Korea-U.S. FTA: A Giant Step Forward

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In the future, April 2, 2007 will be remembered by many Koreans as a historic and epoch-making day for the well-being and prosperity of the Korean people. On that day, the year-long negotiations for a free trade agreement (FTA) between Korea and the United States finally came to a successful conclusion. It is of particular importance that Korea, one of the most dynamic economies of the world, is to open its market more widely to the United States, the world's largest economy and sole superpower, in return for the corresponding opening of the American market to Korean goods and services. The combined volume of the two FTA partners, equivalent to 14.1 trillion dollars as of 2006, is surpassed only by that of the European Union and the North American Free Trade Agreement.

The Korea-U.S. FTA will certainly give an enormous psychological boost in confidence to the majority of Koreans who are expecting the FTA to serve as a "glue" that will keep the two countries allied for many years to come.

On the Korean side, the political will of the president is crucially important in settling a negotiation of such magnitude and complexity. President Roh Moo-hyun will certainly go down in history as a visionary leader who has chosen a road toward a longer-term prosperity and well-being of the Korean people, notwithstanding tremendous domestic political pressures. The Korean negotiators indeed deserve commendation and applause for their contribution to making the outcome of the negotiations a win-win for both countries. They have demonstrated their skill, steadfastness and flexibility in conducting what were difficult negotiations.

The FTA does not cover all the industrial sectors of both countries. The coverage ranges from lowering or eliminating tariffs on industrial and agricultural products to taxation of imported automobiles and protection of intellectual property on the basis of overall reciprocity. Korea's markets for beef, automobiles and certain service sectors, including legal services, will be affected. The U.S. market for textiles and clothing, *inter alia,* will provide Korean exporters with a competitive edge vis-à-vis exporters from other countries by immediately eliminating tariffs of an average of 13 percent for 61 percent of products imported from Korea. Korea's rice market, which is one of the most sensitive areas to Korea, has been excluded from the FTA. Within the framework of the WTO, Korea has already agreed, with major rice-exporting countries including the United States, to allow tariff-free rice imports of up to 8 percent of Korea's annual consumption by 2014.

The treatment of merchandise produced in the Gaesong Industrial Complex, which also has political ramifications, remains pending. A Committee on Outward Processing Zones on the Korean Peninsula will be established to address this issue when certain non-economic conditions are met.

It is impossible to quantify the costs and benefits of the FTA for Korea. Nor is it practicable to explain whether or not a balance of benefits has been established as a result of the negotiations. The benefits or losses should be viewed from a longer-term perspective.

In essence, "market opening" is what an FTA is all about. The economic advancement of Korea in the past four decades has been achieved in tandem with voluntary or non-voluntary market openings. All the multilateral trade negotiations in which Korea participated, such as the Tokyo Round and Uruguay Round, were aimed at market opening. The ongoing Doha Development Agenda (DDA) is also focused on market opening, particularly in the agricultural sector. In the late 1980s, Korea was forced to negotiate its market opening with the United States under the so-called Super 301 provision of the U.S. Trade Act, backed up by unilateral action in case of the failure to negotiate a settlement. Korea paid an admission fee in the form of its market opening, mostly in the financial sector, on the occasion of its accession to the OECD in 1996. Korea also agreed to open its market substantially in return for a support-loan package of 35 billion dollars from the IMF and other international lending organizations during the financial crisis in 1998. Korea has survived all its market openings, and its economy has continued to grow, now the 11th largest in the world.

Of course, the Korea-U.S. FTA is neither a panacea for Korea's economic woes nor an assurance for the economy's continued advancement. It is up to the Korean industries to turn challenges into opportunities and capitalize on the improved U.S. market. Korea's industries should take advantage of the FTA in enhancing their international competitiveness by minimizing labor-management disputes and maximizing productivity. Korea's industries will continue to face, with or without the FTA, unending challenges from their external competitors.

Proper compensation and subsidization should be provided to the industries that will be adversely affected by the FTA, in conformity with Korea's obligations under the WTO agreements. The competitiveness of those affected industries cannot be maintained only by the government's subsidization. They need to redouble their efforts to adjust themselves to the changing economic environment.

It is expected that the FTA will be formally signed just before the end of June this year. The agreement will enter into force 60 days after both parties notify each other of completion of their respective domestic ratification procedures.

It is crucially important for the Korean side to craft correctly the results of the negotiations into written documents, which will be formally signed and become binding to both signatories. No stone should be left unturned at the crucial stage of documentation. It may be useful to bear in mind the maxim that negotiators disappear and only documents remain.

Revising the outcome of the negotiations should be avoided. In view of the magnitude and complexity of the agreement, however, a partial renegotiation may prove to be inevitable.

The Korean government may find the road ahead bumpy before and even after entry into force of the Korea-U.S. FTA. One important point that the government must remember is that it should maintain transparency when explaining the contents of the agreement to the public and when implementing the agreement.

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