
Introduction

Over the past half-century, the United States and South Korea have built a strong and durable partnership that has benefited the economic and security interests of both countries. Under the United Nations' banner, US troops repulsed the communist invasion from the North in 1950 and have since helped defend the territorial integrity of the independent Republic of Korea.¹ US development assistance contributed importantly to the reconstruction of the postwar Korean economy in the 1950s and 1960s (SaKong 1993; Cho 1994). Since the 1970s, trade has become an increasingly important component of Korea's economic growth (with total exports and imports equivalent to more than 60 percent of gross domestic product), and the United States has been Korea's leading trading partner.

Since its accession to the General Agreement on Tariffs and Trade (GATT) in 1967, Korea and the United States have also worked together to strengthen the multilateral trading system and establish the World Trade Organization (WTO). Under this multilateral framework, bilateral trade relations have flourished. Two-way US-Korea merchandise trade has grown more than sevenfold, from \$9 billion in 1980 to \$68 billion in 2000.

For more than a generation, Korea has maintained a steadfast devotion to the multilateral trading system. Like Japan and unlike most other major trading countries, Korea did not enter into preferential trading arrangements, preferring to rely exclusively on the GATT and, more

1. Although the country is most commonly referred to as South Korea in the United States, it will be referenced simply as Korea for the remainder of this volume.

recently the WTO, to conduct its international trade relations. The rules-based multilateral system provided a modicum of protection for Korea in its bilateral trade diplomacy with its two largest trading partners—the United States and Japan—though Korean trade policies often bent in deference to broader strategic interests.

Despite its allegiance to multilateralism, however, over the past decade Korea has begun to diversify its trade policy through both regional and bilateral initiatives. First, Korea joined the community of nations participating in the Asia Pacific Economic Cooperation (APEC) forum and then acceded to the Organization for Economic Cooperation and Development (OECD) in 1996. More recently, Korea has engaged actively in the Asia-Europe meetings (ASEM), which aim to strengthen political and economic relations between those regions. Second, since 1999, Korea has explored bilateral free trade agreements (FTAs) with several small trading partners, has had preliminary consultations with Japan, and has begun to consider the implications of an FTA with the United States.

Initial flirtations with the idea of a Korea-US FTA actually date back to the second half of the 1980s. At that time, Korean exports to the United States were threatened with trade retaliation under section 301 of US trade law and faced new discrimination in the North American market due to the Canada-US FTA. Korean interest in a bilateral trade pact with the United States, vetted informally by the Reagan administration, focused on avoiding discrimination in the US market; in contrast, US interest centered on how a bilateral deal could both remove Korean trade barriers and advance the multilateral process.

The informal discussions provoked a number of studies in the United States and Korea concerning the potential effects of a bilateral FTA and its implications for ongoing GATT negotiations (see Schott 1989; USITC 1989; Park and Yoo 1989).² While nothing resulted from this initial venture, interest in a bilateral pact resurfaced with the negotiation of the North American Free Trade Agreement (NAFTA) in the early 1990s and the possible accession of other countries to that pact.³ Ultimately, US concerns about Korean trade barriers and Korean concerns about restricted access to the US market were channeled into the final stages of the Uruguay Round and since January 1995 have been addressed in the WTO.

2. Schott (1989) concluded that the United States should consider FTAs with the Pacific Rim countries only if the GATT round faltered. Park and Yoo (1989) argued that if Korea were to form an FTA with the United States and not with other countries maintaining FTAs with the United States, then the United States, at the hub of the network of agreements, would benefit most. USITC (1989) concluded that the idea of a US-Korea FTA was premature, citing possible negative political effects.

3. The NAFTA includes an accession clause under which any country or group of countries may join the pact (see Hufbauer and Schott 1993, 114-16).

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Korea's renewed interest in bilateral trade initiatives can be attributed to several recent developments. Most important, the economic crisis that beset Korea in late 1997 forced a dramatic reevaluation of Korean development strategies. The old way of doing business in Korea had to change and domestic industries had to be restructured and made more efficient. New trade pacts could help remedy these ills by encouraging inflows of foreign capital and management skills, and by injecting new competition into the domestic market.

At the same time, the new bilateral initiatives reflect concern with the recent drift in regional and multilateral negotiations. APEC members have made little progress toward commitments undertaken at the Bogor summit in November 1994 to implement free trade and investment in the region by 2010-2020. Despite early success in liberalizing trade in information technology products and basic telecommunications and financial services, the multilateral process has slowed as well. WTO members failed to launch a new round of multilateral trade talks at their ministerial meeting in Seattle in December 1999 and are unlikely to do so until late 2001 at the earliest (Schott 2000). To a limited extent, bilateral talks could fill a void and perhaps even generate momentum for new regional and multilateral liberalization (Bergsten 2000).

Over the past two years, there has been a dramatic resurgence of bilateral trade initiatives in the Asia-Pacific region. Japan and Singapore began FTA talks in January 2001.⁴ Japan also has held extensive consultations with Korea on the possibility of entering free trade negotiations within the next few years.⁵ Japan and Mexico have explored the idea of bilateral talks and have received support from a bilateral business working group (Keidanren 1999). New Zealand and Singapore concluded negotiations on a bilateral FTA in August 2000 and signed the pact in November 2000, just before the APEC summit meeting in Brunei. At that meeting, Singapore agreed separately with Australia and with the United States to launch FTA talks; the latter initiative in turn spurred the start of the oft-postponed US-Chile negotiations in early December 2000.⁶ Soon after the APEC meeting, leaders of the Association of South East Asian Nations (ASEAN) countries, along with Japan, Korea, and China (the "ASEAN

4. For background on these talks, see the September 2000 report of a joint governmental study group, "Japan-Singapore Economic Agreement for a New Age Partnership," (Joint Study Group 2000) and IDE (2000b).

5. Extensive studies on the feasibility of such a pact were commissioned, and they recommended moving forward with FTA negotiations (KIEP 2000; IDE 2000a).

6. The US negotiations with Singapore and Chile may in turn increase pressure for a broader initiative involving those countries as well as Australia and New Zealand in a "P-5" pact, which the United States has been considering for some time to revive progress on the Bogor trade liberalization commitments.

+ 3’), agreed to study the possibility over time of a broader free trade regime in East Asia.

For its part, Korea has entered into negotiations with Chile and discussed possible FTAs with Japan, New Zealand, and Singapore. To date, the Korean FTA initiatives have involved small trading partners who pose a relatively modest competitive threat to domestic industry and agriculture. Korean negotiators seem to be following a strategy of “learning by doing,” in other words, using FTA negotiations with Chile, and possibly New Zealand and Singapore, as trial runs before entering into “big league” talks with Japan and the United States.

Would the United States be receptive to engaging in FTA negotiations with Korea? As of December 2000, the subject has not been discussed formally between the two governments, and Korea has not been mentioned in the context of a possible “P-5” initiative. However, the US business community in Korea promoted the idea of a bilateral FTA in a letter to President Clinton in June 1999.⁷ Also, leading businesses of Korea and the United States recently expressed their support for a potential Korea-US FTA.⁸ In addition, Senator Max Baucus, ranking minority member of the Senate Finance Committee, introduced a bill in November 1999, “The United States-Republic of Korea Free Trade Agreement Act of 1999,” that would authorize FTA negotiations with Korea as well as “fast-track” procedures to implement the resulting agreement. This legislative initiative has not progressed very far but will likely be revived in 2001. Indeed, in December 2000 Senator Baucus reiterated his interest in new free trade talks with Korea (as well as with Australia and New Zealand) to complement negotiations just started with Singapore and Chile.⁹

Why would the United States be interested in an FTA with Korea? First of all, the United States can benefit from increased trade and investment. The United States could, in particular, increase agricultural and services exports to Korea. The United States could also use its expanded access to the Korean market as a platform for sourcing throughout Northeast Asia. Further, it could use the Korea-US FTA as a catalyst to jump-start the next stage of regional free trade movement within APEC and as a building bloc to the further progress of the multilateral trading system. Politically, the United States could benefit from a further strengthening of its security ties with Korea that could result from an FTA. Such an

7. Letter from Jeffrey Jones, president of the American Chamber of Commerce in Korea, to President Clinton, dated 29 June 1999. Also see the *Journal*, September/October 1999, Vol. 47, no. 5, 18, published by the American Chamber of Commerce in Korea.

8. See an article in the *Korea Times* (26 January 2001) about the 14th Joint Steering Committee Meeting of the Korea-US/US-Korea Business Councils, held in Hawaii on 21-23 January 2001.

9. Senator Max Baucus, speech on trade agenda for the 107th Congress, Washington International Trade Association, 5 December 2000.

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agreement would send a signal of firm US commitment to a prosperous Korea and to peace and stability on the Korean peninsula and in North-east Asia.

In short, much has changed in the decade since the idea of a Korea-US FTA was first studied. This monograph analyzes the desirability and feasibility of FTA negotiations between the United States and Korea at this juncture. We first examine bilateral trade and investment flows and the extent to which current problems in the bilateral relationship could be remedied by FTA provisions. We then assess the overall benefits of a prospective pact for Korea and the United States. Next we discuss the external implications of a bilateral US-Korea FTA on relations with other trading partners, on the APEC process, and on a prospective new round of WTO negotiations. Finally, we assess the feasibility of such negotiations in light of political concerns in both countries and the current impasse over US fast-track negotiating authority.