



EUROPEAN UNION – SOUTH KOREA

TRADE AND INVESTMENT

5TH ANNIVERSARY OF THE FTA

2016



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to the Republic of Korea

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FOREWORD



2016 marks the fifth anniversary of the Free Trade Agreement (FTA) between the European Union (EU) and Korea. To date, the deal has boosted our bilateral trade by over 30% and created new business opportunities, benefiting companies and consumers both in Korea and the EU.

In Europe, we see trade as a powerful engine for generating economic growth and supporting jobs. And the EU-Korea FTA provides the best proof that this is the right way of thinking. The example it sets has encouraged us to pursue an ambitious agenda of free trade negotiations and to make it a central part of our current trade policy strategy.

Without any doubt, the EU-Korea FTA is the most ambitious and comprehensive trade agreement implemented by the EU to date. It provides for much more than the simple removal of customs duties. It tackles regulatory barriers – especially for electronic products, cars, pharmaceuticals and medical devices – and makes exporters' life easier by making domestic regulations more transparent.

The EU-Korea FTA also opens up new opportunities for European and Korean providers of environmental, financial, legal, shipping and telecommunications services. It helps investors and companies who want to bid for public contracts, protects innovations and traditional know-how, and, last but not least, makes trade go hand-in-hand with sustainable development.

For Korean businesses, this means easier access to the world's largest integrated market; for European companies, a more competitive position in one of the most dynamic Asian economies.

Encouraged by the success so far achieved, we can look now to further improve investment conditions for European and Korean investors – an area not yet covered in the 2011 deal – and to adjust the provisions of the agreement to take into account the lessons learned over the last five years. I am hopeful that following the commitments of last year's EU-Korea summit, we will advance smoothly towards this goal.

Cecilia Malmström,
EU Commissioner for Trade





Over the last decades, the Republic of Korea has undergone an extraordinary transformation. It has become one of the largest economies in the world, an increasingly important player on the global stage and one of the European Union's (EU) ten strategic partners.

For this reason, we have continued to strengthen our relations, based on the shared values of peace and human rights, market economies and their development through trade and investment. The EU is the largest foreign investor in the Republic of Korea and its third largest trading partner. Moreover, both parties have worked closely together to tackle global economic challenges and to drive forward the multilateral trade agenda within the G20, the World Trade Organization, the Organisation for Economic Co-operation and Development and the International Monetary Fund.

The EU-Korea Free Trade Agreement (FTA), the EU's first FTA with an Asian country, has marked an unprecedented step forward in trade relations between the EU and the Republic of Korea. It is gratifying to see the benefits for both sides, five years after the agreement became operational. Exports of goods that have been fully or partially liberalised under the FTA have grown significantly on both sides. There has also been a considerable increase in foreign direct investment and trade in services. All in all, the FTA has contributed ultimately to improving the life of citizens, creating jobs and increasing wealth on both sides.

The role of EU Delegation is to ensure the implementation of the EU-Korea FTA and to support the performance of EU businesses in Korea by eliminating market access barriers. In order to successfully carry out our mandate, the Delegation interacts actively with the European Commission, EU Member States, various stakeholders and European and national chambers of commerce, not to mention the Korean Government.

However, our relations with the Republic of Korea go beyond the economic and commercial realm, with increasing cooperation on a wide range of global and regional issues: non-proliferation of weapons of mass destruction; climate change; human rights; cooperation in the fight against terrorism; the Sustainable Development Goals; and bilateral issues of mutual interest such as research and development, education and innovation. The 2010 EU-Korea Framework Agreement provides the basis by which we have taken our relations to a new level of comprehensive cooperation. In this context, the EU and the Republic of Korea have strengthened their political and social dialogues during the last years through regular summits, ministerial meetings and other consultations.

Turning back to economic issues, I am very pleased to present to you this booklet that focuses on trade and investment relations between the EU and the Republic of Korea. I hope it will help you better understand the developments in bilateral trade and investment flows and the impact of the FTA for both partners.

Gerhard Sabathil,
Ambassador of the European Union to the Republic of Korea

Overview of EU-Korea Economic Relations >>



The EU is the world's largest trade bloc accounting for over 20% of the world's total trade by volume. It maintains a leading position in international trade, thanks to agreements with emerging and developed countries that open up new market opportunities for European companies.

Today, Korea is one of the most dynamic economies in the world. With a GDP of over €1.2 trillion euros, in 2015 it ranked 11th amongst the world's economies. The Korean economy expanded by 2.7% in 2015 and is expected to maintain this growth rate in 2016, mainly on the back of domestic demand boosted by monetary and fiscal stimulus measures.

The EU and Korea enjoy a strong economic

relationship, which has significantly deepened over the past few years since the entry into force of the EU-Korea Free Trade Agreement (FTA).

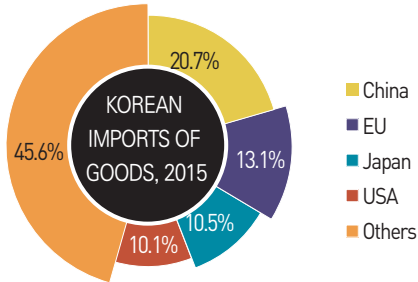
Bilateral trade in goods between the EU and Korea has been constantly growing since 2011, and reached a record level of over 90 billion euros in 2015. Despite an overall decrease in Korean trade, the EU and Korea managed to expand their trade in goods by about 10% last year. In addition, the latest available data show an 11% annual increase in trade in services.

In 2015, Korea was the EU's 8th largest source of imports and the 9th largest export market. For Korea, the EU was the 2nd largest import supplier and the 3rd largest export market

[EU TRADE IN GOODS(€billion), 2015]

		TOTAL TRADE			EU IMPORTS			EU EXPORTS		
	EU TOTAL	3,513.30	100%	EU TOTAL	1,724.87	100%	EU TOTAL	1,789.06	100%	
1	USA	615.76	17.5	China	350.26	20.3	USA	369.55	20.7	
2	China	520.66	14.8	USA	246.21	14.3	China	170.40	9.5	
3	Switzerland	253.13	7.2	Russia	135.88	7.9	Switzerland	150.83	8.4	
4	Russia	209.78	6.0	Switzerland	102.30	5.9	Turkey	78.96	4.4	
5	Turkey	140.53	4.0	Norway	74.31	4.3	Russia	73.90	4.1	
6	Norway	123.18	3.5	Turkey	61.57	3.6	Japan	56.57	3.2	
7	Japan	116.30	3.3	Japan	59.73	3.5	Norway	48.87	2.7	
8	Korea	90.21	2.6	Korea	42.33	2.5	U. Arab Emirates	48.48	2.7	
9	India	77.37	2.2	India	39.45	2.3	Korea	47.88	2.7	
10	Brazil	65.47	1.9	Brazil	30.88	1.8	Saudi Arabia	40.25	2.2	

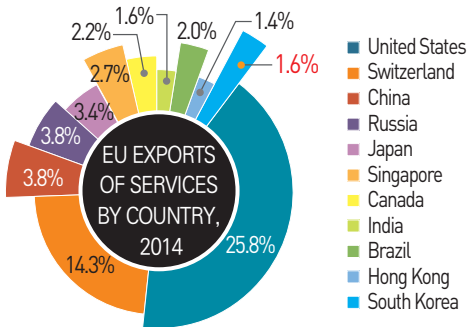
Source: Eurostat



Source: KITA

In terms of trade in **services**, the EU is the world leader, with a current surplus of more than €162 billion. In 2014, Korea was the EU's 11th largest trading partner in services, well behind the United States, China and Japan.

Trade in services between the EU and Korea has dramatically increased over the last few years. However, exports to Korea represent only about 1.6% of the EU's total exports in services, which implies that there is still much untapped potential.



Source: Eurostat

[EU TRADE IN SERVICES(€ billion), 2014]

	PARTNER	IMPORTS	EXPORTS	Balance	TOTAL
	EU TOTAL	601.98	764.91	162.93	1,366.89
1	United States	190.43	197.02	6.58	387.45
2	Switzerland	63.85	109.69	45.84	173.54
3	China	22.89	29.10	6.21	51.99
4	Russia	12.47	28.96	16.50	41.43
5	Japan	15.19	25.68	10.49	40.87
6	Singapore	15.73	20.40	4.67	36.13
7	Canada	11.39	16.48	5.09	27.87
8	India	12.07	12.35	0.28	24.42
9	Brazil	7.54	15.03	7.50	22.57
10	Hong Kong	10.79	10.67	-0.12	21.47
11	Korea	5.96	11.91	5.96	17.87

Source: Eurostat



Foreign Direct Investment (FDI) stock is a very good indicator of the strength of the economic relationship between the EU and Korea. While financial flows are volatile, the data on stock reflect investors' long-term commitment.

For more than 50 years, the EU has been the largest investor in Korea, ahead of the United States and Japan.

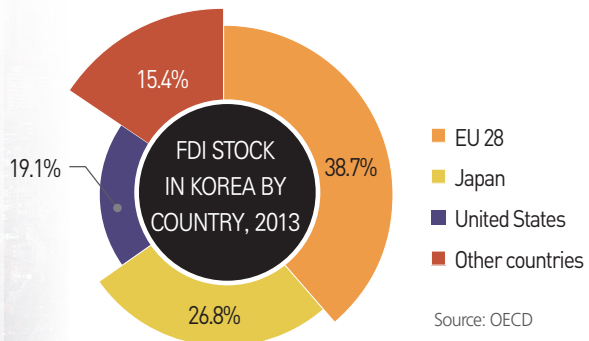
The latest annual increase of 35% took EU Foreign Direct Investment (FDI) stock in Korea to almost €44 billion, which accounts for over 20% of Korea's overall FDI stock. However, most European investment remains in countries such as the United States, Switzerland and offshore financial centres.

Korean investment in the EU experienced 36% growth in 2014, and contributed to a Korean FDI stock of over €20 billion. Despite this increase, Korean investment stock in the EU is still far from the level of investment from the United States, Switzerland or offshore financial centres.

[EU'S INWARD & OUTWARD FDI STOCK(€billion), 2014]

	PARTNER	INWARD	PARTNER	OUTWARD
	World	4,583	World	5,749
1	United States	1,811	United States	1,985
2	Offshore financial centres (38 countries)	1,226	Switzerland	679
3	Switzerland	509	Offshore financial centres	632
4	Japan	166	Brazil	344
5	Canada	166	Canada	275
6	Brazil	116	Russia	171.5
7	Norway	97	China	144
8	Korea	22	Korea	44

Source: Eurostat



Source: OECD



Trade in Goods >>

Trade between the EU and Korea has grown steadily over the last decade, except for the period of the global financial crisis in 2008-2009, and reached €90 billion in 2015. A close look at the evolution of European exports reveals a sharp increase since 2010, with a year-on-year growth rate of over 14%. Imports from Korea into the EU have also increased, but not by as much. As a result, since 2013 the EU's long-held trade deficit with Korea has turned into a surplus.

In 2015, the EU's imports from Korea amounted to €42 billion, up 9% compared to the previous year. The EU's exports to Korea during the same year reached almost €48 billion, representing a year-on-year increase of nearly 11%. As a result, the EU's trade surplus amounted to nearly €6 billion.

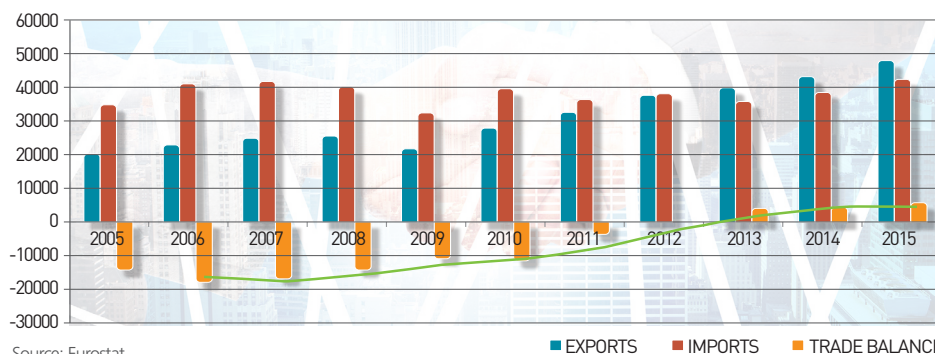
Among EU Member States, Germany is the largest trading partner of Korea in the EU, with a total bilateral trade of more than €24 billion (which accounts for 15% of total EU imports

and 37% of total EU exports), followed by the United Kingdom (13.2% of total imports and 13.4% of total exports) and the Netherlands (8.3% of total imports and 8.9% of total exports).

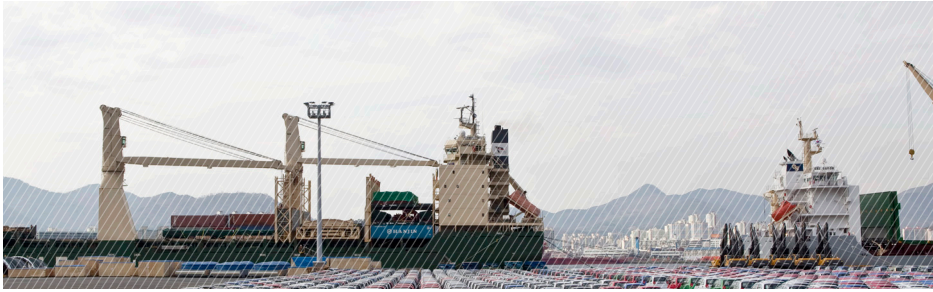
Sectoral breakdown of trade flows between Korea and the EU reflects their respective global trade patterns, with focus on high-added-value and technology-intensive sectors. Machinery and transport equipment – including mechanical appliances, electrical machinery and cars – and chemicals – including organic, non-organic and pharmaceutical products – were the main categories of the EU's exports to Korea in 2015.

On the other side, office and telecommunication equipment – including telecommunications equipment and integrated circuits and electronic components – as well as motor vehicles and other electrical and non-electrical machinery were Korea's most important export items to the EU.

[EU-KOREA BILATERAL TRADE(€ million), 2005-2015]



Source: Eurostat



[EU-KOREA TRADE IN GOODS, 2005-2015]

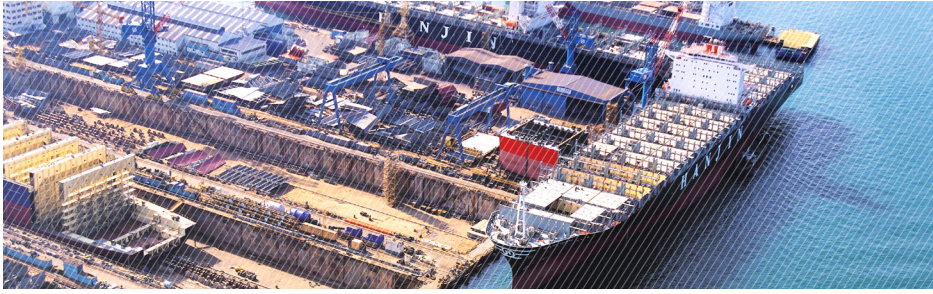
Year	EU'S IMPORTS FROM SOUTH KOREA			EU'S EXPORTS TO SOUTH KOREA			BALANCE
	Value (€bn)	% Growth	% of total EU imports	Value (€bn)	% Growth	% of total EU exports	Value (€bn)
2005	34.59		2.9	20.24		1.9	-14.35
2006	40.95	18.4	3.0	22.81	12.7	2.0	-18.13
2007	41.68	1.8	2.9	24.72	8.3	2.0	-16.96
2008	39.74	-4.6	2.5	25.49	3.1	1.9	-14.24
2009	32.47	-18.2	2.6	21.60	-15.3	2.0	-10.87
2010	39.53	21.7	2.6	27.96	29.5	2.1	-11.57
2011	36.31	-8.1	2.1	32.51	16.3	2.1	-3.80
2012	38.02	4.7	2.1	37.81	16.3	2.2	-0.20
2013	35.84	-5.7	2.1	39.91	5.5	2.3	4.07
2014	38.77	8.2	2.3	43.19	8.2	2.5	4.42
2015	42.33	9.2	2.5	47.88	10.9	2.7	5.55

Source: Eurostat

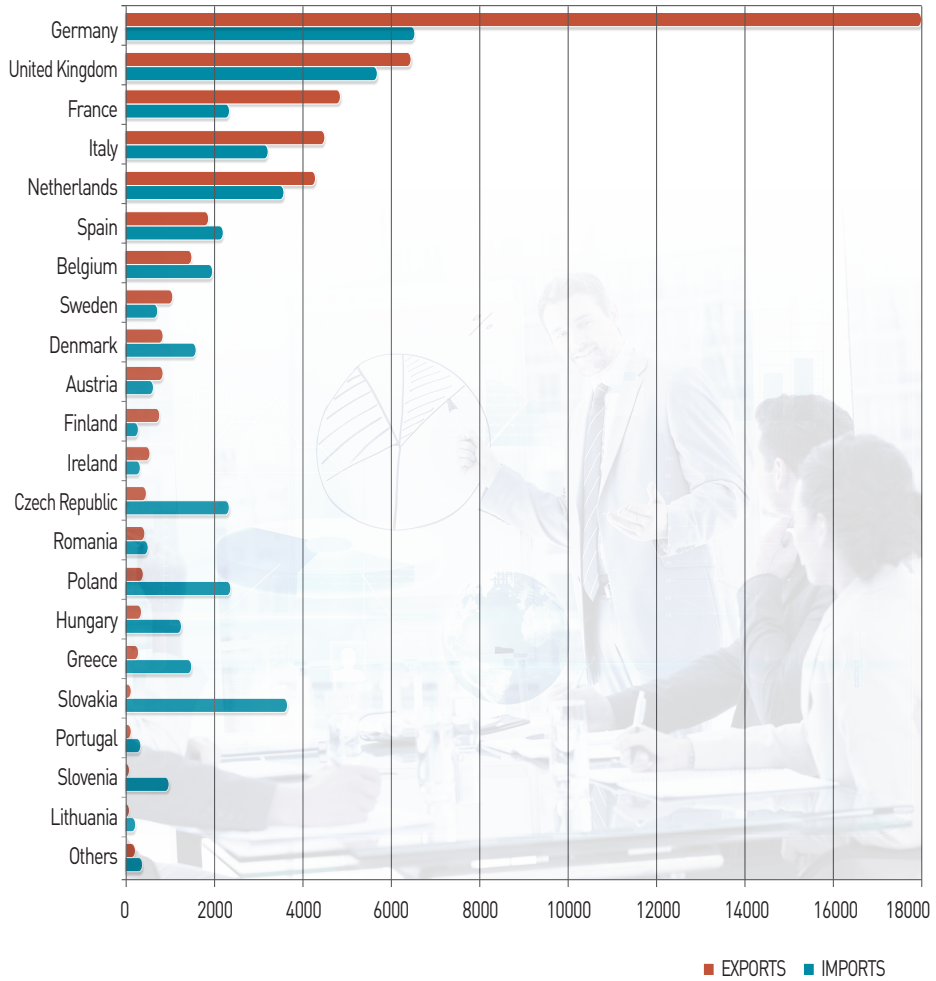
[EU28 MERCHANDISE TRADE BY CATEGORY(€million), 2015]

	IMPORTS	SHARE (%)	EXPORTS	SHARE (%)
Machinery and transport equipment	26,380	62.3	24,302	50.8
Chemicals and related products	4,713	11.1	6,548	13.7
Manufactured goods classified chiefly by material	5,310	12.5	3,933	8.2
Miscellaneous manufactured articles	3,262	7.7	5,223	10.9
Mineral fuels, lubricants and related materials	1,540	3.6	2,853	6.0
Food and live animals	218	0.5	1,682	3.5
Crude materials, inedible, except fuels	575	1.4	1,002	2.1
Commodities and transactions	173	0.4	1,196	2.5
Other products	119	0.3	555	1.2
Beverages and tobacco	34	0.1	479	1.0
Animal and vegetable oils, fats and waxes	2	0.0	109	0.2

Source: Eurostat



[EU-KOREA BILATERAL TRADE BY MEMBER STATE(€million), 2015]



Source: Eurostat

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 FTA between the EU and Korea has had a positive impact on trade in services. Bilateral trade in services increased in total by around 46% over the last five years.

EU trade in services with Korea reached nearly €18 billion in 2014, which represented around 1.3% of the EU's total trade in services. The EU's exports of services to Korea amounted to over €11.9 billion, an 11% increase on the year before. At the same time, imports increased rather moderately, from €5.75 billion to €5.96 billion. As a result, the EU's surplus in trade in services with Korea grew by almost

20% and amounted to nearly €6 billion in 2014.

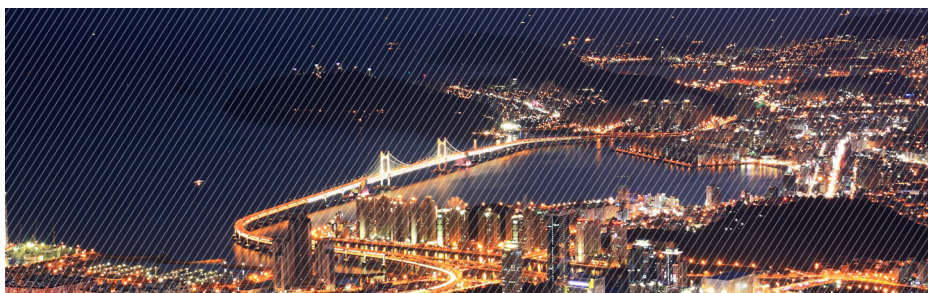
In the years to come, market conditions are expected to further improve as both Korea and the EU are gradually liberalising in order to spur competition in the services sector.



[EU-KOREA TRADE IN SERVICES(€ billion), 2010-2014]

Year	IMPORTS			EXPORTS		
	Value (€ bn)	Growth in %	Share in %	Value (€ bn)	Growth in %	Share in %
2010 ^b	4.75	(b)	1.0	7.44	(b)	1.3
2011	4.60	-3.1	0.9	7.86	5.7	1.3
2012	4.89	6.0	0.9	8.98	15.0	1.3
2013	5.75	18.1	1.0	10.72	23.4	1.5
2014	5.96	3.6	0.9	11.91	11.1	1.6

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



The EU's exports to Korea are highly concentrated in a few sectors, in particular: business services (28.8%), sea transport (19.5%), and royalties and license fees

(16.5%). Korean exports to the EU are also concentrated on business services (28%), sea transport (19%) and air transport (18%).

[EU-KOREA TRADE IN SERVICES BY SECTOR (€ million), 2011-2014]

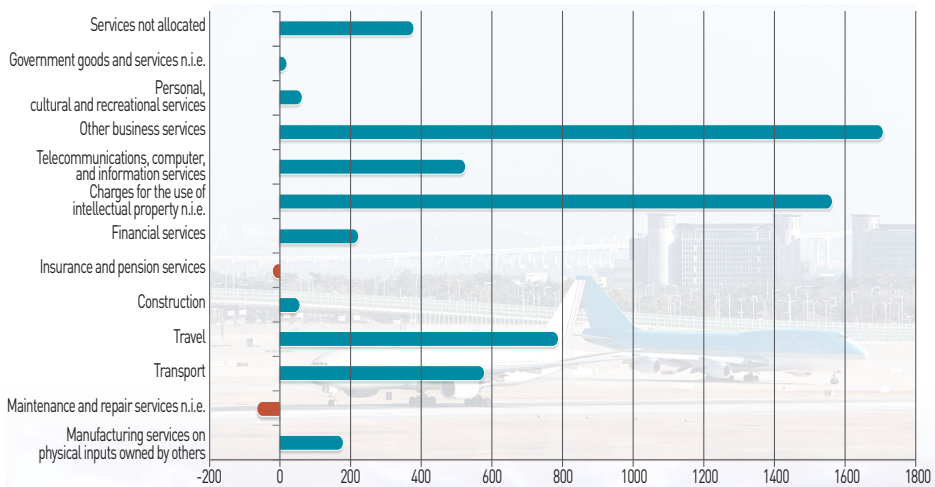
	IMPORTS				EXPORTS			
	2011	2012	2013	2014	2011	2012	2013	2014
TOTAL of Services	4,602	4,888	5,747	5,959	7,864	8,980	10,722	11,917
Manufacturing services on physical inputs owned by others	18	58	53	111	110	238	356	287
Maintenance and repair services n.i.e.	12	16	113	146	63	19	104	81
Transport	2,106	2,154	2,563	2,461	2,690	3,112	3,075	3,036
<i>Sea transport</i>	974	1,006	1,130	1,074	2,056	2,379	2,334	2,324
<i>Air transport</i>	769	808	1,015	1,016	521	611	562	552
<i>Other modes of transport</i>	362	337	412	365	108	114	167	142
<i>Postal and courier services</i>	1	3	3	2	4	7	9	15
Travel	149	143	247	258	628	656	835	1,042
Construction	92	80	56	123	84	124	118	173
Insurance and pension services	70	51	112	101	137	244	467	83
Financial services	198	225	245	215	293	338	428	436
Charges for use of intellectual property n.i.e.	231	194	552	403	1,110	1,071	1,888	1,963
Telecommunications, computer and information services	162	174	391	363	622	799	719	884
Other business services	1,528	1,651	1,308	1,733	2,057	2,089	2,383	3,436
Personal, cultural and recreational services	2	7	9	12	24	39	36	73
Government goods and services n.i.e.	27	133	92	27	40	39	41	42
Services not allocated	0	0	5	3	2	212	271	378

Source: Eurostat



European business service firms are very competitive. Nearly all of those who exported to Korea experienced a trade surplus with the country in the last year.

[EU-KOREA TRADE BALANCE IN SERVICES BY SECTOR(€million, 2014)

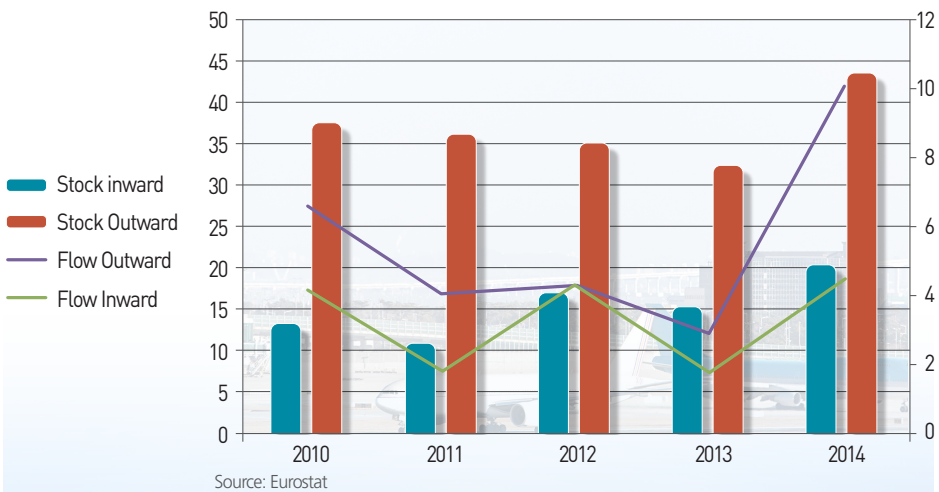




Foreign Direct Investment >>

Foreign Direct Investment (FDI) in Korea has significantly benefited from trade liberalisation in the framework of the free trade agreements signed by Korea with the EU and other trading partners. EU investment in Korea dropped between 2010 and 2013 before then increasing dramatically in 2014. In 2014, the EU's FDI stock in Korea reached €43 billion euros, which was 35% more than the previous year. Korea's FDI in the EU also increased in 2014, expanding by 36% compared to the previous year, and reaching €20 billion.

[EU-KOREA FDI (€ billion), 2010-2014]





[EU-KOREA FDI(€billion), 2010-2014]

Year	Value				Year-on-year growth %			
	Stocks		Flows		Stocks		Flows	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
2010	13.14	37.48	4.01	2.45				
2011	10.78	36.30	1.81	2.22	-17.9	-3.1	-54.8	-9.4
2012	16.86	35.20	4.30	-0.02	56.4	-3.0	137.5	
2013	14.87	32.31	1.75	1.17	(b)	(b)	(b)	(b)
2014	20.25	43.72	4.43	5.63	36.2	35.3	153.1	381.2

Source: Eurostat / (b) = break in series; data from 2013 are calculated according to the new BPM6 methodology.

Among EU Member States, in 2014, the Netherlands was the largest investor in Korea, holding about 34% of the EU's total FDI stock in Korea, followed by Germany (over 13%) and the UK (10%).

Germany is the top destination for Korean FDI in the EU (about 22% of the total stock), followed by the UK (16%) and the Netherlands (10%).

