

**THE HAGUE UNIVERSITY OF APPLIED SCIENCES  
ACADEMY OF EUROPEAN STUDIES & COMMUNICATION  
MANAGEMENT**

**The effects of the European Union–South Korean Free  
Trade Agreement for Romanian companies**

**Diana Ioana Spânoche 11035005 ES3 - 3A**

**October 2014**

**Dissertation Supervisor: Mr. Jos Schröder**

## **Acknowledgements**

This thesis could not have been completed without the support and help of many people. I would like to take this chance to thank those who have been my inspiration and assisted me in the completion of this work. There are two people that are particularly worthy of mention. First is Mr Ilie Stanica, the commercial consul at The Romanian Embassy to the Republic of South Korea, who inspired me and provided me with all the documentation and information that I needed. He offered his advice and help whenever I needed it. I would also like to thank to Ms Alexandra Nichita for her support, and all the help that I received while I was staying in South Korea. I have significantly benefited from both of their guidance and counsels, and I will always remember some unique and eccentric discussions.

I would also like to express my genuine gratitude to Mr Jos Schröder who gave me the occasion to realize this assignment. He supervised my undergraduate dissertation and offered his advice and feedback every time I needed it.

Writing this thesis was a journey where I met many people and established new friendships. I would like to take this opportunity to thank the people from The Romanian Embassy to the Republic of South Korea for their care and warm welcome that I received while I stayed there. Also to all the people I met during my staying, thank you for sharing you honest opinions and beliefs about Europe and Romania.

Lastly special thanks go to my family. Dear Mum and Dad thank you for all your support, for believing in me and always encouraging me to continue my work.

## **Executive Summary**

This report provides an analysis and evaluation of the current and prospective effects of the EU – Korean Free Trade Agreement on Romanian companies. This analysis consists in evaluating the implementation of the Free Trade Agreement, the issues it has encountered and the change in trade.

The research draws attention to the positive benefits that the EU-South Korea FTA has brought during the two years of operation. A further investigation reveals the importance of the FTA for Romanian exporters, and studies the Romanian presence in the Korean market. Moreover, even though information regarding the European Union as a whole is available, it argues the lack of statistics and data for Romania.

The report finds that prospects of Romanian companies acting in the Korean market are currently not positive. The major areas of weakness entail additional examination and curative action by the governments of both countries involved.

This thesis also draws attention to the fact that the conducted study has limitations. Some of the restrictions include the lack of information available and the nonexistence of any Romanian company active momentarily in the South Korean market. Due to not enough details being available the known results are based on past performances not present (last year).

Recommendations discussed include:

- More governmental involvement;
- Better presentation of the market and its opportunities;
- Sectors which Romanian companies and products could tackle.

## Table of Contents

Acknowledgements .....	2
Executive Summary .....	3
1. Introduction .....	5
1.1 Objective and justifying research .....	8
1.2 Problem Statement .....	8
1.3 Research question and research methods .....	9
2. Chapter I: Assessment of the Korea-EU Implementation after two years of Operation .....	11
2.1 Conclusion .....	12
3. Chapter II: Implementation issues of the Korea-EU FTA .....	14
3.1 Conclusion .....	17
4. Chapter III: Trade before and after the FTA in Romania .....	18
4.1 Trade between Romania and South Korea .....	21
4.1.1 Evolution of bilateral trade 1992-2011 between Romanian and South Korea ...	21
4.1.2 Patterns of trade between Romania and South Korea .....	23
4.2 Romanian products with potential on the South Korean market .....	26
4.3 The Impact of the EU-Republic of Korea Free Trade Agreement for business in the European Union and for Romania .....	27
4.4 South Korean investments in Romania .....	27
4.5 Economic Cooperation .....	28
4.5.1 The main actions of cooperation achieved .....	28
4.6 Conclusion .....	29
5. Chapter IV: Gaining's for European and Korean Companies from the FTA? .....	30
5.1 How to benefit from the tariff elimination? .....	31
5.2 What are the duties of an approved exporter? .....	31
6. Findings .....	33
6.1 From real experience .....	33
6.2 From research .....	35
7. Conclusion and Recommendations .....	37
7.1 Conclusions .....	37
7.2 Recommendations .....	40
8. References .....	42
9. Appendix .....	44

## 1. Introduction

In 2011, the EU-Korea Free Trade Agreement (FTA) was established, thus marking the beginning of a new era in EU-Korea trade relations. The FTA was finalized after a five years process which began with the Commission's Communication on 'Global Europe in a Competing World' which called for the EU to renew its commitment in Asia. The EU-Korea FTA represents the first agreement in a series that the EU is negotiating with other Asian countries, but it is an illustration of how two partners can work together in order to reach a deal that will benefit the economies of both sides. (Union, Publications Office of the European, 2011)

The KOREU FTA reveals the larger trade strategies that the EU and South Korea have followed. Prior to the mid-2000s, both nations were unwilling to participate in bilateral FTAs, choosing to conduct trade through the World Trade Organization (WTO) and, in the example of the EU, through regional preferential trade arrangements with former colonies. Nonetheless, during the last 10 years, they both have been discussing and implementing FTAs with countries from all over the world. (William H. Cooper, 2011)

For almost a decade, South Korea has been developing into an FTA hub in Northeast Asia. Adhering to such a large number of FTAs has been a crucial part of the national economic strategy of President Lee Myung-bak, a conservative, and his predecessor, Roh Moo-hyun. Both presidents thought of FTAs as essential for progressing South Korea's economic well-being. Constant competitive pressure from Japanese firms, amplified competition from Chinese enterprises, and the rapid ageing of the South Korean workforce have intensified the sense of urgency about enhancing national effectiveness. The KOREU FTA fits into Lee's goal towards forming a "Global Korea" by intensifying South Korea's commitment and presence in the international community. (William H. Cooper, 2011)

The Free Trade Agreement between the EU and Korea is considered to be the most ambitious trade agreement ever negotiated by the EU. The Agreement is expected not only to enhance bilateral trade and economic development in both the EU and Korea, but also to have an extensive influence in Asia and everywhere by indicating the EU's openness towards third countries and its pledge to free trade. (Union, Publications Office of the European, 2011)

The final aim of the agreement is for trade barriers to be removed and nearly all import duties among the two economies to be eliminated by the end of the transitional phases. Exporters and importers of all manufacturing products and almost all agricultural products will be able to trade without having to pay duties. Furthermore, the FTA breaks new ground in tackling significant non-tariff barriers to trade, particularly focusing on the automotive, pharmaceuticals, medical devices and electronics areas. The Agreement will also generate new openings for market access in services and investments, and lead to important developments in fields such as intellectual property, government procurement and competition policy. (Union, Publications Office of the European, 2011)

Until now the effects of the EU-Korea FTA on GDP are constructive for both the EU (up to 0.08%) and Korea (up to 0.84%). In addition in Korea's case the welfare gains are also progressive and significant reaching up to 1.12%. These increases are primarily due to terms of trade improvement and capital accumulation (through increased investment) as well as a variety of gains (increasing the number of varieties available to the consumer due to the FTA). On the other hand, the EU welfare gain has proven to be significantly smaller at only 0.02%. (Decreux, 2010)

The effects on bilateral imports and exports are positive for both countries, with a growth in Korean bilateral exports to the EU of 2.38%, whereas EU bilateral exports to Korea increased even more up to 82.6%, as a consequence of the original high protection in Korea. (Decreux, 2010)

In regards to the effects on collective bilateral trade in value, the rise in EU exports to Korea sums to a minimum of 33 billion euros and a maximum of 41 billion euros subject on the baseline considered. In addition, by the increase in the EU imports from Korea by up to 34 billion euros, it is likely to improve the EU trade balance concerning Korea by up to 10.1 billion euros. This progress is noteworthy, especially in 2008, when the EU challenged a 13.8 billion euros trade deficit vis-à-vis Korea. (Decreux, 2010)

Quantitative assessments were developed in order to get a better understanding of these FTAs. These studies usually focus on the significance of trade and welfare. For instance, the EU-Korea FTA was first evaluated by Heungchong (2005), followed by Jong (2006) as well as the Copenhagen study (2007). These evaluations show substantial gains for the two parties. The Copenhagen study (2007) indicates that the increased level of exports of services from the EU to Korea is a result of its comparative advantage and the high level

of protection in Korea. Furthermore, Korea is estimated to increase its exports of goods, mainly motor vehicles and electronic machinery. (Decreux, 2010)

The plan in relation to the elimination of customs duties is spread over a maximum of 20 years starting at the time the agreement enters into force. Goods are categorized into 20 groups, each matching annual stages for trade liberalization. Overall, the EU removes its customs duty for almost 80% of total imports from Korea at the time the agreement enters into force. Likewise, Korea instantly removes its tariffs for about 2/3 of its imports coming from the EU. Furthermore the EU-Korea FTA is estimated to eliminate almost all tariffs on industrial goods within 5 years. By year 7, both parts are likely to have reached 98% duty elimination in terms of tariff outlines. There are some agricultural and fisheries products that are bit more sensitive which will have a transitional period longer than 7 years. Rice is omitted from the agreement together with other agricultural products. (Decreux, 2010)

The majority of assessments regarding the impact of the Korea-EU FTA appraise that the agreement will have a positive effect on the economies of the EU and South Korea as a whole and that the greater comparative impact would be on the South Korean economy. This assumption plausibly follows from the fact that the South Korean economy is much less significant than the EU, more reliant on the EU market than in the contrary case, and has higher trade barriers than the EU; hence, the results of trade liberalization under the Korea-EU FTA would be better in relative terms for South Korea. On the other hand, in both cases, the results of the agreement on the general economy will be small, reflecting the greater role played by other countries in their trade and also the larger impact that other economic happenings—business investment, domestic consumption, and government spending—have in their economies. (William H. Cooper, 2011)

As with most other FTAs, the greatest economic impact of the KOREU FTA will be on particular areas in each economy. Those having a relative advantage vis-a-vis those in other countries are more likely to experience the highest paybacks while import-sensitive sectors will experience the least gains, if not losses, when the agreement is fulfilled. Services suppliers from the EU will gain the most from the agreement, particularly in the sectors of retail and wholesale trade; transportation services; financial services; and business services, as it is known that EU service providers are among the world most competitive and EU markets the most open, while the South Korean services market is relatively closed. Concerning terms of trade in goods, the beneficiaries from the EU side will be exporters of pharmaceuticals, auto parts, industrial machinery, electronics parts, and some agricultural goods and processed foods. From the South Korean part, the

goods including ships, wireless telecommunications devices, cars, chemical products, and imaging equipment are anticipated to benefit from a growth of their exports to the EU market. (William H. Cooper, 2011)

### **1.1 Objective and justifying research**

The Korea- EU FTA is a very current topic that has been gaining a lot of attention, and is still in the process of being developed. Export is becoming more important for European and Asian countries, therefore open markets without boundaries are increasing. This study follows and sees how the business sector in South Korea is rapidly developing, considering the situation in the Korean Peninsula and the history of the country; also gives an insight of the Korean society towards Europe.

A proper study about a Free Trade Agreement can only be developed after several years from the implementation. As the EU – Korea Free Trade Agreement has gained a lot of publicity in the beginning, being the first agreement signed by the European Union with an Asian country; it is worthwhile to evaluate how the process has been evolving to see, if any implementation issues have arisen and if any of the current gains have fulfilled the expectations.

By further analysing the EU –Korea Free Trade Agreement by its content and effects, the purpose of this paper is to find out the consequence that it had over overall trade between the two parties, but will also show if it helped to facilitate commercial relations for smaller economies from the EU such as Romania. Romania has ratified the agreement on the 31<sup>st</sup> of July 2012 by Law 100, applying it fully at the time.

### **1.2 Problem Statement**

Free trade agreements and preferential trade agreements are drawn up by countries more rapidly in order to increase the volume of trade in goods and services.

The purpose of these agreements is to encourage exporters from both countries to venture into foreign markets, by eliminating conditions that might cause impediments. The involvement of governments, the fast negotiations between parties to reach compromises and inform exporters could lead to a successful settlement.

There is a worry that the European Union's desire to commit to these agreements in the hope that it would benefit trade might raise discrimination between member states.

In the perspective of mitigating the practice's impact and highlighting the importance and results, further analysing of the EU- Korea free trade agreement needs to be conducted.

### **1.3 Research question and research methods**

The ties between the EU and Asia in terms of trade are still in the developing process. During the last few years, progress has been made, by establishing FTAs or different agreements with countries from the Asian region. The European Union provides a large number of reports, statistics, and other materials that give an in depth overview over the agreement. This helps analysing and explaining many of the factors that are involved in the process. Also by providing information about the countries performance, trade between the two parts can be examined.

The central question of this report is: "Has the FTA agreement between Korea and the European Union taken away barriers realizing higher export to Korea from companies from Romania?"

The questions that have to be answer before drawing the main conclusion are:

1. What are the core elements of the Korea-EU FTA?
2. What are they prioritizing?
3. Are there any implementation issues, and if so how are they to be solved?
4. What are the gains for each party?
5. Are all actions mentioned in the FTA effectuated?
6. If not, why not and what is the impact on export?
7. What are possible improvements for the next FTA?

In order to find an appropriate answer to the main research question that was the basis for this paper - whether or not the FTA agreement between Korea and the European Union has taken away barriers realizing higher export to Korea for Romanian companies - various factors have to be investigated and stated as sub questions under the original question. Factors that need to be taken into considering include discovering the exact

meaning of the FTA's (core elements) and the provisions that it has, and afterwards looking over the issues and problems that the FTA stumbled upon during implementation.

1. The first step taken to complete research was desk research in the form of booklets and papers about the subject online searching for information, and using the internet to search for further information.
2. The second step consisted of reading a number of selected books and summarising the most important and useful information. In terms of secondary research to get a better understanding about how the FTA works, an interview was conducted with the Economic Consul from the Romanian Embassy to the Republic of South Korea.
3. A large part of the observations throughout the paper are coming from personal experience, after attending different conferences on topics related to the Korea-EU relations and undergoing an internship at the Romanian Embassy to the Republic of South Korea.

## **2. Chapter I: Assessment of the Korea-EU Implementation after two years of Operation**

After two years of implementation, an assessment in order to find out the cores, the gains and the actions of the Free Trade agreement is ideal to examine the process of implementation.

The third meeting of the EU- Korea Trade Committee took place in Seoul on 15 October 2013, and was co-chaired by Commissioner Karel de Gucht and South Korea's Minister of Trade, Industry and Energy, Mr Yoon Sang Jick. This annual EU- Korea Trade Committee is the highest level institutional body established by the EU-Korea FTA.

During this meeting, both parties presented an assessment of the EU-Korea FTA after two years of implementation. These reports offer clear understanding about the problems and gains that the two nations are encountering.

The first comment from the Korean side was to point out that, for the first time in 15 years, Korea experienced a trade deficit with the EU, amounting up to 1 billion dollars. While it acknowledged that this was due to many economic factors, the Korean delegation regretted that some entities in Korea who were opposed to the FTA had taken advantage of the trade deficit to show the lack of benefits that the FTA brings to Korea. (Korea, 2013)

The EU side emphasised that, while the overall trade balance has shifted in the EU's favour, one should also look at the picture of wholly or partially liberalised trade, where exports on both sides have gone up. Korean exporters are also doing slightly better than the EU exporters in making use of the FTA tariff liberalisation. It can thus be concluded that the FTA fulfils its expectations. However, there are implementation concerns, particularly, in the sectors of car parts, financial services and public performance rights. The EU side also pointed out the need to amend the FTA to make it more trade facilitative, in particular to revise the direct transport clause and insert a provision on repaired goods. These are not insurmountable problems and both parties should aim to find solutions by the next Summit, in order to devote that Summit to the future of the FTA. (Korea, 2013)

Regarding the activities of the Specialised Committees and Working Groups, both parties agreed that these committees play an important role in ensuring a comprehensive dialogue between the parties. (Korea, 2013)

The EU side emphasised that these committees and working groups contribute to making progress on implementation issues; concrete progress has indeed been made on a number of issues. For instance the EU side requested Korea to provide a timeline for the completion of the approval process of the beef industry. The EU side also welcomed the agreement on joint-guidelines for Agricultural Tariff-Rate Quotas (TRQs). However, it was disappointing that the progress on removing non-tariff barriers in the Working Group on Motor Vehicles and Parts had been limited. (Korea, 2013)

Both parties agreed that each committee and working group should aim at producing joint-reports as soon as possible.

Some statics published by the European Commission show the trade balance with South Korea went from a deficit of 20% or EUR -7.4 billion to a surplus of 6% or 2.3 billion associating the first year of provisional application of the FTA with the second year of implementation. This represents the first time in 15 years that the European Union has registered a trade surplus with Korea.

The positive effect of the agreement can be seen by the increase in exports of European goods and products to Korea. This is mainly due to the preferential treatment that European goods receive in South Korea.

The amounts saved by not paying customs duties for EU imports in Korea were approximately EUR 1.4 billion in the second year of the FTA, representing a reduction of 77% in tariffs paid before the creation of the FTA.

In terms of using the preferences that the FTA provides for export, the rate of usage for European exports is around 66% while the rate for South Korean exports reaches 77 %. Even though there is a difference of 10 % among exporters from both parties, there are several reasons that have contributed to this. If we take a close look to Korean exporters, they represent large companies, export-oriented, are organized as clusters of groups owned by a single family, while the EU industry is more fragmented. (Kim, 2014)

## **2.1 Conclusion**

Evaluating the implementation of the FTA after two years reveals that, in terms of growth of bilateral trade, the FTA has functioned very well generally, particularly for the EU. Due to the recent recession the outcome was not as expected for the Korean side.

Nonetheless in terms of exports, both parties experienced a growth compared to the rest of the world.

After evaluating the progression of the FTA, there are some implementation issues that still have to be addressed. Even though there are problems, the gains that the agreement has brought so far, were pleasing for both parts, such as the reduction of tariffs and the trade surplus.

However, attention needs to be focused on improving the precise application of the FTA, so that exporters can enjoy the expected benefits of the agreement.

### 3. Chapter II: Implementation issues of the Korea-EU FTA

After three years in operation the EU- Korea FTA is still facing some implementation issues.

**Table 1. Activities of the various implementation bodies established under the FTA**

Date/Place	Bodie	Activities (problems dissused)
12th October 2011/ Seoul	EU-Korea FTA Trade Committee	endorsed the draft decisions on rules of procedure of the Trade Committee and the Dispute Settlement panel roster; reviewed the implementation of the EU-Korea FTA in the area of Trade in Goods, Services, Rules and Trade and Sustainable Developmen
14th-15th December 2011/	EU-Korea FTA Customs Committee	aspects of the implementation of the Agreement and efficiency of origin verification were discussed, including the issue of redrafting of the provision on direct transport; The Committee
26th -27th April 2012	EU-Korea FTA Working Groups :	addressed also the transposition of list rules of Origin in HS2012, first meeting
	Working Group on Motor Vehicles	discussed implementation of the automotive aspects of the FTA; regulatory aspects referring to product acceptance
	Working Group on Pharmaceutical	the Korean reform of the reimbursement price of pharmaceuticals, methodology for cutting the reimbursement prices of medical devices, change in the comment period for pharmaceutical reimbursement decisions, quality testing of pharmaceuticals and medical devices and the regulatory cooperation
	Working Group on Chemicals	exchanged views on cooperation with regard to the introduction and implementation of the Korean chemicals regulation and technical cooperation arrangements on chemicals
25th June 2012	EU-Korea FTA Committee on Sanitary and Phytosanitary Measures (SPS)	functioning of the Committee, transparency and exchange of information, confidence-building activities, enhancing cooperation on animal welfare and problems arising from the application of SPS measures
26th June 2012	EU-Korea FTA Committee on Trade	adopted a decision on the rules of operation of the Civil Society Forum and the establishment of a list of experts in accordance with Article 13.15.3 of the FTA.;
25th September 2012	EU-Korea FTA Committee on Trade	regulatory issues affecting bilateral trade flows in the sectors of aircraft parts, electrical and electronic products, food and agricultural products, cosmetics and thin-film solar panels.
26th September 2012	EU-Korea FTA Committee on Outward Processing Zones on the Korean Peninsula	discussed the importance to Korea of this issue, which is legally and politically difficult for the EU
27th September 2012	Committee on Trade in Services, Establishment and Electronic Commerce	provided a useful exchange of information between the Parties, on the implementation of both Parties' commitments resulting from the FTA in sectors including financial services, professional services, telecom, environmental services, postal and logistics services as well retail services.
16 th October 2012	EU-Korea FTA Trade Committee	
by the end of the year	the second EU-Korea FTA Customs Committee and the first EU-Korea FTA Working Group on Trade Remedy Cooperation	

\*Data acquired from the Annual Report on the Implementation of the EU-Korea Free Trade Agreement 2013

In regards to implementation issues in the automotive sector, the EU has highlighted that the purpose of the FTA was to give parties easier market access in order to establish a level playing fields. Unfortunately Korea continues to insist on the KC (Korean Safety Mark) mark on car parts. In this respect the EU welcomed the recent letter from Director General Kwon from the Korean Ministry of Transport, and considered it as a first step into finding a solution. In particular, it has welcomed the suggestion to accept equivalence of technical standards. (Korea, 2013)

EU emphasised that it is willing to find a practical solution, however later on it has decided that if this is not feasible than they should turn to an independent export mediator, as it is provided in the FTA. The Korean side has recently confirmed that it will accept the relevant UN ECE safety standards for car parts. For the car parts subject, making KC indelible stickers would be allowed as a permanent solution. At the moment, labelling on packages was accepted but this might be phased out in 1 or 2 years. (Korea, 2013)

During the Trade Committee in 2013, Korea also pointed out the EU's emissions scheme and requested the EU to consult closely with companies. The EU side promised to keep Korea informed about the on-going discussions.

In the services sector, the EU has shown a thankful approach towards Korea, for the good progress in implementing commitments for legal and environmental services, and in telecom. However, concerns remained regarding the lack of progress in other sectors such as financial services.

Concerning postal regulatory principles, July 2014 represents the deadline to complete the work. About the express delivery services, EU operators continued to perceive discrimination between the Korean Post Express Service (EMS) and European private express companies: the express delivery companies faced stricter restriction and questioned why this did not apply to the EMS. (Korea, 2013)

About the express delivery services, Korea indicated that has considered this to be a customs issues. It has been enforcing regulations more strictly now, as there used to be violations in the past. (Korea, 2013)

On retail services, Korea was of the opinion that zoning limitations for supermarkets is not a market access issue. Korea regulates large retailers in the spirit of promoting the cultural value of traditional markets. According to Korea this is a non-discriminatory measure, which applies to both Korean and International retailers. It is a very political

issue, the measure being set by the National Assembly, and further discussions would be necessary. Korea did not consider this measure to be against the FTA or the WTO provisions. The EU reply was that, in fact this could be politically sensitive in Korea. However, the Korean measures seem to violate the FTA. A number of investments had been made by foreign retailers, who now had their situation altered. Large retailers were prohibited to open new stores. In addition, the measure amounts to an economic need test, which is not permitted under the WTO or FTA provisions. (Korea, 2013)

On financial services, the EU side stressed the importance of full implementation of Korea's commitments, particularly regarding the data transfer outside of Korea, where the requirement for customer consent continues to be an issue. The Korean part replied that it understood the worries about this subject and that the Financial Services Commission (FSC) was currently working on a set of guidelines, having already published the Regulation on Outsourcing of IT. FSC was consulting the financial services industries, and will issue the guidelines as soon as possible. The Financial Service Commission acknowledges that, customer consent represents an issue but considers it not related to the FTA. In addition Korea has pointed out that the EU has similar requirements in this respect. Thus it proves that Korea is in line with the FTA commitments. (Korea, 2013)

The EU answer stated that it would make a final assessment once the implementation rules were adopted. It has also been stated that the EU legislation provides a good balance on the data protection. There are a number of general provisions, of which customer consent is one. (Korea, 2013)

Korea confirmed that the consent requirement was about to change, and it was aiming at requiring customer consent only once. FSC also declared that it had separate meetings with EU representatives from the financial supervision authorities, and they established a good channel of communication with financial authorities from EU Member States. Korea concluded that this is an important issue, not only between Korea and the EU but also between Korea and the US and it was confident that this matter will be solved in a satisfactory manner. (Korea, 2013)

### **3.1 Conclusion**

Implementation problems persist, particularly in the automotive, aftermarket, and financial service fields. The Korean expectation about the marks on cars parts represents something that the EU won't concede on, since it makes the entire process for EU exporters a lot harder, limiting the goal of the FTA.

The scope of permissible business delegation/outsourcing is unclear in its meaning by providing the host country regulator the power to impose certain restriction. Discussions on these issues will continue in the context of the various meetings between the committees and working groups. The goal is to identify mutually acceptable solutions and feasible in accordance with the letter and spirit of the FTA.

#### **4. Chapter III: Trade before and after the FTA in Romania**

The attractiveness of Romania's market can be seen by studying its export performance in the last few years. Examining the financial and commercial situation of Romanian can help getting a better answer for the main research question.

Romania has made significant progress in export growth in recent years. FDI has contributed greatly to these results and 50% of exports are made by a number of 100 companies', with foreign capital or joint ventures that have benefited from effective management.

Romania is among the countries with medium to low degree of export orientation, as a percentage of GDP. Also, the technological intensity of exports is relatively small compared to the EU level, and the base of exporters is reduced at SMEs. Exporters are concentrated in a small number of large firms in a proportion of about 50%. Average Romanian entrepreneurs per 1,000 residents is half of the EU as a whole, while the number of exporting firms dropped during the crisis of 2008-2009. Romania ranks last place in the world in terms of sophistication and innovation in business (rank 102), or in terms of the availability of the latest technologies (ranked 115).

Romanian exports are regionalized and focused on large EU countries or countries in South-East Europe, Middle East and CIS (Commonwealth of Independent States) countries. Here are the main export increases.

Based on the similarity index of export portfolio, Romania competes with countries such as Bulgaria, North African countries (Tunisia, Egypt), Italy, Ukraine or Turkey, placed between middle to poor performance position.

On the EU Competitiveness assessments of the member countries, Romania is placed in Group No. 4, with the lowest competitiveness, both for the GDP per capita and in terms of technological intensity. This highlights the substantial gap in competitiveness that Romania still has in the EU economy.

Exports are the most relevant work in the assessment of national competitiveness. The share of exports in GDP is an indicator of the intensity of internationalization of an economy. In the period 2007-2012, Romania has increased the share of total exports in GDP from 29.3% in 2007 to 40% in 2012 (Figure 1.), but still positioned below the EU average (40.1% in 2007 and 44.7% in 2012). In the share of exports of goods only in GDP

(Figure 2.), Romania is below the European average in 2007, with a value of 23.7% compared to the EU average of 30.3%, but in 2012 exceeds the average European Union (33.7%) and accounted for 34.2%.

Figure1. The share of exports of goods and services in GDP

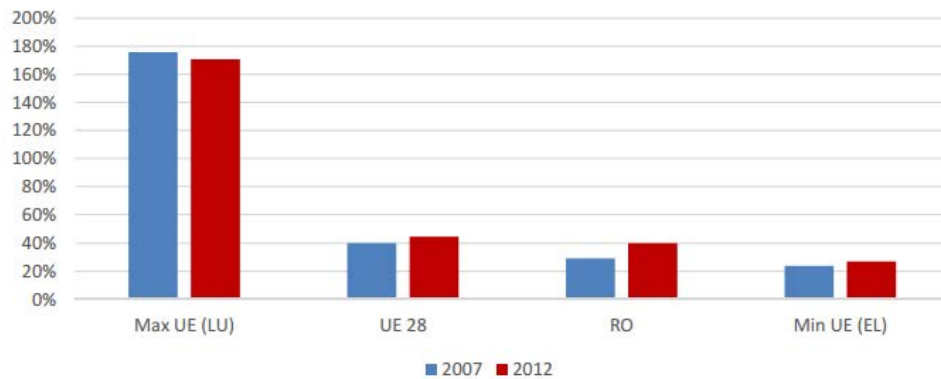
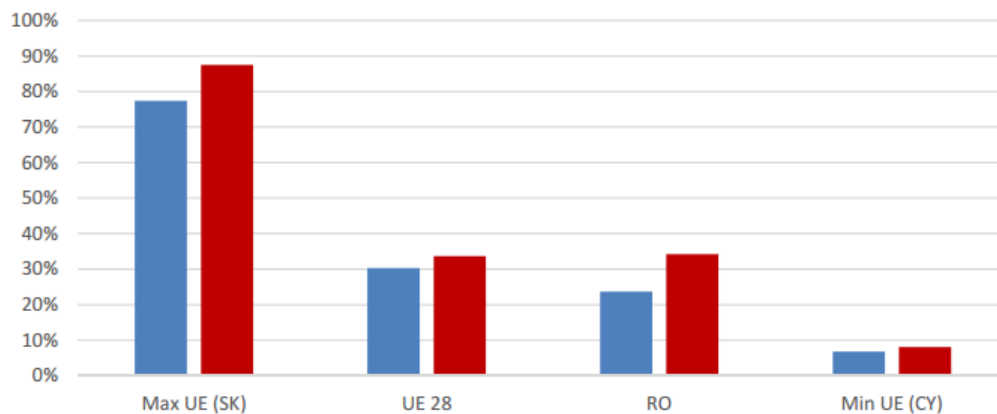


Figure 2. The share of exports of goods in GDP



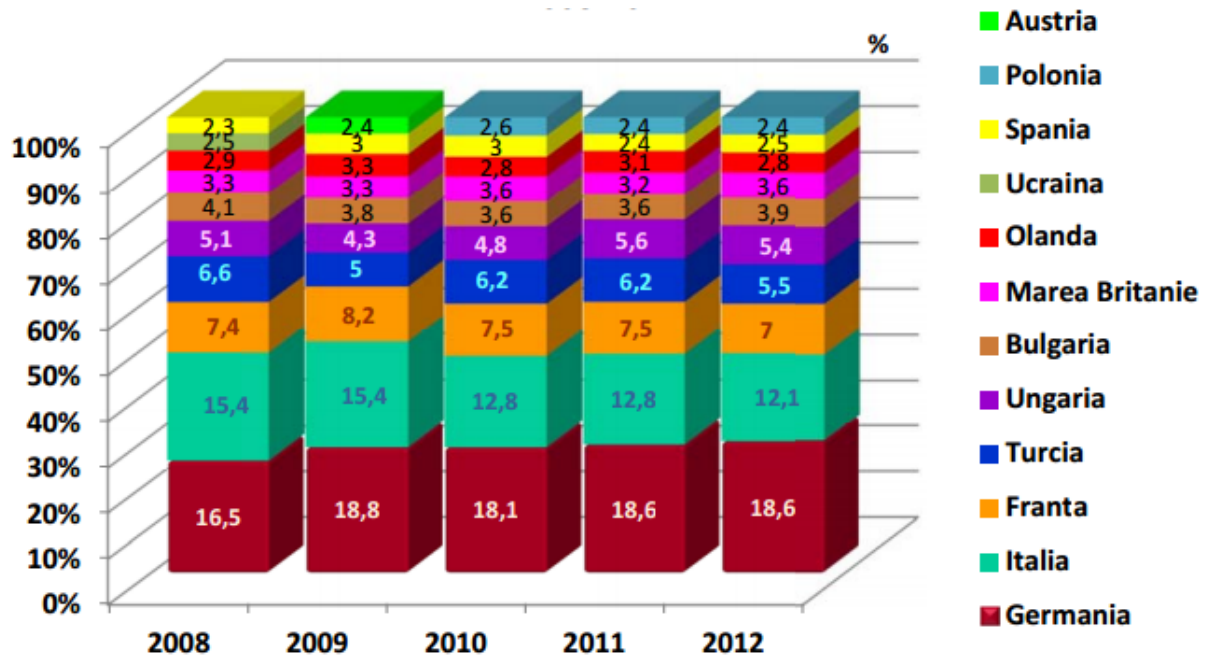
\* Source EUROSTAT

In recent years, Romanian exports have been primarily aimed at non-EU markets. This fact shows that Romanian exporters find it increasingly more profitable to go outside the EU. This orientation is not connected only to the FTAs established by the European Union with different countries, but rather to the openness of the markets and the acknowledgment of Romanian products and service. The political relations between the countries also play an important role.

In addition to non-EU orientation, another significant trend in foreign trade and in Romanian exports is regionalization and increasing export volumes with countries from the EU area and non EU states. Therefore the graph below (Figure 3) presents the

immediate proximity predominant countries as Romania trading partners' top 10 export destination countries. If to this, we add the permanent growth of Romanian exports to Moldova and the Russian Federation, we have a more complete picture of the geographical concentration of Romanian exports.

Figure3. The top 10 destination countries for Romanian exports



\*Source The Romanian Ministry of Economy

Top 10 destinations countries : 1. Germany; 2. Italy ; 3. France; 4. Turkey; 5. Hungary; 6. Bulgaria; 7, Great Britain; 8.The Netherlands; 9. Ukraine; 10.Spain; 11.Poland; 12. Austria

In the first seven months of 2013 exports from Romania, were worth 28.19 billion euros, exceeding the exports by 7.7% from the same period of 2012. In July 2013 Romanian exports have increased by 11.4% compared to the previous month and by 18.1% compared to July 2012. In the mentioned period, deliveries to EU countries recorded an increase of 7.0% compared to the same period last year, while exports in the non-community area, retained a more pronounced growth trend, registering a rate 9.4%.

Out of the total products exports, 76% was manufactured goods; 42.5% of the goods were auto vehicles and transport equipment parts, while the remaining 33.5% of manufactured goods consisted of processed wood and metallurgy products. Non-manufactured goods that were exported included chemicals (6.1%), raw materials (6.1%), food products (7.1%) and fuels (4.6%).

In July 2008 the Bilateral Chamber of Commerce in Bucharest established a relationship between Romania and Korea, aimed at promoting and expanding bilateral trade relations.

#### 4.1 Trade between Romania and South Korea

Until March 1990, there were no direct commercial relations between Romania and the Republic of Korea.

##### 4.1.1 Evolution of bilateral trade 1992-2011 between Romanian and South Korea

Year	Total	Export	Import	Deficit
1992	27,0	3,6	23,4	-19,8
1993	33,8	2,8	31,0	-28,2
1994	83,6	34,9	48,7	-13,8
1995	373,6	52,7	320,9	-268,2
1996	461,6	42,5	419,1	-376,5
1997	622,4	44,4	578,0	-533,6
1998	272,2	18,4	254,3	-235,9
1999	290,5	13,7	276,8	-263,1
2000	239,7	28,2	211,5	-183,3
2001	207,4	40,4	167,0	-126,6
2002	269,5	43,8	225,7	-181,9
2003	324,3	75,6	248,7	-173,1
2004	409,7	96,0	356,7	-260,7
2005	617,3	67,4	549,9	-482,5
2006	781,7	28,1	759,6	-731,5
2007	880,3	59,6	820,7	-761,1
2008	908,0	142,7	765,3	-622,6
2009	700,9	198,9	501,9	-303,0
2010	821,3	284,7	336,6	-251,9
2011	1000,4	344,0	656,4	-312,4
Evolution:		+21%	+11%	
3 months 2012	226,3	100,9	125,4	-24,5
Evolution		+117%	-17,7%	

\*Source Romanian Ministry of Economy

After a sharp increase between 1992 and 1997, bilateral trade went into decline, recording minimum values during the 1998-2001. Subsequently the positive evolution resumes, in 2008.

In 2007, bilateral trade volume amounted to 880.3 million dollars, of which 59.6 million dollars export and import 820.7 million dollars, registering a trade deficit for Romania of 761.1 million. Compared to 2006, exports increased by 112.16%, while imports increased by 46.27%.

In 2008, the total trade between Romania and the Republic of Korea stood at 907.96 million dollars, from which Romanian exports were USD 142.7 million, and \$ 765.26 million were imports. The trade balance was 622.56 million dollars. Exports increased by 139.52%, while imports fell by 6.75%, compared to the previous year.

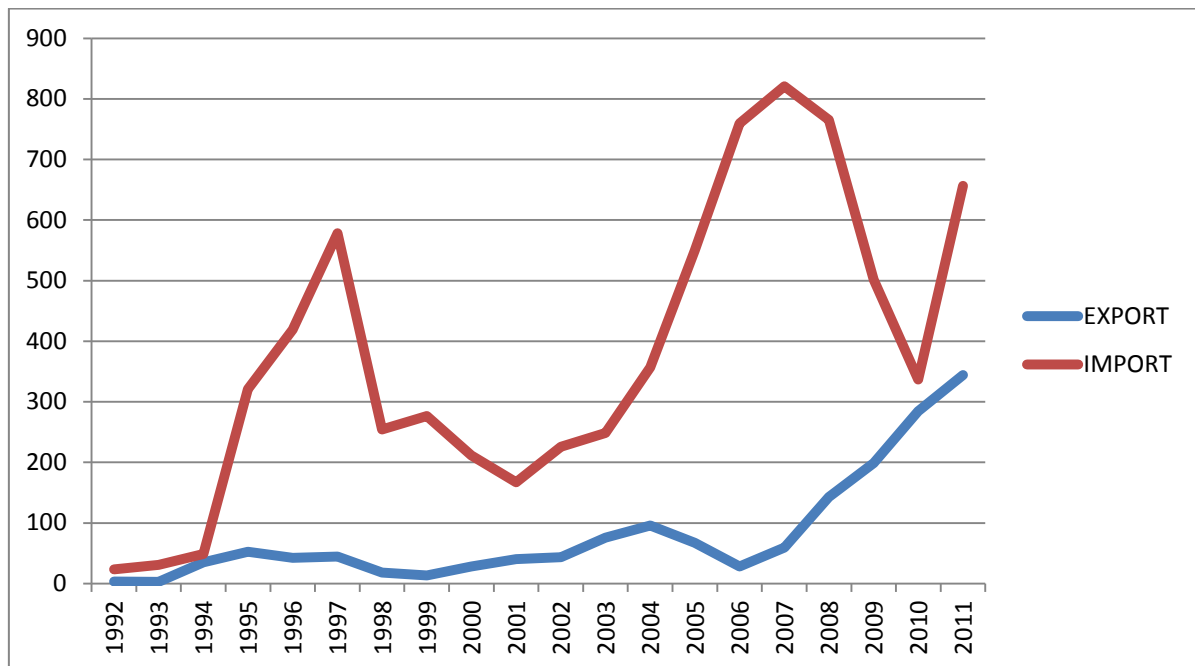
In 2009, the total trade between Romania and the Republic of Korea stood at 700.8 million dollars; the Romanian export represented 198.9 million dollars while imports represented 501.9 million dollars. Compared to 2008, exports increased by 44.1%, while imports declined by -34.64%.

In 2010 the total Korean-Romanian trade was 821.3 million dollars, of which Romanian exports accounted for 284.7 million dollars (record in the bilateral relationship), higher than the value recorded in the previous year. Meanwhile, imports registered a value of 536.6 million dollars.

In 2011 a record was achieved for Romanian exports to South Korea, reaching the value of 344.03 million dollars, up to 21% from the precedent year. Also, Romanian imports from Korea increased in 2011 by 11%.

In the first quarter of 2012, Romania's exports to South Korea recorded a spectacular increase of 100.9 million dollars (compared to 46.4 million in the same period of the previous year), while imports were 125.4 million (down from the value recorded in the first quarter of 2011 from 152.3 million dollars).

Figure4. Trade evolution between Romania and South Korea from 1992 until 2011



#### 4.1.2 Patterns of trade between Romania and South Korea

EXPORT	2009		2010		2011	
Groups of goods	Worth millions USD	%	Worth millions USD	%	Worth millions USD	%
Total	198.937,3	100,0	284.711,9	100,0	344.028,0	100,0
Live animals and animal products	88,5	0,0	65,9	0,0	294,2	0,1
Vegetable products	64.743,4	32,5	113.526,7	39,9	52.479,8	15,3
Fats and oils of animal or vegetable origin	23,8	0,0	0,0	0,0	0,0	0,0
Food, beverages, tobacco	196,2	0,1	242,5	0,1	303,3	0,1
Mineral products	100.059,8	0,5	0,0	0,0	2.179,8	0,6
Chemicals, products from allied industries	217,8	0,1	1.649,4	0,6	2.210,8	0,6
Plastics and Rubber	1.743,3	0,9	3.899,1	1,4	5.968,9	1,7
Hides and skins	0,0	0,0	5,2	0,0	32,3	0,0
Wood, charcoal and wood articles	12.152,7	6,1	22.805,2	8,0	43.927,0	12,8

Pulp of wood or of other fibrous materials	228,5	0,1	5,7	0,0	39,1	0,0
Textiles and textile articles	754,1	0,4	1.603,0	0,6	2.056,5	0,6
Footwear, headgear, umbrellas	0,0	0,0	2,5	0,0	30,3	0,0
Articles of stone, plaster and glass	0,0	0,0	0,8	0,0	94,8	0,0
Base metals and products	14.950,6	7,5	19.154,9	6,7	26.338,3	7,7
Machines and special transport equipment	98.659,8	49,6	116.387,8	40,9	196.001,3	57,0
Vehicles, aircraft, vessels and associated transport equipment	2.896,9	1,5	3.161,5	1,1	4.936,6	1,4
Optical and photographic electronics	927,4	0,5	1.964,7	0,7	6.785,0	2,0
Goods and various products	215,6	0,1	216,3	0,1	332,4	0,1
Others	79,0	0,0	0,7	0,1	18,0	0,0

\*Source Romanian Ministry of Economy

<b>IMPORT</b>	2009		2010		2011	
Groups of goods	Worth millions USD	%	Worth millions USD	%	Worth millions USD	%
Total	501.951,4	100,0	536.564,2	100,0	656.407,8	100,0
Live animals and animal products	750,7	0,1	0,0	0,0	85,8	0,0
Vegetable products	1,2	0,0	15,7	0,0	0,0	0,0
Fats and oils of animal or vegetable origin	207,3	0,0	50,1	0,0	0,0	0,0
Food, beverages, tobacco	426,4	0,1	856,3	0,2	1.178,1	0,2
Mineral products	89.132,3	17,8	163.035,9	30,4	157.519,3	24,0
Chemicals, products from allied industries	6.480,8	1,3	6.326,6	1,2	13.788,0	2,1
Plastics and Rubber	39.376,1	7,8	34.982,5	6,5	37.051,6	5,6

Hides and skins	148,5	0,0	107,3	0,0	182,2	0,0
Wood,charcoal and wood articles	586,0	0,1	123,0	0,0	23,2	0,0
Pulp of wood or of other fibrous materials	4.942,1	1,0	1.706,4	0,3	3.880,9	0,6
Textiles and textile articles	11.633,7	2,3	26.843,0	5,0	36.001,0	5,5
Footwear, headgear, umbrellas	48,9	0,0	163,2	0,0	78,4	0,0
Articles of stone, plaster and glass	2.790,3	0,6	3.006,7	0,6	4.742,5	0,7
Base metals and products	87.798,0	17,5	105.706,6	19,7	133,145,7	20,3
Machines and special transport equipment	234.624,8	46,7	173.487,7	32,3	245.802,4	37,4
Vehicles,aircraft, vessels and associated transport equipment	10.185,7	2,0	8.386,8	1,6	9.917,4	1,5
Optical and photographic electronics	9.887,5	2,0	8.340,0	1,6	9.502,8	1,4
Goods and various products	2.858,2	0,6	3.378,0	0,6	3.469,7	0,5
Others	72,9	0,0	48,3	0,0	38,3	0,0

\*Source Romanian Ministry of Economy

As the table above shows the main Romanian exports to South Korea are: machinery and equipment, electrical machinery and apparatus, steel plate, aluminium blocks, aluminium products, machine tools, boilers, heat exchangers, wood and wooden products, inorganic chemicals, plastics and articles, cereals, wine articles glass, knitwear garments and clothing.

The main South Korean imports to Romania are: televisions, picture tubes, audio video electronics, automotive batteries, automotive, digital telephone, fibre optic cables, hot rolled strip, fibre and synthetic fibres.

Exports in Romania have increased from 259.25 million euros in 2011 to 376.38 million in 2012.

For 11 months in 2013 exports have maintained the upward trend achieving 431,29 million Euros in contrast to the same period in 2012 when the amount was 351.35 million Euros .The overall bilateral trade volume increased by 9.84%.

In 2013, Romania's main exports to South Korea were machinery and industrial equipment and parts and accessories of such machines. This represents 60% of the total Romanian exports to South Korea.

#### **4.2 Romanian products with potential on the South Korean market**

As the Romanian economy revives from the financial crisis, the FTA acts as a positive guide to grow trade between Romania and South Korea. The revitalization of the economy and the FTA provide the opportunity to export even more Romanian products and services to South Korea.

According to the Ministry of Foreign Affairs last published report, after the meeting between Romanian's Minister of Foreign Affairs Titus Colratean and his counterpart from South Korea Yun Byung-se, a real possibility for export exists for following products:

- Automotive components and spare parts
- Fuels, mineral oils, bituminous materials and other petroleum products
- Cement and building materials
- Fertilizers
- Tires and other rubber products
- Steel products, semi flat bars, wire
- Construction materials of iron and steel
- Tiles, sanitary
- Transformers
- Wood and wood products
- Paper and paper products
- Cables, wires and electrical insulators
- Food and agriculture
- Alcoholic beverages (wine)

### **4.3 The Impact of the EU-Republic of Korea Free Trade Agreement for business in the European Union and for Romania**

The main provisions from the FTA of interest to Romanian exporters and investors refer to:

- Reducing almost half of the 98% duties paid on industrial products (cars, machinery, chemicals, textiles, clothing, etc.) and equipment (pork, milk, wine) originating from the European Union and exported to the Republic of Korea;
- Eliminating of non-tariff barriers (reconnaissance and testing) for electronic products, pharmaceuticals and medical equipment;
- Eliminating of customs duties and technical barriers (testing, certification, additional certifications) for motor vehicles (passenger cars of small capacity, within 5 years after entry into force);
- Improving access for European companies in the South Korean services market (telecommunications, satellite communications, maritime, financial, etc.)
- Facilitating easier access for European investors to the South Korean public procurement system
- Improving intellectual property rights

To benefit from the provisions of the FTA, interested Romanian companies must comply to the rules of origin and to register as such with the national competent authorities (the regional directorate for excise and customs operations in the National Customs Authority). After registration, exporters are entitled to certify the origin of goods by a simple statement printed on the invoice.

The FTA provides for a bilateral safeguard clause that allows you to restore customs duties (the level of the MFN clause) if, as a result of trade liberalization, imports grow in such conditions and to such an extent (in absolute terms and relative compared to domestic production) that causes, or threatens to cause serious prejudice to the community or industry producing similar products.

### **4.4 South Korean investments in Romania**

Over 185 South Korean companies are active in the Romanian market. The total amount of investments in Romania coming from South Korea reaches 93 million dollars. South Korea ranks in the top 28 countries of origin of the investors in Romanian companies, with foreign participation in the share capital.

The real value of South Korean investments in Romania is greater than what is evidenced in Romanian statistics, because some investments such as Samsung to Targoviste or STX to Braila and Tulcea investment, figure as German or Norwegian.

Some of the most noticeable investments in the last few years belong to the Daewoo Group in the automotive industry and shipbuilding. Others are: the Doosan Firm has taken in June 2006 Kvaerner / IMGB, Samsung has taken Stainless Steel Targoviste and STX Group-Europe the shipyards in Braila and Tulcea.

## **4.5 Economic Cooperation**

### **4.5.1 The Main Actions of Cooperation Achieved**

- Daewoo Mangalia Heavy Industries joint venture for the production of shipping vessels between May 1 Mangalia Shipyard (49% stake) and DAEWOO HEAVY INDUSTRIES (51%) with a capital of 306 million RON and 52.98 million dollars.
- Group STX Europe took over the shipyards from Braila and Tulcea.
- The Modernization of the telecommunications systems in the counties of Prahova, Buzau and Alba, based on the contracts between Romtelecom RA and LG Information and Communication with a Korean government loan of 100 million dollars.
- In 1997, FPS Samsung Group and Samsung Deutschland South Korea signed the contract for the purchase by the South Korean company of FPS. The transaction value is estimated at 100 million dollars out of which 40 million invested.
- Doosan Heavy & Construction Company took over the company IMGB / KVAERNER June 2006
- Desulfurization of gasoline at the EU required quality level .Pitesti Petrom SA signed a contract with Korean firms LG International and SK Engineering Co. The contracted is valued at about 46 million, with EBRD in April 2006.
- The construction of a thermal power plant in a cooperation system between SC Petro Brazi and Hyundai Engineering and Construction. Funding was provided by KOREA EXPORT AND IMPORT BANK and other financial institutions in Italy.
- EMGS joint venture for the production of digital PBX small and medium capacity between SC Electromagnetic SA Company and LG Information and Communication.
- Polifex Ltd joint venture for the production of expanded polyethylene between SC Petrobrazi and Joongbo Chemical Company IND

- The joint venture Daewoo Information Systems Romania, established in 1997 between Daewoo Information Systems and Daewoo Korea Automobile Romania with a capital of 2.8 billion RON

#### **4.6 Conclusion**

In terms of trade we can definitely say a change has occurred in the last years.

However, it is difficult to confirm that the FTA alone caused these changes, due to the fact that Romania and South Korea began increasing trade and business collaborations even prior to the implementation of the FTA.

The actual impact of the free trade agreement is not being felt that much in Romania. Although there is cooperation in different areas, the Romanian economy does not reflect the successes of the FTA-driven trade. Even though Romania's economic power is not the highest, the economy looks stable enough for exporters to take risks. Even if the provisions of the FTA seem appealing, Romanian firms do not find it as profitable to venture so away from home, as it was mentioned that Romania is following a more regionalized export strategy. The presence of Romania in the Korean market is only made by the existence of some products, mostly imported by Korean importers rather than brought to the Korean market by Romanian exporters.

This situation is reflected in several other European countries, including Bulgaria, Lithuania, Latvia, Poland, Slovenia, and Slovakia. The FTA is a success, but is not having any discernible effects on the local economies. In the opposite corner stand Germany, Great Britain, The Netherlands and France that have made their presence felt by encouraging companies to venture on the South Korean market.

However the future could bring higher chances of improving trade between the two countries.

## **5. Chapter IV: Gaining's for European and Korean Companies from the FTA?**

Usually free trade agreements (FTAs) are able to open up a great opportunity for exporters and importers alike. The FTA between the EU and South Korea is the latest from a succession of actions in order to open up and stimulate markets for European producers. The FTA presents a good occasion to decrease costs, broaden operations and develop business. What companies from both parts of the FTA need to do is efficiently organize themselves in the pursuance of getting the most benefits. This automatically involves investing in internal structure, by teaching teams and adjusting their dealings alongside the supply chain. (Boland, 2012)

What most people think in regards to free trade agreement is the customs duty savings. However without doubting the importance of the customs savings, trade agreements also establish an outline for areas such as the protection of intellectual property, developing further operations and accessing the market without any hardships. The field that provides a strong opportunity for European companies that want to enter the South Korean market and to increase sales nowadays is the easy access to the market. (Boland, 2012)

As mentioned before the EU-Korea FTA is one of the most complete free trade agreement that the EU has negotiated, and the first with a partner country in Asia. 98.7% of the import duties are expected to be eradicated within five years, this leading to a liberalization of trade services such as telecommunications, financial and shipping. This agreement is expected to create extensive new trade prospects for goods and services, amounting up to €19, 1 billion. (Union, 2011)

The Agreement contains requirements on venture, for services and industrial sectors. Intellectual property rights and government procurement are also covered in the FTA.

For areas such as automobiles, electronics and pharmaceuticals, to prevent the appearance of non-tariff barriers to trade, different arrangements have been done. In case of the automotive sector, the agreement encloses some extensive provisions concerning the non-tariff barriers, which have lately represented the main obstacle to export to South Korea. For electronics, the Korean side will accept and recognize European certificates. The changes that are in for exporters from the pharmaceutical and medical devices sector are transparency in appraisal judgements and established rules for transparency of

decision on reimbursement, together with the possibility to have such decisions revised by a court. (Union, Publications Office of the European, 2011)

This Free Trade Agreement in order to discourage competition, has included a chapter in which forbids and reprimands certain practices. Both parties have agreed to encourage and promote cultural diversity according with the UNESCO Convention, so a Protocol on Cultural Cooperation has been included.

### **5.1 How to benefit from the tariff elimination?**

The FTA states the only products that originate from the parties involved can indeed take advantage from the preferences established under the agreement (the rules of origin are considered as an extremely important aspect). The applicable requirements for trade between the EU and Korea are explained in the Protocol on Rules of Origin. (Union, Publications Office of the European, 2011).

There are a number of conditions to be fulfilled, in order for the goods exported to South Korea to profit from privileged handling at the border:

- They need to originate from the European Union
- To satisfy all the extra requirements
- To have a origin of declaration

If a company wants to become an approved exporter, the first step is to apply at the custom authorities from their own country. The measures for allowing this status are subject to the national provisions of each Member State. This process may be complicated, depending from country to country, but the aim is to be certain that the company is aware of all the applicable rules and that the customs authorities can provide the preferential treatment by verifying the origin of the products. If the exporter has been permitted the official status, an authorisation number will be provided which must be mentioned on the proof of purchase declaration.

### **5.2 What are the duties of an approved exporter?**

An approved exporter will have to:

- Commence to issue origin declarations only for possessions for which they have all the compulsory evidence or bookkeeping features at the time of issue;
- Take on full obligation for the way the approval is used, mainly for improper origin reports or additional mismanagement of the authorisation;

- Take responsibility for guaranteeing that the person in charge for writing the origin declarations knows and comprehends the rules of origin;
- Keep proof of origin documents for a period of five years from the date that they are issued;
- Agree at any time with proving the necessary documents to the custom authorities and permit inspections at any time.

Together with tariffs, technical matters are the principal most significant obstacle to international trade: technical procedures, criteria, conformity evaluation processes and parallel requirements are thought-out to be a big problem for exporters. (Union, 2011)

The EU-Korea FTA encloses an amount of common obligations on technical barriers to trade, containing collaboration on criteria and monitoring issues, transparency and marking/cataloguing, that goes further than the responsibilities stated in the WTO Agreement on Technical Barriers to Trade. (Union, Publications Office of the European, 2011)

Four sector-specific extensions, on consumer electronics, motor vehicles and parts, pharmaceutical products/medical devices and chemicals, comprise detailed obligations with substantial applied significance.

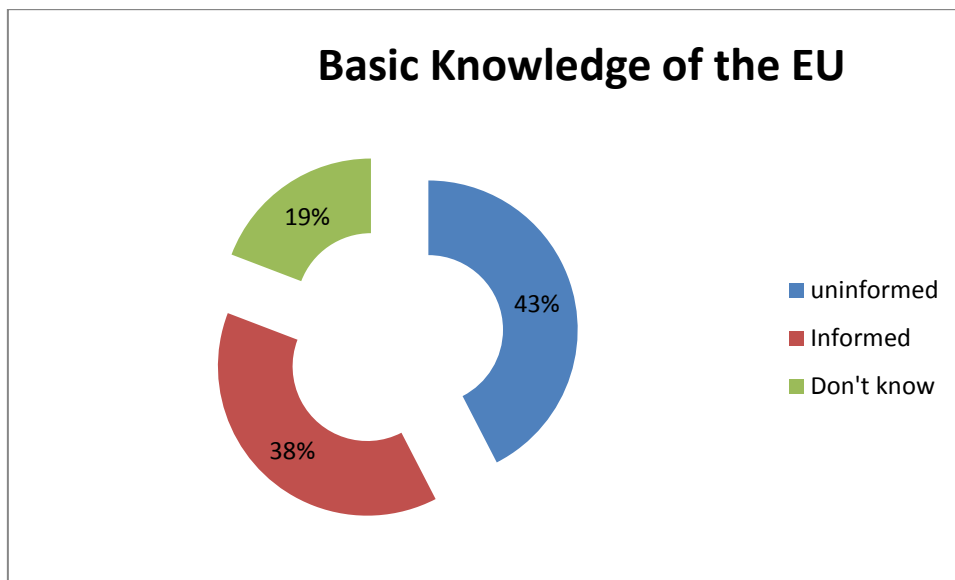
## 6. Findings

### 6.1 From Real Experience

As it is mandatory for all students at The Hague University to take an internship in their final year, I was lucky enough to be an intern at The Romanian Embassy to The Republic of South Korea for a period of three months. During this period I had the opportunity to find out the real perceptions about the EU and Romania in the South Korean society.

While I was there a project was carried out by the Asan Institute, to look at the level of awareness among the Korean inhabitants about the European Union, with the thought that even though policies are set by the governments the citizens are the ones that are implemented for.

Tackling South Koreans acquaintance about this topic was a hard thing to do as the media covers about EU related matters is barely existent. When responders were inquired about their awareness level on the EU, 38% stated they had some level of information, while 3 % stated they were well informed and 35% said they were somewhat informed. (Kim Jiyeon, 2014)



The same study shows that even if the Korea-EU FTA enjoys a majority of support from the Korean community, and its representations were nowhere proximate as debateable as the passage of the Korea-US FTA in spite of being almost identical, the “don’t knows” represent one fourth of all respondents(27%). (Kim Jiyeon, 2014)

The general support for the Korea-EU FTA is probable resultant from the fact that welfares of the FTA seem to go both ways – a majority of South Koreans (35 %) state that both nations benefit similarly. However there is a noteworthy share (25%) that considers that the EU accumulates more paybacks from the agreement.



From my own experience, after attending some conference and interacting with politicians and diplomats from all over the world, but at the same time with young Koreans there are a few things that stood up.

First of all, although the EU presence in Korea is significant by all the Embassies and the EU delegation, there is not much focus on promoting Europe or European products and services. Of course at the diplomatic level conferences and events are monthly conducted, but this does not allow the common Korean to improve his knowledge. Secondly, the European representatives on the Korean market are not making use of the Korean workforce enough. Young Koreans are eager to work for foreign companies and broaden their area of knowledge, or even to take part in trainings organized by foreign companies. Their perception about the advantages of getting to know western culture and the way westerns conduct business should be highly valorised.

Regarding their knowledge about Romania, the surprise came when most of the people asked already knew the country or heard something about the country. The most shocking fact was that the so called “bad” reputation of Romania and Romanians that persists in the Member States did not exist. As Romania is still a developing country with a small world impact, promoting the values, culture and trade is not easy to do. However, there are efforts being made in promoting the culture by organizing different events; to

enable trade by participating in fairs and showing Romanian products to prospective customers. Furthermore at the official level relations between Romania and South Korea are evolving by setting meetings and visits on different subjects.

The presence of Romania companies in the South Korean Market is low and almost inexistent. As there is no official list of the Romanian companies or even if there are any branches opened in South Korea, we can say that is a sector that can be exploited better. Nevertheless, the latest progress consists of some intentions of getting Romanian products on the South Korean market: such as importing Dacia auto vehicles, importing Romanian honey and traditional gems, wines and traditional beverages, and even wind turbines. All this however are still at a project base. Recently in Seoul a Romanian restaurant has opened, the first of its kind, the CEO being a Romanian person. Also in the last few weeks a branch of the Rominserv Company was inaugurated, however this is not connected to the FTA. The company representatives declared that this office was opened temporarily for a better communication with some Korean engineers with whom they are working on a project that doesn't effect or benefit neither Korea nor Romania.

## **6.2 From research**

Available material about the FTA between the EU and South Korea exists and brings out clarifying details. Statistics regarding trade and commerce are obtainable and help assess the outcome of this agreement.

Although material about the EU and South Korea exists there is very little information about the effects of this FTA divided by member states. It is very hard to get information about each member state involvement in this agreement and the benefits for the country. For Romania, not even the Ministry of Foreign Affairs keeps a regular track on the changes and developments that happen.

The main finding that concludes all the research, and comes up as a conclusion of all papers, is that it is still too early to evaluate the proper effects of the EU- Korea FTA. As the FTA has entered into force in July 2011, 2 years is a small period to assess, nonetheless the early indications are promising.

As the former South Korean Ambassador to Romania declared and is revealed by several studies, the bilateral relationship amongst the two countries is good and stable. In just a few years, high level visits have taken place, the most recent being a visit to Seoul from the Romanian Foreign Minister, H.E. Mr Titus Corlatean, in the summer of 2013. The

interchange and collaboration between the two countries is constant and continuously growing and will carry on to be further prolonged to other strategic zones. (Taek, 2013)

Mr Ilie Stanica, the commercial consul from the Romanian Embassy to the Republic of South Korea, has stated that there is a small target market in South Korea for Romanian firms. Nevertheless the market entry is not easy, a large capital being necessary. In terms of products, Romania's best products are easily overtaken by Korean products: cosmetics, cars, electronics etc. There is however a good prospect towards Romanian products and goods; this may lead in the future to expanded trade. Mr Stanica also mentioned that both governments' approaches towards promoting businesses in this area are still lacking. (Stanica, 2014)

Talking about the effects of the EU-Korea FTA particularly for Romania until now it could be said they are positive in terms of trade and cooperation, being based on the overall information about the trade between the EU and South Korea. The absolute lack of information and statistics are making it impossible to proper analyse and decide if Romanian companies stand a chance on the South Korean Market.

## **7. Conclusion and Recommendations**

### **7.1 Conclusions**

The first conclusion drawn from this paper is regarding the benefits that The EU-Korea Free Trade Agreement has brought for both nations. Although there are sceptical opinions stating that it is yet too early to form a comprehensive evaluation about the effects of the Trade Agreement, there is one fact that is sure according to the statistics: the collaboration between the two parties has developed in the last 3 years.

Until now, one of the positive results gained from The EU- Korea Free Trade Agreement is regarding the increase in trade. This agreement has helped with the tariffs liberalization and easier access to the markets, which has opened unlimited opportunities for businesses.

South Korea greets a growing partnership with the European Union. Both share the principles and values of trade, human rights, education and democracy. These standards mold the grounds for an extensive range of cooperation that should be chased not only for their own advantage, but for the benefit of other countries in the world. For both the European Union and South Korea, understanding their individual publics is decisive in generating a closer collaboration for the next years.

Even though there are strong connections and bilateral agreements between South Korea and Romania, things are still in the beginning with high chance of developing in the next years. The Romanian firms are still reluctant about the South Korean market, with none actually activating in the market. In contrast with more than 200 South Korean companies activating in the Romanian market in 2014. The absence of Romania from South Korea could be impugned on the simple fact that the country itself is developing, having a limited numbers of firms that can venture so far. The awareness of South Korea in Romania is steadily growing in the last few years increasing the interest for this country, however not everyone knows about South Korea, and even less about business opportunities there. With further implication of both governments towards promoting trade the situation can develop extremely fast, since interest exists.

If we think about the lack of Romanian firms to venture in the South Korean market a number of motives come to mind.

First of all, there is no information available about any Romanian company that would have tried to enter the South Korean Market. After contacting various official bodies including the Romanian Ministry of Economy and the Romanian Ministry of Foreign Affairs, the answers received from both parts were vague and focusing more on the importance of the Agreement to the European Union as whole, rather than Romania. Also the Romanian Embassy to the Republic of South Korea and the South Korean Embassy to Romania have confirmed that there is no specific list of Romanian firms or products on the Korean market.

Secondly, the Romanian market itself is still recovering from the economic crises, so the number of investors and firms' willing to operate in other countries is very low. The Romanian market is fragmented without a large number of big players, is rather composed by small firms. As there are stronger ties with other European countries and more information about the customers as well, these firms would rather do business closer to home. However, companies from Romania might be third parties, as the majority conducts business and collaborates with companies from other European countries

Thirdly, the information available about doing business in Korea is lacking, at least in Romania. The data presented from the governmental institutional bodies is more about statistics and less about practical features. As mention before in the paper the last meeting between officials from South Korea and Romania happened a year ago. After that no other statistics about the needs of the Korean market or the products that have a better chance of entering has been made. This indicates the lack of interest for this market opportunity.

Last but not least another reason would be the welcoming of Romanian products from the South Korean market. Living aside the industry and communication sectors that benefit from some collaboration, the everyday products and services that Romania can provide will face intense competition in the market. Talking here about cosmetics, textile, footwear or cars, these are extremely exploited sectors by South Koreans producers. So for a small firm from an East European country that probably less than 50 % of the Korean population has heard about, it is a tough environment for success.

Going back and trying to answer the sub questions and main question of the report, has come to finding unexpected results. The key elements of the EU- Korea FTA are reducing tariffs on virtually all manufactured goods in Korea-EU bilateral trade within seven years and eliminating most NTBs. The agreement also establishes rules and procedures in

trade in goods and services and addresses trade-related activities applying to IPR, labour rights, and environmental protection. As in any other agreement during the implementations some problems and difficulties have risen in sectors such as: automotive sector, financial services, public performances, retail services and postal services. These problems have to do with small changes that need to be amended by both parts, and by further negotiation most of them could be solved. The provisions of the FTA cover a broad number of subjects and are being put into practice and closely supervised by the Working Groups and the Special Committees. All the provisions can be used by European and South Korean companies in order to benefit the most in the business sector.

Even though the European Union and South Korea had connections before the Free Trade Agreement, this has been intensified after the implementation. Trade has developed the fastest, bringing economic rewards for both sides.

A further Free Trade Agreement with another Asian country would mean further opportunities for European companies and entrepreneurs to progress. Also it would be an attempt to consolidate the EUs relation with that part of the world, and promoting the European values and cultures. After the EU experience with the Korean FTA, further research and better negotiations from the beginning could be the key to success for future agreements.

In terms of the effects of the free trade agreement for Romanian companies the conclusion is still undefined. Granting that the FTA provisions are applicable to Romanian companies as they are to other European companies, the lack of desire from Romanian companies to venture on the South Korean market is being influenced on many levels. As there are no active Romanian companies on the South Korean market there is no effect of the FTA from that point of view. Maybe with the growing of Romania as a country first on the European level, afterwards the Asian markets such as South Korea could become of interest.

Another method used to verify the impact of an FTA is the gravity model. This model refers to the fact that the size of an economy is directly related to the volume of exports and imports. Larger economies produce more goods and services, so they have more to sell in the export market. Also larger economies generate more income from the goods and services sold, so people are able to buy more imports. Other facts beside size also influence trade: distance between markets influences transportation costs and therefore

the cost of exports and imports, cultural affinity, geographic position, the existence of multinational corporations.

A study of Ms Elena Daniela Viorica, on the gravity model for the external trade of Romania, has shown that Romania has the most efficient bilateral trade with EU countries. It has the most unproductive bilateral trade with the countries in the Middle Asia. The most effective partnerships are with Germany, Slovakia, China, Slovenia, Korea, United Kingdom, Taiwan, Kazakhstan, Cote d'Ivoire, Morocco and the most unsuccessful partnerships are with Luxembourg, Canada, Jordan, Pakistan, Australia, Sri Lanka, Chile, Uzbekistan and Ethiopia.

Looking at two countries, Romania and South Korea, and trying to explain the impact of the FTA, is too limited. Both countries also do business with other countries, and the improvement for the trading conditions between Korea and the EU is also influenced by what the US, China and other countries offer.

A final conclusion can be that the future seems interesting and positive. As the European Union acts as a "father" towards the member states, more involvement in negotiations and solving the on-going problems of the Free Trade Agreement, would definably lead to better results

## **7.2 Recommendations**

In order for Romania to establish a stable position on the South Korea market a number of things have to be prepared. The fact that no Romanian companies are active in the Korean market and the lack of information questions if companies have considered doing business in Korea and if they are familiar with the changes brought by the FTA.

1. First of all teaching the entrepreneurs the benefits of being active in these countries and all the necessary rules they need to comply to.
2. Secondly a better PR is needed. Inviting South Korean companies from different areas and organizing symposiums and conferences, will lead to a better informational system. Also taking as a model the approach of the South Korean government by organizing trades to promote foreign products and services, the Romanian part should put a better effort into it. Encouraging the young generation to study, working or even living in the South Korean environment for a couple of months would benefit the country in the future.

Some possibilities for Romanian firms to develop in South Korea do exist. The current trend and the demand from the Korean market are the bio products, and Koreans live with the impression the foreign bio brands are better than local ones. In this category Romania has some experience with bio brands that have the quality to compete with other similar products.

Another sector that Romanian products may succeed is the alcoholic and beverages sector. South Koreans have a strong connection with alcohol being actually a cultural feature. Although on the market exists the “chebols” (the big leading companies), the population is becoming more and more eagerly to taste new flavours. Last year Romania took the 12th among the world's largest manufacturers of wine. Also in the Romanian tradition there are several drinks that resemble Korean drinks that have a good chance of winning a market share.

The presence of the European Union in South Korea should be more accentuated. Improving the Free Trade Agreement and finding solutions to impending problems are not being solved at appropriate speed, taking months by only being lost in bureaucracy and lacking communication between the interested institutions. This is just dragging on the situation and not benefiting either of the parties.

The EU Member States representatives in South Korea should take more initiative in presenting goods suitable for the Korean market and vice versa. Also contacting firms that are already ready for export and bringing products that would sell in that market would be a good start towards promoting trade and helping the expansion of the FTA.

## 8. References

- Baier, S. (n.d.). *Subsidization under the Korea-EU FTA: Broader scope and new ways of enforcement*. Seoul.
- Boland, N. (2012, September). *Free Trade Agreements*. Retrieved June 17, 2014, from Cecimo: <http://www.cecimo.eu/site/publications/magazine/free-trade-agreements/>
- Decreux, M. (2010). *The economic Impact of the Free Trade Agreement (FTA) between the European Union and Korea*. European Commission.
- Hyundai Reserch Institute. (2014). *HRI Monthly Economic Review*. Seoul: Joohyun Kim.
- International Business Publications. (2013). *European Union Free Trade Agreements Hanbook Volume 1 Eu-Republic of Korea FTA*. Brussels: International Bussiness Publication.
- Kim Jiyeon, K. F. (2014). *South Korean Attitudes on The European Union*. Seoul: The Asan Institute for Policy Studies.
- Kim, J. (2014). *2014 Economic Outlook for Korea*. Seoul: Hyundai Research Institute.
- KITA. (2013). The 2nd Korea-EU Business Roundtable. *The 2nd Korea-EU Business Roundtable* (pp. 3-109). Seoul: KITA.
- Korea, T. E. (2013). Reports of the 3rd EU-KOrea FTA TRADE COMMITTEE., (pp. 1-5). Seoul.
- Petri, B. (2013). *Journal of East Asian Economic Integration*. Seoul: Korea Institute for International Economic Policy.
- Sakong, K. (2010). *The Korean Economy six decades of growth and development*. Seoul: Korea Development Institute.
- Stanica, M. I. (2014, Febrary). The Effects of the FTA for Romanian Companies. (D. Spanoche, Interviewer)
- Taek, I. H. (2013, December 3). Romania needs better PR in Korea. (R. Pricop, Interviewer)
- The European Union. (2011). *The Free Trade Agreement between the EU and the Republic of Korea*.

Union, P. O. (2011). *The EU-Korea Free Trade Agreement in practice*. Luxembourg.

William H. Cooper, R. J. (2011). *The EU-South Korea Free Trade Agreement and Its Implications for the United States*. Congressional Research Service .

## 9. Appendix

Transcript of the interview conducted on May 1<sup>st</sup> with Mr Ilie Stanica, the commercial consul at the Romanian Embassy to the Republic of South Korea. The interview was conducted in Romanian, so this presents an English summary of the main points.

1. Mr Stanica, as you have been a commercial consul for Romania in South Korea for almost 3 years, do you think the Romanian presence on the market is highlighted enough?

Answer: Of course not. At the moment there are only a few Romanian products available for South Koreans to buy and discover more about our country. Besides the products, although we do our best on presenting and trying to bring more products, the transportation costs that exporters have to pay represent the biggest issue.

2. Until now what Romanian products are there available on the South Korean market?

Answer: We have different brands of wines, which until now have been really appreciated; we just managed to bring a brand of honey and the traditional gem from Topoloveni, and we are working with a Romanian firm from Japan to introduce the traditional beverage "tuica".

3. Are there any chances for Romania companies to venture on the South Korean market?

Answer: There are always chances, if companies from other European countries did it why wouldn't Romanians? The South Korean market is an extremely competitive market, if you are not the best you won't survive, and in order to become the best funding is necessary for continual improving. That is the main impediment for Romanian companies, the lack of capital, and not being as international oriented as other firms.

4. What are the sectors that you think Romanian companies can succeed and why? Leaving aside the industrial and pharmaceutical fields?

Answer: To be honest that is something difficult to say. If they have a good idea any sector is opened. If we think about the products Romania exports to other countries such as cars, food and agriculture products, cosmetics well Koreans do better at this than we do, so succeeding may be complicated.

5. Do you think governments have a big say in informing future exports of the new market possibilities?

Answer: They most definitely do. In our case the Romanian government in collaboration with the South Korean Embassy from Romania, and with us here is trying to open the boarder for Romanian firms. Of course a better presentation and informing on a more regular base could lead to more awareness.

6. In your opinion are Romanian exporters and companies willing to venture so far away from home?

Answer: As we can see from the results so far no. Romania is still trying to define her place in Europe and even though the amount of export outside Europe is high, the majority of the Romanian companies have as strategy establishing a position on a European level first and after extending to other parts of the world. Also if we take a look at other Romanian firms opened on non EU markets, they are usually owned by a Romanian person that is a resident in that country. Towards that aspect in South Korea we don't have so many Romanians with the possibilities to open up firms, the majority are students or workers in the shipping building industry.

7. Do you think we have any advantages that we could explore more and present to the South Korean market?

Answer: Yes I think we have plenty. Starting from our food and beverages products, to offering services in areas such as IT, finance and consulting, and not even mentioning the good preparation that our youngsters have in the areas of design, architecture and medicine. I think we should prepare the next generation and teach them that rather than leaving the country for a better future, there are other opportunities in which they can valorise their knowledge.