



ECONOMIC RELATIONS OF THE EUROPEAN UNION WITH THE REPUBLIC OF KOREA

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Abstract: The Republic of Korea is the third most important partner of the European Union in East Asia and is the world’s eleventh economy with a nominal GDP of \$1.41 trillion and Asia’s fourth biggest economy after China, Japan and India. The paper discusses the economic relations of the Republic of Korea with the EU as makes historical review of the economic processes and analyses the present situation.

Keywords: EU, Republic of Korea, economic relations

The Republic of Korea (ROK) is the third most important partner of the European Union in East Asia. It is the world’s eleventh economy with a nominal GDP of \$1.41 trillion and Asia’s fourth biggest economy after China (\$11.20 trillion), Japan (\$4.94 trillion) and India (\$2.63 trillion) (according World bank data).

On September 1, 1953, it signed with the United States a “Joint Defense Arrangement of Korea”, which formally validates the presence of US troops and military bases in the South of Korean Peninsula.

At that time, Korea was an agricultural country with no industry traditions and trained workforce. During the Korean War, about 3 million people died, and the future of South Korea seemed bleaker than ever. The country was one of the poorest in the world, with an annual income per capita of \$ 65, and it existed thanks to US aid (at that time the population of most British, French and Portuguese colonies in Africa had higher incomes). The United States, which has been interested in the fastest possible reconstruction of the South Korean economy, provided aid worth \$ 217 million over five years (1956–1961), up from already given until 1955 \$ 1358 million. Nevertheless, mass diseases were slipping and people lived worse than ever.

It was hard for the President Syngman Rhee to control the emerging crises and as a result he was forced to leave his post. Yun Posun was inaugurated on August 13, 1960, but he also failed to cope with the economic challenges inherited from the previous government. This led to an increasing of tensions and organizing of military coup on May 16, 1961, led by army officers, in head with General Park Chung-hee. He promised strict laws, security and a return of national pride. The black market was closed, the speculators arrested, and the smuggled goods confiscated and burned. In the beginning, Yun Bo Posun supported the coup and was left in office to give legitimacy to the regime. In less than a year, however, on March 22, 1962, he resigned because disagreed with the authoritarian rule of Park Chung-hee, who took his place on 24 March.

When General Park Chung-hee came to power in May 1961, South Korea’s per capita income was only US\$70. North Korea was the greater economic and military power on the peninsula due to the North’s history of heavy industries such as the power and chemical plants (built during Japanese colonial rule in Korea from 1910 to 1945), and the large amounts of economic, technical and financial aid it received from other communist bloc countries such as the USSR and PRC (Tucker, Kim, Nichols, Pierpaoli, Roberts & Zehr, N. (eds.), 2000. p. 518).

That’s why a Supreme Council for National Recovery (Economic Planning Council) was being established, headed by the general (Castley, 1997, p. 54).

South Korean industry saw remarkable development under Park’s leadership by shifting the focus of economy to export-oriented industrialization. The period of the “**South Korean economic miracle**” started. Government-corporate cooperation on expanding South Korean exports helped lead to the growth of some South Korean companies into today’s giant Korean conglomerates, the chaebols. Most powerful of them,

controlled by the owner's family, are "Samsung", "Hyundai" and "LG". Other big chaebols are "SK Group", "GS Group", "Lotte Group", "Hanhwa Group", "Hanjin Group", "Kumho Asiana Group" and "Doosan Group".

Park Chung-hee set the beginning of a modern and prosperous state. His leadership methods, however, were brutal and often inhumane. Trade unions and collective labor actions were prohibited.

On 26 October 1979, Park was shot dead by Kim Jae-gyu, the director of the KCIA (South Korean Intelligence), after a banquet at a safehouse in Seoul. Kim also killed Park's chief bodyguard, Cha Ji-Chul. It is unclear whether this was a spontaneous act of passion by an individual or part of a pre-arranged attempted coup by the intelligence service. Kim claimed that Park was an obstacle to democracy and that his act was one of patriotism.

Then the Prime Minister Choi Kyu-ha became acting president as the prime minister stood next in line for the presidency. Choi promised democratic elections and a new constitution. He won with 96.7% the presidential election in December that year to become the country's fourth president, but for a while, because commander of ROK's Defense Security Command – General Chun Doo-hwan (supporter of Park's regime), and his close allies within the military, staged a military coup against Choi's government. They quickly removed the army chief of staff and virtually controlled the government by early 1980.

On 1 September 1980 the leader of the military coup – General Chun Doo-hwan was officially inaugurated into office as the 5th President of South Korea and started the era of the Fifth Republic, which became infamous for its brutal suppression of democracy movement, and all the fallouts that ensued with Dictator Chun's nepotism & cronyism that was the hallmark of the Fifth Republic. The 1981 constitution restricted the president to a single seven-year term. Unlike his predecessors, Chun did not attempt to amend the document to run again in 1987 (Akaha, 1999, p. 281).

In 1987, the military regime, which ruled the Republic of Korea most of the years after the end of the Korean War, agreed under American pressure to hold democratic presidential elections.

In June 1987, General Chun Doo-hwan named his old friend and ally General Roh Tae-woo as the presidential candidate of the ruling Democratic Justice Party. On 29 June 1987 Roh Tae-woo made a speech, known as "The June 29 Declaration", officially titled the "Special Declaration for Grand National Harmony and Progress Towards a Great Nation". In that declaration Roh promised significant concessions to opponents of the authoritarian regime of General Chun Doo-hwan. In December 1987 Roh went on to win the first direct presidential election in 16 years, since the October 1972. He was officially inaugurated on 25 February 1988. The government set out to eliminate past vestiges of authoritarian rule, by revising laws and decrees to fit democratic provisions. Freedom of the press was expanded, university autonomy recognized, and restrictions on overseas travels were lifted.

Roh Tae-woo had no the opportunity to manage like his predecessors Park and Chun with iron hand, since he had to take account of the other parliamentary parties: Reunification Democratic, Party for Peace and Democracy and New Democratic Republican Party. During his presidency, economic growth continued to be very high, and Roh respected his promise to turn the Republic of Korea into a fully democratic country. On 26 April 1988 the first democratic parliamentary elections in South Korea were held. The result was a victory for the pro-presidential Democratic Justice Party (Akaha, 1999, pp. 290–291).

The presidential mandate of Roh Tae-woo is closely linked with organization and celebration of the 1988 Summer Olympics (Games of the XXIV Olympiad), which were held in Seoul from 17 September to 2 October 1988.

Hosting the 1988 Olympics presented an opportunity to bring international attention to Republic of Korea. In an attempt to follow the model of 1964 Tokyo Olympics as a rite of passage for the Japanese economy and re-integration of Japan in the family of nations in the post-war era, the government of Republic of Korea hoped to use the Olympics as an advertisement for the newly industrialized South Korean economy. The government hoped the Olympics would symbolize a new legitimacy of Republic of Korea in world affairs. Like Japan in Tokyo in 1964, South Korea showed to the world the high level of its economic development and made it clear that it could now be considered any more like developed country. From an extremely poor country, the Republic of Korea has managed to become an economic force for some 25 years, not only in the region but also globally. The conduct of the Olympic Games in the Republic of Korea was a global acknowledgment of the economic, social and political progress made by the South Koreans.

The continued military dictatorship from 1961 until 1988 was one of the main barriers to the conclusion of formal relations between the European Community and the Republic of Korea in the 1960s, 1970s and 1980s. The transition from a totalitarian to democratic system of governance, which occurred in 1987–1988, allowed the start of dialogue between the EU and the ROK in the early 1990s.

The first result of this dialogue was to launch negotiations in 1995, signing of the Framework Agreement for Trade and Cooperation. This was the EU's recognition of the growing role of the ROK in the world economy. The Framework Agreement, together with the political declaration attached to it, was signed in October 1996 but was subject to ratification by all EU Member States, which lagged behind the Asian financial crisis, which began in the summer of 1997. Shortly before, on May 13, 1997, the EU and the ROK signed an **Agreement between the European Community and the Republic of Korea on cooperation and mutual administrative assistance in customs matters**, which entered into force before the Framework Agreement (Agreement between the European Community and the Republic of Korea on co-operation and mutual administrative assistance in customs matters, 1997, pp. 14–18).

The Asian financial crisis of 1997–1998 has, however, led to significant problems in the face of its newly developed bilateral economic relations. Due to the economic difficulties of the Republic of Korea, whose nominal GDP dropped significantly in 1998: -5.47% (except 1998, in the period from 1960 to 2016, the South Korean economy experienced only one “negative” growth in 1980: -1.70%), Exports to the EU decreased significantly (GDP growth, annual % for period 1961 – 2016, The World Bank data).

Until the beginning of the Asian Financial Crisis, the EU-origin investment was not stimulated by the South Korean governments, as in the 1960s, 1970s, 1980s and early 1990s, the Korean state sought to build its own, relatively independent economic system based on large Korean corporations – the so-called “chaebols” (similar to the Japanese “keiretsu”)¹. The origin of the bulk of foreign investment was American and Japanese. After the crisis, the South Korean government, however, has liberalized its investment policy in the direction of attracting capital from other countries, including the EU, which recently has overtaken the United States and Japan and has become the largest investor in the Republic of Korea.

EU foreign direct investments reached EUR 49.7 billion in 2015, representing more than 20% of the capital inflow into the Republic of Korea. At the same time, South Korean investments in the EU also increased, reaching 20.9 billion Euros in 2015 (The Republic of Korea and the EU, 2016).

The Republic of Korea regained astonishingly fast from the Asian financial crisis – in 1999, the nominal GDP grew by 11.31%, taking a number of lessons that helped later to bear the 2008–2009 World Financial Crisis relatively lightly (in 2008, 2009 and 2010, the nominal GDP of the Republic of Korea increased by 2.83%, 0.71% and 6.50% respectively) (GDP growth, annual % for period 1961–2016, The World Bank data).

In December 1998 the European Commission presented to the EU Council and the European Parliament a report on the future development of EU-Republic of Korea relations, which was adopted by the EU Council on July 19, 1999. In March 2000, the EU Council adopted decision on the ratification of the signed in October 1996 **Framework Agreement on Trade and Cooperation**, which entered into force on April 1, 2001. It gave a qualitatively new impetus to the development of bilateral economic and political relations between the EU and the ROK, based on mutual equality. On May 10, 2010, it was supplemented and updated as new form came into force on June 1, 2014 (Framework agreement between the European Union and its member states, on the one part, and the Republic of Korea, on the other part).

Similarly, to the EU-China and EU-Japan meetings, EU-South Korea meetings also took place in Asia-Europe meetings. Bilateral relations started to develop more dynamically, which led to the launch of negotiations in 2007 on a **Free Trade Agreement (FTA) with Korea**. They were expected to end in 2009. Because of a number of disputes, mostly with European motor vehicle Companies (disturbed by the competition of Hyundai-Kia and the South Korean unit of General Motors – Chevrolet), they prolonged a year more. On 16 September 2010 the European Council supported the signing of the agreement, which was realized technically in Brussels on October 6, 2010. This FTA is the first between the EU and East Asia country (Official Journal of the European Union, 14 May 2011; The Republic of Korea and the EU, 2016). The starting date of its limited application was set July 1, 2011 – for its full implementation was required ratification by member states (Official Journal of the European Union, 28.6.2011). After the ratification of the agreement on 14 September 2015 by Italy (the 28th ratified EU Member State), it was ratified by the EU on 9 October, and on 14 October 2015 by the Republic of Korea and entered into force (Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part).

¹ “Keiretsu” appeared in Japan following the World War II and the collapse of family controlled vertical monopolies called “zaibatsu”. It is a type of business group – a collection of parent and subsidiary corporations that function as a single economic entity through a common source of control... The “keiretsu” maintained dominance over the Japanese economy for the second half of the 20th and beginning of 21st centuries.

In 2016, the European Union was the third most important foreign trade partner of the Republic of Korea, after the PRC and the USA (third in exports, after the PRC and the US, second in imports, after the PRC). Like trade with Japan, this is due to somewhat stronger political ties with the US than with the EU. Especially in the context of the Korean Peninsula tensions.

Table 1. Main Foreign Trade Partners of the Republic of Korea (Top 10)

	Partner	Export Mln.USD 2016	Share, 2016 %	Import Mln.USD 2016	Share, 2016 %	Total Trade, Mln.USD 2016	Share, 2016 %
	The World(WTO)	495465.6	100.00	406060.0	100.00	901525.6	100.00
1.	P.R.China	124432.7	25.11	86962.0	21.42	211394.7	23.45
2.	USA	66756.0	13.47	43396.4	10.69	110152.4	12.22
3.	European Union	47284.4	9.54	51908.7	12.78	99193.1	11.00
4.	Japan	24356.6	4.92	47454.1	11.69	71810.7	7.97
5.	Vietnam	32650.6	6.59	12495.1	3.08	45145.7	5.01
6.	S.A.R. Hong Kong	32779.5	6.16	1614.2	0.40	34393.7	3.82
7.	Taiwan	12220.7	2.47	16402.1	4.04	28622.8	3.17
8.	Australia	7488.8	1.51	15165.4	3.73	22654.2	2.51
9.	Saudi Arabia	5645.0	1.14	15723.4	3.87	21368.4	2.37
10.	Singapore	12459.2	2.51	6805.7	1.68	19264.9	2.14

Source: www.intracen.org/ – International Trade Centre (Geneva)

In 2016, almost 80% of Republic of Korea's foreign trade with the EU was due to ten member countries: Germany, Great Britain, Italy, France, the Netherlands, Spain, Belgium, Poland, Sweden and the Czech Republic.

The five most important export partners of ROK are the United Kingdom (14.64%), Germany (13.63%), the Netherlands (8.08%), Italy (6.69%) and Poland (6.16%).

The five most important import partners of ROK are Germany (36.44%), France (11.26%), Italy (10.45%), the United Kingdom (10.05%) and the Netherlands (8.14%).

Table 2. Main Foreign Trade Partners of the Republic of Korea in the European Union (Top 10)

	Partner	Export Mln.USD 2016	Share, 2016 %	Import Mln.USD 2016	Share, 2016 %	Total Trade, Mln.USD 2016	Share, 2016 %
-	European Union	47284.4	100.00	51908.7	100.00	99193.1	100.00
1.	Germany	6445.8	13.63	18916.7	36.44	25362.5	25.57
2.	United Kingdom	6922.4	14.64	5214.6	10.05	12137.0	12.24
3.	Italy	3164.6	6.69	5425.6	10.45	8590.2	8.66
4.	France	2504.1	5.30	5847.4	11.26	8351.5	8.42
5.	Netherlands	3818.6	8.08	4227.8	8.14	8046.4	8.11
6.	Spain	2328.3	4.92	2004.5	3.86	4332.8	4.36
7.	Belgium	2427.7	5.13	1073.2	2.07	3500.9	3.53
8.	Poland	2912.8	6.16	541.3	1.04	3454.1	3.48
9.	Sweden	804.3	1.70	1592.7	3.07	2397.0	2.42
10.	Czech Republic	2175.8	4.60	619.2	1.19	2175.8	2.19

Source: www.intracen.org/ – International Trade Centre (Geneva)

South Korea exports to the EU mainly machinery and equipment, transport equipment, electronics and plastics, and imports machinery and equipment, transport equipment, chemicals and pharmaceuticals. In the last few years, the trade balance for trade of goods is positive for the EU. The EU's trade balance is also positive for trade of services. In 2014, their exports to the Republic of Korea amounted to \$ 13.1 billion, while their imports amounted to 6.6 billion US dollars (South Korea page at European Commission official site).

European Union relations with the Democratic People's Republic of Korea (DPRK) is at a significantly lower level than those with the Republic of Korea, with which the member states of the Union profess common democratic values.

The start of a regular political dialogue between the EU and the DPRK was launched in 1998. The European Union supports the efforts of the international community to achieve a lasting peace on the Korean Peninsula.

In May 2001, the European Union concluded diplomatic relations with the Democratic People's Republic of Korea and most of its member states had such diplomatic relations. This allows the situation in North Korea to be directly monitored, especially about human rights issues.

The DPRK is not a member of the World Trade Organization and its economic links with the EU at an extremely low level (DPRK and the EU, 2016).

In 2016, DPRK exports amounted to \$ 2.90 billion. (87.6% of it was for the PRC) and imports to 3.13 billion USD. (90.7% of it was from the PRC) (Bilateral trade between Bulgaria and China, Trade map – international trade statistics).

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