

ISSN: 2288-7709 © 2018 ICMA. <http://www.icma.or.kr>  
doi: <http://dx.doi.org/10.20482/jemm.2018.6.2.29>.

## **The Role of FTA for Northeast Asia Physical Distribution : Focusing on Korea and China**

<sup>1</sup> Young-Min Lee

1. Professor, Dept. of Business, Hyup Sung University, Korea. Tel: +82-010-8650-2764, E-mail: [lym4133@gmail.com](mailto:lym4133@gmail.com)

Received: May, 30, 2018. Revised: June, 25, 2018. Accepted: June, 26, 2018

### **Abstract**

**Purpose** - This study aims to offer the suggestions for the researches and policies that could be used as important data to effectuate future FTA. The objective of this study is to suggest a direction of Korea that can form a new logistics hub in Northeast Asia.

**Research design, data, and methodology** - This study was conducted in parallel with literature review and empirical studies for the analysis. 180 valid samples were collected from Korean consumers', and qualitative analysis was employed on the satisfaction level of imported goods welfare of Korean consumers.

**Results** - It is expected that Korea and China would experience increased opportunity factors in this area with the growth of economic sphere in Northeast Asian. If existing problems are solved by utilizing regional environment efficiently together, the hub function of Northeast Asia logistics will be advanced.

**Conclusions** - Korea is introducing and operating special economic zones that provide the exception and support for foreign investment. Therefore, it is necessary to monitor the prices of imported goods, so that the exporters can adjust the prices and obtain the unjust profit equivalent to the tariff reduction by grasping the overseas market trends of the imported product prices.

**Keywords:** FTA, Northeast Asian, Product Price.

**JEL Classification Code:** B40, E32, F18.

### **1. Introduction**

FTA agreements resulting from the implementation of the effects on trade liberalization in logistics section are becoming more and more important, although the related studies are insufficient in Korea (Washing, 1996).

It was expected to enter into the force as early as in the first half of 2010. The agreement for minutes 30 to 45 days by law expected to take, and go after the person completes the procedure(Baldwin, 2003). The articles of FTA agreement was expected to take more than five months, since the presidency of Ministers in China and South Korea should sign on it with formal procedure (Cernat, 2001). The final text with 24 languages, including Korean translation, is authentic and will be recognized as an individual text. South Korea's National Assembly approved the ratification of the agreement and the meeting of EU procedures (Cooper & William, 2012). However, As for Northeast Asian, there is no time limit for the ratification process, thus, it is considered to be prolonged process. If it is prolonged, the goods sector, based on the form of a temporary agreement, is likely to be an early entry into the FTA force. FTA between the two countries had completed its internal procedures for the verification implementation by the letter exchange, and took 60 days after the entry into force (Cernat, 2001).

The exporters and importers of the final FTA tariff reduction fully demonstrated the competitiveness of their products, thus, the price competitive tariff cut made the exporters and importers to hold the exported products in the market. That is, it requires them to exert a competitive price review for themselves (Frankel & Wei, 1998).

The President said "one. That other countries in the wake of FTA is huge, at the conference in Stockholm. After then, he reached India in August, then we sign a FTA with the United States to be occupied by more than 50% of the global population (Ball, 2001). Products price the country shall have been made and the Free Trade it was evaluated.

Representative of the Ministry of Foreign Affairs and Trade FTA negotiations day briefing at the Ministry of Foreign Affairs offices have duty drawback was the key issue for the EU decided in principle to allow duty drawback while Party on the basis of the statistical significant change in reverse foreign procurement methods (Harris, 1984).

## **2. Theoretical Background**

If the settlement proceeds, the result will be a disagreement. Disputed resolution process in accordance with the three judges, that is, China panel will lead to be objective (Davis & Songer, 2009). In this regard, both sides if there is a significant change in the duty drawback scheme applied to the upper limit of 2% is known to prepared. Associated with the service sector represented, such as South Korea FTA with third countries (Niblett, 2010). Gwangyang Port, a major port of the country, such as the role of trans-shipment port is expected to increase. Port logistics cooperation, particularly through a partnership between the network of China and other major regional distribution center features our ever it is important to accommodate the port (Kim, 2011).

Then, by performing the promotion of FTA that matches to some extent the provisions that are related to the products and services of the WTO, to complement multi-lateralism, by FTA. At the same time, as the improvement of national systems, it is intended to advance in spite of these efforts (Bondarouk & Ruel, 2008). FTA has concluded successfully, and it is necessary to support and cooperation of the people. The government revealed its intention to June 2004, we established the rules and procedures of the free trade agreement, to make transparent the process of FTA promotion (Sariisik, 2010).

FTA signatory partners in the process of the production and export of other part will take advantage of the FTA preferential tariff model. Procure raw materials in the country of Philippines in the ASEAN FTA countries to produce and export the FTA with ASEAN countries to take advantage of preferential tariff model (Robinson, 2002).

Foreign companies allowed to enter the domestic logistics industry, and the on going negotiations between the three countries through the distribution system and regulations concerning efforts are needed to increase Products price compatibility (Gupta & Saxena, 2010). Laws related to logistics department is also very different from the interpretation of the resulting chaos, logistics departmental policy, case-by-case basis consistent with the policy being pursued sporadic connectivity is not yet secured the points need to be corrected urgently issue (Serdar & Asan, 2004).

According to data released by maritime countries in the world in 35 countries, Korea, Greece, Japan, Norway, Germany, China, United States, Hong Kong, followed by eight countries being evaluated in the shipping. Therefore, an FTA country nationals to be able to see the prehistoric that many believe the profit (Venables, 1999).

## **3. Methodology**

### **3.1. Data collection**

This study has a qualitative analysis on the satisfaction level of imported welfare goods of Korean consumers according to the FTA conclusion. It focuses on China and Korea products. The sample selection was from adult men and women who had purchased the products from FTA partner countries, China and Korea, The main demographic variables were such as name, age, occupation, place of residence, place of purchase, purchased product, price determiner, reasons for purchase, victims of the Korea - China FTA, and damage industry (Hosnavi & Ramezan, 2010).

The questionnaire for this study was developed with a sample of domestic consumers who had purchased Korea and China products after the FTA conclusion. The questionnaire was distributed and collected from January to February 2017, and 300 copies were distributed and 180 valid copies were collected. The collected questionnaires were used for this study analysis except for the lack ones in usefulness for content and poor response to the questionnaire (Kovach & Cathcart, 1999).

### **3.2. Analysis methodology**

This study was conducted in parallel with literature reviews and empirical studies. The related analysis was for the difference between the welfare level of the US and EU products that have concluded products price of FTA with

Korea and the difference of product prices before and after of the FTA conclusion. From the literature reviews, related price, quality, and welfare level were derived to the research models and research hypotheses based on the data from before and after the FTA conclusion. In addition, this study conducted a questionnaire survey on the domestic buyers who have purchased Chinese products after the FTA conclusion (Burns & William, 2011). First, the frequency analysis method was conducted to identify the general characteristics of the imported goods with related price determiner. Purchase intention, and the other related factors were influenced by the FTA, and FTA affected industrial variables such as gender, age, occupation, purchasing country, and purchase places etc. (Bernhofen & Brown, 2004). Second, the way of cross-analysis was employed to verify the level of welfare in the part of product purchase countries, that is, China and Korea. The analysis was used for the factors such as age and occupation. The crossover analysis established the null hypothesis and the alternative hypothesis to obtain the Chi-square statistic was adopted to determine whether the null hypothesis is adopted or rejected (Watson & Wright, 2000).

Third, the countermeasures should be punished in case of violation of the price of the FTA. Analyze through analysis of price analysis, implementation of sales price declaration, Northeast Asian actual management of imported goods by government, and renegotiation in case of violation of FTA. The statistical program used for the analysis was the SPSS 20.1 statistical program (Frankel & Wei,1998).

### 3.3. Variable Manipulation

This study employed a qualitative analysis on the satisfaction level part with imported goods welfare from Korean consumers. According to FTA conclusion, the analysis focused on especially Korea and China products.

<Table 1> Variable Manipulation

Category	Variables
Demographic variables	Gender, Age, Occupation, Purchase Product Country, Place of Purchase, Purchase Product
Type of purchase	Imported product price decision maker, reason for purchase, FTA victims, FTA-damaged industry
Analysis of difference before and after the conclusion of FTA. Influence of welfare after the conclusion of FTA.	Product price, product service, product exchange and refund, product appearance and design, convenience Aquatic prices, meat prices, electronics and home appliances prices, alcohol prices, Kitchenware prices, juice prices, food prices, clothing and fashion product prices

### 4. Results

The empirical analysis in this study shows the welfare level according to the product characteristics of Chinese products, and China is one of the signatory countries in the FTA. It shows that R2 is suitable for the sample regression line at 0.132 and the F-value concludes 12.898 and the significance level is at .000.

First, As for analyzing the hypothesis of "the product price of China products will have a positive effect on the welfare level of the consumers after the FTA," the significance shows 0.080, which is significant at  $p < 0.05$  and the VIF is 1.202. There is no difference in sex. Therefore, the hypothesis was adopted.

<Table 2> Analysis of welfare level by China product characteristics

Model	Non-standardized correlation coefficient		Standardized correlation coefficient	t	Significance	VIF
	B	Standard error	Beta			
(Constant)	1.231	.151		8.702	.000	
Product Price	.065	.032	.070	1.654	.020	1.202

Product Service	.025	.055	.024	.533	.431	1.755
Product exchange and refund	-.007	.041	-.015	-.240	.635	1.728
Product quality	.124	.045	.142	2.512	.004	2.034
Product Outline Design	.017	.040	.019	.426	.644	1.833
Product convenience	.158	.041	.166	2.378	.001	1.617
Product practicality	.023	.042	.021	.664	.636	1.745
Dependent variable : Welfare level R2=.132, F=12.898, Sig.=.000 Durbin-Watson1.945						

\*p<0.1 \*\*p<0.05, \*\*\*p<0.01

In other words, the hypothesis that describe the research variables are adopted is that the US product characteristics are linearly related to the welfare level of consumers after the conclusion of the FTA.

## 5. Conclusions

After the entry into the effect of the FTA between the China and the United States, which has been concluded with Korea, there is a question about the product price, quality and welfare level of the imported products. On the other hand, it is expected that the effect of the FTA on people will not be significant, Importers have explained that the imported product price itself rose due to upgraded product according to their specifications, the rising of oil price, raw materials, therefore it leads consumer prices increased slightly (Klein & Morris, 1998).

In addition, as an opposite effect of the FTA, cost reduction of the imported goods is not visible ones due to long-term tariff reduction, Most importers are known to use them for promotional expenses and other expenses without reflecting them in cost point. Since some items monopolize the imports of each brand, the tariff cuts are not reflected in the price because the restrictive distribution structure acts as a factor that restricts competition such as imports and intermediate traders. Particularly, in the case of high-priced or luxury goods, there is a tendency that the consumer tends to prefer luxury goods, so that the exporter may raise the price of the product (Mohd & Ramayah, 2011).

After the FTA came into its effect, the effects of the factors constituted the EU products on the welfare level and the effects on the main products of EU products were analyzed after the FTA announcement. First, as a result of the regression analysis in product characteristics and welfare level, 'product price', 'product convenience', and 'product practicality' factors have positive influence on the welfare level, and the welfare level did not show increase (Sanayei & Mirzaei, 2008).

Also, the government should continuously monitor the price fluctuation of imported products, so that importers or domestic distributors cannot arbitrarily adjust the imported product price. In addition, it is necessary to monitor the imported goods prices. The exporters should adjust the prices and obtain the overseas market trends of the imported product prices with reducing unjust profit and tariff. In the future, the products of the FTA conclude that the consumers' product purchase focus on the price and the quality with the purchase factors, whereas the actual price factors affect the purchase effect. The government will have to check the price through practical market research.

## References

- Bhagwati, J., & Panagariya, A. (1996). *The economics of preferential trade agreements*. Washington D.C.: AEI Press.
- Baldwin, R. E. (2003). The Spoke Trap Hub and Spoke Bilateralism in East Asia. paper presented at Korea Institute for International Economic Policy (KIEP).
- Ball, K. (2001). The use of human resource information Systems: A survey. *Personnel Review*, 30(6), 677-693.
- Bernhofen, D. M., & Brown, J. C. (2004). A direct test of the theory of comparative advantage: The case of Japan. *Journal of political Economy*, 112, 48-67.
- Bondarouk, T. V., & Ruel, H. J. M. (2008). HRM systems for successful information technology implementation: evidence from three case studies. *European Management Journal*, 26, 153-165.

- Cernat, L. (2001). Assessing Regional Trade Arrangement : Are South-South RTAs More Trade Diverting? Study Series, 16 *International Trade and Commodities*, UNCTAD, 2001.
- Cooper, W. H. (2012). U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options, U.S. Department of Commerce, U.S. Census Bureau.
- Davis, K. A., & Songer, A. D. (2009). Resistance to IT change in the AEC Industry: Are the stereotypes true? *Journal of Construction Engineering and Management*. 135(12), 1324-1333.
- Frankel, J., and Wei, S. J. (1998). Regionalization of World Trade and Currencies: Economics and Politics. In j. Frankel (ed.), *The Regionalization of the World Economy*, Chicago: University of Chicago Press.
- Gupta, A., & Saxena, S. (2010). Assessing employees perception regarding EHRM in service organisations. *Management Insight*, 7(2), 1-21.
- Harris, R. (1984). Applied General Equilibrium Analysis of Small Open Economies with Scale Economies and Imperfect Competition. *American Economic Review* 77, 1016-1030.
- Hosnavi, R., & Ramezan, M. (2010). Measuring the effectiveness of a human resource information system in National Irani Oil Company: An empirical assessment. *Education, Business and Society: Contemporary Middle Eastern Issues*, 3(1), 28-39.
- Kim, H. (2011, July 12). Dynamics of free trade agreements: Benefits and strategic considerations. *SERI Quarterly*, 1-6.
- Kovach, K. A., & Cathcart, C. E. (1999). Human resource information systems: Providing business with rapid data access, information exchange and strategic advantage. *Public Personnel Management*, 28(2), 275-282.
- Mohd, Y., & Ramayah, T. (2011). Factors influencing attitude towards using electronic HRM. Proceedings of the 2nd International Conference on Business and Economic Research (2ndICBER2011), 1510-1520.
- Robinson, R. (2002). Ports as Elements in Value-Driven Supply Chain Systems: the New Paradigm. *Maritime Policy and Management*, 29(3), 241-255.
- Sanayei, A., & Mirzaei, A. (2008). Designing a model for evaluating the effectiveness of E\_HRM (Case study : Iranian Organizations). *International Journal of Information Science and Technology*. 6(2), 79-98.
- Sariisik, D. (2010, January 12). Turkey looking to become a logistics leader in black sea basin. *Hurriyet Daily News*, 1-5.
- Serdar, S., Asan, U., & Yilmaz, I. (2004). Benchmarking logistics in between Turkey and European countries. 1-12.
- Smith, A., and Venables, A. J. (1988). Completing the internal market in the European Community: Some industry simulation. *European Economic Review*, 32, 1501-1525.
- Venables, A. J. (1999). Regional Integration Agreements: a force for convergence or divergence. World Bank Policy Research Working Paper No. 2260.
- Watson, J. J., and Wright, K. (2000). Consumer Ethnocentrism and Attitudes Toward Domestic and Foreign Products. *European Journal of Marketing*, 34, 1149-1166.