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Analysis on the Effects of Korea-EU Free Trade Agreement (FTA) on Bilateral Trade between Korea and EU

한-EU 무역에서의 양자 FTA 효과 분석

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Analysis on the Effects of Korea-EU Free Trade Agreement (FTA) on Bilateral Trade between Korea and EU

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ABSTRACT

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On 1 July 2011, the Korea-EU Free Trade Agreement (FTA) entered into force. There were various predictions about how this FTA will affect the Korea-EU bilateral trade balance. For South Korea, it wasn't the first time signing a Free Trade Agreement. However, it was the first time to cooperate bilaterally with the European Union, whose effects could not be easily predicted.

After a year, we are able to analyze the effects of the FTA on the bilateral trade of both sides and follow the trade trend changes. Most studies done on the potential impact of the Korea-EU FTA estimate that the agreement will have a small but positive effect on the economies of the EU and South Korea as a whole and that the larger relative impact would be on the South Korean economy. The greatest economic impact of the Korea-EU

FTA would be on specific sectors in each economy which will be discussed in this paper.

From the perspective of European Union, there are high expectations of experiencing gains from the service sectors in the areas of financial services, transportation services, business services, retail and wholesale trade. Furthermore, in terms of trade in goods, EU exporters of pharmaceuticals, auto parts, industrial machinery, electronics parts, and some agricultural goods and processed foods would be expected to gain from the FTA's implementation.

At the same time, the Korean side, especially manufacturers of cars, ships, wireless telecommunications devices, chemical products, and imaging equipment, expect to increase their exports to the EU market.

This paper is going to overview how the Korea-EU FTA has affected on Korea EU in terms of their bilateral trade. As far as the results show, the bilateral trade in automobile sector has had mostly been affected by the Korea-EU FTA.

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Keywords: Korea-EU FTA, bilateral trade, import, export

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I. INTRODUCTION

On 6 October 2010, South Korea and the European Union signed a bilateral Free Trade Agreement (FTA). After the ratification by both the South Korean National Assembly and the EU Parliament, the Agreement went into effect on 1 July 2011.

The long-lasting negotiations were finally concluded and both sides are expecting a promising future as a new era began in terms of bilateral trade. For South Korea, Korea-EU FTA is the largest FTA in terms of market size that Korea has entered into. The European Union with 27 countries is the biggest trading partner for Korea followed by China.

This FTA is a new challenge not only for Korea itself but also for EU as it is the first FTA signed with an Asian country. This reflects the EU and South Korean trade strategies to use FTAs to strengthen economic ties outside their home regions. It also builds upon the surge in trade and investment flows between South Korea and the EU over the past decade.

The Korea-EU FTA stands out on its own not only in terms of being a free trade agreement with the world's largest economy by size. It also differs greatly from typical Asian FTAs because of the fact that it will remove short tariffs and avoid sensitive sectors altogether. This represents a major step forward from previous FTAs that Korea has concluded. This is not only because of the sheer size of the counterpart, but also the level of ambition. The negotiation parties had different or asymmetrical offensive

interests – and the agreement is more ambitious than Korea's previously concluded FTAs with EFTA and ASEAN by going beyond tariffs, especially by harmonizing the domestic regulatory framework with a clear depressing effect on non-tariff barriers (NTBs). These barriers have the same protection effect as a tariff at 76 percent in Korea and 46 percent in the EU. Meanwhile, the average tariff is "only" 12.2 percent in Korea and 5.6 percent in the EU. Hence, trade liberalization through tariff reductions suffers from diminishing returns. It is clear that the biggest gains are to be found in "deep-integration" measures for both Korea and the EU.

Historically, Korea's size, location and links to its neighbors have been the cause of the deep tragedies that have been inflicted upon the Korean peninsula and people. It is therefore ironic that these conditions have now come to provide an opportunity where Korea stands as the only agile actor amongst unable neighbors. It is not a coincidence that the EU has chosen Korea as its first partner, and given the political situation with its competitors, Korea may enjoy the benefit of having the first-mover advantage for many years ahead.

The EU on the other hand will gain from better market access for its services, food and agricultural products. Yet, understandably, market access to Korea amounts to modest gains for the EU, which is an economy eighteen times larger than its counterpart.

Access to the world's largest market will come at a price. But FTAs are not zero-sum games where one side wins and the other loses. In this context, it can be concluded

that Korea's trade-offs are largely correct – and the concessions done will improve Korean competitiveness and stability.

This paper analyzes the impact of the EU-Korea FTA Agreement in terms of its benefits for the Korean economy. By revising the current trade patterns and the relevant theory, this paper proposes a fresh approach to assess the potential gains that the Korean economy might potentially attain from fully absorbing the commitments imbedded on this agreement.

In essence, this paper aims to provide evidence that the Korea-EU FTA Agreement will potentially contribute to balance the conditions between the counterparts. Although major challenges are still to be overcome, the Korean economy promises to benefit from the access to such a mature growing market as the European.

II. RECENT TRENDS IN TRADE BETWEEN KOREA AND EU

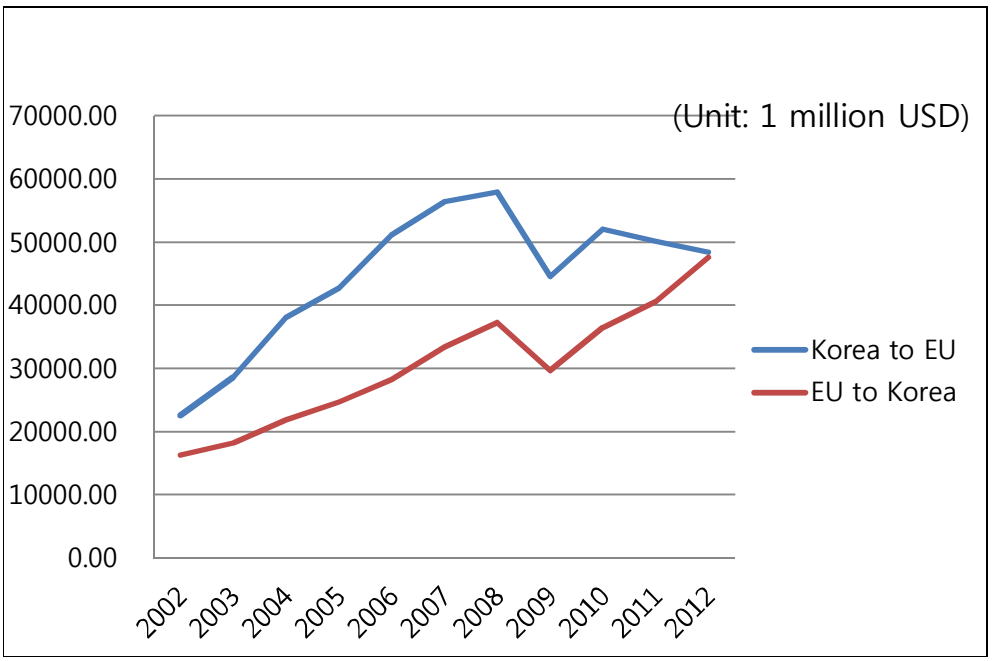
Korea is the world's seventh largest exporter and ninth largest importer, with a total trade volume of more than 1 trillion USD in 2011. From a deficit of 13.2 billion USD in 2008, Korea's trade surplus increased sharply to 40.4 billion USD in 2009. Since 2009, the trade surplus has surpassed pre-crisis levels.

Korea is EU's eighth largest trading partner. EU at the same time is Korea's third largest trading partner after China and Japan. With the exception of the period during the global financial crisis in 2009, trade with the EU has maintained an increasing trend, but trade surplus has been decreasing since then.

According to the statistics, at the time negotiations were going on for the agreement in 2007, both countries were actively trading with each other. The EU was Korea's second largest trading partner and the site of the most significant trade surplus gain for Korea, whose trade balance amounted to 19.1 billion USD.

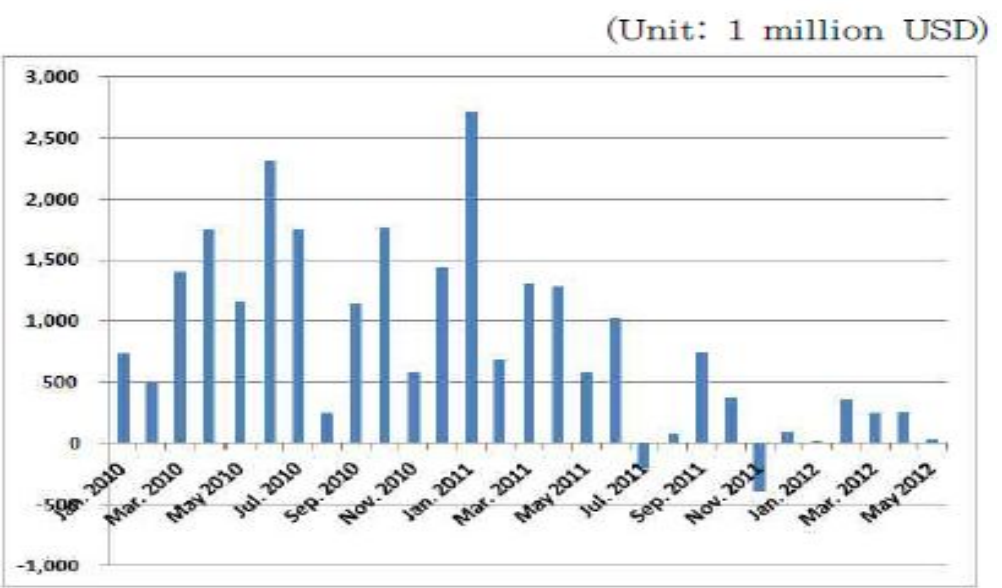
After the global financial crisis, Korea's trade surplus with the EU has been slowly decreasing as a result of the slowdown of the economic growth in the European market. For this reason, the demand for imports in the EU has decreased. However, the import into Korea from the EU has increased due to Korea's rapid economic recovery after the financial crisis.

Figure 1 Korea's Trade with the EU



(Source: UN Comtrade)

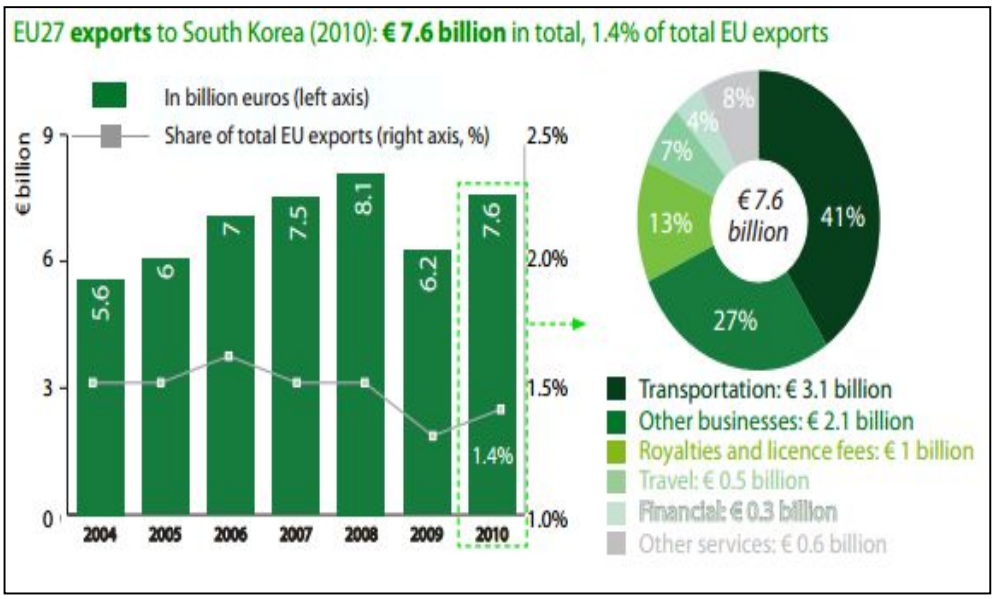
Figure 2 EU's Trade Balance by Month



(Source: Korea International Trade Association (KITA))

3.1 TRADE IN SERVICES

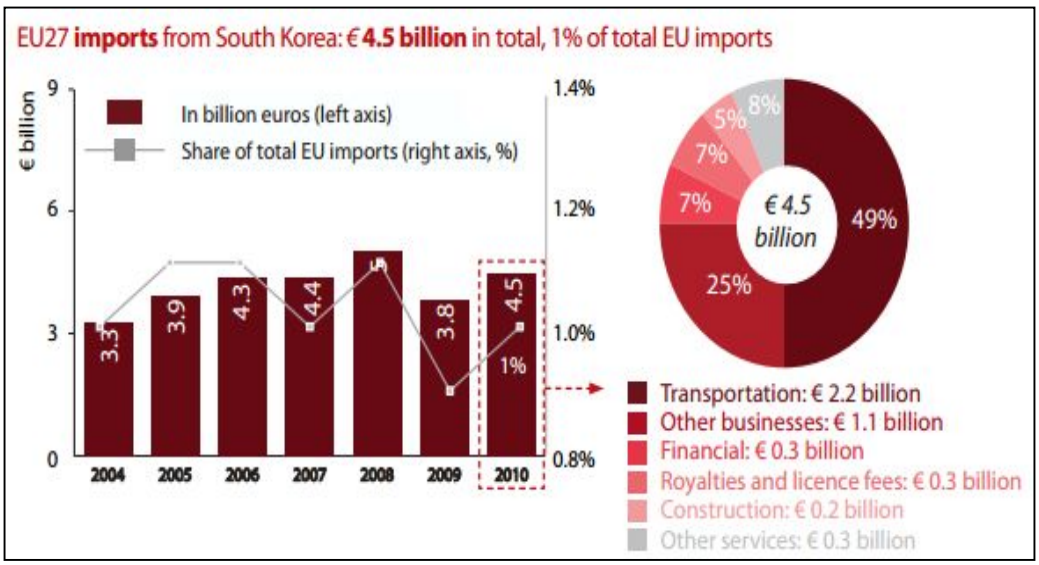
Figure 3 EU 27 exports to South Korea (2010)



(Source: IMF)

According to IMF, Korea has been importing services from EU worth about €7.6 billion in total in 2010 with the largest share in transportation services. Meanwhile, Korea's export is worth €4.5 billion and transportation takes the biggest portion just like the importing sector. Korea comprises 1% of the total EU imports with the World.

Figure 4 EU27 Imports from South Korea



(Source: IMF)

EU's annual investments in Korea have remained at about 3 billion USD despite large annual fluctuations. The investments from four countries – Netherlands, UK, Germany and France – make up over 80% of total investment.

3.2 THE AUTOMOBILE SECTOR

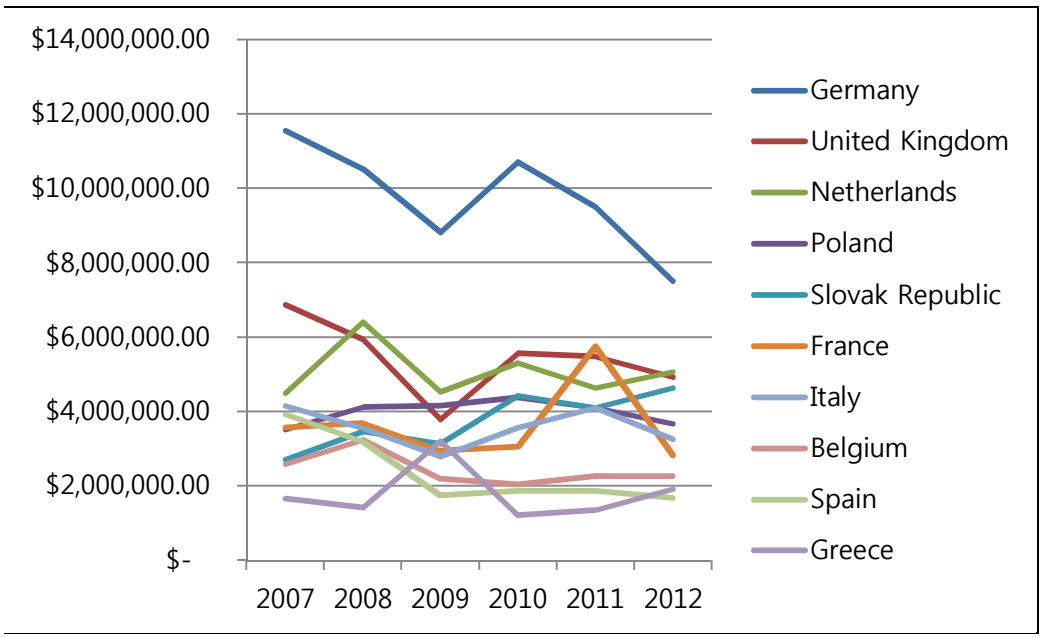
The automobile sector is one of the most significant sectors that can bring huge changes in the bilateral trade between Korea and EU. That is why it has the most complicated obstacles and procedures to be passed after the implementation of the Korea-EU FTA.

In the period of the FTA implementation, the import of cars from the EU to Korea has increased up to 28%. This corresponds to an increase from 75,000 to 95,000 cars. At

the same time, EU imports of cars from Korea have grown in a smaller amount: from €3.4 billion in 2011 to €3.9 billion in 2012 (14.9%). This corresponds to an increase from 383,000 to 402,000 cars. In consequence, our trade balance in the sector, although still negative, has improved.

Korea's investment in the EU reflects the characteristics of two most important issues such as industrial specialization and market size of host countries. Because of Korea's concentration on manufacturing, investments are mostly concentrated in the manufacturing industry

Figure 5 Top 7 Exporting Countries from Korea to EU



(Source: World Bank WITS)

III. FTA TREND IN KOREA

Korea has been actively involved in signing new Free Trade Agreements with various countries, nations that could bring a significant difference in their bilateral trade.

In Table 1, we can see the FTA trend of Korea, which also shows how actively Korea has been involved in various negotiations in order to improve and increase the trade with different nations.

Table 1 FTA Trend in Korea

Classification	**Remarks**	
In effect **(45 Countries)**	Chile	In effect since **April 1, 2004**
	Singapore	In effect since **March 2, 2006**
	EFTA (4)	In effect since **September 1, 2006** (Iceland, Liechtenstein, Norway and Switzerland)
	ASEAN (10)	Malaysia, Singapore (**June 1, 2007**), Vietnam (**June 29, 2007**), Myanmar (**November 27, 2007**), Indonesia (**December 7, 2007**), the Philippines (**January 1, 2008**), Brunei (**July 1,**

		2008), Laos (**October 1, 2008**), Cambodia (**November 1, 2008**) and Thailand (**January 1, 2010**)
	India	Korea-India CEPA in effect since **January 1, 2010**
	EU (27)	In effect since **July 1, 2011** (Austria, Belgium, England, Czech, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Netherland, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Bulgaria, Rumania)
	Peru	In effect from **August 1, 2011**
	US	In effect from **March 15, 2012**
Concluded (2 Countries)	Colombia	Announcement of conclusion of Korea-Colombia FTA on **June 25, 2012**
	Turkey	Korea and Turkey signed the Framework Agreement and the Agreement

		on Trade in Goods on **August 1, 2012**
Under Negotiation (12 Countries)	Canada	13 rounds of negotiations held between May 10, 2004 and January 9, 2009
	Mexico	2 rounds of negotiations held between May 2000 and June 11, 2008
	GCC (6)	3 rounds of negotiations held between March 2007 and November 19, 2009 (Saudi Arabia, Kuwait, Arab Emirate, Qatar, Oman and Bahrain)
	Australia	5 rounds of negotiations held between December 2006 and May 28, 2010
	New Zealand	4 rounds of negotiations held between December 2006 and May 14, 2010
	Indonesia	Negotiations and public hearings (3 in total) on Korea-Indonesia CEPA held between May 2011 and March 28, 2012, 1st negotiation held on

		July 12, 2012
	China	Joint feasibility study, involving governments, businesses and academic scholars from both sides and 1st negotiation held between September 2004 and May 14, 2012
Under Consideration (15 Countries)	Japan	Joint feasibility study, involving governments, businesses and academic scholars from both sides and 6 rounds of negotiations held between November 1998 and May 9, 2011
	Korea-China-Japan	Completion of 7 rounds of Joint Studies, involving governments, businesses and academic scholars from both sides between May 6, 2010 and December 16, 2011
	Mercosur (4)	4 rounds of joint studies between May 4, 2005 and November 1, 2006 Korea and MERCOSUR signed the MOU for the establishment of a joint

		consultative group to promote trade and investments between the Republic of Korea and MERCOSUR on July 23, 2009 (Brazil, Argentina, Uruguay, and Paraguay)
	Israel	3 rounds of joint studies held between May 18, 2009 and August 2010
	Vietnam	6 rounds of meetings and public hearings held between June 23, 2010 and April 20, 2012
	Mongolia	Korea and Mongolia agreed to launch a joint feasibility study in October 2008
	Central American Countries (5)	Launch and completion of joint studies with Panama, Costa Rica, Guatemala, Honduras and El Salvador between October 2010 and April 2011
	Malaysia	Feasibility study on Korea-Malaysia FTA

		held in April 2012

(Source: FTA Portal)

IV. OVERVIEW OF KOREA-EU FREE TRADE AGREEMENT (FTA)

The Free Trade Agreement between Korea and EU is the first of a new generation of FTAs. The decision to launch negotiations on such FTAs with third countries is based on solid economic criteria with the objective of enhancing market access for European companies in the highly dynamic and competitive markets of Asia.

After several formal meetings, the FTA was initiated by Korea and EU in 2009. On 16 September 2010, the FTA was approved and the Agreement was officially signed on 6 October 2010 during the Korea-EU Summit in Brussels. The European Parliament gave its consent to the FTA on 17 February 2011. The Agreement has been provisionally applied since 1 July 2011.

The Korea-EU FTA is the most comprehensive free trade agreement ever negotiated by the EU and the first with a partner country in Asia. Import duties are to be eliminated on nearly all products which means that 98.7% of duties in terms of trade value will be eliminated within five years and there is far-reaching liberalization of trade in services which include telecommunications, environmental services, shipping, financial and legal services covering all modes of supply.

The FTA is expected to create substantial new trade opportunities in goods and

services up to €19.1 billion as well as in investment. The additional market access provided by the FTA will further strengthen the position of EU suppliers in the Korean market.

The Agreement includes provisions on investment, as well as in services and industrial sectors and also covers significant issues such as the protection of intellectual property rights including geographical indications (GI) and government procurement.

The FTA with South Korea is part of a new wave of EU FTAs and part of an overall strategy referred to as "Global Europe" of the program that was announced in 2006. The strategy was developed to respond to the challenges faced by EU members in a rapidly globalizing economy. An objective of that strategy is to work towards reducing tariff and non-tariff barriers in trade and to liberalize markets to increase the foreign direct or indirect investments.

Furthermore, there were specific commitments agreed to eliminate and to prevent the emergence of non-tariff barriers to trade in sectors such as automobiles, pharmaceuticals and electronics. Especially for the EU, it was the automotive industry. The FTA contains far-reaching provisions to address non-tariff barriers which have been perceived by EU industry as the most significant obstacles to export to Korea. In consumer electronics, Korea will consider many European standards as equivalent and recognize European certificates, thus eliminating red tape which has constituted a significant trade barrier.

Finally, exporters of pharmaceuticals and medical equipments will benefit from transparency in price, with detailed binding rules on the transparency of decisions on

reimbursement and the option to have such pricing decisions reviewed by a court.

According the WTO, The EU was a pioneer in negotiating preferential trade arrangements (PTAs)—a general term applied to an arrangement in which member countries agree to eliminate barriers to commerce among them. The EU itself is a single market, one of the most comprehensive PTAs, but has also used PTAs to anchor trade relations with neighboring countries, such as members of the European Free Trade Area (EFTA—Iceland, Lichtenstein, Norway, and Switzerland) and as a transition mechanism in trade relations with countries slated to accede to the EU. The EU has also employed PTAs to preserve preferential trade relationships with former colonies among developing countries. However, the EU imposed a moratorium on the formation of FTAs and other PTAs from 1999-2006 to focus attention on the Doha Development Agenda (DDA) negotiations.

The EU also places a priority on multilateral negotiations in the WTO and concluding the DDA to accomplish this objective. However, the EU also has determined that some barriers are currently too complex for multilateral negotiations or are otherwise beyond the purview of the WTO, for example, competition policy, regulatory issues, government procurement, and stronger intellectual property rights enforcement. As part of the Global Europe strategy, the EU has engaged in FTA negotiations with the objective that the FTAs are more appropriate vehicles to address these more complex issues and can serve as building blocks toward a more robust multilateral trading system.

According to the WTO, the Global Europe strategy sets down two main criteria for

selecting FTA partners: (1) that the partner country offers sufficient market potential and (2) a sufficient level of growth opportunities that would result from the removal of tariff and non-tariff barriers as a result of the FTA. Based on these criteria, along with the fact that South Korea had negotiated an agreement with the United States (a chief EU competitor) the European Commission identified South Korea as a priority country for an FTA. The EU has FTAs in force with Chile and Mexico and has been negotiating FTAs with Canada, India, and South Africa. The Korea-EU FTA would be the EU's first completed FTA in Asia.

For nearly a decade, South Korea has been transforming itself into an FTA hub in Northeast Asia. Signing a network of FTAs has been a key part of the national economic strategy of President Lee Myung-bak, a conservative, and his predecessor, the left-of-center Roh Moo-hyun. Both presented FTAs as necessary for advancing South Korea's economic well-being.

Ongoing competitive pressure from Japanese firms, increased competition from Chinese enterprises, and the rapid aging of the South Korean workforce have heightened the sense of urgency about boosting national competitiveness. President Lee has set a goal of building a "free trade network" that by 2014 would enable over 70% of South Korean exports to enjoy duty free access. He has explicitly tried to diversify the composition of South Korea's FTA partners, simultaneously negotiating FTAs with large advanced economies as well as with natural resource rich developing countries. The Korea-EU FTA also fits into Lee's goal of creating a "Global Korea" by expanding

South Korea's engagement with and presence in the international community.

Similar to the Korea-US FTA, the Korea-EU FTA is a comprehensive pact that covers the broad range of economic activities in the EU-South Korean bilateral economic relationship. The Korea-EU FTA is organized into 15 chapters plus special sector specific annexes, which cover automotive products, pharmaceuticals, chemicals, and consumer electronics. The Korea-EU FTA eliminates tariffs on virtually all manufactured goods in South Korea-EU bilateral trade within seven years and reduces or eliminates many non-tariff barriers (NTBs). The agreement also establishes rules and procedures in trade in goods and services and addresses trade-related activities pertaining to intellectual property rights (IPR), labor rights, and environmental protection.

Similar to the Korea-US FTA, the provisions in the pending Korea-EU FTA are intended to boost goods and services exports from the EU to South Korea by eliminating South Korean import duties and other barriers to trade in industries from autos and pharmaceuticals to consumer electronics and textiles and apparel. Exports from South Korea to the EU might increase in various manufacturing sectors but are not expected to surge since many EU tariffs are already relatively low and the EU's NTBs are for the most part not as significant as in South Korea.

The Korea-EU FTA also is intended to increase FDI flows between the two partners, especially EU investment to Korea. These areas include trade in certain manufactured goods sectors especially the automobile sector, agricultural products, and services; and issues pertaining to IPR, worker rights, and environmental protection.

Korea since 1960 focus on building up trade surpluses in few, selected manufacturing sectors started with textiles in the 1960s, and have continued to autos and electronics (such as semiconductors, mobile phones and flat screens) of today. Perhaps this is a strategy that served Korea well, but its future success is not given.

First, Korea's export model is sensitive to the rising competition in Asia. Korea has still a significant share of its export, around 40% in final goods – finalized and assembled consumer and capital goods, more than the technologically advanced components that go into them, which are referred to as intermediate goods.

Also, this makes Korean exports more price-sensitive and open to direct competition from new entrants to the world economy, like China and countries in South-East Asia. Korea's export structure has also been reinforced by China's emergence as its primary export market. There is now a 'triangular trade' where final goods destined for China is made in Korea, often using intermediate goods from abroad, e.g. Japan.

Given the developments in factor efficiencies and the structure of the Korean exports, it is clear that the future growth effects from export cannot be taken for granted; either factor productivities must increase or Korea needs to diversify into more value-adding activities in order to maintain growth.

V. EXPECTATIONS BEFORE THE IMPLEMENTATION

This chapter presents the expectations that existed before the implementation of the Korea-EU FTA. The most obvious expected result was the tariff reduction. The Korea-EU FTA was to relieve EU exporters of industrial and agricultural goods to South Korea from paying tariffs. Therefore, once the agreement is up and running, exporters were expected to save €1.6 billion annually from not paying import duties. In this case, even on day 1, exporters could already save €850 million.

For instance, EU machinery exporters would save €450 million each year, while chemical exporters would save over €150 million. The EU textiles and clothing sector would see most of the €60 million duties eliminated since day one of the FTA implementation.

The EU had a strong agricultural presence in the Korean market with major exports in pork (worth €240 million), whisky (€176 million) and dairy products (€99 million). However, only 2% of EU agricultural exports entered South Korea duty free and the agricultural import tariffs are very high. The Korean tariffs on these goods could be eliminated after the implementation of the FTA. Import duties on wine, for instance, could be eliminated on day one; and those on whisky at year 3. EU agricultural exporters could save at least €380 million annually. Overall, this was the most ambitious tariff elimination achieved in any of the EU's bilateral trade agreements.

In fact the gains from duty savings could be even higher as trade between the EU and

South Korea was expected to expand due to the FTA. Moreover, the FTA was expected to create new business in goods and services worth €19.1 billion for the EU compared to €12.8 billion for South Korea. The figure in fact underestimated the benefits for the EU since it did not consider the gains due to the elimination of non-tariff barriers (NTBs). In essence, the FTA was expected to more than double EU-South Korea bilateral trade in the next 20 years compared to a scenario without the FTA.

The FTA could open several billion Euros worth of new opportunities for EU companies in the services sectors. The FTA could not only offer commitments on services parallel to those offered by South Korea in the draft FTA with the US, but also go beyond those in sectors of specific EU interest.

In practical terms, the FTA could:

- allow EU satellite broadcasters to operate directly cross-border into South Korea, thus avoiding the obligation to liaise with a Korean operator.

- allow 100% indirect ownership in the Korean telecommunication sector, thus ensuring easier operation for EU companies.

- secure full market access for EU's shipping firms and the right of establishment in South Korea, as well as non-discriminatory treatment in the use of port services and infrastructure.

- provide substantial access to Korean market to all EU financial firms, which will, in particular, be able to freely transfer data from their branches and affiliates to their

headquarters, satisfying a long-standing industry request.

- enable access for EU providers of international express delivery services to the Korean market.

Before the FTA, EU exporters of consumer electronics and household appliances (such as television sets, computers, microwave ovens, mobile phones or telecom equipment) were obliged to duplicate cumbersome and expensive testing and certification procedures in order to sell in South Korea. Under the FTA, South Korea would generally recognize European certificates and test results. Therefore no duplicative tests or certification would be required.

Substantial benefits was to also arise for pharmaceuticals and medical devices after strengthening transparency and predictability of South Korea's pricing decisions once the FTA enters into force. As in many EU Member States, Korean health authorities set the prices at which drugs are reimbursed. However, there were concerns regarding the lack of transparency of the process under which prices are set.

The FTA included clear mechanisms and procedures to tackle the long-standing concern: introducing detailed binding rules on transparency regarding decisions on reimbursement, and stipulating the possibility to have such pricing decisions reviewed by a court. The criteria on which the decisions on reimbursement and pricing are based were to be objective and clear. Finally, the FTA was to provide for regulatory co-operation through a working group.

EU car manufacturers could gain from a combination of elimination of South Korean duties and non-tariff barriers (NTBs). The 8% tariff on EU cars exported to South Korea would be removed, which means that for every car worth € 25,000 exported to South Korea, €2,000 in duties will be saved. Special attention would have been given to the NTB package, under which South Korea would accept equivalence of international or EU standards for all its significant technical regulations.

This implied that an EU manufacturer would be able to sell cars in South Korea that have been produced in accordance with EU specifications without being subject to additional testing or homologation.

In essence, the FTA unmistakably mandated that there would be no new unjustified barriers in the automotive sector erected in the future and establishes regulatory cooperation through a working group. If such barriers were to arise, the FTA also included a special accelerated dispute settlement mechanism, which would ensure compliance with the rules negotiated for the car sector. As foreseen, the period for an arbitration panel ruling was to be reduced to 75 days, instead of 120 under the standard procedures.

In practice, the technical rules of the FTA meant that:

- There would be no need to conduct specific expensive tests to show compliance with a wide range of safety standards (e.g. resistance to crash or impact, effectiveness of braking) 3/4 as the tests conducted in the EU to show compliance with EU standards would be recognized by South Korea.

- There would be no need to comply with specific Korean standards, for instance, on noise or technical specifications on many car devices and features, from lamps to seats or steering wheels.

- South Korea would accept equivalence of EU standards on Board Diagnostics (OBD) for petrol cars once the Euro-6 norm is adopted as well as derogations for EU cars from Korean emission requirements and, pending the entry into force of the Euro-6 norm from OBD requirements.

The FTA was expected to not only reduce costs and provide new opportunities to expand sales, but also prevent the situation in which some EU car brands already present in South Korea would have to withdraw from the Korean market. Without the derogations negotiated under the FTA, some car brands would not have been able to meet the Korean OBD and emission requirements. Additionally, future entry into the Korean market for those EU brands that are not yet present in South Korea would have been very difficult without the FTA.

The EU-South Korea FTA was seen to offer the opportunity to expand procurement opportunities to public works concessions and "Built-Operate-Transfer" (BOT) contracts not covered by the WTO Government Procurement Agreement commitments. Such contracts were of significant commercial interest to European suppliers, who were recognized global leaders in this area. Guaranteeing the practical and legal accessibility of such tenders to European suppliers was considered to secure substantial new tendering opportunities.

A high level of protection and enforcement of intellectual property rights (IPR) was crucial to European competitiveness. A comprehensive chapter covering provisions on copyright, designs, enforcement and geographical indications (GIs) was included in the Korea-EU FTA. On copyright, for instance, the agreement would facilitate the process of getting adequate remuneration for EU right holders for the use in South Korea of their music or other artistic works. On enforcement, the agreement included state of the art provisions that go significantly beyond the provisions of the TRIPs Agreement.

Korean consumers were eager for EU agricultural quality products, notably those protected by EU GIs, such as EU wines, spirits, cheeses or hams which had a very good reputation in South Korea. The FTA was to offer a high level of protection for commercially important European GIs and therefore prevent their misuse in the Korean market. To name a few examples, the FTA would protect:

– Champagne, Scotch or Irish whisk(e)y, Grappa, Ouzo, Polska Wódka

– Prosciutto di Parma, Szegedi szalámi and Jambon de Bayonne

– Manchego or Parmigiano Reggiano cheese

– Vinho Verde or Tokaji wines as well as those from the Bordeaux and Rioja and many other regions like the Murfatlar vineyard

– Bayerisches Bier and České pivo

The agreement prohibited and sanctioned certain practices and transactions involving

goods and services, which distort competition and trade between the parties. This implied that anticompetitive practices such as cartels, abusive behavior by companies with a dominant market position and anticompetitive mergers, would not be tolerated by the EU and South Korea and would be subject to effective enforcement action, as they lead to consumer harm and higher prices.

The FTA was also expected to remedy or remove distortions of competition caused by subsidies in so far as they affect international trade. The Korea-EU FTA contained prohibition of certain types of subsidies, which were considered to be particularly distortive. According to the transparency provisions included in the Agreement, the Parties to the FTA would report annually on the total amount, types and the sectoral distribution of subsidies.

Moreover, there was an obligation to provide further information on subsidy schemes or individual subsidies on request. The rules on subsidies were applied to goods (with the exception of agriculture and fisheries) and could be extended to services in the future. The issue of subsidies in certain industrial sectors, such as shipbuilding, had been a matter of concern for EU industry.

The lack of transparency of the regulatory environment had often been a concern expressed by European firms doing business in South Korea. It was therefore significant that this FTA included strong transparency commitments that would apply to all regulations having an impact on matters covered by the FTA.

The horizontal transparency provisions provided for the Commitments to allow

interested persons to comment on proposed new regulatory measures and make the establishment of enquiry or contact points to respond to questions arising from the application of regulations or to seek to resolve problems arising from such regulations.

The EU-South Korea FTA established a framework for cooperation on trade and sustainable development. It included firm commitments by both sides to labor and environmental standards. The agreement also set up structures to implement and monitor the commitments between the parties through civil society involvement.

On labor, the FTA contained a shared commitment to the ILO core labor standards and to the ILO decent work agenda, including a commitment to ratify and effectively implement all conventions identified as up to date by the ILO (i.e. going beyond those conventions relating to the core labor standards). On environment, there was a commitment to effectively implement all multilateral environmental agreements to which they are party.

The Agreement incorporated a confirmation of the parties' right to regulate, while aiming at a high level of protection in the fields of environment and labor, and a commitment to refrain from waiving or derogating from such standards in a manner that affects trade or investment between the parties. The FTA included strong monitoring mechanisms, building on public scrutiny through civil society involvement by both South Korea and the EU, and mechanisms for settling differences through an independent panel of experts.

In addition, the EU-South Korea FTA ensured fast tariff dismantlement for

environmentally friendly goods in order to promote sustainable development through green technologies.

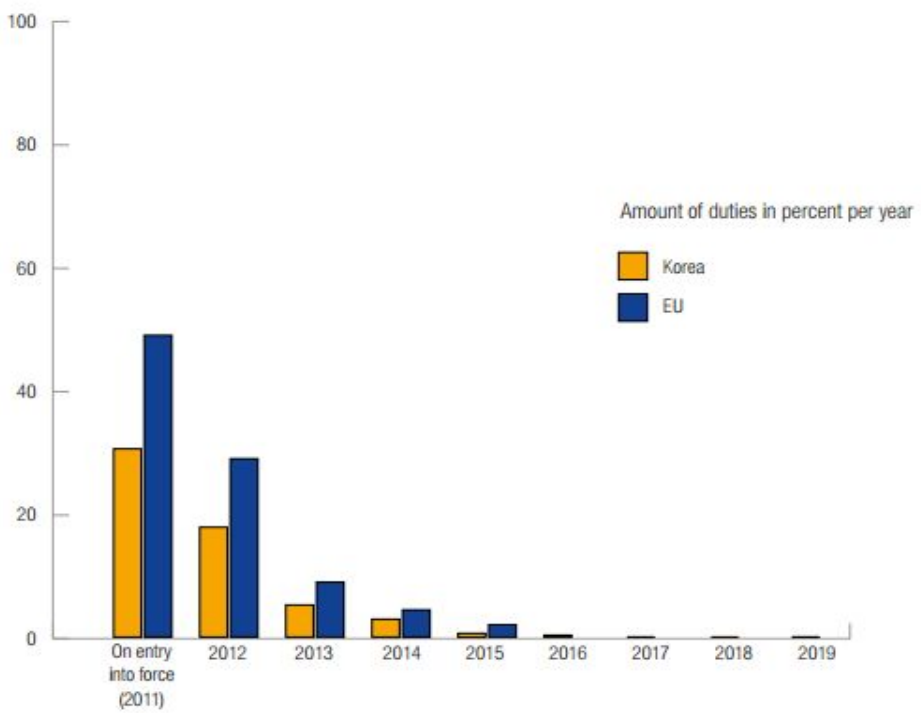
It was expected that within 3 years from its entry into force, almost 100% of such goods would have duty free access to South Korea's and the EU's markets. The FTA included also far reaching commitments going beyond WTO General Agreement on Trade in Services (GATS) in the environmental sector and secures the liberalization of access to the respective environmental services markets.

The Korea-EU FTA included efficient dispute settlement mechanisms to ensure the enforceability of commitments taken as well a mediation mechanism to tackle non-tariff barriers. The procedures envisaged under the dispute settlement chapter foresaw arbitration ruling within 120 days, i.e. much faster than in the WTO.

VI. OVERALL TIMELINE OF THE LIBERALIZATION

The overall timeline of the tariff reduction of Korea-EU FTA was negotiated to have 70% of the tariff lines duty free from the first day of the FTA implementation. Practically, all duties on industrial goods are going to be removed after 5 years from 2011. Korea's sensitive items, mainly agricultural products, will benefit from longer transition periods and Korean rice will not be liberalized. EU's average tariff which is applied is 6.5.

Figure 6Tariff reduction and elimination schedule



(Source: UN Comtrade)

VII. RESULTS AFTER THE IMPLEMENTATION

Korea's exports to the EU, which was under recovery after the global financial crisis, began to decrease from the latter half of 2011. However, this has been a common situation for many Asian countries concentrating on the manufacturing exports.

During the 11 months after the Korea-EU FTA went to into effect, Korea's exports to the EU decreased 11.5% compared to the previous year. However, during the implementation period, Korea's export to most countries has increased, which means that it was an exceptional case for Korea to have such a decrease in exports to the EU.

According to Eurostat data, during the Korea-EU FTA implementation period most of the Asian countries including Korea have experienced a market decrease in exports to the EU.

The EU side argued that the agreement guaranteed South Korean vehicle manufacturers' full market access to the European market without a tangible improvement in export conditions to South Korea. In particular, the agreement was seen to have failed to secure the use of existing international vehicle standards when entering the Korean market, which constituted an important non-tariff barrier to trade.

The agreement was seen to set a precedent for EU FTAs with other countries, especially in Asia, leading to further uneven competition. In particular, this could potentially lead to increased imports of low-cost parts from neighboring countries, plus

the drawback of duties on these parts. This issue was relevant not only for automotive, but also a number of other sectors.

Automotive is the largest single component in the EU/ South Korea trade relationship. It represents 14% of the total EU/South Korea trade volume. 17% of all Korean exports to the EU consist of cars; EU car exports represent 4% of total exports to South Korea. The EU27 has consistently had a trade deficit with Korea: €14.8 billion in 2007, €19.9 in 2006, €14.2 in 2005, €12.7 in 2004.

Of the trade deficit, 40% stems from the huge disequilibrium in automotive trade. Autos are the most important export product of the South Korean economy. The South Korean car industry is focused on exports, with a production of 3.5 million cars per year, of which 2.5 million (73%) are exported.

The EU is a key target market, with 700,000 cars in 2007, and an average 10% annual growth between 2000 and 2007. The FTA represents a transfer volume of at least €1 billion per year, as South Korean imports of car parts from neighboring low-cost countries will strongly increase: Duty Drawback of up to 40% (or €320 per car), plus a weakening of the Rules of Origin to 40%+ - The EU enables South Korean manufacturers to offset the rise in production costs in their home country, at the expense of fair competition for EU manufacturers, and at the expense of South Korean production in the EU.

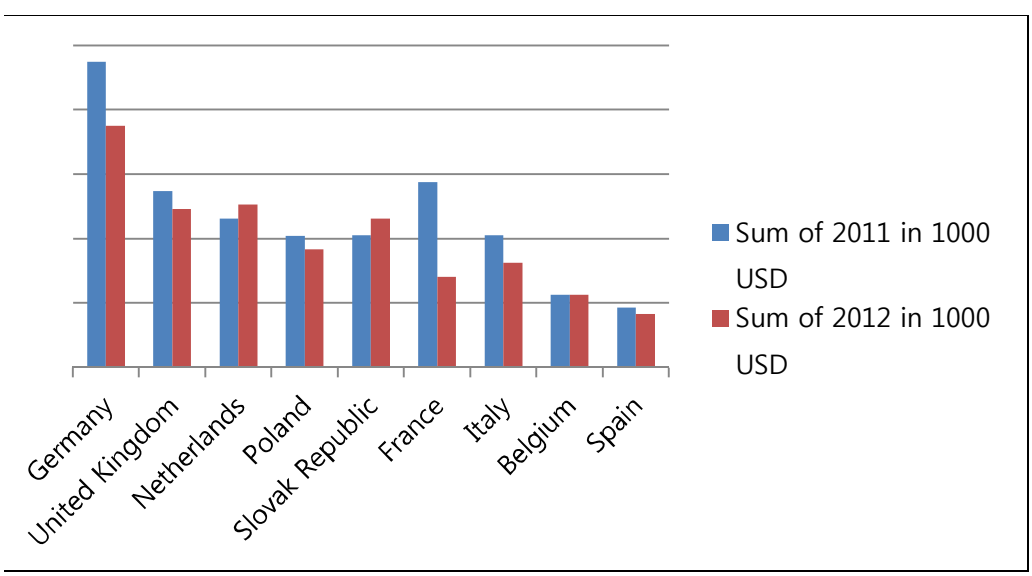
Some vital issues still need to be resolved. To some extent, the FTA is seen to deliver a huge competitive advantage to South Korea; without anything tangible in return. Firstly,

market access: cars that can be sold in the EU must be allowed on the South Korean market and 100% of the tariff and non-tariff barriers need to be resolved.

Secondly, Reciprocity: both sides must gain from an agreement. Thirdly, level playing field: acceptance of duty drawback and weakening of the rules of origin create severe disadvantages for EU manufacturers. Fourthly, lead-time: abolishing of tariffs should take at least 7 years. Fifthly, global perspective: special concessions to South Korea set a precedent for similar FTAs with other countries (ASEAN, India, and Japan).

And lastly, provisions on duty drawback and rules of origin have not been granted in trade arrangements with other developed countries (Mexico, South Africa, and Chile) and are not covered by WTO standards

Figure 7 Comparing 2011 versus 2012 (Exports from EU to Korea)



(Source: UN Comtrade)

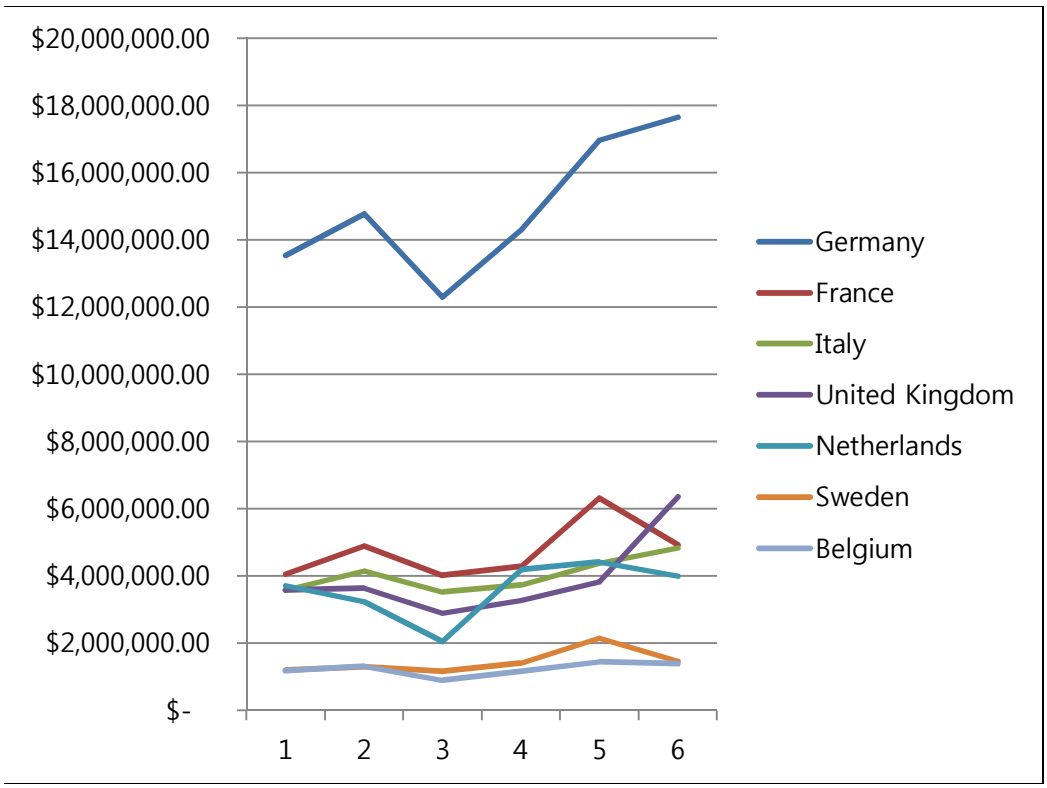
Table 2 Top 7 Exporting Countries from Korea to EU

Country	2011	2012
Germany	9,500,921.41	7,509,685.62
United Kingdom	5,479,934.28	4,925,801.03
Netherlands	4,626,977.96	5,058,574.72
Poland	4,100,788.45	3,677,296.61
Slovak Republic	4,103,422.36	4,624,495.78
France	5,758,643.27	2,826,790.43
Italy	4,107,495.10	3,261,663.42
Belgium	2,255,376.46	2,257,449.86
Spain	1,856,558.21	1,668,337.65

As Table 2 shows, the 7 European countries that Korea exports to the most are mainly located in Western Europe. However, Korea has very large trade deficit with Western Europe, while having a large trade surplus with Eastern Europe (Korea's trade deficit with Germany resulted from the huge amount of imports of automobile, auto parts, and machinery.

Korea's export to Western European countries mostly consist of ships, automobiles, and wireless communication devices. In contrast, exports to Eastern European countries mostly include intermediary goods for Korean companies in Eastern Europe, which are considered as intra-firm trade among Korean companies.

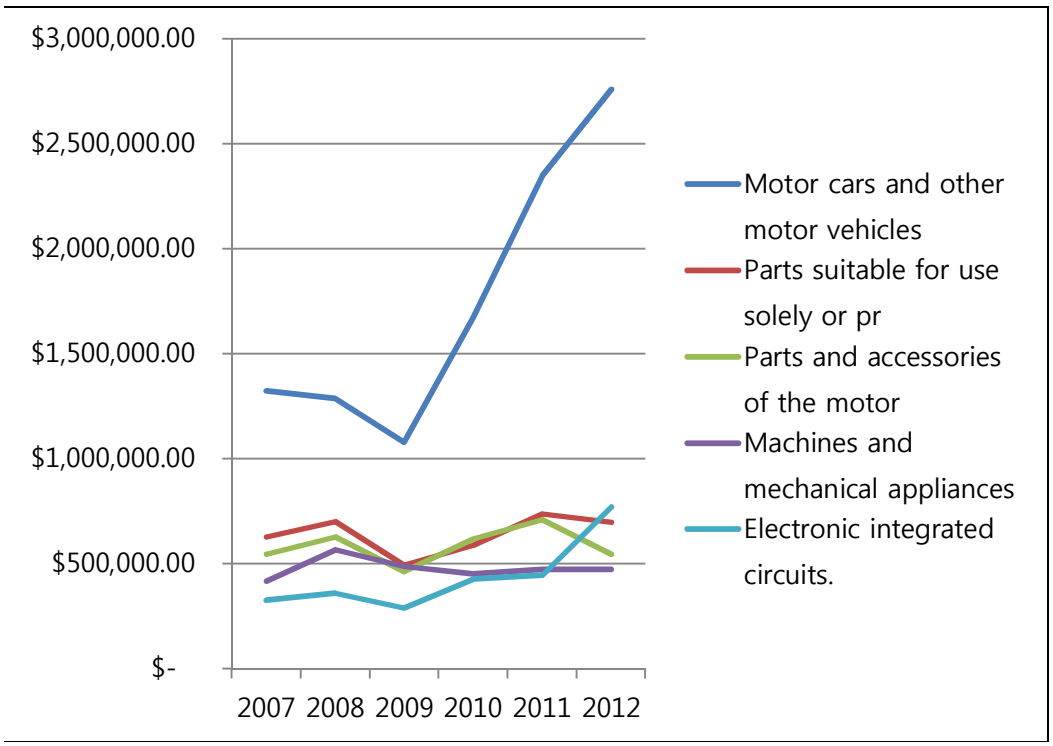
Figure 8 Top 7 Importing Countries from EU to Korea



(Source: World Bank WITS)

Analyzing the data, from the importing countries, Germany is in the leading position among other Western European countries.

Figure 9 Top 6 Products imported from Germany



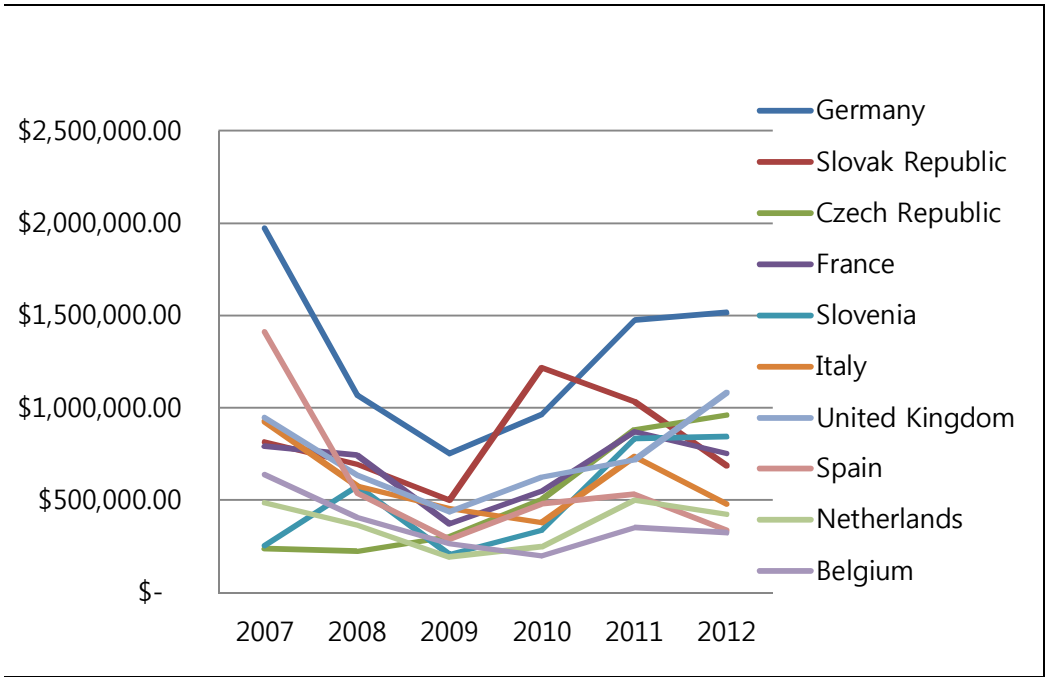
(Source: UN Comtrade)

VIII. AUTOMOBILE SECTOR

During the negotiations between Korea and the EU before the implementation of the FTA, major focus was given to the automobile sector. This happened simply because the automobile sector in Europe is strong and Korea's automobile sector has been one of the fastest growing sectors of all. As a result, it is a very sensitive issue for both counterparts.

From the analysis, we can see that in both cases, export and import, Germany is taking the 1st place.

Figure 10 Top 10 Exporting Destinations from Korea

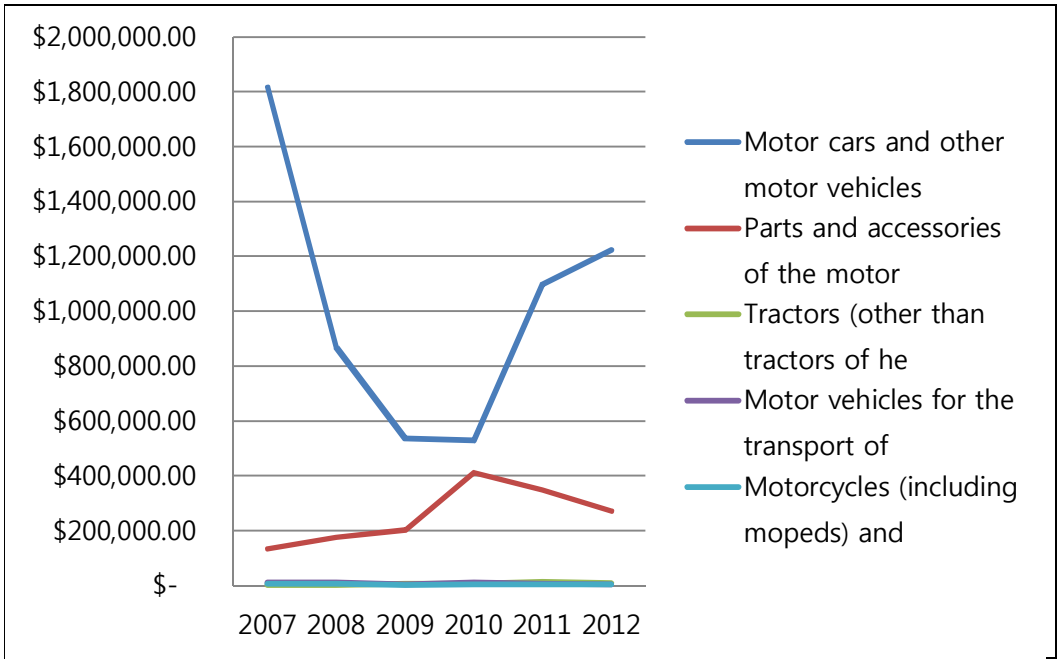


(Source: UN Comtrade)

The main products that Korea exports to Germany turns out to be the automobile sector with the HS code: 870000, which contains motor cars and other motor vehicles, parts and accessories of the motor.

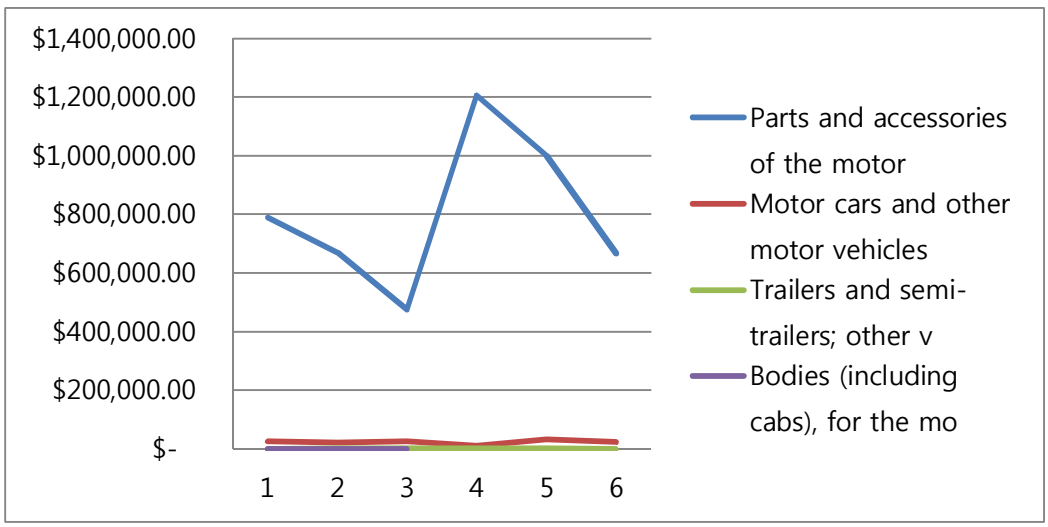
From 2007 to 2010, there is a significant decrease of motor cars and other motor vehicles which is taking the lead after 2010. The main reason could be the global crisis and a shrinking demand for vehicles in Europe.

Figure 11 Exports from Korea to EU (Germany)



(Source: UN Comtrade)

Figure 12 Exports from Korea to EU (Slovak Republic)



(Source: UN Comtrade)

EU car exports to Korea rose from €2 billion in 2011 to €2.5 billion in 2012, which represents an increase of 27.7%. This corresponds to an increase from 75 000 to 95 000 cars. At the same time, EU imports of cars from Korea have grown less; from €3.4 billion in 2011 to €3.9 billion in 2012, an increase of 14.9%. This corresponds to an increase from 383 000 to 402 000 cars. In consequence, Korea's trade balance in this particular sector, although remains being negative, has improved over time.

Korean medium range cars (Hyundai and Kia) sell very well in the EU. These Korean

car makers have also invested in production plants in the EU. German premium cars sales in Korea (BMW, Mercedes, Porsche, etc.) are also doing very well. In addition, in April 2012, the French automaker Citroen resumed sales on the Korean market after a decade-long interruption, in the wake of the Korea-EU FTA. Recently, Italy's Fiat also returned to Korea for the first time since 1997.

South Korea represents 2.8% of total EU imports, and 2% of total EU exports. In 2007, the European Union 27 exported a total of €24.8 billion to Korea (11th largest) and imported €39.6 billion (8th largest). The South Korean market (1 million new cars annually) still shows great potential to grow, with a car density of 237 per 1,000 inhabitants. With a motorization rate of 466 cars per 1,000 inhabitants, the EU, on the contrary, is a mature market.

EU access to the Korean car market will remain severely confined. With a problem of NTBs (non-tariff barriers) - Korea does not fully acknowledge international test cycles and standards, and applies its own unique rules, an approved and tested EU car cannot be sold in Korea and costly modifications are required. In 2007, the EU exported just 28,000 cars to Korea. Since Korean manufactured cars control more than 94% of the Korean market, South Korea has the lowest level of import penetration of any developed country.

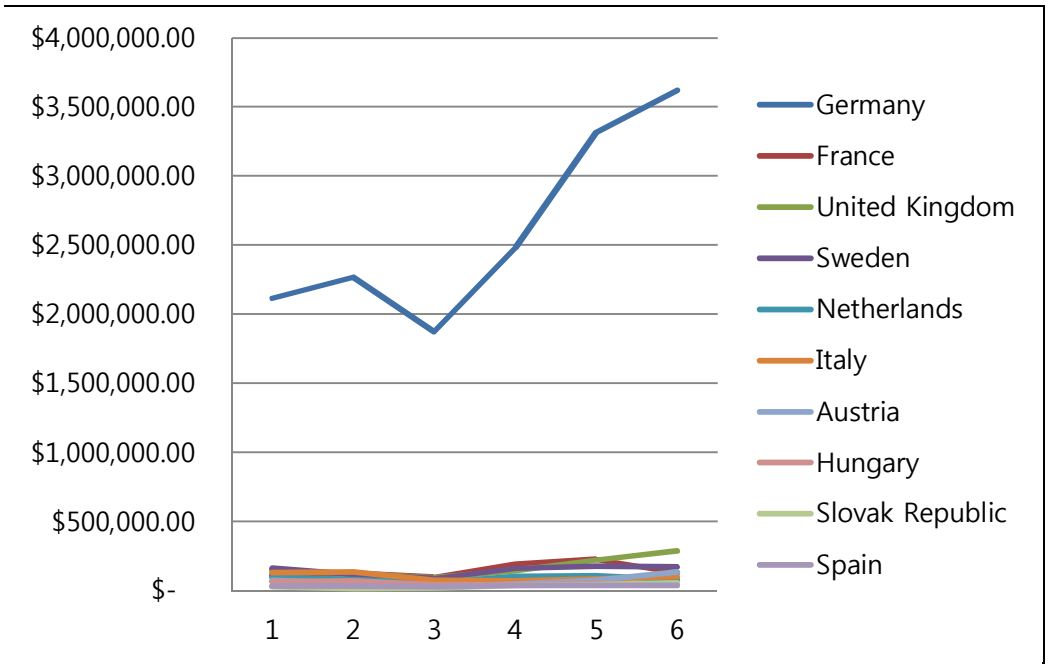
The European car industry is essential for the EU economy. Automotive is the engine of the manufacturing industries in Europe. The EU must safeguard its manufacturing base as the foundation of knowledge based on economy. With 16 million in 2007, the European car market is the largest in the world and it is one the biggest trading partner.

Around 80% of cars produced in the EU are also registered in the EU.

Overview of Imports

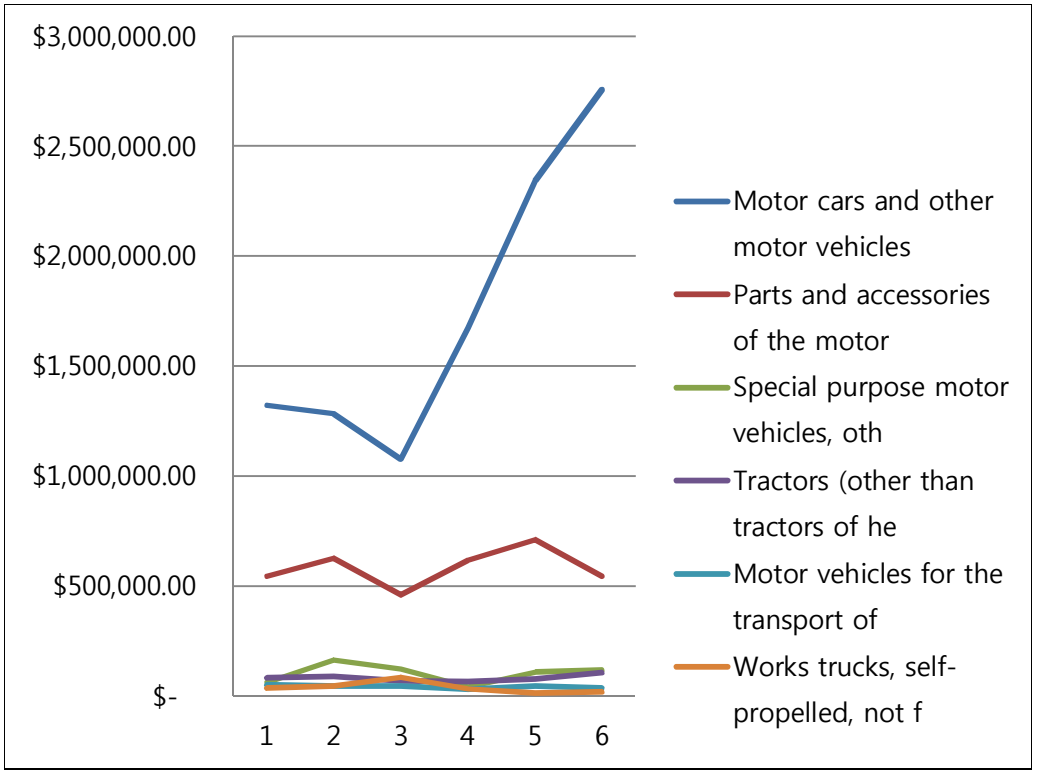
Similarly to the export trends, the analysis shows that the top importing country from Korea to EU is Germany. And it's leading high above other countries that trade with Korea. The products related to motor cars are other motor vehicles are the most demanded sector for both export and import.

Figure 13 Top 8 Importing Countries from Korea to EU



(Source: UN Comtrade)

Figure 14 Top 6 Products imported from Korea to EU



(Source: UN Comtrade)

IX. CONCLUSION

After the implementation of the Korea-EU FTA, EU has much more benefited in Korea-EU FTA than Korea. Due to the EU's economic recession and the export products concentrated in items such as ship and wireless phone, exports have not grown significantly as expected. However, the export of Korea has increased for products with evidential tariff cuts and large-scale production lines in Korea.

From the analysis of Korea Institute for International Economic Policy (KIEP), the increase in imports of diverse products such as raw material, intermediary goods, and consumer goods from the EU worsened Korea's trade balance. However, such an increase can be assumed to have contributed to boosting welfare of domestic manufacturer and consumer.

The full impact of the FTA will only be known once all the tariffs have been eliminated, but so far EU exports to Korea have grown strongly giving the EU a trade surplus with Korea for the first time in 15 years.

The data shows that the EU exports to Korea are up by 16.2%, from € 32.5 billion in 2011 to € 37.8 billion in 2012. At the same time EU imports from Korea have grown less, from € 36.2 billion in 2011 to € 37.9 billion in 2012 which is only 4.7%. As a result, by the first quarter of 2013 the EU had a trade surplus with Korea for the first time in 15 years. In addition, the EU's share of total imports to Korea has increased steadily, from 9% in 2011 to 9.7% in 2012. It is the largest increase when compared to imports from China,

Japan and the US. Thanks to the boost of export products such as North Sea oil, machinery and motor vehicles and parts, EU could be ranked on a high position.

The growth rate of Korean exports to the EU has been clearly affected by the current economic crisis in the EU and accordingly the shift in the balance of trade in the EU's favor. The decline in Korea's exports can also partly be explained by the fall in exports of electronics due to a large extent to production from Korea re-locating to South East Asia or building up new factories placed in European territories. These products, which are doing well worldwide and in the EU, are not being exported from Korea under FTA preferences but rather from other Asian countries.

As for now, the whole concentration is on the implementation - both sides need to make sure that what has been agreed is being effectively implemented on the ground.

As mentioned before, the Korea-EU FTA brings a new ground in tackling significant non-tariff barriers to trade, focusing on 4 specific sectors such as: automotive, pharmaceuticals, medical devices and electronics sectors. In particular, the automotive sector was struggling with the non-tariff barrier, which was chosen as one of the biggest obstacle to export to Korea. As included in the FTA's Car Annex, it provides a good basis to remove the existing barriers, setting out provisions.

There are already positive results, for example with regard to radio wave bands for new technologies, tire marking and car part registration procedures, however there are much more to be done to align EU and Korean standards.

As far as electronics are concerned, after the implementation of the FTA, Korea introduced a self-certification system for electromagnetic compatibility called as EMC and electric safety, applicable to industrial machines, industrial computers, and railway transport equipment. All of those products which represent a third of total EU exports to Korea in value can now enter the Korean market without having to be certified in a Korean laboratory.

To conclude, after the implementation of the Korea-EU FTA, exports to the EU have decreased while the imports from the EU have increased. As mentioned in various researches and articles, the basic in implementing FTAs with large advanced trade partners it is necessary in a long run to increase manufacturer and consumer welfare, enhance productivity and be able to maintain competitiveness in exports. As for the short-term achievements which can be the focused only on the number of increasing exports.

In order to experience the full successful and positive effects of FTA, the long-term focus of policy support needs to shift from increasing export to technological cooperation which will eventually influence on the increase of the productivity. This is because of the long-lasting economic recession in the European countries. Technology cooperation should be used as a follow-up measure for the revitalization of FTA's with advanced countries that is why a strong network is to crucial to launch an international technology transfer in between Korea and the EU.

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- http://www.shinkim.com/upload_files/newsletter/trade_customs_kr01009.html
- http://www.mofat.go.kr/ENG/policy/fta/status/effect/eu/index.jsp?menu=m_20_80_10&tabmenu=t_2&submenu=s_6
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X. 국문초록

한국은 FTA 후발국으로서, 2002 년 칠레와의 첫 FTA 타결을 시점으로 한국의 대외 부문의 경제성장 동력 확보를 목표로 FTA 추진정책을 변경하였다. 기존의 순차적 FTA 추진 방식에서 벗어나 주요국과의 종시 다발적 FTA 추진을 표명하며, 싱가포르, ASEAN, EFTA 와 FTA 를 체결하였다. 이후 인도, 미국, EU 와 같이 거대 경제권과의 FTA 를 타결하며 한국은 단기간에 FTA 중심국으로 부상하게 되었다.

EU 는 총 27 개국으로 구성된 세계 최대의 경제권으로 한국과의 교역규모가 중국에 이어 2 번째로 크며, 동시에 최대 무역흑자를 거두고 있는 지역이다. 한국에 대한 투자에서도 EU 가 최대 투자자 위치를 유지해 오고 있으며, 최근 5 년간의 투자 실적은 전체 외국인 직접투자의 41%를 상회한다.

한국은 EU 와 FTA 를 체결한 최초의 동아시아 국가로, 아시아, 북미, 유럽대륙의 선진국과 신흥개도국을 모두 연결하는 중심지로 부상하며 다양한 시장기회를 확보하였다. 중국, 인도 등 후발개도국이 EU 시장을 빠르게 잠식해가는 현재 상황에서 EU 시장 진출 확대를 위한 중요한 돌파구를

마련한 것이다. 경제적 측면에서의 효과 외에도 동북아 내 위상강화 및 영향력 증대 등 외교, 안보 측면에서도 한국의 영향력을 강화시키는 계기로 평가 받고 있다.

한국은 EU 와의 FTA 를 통해 유럽과 아시아를 잇는 교두보로서 입지적 중요성을 인정 받게 되었으며, EU 시장에 진출하고자 하는 아시아 국가들과 아시아 시장에 진출하고자 하는 EU 국가들에게 전진기지로서 최적의 투자유치 요건을 갖추게 되는 것이다.

본 논문에서는 EU 27 개의 국가들과 한국과의 무역 교류 상황을 분석하여 무역 trend 를 살펴보고 한-EU FTA 가 채결된 후인 2011 년과 2012 년 1 년간의 시장 흐름과 변화를 분석하였다.

유럽 연합의 관점에서는 금융 서비스, 운송 서비스, 비즈니스 서비스, 소매 및 도매 무역 분야에서 이익을 창출할 수 있을 것으로 기대하고 있다. 또한 무역의 측면에서는 제약, 자동차 부품, 산업 기계, 전자 부품 및 일부 농산물 및 가공 식품의 수출이 증가할 것으로 예상된다.

동시에, 한국 측은 특히 자동차, 선박, 무선 통신 기기, 화학 제품 등에서의 제조업체들의 EU 시장 진출 증가를 기대하고 있다.

본 논문은 한-EU FTA 가 양국 간 무역의 관점에서 양국간의 무역 동향에 어떠한 영향을 지난 1 년간 주었는지를 분석하자고 하였다. 분석 결과에 따르면 1 년간의 무역 중 자동차 부문에서 가장 큰 변화가 있었다고 볼 수 있다.

물론 이는 FTA 뿐만 아니라 여러가지 다른 영향(예를 들어 유럽에서의 경제 침체 및 경제 위기 등이)을 받았을 수 있기 때문에 정확한 예측이 불가능하다. 이를 위해 본 논문에서는 한국과 EU 간의 2007-2012 주요 수출 및 수입 품목을 년도 별로 분석하여 이의 동향을 살펴보았다.

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Keywords: 한-EU FTA, 양자 무역, 수출, 수입

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