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The U.S.–South Korea FTA: A Defining Moment

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U.S. and South Korean negotiators have struck a landmark trade deal in the Korea–U.S. Free Trade Agreement (KORUS FTA). If ratified, the agreement will provide American workers and businesses with new opportunities and serve as a powerful statement of the U.S. commitment to East Asia. But although the deal would eliminate more than 90 percent of all tariffs within three years, it will face considerable opposition in the U.S. Congress and South Korean National Assembly—particularly over trade in the sectors that were contentious during negotiations, such as agriculture, automobiles, and pharmaceuticals. Presidents George Bush and Roh Moo-hyun must exercise strong leadership and explain the FTA's benefits to gain public and legislative support. Passage would mean a new era for U.S. economic engagement with East Asia and expanded opportunities for the American economy. Failure, however, would strike a blow to a key alliance that would reverberate for decades to come.

Big Benefits. The Korea–U.S. Free Trade Agreement—the largest signed by the U.S. since the North American Free Trade Agreement in 1994—is a milestone in broadening the U.S.–South Korea relationship beyond the military alliance. It is expected to increase the countries' robust \$75 billion annual bilateral trade by an additional \$20 billion. The FTA would give U.S. business another important bridgehead into the Asian market, counterbalance South Korea's growing trade ties with China, and potentially allow the U.S. to regain its position as Seoul's preeminent trade partner. For Seoul, the agreement will improve South Korea's economic freedom by

locking in additional economic reforms. It may also give a boost to South Korea's credit ratings and give the country a competitive advantage over regional rivals China and Japan.

Despite South Korea's great reliance on trade and exports for the vitality of its economy, the FTA's negotiations underscored South Koreans' continuing ambivalence about opening the country's markets. South Korea's heated debate over ratifying its first trade deal with Chile suggests that debate over the KORUS FTA review will be even more raucous. Continuing suspicion of U.S. motives has allowed opponents to tap into latent anti-American emotions to generate fierce anti-FTA demonstrations.

Trade Concessions and Political Cover. Only political deliberation will determine whether the compromises struck by negotiators can withstand the scrutiny of Congress or whether additional fine tuning will be needed in the implementation language. In negotiations, the U.S. gained politically sensitive concessions on beef and autos. Senator Max Baucus (D-MT), a strong trade proponent, had threatened to oppose the FTA if Seoul did not agree to resume imports of U.S. beef. South Korea had been the third largest importer of U.S. beef—accounting for 200,000 tons in 2003—prior to halt-

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ing imports in December 2003 following discovery of mad cow disease in the U.S. Still, lingering public health concerns may slow the growth of trade in beef. South Korean agricultural groups will protest the policy change for its effect on their livelihoods. Domestic beef prices may drop 40 percent after the reintroduction of U.S. imports, and the lower prices could cause downward pressure on chicken and pork prices as consumers shift to lower-priced beef.

Similarly, failure to gain greater access to the South Korean auto market was highlighted as a deal breaker by senior Democrats in the House of Representatives. It is not yet clear whether the concessions gained will be sufficient to placate auto proponents. U.S. auto manufacturers remain skeptical of South Korean promises, which the industry claims have been broken in the past or coupled with new non-tariff regulatory barriers. And Detroit may be more concerned about foreign-manufactured auto parts than about gaining greater market share for car sales in South Korea. South Korea exported 700,000 cars to the U.S. last year while importing only 5,000. Only 2.7 percent of cars sold in South Korea are imports, the lowest figure among OECD countries.

In South Korea, the exclusion of rice from the FTA is a political victory for the Roh administration, though not for South Korean consumers who will continue to pay four times the world market price for rice. Rice is a highly emotional issue for South Koreans, transcending economic factors. It remains a staple of Koreans' diet, and the country venerates the historic image of the farmer, though the profession is in decline.

The countryside is overly represented in South Korea's National Assembly, with one representative per 30,000 people in rural areas, as opposed to one representative per 300,000 people in urban areas. Farmers wield political power beyond their numbers and have been the most active in their opposition to the FTA. To reduce domestic opposition, Seoul will promise new governmental assistance programs to affected industries.

Tough Challenges Ahead. Although the FTA has been completed and enjoys strong support from business in both countries, it faces formidable obstacles to ratification in the U.S. Congress and the South Korean National Assembly. President Roh Moo-hyun will have to work hard to gain a sufficient majority within the National Assembly to secure ratification. He will face greater opposition from within his ruling Uri Party than from the traditionally pro-business Grand National Party. The minority opposition Democratic Labor Party and Democratic Party are vehemently opposed to the FTA, as are minority factions within both the Uri and GNP. There is probably enough support to win ratification. President Roh will be challenged, however, by his own declining political influence and a legislature increasingly divided by partisanship during a presidential election year.

Conclusion. Neither country achieved all that it sought during negotiations, and the FTAs impact on individual trade sectors will be uneven. This is, unfortunately, the nature of trade negotiations. Achieving a level playing field in trade requires overcoming public fears and protectionist inclinations. Both sides sought to protect their rice bowls. But overall, the KORUS FTA serves the national interests of both countries by equitably expanding bilateral economic opportunities through free trade.

Presidents Bush and Roh must exert strong leadership to highlight the broad advantages of the deal to convince legislators to look beyond their parochial interests. President Roh has taken a principled stand against those who advocate maintaining outdated protectionist barriers—including members of his own party. President Bush should press the U.S. Congress to embrace the strategic advantages of strengthening the U.S.–South Korea bilateral relationship through approving the KORUS FTA.

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