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EU-South Korea FTA – Economic Impact for the EU and Austria

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The Free Trade Agreement between the EU and the Republic of Korea (EU-South Korea FTA) is the first of the new generation of FTAs launched in 2007 as part of the "Global Europe" initiative. These agreements, based on solid economic criteria, will represent a stepping stone for future liberalisation as they are also tackling issues, which are not ready for multilateral discussion and are going beyond the market opening that can be achieved in the WTO context. Accordingly, the EU-South Korea FTA is the most comprehensive free trade agreement ever negotiated by the EU.
We evaluate the economic impact for the EU and Austria of this FTA with the GTAP world computable general equilibrium model. The results are as expected. Both parties win from eliminating tariffs and other trade barriers. However, as the actual trade relations with South Korea are only in the magnitude of 2 to 2 ½% of total Extra-EU trade, the trade (total EU +0.2%, Austria +0.10%; Extra-EU: EU and Austria +1.2%) and welfare gains (only 0.04% of GDP) are modest for the EU and Austria. For South Korea the trade (+5.3%) and welfare gains (1.3% of GDP) are much higher as the EU is second largest trade partner with a share of around 12%.

With the Doha Round unfinished, the big players in world trade – the European Union and the United States – have followed an interim strategy of building a network of bilateral free trade agreements. The most recent example of such efforts is the EU-South Korea FTA. Other FTAs are still in the pipeline: EU-India, EU-MERCOSUR. The US has also negotiated an FTA with Korea, though ratification remains uncertain.

In this study we concentrate on the evaluation of the economic impact of the EU-South Korea FTA for the EU and Austria. (Other FTAs still under negotiation are evaluated ex ante and ad hoc.)

1. Overview of the EU-South Korea FTA

The Free Trade Agreement (FTA) between the EU and South Korea is the first completed of the new generation of FTAs launched by the EU in 2007. It was signed by both parties on 6 October 2010 in Brussels. On 17 February 2011 the European Parliament endorsed the EU-South Korea FTA with a big majority for the first time under the new Lisbon Treaty procedures[1]. Also the Safeguard clause (OLP) – primarily to protect the European car industry – was adopted by the EP. Therefore the FTA can enter into force on 1 July 2011[2].

The EU-South Korea FTA is the most comprehensive free trade agreement ever negotiated by the EU. Import duties are eliminated on nearly all products and there is far reaching liberalisation of trade in services covering all modes of supply. It includes provisions on investments both in services and industrial sectors, strong disciplines in important areas such as the protection of intellectual property (including geographical indications), public procurement, competition rules, transparency of regulation and sustainable development. Specific commitments to eliminate and to prevent non tariff obstacles to trade have been agreed on sectors such as automobiles, pharmaceuticals or electronics.

The agreement consists of 15 Chapters, 3 protocols, several annexes and appendixes and four understandings.

The removal of customs duties is done over a transitional period so that domestic producers can gradually adapt to the lowering of customs duties. Con-

[1] About the new dynamics of EU trade policy under the Treaty of Lisbon, see Hillmann and Kleimann (2010).

[2] More information about the EU-South Korea FTA can be found on the EU DG trade homepage, see: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/korea/

sumers will benefit from lower prices and exporters from strengthened competiveness.

In 2007, Korea collected $2.5 (€1.8) billion on imports from the EU26, and $0.7 (€0.5) billion on imports from Austria. The EU collected $1.9 (€1.4) billion on imports by the EU26 from Korea, and another $0.4 (€0.3) billion on Austrian imports from Korea. The majority of customs duties on goods will be removed immediately after the entry into force of the agreement. Practically all customs duties on industrial goods will be fully removed a within the first 5 years once the FTA is applied. When considering both industrial and agricultural products, South Korea and the EU will eliminate 98.7% of duties in trade value within 5 years from the entry into force of the FTA. A limited number of highly sensitive agricultural and fisheries products have transitional periods longer than 7 years. Rice and a few other agricultural products, for all of which the EU is not a significant exporter, are excluded from the agreement.

Table 1: EU's trade with main partners in Extra-EU-27, 2009

	EU						
	Exports			Imports			Trade balance
	Mio. EUR	%	Rank	Mio. EUR	%	Rank	Mio. EUR
World (Extra-EU-27)	**1094228.9**	**100.0**		**1199288.0**	**100.0**		**-105059.1**
USA	204467.7	18.7	1	159534.0	13.3	2	44933.7
Switzerland	88291.9	8.1	2	73753.5	6.1	4	14538.4
China	81632.6	7.5	3	214749.3	17.9	1	-133116.7
Russia	65481.0	6.0	4	115279.7	9.6	3	-49798.7
Turkey	43780.5	4.0	5	36086.0	3.0	7	7694.5
Norway	37515.3	3.4	6	68651.5	5.7	5	-31136.2
Japan	35946.8	3.3	7	55842.9	4.7	6	-19896.1
India	27486.3	2.5	8	25386.8	2.1	10	2099.5
United Arab Emirates	25032.0	2.3	9	3787.3	0.3	43	21244.7
Canada	22428.5	2.0	10	17776.8	1.5	12	4651.7
Australia	21784.0	2.0	11	8079.4	0.7	28	13704.6
Brazil	21555.9	2.0	12	25678	2.1	9	-4122.1
South Korea	**21518.0**	**2.0**	**13**	**32074.9**	**2.7**	**8**	**-10556.9**
ASEAN	50199.6	4.6		67845.1	5.7		-17645.5
BRIC	196155.9	17.9		381093.9	31.8		-184938
EFTA	128180.0	11.7		145592.9	12.1		-17412.9
MERCOSUR	27220.2	2.5		35144.4	2.9		-7924.2
NAFTA	242765.1	22.1		187189.6	15.6		55575.5

Source: EU – DG Trade

2. Trade relations with South Korea: EU and Austria

With a share of 2% South Korea is the 13th important export partner of EU's external trade (see Table 1). For Austria South Korea ranks with a share of 2.1% as the 10th important extra-EU export partner (see Table 2). As import partner (with a share of 2.7%) it is a little bit more important for the EU as a whole as for Austria (import share 2%).

For South Korea the EU-27 is the 2nd most important export partner (share 12.4%) after China (24.2%) and followed by the United States (11.2%). Japan is at the 4th place with 6.1%. As import partner the EU-27 ranks at place three with a share of 9.6%, after China (17.7%) and Japan (15.1%). The United States follow at place four with 9.1%.

The goods structure of exports and imports of the EU and Austria is quite similar. On the import side SITC 7 (Machinery and transport equipment), mainly automotive products dominate with a share of 71.4% in the EU (see Table 3) and with 79% in Austria (see Table 4).

The exports of the EU and Austria are also mainly concentrated in manufactured goods (SITC 5 to 8).

While EU and Austrian exports to Korea are concentrated in industrial goods, the highest import protection faced by European firms is actually in foods products. This is because, like Japan, Korea has very high import protection for meats and grains (especially rice). (See Figure 1).

Table 2: Austria's trade with main partners in Extra-EU-26, 2009

	AUSTRIA						
	Exports			Imports			Trade balance
	Mio. EUR	%	Rank	Mio. EUR	%	Rank	Mio. EUR
World (Extra-EU-26)	**27212.5**	**100.0**		**26282.2**	**100.0**		**930.3**
USA	4035.0	14.8	1	2652.1	10.1	3	1382.9
Switzerland	4346.8	16.0	2	5620.2	21.4	1	-1273.4
China	2016.7	7.4	4	4481.6	17.1	2	-2464.9
Russia	2095.6	7.7	3	1703.4	6.5	4	392.2
Turkey	760.7	2.8	6	794.8	3.0	7	-34.1
Norway	481.2	1.8	13	526.1	2.0	8	-44.9
Japan	772.0	2.8	5	1513.6	5.8	5	-741.6
India	560.4	2.1	11	439.4	1.7	10	121.0
United Arab Emirates	427.9	1.6	16	19.5	0.1	59	408.4
Canada	616.4	2.3	8	320.7	1.2	16	295.7
Australia	599.8	2.2	9	52.3	0.2	46	547.5
Brazil	628.9	2.3	7	405.0	1.5	11	223.9
South Korea	**564.9**	**2.1**	**10**	**515.4**	**2.0**	**9**	**49.5**
ASEAN	943.4	3.5		1188.2	4.5		-244.8
BRIC	5301.6	19.5		7029.4	26.7		-1727.8
EFTA	5241.3	19.3		6361.2	24.2		-1119.9
MERCOSUR	729.6	2.7		520.0	2.0		209.6
NAFTA	4928.5	18.1		3032.7	11.5		1895.8

Source: Statistik Austria, FIW.

Figure 1: Import Proctection for Goods: EU - Korea

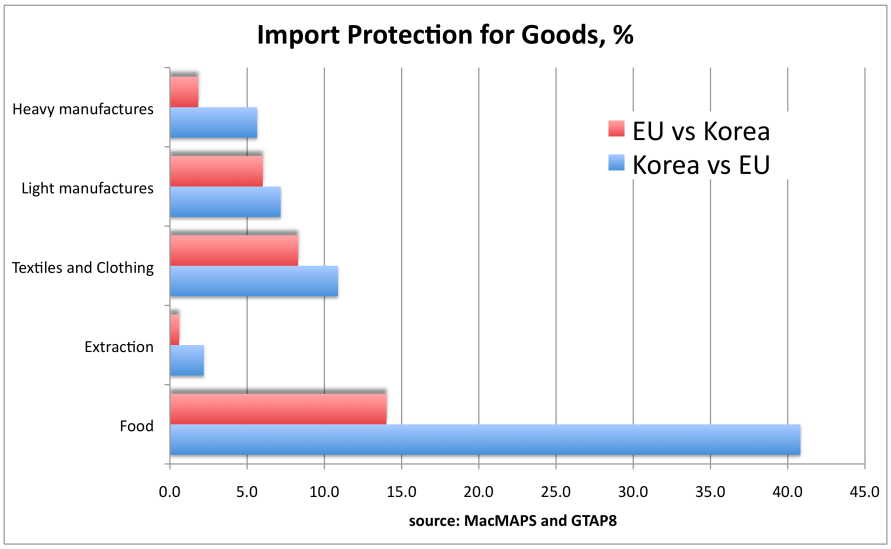


Table 3: EU's trade with South Korea by SITC section, 2009

		EU			
		Exports		Imports	
SITC Codes	SITC Sections	Mio. EUR	Share of Total (%)	Mio. EUR	Share of Total (%)
	TOTAL	21518.0	100.0	32075.0	100.0
SITC 0	Food and live animals	559.0	2.6	102.0	0.3
SITC 1	Beverages and tobacco	222.0	1.0	9.0	0.0
SITC 2	Cruede materials, inedible, except fuels	586.0	2.7	260.0	0.8
SITC 3	Mineral fuels, lubricants and related materials	250.0	1.2	1199.0	3.7
SITC 4	Animal and vegetable oils, fats and waxes	62.0	0.3	1.0	0.0
SITC 5	Chemicals and related prod., n.e.s.	3509.0	16.3	1381.0	4.3
SITC 6	Manufactured goods classified chiefly by material	2575.0	12.0	3136.0	9.8
SITC 7	Machinery and transport equipment	10492.0	48.8	22898.0	71.4
SITC 8	Miscellaneous manufactured articles	2200.0	10.2	2751.0	8.6
SITC 9	Commondietes and transactions n.c.e	260.0	1.2	163.0	0.5

Source: EU – DG Trade.

Table 4: Austria's trade with South Korea by SITC section, 2009

		AUSTRIA			
		Exports		Imports	
SITC Codes	SITC Sections	Mio. EUR	Share of Total (%)	Mio. EUR	Share of Total (%)
	TOTAL	564.9	100.0	515.4	100.0
SITC 0	Food and live animals	35.5	6.3	0.8	0.2
SITC 1	Beverages and tobacco	0.2	0.0	0.1	0.0
SITC 2	Cruede materials, inedible, except fuels	48.9	8.7	1.2	0.2
SITC 3	Mineral fuels, lubricants and related materials	0.0	0.0	4.9	1.0
SITC 4	Animal and vegetable oils, fats and waxes	0.0	0.0	0.0	0.0
SITC 5	Chemicals and related prod., n.e.s.	51.0	9.0	27.9	5.4
SITC 6	Manufactured goods classified chiefly by material	107.5	19.0	52.8	10.2
SITC 7	Machinery and transport equipment	269.0	47.6	407.0	79.0
SITC 8	Miscellaneous manufactured articles	52.8	9.3	20.7	4.0
SITC 9	Commondietes and transactions n.c.e	0.0	0.0	0.0	0.0

Source: Statistik Austria, FIW.

3. The RunGTAP model

The Global Trade Analysis Project (GTAP) is a global network of researchers and policy makers conducting quantitative analysis of international policy issues. GTAP is coordinated by the Center for Global Trade Analysis in Purdue University's Department of Agricultural Economics[3].

The GTAP Data Base is a fully documented, publicly available global data base which contains complete bilateral trade information, transport and protection linkages among 113 regions for all 57. We work here with the (preliminary) GTAP8 database, which is benchmarked to trade and production in the year 2007.

For our purpose we have aggregated the GTAP data base into a GTAP model with 12 regions/countries and 10 sectors. The simulations were made with the a dynamic version of the RunGTAP model, including not only static effects but also long-run effects linked to investment effects of policy changes, (We employ steady-state dynamic analysis as described by Francois, McDonald and Nordstrom 1996). The model is a computable general equilibrium (CGE) model with clearing goods and services markets (10 sectors), for 12 regions/countries and factor markets (we use 5 factors of production).

Our dynamic structure is similar to that used in Christie et al. (2010), which is based on the Francois, van Meijl, and van Tongeren (2005) model (the FMT model). The FMT model is a standard, multi-region computable general equilibrium (CGE) model, with important features related to the structure of competition, in particular imperfect competition features are included. However, our analysis here does not include imperfect competition, which could yield stronger impacts.

[3] See the GTAP homepage: https://www.gtap.agecon.purdue.edu/)

The core CGE model we work with here is based on the assumption of optimizing behaviour on the part of consumers, producers, and government. Consumers maximize utility subject to a budget constraint, and producers maximize profits by combining intermediate inputs and primary factors at least possible cost, for a given technology.

The impact of the FTA on the countries involved depends not only on gross trade values. It also hinges on how these exported goods and services are linked to economic activity within each country. This is a function of intermediate linkages and the value added (capital, labor) embodied in traded goods and services. Figures 2 and 3 present a breakdown of the pattern of exports for Korea and Austria, not only in terms of gross value, but also in terms of the value added embodied in exports. We present two views on the value added composition of trade. One is the value added from direct production (for example labor employed to make cars) while the other include indirect value added (like the labor used to make the steel that went into the car). What is clear is that, like many countries in East Asia, Korea uses a high volume of intermediate inputs, so that the value added contribution of exported manufactured goods for Koreas economy (the impact of GDP) is exaggerated when we look at gross exports. The same holds for Austria, though the difference is more pronounced for Korea. In Korea's case, while manufacturing remains the dominant sector in value added terms, its overall relevance as a share of GDP is less than gross exports suggest. In Austria's case, like much of Western Europe, services are actually very important to the cost structure of industry, such that the impact of exports, even goods exports, has a greater impact on the Austrian service sector than gross export data suggest.

Figure 2: Structure of Korean Exports by value added

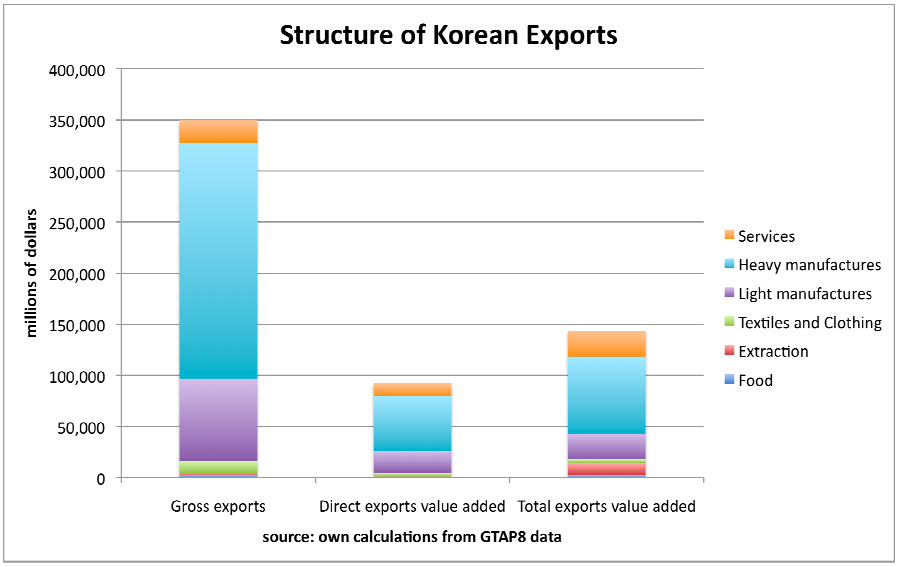
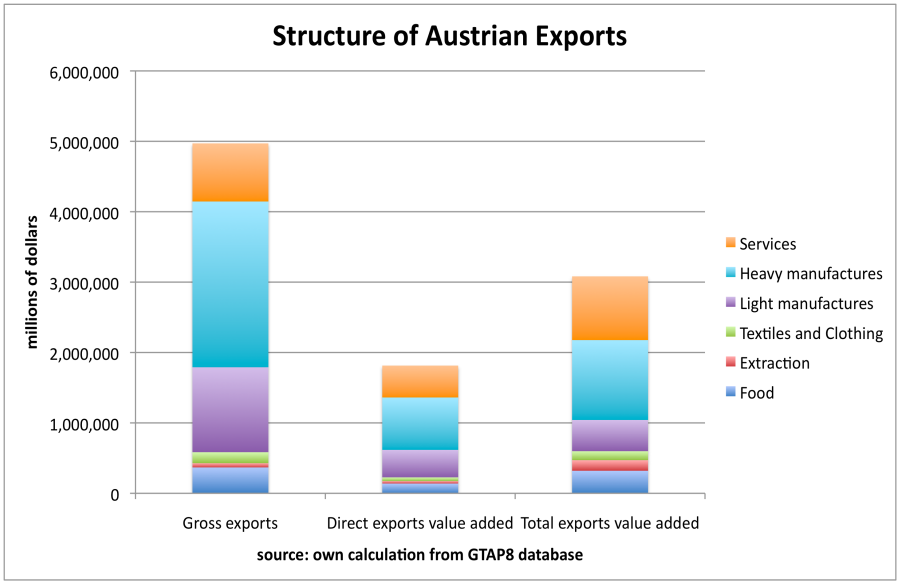


Figure 3: Structure of Austrian Exports by value added



4. Model results of the EU-South Korea FTA for the EU and Austria

As mentioned at the beginning the EU-South Korea FTA is the most comprehensive free trade agreement ever negotiated by the EU. It includes free trade in goods and services as well as provisions on investment as well as protection of intellectual property public procurement, competition rules, transparency of regulation and sustainable development. Specific commitments to eliminate and to prevent non tariff obstacles to trade have been agreed on sectors such as automobiles, pharmaceuticals or electronics. Rice and a few other agricultural products, for all of which the EU is not a significant exporter, are excluded from the agreement.

Not all of these elements can be simulated with the GTAP model. We have, however simulated the completed elimination of all tariff and non-tariff barriers for goods and services. The results must be interpreted as medium to long-run effects. [4]

[4] Tariff elimination is based on tariffs in the GTAP database. Services liberalization is modelled as a reduction in trade costs equal to 5% of the value of trade. Trade facilitation and trade costs are modelled as a 2% cost savings for traded goods.

Table 5: Results of the full implementation of the EU-South Korea FTA

Bilateral export flows (c.i.f.) at market prices: change between FTA scenario and baseline, in mio. USD

Source ⇒ Destination	MERCOSUR	USA	Japan	Korea	India	China	Russia	Turkey	EU-26	Austria	Switzerl.	ROW	Total
MERCOSUR	-19.1	-23.4	-9.9	-215.4	-2.8	-53.1	-6.1	-1.1	50.9	1.5	1.7	-40.5	-317.2
USA	1.5	0.0	-61.4	-1734.5	3.0	-36.6	26.2	1.0	-215.4	4.6	15.4	40.8	-1955.6
Japan	7.8	171.9	0.0	-2073.5	6.8	107.1	49.4	5.1	-108.0	-0.1	5.1	280.5	-1547.8
Korea	-85.0	-839.5	-415.5	0.0	-82.8	-971.7	-350.5	-68.2	**23298.4**	**437.6**	-15.8	-1545.7	19361.3
India	-0.9	-6.2	-4.2	-131.8	0.0	-20.8	-0.9	-0.2	-59.9	0.4	0.4	-15.5	-239.6
China	-2.1	-44.0	-102.4	-2571.8	-2.4	0.0	8.4	2.7	-603.8	-0.5	3.5	49.0	-3263.2
Russia	-7.3	-344.6	-30.2	-345.3	-3.7	-43.2	-7.9	-8.9	-33.7	2.3	2.2	-66.0	-886.3
Turkey	-0.3	-3.4	-0.5	-10.0	-0.3	-2.3	-4.6	0.0	-186.1	0.4	0.5	-19.5	-226.1
EU-26	-128.7	-937.2	-269.5	**26111.4**	-111.1	-312.5	-472.5	-156.5	-11834.8	-303.6	-204.0	-1662.3	9719.0
Austria	-4.0	-30.5	-7.3	**821.7**	-2.5	-8.9	-14.3	-3.8	-525.4	0.0	-14.3	-50.4	160.4
Switzerland	-0.9	-0.7	-6.9	-76.3	-1.2	-2.2	-1.3	0.4	-131.1	2.0	0.0	-4.2	-222.3
ROW	-27.3	-215.1	-327.0	-2200.8	-66.9	-359.6	-47.6	-15.7	-169.9	11.7	8.8	-350.3	-3759.6
Total	-266.3	-2272.6	-1234.6	17573.8	-264.0	-1703.7	-821.7	-245.1	9481.3	156.3	-196.4	-3383.9	16823.0

Source: Own simulations with the RunGTAP model (GTAP8; data base 2007).

As the model consists of 12 countries/regions and 10 sectors/products we can catch no only the impact for the three involved parties – the EU (Austria) and South Korea but also the indirect implications for the other countries/regions.

Trade creation and trade diversion

Table 5 shows the results for the change of export flows (in mio. USD) due to the full implementation of the EU-South Korea FTA. The gains from duty savings €1.4 billion in EU-26 plus €0.3 billion in Austria will result in the creation of new trade between the FTA partners. EU-26 can increase its exports to South Korea by $26 (€19) billion, whereas South Korea's exports to EU-26 are up by $23 (€17) billion. Austria's exports to South Korea increase by $0.8 (€0.6) billion and South Korea can increase its exports to Austria by $0.4 (€0.3) billion.

Another interesting aspect is the trade diverting effects of this FTA. The EU (Austria), while increasing trade with South Korea, reduces intra-EU trade of nearly half of the gross trade creating effect with South Korea. The general equilibrium context, therefore, allows us to evaluate the net gain of a bilateral FTA. And this is the gross gain with the FTA partner plus/minus the trade redirections in other regions. The EU-26 (Austria) creates $10 (€7) billion total net trade (South Korea $19 (€14) bn). The amount of extra-EU exports created in EU-26 by this FTA is $22 (€16) billion (calculated from table 5 by deducting the intra-EU trade reduction -$12 (-€9) billion from total EU exports of $10 (€7) billion)[5]. Austria's extra-EU exports increase by $0.7 (€0.5) billion.

[5] These results are similar to those in an earlier study by Copenhagen Economics & Francois (2007) based on GTAP version 6.2 with a dataset benchmarked to 2001. They found that the EU-South Korea FTA will create new trade in goods and services worth € 19.1 billion for the EU compared to € 12.8 billion for South Korea.

Sectoral impact of the FTA with South Korea

The biggest increase in EU imports from South Korea can be expected in the sectors processed food as well as in light and heavy manufacturing industries. In Austria the most important impact on imports from South Korea can be expected in heavy manufacturing industries (see Table 6).

Table 6: Additional exports and imports in trade with South Korea by sectors: EU and Austria

Change between FTA scenario and baseline, in mio. USD

	Exports		Imports	
	EU-26	**Austria**	**EU-26**	**Austria**
GrainsCrops	82.0	0.0	26.8	0.1
MeatLstk	1244.7	186.7	3.7	0.0
Extraction	47.9	0.1	2.8	0.0
ProcFood	3492.3	46.0	124.4	0.8
TextWapp	1255.9	57.9	1493.5	26.7
LightMnfc	4301.8	153.5	11870.2	296.5
HeavyMnfc	14510.6	356.3	9370.7	92.6
Util_Cons	7.5	0.0	5.0	0.1
TransComm	663.3	6.0	198.5	2.2
OthServices	505.5	15.1	202.9	18.5
Total	26111.4	821.7	23298.4	437.6

Note: all values are c.i.f. for comparability;

Source: Own simulations with the RunGTAP model (GTAP8; data base 2007).

Welfare implications

The welfare and GDP growth implications of the implementation of the EU-South Korea FTA are very modest. In absolute terms the biggest increase can be expected in South Korea and in EU-26. Also in Austria there is a positive welfare effect. Real GDP will be increased by 1.6% in Korea (EU-26 +0.05%, Austria +0.04%). Welfare gains expressed in GDP are highest in Korea (1.3%) whereas in EU-26 and Austria respectively, welfare increases by 0.04% of GDP (see Table 7).

Table 7: Welfare and GDP effects due to the EU-South Korea FTA

	Total Welfare		GDP, real	
	mio. USD	in % of GDP	mio. USD	%-change
MERCOSUR	-629.9	-0.0337	-780.5	-0.0418
USA	-2573.5	-0.0187	-3124.0	-0.0227
Japan	-1928.0	-0.0440	-2593.0	-0.0592
Korea	13697.9	**1.3055**	16387.5	**1.5619**
India	-469.0	-0.0399	-530.3	-0.0451
China	-2588.3	-0.0765	-2830.5	-0.0837
Russia	-1268.6	-0.0339	-1445.0	-0.0386
Turkey	-416.0	-0.0642	-475.6	-0.0734
EU-26	7432.7	**0.0449**	8447.0	**0.0510**
Austria	138.8	**0.0374**	154.6	**0.0417**
Switzerland	-151.5	-0.0355	-149.2	-0.0350
ROW	-3549.8	-0.0453	-3817.0	-0.0487

Source: Own simulations with the RunGTAP model (GTAP8; data base 2007). Welfare is measured by Equivalent Variation (EV).

5. EU's "Spaghetti Bowl" – Ad hoc Evaluation of some other FTAs

The EU is by far the largest player in world trade. Together, the European Union's 27 members account for 19% of world imports and exports, 17% in goods and 7% in services (excluding intra-EU trade). China follows second in goods trade with 16% trade share, then the United States with 11% and Japan with 6% (WTO figures for 2009).

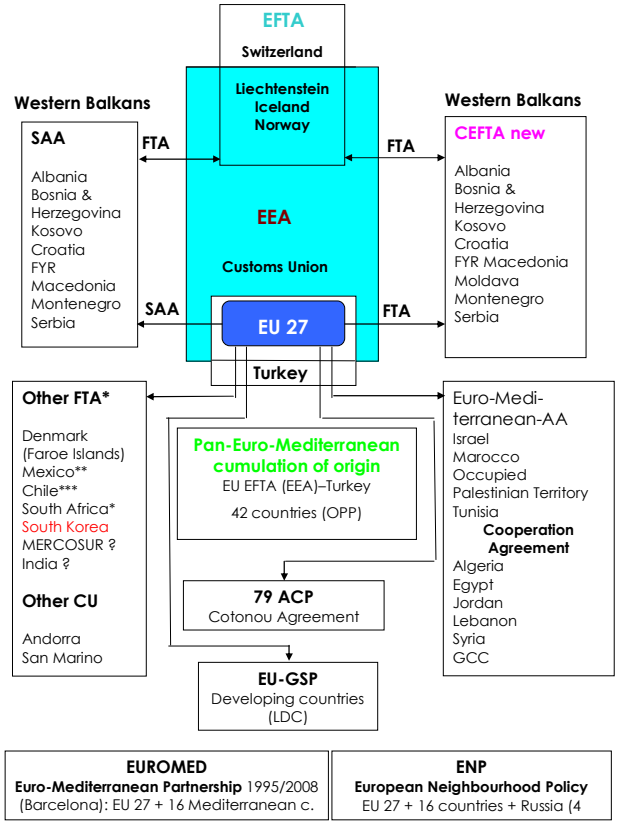
From total exports of EU-27 in 2009, amounting to €3,288.7 bn €2,194.3 or 66.7% are intra-EU trade and the rest, bn €1,094.4 or 33.3% are extra-EU trade (see Eurostat, 2010). Due to far-reaching free trade agreements inclusive customs union (with Turkey), 15.5% of EU's extra trade is tariff-free. Only the rest is still tariff-ridden.

Besides the intra-EU trade a big part of its extra-trade is done free of tariffs with countries which are either in a customs union (like Turkey) or with bilateral free trade arrangements (FTAs etc.) The EU has a huge net work of such bilateral trade relations, which some have called the "Spaghetti Bowl of Regionalism" (Bhagwati, 1995; Crawford and Fiorentino, 2005; Baldwin, 2006).

The specific "Spaghetti bowl" of the EU is depicted in Figure 4. There one sees that beyond the many bilateral FTAs with single countries, the EU established special relations with the ACP countries, with the Mediterranean countries (System of Pan- Euro-Mediterranean cumulation) and of course special relations with LDCs either via EU's GSP or via the ACP (Cotonou agreement).

In the following we comment on some of the already existing and some pending FTA negotiations and evaluate (without specific model simulations) ad hoc their possible economic impact on the EU and Austria[6].

Figure 4: EU's manifold global trade network – "Spaghetti bowl"



AA...Association Agreement (Art. 310 EC Treaty); ACP...Africa, Caribbean & Pacific states; EU-GSP...EU's General System of Preferences; CEFTA...Central European Free Trade Agreement; EA...Europe- Agreement; EFTA...European Free Trade Association; EEA...European Economic Area; FTA...Free Trade Agreement (Other FTA*: Trade, Development and Co-operation Agreement; FTA**: Economic Partnership, Political Coordination and Cooperation Agreement; FTA***: Association Agreement, and Additional Protocol); GCC…Gulf Cooperation Council; LDC...Least Developed Countries; MERCOSUR...Mercado Común del Sur (Common Market of the South); OPP...Outward processing procedure; SAA...Stabilisation and Association Agreement (EU-Western Balkans states); CU...Customs Union.

5.1 EU-South Africa FTA

South Africa is the EU's largest trading partner in Africa. 1.4% of EU's external exports go to South Africa and it imports 1.2% of total extra imports. Although it is a member of the ACP group of countries it is by far the strongest of sub-Saharan Africa's economies, and has an FTA with the EU. South Africa's exports to the EU are growing and the composition of those exports is be-

[6] Francois and Pindyuk (2011) analyse with CGE model simulations the impact of potential FTAs between EU and East Asia (EU-ASEAN), a Transatlantic FTA (EU-NAFTA) and the possible outcome of the Doha Round for Austria. The welfare change is biggest for the EU-NAFTA FTA (€874 mio). Exports could be increased by 0.8% and GDP by 0.25%. The completion of the multilateral Doha Round liberalization would result in similar gains for Austria (welfare +€763 mio; exports +0,68%; GDP +0,25%). The EU-ASEAN FTA would bring the lowest gains (€262 mio; +0,3%; +0,08%).

coming more diverse. South Africa is gradually moving from mainly commodity-based products to a more diversified export profile that includes manufactured products.

South Africa's trade relations and development co-operation with the European Union (EU) are governed by the Trade, Development and Co-operation Agreement (TDCA)[7], which was signed in Pretoria on 11 October 1999. The TDCA aims, among other things, to establish a free trade area over a 12 year period covering 90% of bilateral trade. The implementation of this agreement is overseen by the Joint Co-operation Council which also functions as a forum for overall dialogue between the EU and South Africa. The most recent meeting was the 9th Joint Cooperation Council held in Cape Town on 3-4 November 2008.

Under the TDCA, South Africa has seen its exports to the EU rise from around €15.8 billion in 2004 to almost €22.2 billion in 2008. Total trade volumes have risen by a third since 2004 (from around €31.8 billion in 2004 to almost €42.4 billion in 2008).

According to the very low dimension of trade with South Africa (in the EU and in Austria 1 ½% of total extra-EU trade) the full implementation of the TDCA will have much less welfare and GDP effects than the FTA with South Korea.

5.2 EU-Latin America and the Caribbean (EU-MERCOSUR FTA still unsolved)

The European Union is Latin America's second most important trading partner (2007) - and the first trading partner for Mercosur and Chile[8]. The European Union has gradually strengthened its economic and trade links with Latin America, resulting in trade figures that doubled between 1999 and 2008. European Union imports from Latin America increased from € 42.5 to € 102.4 billion, and exports to the region rose from € 52.2 to € 86.4 billion.

This positive trend is likely to improve with the enlargement of the European Union which has become, as from 1st January 2007, an integrated market of 495.1 million inhabitants.

The European Union is Latin America's second most important trading partner.

The European Union is also the most important source of foreign direct investment (FDI) for Latin America.

Flows of European FDI to Latin America peaked in 2000 (€ 46 billion), with the total stock of European investment in Latin America growing from € 189.4 billion in 2000 to € 227.8 in 2007.

Historically, EU's relations with Latin American Countries are based on a series of bilateral and regional agreements. On the other hand, Caribbean countries are part of the Africa, Caribbean and Pacific states (ACP) with which the EU has developed special relations dating back to the Treaty of Rome.

The fifth EU-Latin America/Caribbean Summit took place in May 2008 in Peru.

The Lima Summit provided another important opportunity for political dialogue at the highest level in order to address major challenges in a frank and open way and to assess recent developments in both regions. It was also an occasion to give more visibility to the extensive cooperation between both partners, and to analyze the action and policies undertaken within the framework of the *EU-LAC Strategic Partnership*. The Lima Summit focused on the two following key themes: Poverty, inequality, inclusion - Sustainable development: climate change; environment; energy.

The 2010 Madrid Summit

The EU-LAC Summit took place on 18 May 2010 in Madrid, preceded by a Meeting of Ministers of Foreign Affairs on 17 May. The theme of the Summit was: 'Towards a new stage in the bi-regional partnership: Innovation and Technology for sustainable development and social inclusion'.

The Madrid Summit, which brought together Heads of State and Governments from Latin America, the Caribbean and Europe, as well as important non-state actors, resulted in a decision to re-launch negotiations for an *EU-MERCOSUR* Free Trade Agreement, political approval to the conclusion of a comprehensive trade agreement between the EU and the Andean Countries (Peru and Colombia) as well as the endorsement of the conclusion of the negotiations between the EU and Central America.

Actual trade relations with MERCOSUR amount only in the range of 2 to 2 ½% for the EU and Austria. That means that the economic impact of an EU-MERCOSUR FTA should be in the same order of magnitude as those with South Korea.

5.3 EU-India FTA under negotiation

India is an important trade partner for the EU and a growing global economic power. As trading partner India is in the order of magnitude of South Korea (with 2 ½% trade share even a little bit more important) for the EU and Austria.

India combines a sizable and growing market of more than 1 billion people with a growth rate of between 8 and 10 % - one of the fastest growing economies in the world. Although it is far from the closed market that it was twenty years ago, India still also maintains substantial tariff and non-tariff barriers that hinder trade with the EU. The EU and India hope to increase their trade in both goods and services through the Free Trade Agreement (FTA) negotiations that they launched in 2007.

[7] More details can be found on the DG trade homepage of the European Commission: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/south-africa/

[8] For more details, see the DG Trade homepage of the European Commission: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/latin-america-caribbean/

With its combination of rapid growth and relatively high market protection India was an obvious partner for one of the new generation of EU FTAs launched as part of the "Global Europe" strategy in 2006.

The parameters for an ambitious FTA were set out in the report of the EU-India High Level Trade Group in October 2006, which was tasked with assessing the viability of an FTA between the EU and India. Other studies have reinforced the economic potential of an FTA between the EU and India[9].

Negotiations for such FTA were launched in June 2007 and, so far, nine negotiating rounds have been held. The tenth round is foreseen from 6-8 March in Delhi. This year's EU-India Summit has taken place on 10 December in Brussels with no final result.

The trade, welfare and GDP effects may be even a little bit larger than those calculated for South Korea, because India is a somewhat more important trade partner than South Korea. However, the goods structure of exports and imports might differ from those of South Korea.

6. Conclusions

The Free Trade Agreement (FTA) between the EU and South Korea is the first completed of the new generation of FTA launched by the EU in 2007 as part of the "Global Europe" initiative. It has been signed by both parties on October 6th 2010 in Brussels.

These agreements, based on solid economic criteria, will represent a stepping stone for future liberalisation as they are also tackling issues, which are not ready for multilateral discussion and are going beyond the market opening that can be achieved in the WTO context. Accordingly, the EU-South Korea FTA is the most comprehensive free trade agreement ever negotiated by the EU.

We have explicitly evaluated the economic impact of the EU-South Korea FTA for EU-27 and for Austria. For this purpose we applied a computable general equilibrium (CGE) model using the GTAP8 Data Base as of the base year 2007.

Due to the asymmetric importance of the trade relations (South Korea is only the 12th important trading partner with a share of around 2% of EU's external trade, whereas the EU is the second largest trading partner for South Korea with a share of 12%) the trade and welfare implications are larger in South Korea (welfare gain +1.3% of GDP) than in the EU and in Austria (in both cases +0,04% of GDP). Nevertheless, the opening-up of all trade barriers leads to trade creation between both partners and trade diversion with the old trading partners in the EU.

Without reverting to explicit model simulations we have also explored the possible economic impact of some other FTAs – which are partly still under negotiation - (with South Africa is already signed; MERCOSUR and India). In the case of the FTA with India it could be in the dimension of those with South Korea. The impacts of the other FTAs are likely to be smaller because of modest trade shares. Other possible FTAs with OECD countries (like Canada) are likely to have more substantive impacts, more comparable to the Korea agreement, than those agreements likely to be reached with other developing countries.

[9] For more details one can consult the DG trade homepage of the European Commission: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/india/

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