



Leverhulme Centre
for Research on Globalisation and Economic Policy

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GEP research helps highlight FTA benefits

Pioneering research in the field of the modelling of trade policy has been used to support the setting up of a major Free Trade Agreement between the EU and South Korea.

GEP's Professor Chris Milner co-authored a key study into the benefits of the deal, which will come into force in July after winning European Parliament approval.

France's Centre d'Etudes Prospectives et d'Informations Internationales and Laboratoire d'Economie Appliquée au Développement were also major contributors to the report.

The study, *The Economic Impact of the Free Trade Agreement Between the European Union and Korea*, highlights the many positive effects for both sides.

It details how GDP, imports and exports are likely to rise and reveals that the EU's bilateral trade balance with South Korea could increase by more than 10bn euros.

The EU is set to improve its trade position in several industries, including chemicals, machinery, other manufactured goods and certain agricultural/food products.

South Korea's position is likely to improve with regard to the likes of cars and other

transport equipment, textiles, leather, clothing and other manufactured goods.

The study paid close attention to trade barriers and costs, which represent all the costs – excluding production – involved in delivering a good from manufacturer to final user.

Along with GEP colleagues, including founding Director Professor David Greenaway, Professor Milner has pioneered new research into the modelling and measurement of trade costs.

His work has focused on the costs arising out of factors such as transport infrastructure, distribution, contract enforcement and legal and regulatory requirements.

Professor Milner, Head of the Nottingham School of Economics, said: "Considerable research has been carried out into trade volumes and the impact of costs induced by government policy.

"But economists are increasingly recognising the role played by issues such as poor transport infrastructure, problems with language and the quality of institutions.

"There's now a wider acceptance that these factors also encourage or discourage

international trade – and the costs overall are greater than was previously thought.

"Differences in trade costs capture the differences in the quality of countries' infrastructure and institutions and the competitiveness of business and policy environments.

"By concentrating on how those differences matter empirically to patterns of trade we see trade costs as an 'endowment' that can be fashioned to affect competitive advantage.

"It is possible for governments to help enhance trade cost endowments, boosting competitive advantage and a country's goods and services exports."

Professor Milner's study into the effects of the EU-South Korea Free Trade Agreement shows EU GDP is likely to increase by 0.08% and South Korean GDP by 0.84%.

South Korean bilateral exports to the EU are estimated to rise by almost 40%, says the report, while EU bilateral exports to South Korea could go up by more than 80%.

The study concludes the most



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important export increase from the EU to South Korea will be cars and trucks, with a rise of 400% – worth some 8bn euros – predicted.

EU Trade Commissioner Karel De Gucht recently called the deal a “landmark agreement”, adding: “It is a benchmark for what we want to achieve with other key trading partners.”

Further details of the agreement and links to the research can be found at

<http://tinyurl.com/southkorea-FTA>

Chris Milner

Professor Chris Milner is a Professor of International Economics. His areas of specialisation include trade and trade policy, particularly in developing countries. He joined the Nottingham School of Economics as a Professor in 1995 and has acted as an adviser to international organisations including the World Bank, UNCTAD and the Commonwealth Secretariat, as well as several governments in Africa and the Caribbean.



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About the Globalisation and Economic Policy Centre (GEP)

Based at the University of Nottingham in the UK and primarily funded by grants from the Leverhulme Trust, GEP is the major centre in Europe studying the impacts of globalisation and economic policy.

In January 2008 it opened GEP in Malaysia at the University of Nottingham's purpose-built Semenyih campus, 30km from Kuala Lumpur. In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise. Its academics have advised the Treasury, the OECD, the World Bank and the WTO.