Free Trade Agreement

By NICK LYNE
Senior Staff Writer, FIRST

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On July 1, 2011, the European Union signed a Free Trade Agreement (FTA) with South Korea, the most ambitious of its kind reached by the world's largest trading bloc, and its first with an Asian country.

"The deal is unprecedented both in its scope and in the speed at which trade barriers are to be removed," explained EU trade commissioner Karel De Gucht at the time, adding: "By the end of the transitional periods, virtually all import duties between the two economies will have been removed. Exporters and importers of all industrial products and almost all agricultural products will be able to trade without having to pay duties."

Additionally, the FTA breaks new ground in tackling significant non-tariff barriers to trade, with a specific focus on the automotive, pharmaceuticals, medical devices, and electronics sectors. The Agreement will also create new opportunities for market access in services and investments, and lead to major advances in areas such as intellectual property, government procurement and competition policy.

Over the last two years, EU exports to Korea have grown sharply, giving the EU a trade surplus with the Asian powerhouse for the first time in 15 years. EU exports to Korea are up by 16.2 per cent, 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 (4.7 per cent).

Over the same period, the EU's share of total imports to Korea has increased steadily, from 9.0 per cent in 2011 to 9.7 per cent in 2012. The sectors that have benefitted most from the FTA are North Sea oil, machinery, and motor vehicles and parts.

The process also shows that it is possible to tackle non-tariff barriers effectively in a trade agreement. Some of the European sectors that are doing best out of this deal are those who faced real problems with regulatory barriers in the past – this includes the car sector, but also the machinery and appliance sector, where the agreement was able to remove significant double conformity testing requirements.

Korean exports to the EU have been affected by the current economic climate in the EU, as well as by the decline in electronics output due to production relocating to South East Asia. These products, which are doing well worldwide and in the EU, are no longer being exported from Korea under FTA preferences but instead from other Asian countries.

The effect on consumer goods and prices has been impressive, but the bigger impact in South Korea is likely to be the opening up of several service industries, including hotels, accounting, and legal services. The deal also removes regulations that prevent international law firms from establishing offices in the country.

Looking to the future

The EU-Korea FTA is only the first agreement in a series Brussels is negotiating with Asian countries, but it is an example of how two partners can work together to achieve a deal that brings significant benefits to both.

It has not only boosted bilateral trade and economic growth, but also had a wider impact in Asia and elsewhere by signalling the EU's openness to doing business with third countries, as well as its commitment to free trade.

The implementation phase of the Free Trade Agreement is ongoing to ensure that the mechanisms used are efficient and effective in providing market access for EU businesses in South Korea and South Korean businesses in the EU.

This is being done through an annual Trade Committee, seven Specialised Committees, seven Working Groups and an Intellectual Property Dialogue. These different bodies provide an opportunity both to seek resolution of market access concerns and to engage in closer regulatory cooperation.

For South Korea, the agreement is the biggest bilateral trade deal it ever completed, and is part of a broader government effort to use free-trade deals as leverage to eliminate outmoded regulations and open business sectors that have resisted change.

South Korea reached a similar pact with the US in 2007, but ratification has been held up by politics in both countries. South Korea is also negotiating FTAs with Australia, New Zealand, Canada and Peru.

South Korean companies have been increasingly more active towards overseas mergers and acquisitions in Europe, largely because more undervalued European assets are on sale due to the protracted debt crisis in Europe, as well as the stronger South Korean Won favouring cash-rich South Korean companies looking to buy European firms. This trend is likely to continue into the following years as many South Korean companies seek more chances in Europe when the time is right.