KORUS FTA : Action or Inaction?

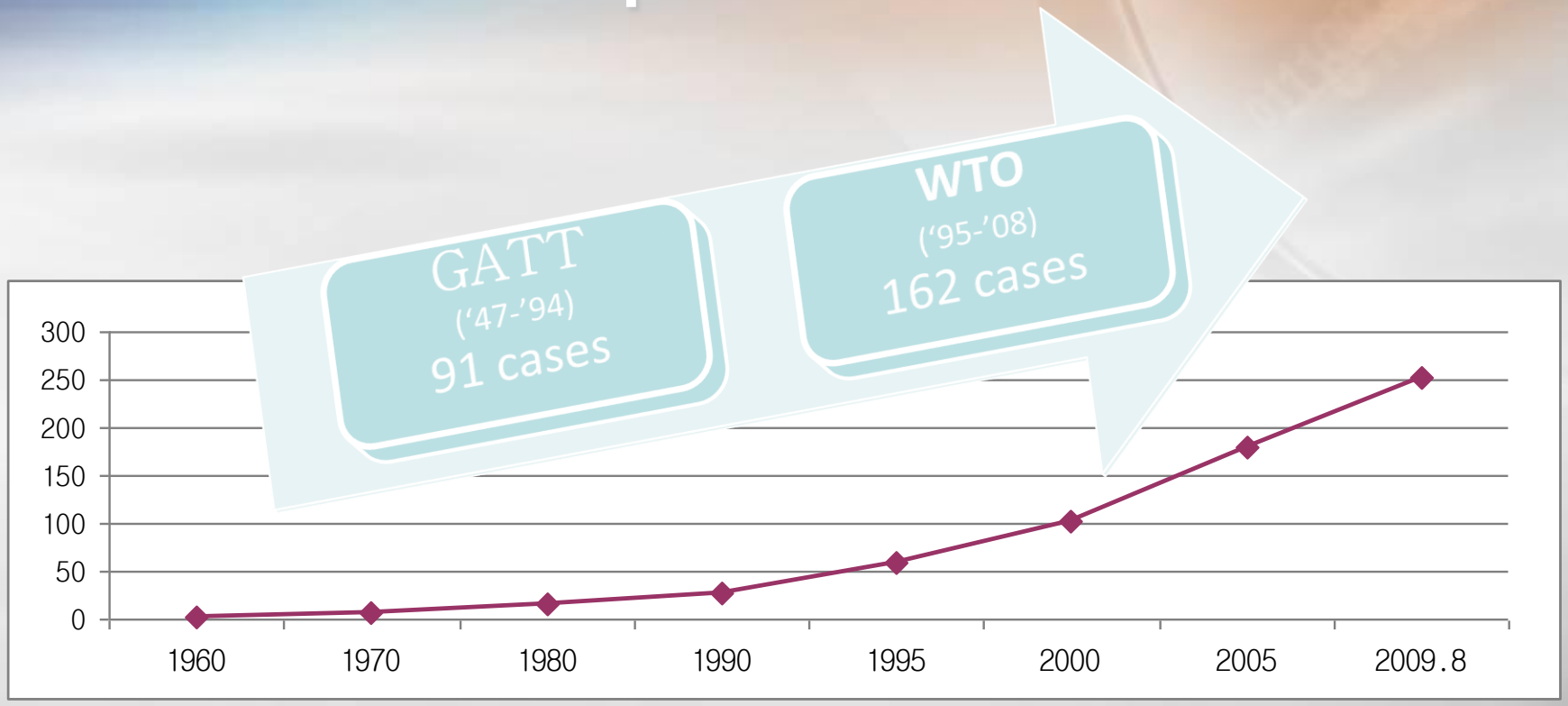
Choi, Jong-hyun
Minister for Economic Affairs

Introduction

1. Korea's FTA policy
2. KORUS FTA and its Benefits
3. Cost of Inaction
4. Urgency of Action

Korea's FTA Policy

Global Expansion of FTAs

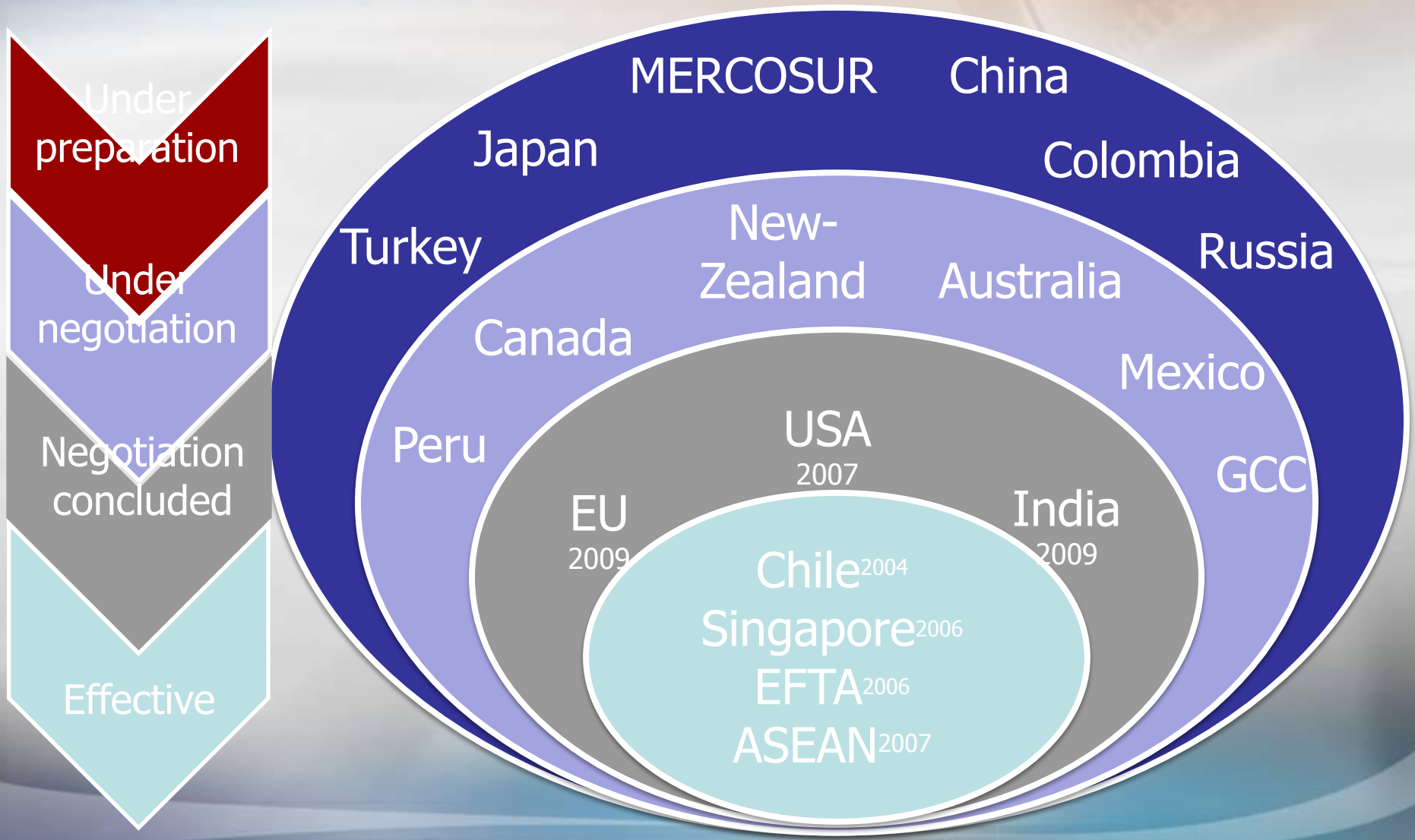


	Until July 2009	World Trade Share under FTA
Effective FTAs	**253**	**More than 50%**

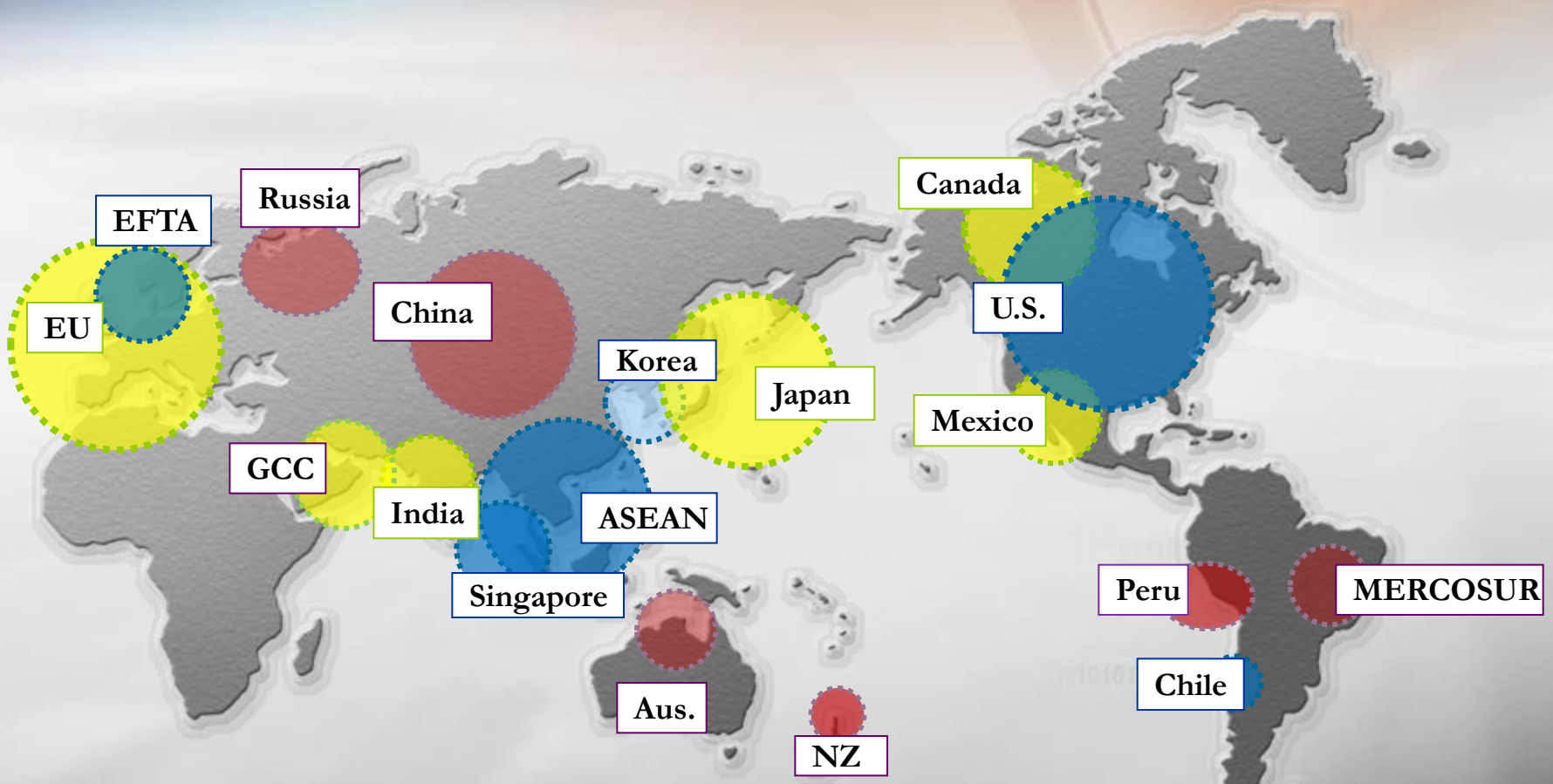
Korea's FTA policy

- No FTA until 1997
- First FTA negotiations with Chile in 1998
  - Concluded in 2003
- Establishment of the comprehensive "FTA Roadmap" in 2003
- Conclusion of KORUS FTA in 2007

Korea's FTA Partners



Global FTA Network

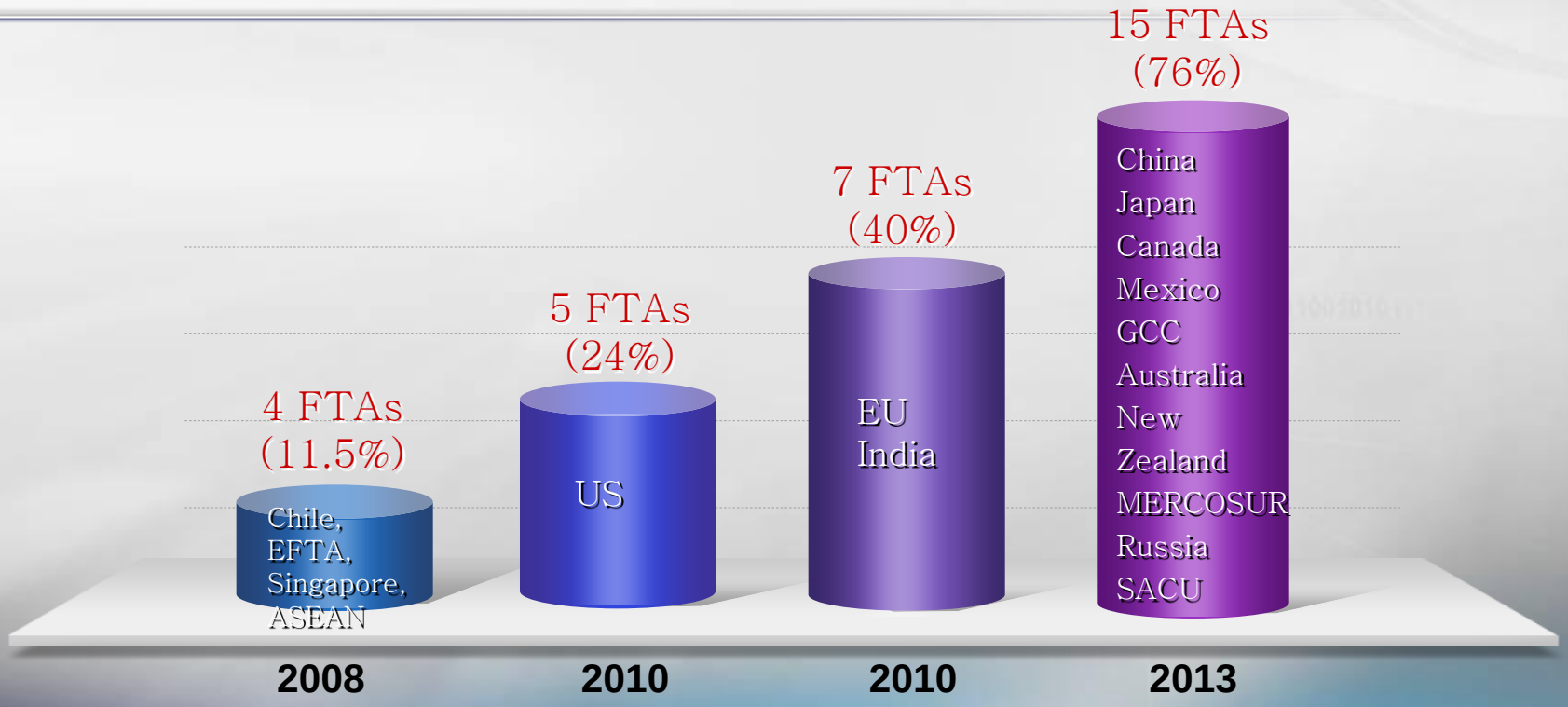


Effective or Signed Negotiations Pre-negotiations

✓ proportional to market size

Trade Volume under FTAs

- With completion of the FTA network within 5 years, Korea's trade ratio with FTA partners will increase up to 76%



KORUS FTA and its Benefits

What it does…for the US

- Eliminates Korean import tariffs on 95% of US industrial products within three years
  - ✓ Current average applied tariff is 7%
- Eliminates Korean import tariffs on more than half of US agricultural exports immediately
- Further liberalizes many services sectors
  - ✓ Among those, financial services, telecommunications, broadcasting, express delivery, legal services etc…
- Reforms non-tariff barriers (NTBs) and increases transparency in Korea's regulatory system
- Enhances investment protection through binding ISD
- Strengthens protection and enforcement of copyrights and other IPRs

What it does on Auto

- Tariff
  - ✓ Korea will eliminate its 8% tariff immediately
  - ✓ US will eliminate its 2.5% passenger tariff immediately for vehicles up to 3,000 cc and over 3 years for larger vehicles
  - ✓ US pick-up truck tariff(25%) will be phased out over 10 years
- Snap-back
  - ✓ Reinstatement of pre-FTA tariffs regardless of the amount of damages done
- Tax reform
  - ✓ Korea will reform auto taxes safety and emission standards
- Other NTBs will be addressed through Automotive Working Group

Impact : Growth estimates

- 2007 USITC study estimates:
  - ✓ US exports by $10-11 billion
  - ✓ US GDP by $10-12 billion
  - ❖ Negligible impact on auto industry
- US business estimates
  - ✓ US jobs by 240,000

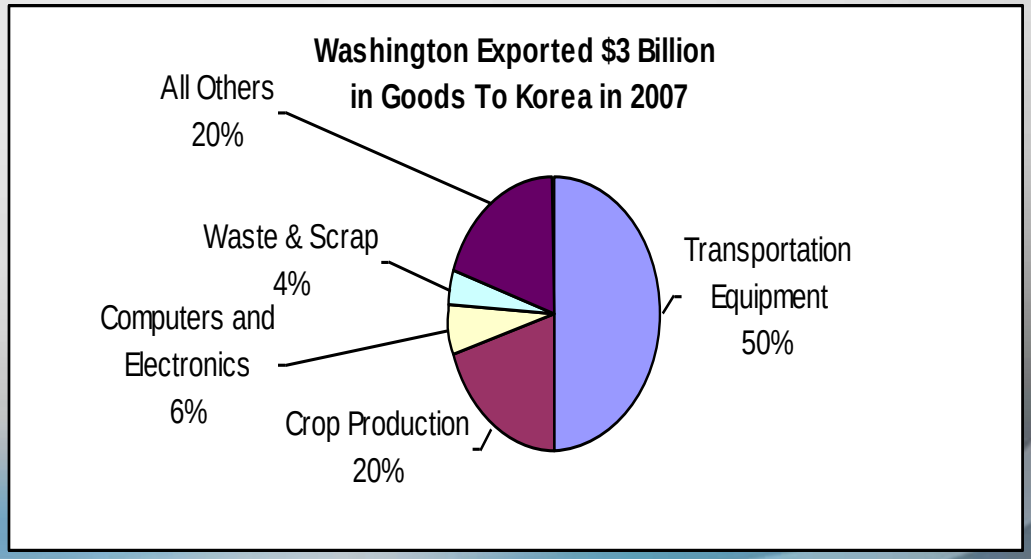
A Stimulus Package without any tax

Trade and Washington

- Washington ranked fourth among the 50 states in terms of 2007 exports ($66.3 bn).
- Over two-fifths (41%) of all manufacturing workers in Washington depend on exports for their jobs.
- Washington's agricultural exports, valued at $2.6 bn in 2007, supported 27,710 jobs

Korea and Washington

- In 2007, Washington exported $2.5 billion worth of products to Korea.
  - ✓ Transportation Equipment(50%), Agricultural Crops(20%), Computers and Electronics(6%)
- In 2006, Korean companies invested over $615 million in Washington enterprises.



KORUS FTA works for Washington

- Duties on most transportation equipments, including aircraft and related parts, will be eliminated immediately.
- Immediate elimination of current 15% - 45% tariffs on many fruit and fruit products
  - ✓ 3,000 ton duty-free quota for fresh potatoes alongside immediate elimination of duties on many vegetables and potato products
- Immediate duty-free access for double the current export volume of total dairy products
  - ✓ Cheese , skim/whole milk powder, food whey, butter etc.

Cost of Inaction

: Why Korea-EU FTA Deal Matters

Korea-EU FTA : Similarity

- Almost the same level of ambition in sum
  - ✓ Immediate tariff elimination on 90% of EU industrial goods, additional 6% within 3 years
  - ✓ Agricultural products' market access similar to KORUS
  - ✓ Almost the same level of market access for EU service providers as for US providers, except for environmental and telecom
  - ✓ Similar NTB and IPR measures to KORUS

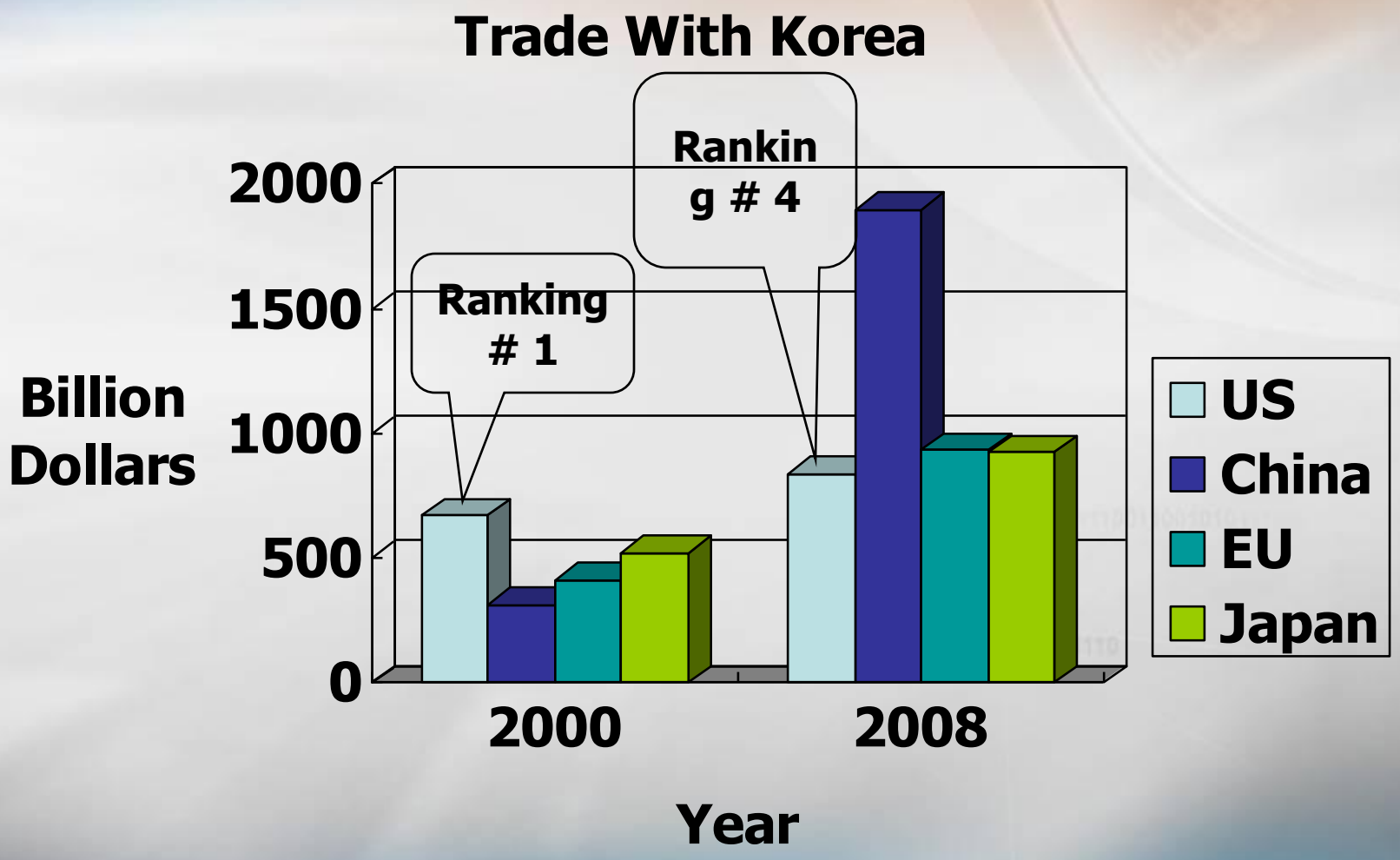
Balnce of Tariff Concessions on Industrial Products

Staging category	Korea-EU FTA				Korea-US FTA			
	Korea		*EU*		*Korea*		*US*	
	Number of tariff lines (%)	Import value (%)	Number of tariff lines (%)	Import value (%)	Number of tariff lines (%)	Import value (%)	Number of tariff lines (%)	Import value (%)
Entry into Force	90.7	69.4	97.3	76.7	90.6	81.2	87.9	87.2
3 years	5.1	22.4	2.1	16.6	6.7	13.2	5.2	7.4
Subtotal	95.8	91.8	99.4	93.3	97.3	94.4	93.1	94.6
5 years	3.7	6.9	0.6	6.7	1.3	1.4	2.6	2.3
7 years	0.5	1.3						
10 years					1.5	4.3	4.1	3.2
12 years							0.3	0
Total	100	100	100	100	100.1	100.1	100.1	100.1

Korea-EU FTA : Differences

- Small differences
  - ✓ No snap-back in auto sectors for EU
  - ✓ No ISD(Investor State Dispute) settlement mechanism or investment protection
  - ✓ A separate mediation process for NTB-related disputes in EU deal
  - ✓ Added protection for GI(geographical indication)
- Big Differences : Europeans will come first, and be served first

US is already loosing its ground

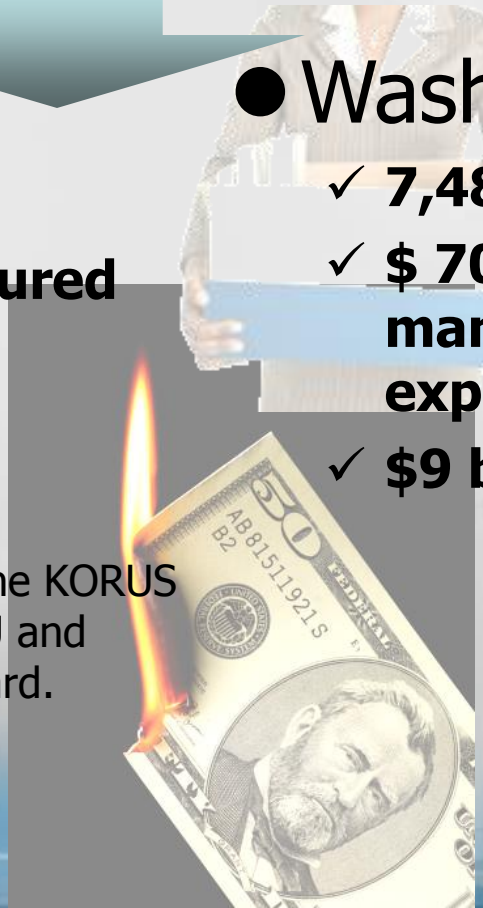


Costs of Inaction to US

US and EU compete in Korea in **11 out of 20 top exports**
- Chemicals, Pharmaceuticals, Machinery, Meat…

- Nationwide loss
  - ✓ **345,017 jobs**
  - ✓ **$20.3 billion manufactured goods export**
  - ✓ **$40.4 billion output**

- Washington's loss
  - ✓ **7,489 jobs**
  - ✓ **$ 700 million manufactured goods export**
  - ✓ **$9 billion output**



* Chamber of Commerce study, If the KORUS FTA is not implemented while the EU and Canada FTAs with Korea move forward.

More than Economic Benefits

Geopolitical Implications

- ✓US is weakening its footprint
- ✓China's rapid emergence as regional and global power
- ✓Proliferation of regional agreements in the fastest growing region
  - ➢India-Singapore(2005), India-ASEAN(2009) and possible ASEAN+3(?)
  - ➢Japan-Singapore(2002), Japan-Chile/Thailand/ Indonesia/Brunei/Philippines(2005~2008)
  - ➢China-Chile(2005), China-Pakistan(2006), China-ASEAN(2005/2007)

Strengthening Alliance

- ✓ North Korea's nuclear threat
- ✓ Closer cooperation in global issues : Afghanistan, Climate Change…

Conclusion : Urgency of Action

Window of opportunities

- Constraints
  - ✓ Health care reform is crowding out any other agenda
  - ✓ Midterm election not conducive to the pursuit of any politically controversial issues like trade
- Window will be opened early next year
- President Obama's renewed commitment to KORUS FTA on November 19
  - ➡ Needs to be translated into action by Administration and Congress
- All the stakeholder should push forward
  - ✓ 8 comments submitted to USTR on KORUS FTA from Washington are all supportive

Thank you