

FTAs and the Future of US-Korean Trade Relations

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Over the past decade, the United States and Korea have pursued free trade agreements (FTAs) with a number of bilateral trading partners. For the United States, the Korea-US (KORUS) FTA is by far the most significant in economic and political terms. For Korea, the KORUS FTA is matched, at least in commercial terms, by the recently concluded Korea-European Union (KOREU) FTA. Going forward, Korea will likely continue to pursue additional FTAs with its major trading partners, while the United States seems likely to refrain from new bilateral arrangements for at least the near term as the Congress and Obama administration struggle to advance implementing legislation for pending FTAs with Colombia, Panama, and Korea signed in 2006 and 2007.

American and Korean firms will soon have to adapt to the diverse export and investment opportunities created by these newly minted FTAs. The main open question is whether the agent of change will be: (1) the KORUS FTA; (2) the KOREU FTA in combination with other Korean FTAs with partners in Asia; or (3) some combination of the two. This short paper examines the implications of these evolving trading arrangements on US-Korea bilateral trade relations. It is

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organized in three sections: the first section addresses whether the KORUS FTA and why the US legislative logjam may be broken in 2010. The second section examines competitive regionalism and the impact of the KOREU FTA on US-Korea trade. The final section explores two alternative scenarios for the future course of US-Korean trade relations, depending on whether or not the KORUS FTA is ratified.

Whether the KORUS FTA

Korea and the United States signed their historic bilateral trade accord in June 2007 but neither country has yet completed the ratification process. In Korea, the agreement has passed a key committee in the National Assembly but further action is likely to await comparable progress in the US Congress. In the United States, the KORUS FTA qualifies for fast-track implementing procedures but neither the Obama administration nor Congressional leaders seem anxious to start the legislative process.² No US action is likely in the waning months of 2009 due to the fractious domestic political debate over health care reform, which has blocked consideration of all other controversial initiatives, including the KORUS FTA. However, after his summit meeting with Korean President Lee Myung-Bak in Seoul on November 19, 2009, US President Barack Obama said “I am committed to seeing the two countries work together to move this agreement

² Because the KORUS FTA was signed before the expiration of Trade Promotion Authority (TPA) on June 30, 2007, the agreement essentially is grandfathered under the TPA’s fast-track provisions that require expedited consideration of implementing legislation submitted by the President to the House Ways and Means Committee. The draft bill cannot be amended and is subject to a simple majority vote in each chamber. As a practical matter, the President negotiates the terms of the draft bill with members of Congress before submitting “his” proposal; amendments are effectively introduced in these “pre-mark up sessions.” For detailed analysis of these “fast track” procedures, see Destler (2005).

forward. There are still issues that are being discussed and worked on and we have put our teams in place to make sure that we are covering all the issues that might be a barrier to final ratification of the agreement.”³

Why is US implementing legislation for the KORUS FTA so contentious? Looking at it from both foreign policy and commercial perspectives, the deal looks like a clear winner for US trade and investment. The United States International Trade Commission (USITC 2007) analyzed the KORUS FTA soon after its signing and concluded that the pact, if enacted, would likely increase US GDP by \$10.1–11.9 billion as a result of tariff and tariff-rate quota (TRQ) provisions related to goods market access. US merchandise exports to Korea would likely increase by an estimated \$9.7–10.9 billion and US merchandise imports from Korea would likely increase by about \$6.4–6.9 billion as a result of tariff and TRQ provisions included in the pact.⁴ The USITC report also estimated that US services exports would increase somewhat as a result of FTA provisions on market access, national treatment, and regulatory transparency, though the overall impact of service liberalization on US output would not be significant given the relatively small size of US service trade with Korea.

Almost all US agricultural lobbies have praised the pact for opening new export opportunities; rice was the only notable exclusion from the liberalization schedules. Some farm groups delayed

³ Remarks by President Barack Obama and President Lee Myung-Bak of Republic of Korea in Joint Press Conference, Blue House, Seoul, South Korea, 19 November 2009, accessed on 25 November 2009 at www.whitehouse.gov/the-press-office/remarks-president-barack-obama-and-president-lee-myung-bak-republic-korea-joint-pre.

⁴ KIEP (2007) estimated that Korean GDP would increase by 0.32 to 5.97 percent due to the KORUS FTA.

blessing the deal out of solidarity with beef exporters seeking resolution of market access problems unrelated to FTA provisions (discussed below). When the implementing bill is finally brought to a vote, however, the farm groups are expected to strongly support the deal. That is why most members of Congress believe that the KORUS FTA will be ratified once a vote is taken; indeed, it is inconceivable that the Congress would say no to such an important US ally. The challenge therefore is to unblock congressional deliberations so that the decision can be taken and the Congress can say “yes”.

Despite the broad benefits that would accrue to both countries from implementing the KORUS FTA, and the boost to US exports in particular, Democratic leaders in the Congress and the Obama administration continue to cite old political talking points about unfair auto trade, beef restrictions, and other relatively minor trade issues that ignore the significant changes that have occurred since the pact was signed more than two years ago. To be blunt, the US public debate over the KORUS FTA is in a time warp. The following subsections examine what has happened in six key areas: the global economic crisis, decline in the US share of Korean trade, exchange rate movements, changes in auto production and trade, beef trade, and political developments regarding North Korea. I believe that once these developments are better understood, US policymakers will be in a better position to evaluate the need for moving forward with the KORUS FTA, for both economic and political reasons.

Global Economic Crisis

Clearly, the global economic crisis that struck in late 2008—roiling financial markets, curtailing international trade and investment, and throwing most industrial economies into a deep tailspin with surging unemployment—has been the most important development since the signing of the KORUS FTA. Both the US and Korean economies have suffered sharp losses in output and employment over the course of the 2008/2009 recession. Both have worked steadfastly together to craft remedial programs and to strengthen global economic governance going forward. Unlike the past, however, Korean leaders have taken leadership responsibilities for managing the economic crisis, and have worked closely with US and other G-20 officials to resist new protectionism and to coordinate national policies that lay the basis for a durable economic recovery.

Working together on the G-20 crisis management has strengthened the US-Korea economic partnership and contributed importantly to global economic governance. Korea accepted the responsibility of coordinating efforts by the major industrial and developing economies to combat the worst economic crisis since the Great Depression eight decades ago as part of the leadership troika of the newly established G-20 forum. Korean officials have been forceful and influential advocates at G-20 meetings for resisting protectionism amid the global economic crisis, for seeking the “rollback” of trade restrictive measures, and for reviving and concluding the Doha Round of multilateral trade negotiations by the end of 2010. And the close interactions of US and Korean officials during the global crisis has spurred cooperation in other areas such as climate change, where both countries have a strong interest in pursuing green growth strategies

that sharply reduce greenhouse gas emissions and hopefully will encourage the adoption of a new global climate change treaty.

Through its actions, Korean officials have earned their place in the decision-making councils of the global economy. That is why it was no surprise when, at the G20 summit held in Pittsburgh in September 2009, Korea was asked to chair G-20 meetings in 2010 and to host the G-20 summit in November 2010. And that is also why the United States should recognize that the spirit of cooperation reinforced in the negotiation of the KORUS FTA has yielded dividends that go well beyond bilateral trade and investment, and thus should not be jeopardized by further delay in the ratification process.

Decline in the US share of Korean Trade

Buoyed by the US ITC projections noted above, US officials hoped that the KORUS FTA would boost US exports of goods and services. While the KORUS FTA holds the promise of increased bilateral trade and investment, neither side has been able to reap the benefits due to the extensive delay in implementing the pact. Instead, bilateral trade stagnated in 2008 and has fallen sharply amid the global recession of 2009.

While each country remains one of the largest trading partners of the other, the US share of Korean trade has sharply declined over the past few years. In 2000, the United States was the second largest exporter – after Japan -- of merchandise goods to Korea, accounting for about 18

percent of the total Korean imports. In 2008, the United States was the fourth largest exporter to Korea after China, Japan, and the European Union-25, accounting for only about 9 percent of total Korean imports (see table 1). US exports to Korea grew by only \$9 billion over the period 2000 to 2008, while the overall size of the Korean import market was expanding from \$160 billion to \$433 billion, or by 170 percent.

What happened? In a word, China. China became Korea's most important trading partner. Korea-China merchandise trade soared from \$31 billion in 2000 to \$190 billion in 2008, accounting for about 22 percent of total Korean trade.

However, China is not the only partner to sharply expand trade with Korea in recent years. In 2000, EU-25 trade with Korea totaled \$41 billion, compared to \$67 billion for Korea-US trade. By 2008, EU-Korea trade had grown to \$93 billion and EU exports to and imports from Korea both exceeded the value of Korea's trade with the United States. In light of the KOREU FTA, the US share of the Korean import market is likely to fall further in the next decade if the KOREU FTA preferences are not offset by similar KORUS FTA benefits.

Exchange Rate Changes

Since the KORUS FTA was signed in June 2007, the Korean won has depreciated sharply against the Japanese yen, the Euro, and the US dollar--by 77 percent, 41 percent, and 38 percent respectively between July 2007 and July 2009 (figure 1). The depreciation of the Korean won

against these major currencies helped sustain Korean exports in 2007-2008, at least until the bottom fell out of global demand in late 2008, and buoyed Korea's economic recovery since the summer of 2009. In particular, the sharp depreciation of the Korean won against the Japanese yen has given Korean automakers significant export advantage against competing Japanese automakers shipping to the US and Chinese markets. The big shift in the won/Euro exchange rate also has been an important driver of EU-Korea trade and Korean investment in auto assembly plants in Eastern Europe.

Auto Production and Trade

Autos and light trucks account for a significant share of bilateral US-Korea merchandise trade, and Korea has run a large surplus in auto trade which now exceeds \$10 billion annually. The liberalization of this trade was a crucial and controversial component of the KORUS FTA negotiations, and remains the most contentious in the ratification debate. In some ways, the economic crisis, which has hit hardest in US states home to many Big 3 auto plants, has further hardened political resistance to the KORUS provisions on autos. In other ways, however, the crisis may open new avenues for new bilateral initiatives that could propel production and employment in the auto sectors of both countries.

Both countries have suffered a sharp contraction in output and employment in the auto sector. Through August 2009, US auto sales were running at an annualized rate of about 10.6 million units, sharply down from the 16.5 million unit sales of a few years ago (table 2). Compared to

2008, US sales of domestically produced vehicles in 2009 are down 22 percent (on an annualized basis), while imports are down 14 percent. Ford, GM and Chrysler are a big part of this story, with sales down about 26 percent compared to 2008. In contrast, Hyundai and Kia have recorded sizable increases this year in their sales in the US market.

In Korea, while sales are down only a bit this year in the domestic market, domestic production has fallen sharply due to weak demand in Korea's export markets. Korea's automobile exports have decreased from 223,757 in 2008 to 157,676 in 2009, both on a monthly average basis.⁵

As noted above, auto issues have been a major stumbling block to congressional ratification of the KORUS FTA. The matter is important for both countries. For Korea, maintaining good access to the large US market and gaining a small price advantage over US producers and importers as a result of the elimination of the 2.5 percent US auto tariff is a key benefit of the overall pact. The 10-year phase-out of the 25 percent US tariff on light trucks and SUVs also had been considered important to spur investment in Korea production of these vehicles, but is less crucial now given the sharp drop in demand for such gas guzzlers. For the United States, the elimination of the larger 8 percent Korean auto tariff was seen as opening the door to increased US exports of luxury vehicles well beyond the very limited sales that have averaged about 5,000 units annually.

⁵ See the website of the Korea Automobile Manufacturers Association, available at www.kama.or.kr.

Some US automakers (notably Ford and Chrysler) argue that US tariff cuts would spur even greater Korean penetration of the US car and SUV markets, while the elimination of the Korean tariff would not make much difference to US car exports given the pervasive nontariff barriers (NTBs) in the form of discriminatory tax policies and fuel/emissions/safety standards that they claim impede import and distribution of foreign cars in Korea. While the KORUS FTA provides greater transparency and access to regulatory agencies and promises to remove many of the discriminatory practices, US critics question whether Korea will faithfully implement the agreed reforms. This skepticism reflects a residue of mistrust generated by haphazard Korean enforcement in the 1990s of two previous bilateral memoranda of understanding on auto trade.

The criticism of the KORUS FTA provisions on autos is exaggerated on several counts. First, US automakers exaggerate the potential for US sales in Korea of cars produced in US assembly plants. US automakers generally do not export many cars from US plants beyond the neighborhood NAFTA market; instead, they produce abroad to supply foreign markets (as General Motors is doing in Korea through GM-Daewoo which produced about 900,000 cars in Korea in 2008 and sold about 90,000 to Korea customers). Second, the Korean car market is small--about a tenth the size of the US market—and luxury imports (the cars US firms want to sell in Korea) face relatively stiff competition from Japanese and European imports. Third, demand for SUVs declined sharply after the large increase in gas prices in 2008 and seems unlikely to recover its dominant share of US vehicle sales. The elimination of the oversized US tariff is thus no longer important as a spur to Korean production. Fourth, congressional charges of unfair Korean trade practices ring less clearly in the aftermath of massive US financial support

for the ailing US auto industry in 2009 which gave General Motors and Chrysler, in particular, competitive advantages vis-à-vis domestic and foreign suppliers.

While the elimination of NTBs is important to demonstrate open access and opportunity for trade and investment in each market, US officials should not expect that US exports to jump ten-fold or the US-Korea bilateral auto trade balance to shift significantly in response to such reforms. In the near future, the United States is likely to continue to run a large bilateral deficit with Korea in autos, just as Korea will continue to run large deficits in services and in agriculture. Resolving the auto trade and regulatory problems that have stalled the congressional debate on the ratification of the KORUS FTA will require additional efforts that go beyond traditional market access issues. For example, I would suggest that, following the mandate set out by Presidents Obama and Lee in November 2009, senior officials seek to establish new bilateral arrangements—in areas such as hybrid engines and electric battery technologies—that can bolster the global competitiveness of both US and Korean manufacturers and create new opportunities for production and employment in both countries.

Beef Trade

Over the past few years, separate bilateral negotiations have removed most of the impediments to US beef exports to Korea. Nonetheless, US shipments to Korea remain far below the level of exports before the Korean ban on US imports imposed for health reasons in December 2003. US beef exports averaged almost 18,000 metric tons per month in 2003; in 2009, US shipments

averaged less than 4,000 metric tons per month and the total value of US beef exports to Korea fell from \$750 million in 2003 to less than \$200 million in 2009 (see table 3). That is why Senate Finance Committee chairman Max Baucus (D-MT) and his Montana cattlemen continue to be unhappy—even though the KORUS FTA itself has little to do with the fall-off in US exports.

In 2009, Korea has been the fourth largest market for US beef exports (fresh, chilled, and frozen), after Mexico, Canada, and Japan. But the volume of US shipments has not reached the levels achieved in 2003; the multi-year ban on US exports allowed other suppliers, notably Australia, to gain market share that will be difficult to fully recoup. In 2003, Australia accounted for 21 percent of Korean beef imports by volume; the US share was 69 percent. In the latest twelve months of data (October 2008-September 2009), the import market shares were reversed, with US shipments accounting for only 27 percent of Korean imports compared to 58 percent for Australia.⁶

In short, US beef exporters face two problems. The smaller issue is the resolution of the remaining Korean import ban of cattle more than 30 months old that affects a very small share of potential US shipments—a problem that should be resolved under the guidelines set by the World Organization for Animal Health. The larger problem is that the long hiatus from the Korean beef market during the BSE crisis has given US competitors in Australia a dominant share of the market which will be difficult to dislodge.

⁶ Data from Korea Agricultural Trade Information, available at www.kati.net.

North Korea

The conclusion of the KORUS FTA has profound implications not only for commercial relations but also for longstanding partnership. When the KORUS FTA was negotiated, the main concern related to North Korea was whether goods produced in the Kaesong Industrial Complex would be eligible for FTA preferences. The pact essentially said “no,” but established procedures for revisiting this matter after the FTA enters into force. Since then, however, North Korea has taken a number of provocative actions -- especially testing nuclear bombs and launching offensive missiles -- that underscore the importance of a strong and durable alliance between the United States and South Korea. This lesson has been made very clear in the numerous meetings that President Obama and President Lee have had over the past six months. It does not make any sense to have a small commercial matter about a few provisions in a major trade agreement create friction in an incredibly important bilateral alliance. That’s the issue, in my opinion, that will tilt congressional opinion in favor of supporting the KORUS FTA.

Whither Competitive Regionalism

While the KORUS FTA stalled in the US Congress, Korea and the European Union moved forward with their own FTA that closely resembles the US-Korea deal. Once the KOREU FTA enters into force, US exporters will be worse off than at present as European firms benefit from

tariff preferences in the Korean market largely comparable to those that had been expected to have been already available to US firms.

Ironically, it was the initial US-Korea talks that spurred the European Union to emulate the KORUS FTA with its own so as to not disadvantage European companies in the European market. The US-Korea announcement in February 2006 that the two countries would begin FTA negotiations provoked the European Commission to consider its own deal with Korea. Six weeks after actual US-Korea talks began in June 2006, the EU and Korean officials began preparatory consultations for the KOREU FTA. Five weeks after US and Korean officials shook hands on the KORUS FTA, formal negotiations began on the KOREU FTA. Two years later, both sides announced the substantial completion of negotiations on July 13, 2009 and initialed the deal on October 15, 2009. The KOREU FTA is expected to be signed in the first quarter of 2010, and then will be subject to ratification by the 27 members of the European Union and by the Korean National Assembly. On this timetable, the KOREU FTA could take effect around the third quarter of 2010—probably *before* the US Congress considers the US pact signed in 2007.

Whatever first-mover benefits the United States gained from securing its deal with Korea in June 2007 are being rapidly dissipated as Korea prepares to sign its own comprehensive pact with the European Union in early 2010. Just as the European Union “leap-frogged” the United States as one of Korea’s most important trading partners, it is now doing the same with a trade accord that could further dislodge US suppliers from the Korean market.

The KOREU FTA is a significant deal that could significantly affect US trade and investment interests in the partner countries. The European Union was Korea's second largest trading partner -- after China -- with two way trade of about \$93 billion in 2008 (table 1) while Korea was the EU's eighth largest trading partner in 2008. Perhaps even more important, the European Union is the single largest foreign investor in Korea, accounting for about 45 percent of FDI inflows into Korea in 2006.⁷

In broad terms, the KOREU FTA was modeled on the KORUS FTA and many of its provisions borrow from US-Korea precedents. The KOREU FTA calls for the elimination of tariffs on about 99 percent of EU industrial goods and 96 percent of Korean goods within three years, which will eventually be expanded to all industrial goods within five years. By comparison, the Korea-US FTA, if implemented, will eliminate about 91 percent of US industrial goods and 96 percent of Korean goods within three years. While the Korea-EU deal will eliminate all industrial tariffs within seven years in both countries, some of industrial tariffs under the Korea-US FTA will be subject to phase-out periods as long as 10 years for politically sensitive US products (table 4).

According to the KOTRA (2009), Korean automakers will be a major beneficiary of the pact. Currently, the European Union imposes a 10 percent tariff on Korean cars and Korea imposes an 8 percent tariff on European cars. Both sides agreed to remove tariffs on cars with engine displacement of 1,500 cc or larger within three years and on cars with engine displacement of

⁷ European Commission website (available at http://ec.europa.eu/trade/issues/bilateral/countries/korea/index_en.htm)

less than 1,500 cc within five years.⁸ This liberalization remains contentious among European producers. As in the US ratification debate, auto trade reforms will be the focus of much of the domestic criticism of the pact, particularly the duty drawback provisions that allow the tariffs paid on parts used to manufacture a product to be refunded when the final product is exported. Korea and the European Union agreed to put a 5 percent cap on refunds, but the European Automobile Manufacturers' Association (ACEA) contested the drawback terms in a letter to the EU Commission and argued that the drawback would place European firms at a severe competitive disadvantage against Korean subsidiaries in Europe.⁹ In large measure, the opposition from automakers in the European Union echoes complaints against the KORUS FTA by Ford and Chrysler. The difference is that EU officials decided that the pact was too important to be delayed or derailed by specific terms of the deal on autos and is going forward with the ratification process despite opposition from European interest groups.

The KOREU FTA is a prime example of what I call “competitive regionalism”—one country emulating the trading arrangements of other trading partners to offset the discrimination against its own firms generated by the trade preferences in other FTAs in which they are not a party. But competitive regionalism is not a one-off process; it usually triggers an ongoing series of reactions by other countries potentially vulnerable to trade and investment diversion. In the case of both the KORUS and the KOREU FTAs, among the countries most likely to suffer from the implementation of one or both of the Korean pacts with the transatlantic powers is Japan. Many

⁸ For comparison, under the KORUS FTA, Korea and the United States agreed to remove tariffs immediately on cars with engine displacement of less than 3,000cc and on cars with engine displacement of over 3,000cc within three years. Currently, the United States imposes a 2.5 percent tariff on imported cars.

⁹ The full text of the letter (dated on September 28, 2009) by the European Automobile Manufacturers Association is available at http://www.acea.be/index.php/news/news_detail/open_letter_to_eu_member_states_on_fta_south_korea.

Japanese firms—especially those in the auto and electronics sectors--are competing with Korean (and US) firms in European markets. Japanese business organizations have recently urged their government to initiate talks with the European Union; such recommendations seem more urgent than similar proposals issued frequently over the past two decades for consideration of a US-Japan FTA. I suspect that the signing of the Korea- EU FTA will also revive demands for a resumption of Korea-Japan FTA talks that started in 2003 but have been essentially frozen since December 2004.

While the KOREU FTA is the most significant trade pact negotiated by Korea since the conclusion of the KORUS FTA, it is not the only deal inked by Korean trade officials. Indeed, Korea has pursued FTAs with most of its major trading partners. Table 5 shows the roster of current and prospective Korea FTA partners as of September 2009 and their bilateral merchandise trade with Korea. If one includes all the countries with which Korea has concluded FTA negotiations (status A, B, and C in the table), the pacts covered \$323 billion in two-way trade in 2008, or 38 percent of total Korean trade. However, if one adds together all the countries with which Korea has started negotiating FTAs (including Japan), the trade coverage swells to \$542 billion or 64 percent of Korea's trade. If China joins the roster of active negotiations, then about 86 percent of the total two-way Korean merchandise trade potentially would be subject to FTA preferences.

To put this into perspective for US-Korea trade relations, if the United States continues to delay ratification of the KORUS FTA, countries that account for 54 percent of Korea's current trade

could soon benefit from FTA preferences in the Korean market, giving them a competitive advantage over US (and Chinese) firms. The key, of course, is what happens with Japan and China, since the northeast Asian powers together account for one-third of Korea's trade. As noted above, Korea-Japan talks could soon revive as part of the new Asia-centric focus of Japanese trade policy. Talks between Korea and China will likely continue to evolve at a more measured pace, though the groundwork is already being laid in the numerous consultations and studies conducted on the potential for either a China-Korea or Northeast Asian FTA.

Future Scenarios

At the start of 2010, US-Korea trade relations remain in limbo, even as the overall bilateral economic partnership has been bolstered by the joint efforts of the two countries in the G-20 to combat the global economic crisis and lay the foundation for a durable recovery. Congressional deliberation on implementing legislation for the KORUS FTA has not yet begun. Meanwhile, Korea is moving forward with trade pacts with other important trading partners such as the European Union, the ASEAN, and India that could erode US market share in Korea if KORUS FTA ratification is further delayed.

Whither US-Korea trade relations? The answer depends importantly on what happens with the KORUS FTA. If the US policy inertia of the first year of the Obama administration continues and Congress does not address the KORUS FTA in 2010, then events in Asia will increasingly dominate the Korean policy agenda. In other words, the trend of the past decade, which has

recorded a steady decline in the US share of Korean trade, will deepen. In this scenario, Korea would then pursue closer ties with its Asian partners, especially China and Japan. Korean trade priorities would focus on building a Northeast Asian FTA with China and Japan, as well as harmonizing the pacts that each of them has concluded with the ASEAN; in other words, the emphasis would be on creating a more substantive “10 plus 3” arrangement linking northeast and southeast Asia instead of engaging with the United States in other trade initiatives in East Asia, including nascent efforts to build a Trans-Pacific Partnership (TPP). More importantly, the lack of US follow-through on the KORUS FTA would cast doubts about the overall US commitment to its alliance with Korea. All in all, this scenario means increased tension in US-Korea relations and lost opportunities for US exporters and investors and possibly new discrimination across the major markets of Asia.

But the bleak scenario of US policy inertia has an equally optimistic counterpart. If the impasse over implementing the KORUS FTA can be broken and the agreement ratified in 2010, then the stage will be set for expanded bilateral trade ties and broader bilateral cooperation on regional economic integration. Simply put, ratifying the KORUS FTA would refocus attention on how Asian countries engage with the United States and redirect efforts toward Asia-Pacific initiatives.

In a sense, this scenario foresees a continuation of the competitive regionalism that has dominated Asian policy for the past decade but with one notable difference: the active participation of the United States. With the KORUS FTA in hand, US officials would be better positioned to advance other initiatives in the region, including the TPP. The idea of a TPP harks

back to the original concepts that George Yeo, then Singapore's trade minister, propounded more than a decade ago about the importance of regional integration and using the building blocks of existing bilateral and regional pacts to create a broad Asia-Pacific regime. This vision took root in the P-4 pact between Singapore, New Zealand, Brunei, and Chile that was signed in 2005. The countries currently participating in TPP talks include the original P-4 signatories plus four countries that have agreed to try to integrate and possibly expand the scope of their own bilateral deals in the region: the United States, Australia, Vietnam, and Peru.

For Korea, participating in the TPP would be a natural extension of its large network of bilateral and regional deals in Asia and across the Pacific. Indeed, as table 5 shows, Korea already has deals in place or in the works with six of the eight countries negotiating the TPP. Interestingly, so, too, do other important countries in the Asia-Pacific region, including Mexico and Canada in North America and Japan and China in Northeast Asia. In short order, the small P-4 could evolve into a blockbuster Asia-Pacific enterprise, if participants show flexibility in terms of the breadth and scope of the integration arrangement. Both the United States and Korea may find it easier to engage in trade talks with countries like Japan and China in a regional setting rather than in bilateral talks that inevitably focus political attention on sensitive economic and foreign policy issues. In that sense, the TPP could become a channel for extending the bilateral US-Korea trade relationship, as elaborated in the KORUS FTA, into a broader association with each country's partners in the Asia-Pacific region.

In sum, the future course of US-Korea trade relations will depend in large measure on what each country does with its FTAs with each other and with other trading partners. Ratifying and implementing the KORUS FTA would reinforce the economic partnership that has yielded large dividends for both countries; at the same time, it would create a strong foundation for bilateral cooperation on economic integration in the Asia-Pacific region. Delaying action on the KORUS FTA would raise concerns about the US commitment to the economic partnership and would likely provoke Korea and other US partners in Asia to reevaluate their efforts to support Asia-Pacific economic arrangements.

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Table 1. Korea's Trade with Major Trading Partners (mill. US \$)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<u>Korea's Exports to:</u>									
United States	37,806	31,358	32,943	34,369	43,027	41,500	43,321	45,884	45,294
China	18,455	18,190	23,754	35,110	49,763	61,915	69,459	81,985	106,624
European Union (25)	24,715	21,154	23,768	27,030	37,894	43,773	48,541	55,030	51,788
Japan	20,466	16,506	15,143	17,276	21,701	24,027	26,534	26,370	26,794
Hong Kong	10,708	9,452	10,146	14,654	18,127	15,531	18,979	18,655	13,763
<i>Memo:</i>									
World	172,692	151,039	163,143	201,854	254,363	285,484	326,361	373,737	417,355
<u>Korea's Imports from:</u>									
United States	29,286	22,431	23,111	24,935	28,919	30,788	33,797	37,393	38,288
China	12,799	13,303	17,400	21,909	29,585	38,648	48,557	63,028	83,146
European Union (25)	16,168	15,274	17,498	19,817	24,196	27,304	30,087	36,717	41,479
Japan	31,828	26,633	29,856	36,313	46,145	48,403	51,926	56,250	65,385
Hong Kong	1,261	1,228	1,695	2,735	3,268	2,043	2,101	2,142	7,009
<i>Memo:</i>									
World	160,482	141,099	152,127	182,974	224,462	261,238	309,382	356,847	433,366

Source: International Monetary Fund, Direction of Trade Statistics (August 2009)

Figure 1. Real exchange rates (2007 Jan.= 100)

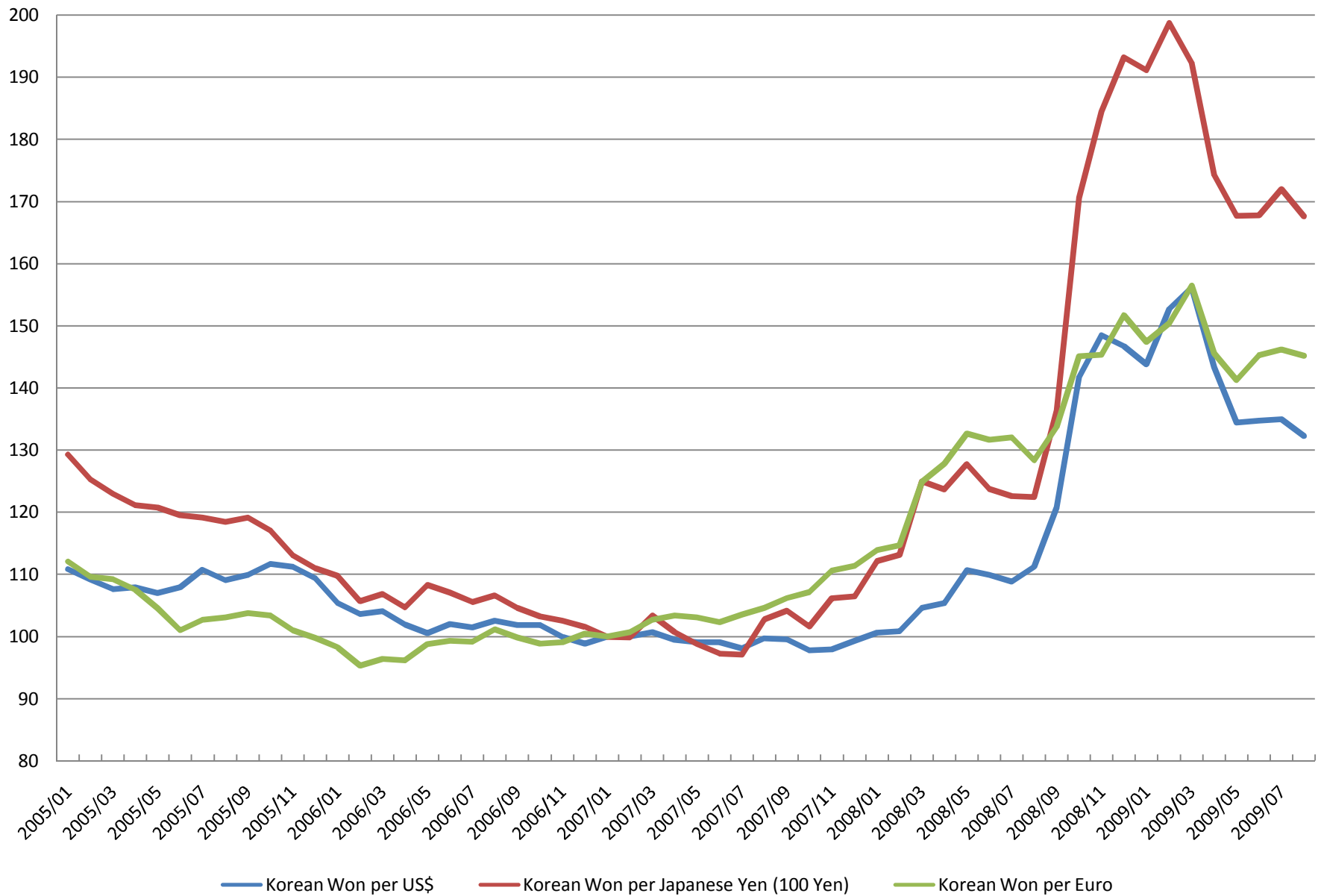


Table 2. US auto (light vehicle) sales by company ^a

	Unit				
	2006	2007	2008	2009	
				(Jan-Aug)	(Annualized)
Chrysler Group	2,142,505	2,076,062	1,447,736	650,496	975,744
Ford	2,849,604	2,436,530	1,942,041	1,105,803	1,658,705
GM	4,067,554	3,824,550	2,955,860	1,381,583	2,072,375
International (Navistar)			851	138	207
Big 3 Total	9,059,663	8,337,142	6,346,488	3,138,020	4,707,030
Honda	1,509,358	1,551,542	1,428,765	806,907	1,210,361
Hyundai	455,520	467,009	401,742	310,706	466,059
Isuzu	13,543	11,448	7,262	1,076	1,614
Kia	294,302	305,473	273,397	216,947	325,421
Mazda	268,786	296,110	263,949	145,955	218,933
Mitsubishi	118,558	128,993	97,257	38,127	57,191
Nissan	1,019,481	1,068,517	951,446	524,903	787,355
Subaru	200,703	187,208	187,699	143,828	215,742
Suzuki	100,990	101,884	84,865	31,664	47,496
Tata		65,233	44,198	23,953	35,930
Toyota	2,542,524	2,620,825	2,217,660	1,170,409	1,755,614
Asia Total	6,523,765	6,804,242	5,958,240	3,414,475	5,121,713
BMW	313,603	335,840	303,190	160,044	240,066
Daimler	247,886	253,225	249,722	130,201	195,302
Porsche	34,227	34,693	26,035	12,729	19,094
Volkswagen	325,256	324,080	310,888	194,730	292,095
Europe Total	920,972	947,838	889,835	497,704	746,556
Total Light Vehicles	16,504,400	16,089,222	13,194,563	7,050,199	10,575,299
<i>Memorandum ^b</i>					
Domestic Light Vehicle	12,812,886	12,336,074	9,847,728	5,131,969	7,697,954
Import Light Vehicles	3,691,514	3,753,148	3,346,835	1,918,230	2,877,345

Notes:

a. Light vehicles are cars and light trucks (GVW Classes 1-3, under 14,001 lbs)

b. Source is country of manufacture. Domestic are from US, Canada, Mexico. Imports are from overseas.

Source: Ward's AutoInfoBank (available at <http://wardsauto.com>)

Table 3. US beef export to Korea (monthly)

	Quantity (metric tons)				Value (thousand dollar)			
	2003	2007	2008	2009	2003	2007	2008	2009
January	15,013	17	111	6,946	46,618	59	338	27,153
February	16,704	19	31	5,835	53,366	57	99	21,925
March	16,033	1	14	3,677	52,304	3	92	12,887
April	15,166	55	38	1,805	50,733	150	103	7,225
May	15,107	975	1	2,506	54,017	4,109	12	10,838
June	22,246	2,142	49	3,032	83,037	10,163	356	13,304
July	23,201	11,040	1,489	2,674	85,107	47,949	5,461	12,484
August	23,571	1,915	12,404	3,408	85,685	10,562	62,752	14,233
September	13,484	6,076	16,642	2,690	50,949	33,453	89,249	10,773
October	18,832	1,989	13,827		66,285	10,026	79,039	
November	17,755	47	5,937		61,530	250	32,597	
December	16,336	64	3,193		60,870	538	14,928	
Total	213,448	24,340	53,736	32,573	750,501	117,319	285,026	130,822
<i>Memorandum:</i>								
Monthly Avg.	17,787	2,028	4,478	3,619 ^a	62,542	9,777	23,752	14,536 ^a
US export to World	859,736	464,301	626,985	445,741 ^a	3,150,232	2,004,652	2,819,946	1,902,395 ^a

Note:

a. for nine months (Jan. through Sep. 2009)

Source: US Meat Export Federation website
(available at <http://www.usmef.org/TradeLibrary/Statistics.asp>)

Table 4. Balance of Tariff Concessions (for Industrial Tariffs)

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	89.9	81	87.3	85.5
3 years	5.1	22.4	2.1	16.6	6.3	13.2	4.1	6.9
Subtotal	95.8	91.8	99.4	93.3	96.2	94.3	91.4	92.4
5 years	3.7	6.9	0.6	6.7	1.9	1.5	4.0	3.4
7 years	0.5	1.3						
10 years					1.9	4.2	4.6	4.2
Total	100	100	100	100	100	100	100	100

Source: Detailed Explanations of Korea-EU FTA (in Korean, available at http://www.fta.go.kr/user/fta_korea/kor_eu.asp?country_idx=21)

Table 5. Bilateral FTA partners of Korea as of September 2009

FTA ^a Status	Country/Region	2008 GDP (bill. US \$)	Korean merchandise trade, 2008 (bill. US\$)			
			Exports to	Imports from	Trade balance	Total trade
A	Chile	169.6	2.8	4.6	(1.8)	7.4
A	Singapore	181.9	16.4	13.5	2.9	29.9
A	EFTA-4 ^b	966.4	1.5	3.9	(2.4)	5.4
A	ASEAN-10 ^c	1,505.8	47.5	42.7	4.8	90.2
B	United States	14,264.6	45.3	38.3	7.0	83.6
B	India	1,209.7	7.5	5.3	2.2	12.8
C	European Union (27)	18,394.0	51.8	41.5	10.3	93.3
D	Canada	1,511.0	5.6	4.0	1.6	9.6
D	Mexico	1,088.1	8.5	1.2	7.3	9.7
D	GCC ^d	1,076.0	12.9	68.9	(56.0)	81.8
D	Australia	1,010.7	5.5	16.7	(11.2)	22.2
D	New Zealand	128.5	0.9	1.1	(0.2)	2.0
D	Peru	127.6	0.5	1.2	(0.7)	1.7
D	Japan	4,923.8	26.8	65.4	(38.6)	92.2
E	China	4,401.6	106.6	83.2	23.4	189.8
Subtotal^e		50,959.3	340.1	391.5	(51.4)	731.6
Memorandum Korea (world trade totals)		947.0	417.3	433.3	(16.0)	850.6

Notes:

- a. A = in effect; B = signed; C = negotiations completed; D = under negotiation; E = in preparation.
- b. EFTA-4: Iceland, Liechtenstein, Norway, and Switzerland. Due to data unavailability, figures for EFTA-4 do not include the contribution from Liechtenstein.
- c. ASEAN-10: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
- d. GCC: Bahrain, Saudi Arabia, the sultanate of Oman, Kuwait, Qatar, and the United Arab Emirates.
- e. Due to its inclusion in ASEAN-10, Singapore is counted twice in these subtotals.

Sources: IMF's *World Economic Outlook Database*, April 2009; IMF's Direction of Trade Statistics (CD ROM, August 2009)