



Korea's FTA policy and negotiating Korea-EU FTA

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1. Korea's FTA policy



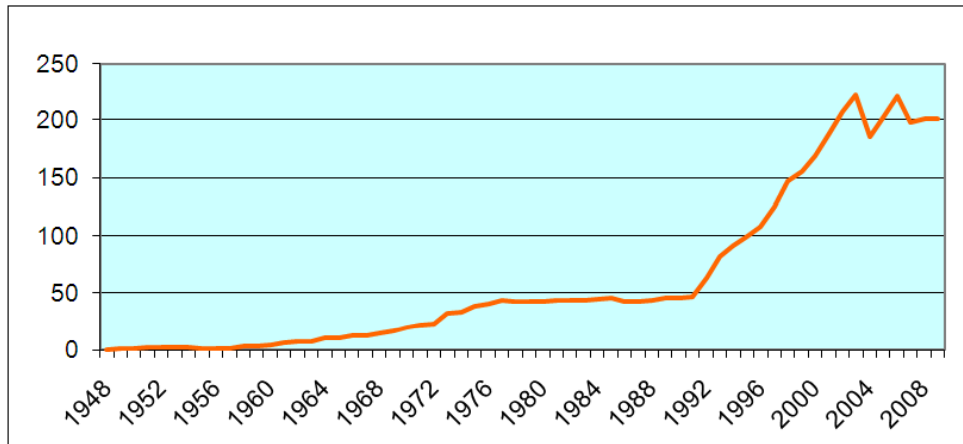
Changes in Korea's trade policy

- Korea's trade policy has experienced major change since late 90s toward regionalism. Why did Korea turn to regionalism based on FTAs?
- Three external reasons and two internal reasons.

External reasons:

- Ongoing DDA (2001~ ?) began to **lose its momentum for trade liberalization** (Singapore issues,) especially since 5th Ministerial Conference in Cancun in 2003.
- Many developing countries had turned to regionalism to **use FTAs as their development strategy since late 90s**. This led other countries to enter into FTA race. (Bandwagon effect, Me-too-regionalism, Domino effect)
- Rapid development of BRIC, especially China: the emerging China has been good opportunities for Korean economy in general, but **it was considered as threat as well, as China has attracted the largest part of FDI** flowed into East Asia. Much of its inward FDI is aimed at export-oriented production.

Evolution of Regional Trade Agreements (RTA) in the world



Source: WTO

FDI inflows in East Asian Countries (in USD million)

	1995	1996	1997	1998	1999	2000	2001	2002
ASEAN-10	19,437	22,949	27,700	17,593	16,328	10,911	17,393	10,567
Cambodia	146	442	61	305	207	164	121	12
Indonesia	3,888	5,607	4,489	-193	-2,679	-4,378	-3,359	-1,279
Lao PDR	88	128	85	45	51	34	24	25
Malaysia	7,724	8,972	8,688	6,322	7,111	7,503	8,958	6,821
Philippines	1,541	1,615	1,260	2,204	1,291	1,417	964	916
Singapore	2,015	1,559	5,605	971	4,365	1,478	4,901	868
Thailand	1,595	1,905	3,753	5,073	3,548	2,862	3,942	1,048
Viet Nam	1,539	1,490	2,179	1,610	1,384	1,076	1,125	992
Northeast Asia								
China	36,882	39,183	43,126	43,233	39,846	40,187	45,159	50,309
TOTAL	604,150	517,000	509,072	510,014	550,701	1,020,250	1,10,322	711,501

Source: Asian Development Bank, Asia Regional Development Centre Dataset

Changes in Korea's trade policy

Internal reasons:

- **Falling economic growth:** Korea's annual growth rate was 9% on average throughout 1980s but it fell down to 5.7% in 90s and since 2000, it has stagnated around 3.5%.
 - It is necessary to find new momentum for growth and FTA has been increasingly considered as a policy option to sustain economic growth.
- Korea's **service sectors** account for 67% of total employment (and 58% of GDP) in Korean but **its productivity is low**, compared to OECD countries.
 - Korea's service sectors are characterized by small and family-type companies which are highly concentrated on hotel and catering sectors. In order to improve the productivity in Korean service sectors, policy makers recognized increasingly **the role of competition resulting from opening Korean service market** (to US and EU).

Comparison of labor productivity in service industries (2006)

	Korea	Eurozone	Germany	UK	France	Luxembourg	Czech Rep.	Poland
Service industries	100 (100)	178 (221)	168 (226)	146 (213)	192 (251)	289 (378)	109 (61)	117 (75)
▪ Retail, Hotel and Restaurant	100 (100)	271 (335)	221 (298)	227 (331)	284 (372)	320 (419)	212 (118)	265 (170)
▪ Transport,	100	152	114	138	132	262	100	86
	(100)	(116)	(123)	(143)	(161)	(167)	(82)	(89)

Source: OECD

Development of Korea's FTA policy

- In November 1998, the ministerial meeting on the foreign economic policy (chaired by the Prime Minister) declared that Korea would start negotiations to push for FTA.
 - **Chile was chosen as the first FTA partner** in consideration. Why did Korean Government choose Chile as the first FTA partner?
 - 1) Chile is considerably open economy in terms of trade policy in South America and it had been already negotiating FTAs with several trade partners including US.
 - 2) Chile's trade structure is rather complementary to that of Korea. For agriculture which is the most sensitive sectors that Korea has kept defensive stance on, market opening to Chilean products are regarded less problematic, because of seasonal difference.
 - 3) Chile seeks for FTA with Korea.
 - **But implementing a FTA is harder than negotiating it!**

Internal negotiation of FTA: harder than external negotiation



FTA Roadmap (Sept. 2003)

- Korea-Chile FTA was signed Feb. 15, 2003, but **its ratification took 16 months in the wake of polemics**, involving not only political parties, but also farmers' union and NGOs.
- This experience drove Korea Government to fix **more justifiable objectives on FTA policy in order to obtain public support on its trade policy**.
 - The Gov. set up “FTA Roadmap” in September 2003 in order to obtain public support on its trade policy.
- FTA Roadmap describe **coherent and concrete principles on FTA policy and include the list of FTA partners according to priority and prospect**.

FTA Roadmap (Sept. 2003)

- Principles of FTA policy
 - 1) **Seek for multiple-track FTAs** with major trade partners in strategic and active way in order that Korea catch up with countries who have been already on FTA race.
 - 2) **Look for advanced and comprehensive FTAs** which include investment, service, intellectual property, competition and government procurement in order to maximize effects of FTAs.
 - 3) **Bring forward concrete blueprints on every FTA on perspective** and organize public hearings in order that the Government can get public support and confidence on its trade policy.
 - 4) Take into consideration not only economic factors but also **political and diplomatic factors**.

FTA partners in consideration according to FTA Roadmap

Perspective	Countries in consideration	Remarks
Short-term (in 2 years)	Japan, Singapore	Start negotiations as soon as possible according to the joint feasibility studies between conducted by Gov, academic institutions and industries
	ASEAN, Mexico, EFTA	Prepare negotiations or joint studies when appropriate conditions meets
Medium and long term (in more than 3 years)	USA, EU, China	Progressive approach
	Israel, Peru, Panama, New Zealand, Australia	Countries who have shown their intention to conclude FTAs with Korea
	Canada, India	FTA partners on perspective

Note: Canada and India were reclassified as FTA partners of short-term when the Roadmap was revised in May 2004
 Source: Ministry of Foreign Affairs and Trade, Korea (2003)

Korea's FTA (as of April 2010)

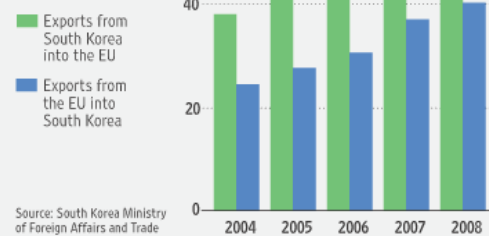
Implemented (date of entry into effect)	Signed or finalized	Under negotiation	Under study or preparation
Korea-Chile (01/04/2004)	Korea-US	Korea-Canada	Korea-Japan
Korea-Singapore (02/03/2006)	(Signed, 30/06/2007)	Korea-Mexico	Korea-China
Korea-EFTA (01/09/2006)	Korea-EU	Korea-GCC	Korea-China-Japan
Korea-ASEAN (good, 01/06/2007)	(Initialed, 15/10/2009)	Korea-Australia	Korea-MERCOSUR
Korea-ASEAN (Investment, 01/09/2009)		Korea-New Zealand	Korea-Russia
Korea-ASEAN (Service, 01/05/2010)		Korea-Peru	Korea-Israel
		Korea-Colombia	Korea-SACU
		Korea-Turkey	

Source: Ministry of Foreign Affairs and Trade, Korea (2010)

2. Economic relation between the EU and Korea

Trade Flows

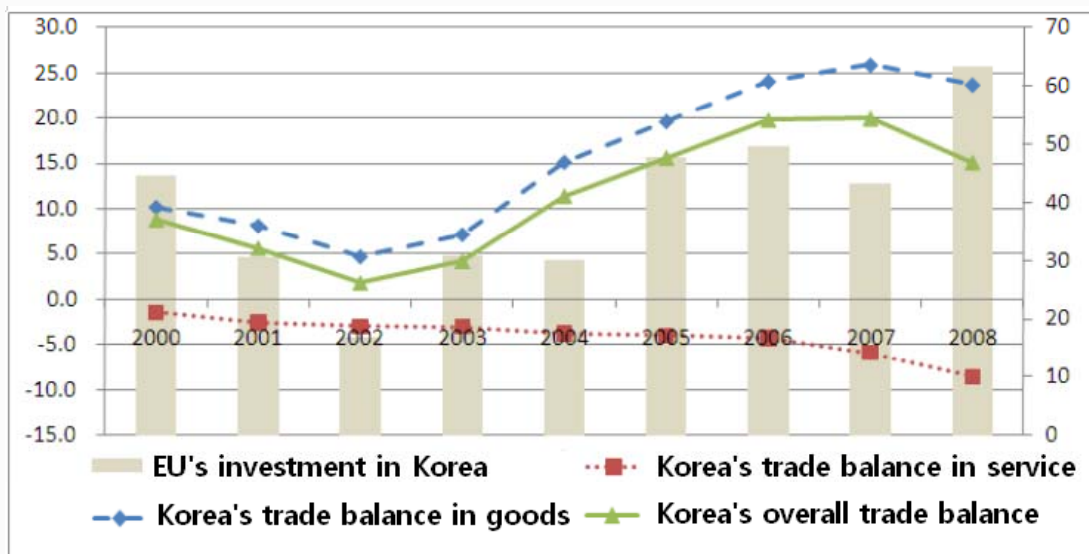
Trade between the European Union and South Korea, in billions of dollars



Korea's trade and inward FDI with the EU

(trade balance: billion US \$)

(investment: 10 million US \$)



Source: National Statistic Office, Korea

Korea's exports to selected trade partners

	2004	2005	2006	2007	2008
CHINA	40,006	49,767	55,319	59,821	62,136
EU	30,841	35,559	38,587	40,847	39,689
US	34,447	33,231	34,393	33,394	31,532
ASEAN	19,314	22,050	25,538	28,274	33,508
JAPAN	17,446	19,313	21,133	19,241	19,209
Other	62,019	68,695	84,240	89,483	100,849
World	204,071	228,615	259,211	271,061	286,923

Unit: Million euro

Korea's imports from selected trade partners

	2004	2005	2006	2007	2008
CHINA	23,784	31,065	38,672	45,989	52,305
JAPAN	37,096	38,906	41,356	41,043	41,444
ASEAN	17,994	20,950	23,688	24,159	27,820
EU	19,578	22,030	23,942	26,869	27,183
US	23,139	24,585	26,803	27,157	26,084
Other	58,859	72,446	91,942	95,160	121,108
World	180,451	209,982	246,403	260,377	295,944

Unit: Million euro

- **EU is Korea's second largest trade partner after China.**
- **Korea record the largest trade surplus vis-à-vis the EU.** Source: KITA

EU merchandise trade with main partners in 2008

The major import partners The major export partners The major trade partners

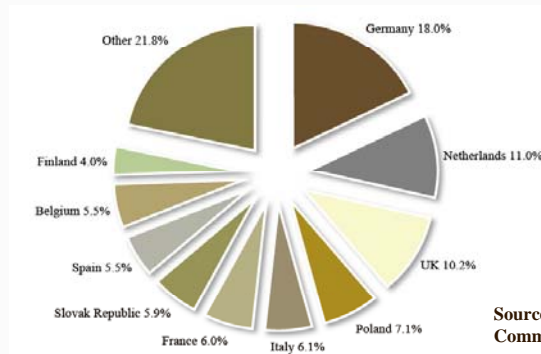
Partners	Mio euro	%	Partners	Mio euro	%	Partners	Mio euro	%
World	1,550,276	100.0	World	1,308,960	100.0	World	2,859,236	100.0
1 China	247,595	16.0	1 USA	249,186	19.0	1 USA	435,430	15.2
2 USA	186,245	12.0	2 Russia	105,142	8.0	2 China	325,956	11.4
3 Russia	173,210	11.2	3 Switzerland	97,568	7.5	3 Russia	278,353	9.7
4 Norway	91,851	5.9	4 China	78,361	6.0	4 Switzerland	177,573	6.2
5 Switzerland	80,005	5.2	5 Turkey	54,239	4.1	5 Japan	135,430	4.7
6 Japan	74,702	4.8	6 Norway	43,579	3.3	6 Norway	117,021	4.1
7 Turkey	45,899	3.0	7 Japan	42,319	3.2	7 Turkey	100,138	3.5
8 Korea	39,383	2.5	8 UAE	31,659	2.4	8 Korea	65,010	2.3
9 Brazil	35,459	2.3	9 India	31,506	2.4	9 India	61,756	2.2
10 Libya	34,161	2.2	10 Brazil	26,298	2.0	10 Brazil	60,866	2.1
11 India	29,380	1.9	11 Canada	26,108	2.0	11 Canada	49,876	1.7
12 Algeria	28,543	1.8	12 Korea	25,627	2.0	12 South Africa	44,546	1.6
13 Taiwan	24,044	1.6	13 Australia	25,169	1.9	13 Taiwan	43,841	1.5
14 Canada	23,768	1.5	14 Ukraine	25,135	1.9	14 Singapore	42,372	1.5
15 South Africa	22,157	1.4	15 Hong Kong	22,559	1.7	15 Saudi Arabia	42,337	1.5

Source: European Commission

Korea's export to the EU

SITC Rev.3 Product Groups	2004 (Mio €)	%	2006 (Mio €)	%	2008 (Mio €)	%	Share of total EU imports
TOTAL	30,671	100	40,768	100	39,383	100	2.54
Primary Products	498	1.6	1,017	2.5	2,341	5.9	0.37
<i>of which:</i>							
Agricultural products	132	0.4	109	0.3	145	0.4	0.13
Energy	49	0.2	457	1.1	1,663	4.2	0.37
Manufactured Products	30,081	98.1	39,584	97.1	36,821	93.5	4.23
<i>of which:</i>							
Machinery	16,831	54.9	20,246	49.7	19,337	49.1	5.84
Transport equipment	8,349	27.2	12,834	31.5	9,657	24.5	10.1
<i>of which:</i>							
<u>Automotive products</u>	<u>5,657</u>	<u>18.4</u>	<u>7,842</u>	<u>19.2</u>	<u>5,100</u>	<u>12.9</u>	<u>9.62</u>
Chemicals	1,023	3.5	1,282	3.1	1,677	4.3	1.36
Textiles and clothing	1,387	4.5	1,017	2.5	724	1.8	0.9

Korea's merchandise exports to the EU by Member States in 2008

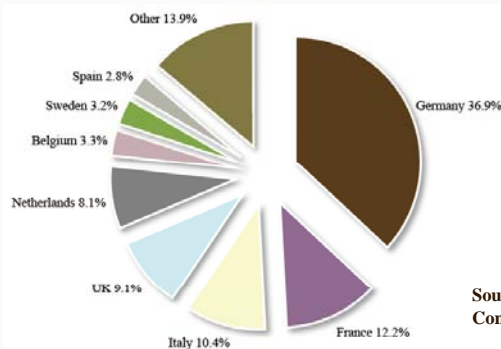


Source: European Commission

Korea's import from the EU

SITC Rev.3 Product Groups	2004 (Mio €)	%	2006 (Mio €)	%	2008 (Mio €)	%	Share of total EU exports
TOTAL	17,931	100	22,862	100	25,627	100	1.96
Primary Products	1,729	9.6	2,152	9.4	2,514	9.8	1.26
<i>of which:</i>							
Agricultural products	970	5.4	1,165	5.1	1,103	4.3	1.40
Energy	82	0.5	21	0.1	492	1.9	0.61
Manufactured Products	15,703	87.6	19,988	87.4	22,077	86.1	2.08
<i>of which:</i>							
Machinery	7,066	39.4	8,333	36.5	11,030	43.0	2.72
Transport equipment	1,899	10.6	2,715	11.9	2,982	11.6	1.57
<i>of which:</i>							
<u>Automotive products</u>	<u>1,108</u>	<u>6.2</u>	<u>1,792</u>	<u>7.8</u>	<u>1,903</u>	<u>7.4</u>	<u>1.5</u>
Chemicals	2,897	16.2	3,796	16.6	4,369	17.0	2.17
Textiles and clothing	597	3.3	677	3.0	583	2.3	1.69

Korea's merchandise imports from the EU by Member States in 2008



Source: European Commission

Korea, FDI inflows and cumulative total 1962-2008 by country of origin

	2004	2005	2006	2007	2008	cumulative 1962-2008	% Share
EU	2,238	3,390	3,951	2,911	4,305	32,379	42.9
USA	2,469	1,616	1,276	512	903	14,589	19.3
Japan	1,449	1,323	1,277	561	967	11,459	15.2
China	560	487	23	34	229	1,532	2.0
Other	743	905	701	1,601	1,554	15,575	20.6
World	7,459	7,722	7,228	5,620	7,958	75,534	100

Unit: Million euro

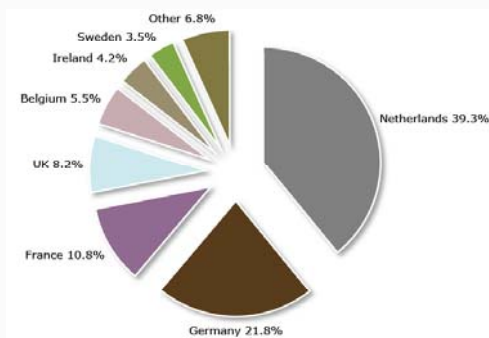
EU FDI in Korea – Value & Share of Cumulative Total by Sector (1962-2008)

Sector	Value	Share
TOTAL	32,379	100
Services	18,042	55.7
Finance, Banking & Insurance	9,604	29.7
Wholesale & Retail	4,321	13.3
Business Services	1,130	3.5
Real Estate & Leasing	1,124	3.5
Transport & Logistics	855	2.6
Other	1008	3.1

Manufacturing	13,291	41.0
Electrical & Electronic	3,911	12.1
Chemicals	3,278	10.1
Transport equipment	1,979	6.1
Food Products	1,211	3.7
Machinery & Devices	1,047	3.2
Other	1,866	5.8
Electricity, Gas & Water Supply	873	2.7
Agriculture, Fisheries, Forestry & Mining	173	0.5

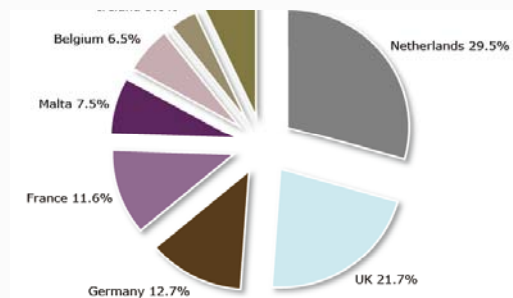
Source: Ministry of Knowledge Economy Unit: Million Euro

EU FDI in Korea by Member States' Share of total FDI in the manufacturing sector 1962-2008



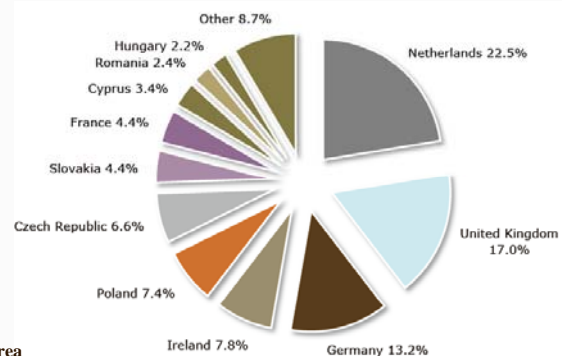
Source: Ministry of Knowledge Economy, Korea

EU FDI in Korea by Member States' Share of total FDI in the services sector 1962-2008



Source: Ministry of Knowledge Economy, Korea

Korea's FDI in the EU, Share of Cumulative Total 1962-2008



Source: Export-Import Bank of Korea

3. Background of Korea-EU FTA



Background of Korea-EU FTA

- EU's FTA policy
 - EU's FTA (RTA) are composed of several levels. 1) Association agreements, 2) Economic Partnership Agreements (EPAs) and 3) FTA.
 - 1) Association agreements are part of EU's neighborhood policies and they aim at enhancing economic development and political stability in European continent.
 - 2) EPAs have similar motives in that the EU try to maintain economic and political relationship with developing world which was once European colony. They are closely related to EU's overall diplomatic strategy.
 - 3) **As for bilateral FTAs, EU's approach is characterized by its focus on economic motives.** Political factors are rather excluded in negotiating FTA with third countries. (Cf. Korea-EU FTA vs. Korea-US FTA)

What has driven the EU to negotiate a FTA with Korea?

- In fact, the EU had shown **its preference for the multilateral negotiations** on trade issues for long time.
- Pascal Lamy (trade commissioner in early 2000s) insisted that the **EU put priority on ongoing Millennium Round in the WTO** rather than bilateral FTAs.
- The period of his mandate as commissioner is often described as "**moratorium on FTA (1999-2004)**". During this period, the EU did not commit itself in negotiating new FTAs.
 - Some exceptions were FTAs with Chile, Mexico and South Africa, for which the negotiations had been already started.
- EU's stance on FTA changed in 2003 especially after break-up of the Ministerial Meeting in Cancun. **Why did the EU change its attitude on FTAs?**

What has driven the EU to negotiate a FTA with Korea?



- **Three reasons**
 - 1) **Stagnating DDA:** The Ministerial meeting in Cancun failed in producing agreement on major issues "Singapore issues". This brought the EU to exclude investment, competition and government procurement in DDA negotiations.
 - As a result, **the EU expected less from DDA.**
 - 2) **Change in US trade policy:** In 1990s, US trade policy put clearly priority on the multilateral negotiation on trade issues in the framework of the WTO and US resorted to the regional trade agreement only occasionally in view of breaking the ice in WTO agenda. However, since 2000, US stance on FTA has changed and started to consider bilateral FTA as possible alternatives to multilateral liberalization, which is qualified as "**competitive liberalization**".
 - 3) **Economic growth of Asian countries:** It is increasingly necessary for the European countries to consider FTA with Asian countries **to take advantage of their growth and their increasing purchasing power.**

Global Europe Strategy (European Commission, 2006)

- European Commission set out a new trade policy agenda designed to reflect these strategic priorities.
- **The Global Europe strategy reoriented European bilateral trade agreements through a new generation of FTA** with Asian markets and stepped up European focus in key areas such as intellectual property and access to raw materials.
- In this new policy package, EU decided to consider **FTAs as part of comprehensive trade policies** to enhance trade and investment opportunities and to go ahead with negotiations of comprehensive and advanced FTAs with third countries.
- For the first FTA partners, the European Commission singled out **Korea, ASEAN and India.**



Negotiating Korea-EU FTA

- | | | | |
|--|--|--|--|
| <ul style="list-style-type: none"> ▪ 15/05/2006 – Korea-EU Trade Ministerial Meeting agreed on organizing a preparatory meeting on Korea-EU FTA ▪ 19/07/2006 – 1st Preparatory meeting on Korea-EU FTA ▪ 26~27/09-2006 – 2nd Preparatory meeting on Korea-EU FTA ▪ 24/11/2006 – Public hearing on Korea-EU FTA ▪ 06/12/2006 – Consultation meeting of stakeholder on Korea-EU FTA ▪ 01/05/2007 – Approval of Inter-Ministerial Meeting on External Economic Relation |  <p>Preparation</p> | <ul style="list-style-type: none"> ▪ 06/05/2007 – Declaration of opening the official negotiation ▪ 07~11/05/2007 – 1st negotiation ▪ 16~20/07/2007 – 2nd negotiation ▪ 17~21/09/2007 – 3rd negotiation ▪ 15~10/10/2007 – 4th negotiation ▪ 19~23/11-2007 – 5th negotiation ▪ 28/1~01/02/2008 – 6th negotiation ▪ 12~15/05/2008 – 7th negotiation ▪ 23~24/03/2009 – 8th negotiation ▪ 13/07/2009 – Finalization of the FTA ▪ 15/10/2009 – Initialing of the FTA |  <p>Negotiation</p> |
|--|--|--|--|

4. Contents of Korea-EU FTA



Difficult issues in negotiation: 1) Duty Drawback System

- Korea and EU showed a very clear divergence on **duty drawback system (DDS)** from the beginning.
- Korea's point of view: The DDS is **crucial support system, especially for small and medium enterprises (SME)** that rely heavily on outsourcing to China and Southeast Asia for intermediate goods. Without DDS, any kind of FTA would not bring about tangible economic benefits to SME.
- EU's point of view: The EU realized that DDS is important for Korea but the EU did not have precedents to insert the DDS in the FTA with third countries (ex: Chile, Mexico and South Africa). Western European companies have taken advantage of the European enlargement toward Eastern Europe that is less developed the West. As a result they tend to rely less on outsourcing out of the EU and DDS is less important for them.
- **Compromise:** The EU allow Korea to maintain current DDS (on average 8%) on Korea's export to the EU for next 5 years. When Korea's imports of intermediate goods increase rapidly after 5 years of grace period, EU can limit DDS to 5%.

Difficult issues in negotiation: 2) Rule of origin

- EU used to set percentage of the local components in complete product to 60% in the previous FTAs with Chile, Mexico and South Africa. In order to be qualified as "Made in Korea", **Korean-produced component must exceed 60% of total value of the products concerned.**
- Korea insist to reduce percentage of local components to 35%. → big difference.
- Compromise: EU agreed on reducing threshold of local component to 45%.
- European car makers opposed heavily to Korea-EU FTA, especially due to DDS and rule of origin. **They lobbied Member States Gov. and EU institutions and they are represented by ACEA (European Car Makers' Association).**

Brief comparison between Korea-EU FTA and KOREA-US FTA

	Korea-EU FTA	Korea-US FTA
Tariff removal on industrial products	<ul style="list-style-type: none"> - Removal of tariffs on industrial products within 7 years (3 years → 5 years → 7 years) o EU removes tariffs within 5 years and Korea within 7 years. - Percentage of Korean products on which the EU will apply early removal of tariffs (within 3 years): o By number of items : 97.3% o By value of imported item : 96.9% - EU's tariff removal schedule on Korean products o immediately : refrigerator, auto parts, flat displayer o within 3 years : tire, microwave oven, plastics, midium and heavy passenger car o within 5 years : TV, small passenger car o within 7 years : none 	<ul style="list-style-type: none"> - Removal of tariffs on industrial products within 10 years - Percentage of Korean products on which the US will apply early removal of tariffs (within 3 years): o By number of items : 91.4% o By value of imported item : 92.4% - US's tariff removal schedule on Korean products o immediately : passenger car (less than 3000cc), TV, LCD o within 3 years : Digital TV, passenger car (more than 3000cc), golf items o within 5 years : tire, speaker o within 10 years : Washing machine, Polyester, Truck
Service	<ul style="list-style-type: none"> - Market opening sectors o KORUS Parity + KORUS Plus o KORUS Plus (additional market opening) : Satellite broadcasting service, Sewage water treatment service (Grace periods of 2 and 5 years are allowed respectively.) o Liberalization based on <i>Positive</i> approach 	<ul style="list-style-type: none"> - Market opening sectors o Financial and Legal service, Telecommunication, Broadcasting, Accounting, Consulting services o Education and medical services are excluded from the FTA o Liberalization based on <i>Negative</i> approach
Agriculture	<ul style="list-style-type: none"> - Market opening sectors o Main agricultural products except rice - Korea's tariff removal schedule on EU's products o Pork (frozen) : within 10 years o Pork (cold) : within 5 years 	<ul style="list-style-type: none"> - Market opening sectors o Main agricultural products except rice - Korea's tariff removal schedule on US products o Various exceptions on sensitive items: Exception, quota, Seasonal duty and special safeguard o Beef and pork (cold) : more than 15 years of transition period
ISD (Investor State Dispute)	None, Korea and each Member States of the EU conclude BIT(Bilateral investment treaty)	Yes
MFN by future FTA	Yes	Yes
Ratchet mechanism	No	Yes

5. Economic effects of Korea-EU FTA



Economic impact of implementing Korea-EU FTA

- According to Kim et al. (2005) based on CGE model (GTAP), Korea-EU FTA will bring about **0.64~3.08% of increase of Korea's GDP**.
 - In static model, the implementation of Korea-EU FTA will contribute to increasing Korea's GDP by 0.64~2.02% and Korea's exports by 2.11~2.62%. In capital accumulation model, Korea-EU FTA will generate an increase of 2.62~4.57% in Korea's GDP and 2.11~2.62% in Korea's exports.
- However, its impact on the EU's economy is rather small, because the EU's economy is larger (by 14 times) than Korea's.
 - The implementation of Korea-EU FTA will contribute to increasing EU's GDP by 0.03~0.10% in static model and 0.05~0.16% in capital accumulation model.

Macroeconomic impact of Korea-EU FTA on Korean economy (%)

Source: Kim et al. (2005)

Scenario	Static model			Capital accumulation model		
	I	II	III	I	II	III
GDP	0.64	1.97	2.02	1.08	3.04	3.08
Income	0.67	2.11	2.16	1.01	2.92	2.96
Welfare	0.25	1.30	1.34	0.72	2.42	2.45
Exports	2.11	2.70	2.62	2.90	4.57	2.62
Imports	2.93	3.95	3.81	3.40	5.08	3.81
Terms of trade	0.36	0.66	0.67	0.21	0.30	0.32

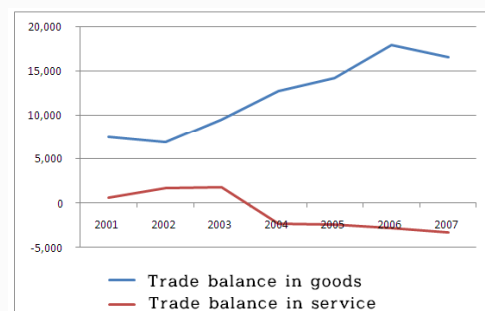
Economic impact of implementing Korea-EU FTA

- In general, Korea's exports in car, electric/electronic products and textile to the EU will substantially increase, while imports from the EU will increase in machinery, chemical and steel/metal.
 - The industry taking the most advantage is **automobile industry**. Since EU's tariff on car is still high (10% for passenger cars and 22% for commercial vehicles) and Korea's exports to the EU are important, exports to the EU will substantially increase. However, imports from the EU will increase also, especially in large cars.
 - Exports in **electric/electronic products** will increase especially for TV and VTR. Increase in export in semi-conductors and telecommunication equipments will be minor, because tariffs on these items are already very low.
 - In **machinery**, imports from the EU will substantially increase, since Korea's tariffs on machinery (5.9%) is higher than EU's (1.8%). Imports from the EU will replace those from Japan.
 - Import from EU in **chemical products** will increase considerably, since Korea's tariffs (7.2%) on chemical products are higher than those of the EU (4.2%). Increase will be important in cosmetic and medical products.

Economic impact of implementing Korea-EU FTA

- Service sectors are liberalized at equivalent level (or plus) to Korea-US FTA and Korea will suffer from deficit in service trade with EU.
 - Since 2004, Korea has recorded increasing trade deficits in service with the EU, while it has kept large trade surplus in goods.
 - Korea's service industries in legal, financial, communication and broadcasting services are less competitive than European service industries and trade deficits in these sectors will a lot increase.
 - The EU is highly specialized in business, legal and financial services and European service suppliers will take more market share in Korea.
 - However, EU's investment in Korea will increase, because trade by commercial presence (mode 3 of service trade) account for half of tall service exchange.

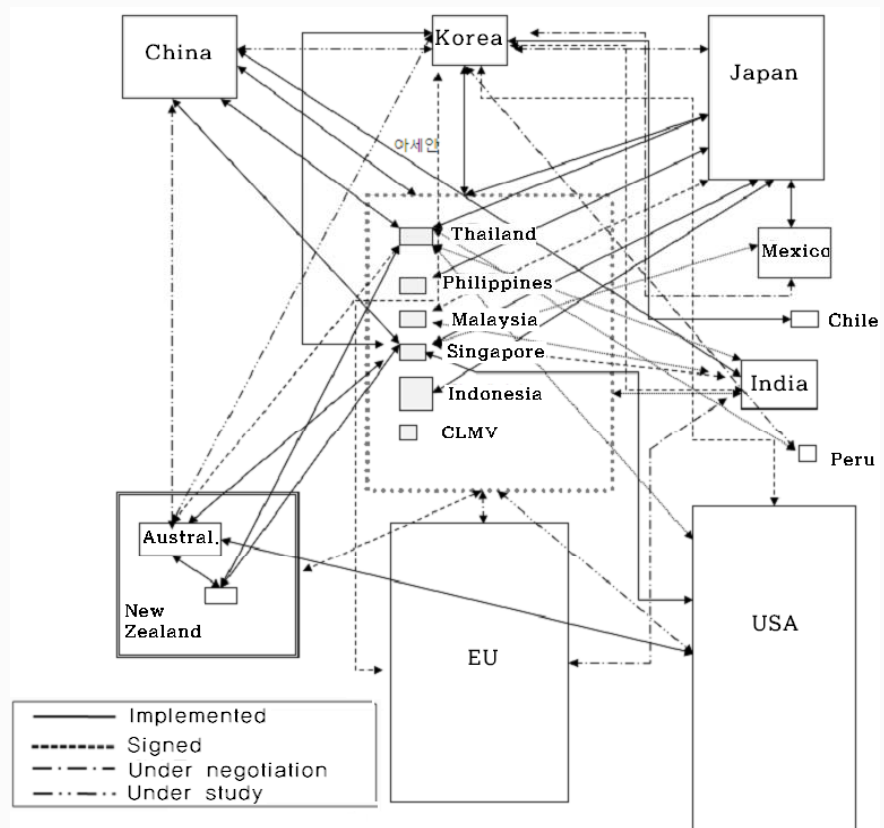
Korea's trade balance with the EU (unit: million euro)
Source: Eurostat



6. Future prospect of Korea's FTA policy

FTA in East Asia (as of August 2009)

More FTA?



Source: author's elaboration based on www.bilateral.org

Future prospect of Korea's FTA policy

- **Korea's FTA with major trade partner are finalizing... except FTA with Japan and China**
 - **Trade policy based on FTA has been global trend in 2000s and Korea are completing FTA negotiation with its main trade partners. → leveling playing field**
 - **However, depth of FTA is considerably different.**
 - **FTAs with China and Japan will be hard to negotiate with several reasons but they are necessary.**
- **FTA are not cure-all for economic development.**
 - **Success of FTA still depends on domestic factors such as quality of institutions, labor policy and so on.**

Doing Business:
measuring business
regulation (2008)

Korea's rank in 2007: 23rd



19th in 2008 out of 183
countries

Source: World Bank

Country	Total	Starting a Business	Dealing with Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
France	31	22	17	155	159	43	73	59	25	6	42
Germany	25	84	18	158	57	15	93	71	14	7	35
United Kingdom	5	16	16	35	23	2	10	16	16	23	9
Spain	62	146	53	157	48	43	93	78	59	52	19
Netherlands	30	70	104	123	29	43	109	33	13	30	10
Slovak Republic	42	66	56	81	11	15	109	120	113	61	39
Czech Republic	74	113	76	25	62	43	93	121	53	82	116
United States	4	8	25	1	12	4	5	61	18	8	15
Japan	15	91	45	40	54	15	16	123	17	20	1
Korea, Rep.	19	53	23	150	71	15	73	49	8	5	12

Thank you very much.