

## THINKING ABOUT KOREA-MONGOLIA FREE TRADE AGREEMENT

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### I. Globalization and Trend of FTA

A tendency of regionalism is emerging as another paradigm for the world trading order, complementing multilateral in achieving a global free trade. The strengthening of regional economic blocs such as the EU (European Union), NAFTA (North American Free Trade Agreement), ASEAN (Association of Southeast Asian Nations) explains this trend. The EU, which is the most advanced form of regional economic bloc, is under a process of continuous enlargement by admitting Central and Eastern European countries. On the other hand, NAFTA is expected to transform into the Free Trade Area of the Americas by 2005, extending its membership to Central and South America. There also exist other economic blocs such as MERCOSUR (Southern Cone Common Market; El Mercado Comun del Sur), GCC (Gulf Cooperation Council), and SADC (Southern African Development Community), which are also undergoing a deepening process of economic integration. In Southeastern Asia, 10 ASEAN countries have set the year 2003 as a target date for the formation of the ASEAN Free Trade Area (AFTA).

Regionalism is one of the most dominant trends in the current world economy. There were only 26 new Regional Trade Agreements (RTAs) reported to GATT prior to 1969. Following a weakening in the pace of regional integration in the 1980s, the number of new RTAs exploded in the 1990s. 35 additional regional agreements were signed in the years 1995 and 1996 and 17 such agreements were reached in the years 1997 and 1998. This trend means not only the insurance policy against a lack of multilateral free trade system but also as a viable commercial strategy that complements multilateral trade agreements (Cheong 1999a). The trend of increasing regional trading blocs has continued as shown in Table 1.

*Table 1 Report of Regional Trading Blocs*

	1948-1959	1960-1969	1970-1979	1980-1984	1985-1989	1990-1994	1995-2001.3
No. of notifications	5	21	40	6	5	47	101
Total notified	5	26	66	72	77	124	225*

Note: \* Of the total notified, 152 RTAs are currently in force.

Source: Chan-Hyun Sohn and Jinna Yoon (2001), *Korea's FTA Policy: Current Status and Future Prospects*, KIEP, p.16.

An Free Trade Area (FTA)<sup>1</sup> is a basic form of the regional economic integrations and refers to the elimination of the regional trade barriers and investment restrictions which exist among the member countries. The tariffs among the member countries are significantly reduced but member countries maintain their own external tariffs, unlike the Customs Unions, where the members set a common external tariff.<sup>2</sup> the external trade policy remains under an FTA tends to present a less political burden than that under customs unions (Cheong and Wang 1999).

The economic effects of FTAs could generally be categorized; even the effects vary according to the coverage, into influences on trade and investment. The influences on the trade considered first. The effect of trade liberalization in an FTA can be explained by the concepts of trade creation and trade diversion.

Once an FTA is made, not only intra-regional tariffs would be abolished, but member countries would also benefit from trade creation as they could then freely export to other FTA partners, thereby gaining comparative advantages from within the region. FTA members would also benefit from trade diversion. As lower tariffs rates within an FTA would result in a trade being diverted from producers outside of an FTA to less efficient ones inside. Overall, an FTA is justified on the premise that the trade creation effect is greater than that of trade diversion (Cheong and Wang 1999:19).

Despite many positive effects of the establishment of an FTA, negative side effects must also be acknowledged. First, the remaining high tariffs, which are imposed on non-member countries, can partially offset the benefits of trade liberalization, and the trade diversion effects would aggravate consumer welfare in the region and ultimately result in resource miss-allocation in both the regional and global sense. Second, the trade diversion effects increase the opportunities for the other local producers. Thus the same producers, who benefit from trade diversion under a limited FTA, will oppose any expansion of the FTA, which includes threatening of new producers. Third, following the formation of an FTA, the changes in comparative advantage will force a reallocation of factors, such as capital and labor, and there would be adjustment cost of industrial restructure (Cheong and Wang 1999:31).

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<sup>1</sup> A free trade area is a group of countries that have agreed to eliminate tariffs, quotes and preferences on most goods between them. Unlike a customs union, members of a free trade area do not have the same policies with respect to non-members.

<sup>2</sup> Customs unions entail common trade policies toward non-members. This alliance are prone to develop into a common market surrender of economic sovereignty.

In the process of implementing an FTA, it is widely acknowledged that the economic benefit are not equally distributed to all sectors. As a result, some groups strongly support an FTA, while other groups oppose. In sum if trade creation effects (positive effects) greater than trade diversion effect (negative effect), then FTA will increase the welfare of member countries, while the opposite case will reduce the level of social welfare. Therefore, it would be recommendable to leave the sensitive sectors for the next negotiations.

Now, turn to the influences on the investment. According to the dual characteristics<sup>3</sup> of FDI (Foreign Direct Investment) FTAs lead to partly contradictory predictions regarding the effects of regional economic interaction, particularly for the intra regional investment flows. Trade liberalization makes exporting from the home country relatively more attractive than FDI as a way to serve the regional market. However, regional integration would not create incentives to reduce investment or repatriate capital for the projects, which were primarily undertaken to internalize the exploitation of intangible assets. The potential effects of FTAs on outflows of FDI from the integrating region are that the firms can strengthen their competitiveness by capitalizing on opportunities of economies of scale and joint ownership of intangible assets. Thus, FDI motivated by internalization would increase.

In the process of implementing an FTA, it is considered that the economic benefits are not equally distributed to all sectors. For instance, trade creation effects are beneficial to some exporters, while local producers in import-substituting sectors stand to suffer under trade liberalization. The trade diversion effects increase the opportunities for local producers, but other producers will oppose any expansion of the FTA by threatening of new producers. Hence, it is likely that an FTA has tendency to strengthen regionalism while hindering multilateralism.

In the process of increasing trend of regional economic blocs the five economies in Northeast Asia<sup>4</sup> are currently not members of any regional economic arrangement, leaving Northeast Asia as the only region in the world need regional economic integration.

<sup>3</sup> The contradiction influences are expected between FTAs and foreign direct investment (FDI), which can promote or inhibit trade. On the one hand, since an FTA entails trade liberalization, it often lessens the need to utilize FDI as a method of gaining access to a country's market. Manufacturers are now able to produce goods in their own country and then export freely to other economies within a FTA framework. On the other hand, the establishment of an FTA can promote FDI as it allows the setting up of facilities in targeted markets of firm-specific intangible assets, which cannot be traded efficiently before FTA (Cheong and Wang 1999).

<sup>4</sup> Korea, Japan, China, Taiwan, Hong Kong, and Mongolia.

## **II. Current Economic Situations**

### **I. Korean Economy**

Korea's achievements of the past four years financial crisis in 1997 are very successful by using the IMF loan US\$19.5 bill. and strong structural reforms in the four sectors such as corporation, financial, labor and government. As a result, Korea repaid IMF loan (Aug.2001) on the half-way schedule, recorded a stable growth at annual 4.3% in 2003, high credit rating Bullish stock market and 5<sup>th</sup> foreign reserve in World.

However, Korea has continued to renew the market driven economy through the structural reforms, market-friendly regulatory system and open-door policy with global standards.

Korea's recent economic performance stands out in international comparisons. When most of the Asian economies and the world recorded negative growths. Only a few years ago the Korea watchers worldwide agree that the Korean economy has been largely rebuilt, as the result of the restructuring efforts of the past few years.

The current performance of the Korean economy can be mentioned in four categories, such as the new outlook for Korean corporations and financial institutions, the new openness of our market, and the status of new age industries (Hwang Doo-Yun).

The Korea economy has become leaner, more transparent and more efficient than ever. First of all the share of non-performing loans took up about 13% of all bank assets in 1999. This figure went down all the way to 3.4% in 2001. Korean banks were recording 4 trillion won loss four years ago. Now, they are making net profits totaling 5.2 trillion won. Korea has in place a system where financial institutions rather than the government can monitor the financial health of corporations and lead corporate restructuring whenever necessary.

The second point is that Korean corporations have changed significantly for that matter. The days of "too-big-to-fail" rules are over. Among Korea's top 30 firms at the time of the crisis, 16 have since been either closed or have undergone re-organization. Companies that remained in the market have had to downsize and even sell assets to reduce their debts. As a result, corporate finance has been considerably improved.<sup>5</sup>

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<sup>5</sup> For instance, the debt-to-equity ratio of the top 4 business groups was reduced from 473% to 162% in the 3 years after the crisis.

The third point to stress is that Korea is now more open to the world. One of the essential elements of reform after the 1997 crisis was the opening of virtually all segments of our economy to international investors.<sup>6</sup> to give further support to this measure of opening up the investment market, domestic real estate transactions and foreign exchange transactions were fully liberalized for foreigners.

The number show all the Korea has achieved as the result of these efforts. In the 4 years from 1998 through 2001, Korea attracted 52 billion dollars of FDI. That was twice as much as the total FDI (US\$25 billion) that Korea attracted in the 36 years prior to the crisis from 1962 to 1997. If you look at the stock market, you will find that foreigner investors now own about 37% of all shares of listed companies.

At the time 1997 economic crisis, Korea was a net debtor country with US\$54 billion debt. But, in two years, Korea became a net creditor country, all thanks to the rapidly improved current account balance. At the time of the 1997 crisis when Korea went to the IMF for rescue, our foreign currency reserve had gone down all the way to less than US\$4 billion. But, again thanks to the rapidly improved current account balance and fast rising FDI, the foreign exchange reserve has dramatically increased with each year, and now it is as much as USD 105 billion, the 5<sup>th</sup> largest in the world, larger than those of the United States< Germany, or France.

The fourth, in the midst of all the change and reform, Korea has placed itself on the cutting edge in the technology front. The essence of today's IT revolution is found in the fast emerging interconnected world. Korea is doing just that and beginning to lead the world in this trend.<sup>7</sup>

Meanwhile, Korean economy has to many uncertainties in and out of country. Looking outside, first of all, since Korea's major trade partners are USA, Japan, China, etc., Korean economy is highly dependent on the world market. Korea's international trade measures up to 73% of her GDP. This is why free trade is so important to Korea.

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<sup>6</sup> That means 1.125 of the 1.148 industries sectors that exist today or 98% of them are open to foreign investors. That leaves 23 sectors or 2% of the total still not fully opened. These remaining sectors that include power-generation, telecommunication, broadcasting and others will continue to be liberalized.

<sup>7</sup> More than one out of every 7 Koreans has broadband access. That is nearly 5 times more than the US, about twice more than Canada, and it is the highest rate in the world. In Korea, more than half of the population uses the Internet. Elementary school children send their pictures and voice messages to their grandparents over the Net.

For the economic reform Korea will continue to liberalize and to restructure. Continuous self-renewal is the only way that Korea can continue to thrive in the future. Fortunately, many international forecasters are shedding more positive light on Korea's future. Since Korea has successfully co-hosted with Japan the World Cup Soccer Games in June in 2002. Through that event, Korea got to present its new image to the world, perhaps for the first time, on such grand scale, since the 1988 Seoul Olympic Games. For Korea's economic growth this year and the World Cup event together with the pan-Asian event of the Asian Athletic Games in September will offer significant addition boost.

To become the hub of Asia where people, money and businesses from all roadblocks, both visible and invisible, that remain in the way. In addition, Korea needs more efforts in further improving our system to meet the highest of global standards. Korea is working hard to build its physical and regulatory bases for an open economy.

Globalization process has both positive and negative effects in real world. It is the best way to enjoy the benefits of globalization is to open market, deregulate economy, and create the best possible environment for businesses to operate, regardless of their national origin (Han Duck-Soo).

To put the painful lessons from the economic crisis three years ago into practice, Korea have established our agenda in three areas of our trade policy. The first dimension is the multilateral in trade. Korea has been working hard with WTO for the worldwide trade liberalization to bring down barriers that limit individual choices, fairness and efficiency in the new age of global economy.

Regional cooperation is the second important dimension in Korea's trade policy. Through for a such as APEC and ASEM, Korea is promoting economic openness in the region. It is believed that regional liberalization will strengthen and reinforce global economic openness.

Bilateral cooperation is the third dimension of Korea's trade policy. Korea has to discuss with Mongolia as important potential trading partner. Korea has to listen the partner's views, to seek ways to further liberalize her market and to form FTA. These international effects will make Korea a better place for international businesses to operate and compete.

## **II. Mongolian Economy**

Geographically Mongolian territory is 1.6 million sq. km (eight times of Korean peninsular). Mongolia has small population of 2.4 million, almost 213 of which is under 30. Compare to this scare population she is plenty of mineral

resources such as coal, copper, molybdenum, uranium, gold, iron, phosphates, tin, nickel, zinc, wolfram, and fluorspar and crude oil.

Mongolia is very rich in livestock of over 30 million heads, thus ranking first in per capita ownership. The pristine and unpolluted nature and the environment are another wealth of Mongolians.

Following severe external shocks in 1989-90, after the withdrawal of Soviet assistance and the collapse of the Council for Mutual Economic Assistance's trading system, the World Bank Group's International Development Association [IDA]<sup>8</sup> offered a program of support which focused on quick-disbursing balance of payments assistance and technical assistance for economic management<sup>9</sup>.

The new Country Assistance Strategy supports Mongolia's growth oriented development through macroeconomic stabilization, structural reforms in the financial and enterprise sectors, utilities and public administration. It is working to alleviate poverty in Mongolia through income-generating activities and the upgrading of basic infrastructure. Promotion of environmental awareness, sustainable resource use and gender parity are integral elements of this approach.

IDA's main objective is to support the Government in completing the transition to a market-led economy, to improve living standards and reduce poverty. To this end, IDA is assisting the Government to create an environment conducive to private sector-led growth, to tackle transitional and structural poverty, and to manage the country's resources strategically to improve long-term growth.

From early 90s Mongolia has been vigorously pursuing simultaneously political and economic reforms.<sup>10</sup>

As a result Mongolian economy has changed to much toward market oriented economy. According to the recent report. Mongolia has made great strides during a decade of transition to a market economy, but it continues to face important challenges. Significant progress has been made in the establishment of a vibrant private sector and the key institutions of macroeconomic management.<sup>11</sup>

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<sup>8</sup> Mongolia became a member of the World Bank Group in February, 1991.

<sup>9</sup> IDA has committed a total of \$164 million to date for 10 projects. A total of \$114 million disbursed. The annual lending program has average US\$25-30 million equivalent.

<sup>10</sup> The 1992 Constitution legally guarantees the reform process.

<sup>11</sup> An estimated 10 percent of the country's total herd stock was lost during 2000, and the latest projections point to a loss of the same order of magnitude during 2001.

Although the outbreak of foot-and-mouth disease has curtailed foreign demand for Mongolian exports of meat and unprocessed animal products, seasonal receipts from cashmere, copper, and gold exports are expected to pick up in the second half of the year, and the pressures on the current account should remain manageable.

To promote Mongolian external economic growth the following favorable conditions for economic cooperation factors must be emphasized.

1. Rich, yet unexplored natural resources
2. Vast territory and pastures, large quantity of livestock
3. Bordering on immense markets of the two largest countries Russia and China, with each of which it enjoys good relations and most-favored-nation treatments
4. Proximity to the rapidly developing markets of the Asia-Pacific region
5. In terms of human resources, Mongolia is a young nation with a relatively healthy and well-educated population to pursue open economic policy.

### **III Possibility of FTA Formation**

In today's world, there are three economic zones which no business can afford to overlook. Combined, they produced 84% of global GDP. The three zones are North America, Western Europe and Northeast Asia.

Of the three regions it is Northeast Asia that offers the greatest growth potential. As the chart makes clear, Northeast Asia's share of the world's economy is only going to expand.

The figures, and indeed the term "Northeast Asia" cover China, Japan, and Korea. The vast Russian Far East is not yet included in statistics about the region. But if we include this area, with its huge untapped natural resources, low cost labor force, high educational standards and very high levels of pure science research the potential for growth is further underscored.

It is well known that Korea is ideally placed to be the region's hub. But intense competition is underway to grab the biggest share of the logistical cake. China, as well as the offshore bases servicing the China market-Taiwan and Hong Kong-are pursuing the lion's share of cargo shipments.

The natural crossroads on the back of Northeast Asia's economic mass is Korea. The peninsula is situated on the borders of giant China and the Russian Far East. A glance at history, and the peninsula's strategic significance becomes apparent. Geography has also been a historical liability with major



power rivalry characterizing the peninsula's recent history. But what made Korea a strategic axis yesterday makes the nation the perfect economic pivot point for today.

*Table 2 Global Indicators*

Indicators	Europe	Northeast Asia	Northeast America
Population (1999, million)	580	1470	400
GDP (1999, USS, trillion)	9.4	6.3	10.4
% of Global GDP (1999)	30	20	34

Source: Deloitte Consulting

*Table 3 Northeast Asian Indicators*

	Share of Global Trade	Share of Global Logistics	Share of Global GDP
Past	11.4 (1987)	27.0 (1997)	20 (1999)
Future	12.3(2000)	30.1 (2006)	30 (2020)

Source; Ministry of Finance and Economy

Korea's advantage is more than geographical or geocultural. In terms of manufacturing, Korea's industrial muscle is well known. The nation is home to the world's largest steelmaker, largest semiconductor manufacturer and largest TFT and LCD makers. More broadly, Korea is vying with Japan as the world's largest shipbuilder, and is the world's fifth largest auto producer. Korea is now also a global leader in mobile telecommunications technologies and internet usage. The nation is home to a highly trained, motivated and tech-savvy labor force. These trends and facts make Korea's plan to become the region's business hub not simply a strategy for success but a national imperative.

Meanwhile, Mongolia possesses abundant natural resources as one of the world's 10 most resource rich nations. Located between two large markets, China and Russia, the geographical advantage of Mongolian can be a great base for development.

In economic sector, Mongolia has been ceaselessly seeking the path of change and development. In 1988, Mongolia introduced the "Shinechlel" or

renovation, policy, which can be called “the perestroika of Mongolia”<sup>12</sup> Mongolia is steadily pushing political and economic reforms. In particular, because of the development of privatization and steady investment by foreigners, Mongolia is steadily pushing political and economic reforms. In particular, because of the development of privatization and steady investment by foreigners, Mongolia is showing a real growth rate in the gross domestic product of 3.6 percent or more since 1994 (Kim 1999).

**Korea’s trade with Mongolia**

South Korea is Mongolia’s new partner in trade and economic relations. At present South Korea and Mongolia relations are developing intensively in political, economic and social sectors. The meeting of state heads and other high level contacts are taking place on constant basis. South Korea is listed the second country after China for the investment and for the number of companies made investment in Mongolia is listed the third country after China and Canada.

*Table 4 Korean Direct Investment in Mongolia\**  
/1990-2003/

														/million USD/		
Total	90	91	92	93	94	95	96	97	98	99	00	01	02	03		
80,9				0,3	2,8	3,0	0,9	2,8	2,8	9,1	11,0	23,0	16,0	6,1		

Source: [http:// www.investmongolia.com](http://www.investmongolia.com)

*Table 5 Companies with Korean investment*  
*Registered in Mongolia\**  
/1990-2003/

														/million USD/		
Total	90	91	92	93	94	95	96	97	98	99	00	01	02	03		
503					3	12	17	26	43	54	59	72	92	105		

Source: [http:// www.investmongolia.com](http://www.investmongolia.com)

From these charts we can see that Korean investors are quite late comers to Mongolia. Since private businesses are quite cautious about new business environment they usually need some time in order to make investment. Among

<sup>12</sup> The system of directly electing the president and members of the State Great Hural and a market economy was introduced in 1992.

the foreign investors Korean investors are considered a few by their numbers but for the amount of investment are one of highest. Among the top 20 investors that we mentioned above 5 of them are Korean companies. For instance, Korea Telecom invested \$2,2 million in Mongolyn Tshahilgaan Holboo Company in 1995, Korean Zamis Company invested \$2,0 million in Mongolzamik in 1994, Korean Two Mart Company invested \$1,8 million in Sky Trading Company in 2001, Daehan Electric Wire Company invested also \$1,8 million in Skytel Mobile Phone Company in 1999 and Sky Tele also invested \$1,3 million in Skytel Company. Trade volume is also increasing between Mongolia and Korea.

*Table 6 Korea Mongolia trade turnover  
/1990-2003/*

	/million USD/						
Year	1990	1995	1999	2000	2001	2002	2003
Export	-	26,1	2,1	2,7	3,4	22,5	7,2
Import	0,9	21,5	36,2	55,6	53,6	86,3	67,1
Trade balance	0,9	47,6	38,3	58,3	57,0	100,8	74,3

Source: Monthly Bulletin of Statistics, 2004

Korea imports from Mongolia semi-processed hides and cashmere products. Mongolia imports from Korea consumer goods, cosmetics and a large number of cars. There are some rooms for expansion of Mongolia's export to Korea.

The Korea's total exports to Mongolia reached US\$55,6 million in 2000, and \$86,3 million in 2002. Mongolia's exports amounted to \$2.7 million in 2000, and \$22,5 million in 2002. While Korea's exports volume is continuously increasing, Mongolia's exports and fluctuating in minimum level. The reasons comes from the composition of trade commodities since Korea's main exports commodities are composed of textiles, chemical products and iron products, those of Mongolia are primary products such as agricultural and mineral products. To expand of trade volume is the way of Korea's investment in Mongolia by using the FTA. However, Korea's Foreign Direct Investment in Mongolia shows much better than the trade trend since the cases and amount of Korea's FDI are continuously increasing as in Table 4.

The potential economies of Korea and Mongolia are contemplated to facilitate reciprocal trade and to create a development base in accordance with

the principles of globalization and open integration. To realize this potentiality FTA between Korea and Mongolia is one of recommendable strategies.

It is regarded that FTA has two types; one it horizontal and the other is vertical one would be the vertical one. As like as bilateral vertical trade liberalization with European countries<sup>13</sup>, the Korea and Mongolia can commit to implement free trade. Dismantling customs duties requires substantial reforms to the fiscal, economic and industrial sectors.

The two governments of Korea and Mongolia have to promote measures for economic integration, including free trade, investment, transportation and other related areas between two countries. To implement an FTA, first of all, both governments have to set up a Special Committee for the Development of Trade to create a methodology to develop the gradual and progressive liberalization of trade, investment, transportation and other related sectors that will culminate in the establishment of free trade in the region as early as possible.

#### **IV. Remarks**

The characteristics in East Asia can be considered in two ways. One is economic interdependence. With the economies recording of remarkable success, Korea has been growing increasing interdependent on each other. For example, until the end of the 1980s, intra-regional trade grew to 30% of the region's total trade. This figure grew to 40% by 1995, which has since remained stable despite the 1997 economic crisis. East Asia has also seen such interdependence in investments, where intra-regional investment activity has recently amounted to 50% of East Asia's total investment flows. Another characteristic is commitment to openness and reform which can unify Asia countries together. All the Asian countries are committed to economic openness and the establishment of an open economy.

One of the important challenges North East Asian economic cooperation to solve is a need for open regionalism. The international relationship within the region can not be solely defined by the interests of the individual Asian country's alone. It is true that the United States and Europe both have great interests, involvement and stake in the region's stability and prosperity.

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<sup>13</sup> The Euro-Mediterranean Association Agreements as a vertical FTA provides for the gradual implementation of bilateral free trade. The Euro-Mediterranean Free-trade Area foresees free trade in manufactured goods and progressive liberalization of trade agricultural products.

Therefore, it is important that East Asian countries pursue regional cooperation that does not exclude those outside the region.

One of the possible suggestion to meet this challenges is to enhance economic cooperation. The specific tasks for enhancing economic cooperation are rather clear. It is needed to seek openness and harmony as like the following actions (Han 2000a)

First, it is needed to promote trade, investment and other various economic activities, such as tourism and construction projects.

Second, it is needed to cooperate to establish and maximize the benefits of the information-based economy and the digital age. For this purpose, it is necessary to work together to promote computer education and recommence throughout the region to prevent the growing digital divide.

Third, private sector's industry-by-industry cooperation is critical. Public sector alone can not achieve meaningful progress. Only collaborative efforts between private entities in similar economic sectors will bring us tangible and sustainable results.

Since Korea and Mongolia established diplomatic relations in 1990, the trade volume has increased very rapidly. However, the potential for future cooperation is limitless. There is a high expectations for putting the mutually complementary cooperative relationship on a higher plane based on the relations of the past 1.000 years.

Moreover, Korea and Mongolia must do their utmost for paeans prosperity in the Northeast Asian region. Mongolia even land-locked nation will have many opportunities to develop toward the Pacific Ocean through cooperation with its neighbors, including Korea.<sup>14</sup>

Development in economic cooperation has been surprising. Since 1998, Korea had become Mongolia's fifth largest trade partner and fourth largest investor. The main reason for this is the deeply rooted historic and emotional ties between our two countries.

Korea can contribute to Mongolia's economic development by helping develop natural resources and build various parts of the social infrastructure, including communications facilities.

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<sup>14</sup> During the era (1218) of Genghis Khan two countries concluded a friendly oath. The interaction and cooperation which was interrupted during the Cold-War era in the 20<sup>th</sup> century but resumed later will provide an opportunity for the co prosperity of our two countries (Han 2000b)

Even though Korea has preferred the multilateral negotiations to regional agreements and maintained its commitments to multilateral trade agreement because of her non-discriminatory and comprehensive coverage, globalism were considered to be the best way to achieve trade liberalization at the global level.

Korea is now continuing FTA negotiation with Chile and examining the feasibility of FTAs with major economies such as Japan, the U.S. and China, which are Korea's major trading partners. On the other hand, it is also negotiating strategic FTAs with relatively small but open economies such as New Zealand and Thailand.

In the process of creating the Korea-Mongolia Free Trade Area, possible measures to mitigate anticipated problems should be devised. Since simple enhancement of market access by removing tariffs and non-tariff barriers within a short period of time to prepare the Korea-Mongolia FTA which will bring greater prosperity through increased trade, investment and employment in both partners. To initiate the Korea-Mongolia FTA the negotiation for the Common Preferential Tariff area is one of the possible policy suggestions.