

**Elżbieta Majchrowska**

Andrzej Frycz Modrzewski Krakow University  
e-mail: emajchrowska@afm.edu.pl

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## **EU-SOUTH KOREA FTA AS ONE OF THE NEW GENERATION AGREEMENTS – AN OVERVIEW OF THE EFFECTS OF THE AGREEMENT**

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### **UE-KOREA PŁD. FTA JAKO JEDNA Z UMÓW NOWEJ GENERACJI – KRÓTKI PRZEGLĄD EFEKTÓW POROZUMIENIA**

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**Summary:** The changes in the structure of the world economy related to the proliferation of regional trade agreements (RTAs) are reflected in activities undertaken by the EU, which, due to the crisis of multilateral negotiations, seeks alternative forms of gaining access to other markets. Thus, it concludes new-generation trade agreements with its partners as they entail broader and more comprehensive liberalization of trade than that within the WTO. Among them, the agreement which deserves a closer scrutiny is the very first agreement of this kind, signed with an Asian country in 2011, which marked the beginning of a new era in EU-Korean trade relations. An analysis of the volume and dynamics of trade between the two partners indicates good results, particularly for the EU, which has changed its role from a net importer to a net exporter and strengthened its position as one of the key trade partners of South Korea.

**Keywords:** EU, FTA, international trade, South Korea, trade regionalism.

**Streszczenie:** Zmiany w strukturze gospodarki światowej dotyczące proliferacji regionalnych porozumień handlowych (RTAs) mają odzwierciedlenie w działaniach UE, która, w związku z kryzysem na forum negocjacji wielostronnych, poszukuje alternatywnych możliwości korzystniejszego dostępu do innych rynków. Zawiera więc ze swoimi partnerami porozumienia handlowe nowej generacji, w ramach których ma miejsce szersza i bardziej kompleksowa liberalizacja handlu niż ta, która odbywa się na forum WTO. Wśród nich na uwagę zasługuje pierwsza z tego katalogu umowa zawarta właśnie z krajem azjatyckim, która od 2011 r. rozpoczęła nową erę unijno-koreańskich stosunków handlowych. Analiza danych dotyczących wielkości oraz dynamiki obrotów handlowych między partnerami umowy od momentu rozpoczęcia jej tymczasowego stosowania pokazuje, że przyniosła ona dobre wyniki szczególnie dla strony unijnej, która z importera netto stała się eksporterem netto oraz umocniła swoją pozycję w gronie kluczowych partnerów handlowych Korei Południowej.

**Słowa kluczowe:** FTA, handel międzynarodowy, Korea Południowa, regionalizm handlowy, UE.

## 1. Introduction

The 21<sup>st</sup> century has brought significant changes in the structure of the world economy which is completely different from that of 30 or even 15 years ago. The global economic landscape has changed because of the growing economic influence of emerging economies and a shift of the economic development pole towards Asia, particularly the Far East. Emerging economies have seen a considerable economic growth and, therefore, have become very attractive, prospective trade partners. These aspects, in combination with the difficult situation in multilateral negotiations within the World Trade Organization (WTO), have made gaining better access to these markets one of the priorities of the trade policy of the European Union. The transformations in the structure of the global economy are, therefore, also related to the proliferation of regional trade agreements (RTAs).

The negotiations impasse within the WTO, which is difficult to resolve, compels a lot of countries to take alternative steps to secure their interests with this regard. The trade regionalism has, therefore, emerged as a key form of economic cooperation between countries. Mainly for this reason, since the turn of centuries, we have been able to witness a significant increase in the number of regional trade initiatives,<sup>1</sup> predominantly in the form of bilateral or plurilateral RTAs under which more extensive and comprehensive liberalization of trade is possible, as compared with that of the multilateral format. For this reason, the classic free-trade areas are being replaced by more advanced agreements with a wider spectrum. One instance of such agreements are the new-generation trade agreements that are being concluded between the European Union, which is seeking alternative ways of access to other markets, and its partners. Among them, the agreement which is worthy of note is the very first agreement of this kind, signed with an Asian country, which marked the beginning of a new era in EU-Korean trade relations.

The aim of the paper is to analyse and present the essence of the first new-generation agreement concluded between the EU and the Asian country as well as the current trade effects arising from its implementation. Due to the extent and complexity of the subject, the author has focused on selected aspects of the problem. The considerations presented in the paper are mainly based on the analysis of the EU-South Korea FTA and the WTO, Asian Development Bank and European Commission materials. The research method employed in the article is grounded on the analysis of the EU secondary law sources as well as the statistical data originating from reports of international organizations. To provide the right perspective, the research comprises an adequately long period of time both before and after the implementation of the agreement. Such a timeline allows for presenting the changes which took place in the EU's foreign trade with South Korea as a result of the agreement.

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<sup>1</sup> This situation is referred to as the "spaghetti bowl effect" illustrating the criss-crossing and overlapping RTAs on a global scale. See [Bhagwati et al. 1998, p. 1139].

## 2. Regional Trade Agreements as an element of the trade policy of the EU

The trade policy of the European Union is based on three levels of operations: an active role in multilateral negotiations within the WTO, deepening bilateral relations with individual countries or regions as well as the so-called non-reciprocal trade preferences. Taking into consideration the aforementioned problems with negotiations under the aegis of the WTO, from the perspective of the EU trade policy, a particularly important role is played by bilateral agreements that belong to the new generation of comprehensive trade deals going beyond the rigid framework of commodities trading and tariff reduction that are characteristic of the classic free-trade deals.

Thus, when analysing the growing trend towards signing RTAs, first of all, we must refer to the Article 206 TFEU, which describes the necessity of “the progressive abolition of restrictions on international trade” [European Union 2016, p. 139]. Taking into account the current situation of the world market, the WTO negotiations stalemate, the EU’s position and the fact that 90% of the global economic growth over the next 10–15 years will take place outside Europe, the EU has adopted a new trade and investment strategy – “Trade for All”, which is set to enable effective execution of bilateral agreements and create even more opportunities with this regard. However, the strategy stresses the complementary character of bilateral agreements in relation to actions undertaken within the WTO. On the one hand, further regional bilateral trade deals are planned, on the other, emphasis is put on the necessity of reinvigorating multilateral negotiations under the aegis of the WTO [European Commission 2016d].

The EU trade policy is, thus, focused on developed countries, on the one hand, i.e. USA (TTIP negotiations), Canada (the signed CETA agreement), however, it appears to be the case that gaining better access to markets of emerging economies, Asian in particular, as they achieve dynamic economic growth. These activities are part of the current EU priorities in terms of the trade policy. Therefore, the array of agreements concluded by the EU extends on an annual basis. This trend has a growing tendency, primarily due to the great number of RTAs that are presently under negotiation.<sup>2</sup> As far as the EU is concerned, it amounts to nearly 50 regional agreements, a quarter of which are still subject to negotiation. South Korea has also been building its treaty base – 19 in force and 2 for which early announcements have been made, respectively [WTO 2017b, c].

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<sup>2</sup> Already in the first quarter of 2017, the WTO had registered 647 notifications concerning RTAs, 430 of which have entered into force and are legally binding. It is worth noting that all members of the organization belong to at least one trade agreement. See [WTO 2017a].

### 3. South Korea – abbreviated characteristics of the country

Over the past decades South Korea has shown unbelievable economic growth and integration with the global economy to change into a high-tech industrialized economy. In the 1960s, GDP *per capita* remained at the level comparable with the least developed countries (slightly over USD 100), and as early as 2004, South Korea became a member of the so-called “trillion-dollar club” of world economies. The success of the Korean economy is owed to the intensively implemented industrialization and the systematically built up, own innovation capacity. A high pace of the economic growth was possible mainly due to large investments and dynamic expansion abroad, particularly by the consistent export-oriented policy [Starzyk (ed.) 2001, pp. 81–91]. Not only did the long-term policy of reinforcing selected areas of production contribute to the dynamic growth of South Korea but it also affected the crucial modification of structure of the economy of this country, which is currently characterized by a well-developed sector of production and services (38 and 59.7% of share in the structure of the GDP in 2015, respectively) [Asian Development Bank 2016]. Selected macroeconomic indicators, as compared with the EU, are presented in Table 1.

**Table 1.** Selected macroeconomic indicators of South Korea in comparison with the EU

Indicator	South Korea			EU		
	50,6			508		
Population (million, 2015)						
Year	2005	2010	2015	2005	2010	2015
GDP (current price, billion EUR)	722	826	1 241	11 526	12 800	14 620
GDP <i>per capita</i> (PPP)	22 742	29 825	36 511	29 533	33 611	37 852
Share in world GDP (PPP, %)	1.6	1.7	1.6	21.7	19.0	16.9
Global exports of goods (billion EUR)	228.6	351.8	474.8	1 049.2	1 353.2	1 791.5
Global imports of goods (billion EUR)	210.0	320.7	393.4	1 183.8	1 529.4	1 727.1
Global exports of services (billion EUR)	40.8	62.8	88.2	405.2	569.5	811.2
Global imports of services (billion EUR)	48.1	73.5	102.4	351.9	461.6	660.5
Share in world trade in goods (%)	3.4	3.7	3.6	17.5	15.8	14.7
Global FDI inflows (billion EUR)	11.0	7.2	7.5*	129.7	224.5	118.9*
Global FDI outflows (billion EUR)	6.7	21.3	23.0*	239.9	303.4	96.1
Global FDI inward stocks (billion EUR)	84.3	102.2	137.0*	1 835.1	3 145.1	4 582.5*
Global FDI outward stocks (billion EUR)	31.1	108.6	194.6*	2 426.2	4 219.4	5 748.6*

For EU – trade with extra EU; \* 2014.

Source: [Asian Development Bank 2016; European Commission 2016a].

South Korea’s export-oriented economy was hit hard by the 2008+ world economic crisis but rapidly rebounded in the following years, reaching over 6% growth in 2010. In the subsequent years, the growth rate had dropped, achieving

**Table 2.** GDP increase in selected years, over the period of 2005–2016 (in %)

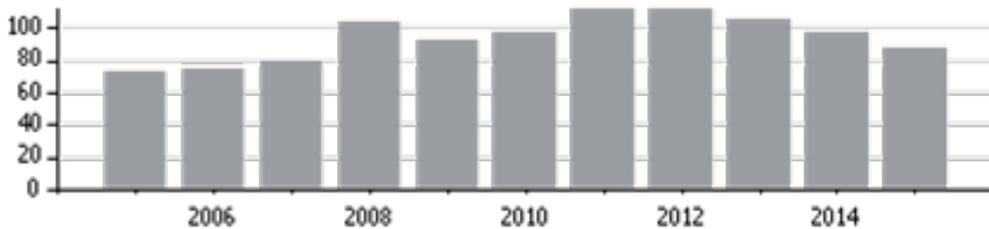
Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP	3.9	5.2	5.5	2.8	0.7	6.5	3.7	2.3	2.9	3.3	2.6	2.6

Source: [Asian Development Bank 2016].

quite slow growth between 2012 and 2015 – from 2 to 3% per year<sup>3</sup> – owing to sluggish internal consumption and investment.

The Korean government has been implementing new directions for the economic development for several years (*creative economy*) – the sectors of the future included technologies associated with energy and ecology [Getting smart... 2016].

The economy of the Republic of Korea is very much dependent on foreign trade results, and the foreign trade is regarded as the driving force of the entire economy as it constitutes over 80% of the country's GDP (see Fig. 1).

**Fig. 1.** Trade openness (sum of imports and exports as % of GDP)

Source: [UNCTAD 2017].

In 2015 South Korea was the 5<sup>th</sup> largest exporter in the world, exporting goods valued at USD 527 bn (4% share in the world merchandise trade) and the 6<sup>th</sup> largest importer (USD 436 bn and 3.3%, respectively) [WTO 2016, p. 95]. This result was possible due to the export-oriented approach of the entire economy and a consistently developed treaty base that facilitated the international trade. All of the aspects contribute to South Korea being regarded as a crucial trade partner with significant economic potential.

#### 4. General characteristics of the EU-South Korea trade

The EU-South Korea relations mainly concentrate on trade in goods. The European Union is the second largest trade partner of South Korea in terms of the trade flows and South Korea is currently placed 8<sup>th</sup> among the key trade partners for the EU.

<sup>3</sup> Over the period considered, the average, annual GDP growth rate in the EU fluctuated around 1%. In 2009, an absolute decline was registered and stood at -4.4%.

**Table 3.** EU trade in goods with South Korea (2005–2016)

Year	Imports			Exports			Balance bn EUR	Total trade bn EUR
	Value bn EUR	% growth between current and previous year	% extra-EU	Value bn EUR	% growth between current and previous year	% extra-EU		
2005	34,589	–	2.9	20.239	–	1.9	–14.349	54.828
2006	40,949	18.3	3.0	22.815	12.7	2.0	–18.133	63.764
2007	41,676	1.8	2.9	24.719	8.4	2.0	–16.957	66.395
2008	39,740	–4.6	2.5	25.495	3.1	1.9	–14.245	65.235
2009	32,472	–18.3	2.6	21.599	–15.3	2.0	–10.873	54.071
2010	39,534	21.8	2.6	27.961	29.5	2.1	–11.573	67.496
2011	36,312	–8.2	2.1	32.515	16.3	2.1	–3.797	68.826
2012	38,017	4.7	2.1	37.812	16.3	2.2	–0.205	75.830
2013	35,837	–5.7	2.1	39.910	5.6	2.3	4.073	75.747
2014	38,772	8.2	2.3	43.188	8.2	2.5	4.416	81.959
2015	42,365	9.3	2.5	47.787	10.7	2.7	5.422	90.151
2016	41,433	–2.2	2.4	44.518	–6.8	2.6	3.085	85.951

Source: [European Commission 2017b].

The EU trade in goods with South Korea is dominated by manufactured goods. The most prevalent categories in the trade structure are: machinery and appliances; transport equipment; base metals and articles thereof; products of the chemical or allied industries (see Table 4).

The total share of these four product groups constituted nearly 69% of all EU exports to South Korea and over 75% of imports from this country in 2016. It proves

**Table 4.** Commodity structure of trade flows between the EU and South Korea – top five most vital groups of products (HS section) in 2016

Imports from South Korea		Export to South Korea	
HS section	% total	HS section	% total
XVI Machinery and appliances	33.9	XVI Machinery and appliances	29.1
XVII Transport equipment	26.1	XVII Transport equipment	21.2
VII Plastics, rubber and articles thereof	9.4	VI Products of the chemical or allied industries	13.6
XV Base metals and articles thereof	9.0	XVIII Optical and photographic instruments, etc.	6.9
VI Products of the chemical or allied industries	6.4	XV Base metals and articles thereof	4.6

Source: [European Commission, 2017b].

a high concentration of trade flows, as well as a large level of the intra-industry trade between the EU and South Korea.<sup>4</sup>

As far as trade in services with South Korea is concerned a meaningful surplus was recorded by the EU after enforcement of the agreement. EU exports of services to South Korea amounted to EUR 11.9 bn in 2014, compared to imports of almost EUR 6 bn (see Table 5). A slight decline was noticed in the following year.<sup>5</sup>

**Table 5.** EU-Korea total trade in services (bn EUR)

Year	EU imports	EU exports	EU trade balance	Year	EU imports	EU exports	EU trade balance
2010	4.7	7.4	2.7	2013	5.7	10.7	5.0
2011	4.6	7.8	3.2	2014	5.9	11.9	6.0
2012	4.8	8.9	4.1	2015	6.3	11.1	4.8

Source: [European Commission 2016b, p. 6, 2017a].

South Korean investments in the EU had increased substantially from EUR 13,1 bn in 2010 to EUR 20,9 bn in 2015 (inward stocks). Over the same period, EU investments in South Korea (outward stocks) had increased from EUR 37,5 bn to EUR 49,8 bn [European Commission 2017a].

## 5. A review of key provisions of the EU-South Korea agreement

The negotiations regarding concluding a free-trade agreement between the two countries had lasted since 2007. Previously, the reciprocal economic relations had been regulated by the EU-South Korea Framework Agreement of 2001.<sup>6</sup> The FTA was signed on October 6, 2010, which provisionally came into effect on July 1, 2011, and fully entered into force on December 13, 2015. It goes further than any previous agreements in reducing trade barriers and it is also the EU's first trade deal with an Asian country. Aside from liberalization of trade, other objectives contained within the agreement concern competition, mutual liberalization of the public procurement market, intellectual property protection as well as facilitating investments. The Parties will also strive for attaining sustainable development and promoting foreign

<sup>4</sup> In 2015, the fourth place in exports was held by mineral products with the share of 6,3%. The EU surplus for its entire trade in goods with South Korea is primarily driven by primary goods and chemicals (including pharmaceuticals) whilst the EU noted a deficit for machinery and vehicles.

<sup>5</sup> The 2016 decrease of trade flows (goods and services) between the EU and South Korea is consistent with the sudden global trade slowdown (in 2016 the global volume of trade in goods and services increased by only 1.9%, which, excluding the year 2009, has been the worst result for over 15 years), these trade drops concerned the EU trade with an overwhelming majority of its trade partners.

<sup>6</sup> Since the establishment of diplomatic relations in 1963, the EU and South Korea have gradually been developing their bilateral relations.

direct investments.<sup>7</sup> The conclusion of the agreement was a crowning achievement of activities stated in the 2006 European Commission communication “Global Europe: competing in the world” calling on the EU to revive its involvement in Asia, among other things [European Commission 2006].

Both countries are WTO members, therefore, they are obliged to notify the fact of signing such an agreement to the organization and also define under which provisions of the WTO agreements the RTA is notified.<sup>8</sup> Thus, the agreement refers to WTO provisions, which was emphasized in the preamble and reflected in many places in the agreement where its Parties invoke provisions of agreements signed under the WTO but the scope of these provisions was extended and specified.<sup>9</sup> The agreement is composed of 15 chapters, nearly 20 annexes and appendices, 3 protocols and 4 understandings. The analysis is based on selected chapters of the agreement [Free Trade... 2011].

The agreement eliminates duties for industrial and agricultural goods in a progressive, gradual way. The larger part of import duties had already been eliminated in 2011.<sup>10</sup> The remaining ones – with an exclusion of a limited number of agricultural products – by 1 July 2016 (see Fig. 2).<sup>11</sup>

Besides duties, the most prominent barriers to the international trade are technical issues. The EU-Korea FTA includes a series of commitments concerning technical barriers in trade, including cooperation in the area of norms and regulatory issues, transparency and marking/labelling, which go beyond obligations contained in the WTO agreement on technical barriers in trade. The four annexes related to particular sectors – electronics, motor vehicles and parts, pharmaceutical products and medical devices, and chemicals – contain specific commitments with considerable practical relevance. Pharmaceutical products and medical products are the two most important and competitive branches of the export industry, generating a crucial trade surplus. Non-tariff barriers in the motor vehicles sector were regarded by the EU industry as the most significant hurdle for exports to South Korea. With a view to addressing these issues, the agreement contains provisions under which Korea acknowledges equivalence of the international norms (UN ECE) or EU norms in relation to the most important technical regulations. It means that EU producers intending to export to South Korea, will not be forced to greatly modify their motor vehicles that were built to EU specifications [European Commission 2011, pp. 8–12].

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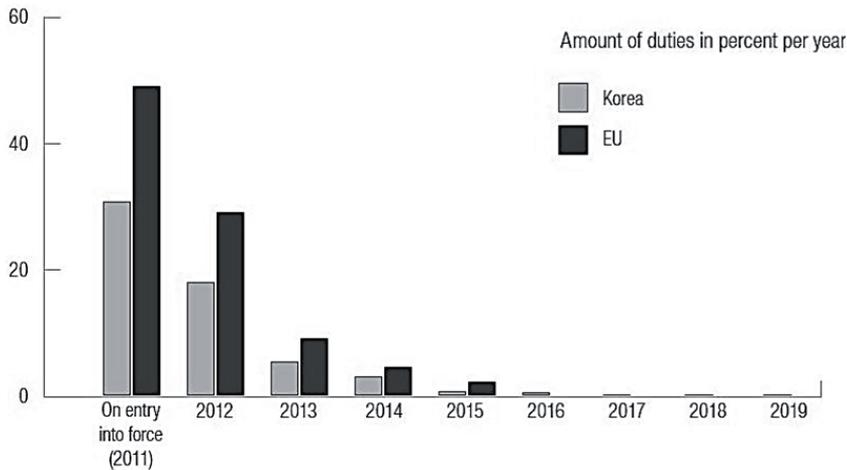
<sup>7</sup> Along with the FTA, the partners also signed the revised Framework Agreement for Trade and Cooperation (entered into force in 2014).

<sup>8</sup> In that case notification under GATT Article XXIV & GATS Article V.

<sup>9</sup> Including Articles 1.1, 2.1, 2.3, 3.2, 3.8, 4.1, 5.3, 6.12, 7.1 of the agreement.

<sup>10</sup> It concerns 90% of tariffs on industrial articles and 40% of tariffs on foodstuffs.

<sup>11</sup> In the case of a limited number of sensitive agricultural and fishery products, the transition period will last over seven years. The detailed schedule for eliminating customs duties is contained in Annex 2-A, whereas details with regard to managing tariff quotas are described in Annex 2-A-1. Before the agreement entered into force, merely 2% of EU exports found their way to Korea duty-free, the agreement eliminates the duties on almost all EU exports. See also: [European Commission 2011, p. 5].



**Fig. 2.** Tariff reduction and elimination schedule

Source: [European Commission 2011, p. 4].

The free trade agreement also causes invigoration of trade between the EU and Korea in the area of trade in animals and products of animal origin, plants and products of plant origin as well as other food products, and, simultaneously, imposes maintaining a high level of health of people, animals and plants as well as safety (Chapter 5). Details related to the reciprocal access to the market have been described in Annex 7-A.

The subsequent chapters of the agreement (6 and 7) contain commitments with regard to cooperation, adopting and implementing requirements and procedures for import, export and transit of goods as well as liberalization of trade in services. The agreement is very ambitious as regards both, the sectoral scope, and the level of commitments related to the market access since it brings EU service providers and investors benefits stemming from the growing demand of the Korean market for services imports and long-term foreign direct investments. The deal opens up the Korean market on a preferential basis and provides vital legal stability with regard to lack of discrimination between EU service providers and investors and their Korean counterparts [European Commission 2011, p. 16].

Public procurement is extremely important from the economic point of view – it constitutes 12–15% of GDP in OECD countries and even more in emerging and developing countries. For this reason, transparency and openness in this regard are of great significance. Despite the fact that Korea and the European Union had already had substantial mutual commitments related to public procurement under the WTO Agreement on Government Procurement (GPA), both parties agreed to expand reciprocal commitments within this agreement (Chapter 9) to include areas not covered by the GPA that would offer significant opportunities for entrepreneurship in the two regions [European Commission 2011, p. 14].

Based on the TRIPS agreement, the free-trade agreement in question provides a legal framework for the protection of intellectual property rights and enforcing such protection within the EU and South Korea (Chapter 10). The agreement lays down mechanisms of trade and cooperation. It introduces norms of safeguarding intellectual property rights such as protection of a work by an author for the period of 70 years after their death (Article 10.6). The FTA also provides a high level of protection of European geographical indications of great trade importance, preventing their inappropriate use in the Korean market.<sup>12</sup>

In Chapter 11 (competition) the parties recognized the need to prohibit and sanction specified actions and transactions connected with goods or services which distort competition. The FTA also contains provisions setting up shared commitments and a frame for cooperation on trade and sustainable development (Chapter 13). The agreement offers new possibilities and allows close dialogue and continued engagement between parties in the fields of labour and environment. The Dispute Settlement mechanism (Chapter 14) is based on the WTO Dispute Settlement Understanding, however, the procedure is considerably faster. The mediation mechanism is also contained in the agreement so that the parties can make use of it to resolve market access problems connected with non-tariff measures.

## 6. The evolution of trade – the effects of the agreement

The agreement signed with Korea is an excellent example of benefits arising from concluding a new-generation agreement. 1 July 2016 marked the 5<sup>th</sup> anniversary of EU-South Korea FTA. Over the course of 5 years since its signing, EU exports to South Korea grew by over a half. The long-standing trade deficit on the part of the EU transformed into a trade surplus and the EU's share in Korea's import volume rose from 9% to 13 % [European Commission 2016c].

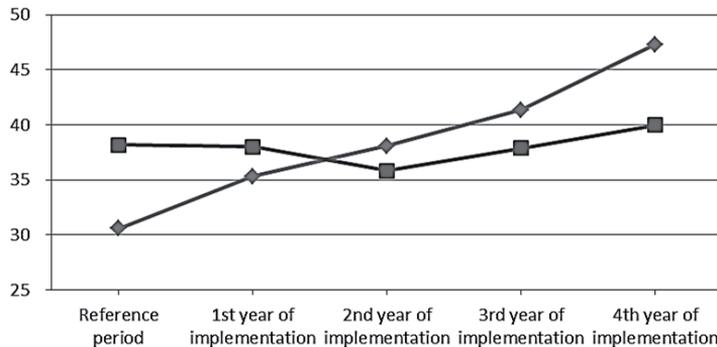
On the basis of data from the fourth part of the paper, as well as the European Commission's report on the implementation of the agreement, Fig. 3 presents the effects of the agreement.

When comparing data from the fourth year of the FTA's entry into force with the year before implementation, we may observe that EU exports of goods to South Korea increased by 55% from EUR 30,6 bn to EUR 47,3 bn (see Fig. 3).

The annual growth in exports exceeded 15% in the first year of the FTA's entry into force, 8–9% in the following two years (2 and 3) and 14% in the fourth year. EU imports from Korea in the fourth year of the FTA amounted to EUR 40.0 bn (an increase by 5% since the 12-month period before the implementation of the FTA). In the third and fourth years of implementation, imports grew annually by 6%, while in the second year they dropped by 6% in comparison with the previous year. EU

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<sup>12</sup> It concerns such geographical indications as: Champagne, Scotch or Irish whisk(e)y, Grappa, Ouzo, Polska Wódka. See Annex 10-B.



**Fig. 3.** EU exports to and imports from Korea, July 2010 – June 2015 (bn EUR)

Source: [European Commission 2016b, p. 3].

exports of completely liberalized goods rose by 57% and those partly liberalized by over 70%. As far as imports of fully and partially liberalized goods from South Korea are concerned, they increased by 35 and 64%, respectively. This shows that the agreement had positive effects also for South Korea despite diminished Korean exports [European Commission 2016b, pp. 3, 4].

As a consequence, the European Union has changed its role from a net importer to a net exporter. The previous trade deficit transformed into a trade surplus. Furthermore, trade in services increased in the period considered by 50% in EU exports to Korea and 34% in EU imports from Korea in 2015, compared to 2010. It is worth noting the rising surplus in trade in services, which amounted to EUR 2.7 bn in 2010 and 3.2; 4.1; 5.0; 6.0 and EUR 4.8 bn in the following years up to 2015, respectively.<sup>13</sup>

As far as sectoral effects are concerned for EU exports, the most significant product categories, presented in Section 4, were: machinery and appliances – accounting currently for almost 30% of total EU exports to Korea, which rose by 24%; transport equipment (over 21% of total EU exports to Korea), which increased by 134%;<sup>14</sup> chemical products, representing currently over 13% of total EU exports to Korea, which increased by 21%. Other groups of products that presented an important increase in EU exports since July 2011 are mineral products, pearls and precious metals, footwear and wood. The main product categories of EU imports from Korea are: machinery and appliances, representing almost 34% of EU imports from Korea, which decreased by 16%; transport equipment, accounting for 26% of total EU imports from Korea, which had been changing over the four years but in

<sup>13</sup> Over the 2010–2015 period, bilateral FDI stocks increased by circa 40%. See Section 4.

<sup>14</sup> EU exports of motor vehicles increased by 206%, from EUR 2 bn in the 12-month period preceding the entry into force of the agreement to EUR 6,1 bn in the fourth year of the FTA (13% of total EU exports to Korea).

June 2015 were approximately at the same level as in June 2011. Moreover, increases were noted in EU imports of chemical products and plastics, which rose by 115% and 59%, respectively since the FTA's implementation [European Commission 2016b, pp. 4, 5].

Nowadays, South Korea belongs to top ten key trade partners of the EU (8<sup>th</sup> and 9<sup>th</sup> place in EU imports and exports, respectively, in 2015 and 2016, in comparison with the 13<sup>th</sup> place in exports in 2005). Besides goods such as machinery, transport equipment or chemicals, the agreement enabled new export possibilities for small European companies in a wide range of sectors such as foodstuffs and beverages, ceramics, packaging, sports equipment and binding technology. Exports of EU

**Table 6.** EU 28 trade in goods by FTA (implemented) partner, 2015 (bn EUR, %)

Partners	Exports			Imports		
	Value	Share in EU exports	CAGR 2015–10	Value	Share in EU imports	CAGR 2015–10
Implemented – total	571.9	31.9	5.6	457.8	26.5	1.2
Central America*	5.7	0.3	4.5	5.2	0.3	-0.9
Chile	8.4	0.5	6.7	8.3	0.5	-1.3
Colombia**	6.5	0.4	10.7	6.7	0.4	3.5
EFTA	203.6	11.4	5.6	180.8	10.5	0.7
EPAs (implemented)*	13.3	0.7	5.9	13.4	0.8	1.9
EuroMed*	102.1	5.7	4.6	64.4	3.7	0.5
Georgia	1.8	0.1	8.5	0.7	0.0	2.7
Mexico	33.7	1.9	9.5	19.7	1.1	3.7
Moldova	2.1	0.1	5.9	1.2	0.1	7.6
Peru**	3.7	0.2	10.0	5.1	0.3	-0.3
South Africa	25.5	1.4	3.6	19.4	1.1	-0.5
<b>South Korea</b>	<b>47.8</b>	<b>2.7</b>	<b>11.4</b>	<b>42.3</b>	<b>2.5</b>	<b>0.7</b>
Turkey	79.1	4.4	5.1	61.6	3.6	3.6
Ukraine	13.9	0.8	-4.4	12.8	0.7	1.0
Western Balkans*	24.5	1.4	6.2	16.2	0.9	5.0

\*Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama; EPAs (implemented) includes: West Africa: Ghana and Ivory Coast; Cariforum: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago; Eastern and Southern Africa (ESA): Madagascar, Mauritius, Seychelles and Zimbabwe; Pacific: Fiji and Papua New Guinea; Southern African Development Community (SADC): Botswana, Lesotho, Namibia and Swaziland; Central Africa: Cameroon; EuroMed includes Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territories, Syria and Tunisia; Western Balkans includes Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Kosovo.

\*\*EU – Colombia and Peru – Accession of Ecuador: The Agreement started to be provisionally applied between the EU and Ecuador on 1 January 2017.

Source: [European Commission 2016a, pp. 55, 56; WTO 2017c].

product that had before been levied high tariffs and had been subject to trade restrictions, e.g. agricultural products,<sup>15</sup> due to liberalization and reduced customs charges, became cheaper and as a result of this, their value rose by over 70%. The situation in other sectors improved even to a greater extent. A good example of this is the aforementioned threefold increase in sales of EU-manufactured cars to Korea [European Commission 2016c ].

As for the dynamics of trade flows in the period considered, it is worth referring to the CAGR indicator<sup>16</sup> for South Korea, juxtaposed with values of other partners of implemented FTAs (Table 6).

As shown in Table 6, over the period 2010–2015, the CAGR indicator's value for Korea (exports) was the highest. It is worth comparing it with its corresponding value for the period before the agreement (2005–2010), when the compound annual growth rate amounted to slightly over a half of this value (6.6).<sup>17</sup>

To ensure the scheduled profits to the parties, the full implementation<sup>18</sup> of the FTA is of critical importance, as some implementation and bilateral trade issues still persist.<sup>19</sup> This also means that there are opportunities to further strengthen bilateral cooperation and benefit from the agreement.

## 7. Conclusions

The analysis conducted in the article has shown that EU-Korea FTA has produced good results. Despite being the first in the series of agreements currently under negotiation with Asian countries,<sup>20</sup> it illustrates how partners may cooperate in order to reach an agreement that would bring mutual benefits to both economies. Based on the agreement, the partners are on the way to further expand and deepen their relations.

This comprehensive and innovative agreement has become a reference point for concluding other trade deals for the EU. It has been successful in boosting trade and enhancing growth, which may improve how the EU is perceived in Asia and contribute to the further advancement of bilateral relations.<sup>21</sup> The EU's pivot to Asia

<sup>15</sup> Liberalization of duties in agro-food industry will last the longest, however, the tariff barriers for entering the South-Korean market were high and stood at 35% in 2009 (trade-weighted average) [WTO 2010].

<sup>16</sup> Compound Annual Growth Rate – is the rate at which the initial value had to grow, on average, every year in a time period to obtain the ultimate value, calculated as:  $CAGR(t_0, t_n) = \left(\frac{V(t_n)}{V(t_0)}\right)^{\frac{1}{t_n-t_0}} - 1$  where:  $V(t_0)$  – beginning value,  $V(t_n)$  – ending value,  $t_0$  – beginning year,  $t_n$  – ending year.

<sup>17</sup> Author's own calculations, based on data from Table 3.

<sup>18</sup> 2031 is the end of implementation period.

<sup>19</sup> For example in the SPS sector, difficult authorization procedures still generate obstacles which particularly affect EU beef and pork exports. See more: [European Commission 2016b, p. 12].

<sup>20</sup> Concluded FTAs with Singapore and Vietnam, future: India, Japan, Malaysia, Myanmar, Thailand.

<sup>21</sup> Since it came into force, the EU has negotiated a number of agreements that have already been implemented including deals with Colombia, Peru and Central America countries as well as Ukraine.

is by no means an isolated case. A number of countries are currently implementing the policy of trade diversification and paying more attention to Asian markets since they have enormous economic potential.

As they take account issues that are still unsuitable for discussion at the multilateral level and go beyond the market openness that may be achieved in the present multilateral context, free trade agreements will also constitute an alternative to further liberalization by building grounds for the next stage of multilateral liberalization.

Thus, it seems that the co-existing systems of trade policy – the multilateral and regional – despite being different and in competition with each other, will still play a crucial part in the world economy. The EU holds an important place in both systems. However, given the current situation of a weakened role of the WTO, RTAs have become a main point of interest for Brussels.

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