
THE KOREA-US FREE TRADE AGREEMENT

The recent Korea-US Free Trade Agreement has intensified and cemented a significant bilateral economic relationship. This article analyses the incentives of both players in coming to the free trade agreement, and examines the potential impact of the trade pact.

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On April 1 2007, the United States and the Republic of Korea concluded negotiations for the Korea-US free trade agreement (KORUS FTA).¹ Trade representatives seemed to be touting that initial expectations of eliminating trade barriers had been met. South Korea counted the reduction of American tariffs on automobiles, textile, and electronics, as well as the legal framework for limiting the application of anti-dumping laws on its products and for exporting goods produced in the Kaesong Industrial Zone in North Korea as gains.² The US listed relaxation of quotas and tariffs on agricultural and farm products, improved access to audio-visual and financial markets, and protection of American investors as main accomplishments.³

The KORUS FTA has been the dominant political agenda in South Korea over the past year, although it went largely unnoticed in the US. Naively comparing the size of the American and South Korean economies, one might expect the agreement, if it does come into effect, to have a disproportionate impact on South Korea. In terms of GDP, the US economy is about fifteen times as large as that of South Korea. However, with South Korea being the twelfth largest economy in the world and the seventh largest export market for US goods, the KORUS FTA is the most significant

commercial pact the US has concluded since NAFTA fifteen years ago,⁴ and its economic as well geopolitical consequences deserve much attention. An in-depth look at the terms of agreement and their long-term significance is overdue in the US.

A Daring Bet by the Roh Administration

That the current Roh administration has pursued the KORUS FTA as zealously as it has comes as a surprise given its left-wing roots and emphasis on autonomous relations with America. The agreement, if anything, promotes tighter economic interdependence between the two nations and is expected to increase the gap between South Korea's upper and lower classes by deregulating the economy further.⁵ However, Roh's administration has championed the deal as an opening of markets that will exert the right amount of pressure to make South Korea more globally competitive. In particular, it was initially asserted that the comparatively less developed service sectors of the South Korean economy would benefit in the long run from American competition in the domestic arena,⁶ although the near-exclusion of service sectors in the actual negotiations has made a significant impact less than likely.

What experts generally agree on is that the FTA itself will not bring immediate results of a

decidedly negative or positive kind, as critics and proponents have argued contentiously in the past months. Instead, depending on the success of long-term restructuring in response to the KORUS FTA,⁷ the South Korean economy will either become weaker due to the collapse of unprotected industries and domination of foreign capital, or rise above the challenge of the ‘sandwich’ presented by a developing China and an advanced Japan to become a hub of free trade in East Asia.⁸

A Hub of FTAs

The articulated vision to be a “hub of FTAs”⁹ in East Asia can be gleaned in the South Korean government’s embrace of negotiations with countries beyond the U.S. As early as May 8, 2007, barely a month after negotiations for the KORUS FTA were completed, the first round of negotiations for an FTA between the E.U. and South Korea took place in Seoul.

Indeed, it is reported that the KORUS FTA prompted South Korea’s other trading partners – Australia, Japan, China, and the E.U. – to request consideration of similar negotiations out of fear that American products, with reduced tariffs, would out-compete their exports.¹⁰ For example, China’s premier Wen Jiabao, just days after the KORUS FTA was announced, expressed his hope that an FTA between South Korea and China would be established as soon as possible.¹¹ It appeared that China was wary of America’s intentions to check its influence in the region. In South Korea, it has been suggested that FTAs with the U.S. and E.U. were merely planned as stepping stones for an FTA with China, which is projected to be the most profitable, as China is currently South Korea’s leading export

market and trading partner.

American Reasons

On the flip side, much of the American motivation for negotiating the KORUS FTA lay in its desire to secure a market for its agricultural exports, as well to reduce its trade deficit by means of export in the service sector and direct investment. In exchange for opening up South Korea’s beef market and protecting its investors, the U.S. has had to give concessions on automobiles and textiles. The lowering of domestic tariffs on automobiles seems to be the single aspect of the free trade agreement that has caught any political attention to date. In a statement first in its explicit mention of the KORUS FTA, John Edwards, the Democratic presidential candidate, urged Bush to “shut down all trade negotiations with South Korea until they prove their willingness to open their market to American automobiles and other U.S. products and agree to trade fairly.”¹² More recently, Hillary Clinton also came out in full opposition to the ratification of the FTA, citing its harm to the US auto industry.¹³

A Renegotiation

Arguably, it was in the vein of allowing American producers to compete fairly that the U.S. Congress recently pushed for an agreement with the Bush administration, requiring the appendage of environmental and labor standards to pending free trade agreements which include the KORUS FTA.¹⁴ Although applicable to trade with developing countries that compete with cheap labor and natural resources, such regulations are next to irrelevant in trade with South Korea, an

industrialized nation with unions that are stronger than America's in many industries.

However, the legislation made a renegotiation of the KORUS FTA inevitable, in light of gaining final approval in the US. South Korean negotiators had held the position that any renegotiation would be unacceptable as the delicate balance of benefits achieved during the original negotiations must be maintained. As of June 22, the U.S. has filed a formal request for renegotiation, with the chief negotiator stressing that it would in "no way alter the balance we achieved with the FTA,"¹⁵ and talks have been underway in Seoul to renegotiate labor, environment, and five other fields. It remains to see whether the legislative body in both countries will

approve of a final agreement.

Meanwhile, it may be worthwhile for America to consider the long-term economic and geopolitical significance of the KORUS FTA that lies beyond the interests of specific industrial sectors. As seen in the rush of countries seeking trade agreements with Korea, many international competitors are trying to gain a foothold in the growing economy of East Asia. Without the FTA, the U.S. may be excluded in a growing network of trade relationships to its disadvantage.¹⁶ In political terms, a strengthened partnership with South Korea, a regional power that is also growing in global influence,¹⁷ will allow the US to continue as a stabilizing force in a part of the world with dynamic power relations.



ENDNOTES

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