# An Overview of the Trade Relations between the Republic of Korea and the European Union in the Light of the KOREU Free Trade Agreement

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As a result of the stalemate of Doha-round, and of the financial and economic crisis in 2008-2009, a new trend seems to emerge in the field of trade liberalization in the world: instead of striving for a comprehensive, multilateral framework, a growing number of "new generation" free trade agreements have been emerging that are concluded on bilateral level or among a few countries.

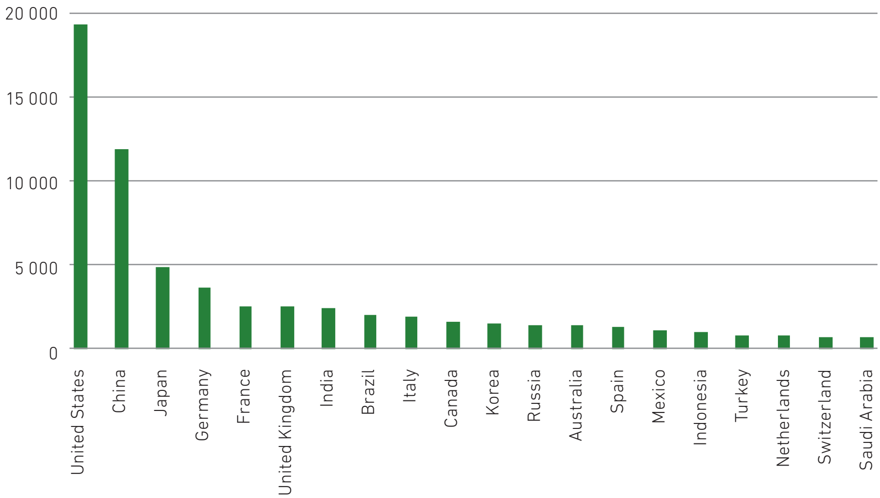
The Republic of Korea joined this trend in 2008. Since then it has concluded a number of FTAs with Asian, American, European and other partners including the USA and the European Union, and it still has a number of draft agreements under negotiation. The EU-Korea FTA (KOREU) entered into force on 1 July 2011, marking a new era in the EU-Korea trade relations. It is the most comprehensive free trade agreement ever concluded by the EU, and the first with a partner country in Asia. Since it came into force, import duties have been eliminated on nearly all products (98.7 percent of duties within five years), which resulted in a far-reaching trade liberalization in services as well. Since 2011 the European Union's export to Korea has been growing, and the former trade deficit in the EU-Korea relations has shifted to European surplus in the balance of trade. This can be seen as an advantage for the EU, but it also reflects the vulnerability of the Korean economy's competitiveness.

## 1. Introduction

The division of the Korean peninsula in 1945, the heritage of the Japanese colonial system and the devastation brought about by the Korean war all had serious implications on the South Korean economy. Already in the early 1960s the Republic of Korea was one of the poorest countries in the world. The main features—or endowments—of the country can be characterized as follows: relatively small land with a significant population, scarcity of natural resources, especially energy carriers, colonial past, underdeveloped economy after the colonial period which was further devastated by wars (The WWII, and the Korean War 1950-53) as well, strong (dictatorial) political leadership until 1988, export-oriented economic development policy. The American financial and economic assistance—until the early 1970s—gave an additional impetus to the economic recovery and take-off as well as following Japanese and American models too. The high savings and investment ratio, especially during the take-off period (1970s) and the political democratization process from the late 1980s has to be mentioned too. Nowadays South Korea is one of the world's wealthiest nations, its economy ranked 11th in the world in terms of GDP (current prices) (see Figure 1).

Figure 1

The 20 countries with the largest gross domestic product (GDP) in 2017 (in billion USD)




Source: author's own compilation from Statista (2018a) based on IMF data

Li et al. (2016) claim that in general, scholars focused merely on the implementation of the social responsibility of corporations (CSR), rather than the interrelationship between the social responsibility and the economic development. In case of Korea, the economic development was coupled by tremendous sacrifices from the part of society. Korean workers paid high price for the impressive economic growth. During the 1970s and 1980s—still in the course of the military regime—through series of demonstrations, Korean workers demanded better working conditions and higher wages, and these protests were often brutally suppressed by the police forces. Nowadays productivity of Korean labor became one of the lowest among the OECD members. Employers expect the solution from loosening the Code of Labor, even though labor unions protest against it. Since 2016 workers of Hyundai have been demanding salary increases, and strikes continued even in January 2018 (Song, 2018).

## 2. The Development of the Trade Policy of South Korea

As a consequence of the above, foreign trade is of vital importance for the Republic of Korea, a country which has not much natural resources, not to mention energy carriers, and until the 1970s and-80s the domestic purchasing power was modest and limited. From the early 1960s the main cornerstone of South Korea's economic development policy was the export-orientation which was implemented with the strong guidance of the government, while the main actors of the economic development were—and still are—the big Korean corporations called chaebols. The Republic of Korea strived for the liberalization of the international trade hoping liberalization would be favorable for the Korean export-expansion. This policy worked well by contributing to the spectacular economic success of the Republic of Korea during the 1980s.

### 2.1. Shifting towards Export-orientation

During the post-war period till the early 1960s, the key policies for the Korean economy were import substitution industrialization. It helped to protect the domestic import substitution industries, but also impeded exports. Kwak (1994) in his study focused on the changes and characteristics of Korea's trade policies and pointed out that on the premise of the industrial promotion for leaving behind the colonial economic structure, from the establishment of the Republic of Korea in 1948 until 1961 trade policy basically focused on export promotion and import restraint, but exports did not expand to any great extent (Kwak, 1994).

The major shift from import substitution to the export oriented economic development policy took place in the early 1960s in the Republic of Korea and can be attributed to General Park Chung-hee, who seized power in 1961 in a military coup and served as President of the Republic of Korea between 1963-1979. The period between the beginning of industrialization in 1962 and South Korea's membership in GATT in 1967 can be considered as a period of perfect import substitution, in which the government maintained high tariff rates and a positive list system for import controls. Then from 1968, the average tariff rate steadily fell, but since the tariff level remained comparatively high until 1977 and drops in the tariff rate were offset by increases in the percentage of controlled imports, the ten years between 1967 and 1977 should really be considered as a period in which the import substitution strategy was fundamentally maintained even though the concept of raising efficiency by promoting competition had yet to take root. However, the expansion of exports and membership in GATT, which occurred during this period, did pave the way for import liberalization. In its move toward import liberalization from 1977, Korea, on the surface, declared it would promote competition by liberalizing imports, partly because of external pressure to open its markets. This period should therefore be characterized as a stage of "passive" import liberalization. The Five-Year Import Liberalization Plan announced in 1983 can be regarded as constituting a full-scale liberalization policy, both qualitatively and quantitatively. Import liberalization trends in Korea until 1983 could be characterized as market opening in return for export expansion. In 1981 the Korean government drew up a comprehensive plan for liberalization throughout the following five years until 1988. Announcing tariff reductions in advance and items that would be removed from the import control list, the government pressed domestic industry to search for and take its own steps to compete against increasing imports. Tariff rate revisions during this period focused on overall tariff reduction and a levelling off of tariffs among import items. The revised tariff rates were generally 5-10 percent for raw materials, 20-30 percent for intermediate and capital goods, and 40-50 percent for consumer goods. By 1988 these rates had been lowered to 5-10 percent, 20 percent, and 20-30 percent, respectively. The high tariff rates for agricultural products, however, remained virtually the same. In 1985 the Korean government implemented minor revisions in the import liberalization plan by pushing forward the deadline for reaching import liberalization in the initial plan and reducing the number of controlled items under special laws. That was because the United States urged Seoul to allow bigger access to Korea's markets. Under these revisions, the ratio of manufactured goods subject to import controls dropped below 1 percent in 1988. By 1991 the import liberalization rate for manufactured goods practically reached 100 percent. Furthermore, in 1991 the simple average tariff rate for manufactured goods dropped to 9.7 percent. It also has to be added that Korea's enthusiasm about the trade liberalization did not extend to the import-policy, even if there were plans and spectacular measures as it had been described before (Kwak, 1994).

Lee (2012) adds that comparing to the trade structure in 1971, in 2011 Korea traded much less with advanced economies and much more with emerging and developing countries. During the past four decades, Korea's trade share with emerging economies rose from 17.5 percent to 67 percent. Since the 2008 global financial crisis, advanced economies have continued to face major brakes on growth while emerging economies appear to maintain solid growth momentum. Similarly, from 1986 to 2011 by region, Korea traded much more with Asia (37.0 percent to 50.8 percent) and the Middle East (7.2 percent to 14.1 percent ), and much less with North America (33.8 percent to 10.4 percent ).

Armstrong (2012) emphasized that the export oriented, but heavily protected Korean economy really took off as it implemented a unilateral opening in the 1980s. Unilateral liberalization was underpinned by commitment to the multilateral trading system and supported through liberalization through APEC. The concerted unilateral liberalization within the framework of GATT negotiations helped Korea and other East Asian economies to open up and this led to an increase in trade shares and in the pace of economic modernization.

Kwak (1994) adds that the Korean import liberalization process could be divided into pre- and post-1983 era. Although before 1983 government policies in general showed an attitude of preferring liberalization, but those policies were just purely hypocritic and after all led to the necessary mitigation of the impacts of the liberalization of the domestic economy. Kwak added that the government's promotion of genuine import liberalization began only after 1983 (Kwak, 1994). Looking back on Kwak's study after 25 years, and on the developments in Korean import-liberalization before the Millennium, one may conclude that in spite of the government's steps and other evidences, Korea had to experience two severe economic crises until liberalization reached such a critical level that foreign consumers' goods (and retail and wholesale stores) are more visibly present in Korea's domestic market.

While from the late 1980s Korean companies invested a lot abroad (from the early 1990s affiliates of Korean chaebols and banks appeared from 1986 to 2011), those foreign companies who wished to invest in Korea had very limited possibilities. The Republic of Korea applied a two-tier policy towards foreign investors: they were welcomed to those areas and sectors in which they could bring brand new technologies, know-hows which did not exist before in Korea, or it would have cost too much, or it would have taken too long to develop them with domestic resources only. On the other hand, in many other sectors, especially in the wholesale and retail trade, foreign companies were not allowed or if they were, only under strict conditions. The situation in case of inbound investments has changed since 1997-98, due to the Asian financial-economic crisis.

## 2.2 The Implications of the Asian Financial Economic Crisis of 1997-98

Korea overcame the crisis relatively quickly, but with a 55 million USD bailout package from IMF. Pollack (1997) points out that in return for this amount, Seoul had to cut public spending, and open its market more to foreign goods and investors and curb the ability of the conglomerates to expand.

Cho (1998) underlines that as a part of the IMF-Korea deal, a structural adjustment programme was agreed upon which focuses on the following four areas:

- trade liberalization,
- capital market opening and liberalization of foreign exchange control,
- corporate restructuring, and
- financial sector restructuring

In terms of trade liberalization, a timetable was set in line with the WTO commitment to eliminate trade-related subsidies, restrictive import licensing, and the import diversification programme. Steps were planned to be taken to streamline and improve the transparency of import certification procedures. Further to measure in trade, the programme comprised capital account liberalization steps as well, e.g. foreign financial institutions were to be allowed to participate in mergers and acquisitions of domestic financial institutions in a friendly manner and on equal footing. By mid-1998, foreign financial institutions were allowed to establish bank subsidiaries and brokerage houses. Legislation was to be assigned to the first special session of the National Assembly to harmonize the regime on equity purchases with OECD practice. The ceiling on the aggregate foreign ownership of listed Korean shares was to be increased from 26 to 50 percent by the end of1997 and to 55 percent by end of 1998. The ceiling on individual foreign ownership was to be increased from 7 to 50 percent by the end of 1997. By the end of February 1998, other capital account transactions were to be liberalized by easing foreigners' access to domestic money market instruments and the corporate bond market and simplifying the approval procedure for foreign direct investment. A timetable was to be set by the end of February 1998 to eliminate restrictions on foreign borrowing by corporations (Cho, 1998).

Lee (2012) emphasizes that in the early 2000s, based on its policy stance of openness and competition promotion, Korea expedited its trade liberalization in pursuing Free Trade Agreements with developing and advanced economies around the world.

### 2.3. After the Millennium

Until the early 2000s Korea's international trade policy used to be in line with GATT/WTO, expecting that trade liberalization would continue in a multilateral framework.

However, the failure of Doha round led the Korean government towards the idea of comprehensive, bilaterally concluded FTAs. [1]

From the early 2000s until now, Korea's trade policy, being in line with the GATT/WTO, has been focusing on pursuing active FTA policies more than any other country in the world. Moreover, during the recent decades, the Republic of Korea's trade structure by main partner countries has changed significantly. In 1986, the United States had the biggest share (30.8 %) in Korea's total trade and was followed by Japan with 24.6 percent. That time China had the largest trade share in Korea's total trade with 20.4 percent , followed by ASEAN (11.6%), by Japan (10%), the EU (9.6%) and the United States (9.3%).

Lee (2012) also observes that in September 2003, the Korean government announced an "FTA Roadmap" as its national economic development agenda and induced a policy shift from passive FTA stance to an active one. The Roadmap reflected two important policy principles. The first is that Korea should conclude as many FTAs as possible in a short period in order to recover its competitiveness in the world market and reduce the opportunity costs for Korean companies. The second principle is that the Roadmap pursues multitrack and simultaneous FTA negotiations with large economies.

Mention must be made of a new "trend" that free trade agreements which have been concluded for the recent decade are substantially different from the previous ones. In the professional bibliography the recent ones are frequently mentioned as "new generation" of FTAs, and in this context, it is worthwhile to quote Nagy (2017) who claimed: "New generation free trade agreements are opening a new age in international economic relations. International free trade has become one of the central global issues of the 21st century both in terms of fierce political debates and economic significance. It makes us necessary to re-think of our fundamental notions on global governance, state sovereignty and regulatory autonomy. The share of free trade in the global economy is becoming paramount and the emerging new-generation free trade agreements not merely abolish tariffs and quotas (as old-fashioned agreements did) but effectively open up national regulatory sovereignty to international governance, re-shaping regulatory autonomy, internationalizing national competences and raising serious questions of democratic legitimacy. New-generation

1 The Doha-round of trade talks was an attempted multilateral trade agreement. It would have been valid among every member of the World Trade Organization (WTO). It was launched in Doha, Qatar, WTO meeting in November 2001. Its goal was to finish by January 2005, but the deadline was then postponed to 2006, and the talks were finally suspended in June 2006 (Amadeo, 2016).

free trade agreements cover the whole spectrum of items (goods, services, technology, capital etc.), ambitiously, address not only traditional barriers to trade (such as tariffs and quantitative restrictions), but also, in a comprehensive manner, all trade restrictions and state acts (e.g. regulatory disparities, public procurement, certain fundamental rights issues)" (Nagy, 2017).

However, there are scholars and analysts, especially from the developing countries, who strongly oppose the trend of the new generation FTAs, blaming them for causing various disadvantages for the less developed countries. One of them is Purugganan (2015), who believes the new generation trade and investment agreements are a serious threat to the life and livelihoods of the poor and marginalized. These agreements go much beyond commitments to liberalize trade. They also comprise a number of economic policies that foster the market liberalization of goods and services, stronger and more restrictive intellectual property rights and also the lifting restrictions on investments and providing a higher protection for investors.

At the turn of the Millennium, Korea was one of the few East Asian economies which did not have any FTAs and was still striving for multilateral frames (Armstrong, 2012). It changed when the Chile-Korea FTA was signed in 2003 (and came into force in 2004). The economic effects of FTAs are in general quite limited with sensitive sectors exempted and difficult protection measures avoided. However, in case of Korea, the Korea-EU FTA (KOREU) and the Korea-USA FTA (KORUS) played noticeable roles in liberalizing Korea's heavily protected automobile and agriculture sectors. Moreover, the opening up of some service sectors to U.S. and European firms was also successful. These two agreements managed to include the phase-out of the protection of sensitive sectors in Korea including pork, dairy and other agricultural goods (with the exception of rice). Even though the tariff phaseout varies and is quite lengthy for some sensitive sectors (up to fifteen or twenty years for some products), they will eventually move to duty free in the longer run.

As for the agricultural sector it has to be mentioned that due to the natural endowments of Korea and as a result of the merely politically-motivated land reform (from the end of the 1940s through to the 1950s) the majority of Korean agricultural producers work on miniature and scattered family-based farmlands, and even though most of them have been organized into a comprehensive, two-level co-operative system they, especially rice producers could not be competitive on the market without heavy subsidies and protection (Neszmélyi, 2017). Therefore, it has always been a very sensitive issue from the perspective of the Korean trade policy.

Another major trade agreement that could engage Korea is the Trans-Pacific Partnership (TPP) which is a trade deal negotiated originally by nine, later on by 12 countries in the Asia-Pacific region. This promising initiative, however, seemed to be thwarted when the United States withdrew from it in 2017. Nevertheless, the most recent news (Karp, 2018) are slightly more optimistic, as the 11 remaining countries are supposed to sign an amended agreement on 8 March 2018 leaving the door open for the USA if it wanted to join later.

According to the information gained from the Korean Customs Service (KCS), as of January 2017 the Republic of Korea has concluded 15 Free Trade Agreements with 52 countries (including the 28 EU and 10 ASEAN members) that were effectuated and ratified. These partners are as follows: Chile, Singapore, EFTA, ASEAN, India, EU, Peru, U.S., Turkey, Australia, Canada, China, New Zealand, Vietnam and Colombia. Moreover, another 8 FTAs are under negotiations with 24 countries including the revision of FTAs with Chile, India and ASEAN (KCS, 2018).

## 3. The South Korean Foreign Trade in Figures

As for the foreign trade figures of the Republic of Korea, the statistical data of Global Edge of Michigan State University show that in 2016 the total exports of the Republic of Korea were around 495 billion USD while the total imports were around 406 billion USD, so that year Korea closed with an almost 90 billion USD positive trade balance. Figure 2 shows the trends of Korean exports and import between 1995 and 2016, while the exact trade figures of 2016 can be seen in table 1.

Table 1
**Trade figures of the Republic of Korea in 2016**

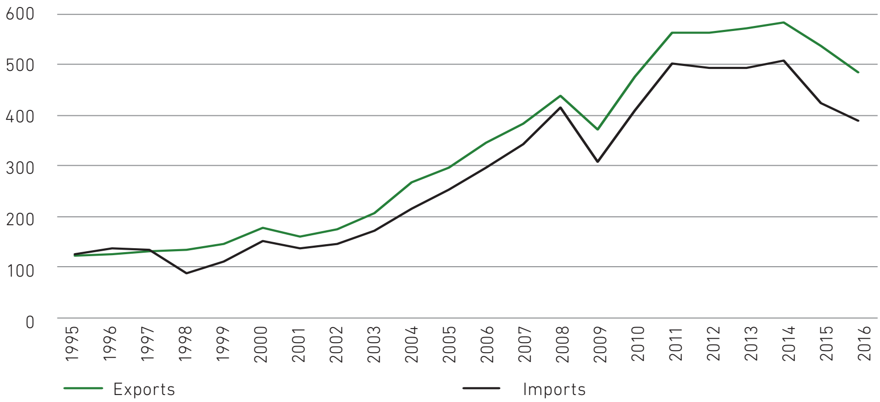
| | |
|---|---|
| Total Exports, billion USD | 495.4 |
| Total Imports, billion USD | 406.2 |
| Trade Balance, billion USD | 89.2 |
| Exports of goods and services (% of GDP) | 42.24 |
| Imports of goods and services (% of GDP) | 35.44 |

Source: Michigan State University (2018)
Note: the original values in USD were rounded by the author to billion USD

There were two main changes in Korea's foreign trade during the recent decade. One of them was the change in the structure of trading partners and the other was the shift in structure of export products.

Figure 2

Foreign trade turnover of the Republic of Korea between 1995 and 2016 (in billion USD)




Source: author's own compilation on the basis of Observatory of Economic Complexity (OEC)

South Korea exported goods in a value of 573.3 billion USD around the world in 2017. (On the basis of the world's total exports in the preceding year, it is roughly 3.6 percent of the overall global exports.) In terms of geographical destination, almost two-thirds (63.7 percent ) of the Korean exports by value were shipped to other Asian countries, 14.7 percent was sold to North American buyers, 11.7 percent to Europe and 1.9 percent to African customers (Workman, D. 2018). After all, the Republic of Korea's main trade partners are located in Asia and in the Pacific region (see Table 2)

Table 2

Top 10 Export and Import Partners of the Republic of Korea (2016, billion USD)

| Country | Export (USD) | Country | Import USD) |
|---|---|---|---|
| China | 124.4 | China | 87,0 |
| United States | 66.7 | Japan | 47,4 |
| Hong Kong | 32.8 | United States | 43,4 |
| Vietnam | 32.6 | Germany | 18,9 |
| Japan | 24.4 | Saudi Arabia | 15,7 |
| Singapore | 12.5 | Australia | 15,2 |
| India | 11.6 | Vietnam | 12,5 |
| Mexico | 9.7 | Qatar | 10,1 |
| Marshall Islands | 7.8 | Russia | 8,6 |
| Malaysia | 7.5 | Indonesia | 8,3 |

Source: Michigan State University (2018)
Note: the original values in USD were rounded by the author to billion USD

It may be interesting to have a look at Table 3, where foreign trade figures of South Korea can be seen in the year 2000, just shortly after Korea's recovery from the Asian financial and economic crisis.

Table 3
The major trade partners of the Republic of Korea in 2000

| | Turnover (billion USD) | Exports (billion USD) | Imports (billion USD) | Share | | |
|---|---|---|---|---|---|---|
| | | | | Total turnover % | In exports % | In imports % |
| World | 332.8 | 172.3 | 160.5 | 100.0 | 100.0 | 100.0 |
| USA | 66.5 | 37.3 | 29.2 | 20.1 | 21.8 | 18.2 |
| EU | 39.2 | 23.4 | 15.8 | 11.8 | 13.6 | 9.8 |
| Japan | 52.3 | 20.5 | 31.8 | 15.7 | 11.9 | 19.8 |
| China | 31.2 | 18.4 | 12.8 | 9.4 | 10.7 | 8.0 |
| ASEAN | 38.3 | 20.1 | 18.2 | 11.5 | 11.7 | 11.3 |

Source: Neszmélyi (2003)

Comparing data of Tables 1 and 3 it can be seen that in total value South Korean exports grew from about 172 billion USD to 495 billion USD (cc. 287 percent growth) while in imports the growth is also significant—from about 160 billion USD to 406 billion USD. Yet the growth was more modest (cc. 254 percent) than the export figures show.

After China and the United States, the European Union was the third biggest export market for the Republic of Korea in 2016, while in case of imports, the European Union was the second after China, slightly ahead of Japan and the United States. Comparing this to the percentage figures of Lee (2012) referred to above, the European Union's position—in terms of ratio in Korea's trade partners—improved between 2011 and 2016. There has also been a change in trend in Korean exports by industry throughout the recent half century. According to Lee (2012) in the 1960s more than 72 percent of Korea's exports were primary industrial goods. Since the 1970s, Korea's major exports have consisted of industrial products. For example, in 2011 the share of industrial products was 97.2 percent. Among them, heavy and chemical products increased rapidly from 21.5 percent in 1972 to 91 percent in 2011 (see Table 4). In the 1960s the focus was on manufacturing and exports of labor intensive products like clothes and textiles. Then, in the 1970s, the Korean government boosted the development of heavy and chemical industries, such as steel, shipbuilding, and automobiles. From the 1980s until now, the Korean economy shifted gradually towards the exports of higher added value: the capital, technology and knowledge-intensive goods and services.

Table 4

Trend in Product Composition of Korea's Exports

| Share (%) | 1962 | 1972 | 1980 | 1995 | 2000 | 2011 |
|---|---|---|---|---|---|---|
| Primary industry goods | 72.3 | 11.1 | 7.7 | 4.9 | 2.8 | 2.8 |
| Industrial products | 27.7 | 88.9 | 92.3 | 95.1 | 97.2 | 97.2 |
| Light | NA | 67.4 | 48.4 | 19.9 | 16.2 | 6.2 |
| Heavy | NA | 21.5 | 43.9 | 75.2 | 81 | 91 |

Source: Lee (2012) on the basis of KITA

According to CIA World Factbook (2017) the main export commodities of the Republic of Korea nowadays are: semiconductors, petrochemicals, automobile/auto parts, ships, wireless communication equipment, flat display displays, steel, electronics, plastics, computers, while the main items of imports: crude oil/petroleum products, semiconductors, natural gas, coal, steel, computers, wireless communication equipment, automobiles, fine chemical, textiles. South Korea has significant reserves of foreign exchange and gold the total amount of which in 2016 was estimated 371.1 billion USD, while in 2015 it was 368 billion USD. The country's total amount of external debts was estimated 380.9 billion USD, while one year before it was 396.1 billion USD (CIA World Factbook, 2017).

Table 5

The 10 main export and import items of the Republic of Korea (2016)

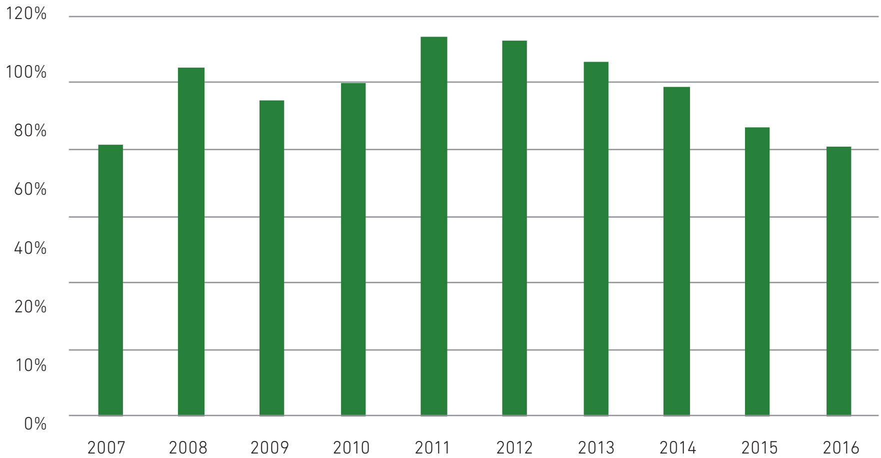
| HS Code | Export (USD Billion) | HS Code | Import (USD) |
|---|---|---|---|
| (85) Electrical Machinery | 134.3 | (27) Oil & Mineral Fuels | 81.8 |
| (87) Motor Vehicles & Parts | 62.7 | (85) Electrical Machinery | 75.2 |
| (84) Industrial Machinery | 58.2 | (84) Industrial Machinery | 46.0 |
| (89) Ships & Boats | 33.1 | (90) Precision Instruments | 17.5 |
| (39) Plastics | 27.6 | (87) Motor Vehicles & Parts | 15.2 |
| (90) Precision Instruments | 27.6 | (72) Iron & Steel | 14.3 |
| (27) Oil & Mineral Fuels | 27.5 | (29) Organic Chemicals | 11.0 |
| (72) Iron & Steel | 18.7 | (26) Ores | 10.9 |
| (29) Organic Chemicals | 17.9 | (39) Plastics | 10.1 |
| (73) Iron & Steel Articles | 11.1 | (38) Chemical Products | 6.7 |

Source: Michigan State University (2018)
Note: the original values in USD were rounded by the author to billion USD

The economy of the Republic of Korea is open. The indicator of openness—the ratio of the total foreign trade turnover and the GNI—developed from 80 to 113.5 percent. The bar graph also shows (on Figure 3) that the ratio grew till 2011 and since that year, it has been gradually decreasing, however 80 percent still reflects an economy which is open to quite a large extent.

Figure 3

Share of Imports and Export in Gross National Income (GNI) in South Korea from 2007 to 2016




Source: author's own compilation on the basis of Statista (2018b)

## 4. The Economic and Trade Relations between the European Union and the Republic of Korea

The EU-Korea Free Trade Agreement (KOREU) entered into force on 1 July 2011 marking the beginning of a new era in the EU-Korea trade relations. The FTA consists of 15 chapters, three protocols, and several annexes. Its main objectives were to liberalize and facilitate trade in goods, services and investment, open up government procurement markets, establish electronic commerce, promote competition between the markets of the two entities, foster foreign direct investment, and at the same time protect intellectual property rights. The two parties undertook the obligation to eliminate custom duties on originating goods of each party and to accord national treatment to goods of the other party (Papademetriou, 2010).

Karel De Gucht, European Commissioner for Trade, pointed out that the agreement brought to an end a process that had begun five years before with the European Commission's communication on 'Global Europe in a Competing World', which called for the EU to renew its engagement in Asia. Moreover, the EU-Korea FTA is the most ambitious and comprehensive trade agreement ever negotiated by the EU, and it is also the EU's first trade deal with an Asian country. The Agreement was expected not only to boost bilateral trade and economic growth in both the EU and Korea, but also to have a wider impact in Asia and elsewhere by signalizing the EU's openness to do business with third countries and its commitment to free trade. Further to all these, the Free Trade Agreement between the EU and the Republic of Korea (EU-Korea FTA) is the first of a new generation of FTAs (European Commission, 2010).

Korea was considered as a priority FTA partner for the EU in its trade policy strategy, and negotiations were launched in May 2007 in Seoul. After eight formal rounds of talks, the FTA was initialed by both sides on 15 October 2009. On 16 September 2010 the Council approved the FTA and the Agreement was officially signed on 6 October 2010 during the EU-Korea 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. Import duties were eliminated on nearly all products (98.7 percent of duties in terms of trade value had to be eliminated in the course of five years), and there was a far-reaching liberalization of trade in services (including in telecommunications, environmental services, shipping, financial and legal services) covering all modes of supply. Under the EU-Korea FTA, EU industrial, fishery and agricultural products face substantially reduced or zero tariffs on import to Korea. As from 1 July 2011, the phased reduction and elimination of import duties led to a gradual increase of savings eventually totaling 1.6 billion EUR annually. The Agreement incorporates fundamental WTO rules on issues such as the prohibition of import and export restrictions. All export duties are prohibited as of the entry into force of the Agreement (European Commission, 2011a).

Before the KOREU was signed the value of the EU-South Korean trade turnover was around 54 billion EUR (2009). Moreover, the EU faced deficit with South Korea in trade of goods, however, in case of a few product category and also in services, the EU had a solid trade surplus. In terms of tariffs, South Korea and the EU were supposed to eliminate 98.7 percent of duties in trade value for both industrial and agricultural products within 5 years—until 1 July 2016, from the entry into force of the FTA. By the end of the transitional periods, duties had to be eliminated on almost all products, with a few exceptions in the agricultural sector. The quoted source of the European Commission claimed that KOREU was the most ambitious trade coverage ever achieved in an FTA negotiated by the EU (European Commission, 2010).

In 2016 the European External Action Service (EEAS) published a document (originally prepared in June 2011) which reflected the advantages of KOREU for the European Union. These are as follows:

- Tariff elimination for EU's exports of industrial and agricultural goods. The KOREU relieved EU exporters of industrial and agricultural goods to South Korea from paying tariffs. From the agreement it was expected exporters would save 1.6 billion EUR annually from not paying import duties. For instance, EU machinery exporters save 450 million EUR duties each year, and chemical exporters are relieved of over 150 million EUR duties. The EU has a strong agricultural presence in the Korean market with major exports in pork, whisky and dairy products. Before the agreement came into force, only 2 percent of EU agricultural exports to South Korea enjoyed duty free treatment. However, thanks to the Agreement Korean tariffs on these goods were eliminated.

- Improved market access for EU's services suppliers. The FTA opened several billion euros worth of new opportunities for EU companies in the services sectors. The FTA not only offered commitments on services on a par with those offered by South Korea to the US, but also went beyond those in sectors of specific EU interest.

- Tackling non-tariff barriers in electronics, pharmaceutical and medical devices sectors. Previously, EU exporters of consumer electronics and household appliances including television sets, computers, microwave ovens, mobile phones and 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 generally recognized European certificates and test results. Therefore, no duplicative tests or certification are currently required. The EU exporters of pharmaceuticals and medical devices have benefited from the strengthened transparency and predictability of South Korea's pricing decisions since the FTA entered into force.

- Improved market access for EU car manufacturers. The European car manufacturers benefit from a combination of elimination of South Korean duties and non-tariff barriers (NTBs). The previously imposed 8 percent tariff on EU cars exported to South Korea has been removed, which means that for every car worth 25,000 EUR exported to South Korea, 2,000 in duties are saved. Of even greater significance is the ambitious NTB package under which South Korea accepted equivalence of international or EU standards for all its significant technical regulations. This implies that now an EU manufacturer is able to sell cars in South Korea that have been produced in accordance with EU specifications, without being subject to additional testing or homologation. The FTA stipulated that there cannot be new, unjustified barriers in the automotive sector erected in the future and established a regulatory cooperation framework through a working group.

- Enhanced access to government procurement. The FTA offered 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 are of significant commercial interest to European suppliers, who are recognized global leaders in this area. Guaranteeing the practical and legal accessibility of such tenders to European suppliers, the FTA provided substantial new tendering opportunities.

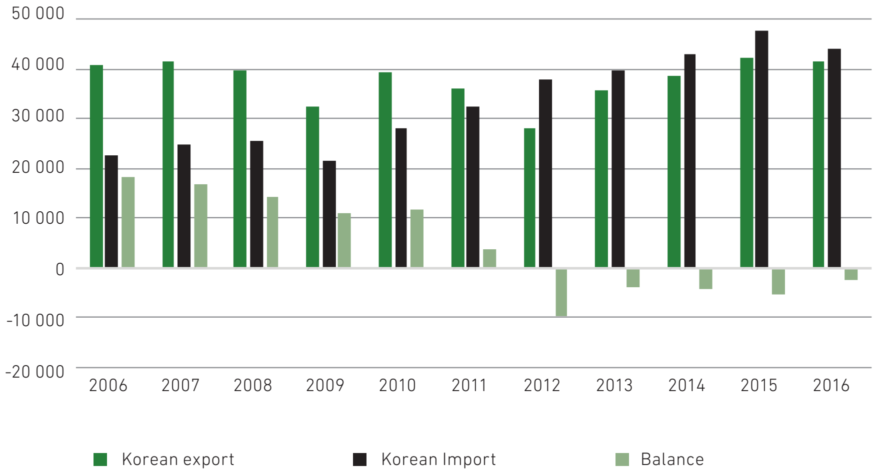
- Protection of intellectual property rights. A high level of protection and enforcement of intellectual property rights (IPR) is needed for European competitiveness. A comprehensive chapter covering provisions on copyright, designs, enforcement and geographical indications (GIs) was included in the EU- South Korea FTA. Concerning copyright, for instance, the agreement will facilitate the process of getting adequate remuneration for EU rights holders for the use in South Korea of their music or other artistic works. Regarding enforcement, the agreement includes state of the art provisions that go significantly beyond the provisions of the TRIPs Agreement. Korean consumers are eager for EU agricultural quality products, notably those protected by EU GIs, such as EU wines, spirits, cheeses or hams which have a very good reputation in South Korea. The FTA offered a high level of protection for commercially important European GIs and therefore prevented their misuse in the Korean market.

- Strong competition rules. The agreement prohibits and sanctions certain practices and transactions involving goods and services, which distort competition and trade between the parties. This implies that anticompetitive practices such as cartels, abusive behavior by companies with a dominant market position and anticompetitive mergers are not tolerated by the EU and South Korea and are subject to effective enforcement action, as they lead to consumer harm and higher prices. The FTA also remedies or removes distortions of competition caused by subsidies in so far as they affect international trade. The EU-South Korea FTA contains prohibition of certain types of subsidies considered to be particularly distortive.

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

Figure 4

Trade flows and balance between the EU and the Republic of Korea, annual data 2006 - 2016 (million EUR)




Source: author's own compilation from European Commission (2017)

- Commitment to sustainable development. The EU-South Korea FTA established a framework for cooperation on trade and sustainable development. It comprised firm commitments on 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. Concerning labor, the FTA contains 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). With regard to environment, there is a commitment to effectively implement all multilateral environmental agreements to which they are party. In addition, the EU-South Korea FTA ensured fast tariff dismantlement for environmentally friendly goods in order to promote sustainable development through green technologies.

- Effective and fast dispute settlement. The EU-South Korea FTA includes an efficient dispute settlement mechanism to ensure the enforceability of commitments undertaken and a mediation mechanism to tackle non-tariff barriers. The procedures envisaged under the dispute settlement chapter foresee arbitration ruling within 120 days, much faster than in the WTO (European Commission, 2011b).

Figure 4 discloses the trade flows and the balance between the EU and the Republic of Korea between 2006 and 2016. It is striking that in general between 2006 and 2011 (till the KOREU entered into force), the EU faced a trade deficit against South Korea, even though to a shrinking extent. Nevertheless, from 2012 there was a shift: the EU had a surplus against Korea in all the years until 2016. A further and more thorough analysis would be necessary to filter out other factors (e.g. changes in net exporters' prices or exchange rates) which could also influence the ad valorem turnover and surplus. Yet at first sight the shift in deficit/surplus the diagram shows, is really spectacular and can be the impact of KOREU on the EU, of the Korean trade to a significant extent.

## 5. Conclusion

The economic development policy of Korea that was based on massive export-expansion needed international openness and liberalized markets very badly, at least on those markets where Korea was or wanted to be present. On the other hand, it took decades, and the Republic of Korea had to experience the impacts of two major financial-economic crises before it gradually opened its market. Korea strived for liberalization on a global/multilateral basis, but after the stalemate of Doha round Korea had to find different solutions: concluding separate FTAs with many of its major trade partners. From among these FTAs, the KOREU can be considered the most comprehensive. It abolished most of the tariffs and eliminated a number of NTBs as well. Regarding the changes during the recent 1-1.5 decade in the Korea-EU trade - the overall turnover has significantly grown. Between 2000 and 2016 the European export started to grow faster (almost threefold) than the Korean export to EU countries. While in the period of 2006-2011 a considerable European deficit characterized the Korea-EU trade, but since the FTA entered into force, this deficit has turned back and since 2012 the EU has surplus in the Korea-EU trade. It means that while Korean export to the EU is more or less stagnant, the European Union's export to Korea grew spectacularly. At the same time, from Korea's perspective, there are also negative impacts from the KOREU FTA agreement, namely that Korea lost its previous export surplus against the European Union. This fact can raise further concerns. For example, its implications may even be more visible at the Korean labor market in the future (like in the case of Hyundai), while another warning sign is the relative backwardness of the Korean labor force in terms of productivity compared to the OECD average.

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