



**EUROPEAN UNION – SOUTH KOREA**

**TRADE AND INVESTMENT RELATIONS**

**2018**



Delegation of the European Union  
to the Republic of Korea





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TRADE AND INVESTMENT RELATIONS 2018



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EUROPEAN UNION–SOUTH KOREA



## FOREWORD



During the last months, the news has been dominated by the ever-changing security situation on the Korean Peninsula, the successful Pyeongchang Olympics and the increasing summitry, which started with the historic bilateral summit by President Moon Jae-in and Chairman Kim. Trade and economics have been back stage for a while. However, prosperity and employment depend on trade. These political goals are high on the agenda of the Korean government and shared by the European Union. In Korea, the European Union remains by far the biggest investor and therefore makes a major contribution to this goal, a fact which passes often unnoticed.

The same applies to trade. The EU and Korea are both making good use of the seven-year-old Free Trade Agreement: the EU is the third largest trading partner and second biggest supplier of imports while in 2017, Korea achieved a trade surplus in its trade with the EU, which is also a sign of the improved economic situation in the European Union. In order to maintain and further improve this situation, we would like to modernise the FTA. It is working well, but it could work even better. After seven years a face-lift is warranted, not least to ensure that EU-Korean economic relations remain at the top of our agendas. The EU has recently concluded far-reaching and comprehensive FTAs with Canada and Japan which are state of the art agreements.

In addition, as major trading partners we want to cooperate with like-minded global actors like Korea to make sure that the rules-based multilateral trading system of the World Trade Organisation (WTO) continues to function into the future, as it is the backbone of our security and prosperity.

The strategic partnership between the EU and the Republic of Korea has grown consistently over the last 55 years – we are celebrating this anniversary this year. We shall continue in all areas: politics, economics, research and innovation and people-to-people contacts – our trading relationship between the world wide largest economic bloc, the EU, and the world's eleven largest economy, Korea, will also make a contribution to much needed peace and stability.

Michael Reiterer

Ambassador of the European Union to the Republic of Korea

## OVERVIEW



*55 years of EU-Korea  
diplomatic relations*

South Korea is nowadays one of the most dynamic economies in the world. With a GDP<sup>1)</sup> of over 1,538 billion USD<sup>2)</sup>, it is ranked the 4<sup>th</sup> economy in Asia, and the 11<sup>th</sup> largest economy in the world.

The Korean economy expanded by 3.1% in 2017, driven mainly by an increase in fixed investment due to the strong growth in facilities investment. The OECD forecasts economic growth to remain around 3% through 2019, "supported by stronger export growth and fiscal stimulus that offset the impact of tighter regulations on housing/ mortgage lending, which will slow construction investment". Inflation is projected to rise toward the 2% target, while the current account surplus narrows to 4% of GDP. The Korean government projected a real GDP growth of 3% early 2018 but this has since been reviewed downwards to 2.9%.

In 2017, Korea's exports increased by 15.8% to 573.7 billion USD thanks to a recovery in global trade. China was Korea's largest export partner and accounted for about 18% of total exports. Other major export destinations of Korea included the United States (14% of share), EU (11%), Vietnam (6%), Hong Kong (6%), and Japan (5%). Meanwhile, Korea's imports rose by 17.8% to 478.5 billion USD in 2017. Major sources of imports to Korea were China (20%), EU (14%), Japan (14%) and the United States (13%)<sup>3)</sup>.

Total trade in goods between the European Union and South Korea grew about 16% in 2017, which has consolidated the EU's position as South Korea's 3<sup>rd</sup> largest trade partner in goods, only behind China and the United States; however, bilateral EU-South Korea trade in services was stagnant in 2016 (last data available): the EU's exports to Korea decreased by 3.6% and the EU's imports from Korea decreased by 3.3%<sup>4)</sup>. On the other hand, the EU is by far the largest source of FDI stock in South Korea (32% of total FDI stock), ahead of Japan (26%) and the United States (19%). According to Eurostat, in 2016 the European Union's FDI stock in Korea reached 50 billion euros, which was 12% more than the previous year.

All these data illustrate the very important economic links that exist between the European Union and South Korea. In this regard, it is important to point out that the bilateral trade and investment relationship has significantly deepened over the past few years, following entry into force of the FTA on 1<sup>st</sup> July 2011.

1) Current prices

2) Source: IMF

3) Source: KITA

4) Eurostat data

## EU-SOUTH KOREA TRADE IN GOODS

Accounting for 17% of global imports and exports, the EU is the world's largest trading block<sup>5)</sup>. In recent years, the EU has further developed its leading position in international trade, thanks in part to its ability to put in place new agreements with emerging and developed countries.

The EU-South Korea FTA was the first of a series of 'new-generation FTAs' negotiated by the EU. It remains without any doubt one of the most ambitious and comprehensive trade deals put in place by the EU. It has provided a benchmark for the EU's later FTAs, including the EU-Canada Comprehensive Economic Trade Agreement (CETA), the EU-Japan Economic Partnership Agreement (EPA), the

EU-Singapore FTA and the EU-Vietnam FTA.

The FTA has provided an outstanding result. Thanks to trade liberalisation, EU-South Korea trade flows have increased considerably, boosting competitiveness of companies and providing a wider, cheaper choice to consumers both in South Korea and in Europe.

Since 2011, bilateral trade in goods between the European Union and South Korea has been constantly growing and reached a record level of more than 99 billion euros in 2017. In 2017, South Korea was the EU's 8<sup>th</sup> largest supplier for imports and the 8<sup>th</sup> largest export market, ahead of other major economic powers such as India and Canada.

### 2017 EU TRADE IN GOODS WITH MAIN TRADE PARTNERS (million €)

	Total EU Trade with...	million euro	share (%)	EU Imports from...	million euro	share (%)	EU Exports to...	million euro	share (%)
	Extra EU28	3,737,794	100.0	Extra EU28	1,858,636	100.0	Extra EU28	1,879,159	100.0
1	USA	632,692	16.9	China	374,827	20.2	USA	375,851	20.0
2	China	573,016	15.3	USA	256,842	13.8	China	198,189	10.5
3	Switzerland	260,789	7.0	Russia	145,112	7.8	Switzerland	150,379	8.0
4	Russia	231,296	6.2	Switzerland	110,410	5.9	Russia	86,184	4.6
5	Turkey	154,257	4.1	Norway	77,435	4.2	Turkey	84,496	4.5
6	Japan	129,546	3.5	Turkey	69,761	3.8	Japan	60,670	3.2
7	Norway	128,142	3.4	Japan	68,876	3.7	Norway	50,707	2.7
8	South Korea	99,717	2.7	South Korea	50,018	2.7	South Korea	49,698	2.6
9	India	85,949	2.3	India	44,225	2.4	United Arab Emirates	42,618	2.3
10	Canada	69,194	1.9	Vietnam	37,018	2.0	India	41,723	2.2

Source: Eurostat

5) OECD data

For South Korea, the EU has consolidated its position as the country's 2<sup>nd</sup> largest supplier of imports (i.e. accounting for 14% of total imports). As we can see in the graph below, the European Union's market share has grown steadily over the past years. On the other

hand, the European Union is the 3<sup>rd</sup> largest market of South Korea, after China and the United States. The share of the European Union's imports with regard to the total South Korea's exports has also been growing since the FTA entered into force.

### 2017 SOUTH KOREA TRADE IN GOODS WITH MAIN TRADE PARTNERS (million €)

N°	Total Korea Trade with...	million euro	share (%)	Korea Imports from...	million euro	share (%)	Korea Exports to...	million euro	share (%)
	World	814,788	100	World	366,819	100	World	447,969	100
1	China	190,996	23.4	China	78,572	21.4	China	112,424	25.1
2	USA	99,506	12.2	EU28	46,848	12.8	USA	60,307	13.5
3	EU28	88,785	10.9	Japan	42,878	11.7	EU28	41,937	9.4
4	Japan	64,888	8	USA	39,199	10.7	Hong Kong	29,550	6.6
5	Vietnam	40,869	5	Taiwan	14,816	4	Vietnam	29,546	6.6
6	Hong Kong	31,050	3.8	Saudi Arabia	14,184	3.9	Japan	22,010	4.9
7	Taiwan	25,798	3.2	Australia	13,672	3.7	Singapore	11,583	2.6
8	Australia	20,443	2.5	Vietnam	11,324	3.1	Taiwan	10,983	2.5
9	Saudi Arabia	19,283	2.4	Qatar	9,066	2.5	India	10,275	2.3
10	Singapore	17,496	2.1	Russia	7,809	2.1	Mexico	8,716	1.9

Source: Eurostat

Trade between the European Union and South Korea has grown steadily since 2010 (16% in 2017), except for the period of the global financial crisis in 2008-2009.

Since the FTA entered into force in 2011, the EU's exports to South Korea increased by a year-on-year growth of average 9% whereas average annual import growth from Korea into the EU have also increased for 3.8%. As a result, from 2013 until 2016 the EU's long-

held trade deficit with Korea turned into a surplus. In 2017, Korea obtained again a trade surplus due to a substantial increase of exports of 20% into the EU, in context marked by the economic recovery in the European Union.



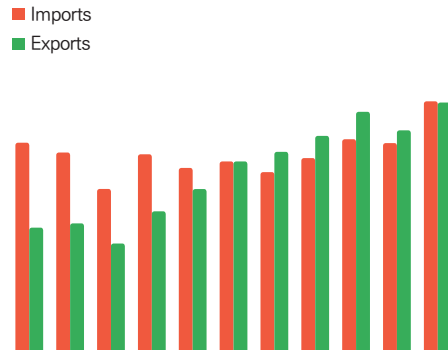


## 2007–2017 EU–SOUTH KOREA BILATERAL TRADE (million €)

## ► Annualised EU merchandise trade

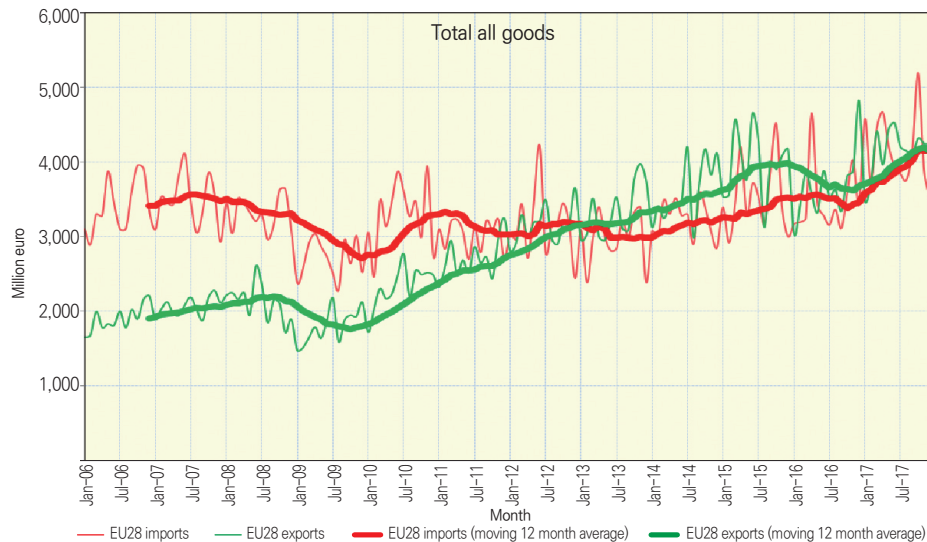
Partner: South Korea Product: Total all goods

Period		Trade flow		
From	To	Imports	Exports	Balance
12-month sums (million €)				
Jan-07	Dec-07	41,676	24,719	-16,957
Jan-08	Dec-08	39,740	25,495	-14,245
Jan-09	Dec-09	32,472	21,599	-10,873
Jan-10	Dec-10	39,534	27,961	-11,573
Jan-11	Dec-11	36,312	32,515	-3,797
Jan-12	Dec-12	38,014	37,815	-199
Jan-13	Dec-13	35,837	39,911	4,074
Jan-14	Dec-14	38,772	43,192	4,421
Jan-15	Dec-15	42,366	47,794	5,428
Jan-16	Dec-16	41,643	44,112	2,468
Jan-17	Dec-17	49,940	49,797	-143



Source: Eurostat

## ► Monthly EU28 merchandise trade with South Korea (Jan 06-Dec 17)



Source: Eurostat COMEXT/ISDB

Prepared by DG Trade–Chief Economic Unit–Statistics sector

In 2017, bilateral trade between the EU and South Korea continued to be concentrated in a few sectors, namely on 'Machinery and Transport equipment' (over 50% of total trade) and on 'Chemicals and Manufactured

articles'. In 2017, regarding South Korea's exports to the EU, there was a substantial increase of transport equipment (cars of a cylinder capacity not exceeding 1,000 cc vessels transport of both persons and goods).

## 2015–2017 EU MERCHANDISE TRADE BY PRODUCT CATEGORY

## ► EU28 Merchandise trade 2015-2017 by product category with South Korea (million €)

Sector	EU28 imports					EU28 exports					EU28 trade balance		
	2015	2016	2017	16/15	17/16	2015	2016	2017	16/15	17/16	2015	2016	2017
TOTAL	42,366	41,643	49,940	-1.7%	19.9%	47,794	44,112	49,797	-7.7%	12.9%	5,428	2,468	-143
Food and live animals	219	253	286	15.3%	13.2%	1,684	1,874	2,098	11.3%	12.0%	1,465	1,621	1,812
Beverages and tobacco	33	35	39	5.0%	11.6%	435	509	620	17.0%	21.9%	401	474	581
Crude materials, inedible, except fuels	575	551	590	-4.2%	7.0%	1,007	813	909	-19.2%	11.8%	431	262	319
Mineral fuels, lubricants and related	1,528	1,382	1,481	-9.6%	7.1%	2,852	1,344	2,869	-52.9%	113.5%	1,323	-38	1,388
Animal and vegetable oils, fats and waxes	2	4	3	55.9%	-10.1%	109	107	115	-1.7%	7.3%	107	104	112
Chemicals and related prod, n.e.s.	4,723	5,192	6,913	9.9%	33.1%	6,524	6,999	7,323	7.3%	4.6%	1,801	1,807	411
Manufactures classified chiefly by material	5,310	5,732	6,394	8.0%	11.5%	3,910	3,644	3,717	-6.8%	2.0%	-1,400	-2,088	-2,677
Machinery and transport equipment	26,418	25,076	31,200	-5.1%	24.4%	24,302	22,025	24,582	-9.4%	11.6%	-2,116	-3,051	-6,618
Miscellaneous manufactured articles	3,262	2,986	2,710	-8.5%	-9.2%	5,216	5,540	6,386	6.2%	15.3%	1,954	2,554	3,675
Commodities and transactions n.c.e.	174	295	238	69.7%	-19.4%	1,201	802	630	-33.3%	-21.5%	1,027	507	392
Other	121	137	86	13.6%	-37.2%	555	454	548	-18.1%	20.7%	434	317	461

Source: Eurostat COMEXT R4 15–Feb–2018

Among the Member States of the European Union, Germany is the largest trade partner of South Korea in the European Union (i.e. 19% of total imports of the European Union and 36% of total exports of the European Union),

followed by the United Kingdom (i.e. 10% of total imports and 13% of total exports) and the Netherlands (i.e. 9% of total imports and 11% of total exports).

## 2017 EU-SOUTH KOREA BILATERAL TRADE BY EU MEMBER STATE (million €)



Source: Eurostat

## EU-SOUTH KOREA TRADE IN SERVICES

The services sector is the fastest-growing sector of the global economy, as a result of the development of information and communication technologies. The services sector contributes more to economic growth and job-creation in the EU than any other sector. It accounts for some three-quarters of the gross domestic product for the EU. Additionally, over three-quarters of EU jobs are in the services sector. In terms of trade in services, the EU is the world leader, with a surplus of more than 130 billion euros in 2016.

The FTA between the EU and South Korea had a positive impact on trade in services as total bilateral trade in services increased about 46% over the last six years.

The impact of the FTA has resulted in greater trade in goods, services and investment between the EU and South Korea, thereby increasing the demand for specialised cross-border and support services. Thus, the FTA indirectly supports the expansion of services, because the growth of trade and investment between the EU and South Korea results in

increased demand for specialised services. The growth in export of services in both directions indicates that specialisation is occurring within the service industries leading to economic gains. Economies of scale and innovation are important elements of greater trade in services for both parties.

Despite the overall positive trend, in 2016 (latest figures) we saw a stagnation in the trade in services between the European Union and South Korea. The European Union's exports of services to South Korea dropped 3.7%, from 13.06 billion euros to 12.57 billion euros while imports decreased from 6.82 billion euros to 6.6 billion euros. As a result, the EU's surplus in trade in services with South Korea dropped 4%, from 6.23 billion euros in 2015 to 5.98 billion euros in 2016.

In the years to come, market conditions are expected to further improve thanks to the liberalization, deregulation and re-regulation processes as both South Korea and the EU are moving toward gradual liberalization to spur competition in the service sector.

## 2011–2016 EU-SOUTH KOREA TRADE IN SERVICES (million €)

Year	Million Euro				Year-on-year growth %			
	Debit	Credit	Net	Total	Debit	Credit	Net	Total
2011	4,697	7,899	3,202	12,595	-2%	7%	21%	3%
2012	5,023	9,028	4,005	14,050	7%	14%	25%	12%
2013	5,703	10,787	5,084	16,491	14%	19%	27%	17%
2014	6,286	11,888	5,602	18,173	10%	10%	10%	10%
2015	6,829	13,060	6,231	19,888	9%	10%	11%	9%
2016	6,600	12,587	5,987	19,187	-3%	-4%	-4%	-4%

Source: Eurostat / (b) = break in series: data from 2010 are calculated according to the new BPM6 methodology.



The EU's exports to South Korea are highly concentrated on a few sectors, in particular: business services (23%), sea transport (21%), and royalties and license fees (18%). South

Korea exports to the EU are also concentrated on business services (39%) and sea transport (34%).

### 2013–2016 EU–SOUTH KOREA TRADE IN SERVICES BY SECTOR (million €)

	2013		2014		2015		2016	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Total	5,703	10,787	6,286	11,888	6,829	13,060	6,600	12,587
Manufacturing services	60	357	108	272	64	306	77	213
Maintenance and repair services	113	104	145	97	178	153	190	171
Transport	2,427	3,043	2,282	3,022	2,320	3,025	2,244	2,628
Travel	241	855	270	1,071	277	1,270	301	1,255
Construction	54	118	93	203	68	302	63	418
Insurance and pension services	102	416	70	103	81	150	106	296
Financial services	243	440	250	432	247	552	234	504
Intellectual property	552	1,884	402	1,897	870	2,246	446	2,343
Telecommunications, computer, etc.	391	720	357	787	214	980	241	994
Other business services	1,415	2,504	2,263	3,537	2,472	3,374	2,592	2,891
Personal, cultural and recreational	9	35	12	42	11	291	10	441
Government goods and services	87	41	31	44	11	47	78	46
Services not allocated	8	269	1	381	15	362	7	385

Source: Eurostat

Among the EU Member States, Germany is the largest trade partner of South Korea in the service sector (i.e. 33% of total imports of the European Union and 20% of total exports),

followed by France (i.e. 17% of total imports and 11% of total exports) and the Netherlands (i.e. 10% of total imports and 8% of total exports).

### 2013–2016 EU–SOUTH KOREA TRADE IN SERVICES BY MEMBER STATE (million €)

	Million Euro							
	EU28 Debit (imports)				EU28 credit (exports)			
	2013	2014	2015	2016	2013	2014	2015	2016
EU–28	5,703	6,286	6,829	6,600	10,787	11,888	13,060	12,587
Austria	53	59	66	73	111	113	113	116
Belgium	96	94	143	131	206	273	345	285
Bulgaria	7	3	3	4	16	11	11	11
Croatia	1	2	1	2	19	23	36	43
Cyprus	2	2	4	4				
Czech R.	175	185	326	359	33	34	107	129
Denmark	338	301	354	249	846	792	702	582
Estonia	2	3	3	3	6	11	24	24
Finland			71	79			572	698
France	802	1,251	1,109	739	1,624	1,893	2,080	2,131
Germany	1,805	1,939	2,116	2,219	2,028	2,300	2,646	2,529
Greece	53	73	51	30	265	285	175	78
Hungary	85	104	118	116	240	320	310	314
Ireland	75	61	47	57	552	641	645	767
Italy	234	226	260	212	368	375	320	322
Latvia	4	6	6	4	3	3	2	3
Lithuania	1	1	1	1	10	13	24	18
Luxembourg	45	53	54	53	191	171	322	261
Malta	3	4	3	5	3	1		
Netherlands	541	646	715	701	873	1,007	1,229	1,042
Poland	78	88	91	84	154	237	243	230
Portugal	46	43	48	50	37	16	22	24
Romania	15	19	24	37	8	13	12	12
Slovakia	315	331	346	376	8	18	25	19
Slovenia	5	4	8	7	18	46	66	78
Spain		98	197	211		407	453	545
Sweden	131	144	168	147	759	526	656	498
United Kingdom	692	510	496	647	1,886	2,046	1,892	1,801

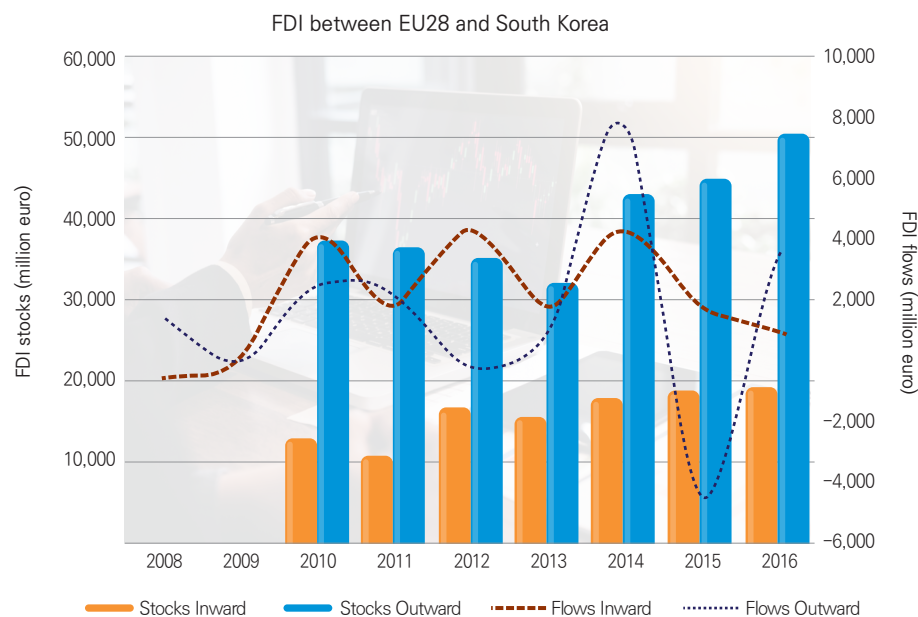
Source: Eurostat

## EU-SOUTH KOREA FOREIGN DIRECT INVESTMENT

The EU is by far the largest source of FDI stock in South Korea (32% of total South Korea FDI stock) ahead of Japan (26%) and the United States (19%). According to Eurostat, in 2016 the EU's FDI stock in South Korea reached 50 billion euros, which was 12% more than the previous year. South Korea's FDI in the EU also increased in 2016, expanding by 3% compared to the previous year, and reaching 20 billion euros.



2013–2016 EU–SOUTH KOREA FDI (million €)



Source: Eurostat (bop\_fdi\_main(<-2012):bop\_fdi6\_geo (2013->)) Break in series in 2013

11-Jan-18

2013–2016 EU–SOUTH KOREA FDI (million €)

Year	Million Euro				Year-on-year growth %			
	Stocks		Flows		Stocks		Flows	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
2013	15,517	32,097	1,853	873	-8%	-9%	-57%	
2014	17,928	42,936	4,326	7,766	16%	34%	133%	790%
2015	18,666	44,853	1,811	-4,287	4%	4%	-58%	
2016	19,232	50,339	989	3,426	3%	12%	-45%	

Source: Eurostat (bop\_fdi\_main(<-2012): bop\_fdi6\_geo (2013->)) Break in series in 2013  
Data until 2012 calculated according to BPM5, data from 2013 calculated according to BPM6

2018.01.11

Among EU Member States, in 2016, the Netherlands was the largest investor in South Korea, holding about 37% of the EU's total FDI stock in South Korea, followed by Germany (over 16%) and the United Kingdom (15%). On the other hand, Germany is the top destination for South Korean FDI in the EU (about 25% of total stock), followed by Slovakia (15%) and the Czech Republic (12%).







**Delegation of the European Union  
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