

Korus fta: free trade agreement between the research papers example

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United States of America and the Republic of Korea

Free Trade Agreement between the United States of America and the Republic of Korea

Executive Summary

Last March 15, 2013, the United States–Korea Free Trade Agreement (KORUS FTA) celebrated its first year anniversary. As it is with major trade agreements in the world, the anniversary of the KORUS FTA was eclipsed by the many debates on the agreements impacts, benefits, costs, ramifications and potential and protracted negotiations and renegotiations potential. Both the United States and South Korea state that the KORUS FTA is in fact delivering on the projected economic promises, citing the increase in the value of trade between both countries and not just for one of the two participants. Critics from the United States says that this trade is imbalanced, thereby contributing to the trade deficit in the United States, the continued poor performance of the labor market, and the detriment of key industries such as the automobile and agriculture industries. Korean critics claim that the ugly head of the KORUS FTA has yet to appear. The early trade statistics are positive but as such, have to be taken at face value despite showing positive effects for the automobile, agriculture, pharmaceutical, and consumer products industries.

Background – Policy issue & basic facts

The Republic of Korea (South Korea) and the United States Free Trade Agreement (KORUS FTA) is a trade agreement that was passed into law by the United States on October 12, 2011 and by the Republic of Korea on

November 22, 2011. The KORUS FTA is the largest free trade agreement for the United States since signing the agreement with Canada and Mexico that brought together the North American Free Trade Agreement (NAFTA) while the KORUS FTA is Korea's largest trade agreement in the country's history. Both countries see the KORUS FTA as a way of expanding investments and trade in both countries and a way to re-energize the agriculture, consumer products and textile industries of both countries.

The KORUS FTA is one of the most important trade agreements in the world today because it strengthens the relationship of the Republic of Korea and the United States in many levels other than the obvious economic connection. For the United States, the KORUS FTA means that a new market for its agriculture sector will open up while for Korea, a significant market for their consumer products will be made more accessible as well. The KORUS FTA was designed to benefit not just large corporations but small and medium sized business organizations most especially. The KORUS FTA is also believed to be the legitimate reason for the US to have a larger military presence in Asia. It also benefits the Republic of Korea from its neighbor, North Korea, who has threatened South Korea's security. The presence of US military forces is a possible deterrent to any untoward situation with South Korea's northern neighbor.

The KORUS FTA's framework states that:

- All trade barriers between the US and South Korea will be eliminated;
- The KORUS FTA is constitutional for both countries, having been ratified into law by each country's head of state;

- The agreement contains several agreements for products and services and creates a framework for dispute resolutions, without United Nations intervention and without any of the two countries requiring the infusion of funds for resolution of trade issues;

- The agreement does not provide any special privileges to any particular Korean or American investors however it does encourage Foreign Direct Investments (FDI) in both countries;

- Initial negotiations between George W. Bush & Roh Moo-Hyun

The KORUS FTA was signed into law by US President George W. Bush and his South Korean counterpart, Roh Moo-hyun in June 2007. However there was opposition from U. S. Democrats regarding the constitutionality of the agreement particularly the labor implications of the law.

- Re-negotiated version between Barack Obama & Lee Myung-Bak

The KORUS FTA was signed by both the United States and South Korea in December 2010 and took full effect last March 2012 (Schott). The KORUS FTA was ratified by both US President Barack Obama and South Korean President Lee Myung-Bak (United States White House Press). The changes that both heads of state agreed to included changes in bilateral trade agreements concerning automobiles, light trucks, pharmaceutical patents, pork exports and the acquisition of US visas by Korean nationals. There is very little by way of economic changes that was presented in the revised version compared to the old version that was signed by then United States President George W. Bush and his counterpart, South Korean President Roh Moo-Hyun. There were changes in the tariff schedules that resulted in some benefits overall but it was not significant, as tariff cuts for automobiles have

already been agreed to be deferred by both countries. The changes in the KORUS FTA that swung the deal favorably to completion were better terms for labor unions that led to a wider industry support from the United States. Additionally, the newer version of the KORUS FTA that was signed by President Obama and President Myung-bak featured regulatory reforms that would help the auto industry by improving fuel economy and safety standards and a feature that would help both country avoid too much importation of motor vehicles from each other (Schott). These changes were more for the United States than it was for South Korea. On the other end of the negotiating table, the Koreans asked for a delay in the phase out of tariffs on US frozen pork imports, the ability of Korean professionals to acquire L-1 Visas to be able to work in the United States and an extension of the grace period for the implementation of patent linkages for pharmaceutical products. The KORUS FTA allowed South Korea to be able to link patents for pharmaceutical products for a total period of 18 years. These give-and-take areas are categorically minor and thus was appealing to the approving councils of both countries.

The trade agreement is expected to affect the lives of 362 million consumers from both countries because of the following general agreements :

- Under the agreement, two-thirds of US agricultural exports will enter South Korea duty free including rice;
- A tariff agreement will cover both countries, structured in a two-step process;
- Sanitary and phyto-sanitary safeguards will be established jointly by both countries; and

- Volumetric safety guards are established for both countries so that there will be no dumping or under trade of goods and services.

The specific traded products covered by the KORUS FTA are the following:

- Agriculture
- Beef
- Pork
- Poultry
- Dairy
- Fruits, Vegetables and Nuts
- Grains
- Wine
- Automobiles
- Pharmaceuticals
- Manufacturing
- Consumer Electronics
- Information Communications Technologies
- Services
- Financial Service
- Audio-Visual Services
- Intellectual Property
- Entertainment

U. S. Reactions to the agreement

The KORUS FTA would generate economic benefits to the United States and to South Korea significantly. Estimates from the non-partisan group,

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International Trade Commission, is a Gross Domestic Product (GDP) boost of about US\$ 12 billion and a trade value of about US\$ 11 billion, without necessarily chalking up debt to stimulate the economies of the two countries . However, despite this there was a lot of concern on the gains coming from the KORUS FTA. For one, the amount of time taken to ratify the agreement from both the US Congress and the South Korea Delegation raises concerns about the true nature of the trade agreement. The delays in the ratification could very well be political, since the US and the Obama administration are not very big fans of the trade agreement and the possibility of South Korea taking a chunk of the manufacturing away from states such as Ohio and Pennsylvania, Michigan, North and South Carolina, etc.

The opposition to the KORUS FTA was numerous. Back in 2010, about 100 members of the United States Congress opposed the ratification of the KORUS FTA calling it a “ job killer” while more than 500 business organizations opposed the KORUS FTA as written. Some of the reactions included views saying that the KORUS FTA will not contribute to a sustainable global future; too much opening of the economy that would kill America’s middle class; that the NAFTA’s effects which were believed to be detrimental to the United States is being replicated in the KORUS FTA; that the cost of trade will result in the abolition of US worker’s rights; that the US manufacturing industries will suffer and die; health and public safety regulations will be affected; that agriculture will be severely weakened; and that sweatshops in Korea will flourish which will then contribute to human rights violations .

However, it is helpful to understand that South Korea is one of the US’

largest trading partners and the ratification of the trade agreement would provide US companies with better access to the South Korean market, of which about 95% will be traded duty free within three years of enforcement. This includes Korea's manufacturing sector which US firms can now enter and compete in. For the US, this means that its small and medium sized businesses will increase their exports to Korea and create more jobs in America due to increased exports while the Koreans will have greater consumer choices now made available to them.

The biggest winner in the KORUS FTA is the agricultural sector of both countries. South Korea is a net importer of food and the KORUS FTA gives American farmers access to one of the fastest growing economies in the world. The KORUS FTA promotes semi and fully processed food as well, which is unprecedented in any FTA entered into by the United States. The FTA also provides considerable benefits to the livestock industry, grains industry, fruits and vegetable industry, agricultural products and processed food products. South Korea's gains come from the blotched FTA with Europe and the declining imports from other countries.

In essence both the US and South Korea need and want the increased trade and investments, after the removal of 95% of tariffs on the first five years of implementation and the rest after 10 years. This would result in an increase in US GDP by at least US\$ 10 billion annually, with agricultural products making anywhere from US\$1.9 billion to US\$3.8 billion higher than their normal revenues with the KORUS FTA. These will be enjoyed by small companies from both countries, who will be in taking charge of a bulk of the trade. This is if the US successfully makes the agreement with South Korea

work. The KORUS FTA is a test case for the US's successful trade agreement with an Asian country outside of Japan. As for Korea, this would enable the country's many manufacturing and export companies to promote their products and services more in the US and potentially pave the way for other players in other industries a good foothold in the US markets.

South Korea Reactions to the agreement

The US farm products will benefit from the KORUS FTA due to the removal of tariffs and its entry into South Korea. This tariff removal will increase demand for US products and create income for the US. The Korean farmers will lose in this regard. This was the principal argument in South Korea to the enactment of the KORUS FTA. Opposition from Korea called 10 provisions of the original KORUS FTA agreement as "poisonous" despite the fact that these provisions were crafted by an economically progressive administration and that safeguards against unfair trade practices have been installed as a clear feature of the KORUS FTA .

In the automobile sector, the perceived reactions are different. South Korea produces Hyundai and Kia, both strong entrants into the automobile industry while the US produces some of the most known brands in the world. The Koreans are competing aggressively in the US, increasing their market share significantly by 2010. The US automobile makers will benefit from the KORUS FTA when the tax on imported automobiles will be removed making US cars competitive in South Korea. Thus, the KORUS FTA will make it easier for the US to export its Fords and GM cars in South Korea while South Korea will make it easier to provide their services in manufacturing of special products

such as textiles and electronics to the US. However, opposition to this supposed benefit claim that the KORUS FTA will result in the US car manufacturers exploiting the Asian market through South Korea, gaining unfair advantage over competition .

Labor activist Hye-Won Chong says that the KORUS FTA is a big threat to both countries since the model it follows is not about trade or fairness, but a growth model that is primarily based on the destruction of employment . This position is similar to what the US Democratic leaders were saying that the KORUS FTA will harm both countries' labor markets.

Conclusion

It is without a doubt that the KORUS FTA would generally improve the economies of South Korea and the United States. South Korea will benefit from the Free Trade Agreement (FTA) on an income level, as well as the United States due to positive trade gains. US agricultural producers would benefit from accessing the Korean markets while the South Korean textile industries would have better access to the US markets. There will be a bit of a problem for their counterparts, i. e. the agricultural producers from South Korea or the textile manufacturers in the United States. Both countries are looking at “ compensating” schemes for those that will be affected, so that the KORUS FTA implementation goes on smoothly. A review of the economic models indicate that one component of each is evident in the KORUS FTA. The KORUS FTA looks fair for both the US and South Korea, thus we can expect that the trade agreement will benefit both nations in the long-term. The evolving comparative advantage model indicates that the US and South

Korea would both benefit by specializing in the industries that they are very strong in. The exceptional export performance model indicates that the US and South Korean manufacturing sectors would improve with the KORUS FTA.

A present look at the effects of the KORUS FTA on the economies of the United States and on the Republic of Korea indicate that the both exports and import growth rates on FTA products specified under the KORUS FTA have been greater for both countries. As originally proposed, the KORUS FTA is increasing trade volume between the US and Korea.

Figure 1 Key Trade Statistics: KORUS FTA

It may be too premature to conclude that the KORUS FTA is delivering on its promises, since the KORUS FTA is simply slightly a year old only. The snapshot of the effect however, has been challenged by many critics, saying that the US did not really benefit from the trade agreement and that the published data is misleading. Critics from Korea voice the same thing.

According to the newspaper, Hanguk Ilbo the FTA's effect is to be taken at face value since it will take several years for the KORUS FTA to show its real effect. The Korea Economic Daily added that work still had to be done to ensure the sustainability of the Korean economy .

However, it is also important to point out that due to the business cycles, it may take some time before large gains coming from trade and new investments are evident, as big items normally take time to develop, manufacture, ship and sell. The results thus are inconclusive but would support a more optimistic view of the KORUS FTA mechanisms .

What does all these mean? It means many things for many different people,

different things for the United States such as an entry into an emerging market and a bailout for its whimpering economy, different things for the Republic of Korea as well such as a stronger foothold on the US markets and an increasing support for their products and services, different for the trade regions that would like entry and access to Asia through South Korea, different for consumers and producers who may be delighted or appalled by the impacts of the KORUS FTA. To us it means there is tangible proof to the economic theories that we learn in school. And while the analysis of the theories may not be perfect, the lessons learned of the timelessness of economic theory serves as the perfect lesson for us.

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