

U.S.-Korea Free Trade Agreement

Largest Free Trade Pact in More than 15 Years

Summary

Background

On February 2, 2006, the United States and the Republic of Korea announced that they were beginning negotiations toward a bilateral free trade agreement (FTA), with talks expected to take up to a year. The first round of negotiations on the U.S.-Korea FTA took place in June 2006, with further rounds in July, October and December. The United States concluded the historic FTA negotiations with Korea on April 1, 2007.

After a year-and-a-half of negotiations, President George W. Bush signed the U.S.-Korea FTA on June 30, 2007. A successful FTA would be the biggest free trade pact the United States has reached since it entered into the North American Free Trade Agreement (NAFTA) more than 15 years ago.

Current

Korea is a \$1 trillion economy and is the United States' seventh largest goods trading partner. Korea's commercial relationship with the United States is largely complementary. In 2006, two-way trade between the two countries totaled more than \$78 billion. In 2007, U.S. goods exports to Korea were \$34.7 billion — a steady increase over the previous five years.

In 2005, U.S. foreign direct investment in Korea totaled roughly \$18.8 billion and was concentrated largely in the manufacturing, banking and wholesale trade sectors. Korea currently enjoys broad access to U.S. markets and the United States is Korea's second largest market, importing 17 percent of Korea's worldwide exported goods.

Korea is California's fifth largest exporting partner. In 2007, California exported \$7.5 billion to Korea.

Impact

Passage of the U.S.-Korea FTA will eliminate tariffs and other barriers to trade in goods and services, promote economic growth and enhance trade between the United States and Korea.

The U.S.-Korea FTA will greatly expand market access in Korea for U.S. farmers, manufacturers, service providers and financial services firms. Under the FTA, more than half of current U.S. agricultural exports to Korea — with a value of \$1.6 billion — will become duty-free immediately, including high-value agricultural products such as almonds, pistachios, wine and cherries. For many other key agricultural goods, such as pork and citrus products, the FTA will provide unparalleled access to the South Korean market and its prosperous consumer base.

Almost 95 percent of all bilateral trade in consumer and industrial products will become duty-free within three years under the agreement, and virtually all remaining tariffs on consumer and industrial goods will be eliminated in 10 years. Moreover, this agreement will eliminate significant non-tariff market access barriers in Korea to U.S. goods, services and investment. Consumers in both countries stand to gain from the broad benefits of this agreement.

U.S. interests are protected under this agreement through robust provisions on transparency, intellectual property rights, competition, investment and other rules, particularly in the area of services. The agreement also has important implications beyond bilateral trade and investment.

By giving U.S. exporters and investors a preferential position in the world's 11th largest economy, an FTA with Korea will enhance U.S. businesses' ability to compete in the dynamic Northeast Asia regional economy. From a strategic standpoint, the FTA will reinforce the critical partnership and alliance between the two countries.

Korea is a significant market for U.S. small and medium-sized companies, which make up a majority of U.S. businesses exporting to Korea.

The Republic of Korea is a longstanding and close U.S. ally, and a strong partner in advancing regional and global security. The U.S.-Korea FTA will reinforce this critical economic and political partnership by deepening the links between the countries as they work together to protect peace and prosperity in Northeast Asia.

The FTA also would be a big win for California. According to the International Trade Administration in the U.S. Department of Commerce, computer and electronic products accounted for \$2.3 billion of California's merchandise exports to Korea in 2007. With immediate removal of many of these related tariffs, exports will become more competitive and affordable to Koreans. California's exports of machinery also will benefit from U.S.-Korea FTA reductions as machinery manufactures accounted for \$1.4 billion of the state's merchandise exports to Korea in 2007. Transportation equipment accounted for \$590 million of the state's export sales to Korea in 2007 and most of these duties also would be eliminated immediately. In addition, tariffs and other barriers would be eliminated on most agricultural products produced in California.

U.S.-Korea Free Trade Agreement (continued)

Anticipated Action

The agreement now must be approved by the legislative bodies in both countries before taking effect. It is hoped the 111th U.S. Congress will vote on the FTA in early 2009.

CalChamber Position

The California Chamber of Commerce, in keeping with long-standing policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business. New multilateral, sectoral and regional trade agreements ensure that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.

Reasons for Position

- The U.S.-Korea FTA will send a strong signal that the United States intends to remain heavily engaged in the region for a long time to come in business, economics, security and international politics.
- The FTA will strengthen a more than 50-year-old alliance between the United States and South Korea while reinforcing the economic and political reforms South Korea has made over the last decade.

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