

Course Material No.3

About Korea: K-CA FTA Overview

Course 3: About Korea – K-CA FTA Overview aims to provide a comprehensive understanding of the Korea-Central America Free Trade Agreement (K-CA FTA), focusing on its historical background, key provisions, and potential impacts on trade and investment between the two regions.

By the end of the course, learners will be able to:

- Understand the history of trade relations between the Republic of Korea and Central America;
- Explain the key contents of the K-CA FTA, including tariff eliminations and market access provisions; and
- Analyze the potential impacts of the agreement on trade, investment, and global supply chains.

Trade dynamics between ROK and CA

▶▶ Historical Context

- ❖ The relationship between Korea and Central America began in the early 1990s.
- ❖ Korea's accession to the Central American Integration System (SICA) in 2012 marked a turning point, reflecting its strategic interest in the region.
- ❖ The official K-CA FTA negotiations began in June 2015 as part of Korea's strategy to diversify its trading partners beyond traditional markets like China, USA, and Europe. This aligned with Korea's "New Southern Policy", aimed at strengthening ties with emerging markets.
- ❖ A key milestone was reached in February 2018 when Korea signed the agreement with five Central American countries, and Guatemala joined the FTA in January 2024. The agreement officially came into force in March 2021.

Declaration	18 June 2015	Official declaration of the initiation of K-CA FTA negotiations
Negotiations	September 2015	1st round of K-CA FTA negotiations (Seoul)
	November 2015	2nd round of K-CA FTA negotiations (El Salvador)
	February 2016	3rd round of K-CA FTA negotiations (San Francisco)
	May 2016	4th round of K-CA FTA negotiations (Tegucigalpa)
	August 2016	5th round of K-CA FTA negotiations (Seoul)
	September 2016	6th round of K-CA FTA negotiations (Managua)
	October 2016	7th round of K-CA FTA negotiations (Seoul)
Conclusion	16 November 2016	Declaration of substantial conclusion of K-CA FTA negotiations
Signing	21 February 2018	Formal signing of K-CA FTA(except Guatemala)
Implementation	01 October 2019	Partial implementation of K-CA FTA
	01 March 2021	Full implementation of K-CA FTA(except Guatemala)

Country	Date of Implementation (Signing)
Nicaragua	01 September 2019
Honduras	01 September 2019
Costa Rica	01 November 2019
El Salvador	01 January 2020
Panama	01 March 2021
Guatemala	08 January 2024 (Signing)

* Source : FTA Korea

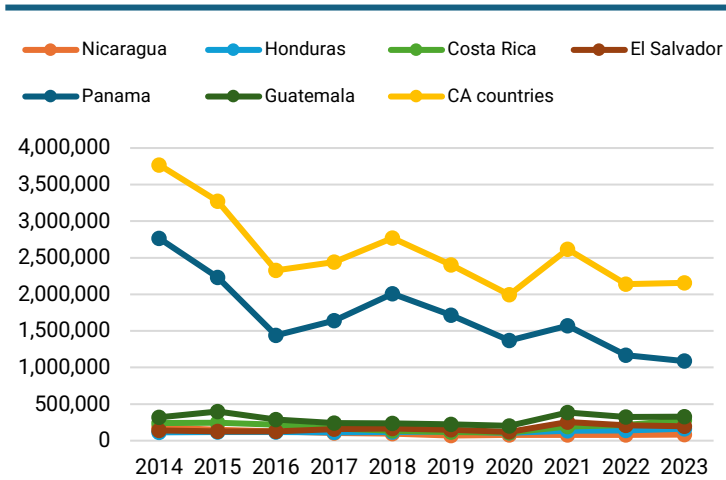
Trade between Korea and Central America

Since signing of the K-CA FTA in 2018, the trade volume between ROK and the six participating Central American countries has seen notable growth. Under the trade agreement aiming to strengthen economic ties, it is expected that the bilateral trade will increase further.

- ❖ Honduras, Costa Rica, and El Salvador have shown significant increases in trade, with El Salvador nearly doubling its exports to Korea and tripling its imports since 2018.
- ❖ Panama remains Korea's largest trading partner in Central America, with a steady but moderate increase in trade.
- ❖ Nicaragua has seen a substantial rise in exports to Korea despite a slight drop in Korean exports to the country.
- ❖ Guatemala has seen increased exports to Korea, while imports from Korea have also risen, contributing to improved trade relations.

ROK's Export to CA countries ('14-'23)

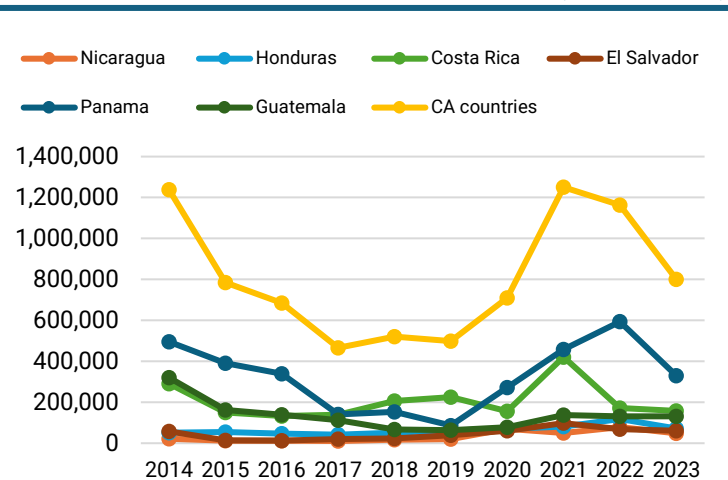
(Unit: thousand USD)



* Source : Korean Statistical Office(K-STAT)

CA's Export to ROK ('14-'23)

(Unit: thousand USD)



* Source : Korean Statistical Office(K-STAT)

Key contents of K-CA FTA

The K-CA FTA aims to strengthen trade and economic cooperation, fostering deeper bilateral relations between Korea and Central American countries. Key components include:

- ❖ Principles of Trade for fair practices;
- ❖ National Treatment and Market Access for Goods;
- ❖ Rules of Origin and Origin Procedures; and
- ❖ Intellectual Property Rights, Investment, and Dispute Settlement.

Principles of Trade

Promoting fair practices in trade relations, including commitments to transparency, non-discrimination, and adherence to international standards, which collectively contribute to a more stable trading environment.

National Treatment and Market Access

Since the FTA's implementation, bilateral trade has grown significantly, especially in sectors such as automobiles, electronics, and agriculture, with over 95% of goods and import values now benefiting from tariff elimination.

- ❖ Korea has committed to eliminating tariffs on over 95% of Central American exports over a transitional period, benefiting key sectors such as agriculture, seafood, and textiles.
- ❖ Central American countries will eliminate tariffs on over 90% of imports from Korea, providing substantial advantages to industries such as automobiles, electronics, and machinery.

▶▶ Rules of Origin

Rules of Origin ensure that only products produced and processed in member countries qualify for tariff benefits, safeguarding the integrity of the FTA and preventing trade deflection.

- ❖ Compliance with these rules has increased regional sourcing, stimulating local economies and strengthening supply chains within the FTA region.

▶▶ Intellectual Property Rights, Investment, and Dispute Settlement

The K-CA FTA offers a comprehensive framework to promote foreign direct investment (FDI), fostering economic ties and sustainable development between Korea and Central America.

- ❖ The liberalization of the service sector allows greater access for Korean businesses to Central American markets, while regulatory transparency reduces investor uncertainty.
- ❖ Procurement provisions ensure fair and transparent practices in government contracts, enhancing trust and investments in sectors such as infrastructure, renewable energy, and technology.
- ❖ Clear dispute resolution mechanisms and intellectual property protections provide added security for investors, encouraging innovation, particularly in technology and pharmaceuticals, where intellectual property rights are critical for development and attracting investment in R&D.

Opportunities for CA businesses

The K-CA FTA not only facilitates trade but also promotes investment, technology transfer, and job creation across both regions, offering substantial growth opportunities for industries in Central America.

▶▶ Tariff-Free Market Access

With tariffs eliminated over 95% of Central American exports, products like coffee, sugar, seafood, and textiles gain competitive pricing advantages in Korea, providing access to a market of over 50 million people.

▶▶ Diversification of Export Markets

By expanding into Republic of Korea, Central American businesses can diversify their export markets and reduce dependency on traditional trade partners like the U.S. and Europe. With Korea's growing demand for high-quality agricultural products and seafood, exporters from Central America have an opportunity to stabilize their business models and hedge against market volatility.

▶▶ Technology Transfer and Investment

The FTA encourages Korean investment in Central American sectors such as infrastructure, manufacturing, and energy. Central American businesses stand to benefit from technology transfer, enabling them to modernize operations and improve productivity.

▶▶ Job Creation and Economic Growth

The FTA promotes foreign direct investment (FDI), which is expected to spur job creation and economic development, especially in industries related to infrastructure and manufacturing. These investments will help modernize critical sectors, generate employment, and improve the overall economic outlook of the region.

We look forward to supporting your success in the ROK market.