a pilot project centered on reform and openness, and promoting high-level FTAs with a particular focus on surrounding countries.

2013 is showing signs of fresh changes in economic cooperation between the ROK and China. Having been on the decline in 2012, bilateral trade showed signs of recovery in 2013 and, apart from Japan, the ROK emerged as the biggest source of imports for China. In terms of investment, having been on the decline since peaking in 2007, the ROK's investment in China has begun to grow again and China has re-emerged as the biggest destination for overseas investment by the ROK other than the USA. In particular, since the fourth quarter of 2012, the relative importance of the western region in ROK investment in China has increased substantially, with expansion into China by major companies and the establishment of component-manufacturing plants.

Expansion into China by ROK companies is taking place via trade and investment. In terms of structure, intermediate and capital goods mainly take the form of exports, while local production is centered on consumer goods. This cooperative structure is subject to fierce competition as a result of the turnaround in China's development strategy. Accordingly, ROK companies are attempting a partial adjustment tailored to China's shift in strategy. The government of the ROK is devoting its energies to a diverse range of initiatives aimed at building the necessary environment for stable economic cooperation with China, such as promoting an ROK-China FTA.

Focusing primarily on trade and investment, this paper provides a broad overview of the stages in the development of cooperation between the two countries, as well as the current status and features of cooperation, and analyzes the outstanding issues and factors that appear likely to influence future economic cooperation between the ROK and China.

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