

# FREE TRADE AGREEMENT WITH EU AND OPPORTUNITIES, CHALLENGES FOR KOREA

Vu Mai Phuong

Postgraduate

Banking Academy

Email: [vumaiphuonghvn@gmail.com](mailto:vumaiphuonghvn@gmail.com)

---

**Abstract:** The EU and Korea Free Trade Agreement (EKFTA) is the most comprehensive free trade agreement the EU has signed, under which it will eliminate tariffs on most products and liberalize all trade agreements, trade in services. The Agreement includes provisions on investment in services and industry as well as commitments in the areas of: protection of intellectual property rights (including geographical indications), public procurement, competition, transparent regulations and sustainable development. Specific commitments to eliminate and prevent non-tariff barriers to trade were agreed in the automotive, pharmaceutical and electronic sectors. The EKFTA Agreement consists of 15 chapters, many annexes and accessories, 3 Protocols, 4 interpretations and 1 Joint Declaration.

Participating in the EKFTA agreement, Korea has many opportunities with its available conditions and resources in economic development, but also many challenges for development cooperation. This article raises opportunities and challenges for Korea when participating in EKFTA as the basis for proposing orientations and solutions to maximize resources and minimize risks in cooperation bilateral relations between the EU and Korea

**Keywords:** Agreement, trade, EKFTA, EU, Korea.

---

## I. INTRODUCTION

The year 2021 marks 10 years of Korea implementing a Free Trade Agreement with the European Union. According to a report by the International Trade Research Institute of the Korea International Trade Association, joining the EKFTA Agreement has brought great benefits to Korea, especially in the export of important commodities. In the 10th year of implementation of the Agreement, 98.1% of Korea's tariff barriers have been eliminated. EKFTA is considered one of the most comprehensive FTAs with a high degree of market openness, including provisions related to intellectual property, trade in services and sustainable development. Based on many criteria such as market potential and barriers to entering the market like the US, the EU has also prioritized negotiations to sign an FTA with Korea. Meanwhile, many Asian countries have only recently signed FTAs with the EU. Therefore, Korea is the only Asian country that has benefited from tariffs when exporting goods to the EU in the past 10 years - since the signing of the EKFTA agreement. Of course, besides the opportunities that joining EKFTA brings, the Korean economy also faces the biggest challenges, especially in the context of globalization.

## II. CONTENT

### 1. BASIC CONTENTS OF AGREEMENT RELATED TO TAXES AND IMPORT AND EXPORT OF GOODS

The EKFTA Agreement includes 15 chapters with annexes and accessories; 3 Protocols; 4 Explanation of interpretation and 1 Joint statement.

From the chapter on general purpose and meaning of the Agreement, chapter 2 of EKFTA raised the issue of "National treatment and goods market opening" with the basic content that is: Import duties will be phased out gradually in a transition period so that domestic producers can gradually adapt to the reduction of import duties, consumers also adapt to the reduction of goods and exporters adapt to stronger competition.

Most taxes will be eliminated as soon as the EKFTA comes into effect. In particular, the tax lines for industrial goods will be completely eliminated within 5 years of the tax reduction roadmap. Entering the 7th year, both sides will have to complete the reduction of 98% of tax lines. In addition to that general regulation, especially for groups of highly sensitive agricultural and aquatic products, this tax reduction policy is implemented for 7 years. Rice and a few agricultural products will be excluded from the agreement. Special items such as automobiles, pharmaceuticals, and electronics will be separately negotiated in the annexes to the agreement.

EKFTA also provides trade remedies including those relating to the use of traditional trade protection tools already contained in WTO rules. Accordingly, the main principle related to traditional tools is to ensure respect and obligations under the provisions of the WTO, and to set out principles to limit these tools to be applied only in those situations circumstances of necessity, and ensuring equal treatment of the parties concerned, is already a principle in EU law. In addition, the EKFTA also includes provisions to increase the transparency of the investigation process as well as to enable economic activists to participate in the processing of documents and documents in English. This creates opportunities for stakeholders to more smoothly protect their rights.

The EKFTA also includes bilateral safeguard provisions, which allow each party to temporarily impose tariffs on WTO members in the event of rising imports that could threaten or cause serious harm. The EU will monitor the market for sensitive sectors and be ready to carry out defensive procedures when conditions permit.

In addition to the basic contents of the chapters directly related to the policy of tax exemption and reduction, import and export of goods, remaining chapters in the agreement on issues such as: technical barriers to trade; animal and plant quarantine measures; customs and trade facilitation; trade in services, establishment and e-commerce; payment and capital movement; government procurement; intellectual Property; compete; transparency; trade and sustainable development; dispute resolution; institution, general and final terms. These contents show that EKFTA has completely aimed to create a free trade area to strongly promote cooperation and investment activities between EU countries and Korea.

## **2. Korean Opportunities From Ekfta**

### ***2.1. Benefit from the tax exemption policy of the automotive, battery and chemical industries***

It can be said that the results achieved since the signing of the EKFTA with the EU show that Korea has participated and kept a significant market share in the European market. Although Europe has had certain difficulties during the debt crisis, Korea's imports to the European market have increased by an average of 0.1% in the four years since 2010 while according to survey data. Also in this market, the rate of imports from Japan decreased by 4.9%. Among the goods imported into Europe by South Korea, the auto industry is said to be the industry that benefits the most from the removal of tariff barriers to the EU.

South Korea's auto exports to the European market reached \$8.4 billion in 2019, more than double from \$3.3 billion in 2010. Although exports of fossil fuel-powered vehicles have declined since 2017, they have been growing replaced by electric vehicles. As a result, Korea's electric vehicle exports to the EU increased from 100 million USD in 2016 to 4.6 billion USD in 2020. Korea is the only country that is exempt from tax on electric car exports to Europe since 2016 compared to other countries such as the US, China, and Japan. Besides, the export of lithium-ion batteries to this market of Korea has also grown steadily because the 2.7% tax rate has been eliminated since the EKFTA was signed.

The tariff reduction roadmap is one of the basic advantages that EKFTA brings to exporters to the EU. The agreement will eliminate 1.6 billion euros in import duties that EU exporters face every year. Immediately after the EKFTA took effect, about 850 million Euros of tax were cut.

Industries related to machinery, equipment, spare parts and chemicals are the main industries benefiting from the tax exemption and reduction policy. Chemicals is the second sector to benefit from around 175 million Euros from the tax cuts. In addition, a number of other industries also enjoy tax cuts such as: textiles, glasses, furs, shoes, iron and steel, optical equipment, etc.

For industrial products such as passenger cars with small capacity, consumer goods, video players, LCD screens, the EU will completely cut import tax within 5 years, with umbrella products. Large capacity car is 3 years since the agreement was signed between the two parties.

## **2.2. Opportunities in improving competitiveness in technology, quality and design**

According to statistics in 2020, Korean chemical products exported to the EU market are \$ 7.1 billion, an average growth of 20% per year since 2010 from \$ 1.2 billion. Besides, the export of electrode materials also increased significantly. Goods with strengths such as tuna, mushrooms, kimchi, coniferous seaweed, and Korean beverages still achieved a growth rate of 125% compared to the time before EKFTA took effect. In addition, EKFTA has helped Seoul diversify the import points of raw materials, spare parts and equipment, and at the same time, boosted Korean enterprises' competitiveness. According to economic experts, after signing the EKFTA, the EU considered Korea as an independent market rather than one of the Asian markets and goods from the EU actively penetrated into the Korean market. Statistics show that, in 5 years, the export of cars with cylinder capacity of over 2,000 cc from the EU to Korea has increased from 21.7% to 25.3% since EKFTA took effect. Although in 2020, the market share of imported cars in Korea decreased to 13.4% due to new models and domestic car brands, the market share of "Made in Korea" regular cars in the EU market has increased from 4.5% to 7.1% in 2020 since EKFTA comes into effect.

Besides, the market of home appliances also tends to grow. In 2 years 2016 and 2017, Dyson vacuum cleaners were very popular in Korea, accounting for more than 80% of the domestic market share. But this has caused vacuum cleaner manufacturers to switch to the trend of cordless vacuum cleaners. As a result of that change in business strategy, two manufacturers LG and Samsung regained two leading positions in the domestic market. In contrast, high-end Korean household products have penetrated the European market.

## **2.3. Getting a large consumption market to increase export turnover**

A very important policy brought by EKFTA to Korea is that this agreement can fully open EU agricultural products to the Korean market. Currently, only about 2% of EU agricultural products entering Korea are tax-free. After the EKFTA is signed, almost all EU agricultural products imported into the Korean market will be tax-free from 3 to 10 years depending on the item. Thus, the Korean market benefits most in terms of product prices for consumers, which contributes to the increase in consumption as well as the import and export turnover of Korean goods in the chain. supply and demand from the above-mentioned items and at the same time increase the competition between these items in the Korean market.

Every year, EU agricultural exporters will have to pay about 400 million euros in import tax with a fairly high level (38% by weight). With Korea's current high tax rate, the EU's export potential is huge, so the EKFTA's import tax exemption policy has allowed EU agricultural exporters to maintain and increase their position their competition in the Korean market.

Without this agreement, EU agricultural products will be fiercely competed by rivals such as Chile, the United States, Australia, and New Zealand, which are strong exporters of agricultural products. Accordingly, the Korean market will have the opportunity to benefit from the best quality agricultural products to meet the needs and at the same time protect its position in the face of fierce competition from competitors.

Of course, when there is a large market in product consumption, Korea will have a great ability to increase import and export turnover, contributing to strongly promoting the national economy in addition to the economic benefits benefit of the people.

It can be said that the great trade opportunity between Korea and the EU is one of the great opportunities that EKFTA brings to both sides. Both businesses and consumers from both sides will enjoy positive benefits. Moreover, the adoption of EKFTA helps create more jobs, thrive in expertise and technology transfer, generate tax revenue as well as opportunities to promote and introduce the country's leading advanced technologies countries and provide many new goods and services for the benefit of consumers.

## **3. NEGATIVE EFFECTS FROM EKFTA**

In addition to the advantages that EKFTA brings, there are also difficulties from FTAs, first of all, the competitive pressure for the entire national, regional and global economy. In terms of society, competition will increase when joining an FTA, which may make some domestic enterprises with lower production technology fall into a difficult situation when they have to compete with high-capacity enterprises more about technology.

The countries participating in the FTA also need to carry out a review of policies and laws, especially in the fields related to trade, investment, environment, dispute settlement, etc. It can be seen that FTAs in general and EKFTA in particular

not only contain many consequences related to the legal systems of the participating countries, but also related to the policy and social issues of those countries when balancing between international trade and issues that are considered "non-commercial".

It can be said that the removal of tariff barriers is a great advantage that the FTA brings, but Korean businesses have to face constraints from extremely strict non-tariff barriers in FTA commitments. That is to comply with labor standards and environmental standards. Export markets will not levy duties on scrapped tariffs but on breach of commitments. Therefore, in order to remain firmly in the global economic playing field, domestic enterprises must improve their internal resources, increase investment in human resources and production technology to ensure their commitments and increase their investment in production. High quality products to meet the requirements of "fastidious" markets like Europe.

### III. CONCLUSION

Participating in EKFTA apart from the achievements gained from the policies between the two sides under the agreement, Korea also has more opportunities to attract small investors into the country. From 2018 to the end of 2019, more than 70% of Korea's total trading orders belonged to private investors, by September 2020 this number increased to 90%. Participating in a free trade agreement with the EU has boosted the Korean economy's development in both breadth and depth. On the basis of the results achieved from the implementation of the agreement as well as lessons learned from the negative effects of the EKFTA, Korea will make changes in policy making in order to gradually improve the international economy and at the same time make the most of domestic and foreign resources on the basis of free trade agreements to develop the economy in a sustainable way as the goal and content of the EKFTA discussed.

### REFERENCES

- [1] Documents ([vietnamexport.com](http://vietnamexport.com)).
- [2] Some highlights in Korea's economic development - International Information - Central Economic Commission ([tinhtrunguong.vn](http://tinhtrunguong.vn))
- [3] Nguyen Hai (2016), "Challenging FTAs", Saigon Economic Times, No. 16