



Department for  
Business & Trade



**UK-Republic of Korea**  
Free Trade Agreement  
Strategic Approach

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# Strategic Case

## Introduction

The United Kingdom (UK) and the Republic of Korea (RoK) have agreed to enter into negotiations to upgrade the existing [UK–RoK Free Trade Agreement](#) (FTA). The UK and the RoK are two like-minded partners with a long standing and well-integrated trade relationship. This is set within an ever-strengthening broader strategic relationship which forms a key element of the UK's tilt towards the dynamic Indo-Pacific region.

Our existing agreement came into effect in 2021 and enabled trade continuity between the UK and the RoK following the UK's withdrawal from the EU. It replicates the provisions outlined in the 2011 EU–RoK FTA. Our trade relationship with the RoK has grown substantially since 2011, from £7.4 billion to £18.3 billion in 2022.<sup>1</sup> The RoK is now the 13<sup>th</sup> largest economy in the world and the UK's 21<sup>st</sup> largest trading partner.<sup>2,3</sup> By 2035, the RoK's import market is expected to increase by 45% and have around 45 million middle class earners.<sup>4</sup> By 2050, the RoK will be considered a very high-income market. Trade between the UK and the RoK has traditionally been skewed towards goods. However, we have seen a 79% growth in our services exports to the RoK over the past decade and, in 2022, services represented more than half of Gross Domestic Product (GDP) for both economies.<sup>5,6</sup>

While several important innovations have been seen in global trade policy since 2011, the current agreement can be regarded as a modern and comprehensive one. It is one of the deepest FTAs that the RoK has signed to date<sup>7</sup> and currently provides a strong platform for UK companies to access the RoK market. For goods exports, currently the predominant element of UK-RoK trade, it liberalises over 99% of tariff lines, with 76% of goods exported from UK to the RoK in 2019 making use of preferences where one was available<sup>8,9</sup>.

In our 'Response to the Call for Input on Trade Negotiations with the Republic of Korea and Outline Approach' chapter, we will discuss the specific benefits we hope to deliver in this negotiation in greater detail.

## Making the Existing Arrangements Work Harder for Businesses

The projected growth of the RoK economy over the next decade has the potential to drive further demands for world class UK goods and services, leading to further increases in UK-RoK bilateral trade. Within this context, responses to the public Call for Input stressed the important role the

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<sup>1</sup> ONS (2022), UK total trade: all countries, seasonally adjusted, January-March 2023 edition.

<sup>2</sup> International Monetary Fund World Economic Outlook database

<sup>3</sup> ONS (2022), UK total trade: all countries, seasonally adjusted, January-March 2023 edition.

<sup>4</sup> DBT (2023) Global Trade Outlook.

<sup>5</sup> ONS (2022), UK total trade: all countries, seasonally adjusted, January-March 2023 edition.

<sup>6</sup> World Bank (2020) national accounts data, and OECD National Accounts data files.

<sup>7</sup> Source: Dür, Andreas, Leonardo Baccini and Manfred Elsig. 2014. "The Design of International Trade Agreements: Introducing a New Database". *Review of International Organizations*, 9(3): 353-375.

<sup>8</sup> DBT calculations using tariff data from the South Korean customs authority and WTO TAO. Trade data at the HS6 level from ITC TradeMap.

<sup>9</sup> Director General for Trade of the European Commission calculations based on data from national customs administrations of importing third countries and MADB, updated 21<sup>st</sup> October 2020. PUR data of UK goods exports is publicly available up to 2019.

existing trading arrangements have played in supporting current trade and recognised their ongoing potential to enable further growth.

As part of securing and future proofing our trading relationship with the RoK, there are opportunities to maximise the number of UK businesses benefiting from this platform. For example, these negotiations provide an opportunity to secure simpler rules of origin which reflect UK industry requirements, include predictable administrative arrangements and work for existing and future UK supply chains. This could help support the number of UK businesses accessing preferential tariffs the agreement contains.

Support for SMEs is another example. In 2021, around 6,700 UK businesses exported goods to the RoK, of which 85% were Small and Medium Enterprises (SMEs)<sup>10</sup>. This agreement could further support SME trade with the RoK by streamlining existing complex arrangements, simplifying, and digitalising customs procedures and ensuring SMEs can access the wider benefits of a new FTA.

## **Capturing Recent Advances in Trade Policy**

Since the current UK–RoK FTA was negotiated, trade policy has advanced in several areas. Perhaps most importantly, the existing agreement lacks comprehensive digital provisions. Both the UK and the RoK have previously negotiated world-class digital trade commitments with other trading partners, and this is an area of great potential for negotiations.

Digital trade is rapidly becoming dominant, with 79% of our services trade with the RoK now delivered digitally.<sup>11</sup> As a global services superpower, seizing opportunities in this area is fundamental to the UK's continued prosperity. By maintaining our track record of securing comprehensive and world-leading digital trade chapters, we can reduce red tape, streamline processes, and enable easier, quicker and cheaper trade for UK exporters of both goods and services.

## **Supporting the UK's Strategic Relationship with the Republic of Korea**

As outlined in the UK government's [Integrated Review](#), the UK is pursuing deeper engagement in the Indo-Pacific region, in support of shared prosperity and regional stability, with stronger diplomatic and trading ties.

The RoK is a vital partner in this endeavour. Our [Bilateral Framework for Closer Cooperation](#) outlines the breadth and depth of our ongoing relationship and demonstrates how our two vibrant democracies and leading global economies can provide responsible leadership on a range of issues, both regionally and globally. This year the UK and the RoK celebrate 140 years of diplomatic relations, a long-standing partnership we look forward to enhancing through multiple complementary channels.

Enhancing the UK–RoK FTA will support the strong relationship we share and ensure it continues to thrive in the future. We can take further steps to bolster our ongoing cooperation in areas such as energy and supply chains in order to anticipate and mitigate against economic shocks such as the COVID-19 pandemic. Ensuring the deal is optimised to support such key elements will strengthen our valued partnership with the RoK and help mark the UK's place in the Indo-Pacific region.

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<sup>10</sup> HMRC (2022), UK trade in goods by business characteristics 2021 data tables.

<sup>11</sup> ONS (2023), Imports and exports of services by country, by modes of supply, UK.

## **Delivering for business**

With strong utilisation of the existing agreement, ongoing growth in bilateral trade, and an ever-strengthening broader strategic relationship, this negotiation represents an opportunity to ensure that a critical set of trading arrangements are secured and optimised for the next phase of UK-RoK relations. To allow more UK businesses to fully realise the opportunities of the RoK market. To maximise the use of modern trading tools, while protecting businesses and consumers from current and future global pressures.

Our approach to these negotiations has been developed in consultation with a wide range of stakeholders, including the public Call for Input on trade with the RoK, which received more than one hundred responses from the UK public, businesses and civil society. We will continue to work closely with stakeholders throughout the negotiations.



# Response to the Call for Input on Trade Negotiations with the Republic of Korea and Outline Approach

The former Department for International Trade (DIT) opened a Call for Input (Cfi) on 9 December 2022 to give businesses, business associations, civil society, the public sector, and members of the public the opportunity to inform the UK's negotiating objectives.

The Cfi, which comprised a questionnaire and independent submissions, ran for eight weeks and closed on 2 February 2023. In this period, we spoke to a range of stakeholders from across the UK. We would like to thank all who engaged with the process and submitted responses.

Following the announcement by the Prime Minister on 7 February 2023, all the activities and responsibilities of the Department for International Trade have since transferred to the Department for Business and Trade (DBT). Please refer to [GOV.UK](https://www.gov.uk) for further information.

## Overview of the Response

In total, we received 113 usable responses to the consultation. Respondents were given the option of replying either through an online version of the DIT crafted questionnaire on the Cfi homepage, a PDF version of the DIT crafted questionnaire that could be sent to a dedicated email inbox, or by submitting their own evidence or direct feedback in a different format. The division between the number of responses can be seen below:

- Online questionnaire responses: 88
- Emailed PDF Questionnaires: 7
- Own evidence or direct feedback: 18

Respondents to the online questionnaire and the PDF questionnaire were categorised into one of the following five groups:

- An individual – Responding with personal views, rather than as an official representative of a business, business association or another organisation.
- Business – Responding in an official capacity, representing the views of an individual business.
- Business association – Responding in an official capacity, representing the views of a business representative organisation or trade association.
- Non-governmental organisation (NGO) – Responding in an official capacity as the representative of a non-governmental organisation, trade union, academic institution, or another organisation.
- Public sector body (PSB) – Responding in an official capacity as a representative of a local government organisation, public service provider, or another public sector body in the UK or elsewhere.

A breakdown of responses by respondent group can be seen below:

Type of Respondent	Number Who Responded
Individual	13
Non-Governmental Organisation	14
Public Sector Body	5
Business	36
Business Association	27
<b>Total questionnaire responses</b>	<b>95</b>
Unconfirmed*	18
<b>Total</b>	<b>113</b>

\*As respondent did not declare this when submitting via 'own evidence or direct feedback' route

The 18 respondents categorised under 'Own evidence or direct feedback' utilised a bespoke format to respond to our Cfl. We have therefore included them separately in the table above as we cannot confirm the categories into which they fit. Their input remains welcome and has been fully considered when developing objectives for the negotiation.

Building upon the responses received, DBT has developed the following objectives for negotiations with the RoK.

## Overall Objectives

- Take a targeted approach to upgrading the existing UK–RoK FTA, delivering a forward-looking agreement which reflects and supports modern trading practices.
- Maintain our comprehensive access to goods and services markets, investment access and existing standards including on labour, environment, and competition regulation and build on these provisions where possible.
- Explore commitments that capture recent advancements in trade policy and reflect current and future trading environments, including digital trade, energy supply chains and provisions to support SMEs.
- Ensure the FTA continues to work for the whole of the UK and takes appropriate consideration of the UK's constitutional arrangements and obligations.
- Uphold the government's manifesto commitment that the National Health Service (NHS), its services, and the cost of medicines are not on the table. We will not accept any provisions that would increase the cost of medicines for the NHS. Protecting the NHS is a fundamental principle of our trade policy, and our commitment to this will not change during our negotiations with the RoK.
- Ensure that we continue to draw on views from businesses, civil society, Parliament, and other stakeholders throughout negotiations to help shape the agreement's outcomes.



## Goods Market Access

- The current UK–RoK agreement secures a high level of liberalisation on goods traded between both countries. The UK had liberalised 99.6% of tariff lines upon entry into force of the agreement, with the RoK currently liberalising 98% of tariff lines, rising to 99% by 2026 and 99.4% by 2031. Both sides fully liberalised all manufactured goods, with a selection of sensitive agricultural goods either excluded, staged or subject to Tariff Rate Quotas. The UK imported around £6.8 billion worth of goods from the RoK in 2022.
- Most stakeholders responding to the Cfl on tariffs stressed the importance of maintaining current levels of market access with the RoK. A limited number requested expansion of market access, including for agricultural goods.
- Recognising the already comprehensive market access provided by the current agreement, we will explore possible amendments and additions in line with a modern FTA.

## Rules of Origin

- The current UK–RoK trade agreement contains a Rules of Origin (RoO) chapter which includes provisions that enable the UK and the RoK to continue using EU inputs in their trade with one another for a limited period of time.
- Respondents to the Cfl called for updates to provide a more modern, simple and facilitative RoO chapter, including simplification of administrative requirements when complying with RoO. Some respondents also called for the continued ability for UK traders to source inputs flexibly and make use of their existing supply chains.
- The UK government recognises that existing preferential access and certainty for supply chains are vital for both UK businesses and RoK businesses.
- With this in mind, we will work with our Korean partners to provide continued preferential access and certainty for existing and future supply chains. In addition, we will look to reduce administrative costs for businesses by having predictable and low-cost administrative arrangements, making it easier and cheaper to trade with the RoK.

## Customs and Trade Facilitation

- The existing UK–RoK agreement promotes cooperation between the UK and the RoK on customs matters and ensures both countries offer transparent and simplified customs procedures to facilitate trade and minimise the financial, administrative, and operational burden on traders.
- In the Cfl, stakeholders expressed interest in opportunities to digitise customs processes and documentation. Stakeholders also requested we consider measures to streamline or expedite the release of goods from customs.
- We will explore updates to make customs procedures as predictable and facilitative as possible, and promote digitisation and automation of customs procedures.

## **Technical Barriers to Trade and Good Regulatory Practice**

- The current Technical Barriers to Trade chapter contains comprehensive and ambitious commitments covering technical regulations, international standards, conformity assessment, marking and labelling, cooperation, and transparency. It also contains comprehensive sectoral annexes in automotive, chemicals, electronics and pharmaceuticals and medical devices.
- There are also limited provisions related to Good Regulatory Practice (GRP). Current provisions allow stakeholders to provide input on new regulatory measures and ensures rules are publicly accessible.
- Stakeholders responding to the Cfl requested continuity in the Technical Barriers to Trade chapter with some requesting we consider possibilities for further cooperation. In response to GRP, some stakeholders highlighted an interest in increasing transparency and the predictability of how regulatory measures are created.
- Noting the comprehensive scope and ambition of commitments covering Technical Barriers to Trade in the existing FTA, we will look to explore possible amendments and additions to the sectoral coverage in the agreement.
- We will also explore the inclusion of commitments relating to good regulatory practice to facilitate market access and to further improve regulatory cooperation between the UK and the RoK, while maintaining our right to regulate in accordance with our domestic rules and procedures.

## **Sanitary and Phytosanitary**

- The current agreement includes commitments in areas such as animal welfare, import requirements, and transparency and information exchange. It includes provisions for an SPS Committee and disapplies the dispute FTA resolution mechanism from the SPS chapter.
- Many stakeholders responding to the Cfl requested continuity of current SPS provisions. Some stakeholders requested that the UK build on the current SPS provisions, outlining possible improvements in areas such as Regionalisation, Import Requirements, Certification and Animal Welfare.
- We will work with the RoK on the scope of the existing commitments in this space and explore where these could be further strengthened.

## **Trade in Services**

- The existing UK–RoK agreement contains an integrated Trade in Services, Establishment and E-Commerce chapter. In services sectors where the RoK have taken commitments, the chapter prevents quantitative restrictions, such as quotas, and prevents less favourable treatment for UK suppliers.

- Total trade in services with the RoK in 2022 was worth £4.2 billion, made up of £2.9 billion of UK exports and £1.3 billion of UK imports<sup>11</sup>. A third of UK services exports to the RoK, totalling at £960 million,<sup>12</sup> were in the Other Business Services sector.<sup>13</sup>
- The current agreement also contains provisions on regulatory transparency, the recognition of professional qualifications, temporary entry of businesspersons and additional sector-specific provisions in areas such as international maritime transport services and postal or courier services.
- Stakeholders responding to the Cfl asked to maintain the existing access secured in the current agreement. They also requested we build on outcomes in legal services, mobility, and regulatory transparency to provide greater legal certainty in the RoK market.
- We will look to futureproof our strong and growing trade in services relationship with Korea through strengthening relevant areas of the existing agreement where upgrades would further support UK businesses. In this, we will continue to protect the right to regulate public services, including the NHS and public service broadcasters, and ensure that decisions on these services are made by the UK.

## Financial Services

- The existing UK–RoK FTA allows financial institutions and investors in both countries to benefit from fair and equal access to each other’s markets in specific sectors like certain insurance and banking services.
- Cfl respondents were keen to maintain existing access. They noted their desire to see the UK and the RoK go further in the areas of data localisation and regulatory transparency, as well as areas of market access such as for insurance, with scope to improve the conditions for reinsurers and brokers.
- Noting the importance of comprehensive, transparent, and modern financial services provisions, we will look to secure updates that expand opportunities for UK financial services and ease friction in cross-border trade and investment.

## Investment

- The current UK–RoK FTA includes a section titled “Establishment”, that provides for the broad market access of investments in services and non-services sectors. Separately, the UK and the RoK have a Bilateral Investment Treaty that protects investors against arbitrary and discriminatory treatment.
- The stock of inward Foreign Direct Investment (FDI) from the RoK into the UK was £1.9 billion in 2021<sup>14</sup> whilst outward stock was £4.8 billion<sup>15</sup>.
- Cfl respondents requested we maintain existing coverage from both agreements, include further investment commitments and look to remove remaining market access restrictions for UK businesses.

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<sup>12</sup> Other Business Services includes professional services such as management consulting, legal, accounting and architecture, as well as numerous miscellaneous services.

<sup>13</sup> ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2022 edition.

<sup>14</sup> ONS (2022), Foreign direct investment (FDI) totals for inward and outward flows, positions and earnings: 2020 and 2021

<sup>15</sup> ONS (2022), Foreign direct investment involving UK companies: 2021.

- Noting the benefits UK investors enjoy from access to the RoK market and from protections against unfair and discriminatory treatment, we will work with the RoK to maintain a clear and transparent framework of investment rules to provide continued certainty.
- In this, we will maintain the UK's right to regulate in the national interest, to achieve public policy objectives and, as the Government has made clear, to continue to protect the NHS.

## Digital and Telecommunications

- The current UK–RoK FTA does not feature substantial provisions on digital trade. It does include a small section on e-commerce, including regulatory cooperation, and a binding commitment preventing parties from imposing custom duties on deliveries by electronic means. It also contains a commitment on the development of electronic commerce that is compatible with the international data protection standards.
- Both the RoK and the UK are advanced digital economies. In 2018, the UK was the third biggest digital trade exporter accounting for 7% of global digital trade exports, while South Korea was the 14th largest digital trade exporter in the world, accounting for around 2% of global digital trade.<sup>16</sup> In 2021, 78% of UK services exports to the RoK and 82% of imports were delivered remotely.<sup>17</sup>
- Several stakeholders responding to the Cfl raised digital trade as an area of interest. In particular, they highlighted the importance of simplifying customs procedures, collaborating on emerging technologies and expanding provisions on data, especially free flow of data cross-border and prevention of unjustified data localisation requirements.
- Acknowledging stakeholder ambition in this space, we will work with the RoK to agree digital trade commitments with the RoK, in line with the UK's wider digital trade objectives.
- Working with the RoK, we will look to agree commitments to ensure free and trusted cross border data flows and provide certainty to business that they can enter and operate in markets without unjustified data localisation requirements.
- We will seek commitments to facilitate more efficient and secure international trade through use of digital technologies, including through paperless trading, which will reduce administrative barriers and transaction costs for business.
- Within this, we will maintain the UK's high standards for personal data protection to ensure public trust in the flow of data which promotes consumers' engagement and participation in digital trade.
- We will look to future proof the trade relationship by including cooperation provisions on evolving areas, such as on emerging technology, diversity and inclusion and environmentally sustainable digital trade to help support business adapt to future challenges and avoid a patchwork of different national rules and regulations which make trade and e-commerce more difficult.

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<sup>16</sup> <https://www.oecd.org/publications/of-bytes-and-trade-quantifying-the-impact-of-digitalisation-on-trade-11889f2a-en.htm>

<sup>17</sup> ONS (2023), Exports of services by country, by modes of supply: 2021 and ONS (2023), Imports of services by country, by modes of supply: 2021. Mode 1 is used as a proxy for digital delivery.

- The current UK–RoK FTA also contains a Telecommunications chapter. Cfl respondents did not offer views on this area. With this in mind, we will make sure that businesses can continue to benefit from these provisions.

## Government Procurement

- The current UK–RoK agreement is reflective of WTO Government Procurement Agreement standards. It includes provisions and schedules to promote competition, non-discrimination, and transparency within the UK and the RoK’s government procurement markets. In 2021, general government procurement spending was approximately 14% of Korean GDP and about 38% of its total government expenditure<sup>18</sup>.
- Stakeholders responding to the Cfl requested that we achieve greater transparency in the bidding rules for government procurement in the RoK and for UK businesses to be treated equally to local suppliers.
- Recognising stakeholder interest, we will work with the RoK to ensure that procurement processes are simple, fair, open, transparent, and accessible to all potential suppliers in a way that supports and builds on commitments on the current Agreement.
- In this, we will ensure appropriate protections remain in place for key public services, such as NHS health and care services and broadcasting.

## Intellectual Property

- The current UK–RoK agreement includes standards on IP rights and IP enforcement. Of the 25 countries the UK exported the most services to in 2022, the RoK ranks 3rd for the proportion of these exports that were payments for the use of intellectual property. Over 70% of these payments came from licences relating to the outcomes of research and development.<sup>19</sup> The existing text is covered by the agreement’s Dispute Settlement Mechanism and provides for an IP Committee.
- Stakeholders responding to the Cfl requested that we maintain existing commitments across rights areas, whilst also calling for enhanced provisions on trademarks and retention of geographical indications (GIs). Stakeholders also highlighted the importance of effective implementation to ensure existing commitments are upheld.
- Noting the comprehensive scope of existing commitments, we will continue to work with the RoK to ensure appropriate mechanisms to monitor the agreement’s implementation with a view to achieving consistency with other international obligations. We will also seek the protection of an expanded list of UK geographical indications in RoK.

## Trade Remedies

- The current UK–RoK agreement enables the UK to apply anti-dumping, countervailing, global and bilateral safeguard measures to protect UK businesses from unfair trading practices and import surges.

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<sup>18</sup> OECD (2023), Government at a Glance 2023

<sup>19</sup> ONS (2022) UK trade in services: service type by partner country, non-seasonally adjusted, October-December 2021 edition.

- Stakeholders responding to the Cfl did not reference trade remedies. Noting this, we will make sure that our FTA maintains the possibility to apply trade remedies as appropriate.
- We will also maintain trade remedy provisions that support market access, in accordance with our WTO commitments and the principles of transparency, efficiency, and proportionality.

## Disputes

- The current UK–RoK FTA provides an effective dispute settlement mechanism that ensures state-to-state disputes are dealt with consistently, fairly and in a cost-effective and timely manner, whilst providing predictability and certainty for businesses and stakeholders.
- Stakeholders responding to the Cfl called for continuity in ensuring a fair and transparent state-to-state dispute settlement mechanism. Noting this, we will ensure that the scope of existing provisions is maintained.

## Trade and Sustainable Development

- The current UK–RoK agreement contains a Trade and Sustainable Development chapter, which contains provisions on the environment, climate change and labour, including operative commitments on non-derogation, enforcement of environment and labour laws and right to regulate provisions.
- Stakeholders responding to the Cfl requested continuity of the existing provisions and some highlighted trade and sustainable development as an area to build on in a broader context.
- We will continue to work with the RoK on the scope of the existing commitments in this space and explore how we can further strengthen our cooperation in these areas.

## Market Distorting Practices

- The existing UK–RoK FTA includes comprehensive provisions on goods subsidies as well as limited commitments on competition policy and state-owned enterprises and designated monopolies.
- In the Cfl, stakeholders requested further engagement on level playing field issues, to support UK businesses to compete in the market and remove barriers to trade.
- Building on existing provisions covering competition and state-owned enterprises, we will explore further commitments which provide long-term certainty for UK businesses.
- We will maintain the current standard of subsidies provisions and continue to foster close cooperation with the RoK as a likeminded international partner.

## Small and Medium-Sized Enterprises

- The current UK–RoK agreement has limited provisions directly supporting small and medium sized enterprises (SMEs). In 2021, around 85% of UK exporters (5,699) and 66% of UK importers (4,477) were SMEs.<sup>20</sup>

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<sup>20</sup> HMRC (2022), UK trade in goods by business characteristics 2021 data tables.



- Stakeholders responding to the Cfl demonstrated an interest in improving the accessibility and transparency of the FTA, making it easier for SMEs to utilise the provisions within the agreement.
- We will work with the RoK to enable SMEs to fully enjoy the benefits of the FTA. We will deepen cooperation with the RoK to help small businesses navigate requirements for exporting to each other's markets.

## Innovation

- The current UK–RoK FTA does not have substantial provisions on innovation, however, the UK and the RoK are among the world's most innovative economies, having been ranked 4<sup>th</sup> and 6<sup>th</sup> respectively in the Global Innovation Index<sup>21</sup>.
- Cfl respondents requested further cooperation between the UK and the RoK on innovative technologies to promote emerging sectors and facilitate trade.
- We will continue to work with the RoK to take account the impact of innovation on trade, including through regulatory approaches, commercialisation of new technologies, and supply chain resilience.

## Trade and Gender

- The current UK–RoK FTA does not include specific provisions on Gender Equality. Some stakeholders called for equalities legislation in the UK and the RoK to be reflected in the updated FTA with the aim to empower women entrepreneurs.
- We will explore how the agreement can support women's access to the full benefits and opportunities of the FTA as workers, business owners, entrepreneurs, and consumers.

## Transparency and Anti-corruption

- The current UK–RoK contains provisions to ensure appropriate levels of transparency between the UK and the RoK, particularly with regard to the publication of measures affecting trade and investment.
- CFI respondents highlighted a lack of clarity in a range of areas, including product registration, regulation and the process and eligibility criteria to process business visas.
- We will ensure the agreement is as accessible and easy to use as possible, including encouraging digital means of publication and user-centred design principles where possible.
- We will also explore the inclusion of principles on anti-corruption with the RoK to address the trade distorting effects of corruption in global trade.

## Development

- The current UK–RoK agreement does not include a Trade and Development Chapter.
- Development was listed as an area of interest in some responses to the Cfl.

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<sup>21</sup> (WIPO) Global Innovation Index (2022): What is the future of innovation-driven growth?

- We will explore the inclusion of mutually beneficial text which reinforces the importance of trade as a tool for economic development and poverty reduction and provisions to monitor the impact of the FTA on developing countries outside the agreement.

## **General Provisions**

- The current UK–RoK agreement contains general exceptions which provide the UK government with flexibility to protect legitimate domestic priorities.
- Stakeholders responding to the Cfl did not reference General Provisions.
- The UK will ensure that it retains comprehensive general exceptions and will also provide for review of the operation of the agreement and allow for the agreement to be amended, when necessary, in support of mutual objectives.

## **Public Services**

- The existing UK–RoK agreement protects the right to regulate public services, including the NHS and public service broadcasters and ensures that decisions on these services are made by the UK.
- Stakeholders responding to the Cfl did not reference Public Services explicitly.
- We will ensure that the agreement continues to protect the right to regulate on public services.

## **Territorial Application**

- The current UK–RoK agreement applies to all four constituent nations of the UK.
- Stakeholders responding to the Cfl did not reference Territorial Application
- We will ensure that any provisions in the existing or upgraded agreement apply to all nations of the UK, taking into account the effects of the Windsor Framework.
- We will also provide for coverage of the agreement to the Crown Dependencies, Gibraltar, and other UK Overseas Territories as appropriate.

# Scoping Analysis

## Introduction

### About Scoping Analysis

The Scoping Analysis sets out the potential economic impact of upgrading the UK-ROK FTA.

A Scoping Analysis is used where the negotiations cover an augmentation of an existing trade agreement and focuses on where we can make additional gains. It uses tools including tariff analysis and descriptive analysis as the main evidence base to highlight where there are remaining barriers to trade. Given there is an existing FTA in place already, it does not include economic Computable General Equilibrium (CGE) modelling which estimates the potential impacts on the macroeconomy.

At the end of negotiations, an Impact Assessment will be published.

### A Note on Data and Statistics

Statistics in this Scoping Analysis are based on 2022 or the latest available data as of March 2023, unless otherwise specified. Tariff liberalisation analysis uses 2022 trade flow data. Due to the COVID-19 pandemic, trade data was more volatile in 2020 and 2021.

# The Existing Trade and Economic Relationship Between the UK and the RoK

Total trade in goods and services between the UK and the RoK was worth £18.3 billion in 2022, which consisted of £10.2 billion of UK exports to the RoK and £8.1 billion of UK imports from the RoK. The trading relationship between the UK and the RoK has more than doubled since 2011.

**Figure 1: Economic Indicators for the UK and the RoK**



Based on the latest available data (2022 unless specified otherwise)

Source: IMF World Economic Outlook (October 2022); World Integrated Trade Solution (WITS); ONS UK total trade: all countries, seasonally adjusted, July to September 2022 edition; HMRC UK trade in goods by business characteristics 2022.

## Trade in Goods

Since the EU-RoK FTA entered into force in 2011, total trade in goods has grown from £5.2 billion in 2011, to £14.1 billion in 2022 at an average rate of 9.5% per annum, compared to 3.7% per annum for the UK's global trade in goods across the same period.<sup>22</sup>

The UK imported around £6.8 billion worth of goods from the RoK in 2022.<sup>23</sup> The existing agreement provides the RoK tariff free access on 99.6% of tariff lines, accounting for over 99.9% of UK goods imports from Korea in 2022.<sup>24</sup>

The UK's top goods import from the RoK was cars in 2022, accounting for 25% (£1.7 billion) of total goods imports, followed by ships, telecoms and sound equipment, and refined oil, which collectively accounted for a further 24% of total imports.<sup>25</sup>

<sup>22</sup> ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2022 edition.

<sup>23</sup> ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2022 edition.

<sup>24</sup> DBT calculations using UK import data at the CN8 level from HMRC Overseas Trade Statistics, December 2022

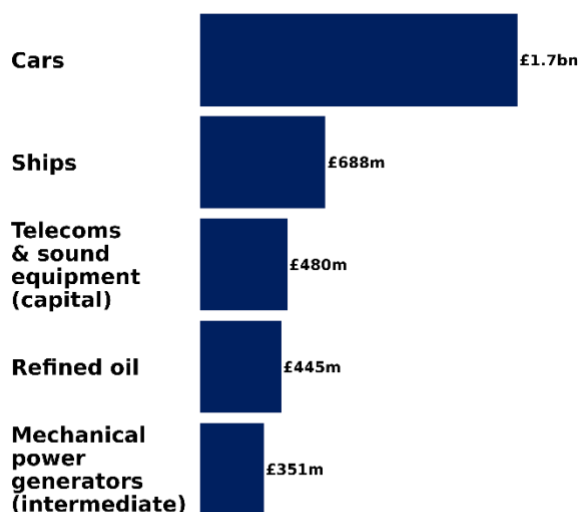
<sup>25</sup> ONS (2022), Trade in goods: country-by-commodity imports, July 2022 edition.

The UK exported £7.3 billion of goods to the RoK in 2022.<sup>26</sup> The existing agreement provides the UK with tariff free access on 97.7% of tariff lines, accounting for 99.7% of Korean goods imports from the UK.<sup>27</sup>

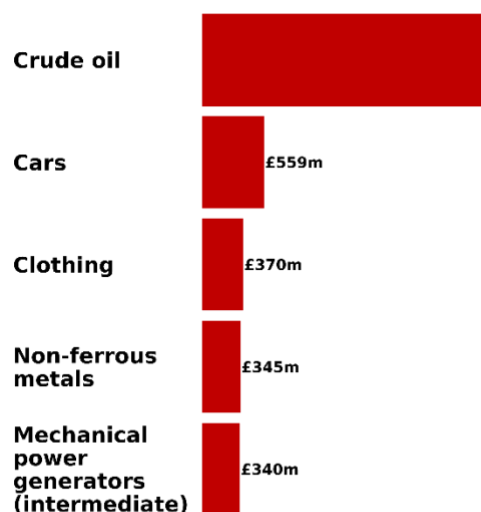
Crude oil was the largest good exported by the UK to the RoK in 2022 (£2.9 billion) accounting for 39% of total goods exports. The UK's other top exports were cars, clothing and non-ferrous metals making up a further 17% of total exports.<sup>28</sup>

**Figure 2: Key Goods Traded Between the UK and the RoK in 2022**

**Key Goods Imports by the UK from the RoK in 2022**



**Key Goods Exports from the UK to the RoK in 2022**



Source: ONS Trade in goods, country-by-commodity imports and exports, January 2023 edition

The existing UK—RoK trade agreement has ensured that UK exports have preferential access to the Korean market. Were the UK and the RoK trading on most favoured nation (MFN) terms, UK exports to the RoK would have incurred estimated annual duties of £302 million (based on Korean import data). The preferential tariffs under the existing arrangement reduce these annual duties on UK exports to an estimated £27 million assuming full utilisation of preferences, boosting the competitiveness of UK businesses.<sup>29</sup>

Both Korean exporters and UK businesses importing from the RoK have benefitted from preferential access to the UK market. Were the UK and the RoK trading on MFN terms, UK imports from the RoK would have incurred estimated annual duties of £236 million. The preferential

<sup>26</sup> ONS (2023), UK total trade: all countries, seasonally adjusted, October-December 2022 edition.

<sup>27</sup> DBT calculations using tariff data from the South Korean customs authority and WTO TAO. Trade data at the HS6 level from ITC TradeMap.

<sup>28</sup> ONS (2023), Trade in goods: country-by-commodity exports, May 2023 edition.

<sup>29</sup> DBT calculations using tariff data from the [South Korean customs authority](#) and WTO TAO. Trade data at the HS6 level from ITC TradeMap.

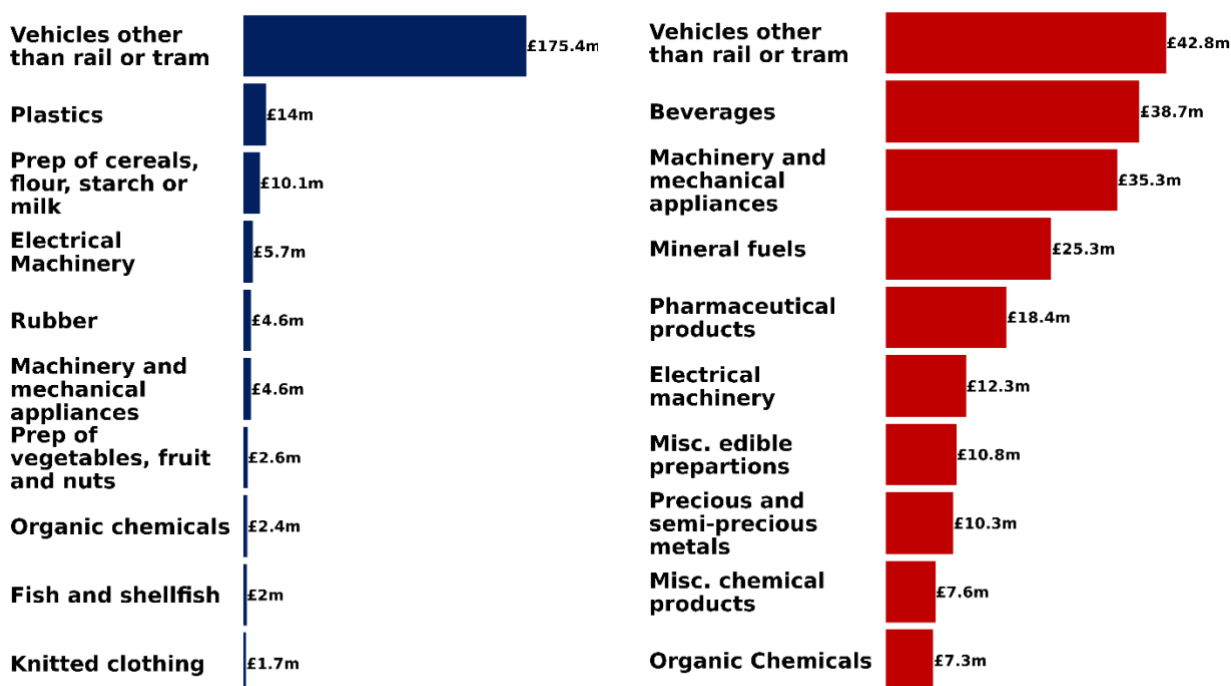
tariffs under the existing agreement reduce these annual duties on UK imports to an estimated £39,000 assuming full utilisation of preferences.<sup>30</sup>

Figure 3 shows the products estimated to have benefited most from tariff reductions.

**Figure 3: Maximum Annual Reduction in Tariff Duties on Goods Imports and Exports Available to Business for the Top 10 HS Sections Under the Current UK—RoK FTA Where Preferential Tariffs Fully Utilised (£ Million)**

**Maximum Reduction on Tariffs Duties Paid on UK Imports from the RoK**

**Maximum Reduction on Tariffs Duties Paid on UK Exports to the RoK**



Source: DBT calculations using tariff data from the [South Korean customs authority](#) and WTO TAO. UK export figures are based on Korean import data at the HS6 level from ITC TradeMap. UK import data at the CN8 level from HMRC Overseas Trade Statistics, Dec 2022. It assumes full utilisation of tariffs and compliance with rules of origin requirements

Figure 3 assumes full utilisation of tariffs and compliance with rules of origin requirements. In practice, not all preferential tariffs are fully utilised. Utilisation is covered in more detail in section 4.

## Trade in Services

Total trade in services with the RoK in 2022 was worth £4.2 billion, made up of £2.9 billion of UK exports and £1.3 billion of UK imports.<sup>31</sup> The top categories of services trade between the UK and the RoK in 2022 are shown in Figure 4.

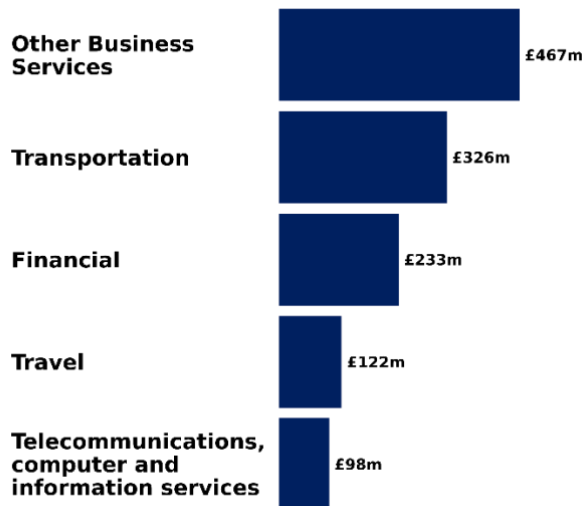
**Figure 4: Key Services Traded Between the UK and the RoK in 2022**

<sup>30</sup> DBT calculations using UK import data at the CN8 level from HMRC Overseas Trade Statistics, Dec 2022. Note that figure assumes 100% utilisation.

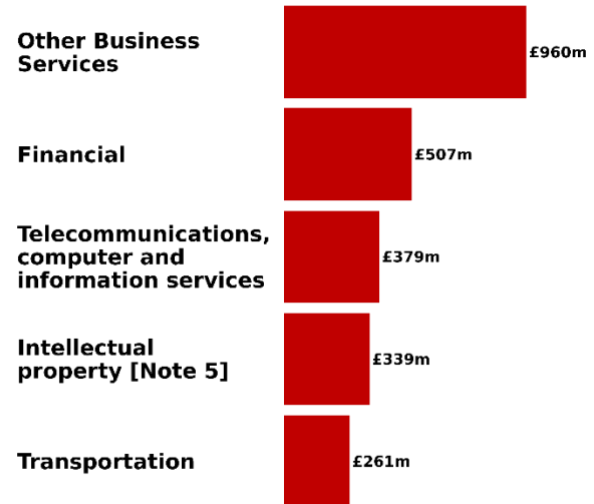
<sup>31</sup> ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2022 edition.



## Key imports by the UK from the RoK in 2022



## Key exports from the UK to the RoK in 2022



Source: ONS UK trade in services: service type by partner country, non-seasonally adjusted, January 2023 edition

The top 3 services imports from the RoK in 2022 accounted for 77% of the total value of services imports, with other business services ranking as the main contributor.<sup>32</sup>

A third of UK services exports to the RoK, totalling at £960 million,<sup>33</sup> were in the other business services sector, which included architectural, engineering and scientific services (£132 million), services between affiliate enterprises that have not been captured elsewhere (£165 million), and intragroup fees and cost recharge (£115 million). Exports of business and management consulting (£144 million) and Research and Development (R&D) services (£182 million) were also key contributors to the UK's exports of other business services.

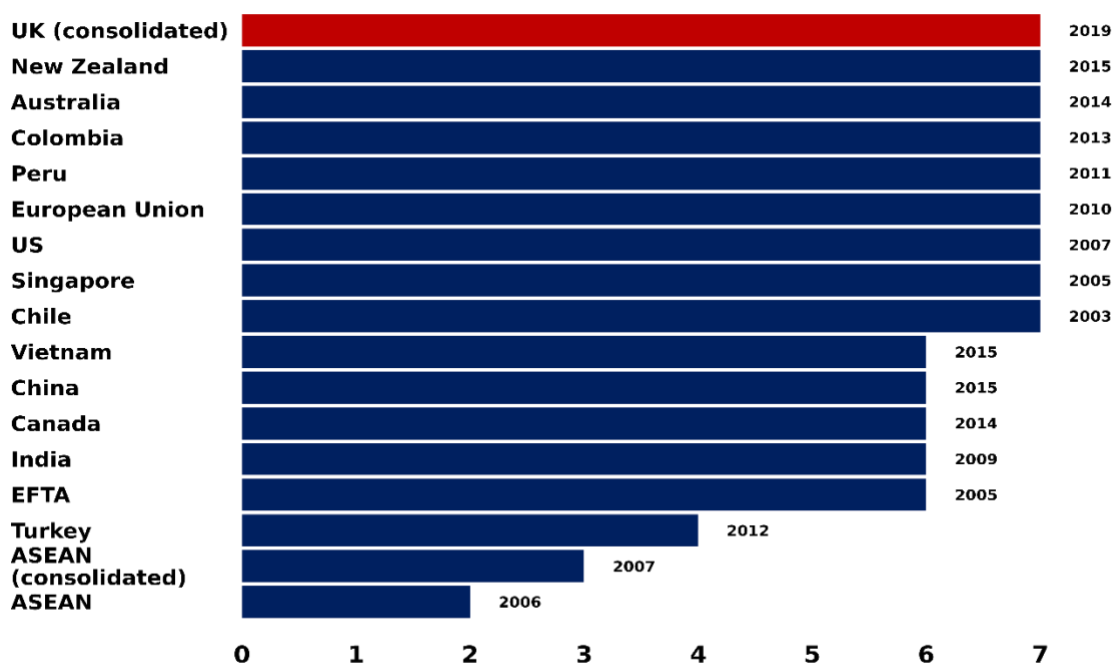
<sup>32</sup> ONS (2023) UK trade in services: service type by partner country, non-seasonally adjusted

<sup>33</sup> Other business services includes professional services such as management consulting, legal, accounting and architecture, as well as numerous miscellaneous services.

# Economic Analysis of an Upgraded UK—RoK FTA

The current trade agreement between the UK and the RoK is deep, reflecting the ambitions of the 2011 EU-RoK FTA agreement upon which it was based. Figure 5 shows academic research into the depth of agreements across FTAs the RoK currently has in force and indicates that the current agreement is amongst the RoK’s deepest FTAs.

**Figure 51: Depth of Korea’s FTAs, As Measured by the Design of Trade Agreements (DESTA) Index (max = 7)**



Source: Dür, Andreas, Leonardo Baccini and Manfred Elsig. 2014. “The Design of International Trade Agreements: Introducing a New Database”. *Review of International Organizations*, 9(3): 353-375.

Note: The index measures the scope of trade agreements by identifying seven key provisions that can be included, with agreements scored based on whether they contain substantive provisions in each area, meaning there is cooperation that goes beyond tariff reductions in services trade, investments, standards, public procurement, competition, and intellectual property rights.

Between 2021 and 2035, Korea’s import market is expected to grow by 45% in real terms and have around 45 million middle class earners, with per capita income estimated to rise above \$46,381 (2021 prices) by 2050 meaning the RoK will be considered a very high-income market.<sup>34</sup>

This section explores the potential benefits that could follow an upgraded agreement.

## Utilisation of the Agreement

Preference Utilisation Rates (PURs) measure the extent to which businesses make use of the zero or reduced tariffs available via FTAs. PURs offer a view on the effective use of tariff preferences

<sup>34</sup> DBT (2023) Global Trade Outlook.

made available by FTAs. A higher PUR indicates businesses are making greater use of their preferential tariffs when exporting goods.

The overall PUR for UK exports to the RoK in 2019 was 76%.<sup>35</sup> This means that 76% of UK exports that were eligible for preferential treatment were exported to the RoK under preferential terms, with the remainder exported under MFN terms. Products with the largest value of exports eligible for preference include transport equipment (98% PUR), machinery and mechanical appliances (57% PUR) and chemical products (55% PUR).

Simplifying customs procedures, reducing administrative costs, and agreeing rules of origin that reflect UK industry requirements could result in higher utilisation of preferential tariffs.<sup>36</sup>

The overall PUR for UK imports from the RoK in 2019 was 92%. Transport equipment made up the largest share of UK preference-eligible imports (54%) and traders utilised 99% of these preferences.

## Trade in Services

The UK is considered a services-oriented economy, with 80% of the UK's value added coming from services sectors, whilst the RoK's economy is considered to be mixed with 62% and 28% of value added in the RoK driven by services and manufacturing respectively.<sup>37</sup> However, services trade only accounts for 32% of UK exports to the RoK, compared to 49% of the UK's exports to the world.<sup>38</sup>

The services sector employs 81% of the UK and 70% of the RoK workforce and therefore increasing trade in services has the potential to benefit workers and businesses in both economies.<sup>39</sup>

The RoK is less restrictive to trade in services than the OECD average for 14 out of the 22 sectors included in the OECD's Services Trade Restrictiveness Index (STRI), of which the RoK is also less restrictive than the UK in six. Relative to both the UK and the OECD average, the RoK is most restrictive in the accounting, telecoms, legal and courier sectors.<sup>40</sup> Over 50% of the restrictiveness across these sectors in the RoK are the result of restrictions on foreign entry.

The RoK is the 18th least restrictive economy for movement of persons amongst the 38 OECD countries and is only more restrictive in 3 sectors compared to the OECD average<sup>41</sup>. In 2019, the UK exported £334 million worth of services delivered via mode 4 (presence of natural person) to the RoK, accounting for 13.3% of total services exports to the RoK (Modes 1,2 and 4)<sup>42</sup>. This was the 9th highest proportion among UK exports to the G20. These figures decreased during the

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<sup>35</sup> Director General for Trade of the European Commission calculations based on data from national customs administrations of importing third countries and MADB, updated 21<sup>st</sup> October 2020. PUR data of UK goods exports is publicly available up to 2019. Note: The UK-RoK FTA entered into force on 1<sup>st</sup> January 2021, providing continuity of trading arrangements as the UK left the European Union. The 2019 Eurostat data covers the agreement that was in place for the UK as part of the EU Customs Union and does not take into account any changes to the agreement since Brexit.

<sup>36</sup> DBT calculations based on data from Director General for Trade of the European Commission, updated 21<sup>st</sup> October 2020. It assumes an increase in utilisation, even if this would exceed total available preferences.

<sup>37</sup> OECD (2020), Value added by activity.

<sup>38</sup> ONS (2022), UK total trade: all countries, seasonally adjusted, October-December 2022 edition.

<sup>39</sup> World Bank (2019), World Development Indicators. Accessed March 2023.

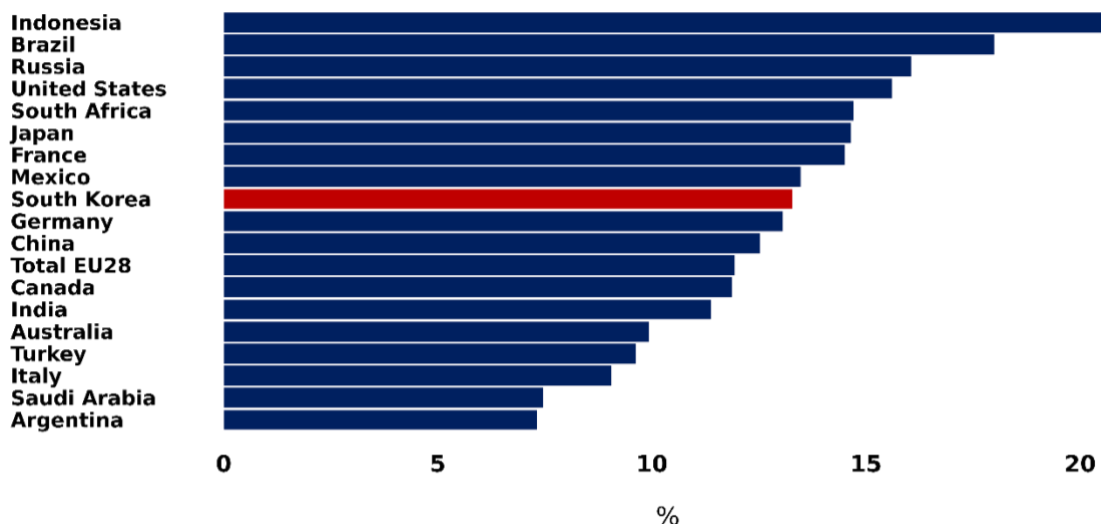
<sup>40</sup> OECD (2022), Services Trade Restrictiveness Index

<sup>41</sup> OECD (2022), Services Trade Restrictiveness Index

<sup>42</sup> ONS (2020), Exports of services by country, by modes of supply: 2019.

COVID-19 pandemic and in 2021, 7.8% of UK services exports to the RoK were delivered via mode 4<sup>43</sup>.

**Figure 6: Proportion of UK Services Exports (Modes 1, 2 and 4) Delivered by Mode 4 to the G20**



Source: ONS Trade in Services by modes of supply, 2019. Note: 2019 is preferred to the latest data (2020) due to the impact of COVID-19 pandemic on cross-border travel.

Should there be opportunity to secure further commitments on mobility, both the UK and RoK economies could benefit.

## Foreign Direct Investment

Foreign Direct Investment (FDI) is an important contributor to economic growth due to its potential to enhance productivity and innovation, create employment, and benefit a broad range of sectors and regions.

The stock of inward Foreign Direct Investment (FDI) from the RoK into the UK was £1.9 billion in 2021, the 34<sup>th</sup> largest inward FDI position.<sup>44</sup> The industrial activities with the largest amount of RoK FDI in the UK are retail and repair of motor vehicles, with stock of £780 million, followed by financial services (£360 million), and professional, scientific and technical services (£130 million).<sup>45</sup> Between December 2012 and December 2022, 57 RoK greenfield FDI projects have landed in the UK, of which 24 were located in the South East, and a further 20 were located across Yorkshire and the Humber, the West Midlands, Scotland and the South West.<sup>46</sup>

In 2021, the outward stock of FDI from the UK in the RoK was £4.8 billion, the 29<sup>th</sup> largest outward position.<sup>47</sup> UK FDI stocks in The RoK landed predominantly in the petroleum, chemicals and

<sup>43</sup> ONS (2023), Exports of services by country, by modes of supply: 2021 and ONS (2023), Imports of services by country, by modes of supply: 2021. Mode 1 is used as a proxy for digital delivery.

<sup>44</sup> ONS (2022), Foreign direct investment (FDI) totals for inward and outward flows, positions and earnings: 2020 and 2021

<sup>45</sup> Foreign direct investment involving UK companies (directional): inward

<sup>46</sup> Financial Times FDI markets, Online database of cross border greenfield investments. As this only covers greenfield investment, it likely underestimates the scale of the UK-South Korea investment relationship.

<sup>47</sup> ONS (2022), Foreign direct investment involving UK companies: 2021.

pharma industries, at a stock of £2.2 billion, followed by other services (£1.4 billion), combining to account for around 75% of the total outward FDI stock.

The RoK is more restrictive to inward FDI than the OECD average, as measured by the OECD FDI Restrictiveness Index. Restrictiveness is greatest in the Korean maritime, radio and TV broadcasting, and air transport sectors. Across the 11 sectors where the RoK have FDI restrictions in place, these are largely in the form of equity restrictions which limit the extent of foreign ownership permitted in companies or in the aggregate of companies in these sectors. Should there be opportunities to reduce restrictions in some of these sectors this may facilitate greater UK FDI.

It is estimated that 66% of all UK services are supplied through investments, or via a commercial presence (Mode 3).<sup>48</sup> The RoK is the most restrictive country amongst the OECD on foreign entry restrictions, such as equity caps for ownership of firms, restrictions on M&A and requirements for board of directors, which primarily impedes services delivered via a commercial presence and FDI. Across the 22 sectors included in the STRI database, the RoK is more restrictive than the OECD average in 19 sectors. This is most prominent in the rail freight transport, accounting, and architecture sectors.

## Digital Trade

Digital policies could have an important impact on the ease of trading between the partners. Services delivered remotely (mode 1 of services trade) account for the majority of services trade between the UK and the RoK. In 2019, 67% of UK services exports to the RoK and 64% of UK imports were delivered remotely, compared to 65% and 55% for services trade with the world.<sup>49, 50</sup> These figures increased during the COVID-19 pandemic and in 2021, 78% of UK services exports to the RoK were delivered remotely, whilst 82% of imports were also via mode 1.<sup>51</sup>

The RoK has higher barriers to digital trade than the OECD average and the UK.<sup>52</sup> The main impediments are barriers around infrastructure and connectivity, specifically surrounding cross-border data flows, and other barriers affecting trade in digitally enabled services, including local presence requirements. These account for 59% and 22% of restrictions on digital trade respectively.<sup>53</sup> These barriers result in the RoK ranking as the 7th most restrictive to digital trade of the 38 OECD countries. By comparison, the UK ranks as the 3rd most open economy to digital trade, with barriers around infrastructure and connectivity, as well as electronic transactions the main drivers behind any restrictiveness.

Digitalisation, or digital trade policies, may also positively impact non-digital trade by reducing overall trade costs at the border and helping suppliers or customers identify new trading opportunities even when transactions are not digitally ordered or delivered.

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<sup>48</sup><https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/articles/modesofsupplyukexperimental/estimates/2019#british-services-supplied-by-modes-of-supply>

<sup>49</sup> ONS (2020), Exports of services by country, by modes of supply: 2019 and ONS (2020), Imports of services by country, by modes of supply: 2019. Mode 1 is used as a proxy for digital delivery.

<sup>50</sup> Percentage figures are calculated using Modes 1, 2 and 4 delivery of services. Mode 3 is excluded from these calculations.

<sup>51</sup> ONS (2023), Exports of services by country, by modes of supply: 2021 and ONS (2023), Imports of services by country, by modes of supply: 2021. Mode 1 is used as a proxy for digital delivery.

<sup>52</sup> OECD (2021), Digital Services Trade Restrictiveness Index.

<sup>53</sup> Data accessed via the OECD Digital Services Trade Restrictiveness Index Simulator

## Encouraging Greater Innovation

The UK and the RoK are among the world's most innovative economies, having been ranked 4<sup>th</sup> and 6<sup>th</sup> respectively in the Global Innovation Index.<sup>54</sup> Furthermore, Korea is a global leader in Research and Development (R&D) expenditure as a proportion of national income, ranking 2<sup>nd</sup> globally, with the value in 2020 amounting to 4.8% of GDP.<sup>55</sup>

## Intellectual Property

Innovation relies heavily on effective intellectual property (IP) rights and in 2021, the UK and the RoK were the 7<sup>th</sup> and 4<sup>th</sup> ranked economies for number of patents granted in 2021.<sup>56</sup> Among the 25 countries the UK exported the most services to in 2022, the RoK ranks 3<sup>rd</sup> for the proportion of those exports that are payments for the use of intellectual property. Over 70% of these payments came from licences for the use of outcomes of research and development. The RoK is the UK's 16<sup>th</sup> largest partner for intellectual property exports.<sup>57</sup>

## Wider Economic Impacts

An enhanced FTA provides the opportunity to:

### Support Both Small and Large Businesses that Trade with the RoK

In 2021, around 6,700 UK businesses exported goods to the RoK, and 6,800 UK businesses imported goods from Korea, of which 85% (5,699) and 66% (4,477) respectively were SMEs.<sup>58</sup> Provisions supporting SMEs provide the opportunity to increase the number of businesses of all sizes trading with the RoK.

### Support UK Jobs Across All Regions

Exports to the RoK supported around 111,000 jobs in the UK in 2018, of which over 75% were in services sectors.<sup>59</sup> More than 1.4 million people were employed by UK businesses that exported goods to the RoK in 2021.<sup>60</sup> London, the South East, and the East had over 3,100 businesses exporting goods to the RoK in 2021 between them, with these top regions having a combined export value of over £2.0 billion.<sup>61,62</sup> Figure 7 shows the distribution of UK goods exports to the RoK, supporting jobs across all UK nations and English regions in 2022.

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<sup>54</sup> (WIPO) Global Innovation Index (2022): What is the future of innovation-driven growth?

<sup>55</sup> The World Bank Group (2022) Research and development expenditure (% of GDP)

<sup>56</sup> World Intellectual Property Organisation (2023). Total patent grants (direct and PCT national phase entries) by applicant's origin.

<sup>57</sup> ONS (2022) UK trade in services: service type by partner country, non-seasonally adjusted, October-December 2021 edition.

<sup>58</sup> HMRC (2022), UK trade in goods by business characteristics 2021 data tables.

<sup>59</sup> OECD (2021) Trade in employment database

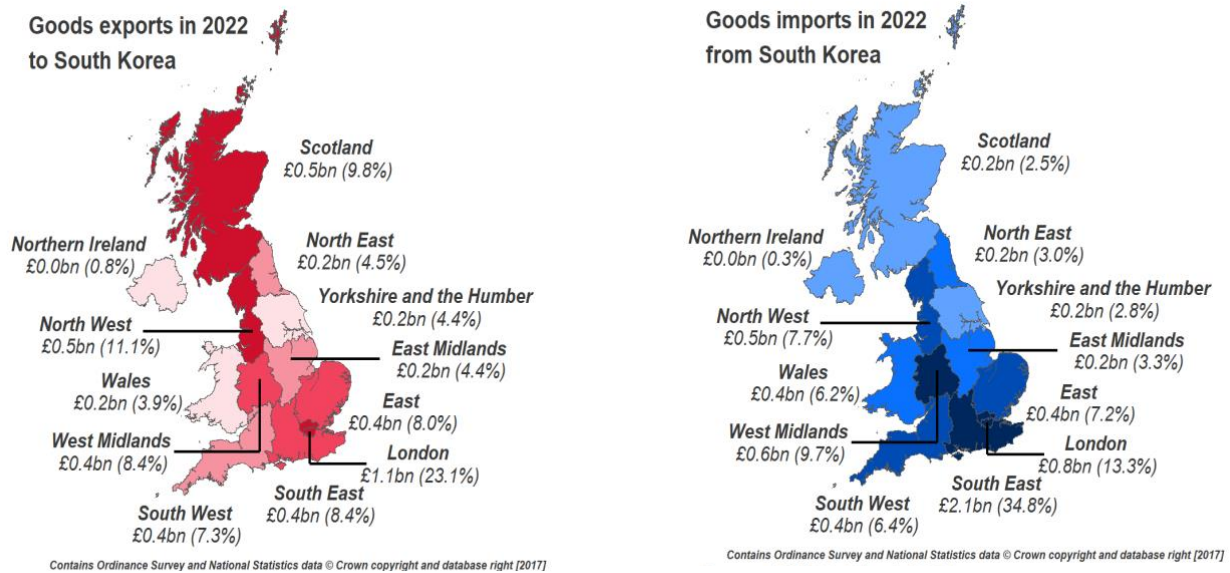
<sup>60</sup> HMRC (2022), UK trade in goods by business characteristics: 2021

<sup>61</sup> HMRC (2022), Regional Trade in Goods Statistics, Business Counts, Q4 2021.

<sup>62</sup> HMRC (2022), Regional trade data: custom tables



**Figure 7: Regional Trade with the RoK in 2022**



Source: HMRC Regional Trade Statistics (data extracted from the interactive tables)<sup>63</sup>

## Environmental Impacts

In 2019, the UK emitted 5.2 tons of CO<sub>2</sub> per person, compared to 11.8 tons emitted per person in the RoK.<sup>64</sup> The RoK's emissions per person are higher than the OECD average of 8.5 tons per person.

The UK became the first G20 country to legislate binding commitments in 2019 to bring greenhouse gas emissions to net zero by 2050.<sup>65</sup> From 1990 to 2019, the UK's GDP has grown by 72%, while its Greenhouse Gas (GHG) emissions reduced by 48%.<sup>66</sup> <sup>67</sup> Over the same period, the RoK's GDP has grown by 308%, while its GHG emissions have increased by less than half that rate.<sup>68</sup> Furthermore, the RoK has committed to achieving net zero by 2050.

As set out in the Outline Approach, the rationale for an enhanced agreement with the RoK is focussed on increased liberalisation in areas such as financial services and digital trade. This could mean that the enhanced agreement may have relatively limited environment impacts, UK services trade with the RoK is around 50% less carbon intensive than trade in industry or manufacturing and 75% less intensive than trade in agriculture<sup>69</sup>. The UK's ambition is to continue promoting trade and investment in environment and climate friendly goods and services through a modern FTA.

<sup>63</sup> Note that these figures from HMRC are reported on a physical movement basis and are not directly comparable to trade data from ONS which are reported on a change of ownership basis. Totals presented here will differ from overall HMRC trade figures and percentages will not total 100% due to the exclusion of trade in non-monetary gold and non-response estimates and the exclusion of data not allocated to a UK country or region.

<sup>64</sup> World Bank data, Metric tons of CO<sub>2</sub> emissions per capita, 2019

<sup>65</sup> HM Government, Net Zero Strategy: Build Back Greener, October 2021

<sup>66</sup> Department for Energy and Security (2023) Final UK greenhouse gas emissions national statistics: 1990 to 2021

<sup>67</sup> IMF World Economic Outlook Database: April 2023 Edition

<sup>68</sup> IMF World Economic Outlook Database: April 2023 Edition

<sup>69</sup> OECD TECO<sub>2</sub> database

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