



### **TÜSIAD's Comment on EU's FTA Negotiations with S. Korea on the Rules of Origin and Duty Drawbacks Issues**

Regarding the fact that Turkey is to undertake the preferential trade regime of European Union due to the Customs Union Agreement and because of the close trade relations between Turkey and S. Korea<sup>1</sup>, Turkish industry attaches great importance to the ongoing FTA negotiations between EU and S. Korea.

In this respect, S. Korea's proposals on the rules of origin and withdrawal of duty drawback cause a great concern for Turkish industry especially because of the possible trade deterioration due to the S. Korea's strong integration with Chinese industry.

Therefore it is important for Turkey that the factors cited below to be taken into consideration;

- The recent growth in Chinese economy has a serious impact on S. Korean economy. China, which used to be an important export market for S. Korea for long-time, turned into a competitor for Korea. Besides, S. Korea is also faced with a severe competition of South East Asia market. Therefore, Korean producers try to increase their exports to the EU by benefiting from the strong position of Euro against dollar. That is one of the reasons what makes the FTA very important for S. Korea.
- Korean industry is highly integrated with Chinese industry. Thus, if the EU accepts the S. Korean demand on the relaxation of the rules of origin, this will enable Korea to import raw and intermediary goods and spare parts from China which in turn causes significant economic damages on the EU and Turkish industries especially concerning iron and steel, aluminium, machinery, electronics and textile sectors.
- Withdrawal of the prohibition of duty drawbacks will also cause parallel negative effects on the EU and Turkish industries because of the same reason.

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<sup>1</sup> As of 2006, S.Korea is ranked 11<sup>th</sup> in Turkey's imports with 3.3 billions dollars while Turkey's exports to this country was realized as 67 millions of dollars in the same period. The trade deficit against S. Korea constitutes 6% of the whole trade deficit of Turkey.