



RISING POWERS INITIATIVE

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The Korea-U.S. Free Trade Agreement (KORUS FTA): U.S. Perspective

Introduction

Four and a half years after the agreement between the U.S. and Korean governments, the U.S.-Korea Free Trade Agreement (KORUS FTA or KORUS) was finally ratified by both the U.S. Congress and the Korean Parliament in late 2011 and is likely to be implemented early this year. At present, the United States has FTAs in force with 17 countries. President Barack Obama also signed free trade agreements with Colombia, Korea and Panama on October 21, 2011, but these agreements have yet to be implemented. The KORUS agreement is the most important free trade agreement for the U.S. since the North American Free Trade Agreement (NAFTA) that came into force in 1994.

With \$3.3 trillion in 2010, international trade accounts for 23% of the \$14.5 trillion U.S. economy. U.S. exports supported an estimated 9.2 million jobs in 2010, up from 8.7 million in 2009. (Johnson, 2011) Despite sluggish U.S. economic growth between 2003 and 2010, export-related jobs increased by over 3 million during this period. For every billion dollars of exports, over 5,000 jobs are supported in this country. That is why President Obama issued an executive order on March 11, 2010, creating the National Export Initiative (NEI), which aims to double U.S. exports over the next five years creat-

ing 2 million new jobs here at home. The NEI recognizes that exports will play a critical role in promoting American economic growth. In particular, exports play an important role in supporting a healthy and vibrant manufacturing sector. The nearly 3.7 million manufacturing jobs supported by exports account for 27% of all employment in the manufacturing sector. In this connection, free trade agreements play a critical role in promoting American exports and job growth.

Korea's Economic Rise

Korea, the 15th largest economy in the world with a GDP of \$1 trillion in 2010, is one of the most dynamic economies in the world. Its economic achievement over the past four and a half decades is truly miraculous. After more than a decade since the end of the 1950-53 Korean war, Korea remained even in 1965 still one of the poorest countries in the world with per capita GDP of only \$106, lower than India's per capita GDP of \$121 at that time. In 2010 however, Korea's per capita GDP of \$20,757 is almost 15 times that of India's at \$1,436. This remarkable economic growth in Korea has been fuelled by its spectacular trade expansion. From less than \$500 million total trade volume in the early 1960s, Korea has become the 9th country in the world whose total

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"THE KORUS AGREEMENT IS NOT JUST A TRADE-ENHANCING MECHANISM BETWEEN THE UNITED STATES AND KOREA. IT HAS ALSO BECOME A GEOPOLITICAL CATALYST FOR THE UNITED STATES TO LEVERAGE ITS INFLUENCE IN THE INCREASINGLY IMPORTANT ASIA-PACIFIC THEATRE."

trade volume exceeds \$1 trillion. Unlike other East Asian countries such as China and Japan, however, Korea's trade surplus has been relatively modest. For example, Korea had a trade surplus of \$41 billion in 2010, compared to \$182 billion for China and \$78 billion for Japan.

Korea has become an important trade partner of the United States, for which Korea is the 7th largest trading partner. Korea is the U.S.'s 5th largest export market for agricultural products, 2nd largest market for U.S. services in Asia, and 10th largest market for information technology products. Total U.S.-Korea trade volume nearly tripled over just two decades between 1990 and 2010.

Table 1. Annual U.S.-Korea Merchandise Trade
(billions of U.S. dollars)

Year	U.S. Exports	U.S. Imports	Trade Balance	Total Trade
1990	14.4	18.5	-4.1	32.9
1995	25.4	24.2	1.2	49.6
2000	26.3	39.8	-13.5	66.1
2005	26.2	43.2	-17.0	69.4
2010	38.0	48.9	-10.9	86.9

However, the relative importance of U.S.-Korea trade has declined steadily since the early 2000s. In 2003, the United States was the world's leading exporter to Korea but today is competing with Europe for third place, behind China and Japan. Until 2002, the United States was also the biggest market for Korean exporters, but it has fallen behind China since 2003 and behind the European Union since 2005. In 2000, the United States was the biggest exporter to Korea, accounting for 21% of total Korean imports compared to only 7% from China. Now the situation has completely been reversed, with China accounting for 18% of total Korean imports while comparable U.S. shares have fallen to 9%.

Why KORUS is Key for the U.S. Economy

KORUS can slow down or even reverse the steady decline in the traditionally strong U.S.-Korea trade relationship. The past record indicates that U.S. FTAs tend to increase the bilateral two-way trading volumes for the United States significantly. According to 2010 trade data, America's 17 free trade agreement partners represent only about 7% of global economic output outside the United States. However, they account for over 40% of U.S. exports, while contributing to 31% of U.S. imports. The impact of some of the recent U.S. trade agreements has been

quite impressive in promoting such two-way trade flows. (U.S. Department of Commerce, 2009)

Table 2. The Impact of U.S. FTAs on Bilateral U.S. Exports and Imports

Trade Agreement	Change in U.S. Exports	Change in U.S. Imports
Australia (2004-08)	+59%	+41%
Bahrain (2006-09)	+48%	-20%
Chile (2003-08)	+341%	+122%
Morocco (2005-08)	+199%	+97%
Singapore (2003-08)	+68%	+5%

The United States boasts one of the world's most open economies. This openness has been a key source of America's economic strength. Korea, on the other hand, has maintained significant trade barriers over the years. For example, Korea's duties on imported agricultural products average 54%, compared with only 9% on average in the United States for the same imported agricultural products. On non-farm goods, Korean tariffs average 6.6%, compared with 3.2% in the United States. By eliminating these high tariffs in Korea, KORUS would significantly expand U.S. exports to Korea in the coming years. Under KORUS, 95% of all bilateral goods trade will become duty free over the next three years, and in ten years virtually all tariffs on goods will be eliminated.

Several studies have been conducted to estimate the potential effects of the KORUS agreement. The U.S. ITC study in 2007 estimates that U.S. GDP would increase by \$10 to \$12 billion (about 0.1%) and U.S. exports would rise by \$9.7 billion to \$10.9 billion, if KORUS is fully implemented. (U.S. International Trade Commission, 2007) A University of Michigan study, commissioned by the Korea Economic Institute, estimated that U.S. GDP would increase by \$25 billion (0.14% of GDP). (Kiyota and Stern, 2007) This estimate is larger than the US ITC result, in part because the study included the effects of liberalization in services trade. The Korea Institute for International Economic Policy (KIEP) estimated the potential economic impact of KORUS on Korea's economy. The study concluded that KORUS would lead to an increase of 0.42% to 0.59% in Korean GDP according to a static analysis and 1.99% to 2.27% according to a dynamic analysis. (Lee and Lee, 2005) A study by the U.S. Chamber of Commerce in 2009 found that America would suffer a net loss of more than 345,000 jobs, \$35 billion in lost export sales and U.S. GDP failing to grow by \$40 billion, if KORUS is NOT implemented while the European Union and Canada move forward to implement FTAs with Korea. (Baughman and Francois, 2009) Korea's FTA with EU has been in force since

July 2011, while its FTA with Canada is still under negotiation as of December 2011.

KORUS FTA and the Trans-Pacific Partnership (TPP)

On November 12, 2011, the leaders of 9 TPP countries (Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, and the United States) announced the broad outline of an ambitious, 21st-century TPP agreement. Soon thereafter, the original 9 countries were joined by Japan, Canada and Mexico, thus making the 12-nation TPP bloc accounting for 40% of the world GDP, compared to only 25% for the 27-nation European Union GDP. The TPP is designed for more than traditional FTAs, since it will include not just traditional FTA issues such as reducing or eliminating tariffs and rules on intellectual property, labor and environment. The TPP is also envisioned to make the regulatory systems of member countries more compatible with global standards, to address trade and investment in innovative products and services, and to ensure state-owned enterprises compete fairly with private companies. Since TPP is more than FTAs, it is possible that Korea might also join it in the future. Among the 12-country TPP negotiation bloc, 6 countries (Australia, Canada, Chile, Mexico, Peru and Singapore) have already concluded FTAs with the United States.

The TPP is a key element of the Obama Administration strategy to promote U.S. exports vigorously and at the same time to make U.S. engagement in the Asia-Pacific region a top priority. The TPP is important because U.S. now exports more to Pacific rim countries than to Europe. It also promises something truly revolutionary: persuading Asian governments to accept new rules of the game for state-owned enterprises, a hallmark of Asian-style capitalism. The TPP can accelerate the movement of the global center of economic gravity from the Atlantic Ocean to the Pacific. It is also a test for the new U.S. strategy of coping with China's rise by "pivoting" American foreign policy towards Asia.

The recent decision by Prime Minister Yoshihiko Noda for Japan to join the TPP negotiations is considered especially significant in making the TPP a truly Pan-Pacific movement. Japan's new interest in TPP stems from three factors. First is the fear generated in Japan by the new KORUS FTA, which can make Japan's export industry less competitive vis-à-vis its Korean rival. Second, the absence of China in TPP can create a strategic environment, where China would see Japan as a formidable neighbor that cannot be pushed around easily. Third is the declining clout of Japanese agricultural interests long opposed to any form of free trade agreements. Agriculture now accounts for less than 1.5% of Japan's

GDP, and the public opinion poll indicates that the majority of Japanese want to join TPP negotiations.

After Japan decided to join the TPP negotiations, both Canada and Mexico also decided to join the talks. The KORUS agreement has also induced China to more aggressively seek a Korea-China or even Korea-China-Japan FTA in order not to be left behind. Thus, the KORUS agreement is not just a trade-enhancing mechanism between the United States and Korea. It has also become a geo-political catalyst for the United States to leverage its influence in the increasingly important Asia-Pacific theatre.

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