

# **Qualitative Assessment of the EU-Korea Free Trade Agreement (FTA)**

## **EU-Korea Business Forum**

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# OVERVIEW

- Introduction
- Qualitative Assessment Study
- Methodology
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- Findings: Challenges and Opportunities
- Conclusions and Recommendations

# Introduction

- Qualitative assessment of the EU-Korea FTA after five years.
- Economic context for implementation of the FTA/
- What has happened with the implementation of the FTA?
- Have the objectives of the FTA been achieved?
- What have been the implications for enterprises and for consumers?
- What are the challenges for the future?

# Methodology of the Study

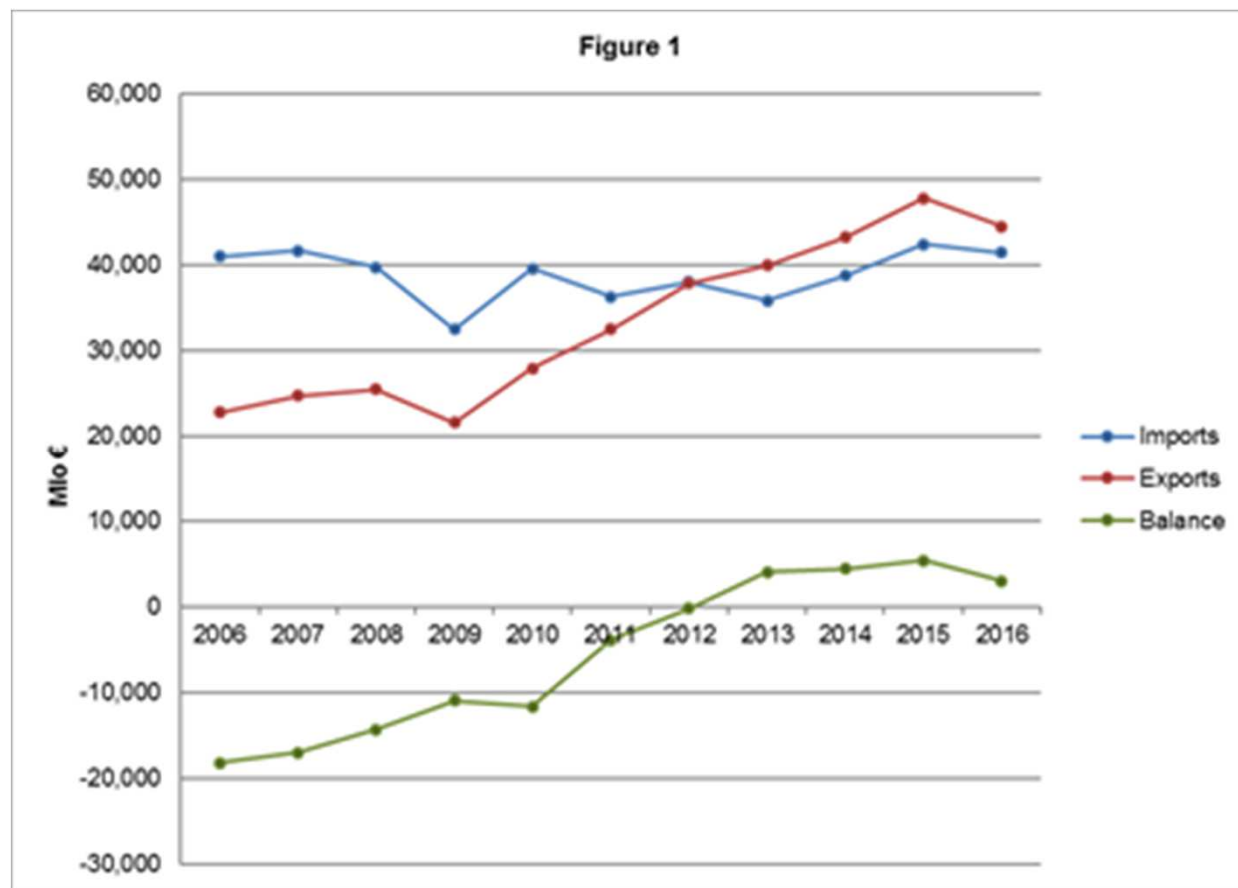
- The study surveyed 121 enterprises both EU based and Korean based and other stakeholders.
- We conducted 68 qualitative interviews with enterprises, business associations, consumer groups NGOs and policymakers.
- We present the key findings about the results of implementation of the FTA and the implications for next steps here.

# Economic Context and Results

- Trade in goods and services has expanded between the EU and Korea at a time of slow growth in world trade.
- The overall balance in bilateral trade in goods has been influenced by exchange rates and various cyclical and macroeconomic factors.
- Several special factors have influenced trade between the EU and Korea, including: trade in petroleum products, cyclical factors in shipbuilding, and the development of supply chains involving third countries.

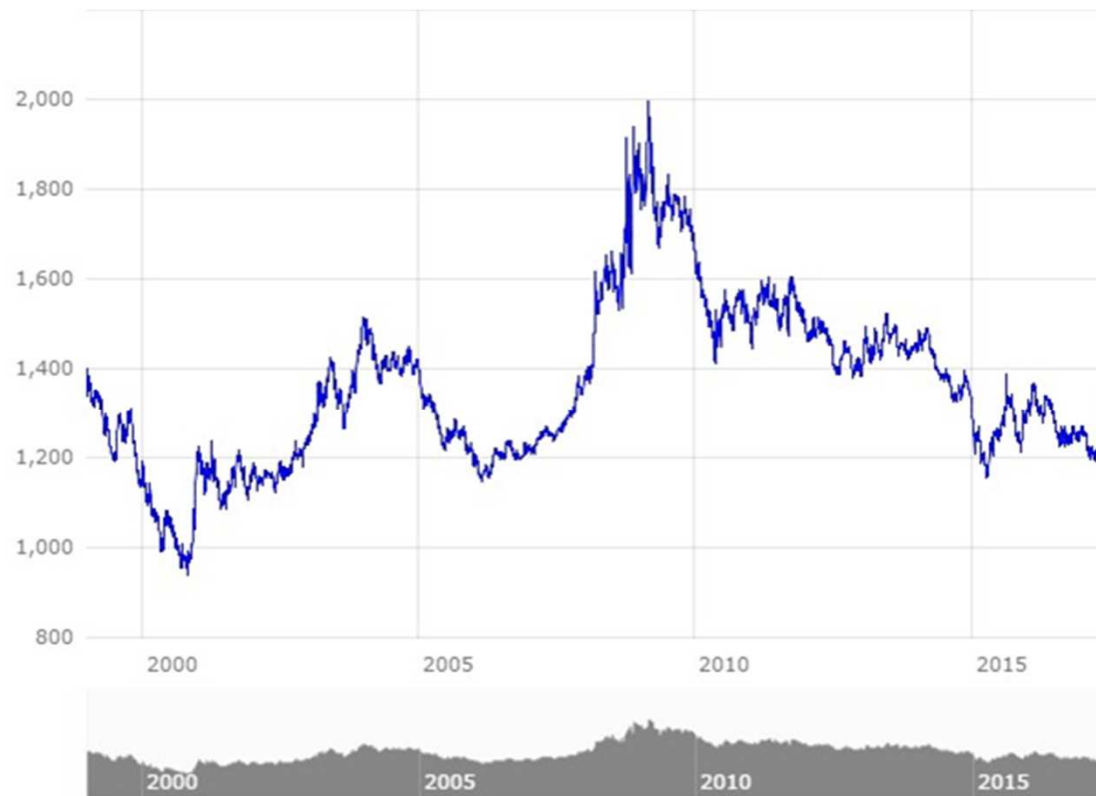
# Economic Context and Results

Figure 1: EU Trade in Goods with Korea 2006-2016 in million Euro



# Economic Context

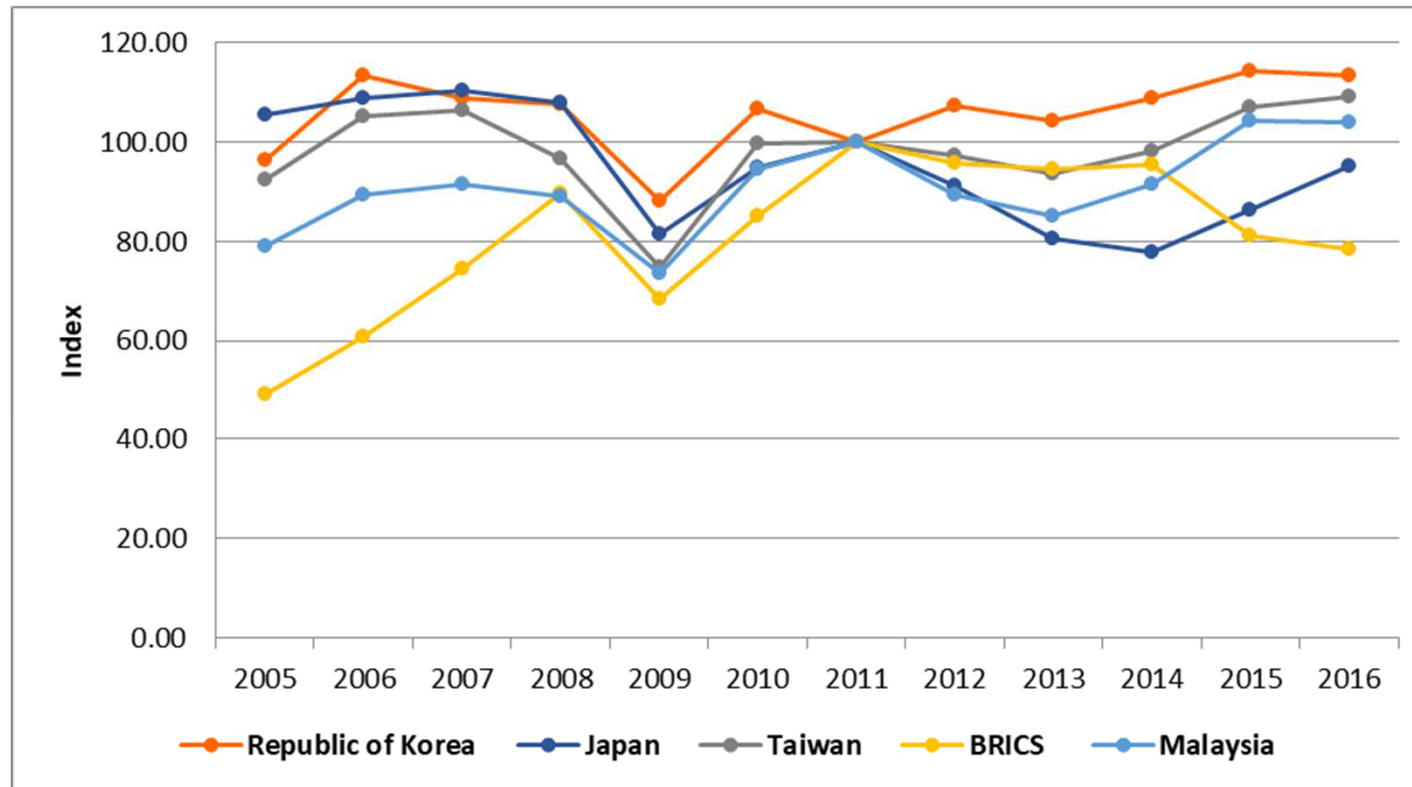
**Figure 2: Euro and Korean Won Exchange Rate 1998-2017**



**Source: European Central Bank**

# Economic Results

Figure 3: Index of exports to the EU for Korea and other economies

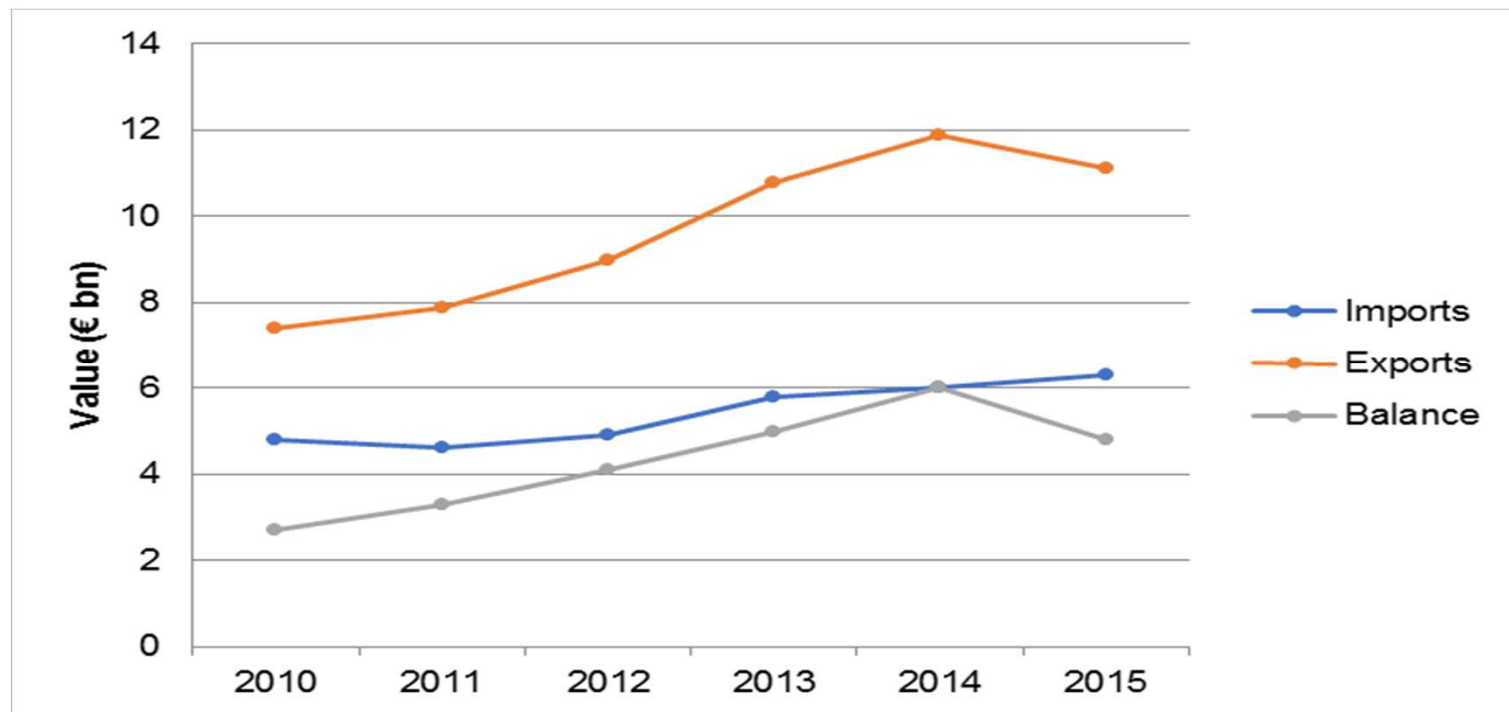


Source: Trade Map Data Base



# Economic Context and Results

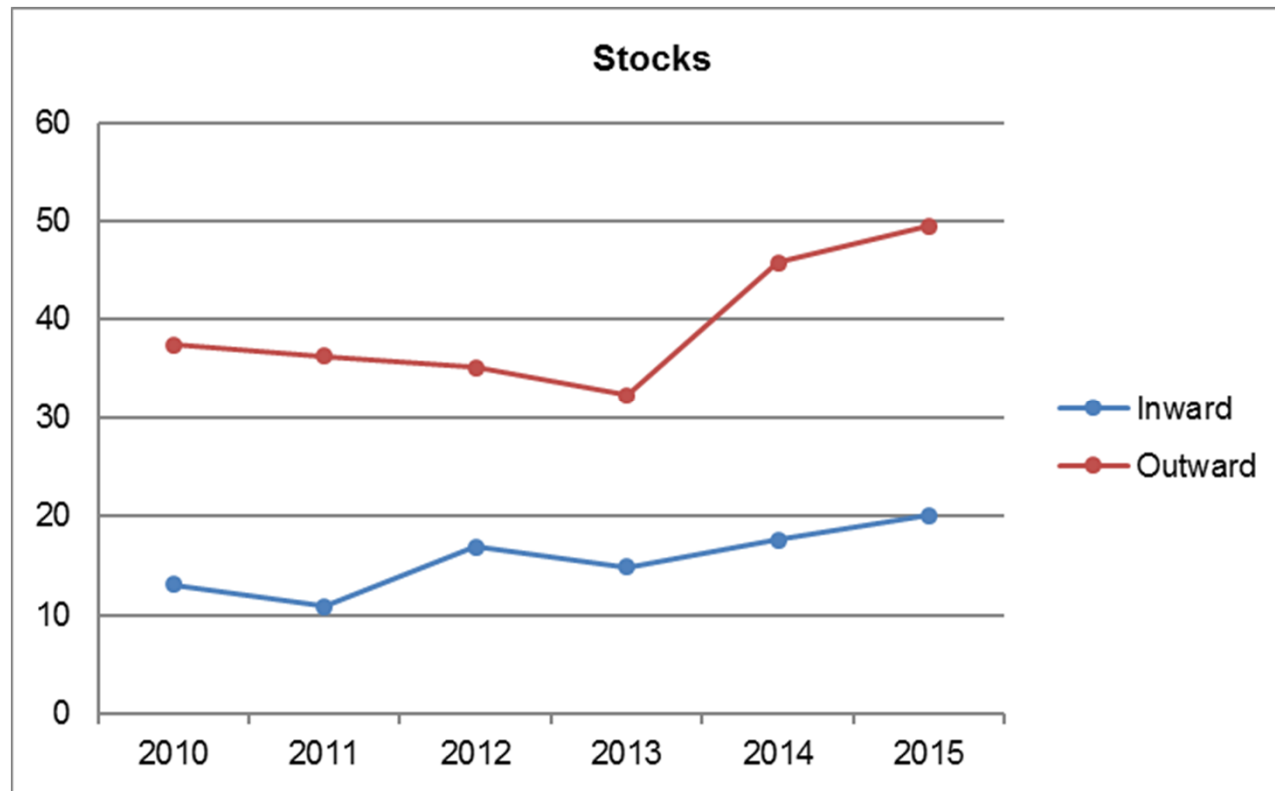
Figure 4: Trade in Services between the EU and Korea in billion euro.



Source: Eurostat

# Economic Context and Results

**Figure 5: The Stock of Direct Investment between the EU and Korea in billion euro.**



**Source: Eurostat**

## Key Findings: Trade and Investment

- **The Expansion of Trade and Investment has occurred within industries!**
- The largest export sectors to Korea from the European Union in 2016 were in order: Machinery; Vehicles and parts; Electrical machinery and electronics; Optical and precision equipment; Pharmaceutical products; Aircraft; and Organic chemicals.

## Key Findings: Trade and Investment

- The largest export sectors from Korea to the EU in 2016 were in order: Electrical machinery and electronics; Vehicles and parts; Machinery; Plastics; Ships; Iron and steel; and Optical and precision equipment.
- These leading export sectors are similar for the EU and Korea and **trade has expanded in both directions**; thus, the expansion of bilateral trade is characterised by expanding “**intra-industry trade**”.

## Key Findings: Trade and Investment

- Specialised products in the same industry are exchanged between the EU and Korea to exploit economies of scale and specialisation and to provide a more diverse range of products to producers and consumers. Evidence from the study indicates that reducing tariffs and other trade barriers stimulates this specialisation.
- Both large enterprises and SMEs, in the survey responses and in the interviews, indicated they had upgraded products and services, increased productivity, innovated in technology and design, and integrated supply chains.

## Key Findings: Trade and Investment

- Specialisation in producing inputs at different stages in the supply chain in production of goods and services, achieves economies of scale and reinforces technological innovation.
- Important impacts of the EU-Korea FTA are to increase productivity and to stimulate innovation and to upgrade the **goods and services** available to businesses and consumers.

## Key Findings: Perspectives of Enterprises

- Enterprises both large and small, have a very positive assessment of the FTA.
- About 85% of respondents to the questionnaire found that the EU-Korea FTA had been effective in expanding trade and investment between the EU and Korea. This result was confirmed by the qualitative interviews of both European and Korean stakeholders.

## Enterprise Perspectives on Non-tariff Measures

- Cooperation on SPS measures has achieved successes, but much more needs to be done.
- Significant progress in cooperation on Technical Barriers has been achieved in the FTA. Yet, some enterprises believe that there needs to be further cooperation in dealing with technical regulations and standards.



## Enterprise Perspectives: Intellectual Property Rights

- Geographical Indications (GIs) are regarded as valuable for branding in food and beverage products
- Extension of patent rights and data exclusivity are regarded as useful by the pharmaceutical sector.
- About 90% of survey respondents rate the Intellectual Property Rights (IPR) provisions in the FTA positively.

## Enterprise Perspectives: Customs and Rules of Origin

- The FTA provisions on Customs and Trade Facilitation are viewed positively by survey respondents and the respondents to the interviews. (Tariff reductions are viewed very positively.)
- Yet for some respondents the procedures for certifying origin under the FTA create challenges. Concerns were expressed about verification challenges for rules of origin declarations.

## Key Findings: Stakeholder Perspectives

- The quality and the diversity of the products offered by European enterprises are appreciated by **Korean consumer groups**.
- A large survey conducted by the **Korean Consumer Agency (KCA)** found that Korean consumers attached high value to the price quality combination for European consumer products.

## Key Findings: Stakeholder Perspectives

- The survey responses, and interviews, indicate strong positive responses to the FTA by **Small and Medium Enterprises (SMEs)** both on the EU and Korean side. **SMEs** have a very positive view of the FTA.
- **SMEs** are responding proactively to the trading opportunities and competitive challenges resulting from the FTA upgrading products and services.

## Key Findings: Stakeholder Perspectives

- The FTA is contributing to the Korean companies' deepening involvement into global supply chains. There is evidence from both the questionnaire responses and the qualitative interviews, that Korean enterprises are diversifying their marketing channels and supplying more companies and more diversified geographic markets.
- The approach to sustainable development in the EU-Korea FTA is regarded as more appropriate as compared with other FTAs by **Korean NGOs and policymakers.**

# Conclusions

- Evidence from the analysis of the survey results and the interviews indicates that the FTA implementation has been effective and efficient in qualitative terms for EU business operators in Korea, and for importers, distributors and Korean consumers
- The FTA has achieved many of the objectives established in the EU-Korea FTA and achieved many of the economic benefits foreseen by the EU-Korea FTA Sustainability Impact Assessment and other studies done in advance of the implementation of the FTA.

# Conclusions

- There is strong qualitative evidence that enterprises, both large and small, have adapted their strategies to reduce costs, to upgrade their products and services, to increase product diversity, to integrate into supply chains, and to innovate in response to the challenges and opportunities of the FTA.
- The FTA is contributing to productivity growth and economic dynamism in the EU and Korea. The dynamic growth effects are likely to be sustained due to increased competition and specialisation within supply chains.

# Recommendations

1. Streamline the Certification of Rules of Origin and Customs Procedures.
2. Deepen co-operation on technical regulations and standards.
3. Deepen co-operation on sanitary and phytosanitary measures.