

## Economic Assessment of the KOREA-US FTA\*

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*Discussions about the KORUS FTA began in the mid-1980s; however, due to the immaturity of domestic motivation to push forward, full-scale talks didn't begin until 2004. The KORUS FTA, the negotiations for which began in June of 2006, with additional negotiations in 2007, was officially signed in late June of 2007. The KORUS FTA is expected to have a major impact on the Korean economy relative to the other FTAs that have already been established. It is also expected to have a significant impact on trade by Korea and on FTA policies as a whole.*

*Within the framework of the KORUS FTA, there are sensitive issues, but the general consensus is that it is considerably in agreement with Korea's national interests through its coverage and its high level of market access. It is generally viewed that the agreement was improved in many aspects and that the risks of implementing the sensitive points were minimized by way of exceptions and added terms. However, based on differing perspectives on establishing an FTA with the US, some radical evaluations have begun to appear.*

*This paper aims to evaluate the KORUS FTA by analyzing the process involved, the main issues raised during the negotiations, and its economic impact. In the conclusion section, the author points out the need to strengthen the Korean trade policy system with the beef crisis as the stimulus for this, so as to foster the growth of communications between civic groups and interested parties and to solidify the convergence of opinions. Also discussed is the need for the early ratification and execution of a reasonable agreement to realize the gains expected from the KORUS FTA.*

**Keywords:** KOREA-US FTA, Market Access, FTA Roadmap, Trade Policy, CGE JEL  
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## I. INTRODUCTION

The Republic of Korea has signed Free Trade Agreements (FTA) with multiple nations. Thus far, Korea has signed treaties with Chile (effective as of April, 2004), Singapore (effective as of March, 2006), the European Free Trade Association (effective as of September, 2006), and the Association of Southeast Asian Nations (ASEAN; effective as of June, 2007). Agreements with the European Union, India, Canada, and Mexico are underway. The FTA with the United States had been under examination since 2003, when Korea finalized the “FTA Propulsion Roadmap.” Some degree of examination was conducted intermittently before 2003; however, due to the unfavorable domestic and foreign situations at the time, progress was difficult. In 2004, Korea began to contact the US actively to establish bilateral discussions on the matter. In 2005, the US and Korea held working-level FTA discussions three times, and on the basis of these, both sides announced that official negotiations would be held in early 2006. The time taken for Korean-US free trade agreement (KORUS-FTA) negotiations was relatively brief compared to that needed for other FTAs and given that such a comprehensive FTA contained rather many sensitive issues.

Furthermore, many expect a considerable economic impact as a result of the KORUS-FTA; due to its exemplary form of market access designs along with its advanced trade policies, it is expected to have a great impact on Korea’s future FTA and trade policies. Establishing an FTA with the world’s largest market, the US, allows amplified possibilities for Korean businesses to advance into the American market, which can ultimately support Korean businesses as they attempt to advance into other foreign markets. In fact, the records of actual exports to American distributors are widely known to be used as references when consulting about exports with other nations.

The process of establishing the KORUS-FTA has been fraught with domestic resistance due to the sensitive topics it contains. Many opposing factions criticized the very nature of the FTA, the opening of markets, and the related deregulation plans. However, some opposed the KORUS-FTA regardless of the content of the agreement, simply because the policy partner was the US. Meanwhile, the authorities’ attempt to settle on the agreement

before the expiration of the American TPA (Trade Promotion Act) resulted in tense public hearings. In addition, the authorities' leading the public to think that the processes were being rushed worked against the gaining of public support.

The principal goal of this paper is to examine the KORUS-FTA objectively while placing much emphasis on analyzing the overall process of the agreement. Most existing domestic papers focus on the macroeconomic aspects of the KORUS-FTA, while discussions of the historical aspects of the agreement are scarce. Because the KORUS-FTA is substantial relative to Korea's other FTAs, for example with Chile or Singapore, it is impossible to examine every aspect of it in detail. Nonetheless, this paper is an attempt to analyze the KORUS-FTA quantitatively and qualitatively by historically examining it from the time of its negotiation to the time of its settlement.

## II. COURSE OF PROMOTING THE KORUS-FTA

### 1. Background

Today, FTAs perform a very important role at the center of the WTO's multilateral trade system; it is no exaggeration to say that every member state of the WTO promotes FTAs. China is the latest nation to join the realm of FTAs, and as of June of 2008, it has already entered into seven FTAs. The trade authorities of countries such as those in the Middle East and Africa and even Mongolia are among the many that are also actively pushing to establish FTAs. Why do all of these nations want FTAs? Generally, nations promote FTAs for many reasons, but it can be interpreted that most promote FTAs to improve their economy by increasing exports, investments, and advancing trade policies. They also stress the importance of promoting FTAs because they don't want to face losses by not riding the worldwide FTA wave.<sup>1</sup>

Generally, the economic gains made through the FTA depend on the size, structure, and the growth of the partnering nation's economy. Usually, FTAs with nations with a high trade barrier and advanced trade policies will bring

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<sup>1</sup> As of August, 2008, there are total of 213 FTAs in the world.

greater economic gain. A more inclusive agreement leads to a larger economic effect. The US is the world's largest economy, accounting for 20% of the world's gross domestic product. Generally, the US promotes an all-inclusive FTA; thus, one can expect a highly positive economic effect if one enters into an FTA with the US. However, it is true that actual economic gains can only be calculated once the agreed-upon framework of the FTA is analyzed.

In 2003, when Korea officials contacted the US to review the FTA, Americans viewed the Korea's will to push for the FTA to be low and considered the Korea-Chile FTA to be an ordinary trade agreement. Furthermore, they considered the Korea's trade policies to be overprotective. As such, they underestimated the economic gains made by the US through the FTA. Later, when Korea successfully entered into agreements with Singapore, EFTA, and ASEAN, and promoted FTAs with Canada, Mexico, and India, the US finally began to view the Korea's will to be high. Meanwhile, the US most likely felt some degree of threat from the rise of China and the deterioration of Korea-US relations, meaning that the KORUS-FTA would fulfill the need to strengthen the strategic alliance between the two nations.

The US has entered into an FTA with only a few nations, mainly due to the fact that there are not many nations like the US that can promote such comprehensive trade agreements. In addition, it simply is not easy to find nations with the trade agreement experience and negotiating manpower of the US. The US has secured many experienced commerce professionals and specialists in the field, which the other nations lack. In addition, in the case of the US, the power to push for an FTA is held by the US Congress, which makes it difficult for the US to concede in negotiations; that is, the US Congress holds authority over trade policy, which is an authentic characteristic that only the US has. The US Congress, under special circumstances, is granted Trade Promotion Authority (TPA) by the executive branch. Therefore, the US has a very limited time frame for promoting any type of trade agreement, not only because it needs approval from Congress, but also because any negotiation can only begin once TPA is granted.

Let's turn our attention to the Korea's promotion of FTAs. Approximately ten years ago, when Korea was negotiating an FTA for the first time with Chile, there were not many experienced commerce professionals. Therefore, more time was spent on examining agreement drafts and analyzing

concessions. In turn, negotiations took longer than expected. Later, five to six FTAs were simultaneously promoted or examined, which pushed the Korean government to sharpen its focus, specifically on the trade and commerce field. More than 30 professionals were openly recruited at this point. For the KORUS-FTA, the Korean government employed more than 300 professionals. Along with indirect support from the Korean National Policy Research Institute and other private institutions, the total number of personnel involved in the affair exceeded 500. We cannot say with any confidence that we have secured a sufficient number of professionals, but we can at least say that we have sufficient manpower to carry out KORUS-FTA preparations and negotiations without major setbacks. In the real KORUS-FTA negotiations, the American negotiating team publicly spoke highly of the Korean negotiation staff and their well-prepared content and attitudes at the table. The results of the actual negotiations support such compliments; after the negotiation, it is true that public support for the KORUS-FTA was greater than opposition; The Korean economists praised the KORUS-FTA negotiations as one of the greatest outcomes of the Roh Moo-Hyun administration. The KORUS-FTA was evaluated as a necessary policy, because both its content and its timeliness are expected to have a positive impact on the Korean economy.

For Korea, which has already entered into FTAs with numerous nations, there is a need to seek greater, higher-quality FTAs to increase economic gains. From 2000 to 2005, Korea experienced the world's fastest FTA promotion rate, and the Korean government was called upon to take a more active role in promoting FTAs following reports on the negative economic effects of FTAs published by trade organizations such as KOTRA (Korea Trade-Investment Promotion Agency). Those who called on the Korean government were mainly financial institutions, and those institutions emphasized the need for Korea to enter into FTAs with larger economies, such as the US or the EU.

Meanwhile, there was a need for Korea to improve the quality of FTAs. There were many voices advocating centering the Korean FTAs on the service industry, development, investment, and liberalized trade policies. These voices expected that by including these factors in the KORUS FTA, Korea would not only advance its economy but would also make it more transparent.

During this time, the Roh administration set as its primary goal to raise the national per capita income to \$20,000 through the KORUS FTA. The Roh administration realized that the goal was only realistically reachable with improvements to the service industry, which made up over 70% of the Korean economy. Thus, it is no exaggeration that the promotion of the KORUS FTA was possible owing to the Roh administration's hope to advance the Korea's service industry and its economic competitiveness. The service industry has many regulations by nature and maintains established business methods and practices which have sprung from those regulations while protecting the profits of interested parties. In other words, while the service industry is guaranteed to grow with countless regulations as its catalyst, despite changes in the trade environment, it cannot actually aid in the development of the economy. According to a study conducted by the World Bank in 2007 on changes in the business environments of 178 nations between April of 2006 and June of 2007, Korea placed 30<sup>th</sup>, a drop of seven places from the previous year's rank.<sup>2</sup> It is true that the Korean government has been improving the business environment; however, studies show that because other nations have been improving at a faster rate, the business environment of Korea has actually regressed. It was also found that the initial expenses of a typical Korean company were around 16.9% of the GNI per capita, which is approximately 5.1% higher than the OECD average. Korea placed 131<sup>st</sup> in employment (a one place drop from the previous year), and 64<sup>th</sup> in investor protection (a two place drop from the previous year). Due to the active promotion of the FTA, trade placed 13<sup>th</sup>, a significant 17-place jump from the previous year. Regardless, the Korea's service industry ranks among the lowest internationally.

Today, the service industry of a nation impacts the productivity of the manufacturing industry. The service industry, especially in the fields of education, medicine, law, accounting, and design, shows parallel growth to that of the manufacturing industry. Thus, the service industry is important in

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<sup>2</sup> Meanwhile, according to the Global Competitiveness Report 2007-2008 by the World Economic Forum, Korea's national competitiveness jumped to 11<sup>th</sup> place from 23<sup>rd</sup> place last year. This sort of business environment improvement is credited with having impacted the signing of the KORUS FTA.

the development of the manufacturing industry. Once the wall of regulations is lowered, more investors will enter the market, which in turn, develops the service industry. That means that the foreign impact is necessary for the development of the service industry; once foreign investors compete against domestic investors and corporations, domestic players are stimulated to elevate their competitiveness. The Korean government firmly believed that FTAs would contribute to the advancement of the service industry. Luckily, some sectors in the service industry, such as law and accounting, were included in the KORUS FTA, but very controversial sectors such as education and medicine were excluded. Due to such results, it was originally concluded that the opening of the service industry was insufficient. Later, the Korean government announced a plan to liberalize the service industry sectors, which were not included in the KORUS FTA, but generally, the plan is considered to be too unrealistic.

Some criticize the inexperience and the unpreparedness of the Korea's rushed promotion of the KORUS FTA. It is certainly true that a couple more years of preparation would have brought better results, although, that does not speak to the excellent timeliness of the KORUS FTA. Considering the conditions of promoting the KORUS FTA from the Korea's side, it was deemed to be more reasonable to promote the FTA with sympathy with the US as the background.

Some criticize the government for starting KORUS FTA negotiations without any plans for industries which are impacted negatively. It is true that "sufficient advance preparations" are difficult for any FTA. First, in accordance with the results of the negotiations, each party to the negotiation calculates and estimates the cost of countermeasures of any losses. Therefore, it is difficult to prepare a damage prevention plan in advance. In addition, advanced preparation to prevent losses would mean that the Korean industries would be equipped with greater international competitiveness, but any nation with this level of international competitiveness would not need to promote FTAs. In the first days of 2007, a National Assembly member released one of my own reports on FTAs, which received much attention from the press. This report was prepared in 2005, when the Korean government was actively promoting the KORUS FTA. It provided a model that converted the theoretical pressure from restructuring after concluding the FTA into

unemployment numbers using economic models.<sup>3</sup>

Although it is undeniable that more jobs will be created by signing the KORUS FTA, this study was implemented to estimate the level of transitory unemployment (the pressure from restructuring) as a result of the shift of the employment of manpower from less competitive industries to developing industries and the cost of re-employing the manpower necessary to support the policy management activities pertaining to trade regulations. Actually, the Korean government referenced the results of this study when they enacted the Trade Regulation Support Policy for the first time in April of 2006. The Korean government had enacted regulations and policies to help the affected workers and businesses, and they had already secured a budget of approximately \$110,000,000,000 for the agriculture industry. This budget was originally a countermeasure to the opening of the agricultural industry through agendas such as the Doha Development Agenda (DDA). However, the Korean government, in an effort to ease the burden of losses due to the FTA in the agriculture industry smoothly, retouched the budget plan and decided the additional aid would be dispersed after the KORUS FTA was signed.

It is possible to argue that the proposition to subsidize the agriculture industry and the 2006 Trade Regulation Support Policy were insufficient to cover all losses and damage due to the KORUS FTA. Nevertheless, it is expected that when subsidizing the losses and damage caused by the opening of the market, the Korean government must apply the following three standards. First, it must reference the WTO's Subsidy Agreement. Unlike the situation in the past, today the WTO has set firm limits on how much a member state may receive in subsidies in times of need. It is also gradually decreasing these limits. As Korea requires more financial support to promote its trade agreements, it encounters the problem of having to reduce its financial support in other areas. Next, Korea must calculate the required subsidies based on statistics from past cases of other nations.

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<sup>3</sup> Cheong In Kyo (2005) "FTA Promotion and Trade Restructuring" Ministry of Commerce, Industry and Energy sponsored, "Public Hearing on the Manufacture Industry and Trade Restructuring Support" Presentation Documents (August 31, The Korea Chamber of Commerce and Industry Conference Room)



Although American financial support is considered to be excellent, such support primarily focuses on secondary support to train and consult for the unemployed, instead of giving hard currency. Lastly, Korea must consider its own current economic status. One may agree with the idea of actively supporting the weak and vulnerable classes, but the size of such support must be calculated and adjusted in accordance with the current economic status of the nation. It is irrational to support these classes actively if that support endangers the economic status of the state.<sup>4</sup>

## 2. Progress<sup>5</sup>

### *a. Discussions, 1980-90s*

In the 1980s, the US began to show interest in establishing bilateral trade relations with Korea, as it was worried about the possible growth of the national deficit and the weakening of its international competitiveness. Meanwhile, Korea responded to the US-led promotion of the FTA by organizing domestic research groups centered on professionals from the National Policy Institute.

In April of 1984, representatives from the USTR and GATT suggested a review of the KORUS FTA. At the time, the Uruguay Round negotiations were not as fruitful as was hoped; thus, the US not only pushed forward an FTA with Canada to counter the plan to unify the European markets, but they also reviewed the possibilities of establishing FTAs with major East Asian nations. According to a report by the USITC which examined Asian-Pacific FTAs in 1989, Singapore, Korea, and Taiwan were considered to be the most appropriate countries with which to enter into a FTA. Later, the US determined that the Singaporean market was too small and would be unprofitable and that it would be inadequate to enter into an FTA with

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<sup>4</sup> For instance, Korea's gross agricultural output in 2006 was approximately 26 trillion won, whereas the government subsidy for the agriculture industry was 16 trillion won. In addition, considering Korea's current economic status, the amount of the subsidy cannot be considered insufficient.

<sup>5</sup> Based on the author's contributing works (Cheong In Kyo 1998-2005) on the KORUS FTA.

Taiwan.<sup>6</sup> Among these three countries, it is true that Korea was considered ideal, but due to the strong anti-American sentiment in Korea, the actual push for an agreement was judged to be difficult.

Nevertheless, following the report, numerous studies were conducted on the potential for a KORUS FTA, resulting in the creation of the Korea International Trade Association and the Korea Institute for Industrial Economics & Trade. However, follow-up studies were seldom, if ever, conducted, which further impeded the trade authorities' full understanding of the FTA. Moreover, discussions of FTAs were not able to continue due to domestic sentiments and the inclusion of the opening of the agriculture industry in the Uruguay Round. During the Kim Young-Sam era, there were times when trade professionals were called to review the potential of entering into an FTA with the US. In 1996, the Globalization Promotion Committee even studied FTAs and conducted a potential economic analysis of the KORUS FTA, which was revised and supplemented by Wang, Yun Jong and Cheong, In Kyo to be published in the Korea's *Current Economic Reviews and Outlook* in 1998.<sup>7</sup>

In 1998, as Korean government reviewed the Korea-Chile FTA, there were talks about the KORUS FTA. However, because the Korean government lacked the knowledge and the experience in FTA negotiations, it concluded that it was wiser to enter into an FTA with a smaller economy; that is, the Korean government would promote FTAs, with Chile being its first FTA partner, and afterward review the potential of entering agreements with Japan, Thailand, New Zealand and others. Even as such studies and reviews were being conducted, the American Chamber of Commerce in Korea delivered letters urging the Clinton administration to enter into an FTA with Korea.

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<sup>6</sup> However, in 2000, the US agreed to promote a FTA with Singapore and began negotiations in 2001 that resulted in the signing of the agreement in 2002. It is presumed that the US entered into an FTA with Singapore to strengthen its service industry and gain more access to East Asian markets.

<sup>7</sup> Wang Youn Jong, Cheong In Kyo, "Establishment of the Korea-US Free Trade Zone and its Economic Implications" *Current Economic Reviews and Outlook*, Volume 4, 2<sup>nd</sup> Edition, 1998, pp. 135-188.

*b. Discussions after 2000*

In April of 2000, the Korean government announced the results of a joint study of a Korea-Japan FTA and began the negotiations of the Korea-Chile FTA. The discussions of the potential of a Korea-Japan FTA worried many American corporations. This, in turn, pushed the US to urge the early settlement of both the Korea-US Bilateral Investment Treaty (BIT) and the KORUS FTA at the 14<sup>th</sup> Annual Korea-US Business Council meeting held in Hawaii in January of 2001. Meanwhile, the American agriculture industry, which was highly interested in exporting American agricultural goods and products, including beef, urged Senator Max Baucus to promote the KORUS FTA. As a result, in late 2000, Senator Baucus requested a feasibility study on the KORUS FTA from the USITC. As the US began its feasibility study on the agreement, Korea began to do the same. In 2001 and 2002, such studies were conducted independently by each nation; however, given the immature conditions, these studies were not able to develop into an official discussion of the agreement.

In the 2002 Korea presidential election the incumbent party maintained its majority, with Roh Moo-Hyun as its head, but the new administration's transition committee did not put much priority on reviewing Roh's FTA policies. Rather, it focused much of its attention on constructing a North East Asian economic sphere, which made discussions of FTAs more opaque than ever. Nonetheless, after four or five months in power, the Roh administration began to show a distinct interest in promoting FTAs and therefore started to put some effort into ratifying the Korea-Chile FTA. In September of 2003, the Roh administration made the "FTA Promotion Roadmap" one of its priorities.<sup>8</sup> This roadmap included plans to promote FTAs with the US, EU, China, and other larger economies.

As a result, confirming the FTA Roadmap expedited the Korea-Japan FTA. Thus, in October of 2003 at the APEC Summit Meeting, Korea and Japan jointly announced the beginning of their FTA negotiations.<sup>9</sup> The Korea-Japan

<sup>8</sup> According to this roadmap, at the time, the Korea set FTAs with Singapore and Japan as a short-term goal and FTAs with the US, EU, China, and other larger economies as a long-term goal.

<sup>9</sup> The Korea-Japan FTA forums were operated from May of 2001 to the early 2002. Beginning in June of 2002, the Industrial, Governmental, an Academia Joint Research

**Table 1.** Schedule of the KORUS FTA

	Date	Event Title	Venue
Stage of FTA Probes and Preparations	2003. 8. 30	Conclusion of the FTA road map	Seoul
	2004. 11.19	The KORUS trade ministerial meeting- Review and consensus of the KORUS FTA	Santiago
	2005.02.03-04.29	The 1 <sup>st</sup> ~3 <sup>rd</sup> round of the KORUS FTA exploratory meeting	Seoul & Washington
	2005.02-06.11	6 sessions of the KORUS trade ministerial meeting	Geneva, etc.
	2006.01.18	President Roh, Moo-hyun's New Year's Address (The KORUS FTA negotiations announced)	Seoul
	2006.02.02	Public hearing on the KORUS FTA- Resolution on external meeting of economic ministers	Seoul
	2006.03.07	Korean Government- Decision on screen quota reduction	Seoul
	2006.03-04	2 informal sessions of the KORUS FTA preparatory negotiation	Washington & Seoul
Stage of FTA Negotiations	2006.06.05-12.08	1 <sup>st</sup> ~5 <sup>th</sup> formal round of the KORUS FTA negotiation	Washington, Seoul, etc
	2007.01.15-03.12	6th~8th formal round of the KORUS FTA negotiation	Washington & Seoul
	2007.03.26-4.1	Trade minister-level negotiation/ Summit telephone negotiation (March 30)	Seoul
	2007.03.26-4.1	Final agreement	Seoul
	2007.06	Additional negotiation on new trade policy	
Signing	2007.06.30	Official signing of the FTA document	Seoul
Stage of FTA Ratification	2007.09.07	Government- Submission of the FTA ratification proposal to the National Assembly	Seoul
	2008.06.26	Notification of U.S. beef inspection and quarantine criteria	Seoul
	2008.08.06	KORUS summit talk- Consensus of joint actions for this year's congressional ratification	Seoul
	2008.08.19	Consensus of congressional leadership formation	Seoul

Data: Prepared by author

FTA negotiations began in December of 2003. However, they fell out of favor, largely due to the disagreement between the two countries on the opening of each other's agriculture sector, eventually leading to the discontinuance of the negotiations after a year. From the perspective of Korea, the Korea-Japan FTA was meaningless if it did not include a section of the agreement guaranteeing economic benefits to Korea from the Japanese side.

Meanwhile, by the end of 2003, in the middle of the Korea-Japan negotiations, the Korea-Chile FTA seemed uncertain. This meant that Korea was in a situation to put forth the FTA Promotion Roadmap, which was finalized in September of 2003, and began its search of ways to promote multiple FTAs simultaneously. It was in this period that Korea began actively to look at the potential of the KORUS FTA. Although the results were unfruitful, representatives from each nation even held informal meetings on the issue. At this time, the US made it clear that the KORUS FTA could not be politically promoted while BIT negotiations were not progressing as a result of the disagreement about the screen quota. However, after May of 2004, the US began to hold rather optimistic views. In November of the same year, the US government even hosted a joint meeting to discuss the potential of the KORUS FTA during the Korea-US Commerce Summit Meeting held in Santiago.

In the early days of the KORUS FTA discussions, the discussants were comprised of mainly public workers, and the primary focus of the meetings was to communicate what each party hoped to gain through the negotiations. Field-specific discussions mainly included tariffs, agriculture, textiles, government procurement, rules of origin, trade remedies, intellectual property, the financial sector, the service industry, investment, telecom, electronic trade, competition policies, labor, the environment, and other topics. Both parties analyzed the other's stance on the contending issues and used the analysis to prepare a report to be used during the negotiations.

From 2004 to 2005, the roles of high ranking officials, including the commerce minister, congressmen, and economic organization presidents, were crucial in shaping the environment for the promotion of the KORUS

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Committee was organized to discuss the feasibility of and the directions for promoting the agreement.

FTA. This group specifically contacted several high-ranking American officials, including opinion leaders, members of Congress, and commerce department officials.<sup>10</sup> Unlike other FTAs, representatives from the Federation of Korean Industries, the Korean International Trade Association, and the Chamber of Commerce and Industries met with their American counterparts and actively put some effort into promoting the KORUS FTA. Ultimately, by September of 2005, the US had to prioritize the promotion of the KORUS FTA.

*c. Promotion of KORUS FTA after 2006*

Starting in 2006, promotion of the KORUS FTA began to accelerate. Once Korea decided on its policy negotiation terms, it broke the tradition of having a minister-level official announce the need for a KORUS FTA by having the president himself speak publicly to the people. At the end of 2005, the negotiation date was undecided, but in early 2006, both sides agreed to hold the first meeting in February of the same year. This resulted in a delay of many public hearings and minister-level economic conferences. Finally, on February 2<sup>nd</sup>, 2006, the first public hearing on the KORUS FTA promotion was held, and in the afternoon of the same day, during a minister-level economic conference, numerous ministers from various ministries confirmed their plan to promote the KORUS FTA. Once legal procedures to promote the KORUS FTA were taken by the Korean officials, on February 3<sup>rd</sup>, 2006, the US Senate announced the beginning of KORUS FTA deliberations.

In reality, the February public hearing, which was held to satisfy the negotiation terms with the US, worked against the plans of anti-FTA organizations. They argued that there was not enough time before the public hearings to raise questions at the hearings and that, although the hearing was called to order, it wasn't actually held. Thus, the negotiation announcement

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<sup>10</sup> According to the former Trade Minister Hyun-Jong Kim (2006), "Some think that the US pressure to implement the KORUS FTA has already taken effect. ... However, the establishment of the KORUS FTA is the fruit of our work of convincing the American administration, Congress and businesses towards reform and opening." The Ministry of Finance and Economy Serial (<http://mofe.news.go.kr>) [A Special Project 'KORUS FTA at the Start line'] March 14, 2006.

itself should have been considered invalid, according to them.<sup>11</sup> They also argued that because the “FTA Promotion Procedure Regulations” were a set of rules made with the promotion of KORUS FTA in mind, and considering that the public hearing broke down, the whole situation should be seen as a breach of contract. Criticisms of the government for not providing sufficient opportunities to collect opinions from the public ultimately led the Korean government to hold another public hearing on June 27<sup>th</sup>, 2006. However, this effort was not enough to calm the outbreak of the anti-FTA organizations and groups.

Due to the expiration of the TPA, the US suggested that negotiations start from the beginning of that year. However, Korea and the US later agreed to start in June, after Korea held a regional election that was planned for the last day of May. Nonetheless, the unofficial negotiations between FTA personnel from both sides led to the inspection of some items on the agenda, which eventually cut much time off of the official schedule.

The Korean officials were aware of the TPA expiration, yet they did not agree to any sort of negotiation time line. Nevertheless, it is true that the Korean officials admitted that it would be much easier to ratify the agreement if it were to be signed by both sides before the expiration of TPA. Therefore, both governments agreed to try their best to come to an agreement by the end of March of 2007 (the actual deadline was April 2, 2007). As a part of this small agreement, both sides also agreed to schedule a total of eight negotiation sessions and to utilize unofficial meetings to reduce the time as much as they possibly could. The number of scheduled negotiation sessions itself shows how much interest both governments had in the KORUS FTA; for past FTAs, Korea scheduled only up to four such sessions per year, but in the case of the KORUS FTA, there were negotiations almost every month. Furthermore, for every negotiation session, the officials set a five-day structure, which doubled the days spent for negotiations in the past. In addition, many more people were involved in the KORUS FTA negotiations

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<sup>11</sup> According to the public hearing schedule, which generally lasts about two weeks, it seems that the government had a hard time trying to hold such a hearing. However, considering the sensitivity of the KORUS FTA and its importance, the government should have held the hearing even if it took the delaying of the announcement of the start of the negotiation.

compared to those of other FTAs.

Despite the eight negotiations held until March of 2007, both sides failed to close the gaps on a majority of the issues in the KORUS FTA. Mainly, these issues were related to automobiles, textiles, and agriculture. In attempts to reach an agreement, telephone negotiations were conducted between the heads of the two states in March, with multiple high-level-official negotiations thereafter. Thanks to these efforts, negotiations miraculously came to an end on April 2<sup>nd</sup>, 2007. However, the very next month, in May, the American administration and Congress agreed on a new trade policy, which eventually led to additional negotiations. The final agreement was reached in late June, and the agreement was thus signed by both parties on the 30<sup>th</sup> of June. Soon after, the Korean government drafted a new set of domestic implementation laws, and in September, a letter requesting KORUS FTA ratification was presented to Congress.

### III. KORUS FTA: MAIN CONTENTS

The KORUS FTA is an all-inclusive, wide-open trade agreement. Thus, it is not easy to analyze every detail of it simply. To discuss the contents of the KORUS FTA in a more efficient manner, I have divided its contents into broad sections. The first of these is the removal of the tariff wall; the second is customs; the third, government procurement; fourth is trade remedies; fifth, patent rights/trade policy liberalization; and finally, service industry investment. In analyzing each section, I will discuss the main issues as well as the pros and cons of the issues from the perspective of Korea. Concerning the main issues, I will adjust the depth of the analysis based on the level of importance of each issue.

#### 1. Tariffs

Traditionally, tariffs have been the core of economic profit in any FTA. Thus, the economy usually takes the majority of the weight during the negotiations. It is generally known that FTA negotiations are conducted with economic analysis at their core. Tariffs become a type of primary indicator to the



members of the FTA, not only because they can be analyzed quantitatively, but also because they are relatively easy for the participating nations to cross-correlate. Tariffs are so closely related to other areas of the FTA that they ultimately determine how inclusive or open it will be; thus, there is a tendency for the whole structure to be designed and built toward the end of the negotiation process.

The level of tariff reduction in the KORUS FTA is incomparable by both international and domestic standards. There are few international trade agreements that are as open as the KORUS FTA. It is true that there are some international agreements, such as the CER (Closer Economic Relations) of Australia and New Zealand and the US-Chile FTA, in which tariffs are completely removed, but with the exception of those agreements, it is rare to find international trade agreements that eliminate all tariffs. In the KORUS FTA, tariffs on textiles are completely eliminated. Tariffs on agricultural products, with the exception of rice, reached a 99.9% tariff reduction.

In the case of the KORUS FTA, Korea focused primarily on exceptions to the opening of its rice market, and the US focused primarily on entering the Korean market with its items of interest. Both nations agreed to eliminate

**Table 2.** The Range of Tariff Reductions in Korean FTAs

Section	Agreement	Remarks
Announcement	Chile	(tariff concession of 99.8%: 100% for industrial products, 98.5% for agricultural products)
	Singapore	2004 (tariff concession of 91.6%: 97.4% for industrial products, 66.6% for agricultural products)
	EFTA	2006 (tariff concession of 98.5%: 99.7% for industrial products, 34~58% for agricultural products)
	9 ASEAN nations	2007 (tariff concession of 99.1%: 100% for industrial products, 93.2% for agricultural products)
	4 AFTA nations	2006 (preferential tariff rate of 14~35.7%: import tariff rate of 6.1~52.7%)
Conclusion	U.S.	Tariff Concession of 99.9%: 100% for industrial products, 99.9% for agricultural products

Note: AFTA (formerly 'Bangkok Agreement') is subject to not tariff elimination but tariff reduction.

tariffs on almost all items, other than rice. For produce such as oranges, potatoes, grapes and other agricultural products, they agreed to apply a seasonal tariff so that the current tariffs would be maintained during specific circulation seasons and that tariffs would be eliminated during the seasons when the Korean market would not suffer any damage. With the exception of these items, it is true that tariffs on all agricultural products will be removed as a result of the KORUS FTA.

**Table 3.** Classification of Items of Interest and their Concession Type

Concession Type	Item
Concession Exempted	Rice
Current Tariff/Import Quota	Oranges, Soybeans, Potatoes, Skim and Whole Milk, Condensed Milk, Natural Honey
Seasonal Tariff	Grapes, Potato Chips
Long-term Elimination, Tri-Interval-Elimination	Apples (Fuji 20 years, Others 10 years), Pears (Asian Pears 20 years, Others 10 years)
Long-term Elimination, Safeguard	Beef (15 Years), Pork (Frozen 10 Years), Chiles, Garlic, Onions (15 Years), Ginseng (18 Years), Barley (15 Years), Beer Malt and Malting Barley (15 Years), Starch (10~15 Years)
15 Years	Walnut, Chestnuts, Mandarins, Matsutake Mushrooms, Shitake Mushrooms, Filtered Tobacco
12 Years	Chicken (Frozen, Wings), Frozen Onions, Watermelons, Subsidiary Feed
10 Years	Peaches, Persimmons, Mandarin Juice, Tobacco Leaves, Plums
6~9 Years	Fresh Strawberries (9 Years), Beer, Ice Cream, Apricots, Popcorn Corn, Ice Cream (7 Years), Pork (2014.1.1, etc.) Walnuts, High-Fructose Corn Syrup (6 Years)
Within 5 Years	Peas, Potatoes (Frozen), Tomato Juice, Orange Juice, Whiskey, Brandy (5 Years), Seafood (3 Years), Avocados, Lemons (2 Years)
Immediate Elimination	Orange Juice (Frozen), Living Animals, Flowers, Coffee, Wine, Mill, Field Corn, Soybeans for Oil, Almonds

Annotation: Numbers inside the parentheses represent the duration of the tariff elimination.

Source: Ministry of Agriculture and Forestry, 2007.

In the case of the manufacturing industry, the majority of the products received 5 or more years to collect duty, whereas tariffs on the majority of agricultural products, which have a history of trade revenue, are subject to elimination systematically over five or more years. In addition, the manufacturing industry will face immediate tariff elimination on 84% of its products, and tariffs on the rest of the products will be eliminated within ten years of the implementation of the policy. The agricultural product concession negotiation was one of the most challenging points in the negotiation for both sides. Korea considered the sensitivity of the agriculture industry opening early on and therefore set the main goals of the concession negotiation as the following: first, secure as much exceptional treatment as possible; second, secure the longest possible policy implementation time frame for the agriculture industry. Approximately 10% of products, including rice, received an exceptional treatment or of at least 15 years of time before the complete elimination of the tariff (products with an average trade revenue of 25% or higher), but those that are relatively less sensitive were categorized for either immediate tariff elimination or for elimination over 10 years. However, most of the agricultural products assigned to the category of immediate tariff elimination were those that do not critically affect or have no effect on the domestic market. The contents of the agriculture negotiations agreement clearly show the compromises of the two nations. These compromises included import quota (TQR) management and agricultural product safeguard methods.

Rice or rice-related products were completely eliminated from the list of items subject to tariff liberalization. For some of the items, i.e., those with either large external price differences or tariffs high enough that the tariff elimination is expected to have a critical impact on the economy, tariffs were maintained at their current levels. However, in consideration of the American position in the agriculture industry, Korea decided to allow import quotas on some products. Examples of these products are soybeans, potatoes, powdered milk, natural honey, and oranges. Seasonal tariffs were only to be applied to those products with a high level of sensitivity and those products that have distinct seasons of harvesting and distribution. This is meant to protect domestic products. Examples of these products are grapes (May-October 15<sup>th</sup>), oranges (September-February), and potatoes for potato chips (May-

November).

Furthermore, the parties introduced a tri-elimination of tariffs (elimination of tariffs in three intervals) to minimize the impact of the FTA opening. This is usually applied in cases in which the variety and use of the main products are specifically classified by the participating nations. When there were worries that American apples might replace Korean apples, the Korean government decided to eliminate tariffs on American Fuji apples within 20 years (a safeguard of 23 years). For products with a low level of import probability, the Korean government decided to eliminate tariffs within 10 years. In addition, American Asian pears or similar species were targeted for tariff elimination within 20 years, and tariffs on other species were to be eliminated within 10 years. Because potatoes and soybeans are highly competitive, the tariffs on edible potatoes and soybeans were to be maintained at their current levels, yet tariffs on potatoes and soybeans used for food processing were subject to immediate elimination to reflect the understanding between the producer and the consumer.

According to the main item-by-item concessions, tariffs on beef (40%) are to be eliminated within 15 years, while tariffs on pork (22.5~25%) are to be eliminated by 2014. However, for frozen pork, which has a very high expected level of future imports, the tariffs are subject to elimination within 10 years. The tariffs for some items were kept at their current levels in exchange for import quotas. For instance, tariffs on natural honey (243%) were kept at their current levels, but an import quota (200 tons with a 3% annual increase) was set. Skim milk, dry whole milk (176%), and condensed milk (89%) are also to be increased by 3% annually from the initial 5,000 tons.

Given the nature of the American agriculture industry, there are few vegetable imports, but considering how much they contribute to agriculture income, Korea adopted conservative concessions. Among the vegetable and special produce items, sesame seeds, sesame oil (630%), chili peppers (270%), garlic (360%), onions (135%), ginger (377.3%), and peanuts (230.5%) were subject to tariff elimination within 15 years. To compete against American ginseng, fresh ginseng, white ginseng, red ginseng, and seven other items from the ginseng (222.8~754.3%) category, were subject to tariff elimination within 18 years. Among fruits, mandarin oranges (144%) and kiwis (45%) were subject to tariff elimination within 15 years, while peaches, sweet

Table 4.

	KOREA	USA
Immediate Elimination	Automobiles (8), Auto Parts (3~8), Xylene (5), Fiber-Optic Cables (8), Jet Engines (3), Airbags (8), Back Mirrors (8), Digital Projection TVs (8), etc.	>3,000cc Automobiles (2.5), Auto Parts (1.3~10.2), LCD Monitors (5), Camcorders (2.1), Precious Metal Jewelry (5.5), Polystyrene (6.5), Color TVs (5), Shoes (8.5), Light bulbs (2.6), Electric Amplifiers (4.9)
3 Years	Element(6.5), Silicon Oil (6.5), Polyurethane (6.5), Toothpaste (8), Fragrances (8), Golf Clubs (8), etc.	DTVs (5), <3,000cc Automobiles (2.5), Color TVs (5), Golf Products (4.9), Chandeliers (3.9), etc.
5 Years	Radio amplifiers (8), Aluminum Boards (8), Safe Razors (8), Patient Monitors (8), Razors (8), Detergent (6.5), Hair Conditioner (8), Lobsters (20), etc.	Tires (4), Leatherwear(6), Polyether (6.5), Speakers (4.9), etc.
10 Years	Basic Makeup (8), Phenol (5.5), Ultrasound Imaging Devices (8), Ball Bearings (13), Contact Lenses (8), etc.	Microwaves (2), Washing Machines (1.4), Polyester Resin (6.5), Imitation Jewelry (11), Bearings (9), Textile Dryers (3.4), Trucks (25), etc.
10 Years, Non-linear	Particle Boards (8), Textile Boards (8), Plywood (12), etc.	Ceramic Tiles (8.5/10), Steel (4.3~6.2)
More than 10 Years		Special Shoes (20~55.3)

Footnote: (#) represents the tariff %.

Source: The Korean Government (2007).

persimmons (45%), and persimmons (50%) were subject to tariff elimination within 10 years. Tariffs on barley, malting barley, and malt were to be eliminated within 15 years, and unhulled barley (324%), rye (299.7%), malt (269%), and malting barley (513%) were to be granted import quotas.

All tariffs on the manufacturing industry are to be eliminated immediately; items that make up approximately 94% of the standard amount of imports were set for early elimination (within 3 years). Owing to this, both nations have high hopes of increasing actual trade rates. According to documents from the Korean Ministry of Commerce, Industry and Energy (2007), upon

the signing of the KORUS FTA, Korean-made products are expected to enter the overseas market. Some products that benefit the most from the short-term tariff elimination and that are expected to increase in market share are Korean automobiles, LCD monitors, camcorders, TVs, cameras, audio amps, polystyrene, metal cutting manufacturing machinery, earphones, epoxy resin, and color TVs.

Some items were subject to tariff eliminations over 5 years or more, and in case of the US, these items were tires (4), aluminum foil (5.8), glue (2.1), leather wear (6), silicon ferromanganese (3.9), polyether (6.5), polystyrene (6.5), safety glasses (4.9), speakers (4.9), bicycles (11), and others. Those items that were subject to tariff elimination within 10 years were microwaves (2), washing machines (1.4), polyester resin (6.5), bearings (9), ABS resin (6.5), vinyl tile covers (5.3), air conditioners (2.2), paint (6.6), textile dryers (3.4), dish washers (2.4), electric blenders (4.2), imitation jewelry (11), metal tableware (14), glass goods (5.0~38), and trucks (25).

Korea assigned the following items for tariff elimination within 5 years: radio amplifiers (8), aluminum boards (8), safety razors (8), patient monitoring systems (8), razors (8), detergents (6.5), < 3-ton forklifts (8), hair conditioner (8), and dental scalers (8). The items assigned for 10 years are acrylic nitrile (6.5), basic makeup (8), phenol (5.5), ultrasound imaging devices (8), MRI scanners (8), ball bearings (13), polyethylene (6.5), complex amplifiers (8), acetone (5.5), safety valves (8), endoscopes (8), and latex (8).

## 2. Trade System Areas

### *a. Customs Clearance Procedures*

American non-tariff barriers are generally low. However, after the September 11, 2001 terrorist attacks, the US implemented the CSI (Container Security Initiative), which slowed the customs process. It is true that similar initiatives may be implemented in the future, which could significantly slow the process of importing and exporting, ultimately inflating the distribution cost. Nonetheless, through the KORUS FTA, both parties have agreed to initiate a system oriented toward minimizing the distribution costs at all times. According to KOTRA's (Korean Trade-Investment Promotion Agency) publication in early 2008, entitled "Present Conditions of the Major Export

Markets' Non-Tariff Barriers," the customs clearance process is by far the greatest obstacle that Korean firms face in exports.

To expedite and smooth the process of trade between the parties, each member state must either adopt or maintain an effective customs-clearance procedure. Also, they must consider a system that allows transport of goods within 48 hours of arrival. In the KORUS FTA, to expedite the transport of goods, all information about the goods is to be submitted and processed electronically. In addition, the KORUS FTA implements a system that allows exporters to transport goods out of the customs house before the authorities finalize the decisions on matters such as applicable tariffs and processing fees.<sup>12</sup>

To expedite and automate customs clearance procedures, the involved parties must develop a compatible electronic system and must adopt or maintain an automated risk management system. To smooth the trade system for both parties, each member state must improve its risk management techniques, smooth its international distribution net standards, simplify procedures for efficient and timely trade, improve employees' techniques, and provide technical support and consultation to the participating party to improve or enhance the applied technology. A member state must issue a pre-evaluation within 90 days after its customs officials submit a request, and a requester must submit a copy of all information, including samples of the goods, requested by the member state.

#### *b. Government Procurement*

By 2005 standards, it is estimated that the size of the American procurement market totals approximately 1 trillion dollars. The South Korean Ministry of Finance and Economy determines that as a result of the KORUS FTA, US Federal government procurement will increase to 6 trillion won. Thus far, Korean firms' participation in the American procurement market has been extremely limited. According to 2005 standards, Korean firms only acquired \$9.4 billion dollars, which is only 0.25% of the total US federal government procurement. This is lower than the participation of Germany, England,

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<sup>12</sup> A member state may request sufficient collateral, a deposit or other means of guarantee regarding domestic tariffs or commission fees on imports.

Japan, Canada, and others. Additionally, most of the 9.4 billion dollars came from distributions to the US Armed Forces in Korea. Explanations for this are Korean firms' lack of information on procurement markets and the highly complicated procedures that are involved.

According to a 2007 report by South Korea's Small & Medium Business Administration,<sup>13</sup> General Service Administration (GSA) schedule submission and other complicated requirements and qualification standards, such as Multiple Award Supply (MAS), have been the barriers that have kept Korean firms from participating. The report revealed that Korean firms' hardships in finding a prime contractor, local consultants, and agents, as well as details related to bids and paperwork were the greatest problems faced. Also, although it is true that defense procurement, by 2005 standards, totaled 70% of the US federal government procurement market, due to separate defense procurement agreements, evaluation programs and other complicated measures remained as the de facto barrier that prevented Korean firms from further participation.

Korea's Small & Medium Business Administration estimates that because foreign procurement markets, including that of the US, are increasing, South Korean small- and medium-sized businesses can enter foreign markets much more easily through the KORUS FTA. In the actual words of the agreement, in chapter 17, which deals with government procurement, it states that first, member states have agreed to the expansion of the bilateral procurement market and have agreed on cooperation in other procurement-related international affairs with APEC and others. This portion (chapter 17) of the KORUS FTA must not be understood as a means of evading the WTO's government procurement code, and it applies to all actions regarding eligible procurements.

Both Korea and the US have agreed to reduce their federal government products and service thresholds from 2 billion to 1 billion won for Korea, and for the US, from 200,000 dollars to 100,000 dollars. This definitely opened the procurement market more widely for both parties. The US decided to maintain the WTO government procurement code at the state

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<sup>13</sup> The Small and Medium Business Administration, "The Land of Opportunities for the Medium Size Industries, Aim for the Offshore Procurement Market," Government Briefing, August 20, 2007.



level; thus, to counter this, South Korea agreed to exclude not only local governments but also public enterprises. However, despite the exclusion of local governments and public enterprises in the KORUS FTA, according to the WTO government procurement code, in 37 American states and 6 public enterprises, the procurement market has already been opened.

### *c. Trade Liberalization*

The trade liberalization part of the KORUS FTA is broadly divided into two parts, anti-dumping/countervailing duties and global safeguards/bilateral safeguards. In the anti-dumping/countervailing duty section, the parties agreed to the vitalization of prices and supply sums, advanced notices, and the procurement of other agreement duties. They also agreed to install a trade liberalization committee, as a means of mediating communication between the participants.

While presenting the need to promote the KORUS FTA, there was an overwhelming amount of discussion concerning the need to develop a plan to prevent abuse of anti-dumping lawsuits. Anti-dumping lawsuits are a WTO-recognized trade liberalization policy, and recently, more nations are paying closer attention to investigations of anti-dumping (4 nations (1980) → 18 nations (1995) → 24 nations (2003)). According to Korea's Ministry of Knowledge Economy, previously the Ministry of Commerce, Industry and Energy, among these nations, the US has the most anti-dumping lawsuits, followed by China and South Korea, respectively.<sup>14</sup>

The effects of anti-dumping actions on trade have been verified in numerous studies, such as Prusa (1997, 2001) and Brenton (2001). According to Park (2006), Prusa (2001) focused on US-led anti-dumping efforts between

<sup>14</sup> As shown in the chart below, Korea is sued more than it sues others.

Anti-Dumping Litigation Actions, Korea

	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	Total
Sue	4	13	15	3	6	2	4	9	18	3	77
Sued	14	11	15	24	34	22	23	23	17	24	207

Source: Ministry of Commerce, Industry and Energy Trade Committee, *The Trade Environment in Recent Years and the Trade Remedy System*, November, 2005.

1980 and 1994, specifically on its income, with the conclusion that after one year, the corresponding nations' imports decreased by about 55% while that of the nations acquitted on charges decreased by 33%. Even if some arrangements are made, it is a common trend that the nation experiences a decline in imports by about 40% or more.<sup>15</sup>

On a closer examination of trade liberalization, one will find that once exporters or the home authorities offer a price or a quantity settlement, American authorities consider this to be an adequate opportunity for an agreement. Once the parties agree upon a price or quantity, the investigations of anti-dumping and of the countervailing duties are finalized.

Currently, the US is going through approximately 300 anti-dumping investigations. Of the 300 anti-dumping cases, the US has reached an agreement on only 6 of them, which shows that it rarely considers price or quantity settlement agreements as a means to reach a settlement. The KORUS FTA offers many more opportunities for such agreements between the US and Korea. Price increases are determined within the boundaries of the anti-dumping duties; thus, exporters can expect a price increase to be a gain for them. Furthermore, the Trade Liberalization Committee will oversee and inspect the agreement periodically to guarantee its effectiveness and rightfulness.

In the agreement, the possibility of granting exemptions to subjects of global safeguards has been reflected as well. Regarding the implementation of global safeguards, if the partnering nation isn't experiencing overly burdensome damage to its exports, it will be exempt from global safeguards. For example, if the imports coming into Korea are not significantly greater than that of NAFTA nations, or if Korean exports are inflicting minimal damages, it is expected that South Korea will be exempt from global safeguards.

As for Korea being exempt from the global safeguards, South Korea can expect to find itself on the higher end of export numbers. Foreign market

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<sup>15</sup> Meanwhile, Korea experienced quite an economic impact due to the Korea Trade Commission (2005) Anti-Dumping verdict. The Korea Trade Commission reports that due to the imposition of an anti-dumping tariff on Chinese and Japanese batteries in 2000, the corresponding domestic industry performed twice as well in the following three years.

shares may also increase. However, if this is not the case, then the US has no obligation to take any action, which implies that the effectiveness will be highly variable.

Also, through the KORUS FTA, Korea gained a channel to counter problems from stages of prior notices or agreement obligations on anti-dumping investigations. Both parties, once an anti-dumping investigation is requested, must notify each other and provide simultaneous or similar opportunities for future agreements. The WTO agreement only states that parties be notified prior to the investigation; however, the KORUS FTA actually seeks to make it an obligation for the parties to take proper action.

In this case, the authorities can actively summon organizations or companies to counter effectively American corporations' request for anti-dumping investigations and their initiation. It is important that anti-dumping investigations not begin immediately after a request, as the start of an anti-dumping investigation marks the decrease in sales for both suing and sued parties. That is, prior negotiations or agreements provide the suppression of indiscreet anti-dumping lawsuits and room for authorities to conduct a thorough analysis of the validity of the submitted documents for the lawsuits, which ultimately saves both time and money for Korean exporting companies.

#### *d. Intellectual Property*

It is undeniable that intangible assets such as technology and knowledge are increasingly becoming influential factors in determining a nation's place in terms of international competition. An economic transformation to a knowledge-based economy is rapidly in progress, and many developed nations, such as the US and Japan, generate more than 50% of their total added value from knowledge. Just as futurologist Peter Drucker suggested, the 21<sup>st</sup> century will be made up of knowledge-based societies, in which knowledge and information have become the core essence of personal and national competitiveness. By 2006 standards, Korea is the fourth-largest industrial and intellectual property-rights nation, following China, the US, and Japan, respectively. However, the Korea's quality of evaluation and judgment are relatively low compared to that of the other developed nations. Also, the South Korean level of research products and its intellectual property

security and related practical application are very low. South Korea needs to upgrade its protection of intellectual property and to utilize developed technologies for economic profit generation by commercializing patent technology and technology trade. Intellectual property protection in a world of knowledge-based economies is the key infrastructure to maintaining national competitiveness and technical innovation; however, due to its failure to control counterfeit goods, Korea is experiencing difficulties in keeping a healthy sovereign credit rating.<sup>16</sup>

While it is true that the intellectual property part of the KORUS FTA may pressure the Korean economy to some degree, it is generally judged to strengthen Korean policy and enhance its intellectual property. First, the copyright protection period has been extended from 50 years to 70 years following the death of the owner, with the condition that a two-year grace period be provided. The parties agreed that patent registrations are unreasonably delayed, and they agreed to implement a legal compensatory damage policy for copyright and trademark rights violations, which sets a lower limit on compensation for damages ahead of time. In the KORUS FTA, the parties agreed to acknowledge ‘transient reproduction rights’, yet exemptions were to be placed for its application in the public interest, such as education and research with the stipulation of ‘access control technological restraint for protection’. They also agreed to extend the lifespan of patents that experience an unreasonable delay of their patent registration. This agenda generally reflects the US position. The agenda that reflected the Korean position was the item on non-violation complaints and its application to intellectual property, which was delayed until further WTO decisions are made.

The system that extends the lifespan of patents that were subjects of unreasonable delays can find its roots from the rule that sets the standard application period to the time after 4 years from the date of application or 3 years from the date of the appeal for a review. This system seeks to standardize the Korean patent evaluation process and registration period.

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<sup>16</sup> This is paraphrased from the Korean Intellectual Property Office’s “2007 White Paper on Intellectual Property,” pages 5-17.

According to the Korean Intellectual Property Office (2007)<sup>17</sup> (the Patent and Trademark Office), The KORUS FTA industrial property rights negotiation process minimizes its effect on the South Korean economy while serving as a base that enhances its industrial property rights system. Originally, many speculated that the field of industrial property rights or other intellectual property rights would reflect mainly the American position. In fact, the US has thus far been proposing its version of standard templates in the previous FTAs into which it has entered, which shows the very one-sided nature forced by the US.

American brands were generally embraced concerning trademark rights as well. First, the parties agreed to eliminate the recordation demands on the American trademark exclusive right-to-use due to the criticism that the trademark users' rights cannot be protected adequately when exclusive rights are nullified when an application for trademark exclusive use rights is not submitted to the Patent and Trademark Office. In addition, the recent trend of international usage rights and registration qualification issues, with its consideration of a trademark as property to be used freely at the will of the right holder, also facilitated the agreement.

A certification mark system was introduced. A certification mark is a mark used to certify the quality of the goods or service provided. It was introduced after considering the positive aspect of the system that seeks to strengthen quality certification functions. This is expected to vitalize the already in-use certification mark systems at various levels of government and private organizations, which will ultimately cut costs and spending.

Sound and scent trademarks were also accepted. International smell/scent trademark protection trends and an increasing number of trademark protection subjects were all considered as positive before the introduction of such a system. South Korean trademark law limits trademarks to something that must be visible; thus, invisible trademarks such as sound and scent have not been subject to protection, which suggests changes in the Korean code in the future. According to the Korean Intellectual Property Office, sound and scent trademarks are already being accepted not only in the US, but also

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<sup>17</sup> The Korean Intellectual Property Office, "KORUS FTA, Industrial Intellectual Property Rights Negotiation Results," Korean International Cooperation Team, 2007.

in Europe and Australia. Therefore, South Korea also took the initiative to modify its code to accept invisible trademarks as well.

### 3. System Improvement

Much of the KORUS FTA content pertains to how South Korea can enhance its economic system. The KORUS FTA will serve as a crucial cornerstone in implementing enhanced and developed systems, and modifications of law codes to accommodate them will not only make South Korean systems more transparent, but also more fair. Among the many areas in which the KORUS FTA is expected to have the greatest impact are automobiles, medical supplies, technological barriers, consent order systems, competition, intellectual properties, labor, and the environment. Strengthening competitiveness by opening these industries along with enhancing the current system will maximize the effects of the KORUS FTA.

<Table 5> shows Korean laws that must be altered once the KORUS FTA is in effect. As shown in the table, two automobile laws must change, and the administrative procedure law must be altered to extend the legislation notification period. Once technological standardization occurs, more laws must be changed to increase public participation for transparency, fair trade, and to protect investors with the Investor-State Dispute (ISD) clause.

Such contents, in detail, show that in a situation in which a trading party submits a corrective measure which is in violation of the law to the FTC, especially regarding cases which take a rather long time for a decision to be reached, the FTC may take administrative actions without having to take additional measures in order to expedite the conclusion of the case, only if the case has a high degree of validity, i.e., a policy that acknowledges an arrangement between a state and the corresponding party or an individual.

A review of this system has been pending by the Korean FTC, the Ministry of Finance and Economy, and the Ministry of Commerce, Industry, and Energy since 2005. However, due to opposition from the Ministry of Justice, it has failed to make further progress. This system relieves pressure from corporations' it has already been adopted by the US, the EU, Germany, Japan, and other developed nations.

Procedural transparency related to telecommunications standards

**Table 5.** Expected Changes in South Korean Law Following the Implementation of the KORUS FTA

Department	Law Code Title	-Changing Contents
Ministry of Finance and Economy	Luxury Tax Law	-Automobile Tax System Related
Ministry of Government Administration and Home Affairs	Local Tax Law	-Automobile Tax Reduction
Ministry of Government Administration and Home Affairs	Administrative Procedure Law	-Legislation Notification Period Extension
Ministry of Culture and Tourism	Copyright Law	-Copyright Law Protection Period Extension -Acknowledgment of Transient Reproduction Right and Exemption Policy Development -Online Work Access Control and Technological Protection System Development
Ministry of Commerce, Industry and Energy	Laws on investigation on unfair trade acts and industrial damage relief	-Trade Liberalization Committee Installment, Anti-Dumping Policy Strengthening
Ministry of Information and Communication	Telecommunications Basic Law	-Acknowledging Information Technology Certification by American Institutions -Develop Grounds to Authorize Low-Rank Legislation of the Certification Institutions
Ministry of Health and Welfare	Pharmaceutical Affairs Law	-Authorize Medicine and Medical Supplies Patent Liaison, New Medicine/ New Information Monopoly System
Fair Trade Commission	Monopoly Regulations and Fair Trade Law	-Implement a system in which, in case an illegitimate party submits corrective measures in violation of the law, the FTC is not obligated to take additional actions, such as corrections and victim liberalization actions, but should immediately proceed to take administrative measures

selections was strengthened as well. During the negotiations, the Korean government placed emphasis on government-led technological standardization. However, the US opposed this idea for the reason that such action is a non-market-like measure. Therefore, the two nations agreed to strengthen transparency once the technological standardization decisions are made. This was meant to improve technological efficiency; if there is a common goal to be accomplished by both governments, the government is to maintain the right to promote a technological standardization policy. In addition, as a means to improve telecommunication transparency, the two governments guaranteed equal participation for all players in the market in the area of frequency assignments and the distribution of public communication services.

To improve medical price transparency and fairness, the two governments agreed to publish medicine and medical supply-related policies. The parties must publish all laws or policies concerning medicine and medical supply-related wages and prices prior to making final decisions, and those parties concerned are granted more opportunities to express opinions. Additionally, the two nations decided to implement an independent appeals system to accommodate the need to raise faults and problems concerning prices and wages pertaining to medicine and medical supplies.

The two nations agreed to improve the business practices of the medicine and medical supply industry by making it illegal for them to provide unfair gifts. To accommodate this, they agreed to implement appropriate policies and rules. They also agreed to improve other business practices such as eliminating rebates related to purchasing medicine and medical supplies.

In the labor area, a Public Communication System was introduced. This system makes a member state file requests, opinions, and complaints in case a labor-related law is broken.<sup>18</sup> Once a public opinion is submitted, the authorities must release information on the issue and on the investigation and results that come later. With this system introduced, the two nations have

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<sup>18</sup> Similar rules apply to violations of the environment. That is, a concerned person can request an investigation by the corresponding state on a case involving environmental law violations, and that state guarantees punishment procedures and relief for the concerned person.



created an opportunity to cooperate with the public as well as other civic organizations and thus strengthen the transparency of all processes.

#### 4. Service, Investment

##### *a. Service*

All services are subject to service agreements, except gambling services, financial services, air traffic services, government procurement actions, government supplements, and government provision services. The partnering service providers are charged with four general obligations, which are limited to National Treatment (NT), Most Favored Nation (MFN), Market Access (MA), and a Local Presence (LP) duty imposed ban. However, if one wishes to not conform to these obligations, the obligation may be deferred according to the Non-Conforming Measure clause.<sup>19</sup>

During deferments due to range-related negotiations, the problem of local government measures becomes important. The American state government incongruent system is posted currently as Annex I, in which the parties agreed to apply a ratchet mechanism. However, considering the technological hardship this would entail for the US, in return for listing all state government incongruent systems, a non-confining prefiguring list was applied. Moreover, in the case of a home investor or service provider entering the American market and thus facing a specific hardship concerning a state government incongruent system, a negotiation channel was established to exchange information and to discuss such matters further. Such channels are to be applied not only to the service industry, but also to non-service industries as well, such as the mining industry, manufacturing industry, and the agriculture and fisheries industry. Meanwhile, all of the local governments, including the Korean provincial governments and American county governments, were permitted to not abide by the four general obligations.

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<sup>19</sup> Methods to postpone this are as follows: Annex I (Immediate Postponement) and Annex II (Future Postponement). Annex I is a list of existing actions that do not coincide with negotiation duties. A ratchet mechanism is applied here. For example, if current limits put on foreign investments are 30% and if the limit is lowered to 20% or increased to 40%, it cannot return to 30% once adjusted. Annex II (Future Postponement) is a list of areas subject to change or to maintain.

In the case of the financial sector, considering that the South Korean financial service market was opened on a commercial basis, the KORUS FTA talks on the finance industry were mainly concerned with the bilateral opening of the service and of new financial industries. The two parties agreed to allow four types of insurance brokerages: reinsurance, flight insurance, export and import cargo insurance, and marine insurance. In the case of credit rating agencies, no bilateral trade was allowed, but in the case of a foreign firm entering a home market, the entering qualification standards were lowered. For new financial products, only case-by-case openings were allowed due to their highly risky nature; thus, those products with exceptionally high risk, such as retail finance products, were removed from the list allowed products. Additionally, a Memorandum of Understanding (MOU) was signed to accommodate the expansion of bilateral trade and allow new financial service products. Korea defended the American request to end government support for national policy financial institutions (Korea Development Bank, Industry Bank, Korea Finance Corporation, National Agricultural Cooperative Federation, and the Fisheries Cooperative Association). Also, the two parties agreed to acknowledge the distinct characteristics of the post office and other public institutions and yet strengthen their financial supervision to minimize any potential weakness which may arise in the future.

Furthermore, Korean professional services (legal, accounting, and tax) are to be gradually opened. Three stages were set for legal services, in which an American law practitioner with a valid bar license can provide legal consultation about American laws in Korea. In a similar manner, two stages were set for accounting and tax services.

Korean broadcast services will be partially opened as well. The approval system, foreigner share limits, and screen quotas on ground-wave, cable broadcast, and System Operators (SOs) were to be kept at the current standing. However, some parts surrounding the Program Provider (PP) were partially liberalized. Foreign investment in home PP is to be kept at a maximum of 49%, whereas domestic corporations may hold anywhere from 50% to 100% of ownership (within three years of the agreement taking effect). However, reports, coverage, general services, and home shopping categories were subjected to exemption. Concerning the screen quota, regulations on

those domestic programs that apply to PP and others were eased. Once the agreement takes effect, the movie sector will drop its quota from 25% to 20%, and for animations from 35% to 30%. Screen quotas on ground-wave broadcasts are to be kept at the current status. Single-country quotas are to be adjusted from 60% to 80%. The concept of a single-country quota refers to a policy that limits programs from a certain country from occupying a specific percentage of the total number of foreign programs in play. The easing of single-country quotas is also applied to ground-wave, cable, and SO. Other than these issues, resolutions of issues related to broadcast services were postponed (Appendix II).

*b. Investment*

Investment agreements are largely composed of 1) obligations of the state attracting foreign investments to protect foreign investors' rights and obligation exemptions, and 2) Investor-State Disputes (ISDs). The investment part of the KORUS FTA does not apply to cases or activities that occurred before the agreement takes effect. It applies to central, local and provincial governments and to other NGOs that have been authorized by the state.

Concerning the issue of expropriation and compensation, the South Korean government allows this for the following: 1) for public purposes, 2) with non-discriminatory measures, and 3) for investors' assets to be nationalized via legal routes, but only with accommodating rapid, appropriate, and effective compensation that reflects the fair market value. Additionally, the policy sets a rule to compensate appropriately those damaged by indirect accommodation, which is equivalent to a violation of property rights. "Indirect accommodation" refers to a situation in which the value of an investment becomes equivalent to that of direct accommodation due to special government measures which prohibits an investor from actually conducting business. Generally, the issue of indirect accommodation is included not only in the KORUS FTA but in all of the other FTAs and other major investment agreements around the world.

ISD procedures state that in case an investor experiences a loss due to the investment-attracting state regulations or characteristics, the investor is granted power to file a lawsuit against the state. During this process, the investor may request international arbitration. International arbitration is

overseen by a three-person tribunal, and both the investor and the state may assign one person each and then appoint an arbitrator chairperson. If such a tribunal is not organized within 75 days of the lawsuit, the secretary general of the International Centre for Settlement of Investment Disputes (ICSID) may appoint a third party as the arbitrator chairperson, who must have a different nationality than both of the litigating parties. An investor cannot file a lawsuit three years after a loss incurred due to the state.

#### IV. ECONOMIC EFFECTS OF THE KORUS FTA

Many institutions and individuals have evaluated the KORUS FTA negotiations and, generally, they have returned positive analyses. Both Korean and American authorities used quantitative analysis to present an economic examination, and major Korean political parties, such as the Grand National Party and the Open Uri Party, published similar results. The majority of studies conducted on the economic effects of the KORUS FTA evaluate its economic effects very highly; however, the Democratic Labor Party of Korea, the Korean Alliance against the KORUS FTA, and other organizations gave a rather negative evaluation.

There are two distinct methods used to analyze the KORUS FTA: quantitative and qualitative. The quantitative method is widely used in recent FTA economic analyses in which macroeconomic tools, such as GDP, exports, and industrial production, are used. This method presents the main contents of the FTA in a quantitative manner; thus, it has the benefit of being able to emphasize the appropriateness of the agreement. However, only a small portion of the FTA is actually included in the quantitative analysis, giving rise to problems and lending validity to the criticism of underestimation. Criticism following the negotiations targets the methods used to estimate the economic impact of the KORUS FTA, but such criticism can be explained simply as the contradicting views of different perspectives. Meanwhile, the qualitative method has the downside of not containing quantitative estimations, but it does have the benefit of being able to analyze the overall content of the agreement and its characteristics from the perspectives of specific industries or citizen groups.

## 1. CGE Quantitative Analysis

The Computable General Equilibrium (CGE) model, which is widely used to assess the economic impacts of FTAs, can take a variety of forms depending on the purpose of the researcher. However, the model used most commonly at present is the GTAP model, produced and developed by Purdue University.<sup>20</sup> The Purdue GTAP secretariat developed the ordinary general equilibrium model, and expanded it to the world trade level; thus, the GTAP model allows production, consumption, price and other major economic factors to interact which each other, which ultimately determines the final balance.

Generally, the CGE models function to assess the neoclassical school's economic principles of producer's cost minimization and consumer's utility maximization. It generally assumes perfect competition. It is, however, true that the models ease the market clearing conditions and allow imperfect competition depending on the purpose of the researchers.

Studies that assessed the economic impact of the KORUS FTA include those from KIEP (2006, 2007), USITC (2007), the Democratic Labor Party of Korea (DLP), Cheong (2006), Ko (2007) and others. This paper analyzes the controversial studies conducted by KIEP and the DLP. Also, this paper will present the results of the USITC study as a reference. The results of the KIEP and the DLP studies vary greatly, however, and depending on the range of the assessment, both results can be estimated.<sup>21</sup>

### *a. KIEP Estimates*

The KIEP study, which used the CGE model, was presented in seminars held in March of 2006 and April of 2006. Published in 2007, it based its study on the actual contents of the KORUS FTA negotiations. Hence, the study assumed the complete elimination of the manufacturing industry (with the exception of the chemical industry at 97% tax elimination), grains at 94%,

<sup>20</sup> Refer to [http://www.gtap.agecon.purdue.edu/about the GTAP Model](http://www.gtap.agecon.purdue.edu/about%20the%20GTAP%20Model).

<sup>21</sup> Some groups claimed that KIEP's KORUS FTA Economic Impact final figures were fixed; however, if one uses the KIEP methods and procedures, s/he can see identical results. In fact, Korea Congress-led economic analysis conducted on October 29, 2007, has been validated by academia.

vegetables and fruits at 39%, and meat and dairy at 46%. Also, this study calculated the deregulation of the service sector as its tariff equivalent.

KIEP used three methods to derive their results. First, it used the standing basic GTAP model (referred to as the short-term stationary effect in Table 6). Second, it supplemented the accumulation of capital onto the basic model. Third, it supplemented the growth of production assumptions onto the accumulation of capital model. Generally, the first model is used to derive the effects of tariff elimination, and the growth of production factor was used to estimate a variety of other economic effects of the FTA apart from tariff eliminations. The DLP and the Korean Alliance against the KORUS FTA have continuously raised issues about the model that used the growth of production factor. The two argue that KIEP, in order to exaggerate the economic impact, externally reflected manufacturing production assumptions, which ultimately resulted in an estimation of a 7.75% increase in GDP.<sup>22</sup>

In 2006, before the negotiations, the KIEP studies reveal that the economic impact of the KORUS FTA with a short-term stationary effect at 0.42%, with the accumulation of capital estimated at 1.99%, and with both

**Table 6.** Economic Impacts of the KORUS FTA: National Policy Research Institute

Classification	KIEP 2006/1/18, 2006/3/3			KIEP 2006/3/23	KIEP and 10 Additional Institutes 2007/4/30		
	Short-Term Stationary Effect	Accumulation of Capital Model		Accumulation of Capital Model	Short-Term Stationary Effect	Accumulation of Capital Model	
		Productivity Not Considered	Productivity Considered	Productivity Considered		Productivity Not Considered	Productivity Considered
Real GDP	0.42% (\$2.9 B.)	1.99% (\$13.5 B.)	7.75% (\$35.2 B.)	7.21% (\$32.6 B.)	0.32%	1.28%	5.97%
Welfare/ Benefit Level	0.61% (\$2.4 B.)	1.73% (\$6.8 B.)	6.99% (\$28.1 B.)	6.61% (\$26.3 B.)	0.43% (\$1.7 B.)	1.00% (\$4 B.)	5.23% (\$20.9 B.)

<sup>22</sup> The KIEP research team assumed that the KORUS FTA will improve the industrial production rate by 1.0-1.2%.

the accumulation of capital and productivity estimated at 7.75%. However, in their 2007 report, the results were readjusted to show that the GDP increased, in the short term, by 0.32%. With productivity considered, the Korea GDP ultimately increased by 5.97%. The 2007 results were lowered because the KIEP study considered the negotiation factors in their studies.

*b. DLP Estimation*

Figures from the Democratic Labor Party's (DLP) "Assessment of the KORUS FTA's Impact on Economy and Legal Systems," which was composed after the settlement of the KORUS FTA, are based on the industrial tariff reductions discussed and settled during the negotiations.<sup>23</sup> That is, in scenario 1, it was assumed that tariffs on agriculture products, with the exception of rice, would be reduced between 60-80% and that rice was exempt from tariff liberalization policies. Manufacturing and industrial tariffs were assumed to be eliminated, but textile tariffs were assumed to be reduced by only 20%, considering the application of the yarn-forward standards. In scenario 2, tariffs on all agricultural products, with the exception of rice, were assumed to be eliminated.

The GTAP basic model and the accumulation of capital model were used in the DLP assessment. Unlike the KIEP assessment, the DLP assessment did not assume a productivity increase. In its version of scenario 1, with the basic model, the Korea GDP showed a 0.22% increase; with the accumulation of capital model, the GDP showed a 0.71% increase. In scenario 2, which rice excluded, similar increases in GDP were shown. However, the figures showed

**Table 7.** Economic Effects of the KORUS FTA in the Democratic Labor Party's Study

Section (on an incremental basis)	Scenario 1		Scenario 2	
	Static Model	Capital Accumulation Model	Static Model	Capital Accumulation Model
Real GDP	0.22% (KRW 1.0 trillion)	0.71%	0.28% (KRW 1.2 trillion)	0.87%

<sup>23</sup> The DLP Study was headed by Bum-Cheol Shin, a Kyunggi University professor, and others.

a partial increase from that of scenario 1, which was 0.28% with the basic model and 0.87% with the accumulation of capital model.

*c. USITC Report*

On September 20, 2007, the United States International Trade Commission (USITC) released its "Review of the KORUS FTA."<sup>24</sup> According to its Trade Act of 2002, Section 2104(f), the US President must provide the detailed contents of the USITC negotiations within 90 days of signing the trade agreement, and the USITC, within 90 days of signing, must report an economic review of the agreement to the President and the Congress. The USITC report assumed the complete liberalization of tariffs in all industries, including the agriculture industry, and its figures showed an approximate increase of 0.1% of GDP, which would be the equivalent of 10.1-11.9 billion dollars.

The USITC report also expects \$9.7-\$10.9 billion dollars in increased trade with South Korea, also expecting that Korean income will increase by 6.4-6.9 billion dollars, which will improve the Korean trade balance by 3.3-4.0 billion dollars. The USITC expects American exports of dairy, meat, and clothing products to increase and expects extra exports of machinery, chemical, rubber, plastic, beef, and other foodstuffs will be more profitable.

If the KORUS FTA is to go in effect, the USITC expects an increased imports of textiles, clothing, leather goods, and shoes from Korea, with a steady increase in electronic goods and automobile imports.

Effects of the KORUS FTA on the US agriculture industry are expected generally to increase due to reductions or eliminations of the Korea's high tariffs and trade-rate quotas. The USITC expects increased exports of grain, livestock feeds, fruits, dairy products, processed foods, meat, and seafood. However, it only expects limited effects on agriculture industry employment and production considering the Korea's small market. Nonetheless, trade in electronics, machinery, transportation equipment, automobiles and auto parts, despite the slight tariff reduction, are expected to increase due to each country's heavy reliance on these products. Exports of medical supplies,

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<sup>24</sup> USITC, *U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, Investigation No.TA-2104-24, September 2007.



medical equipment, and other high-tech products are also expected to increase considering the policy improvements from the KORUS FTA.

The USITC predicts that the US will experience an increase of Korean imports, especially textiles, clothing, shoes, machinery, electronics, automobiles, and auto parts. However, even if the US increases Korean imports, due to the income diversion effects and for other reasons, the negative effects on US domestic employment and production will be less than 1%. In the case of automobiles, the USITC concludes that despite Korea's automobile exports to the US, the KORUS FTA effects on American automobile industry employment and production will be limited due to the income diversion effect.

*d. Evaluation On Economic Effects Figures*

The USITC report mostly analyzes the KORUS FTA effects on the American economy, and although there may be different views on the figures, generally the figures are very similar to those in the studies conducted in Korea. Many evaluate the economic effects of the KORUS FTA negatively and point out its inequity. Tae In Jung (2007) stated that “something that shouldn't have started in the first place got started and ultimately settled. But it is still rational to stop it. One fundamental of economics is that being regretful of locked expenses and insisting on incorrect decisions will incur bigger losses. Thus, what is the best way to straighten things out? The answer is rather simple: stop the KORUS FTA, like the Korea-Japan FTA. Congress cannot present an agreement, postpone it indefinitely, or reject the ratification of the agreement.”<sup>25</sup>

The part that needs the most discussion in terms of its economic analysis figures is the part concerning the relationship between FTA openings and industrial productivity. In the early stages of industrialization, an infancy stage of industrialization may seem to be beneficial; however, in the middle stages of industrialization, one can expect an increase of productivity or other economic effects due to openings. In case of Korea, a nation that climbed the ladder to become one of the world's top-10 economies, it is apparent that

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<sup>25</sup> Chung, Tae In “KORUS FTA, What to Do Now?” Incheon Councilor's Members Association Seminar Presentation Documents, 2007.

**Table 8.** Productivity Growth Channel via Market Opening Means through

Productivity Growth Channel		Main Trading Types	Trading Partner
Fulfillment of economies of scale		Export	Advanced & underdeveloped countries
Mounting competitive pressure	Declining inefficiency	Import & direct investment	Advanced & underdeveloped countries
	Growing attraction of technology investment	Import & direct investment	Advanced & underdeveloped countries
	Intra- and Inter-Industry Flow of Production Factors	Import & direct investment	Advanced & underdeveloped countries
R&D effects	Rise in international technology transfer	Import & direct investment	Advanced nation
	Price reduction in imported capital goods	Import	Advanced nation

Data: Lee, Si-Wook (2007).

further openings will increase its productivity and competitiveness. There are number of studies that support such an argument. The most renowned studies include Lawrence and Weinstein (1999), Pavcnik (2002), Baggs et al. (2002), Woo et al. (2003), the World Bank (2005), Fernandes (2006), and Lee (2007). The Lawrence and Weinstein (1999) study shows that Japan and Korea's productivity increase is largely due to the stimulation of competition through import expansions and technology investment expansions. Also, Si Wook Lee's (2007) study shows that with a 1% import tariff rate decrease in Korea, productivity at individual businesses increases on average by 1.5%.

As shown in Table 8, market openings increase industrial productivity in dynamic ways. Trade liberalization increases the pressure of competition, but the increased competition pressure decreases corporate production and management ineffectiveness, cultivates innovative capabilities, increases international technology transfers, lowers import capital good costs, and extends research and development (R&D). "Considering that Korean manufacturing industry's standard tariff rates are within 4-6%, the productivity boost from the KORUS FTA is expected to increase by at least 0.9-1.4% (Lee, S. 2007)."

**Table 9.** The Democratic Labor Party's Assessment of Economic Effects of the KORUS FTA

Section		Scenario 1	Scenario 2
Production	Real GDP <sup>1</sup>	Up 0.22% (Addition of KRW 956.4 billion)	Up 0.28% (Addition of KRW 1.186.9 billion)
Income	Extension of pharmaceutical patents	Reduction of KRW 5,881.1 billion	Reduction of KRW 5,881.1 billion
	Extension of copyrights	Reduction of KRW 211.1 billion	Reduction of KRW 211.1 billion
	Nullification of 'Drug Expenditure Rationalization Plan'	Reduction of KRW 5,764.6 billion	Reduction of KRW 5,764.6 billion
	Trade adjustment costs	Reduction of KRW 1,226.8 billion	Reduction of KRW 1,283.7 billion
Rise or fall of personal disposable income		Reduction of KRW 12,127.2 billion	Reduction of KRW 11,953.6 billion

Data: Democratic Labor Party, "Assessment of the KORUS FTA's Impact on Economy and Legal Systems," 2007.

Therefore, estimating only the direct effects of the tariff reduction on trade is underestimating the full economic effects of the KORUS FTA. Such narrow approaches are the main reasons behind the differences between the KIEP and the DLP studies. Specifically, the KIEP study includes investment and services liberalization, which show a positive improvement to the Korean economy; in contrast, the DLP study shows that most effects of KORUS FTA are rather harmful to the Korean economy. As a result, despite the optimistic estimation of the tariff elimination, the DLP plays up the negative effects of the policy improvement, which has become their main point of contention for rejecting the KORUS FTA.

The DLP forecasts that the total damages from the pharmaceutical patent extensions, copyright extensions, neutralization of drug cost rationalization measures, and trade adjustment costs, among other issues, are between 10.77 trillion won and 11.17 trillion won. The DLP only calculates the part that considers the possible short-term damage and neglects the long-term benefits. For example, the pharmaceutical patent extension ultimately increases Korea

business' patent development incentives. Also, according to the patent-license connections and information protections, domestic firms that depend on generic pharmaceutical products may experience product launch delays. According to estimations by the Korea Health Industry Development Institute (KHIDI), strengthening of intellectual property rights and tariff eliminations reduce the anticipated sales of domestic pharmaceutical companies by 57-100 billion won (for five years, approximately 280-500 billion won). However, the DLP study argues that the amount of damage is ten times more than that noted by the KHIDI.

Today, it is widely known that the inclusive economic effects of FTAs arise mostly from economic policy improvements and not necessarily from tariff eliminations. Specifically, for developing countries, the effects of policy improvements and deregulations appear to be more prominent. Ultimately, the problems pointed out by the DLP on KIEP studies can be a result of the DLP's biased perspectives on deregulations and the policy improvement aspects of the KORUS FTA. Cheong (2006), Ko (2007), and others view the policy improvements of the KORUS FTA to be rather optimistic.<sup>26</sup>

It is also true that there is a need to improve the methods that reflect the productivity improvements of the analysis model, as the DLP points out. However, it is in fact not easy to reflect the numerous factors related to productivity in the FTA agreement. It is possible to reflect a couple of specific policy improvement factors in the models. Thus, the KIEP study reflects general productivity improvements externally in its model. The DLP views the external nature of the KIEP's decision to reflect productivity improvements to be arbitrary; externalities are more straightforward in the estimation process, but the productivity of production factors, along with externalizing models, can become an issue. As such, there is a need to develop an estimation method that does not use the externalization factor or

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<sup>26</sup> According to Jong-Hwan Ko's analysis (2007), the KORUS FTA will raise the South Korean GDP by 1.2% within a year, increasing it to 4% within 10 years. The effects of the tariff elimination are 0.4% within a year and 0.8% within 10 years, which shows generally productive effects. This study referenced the KIET research results that showed an increase of total factor productivity (TFP) by 0.5% for every 1% increase in imports. Ko's study also used an annual increase rate of American imports of 0.1% as the productivity improvement index.

productivity increase assumptions. An alternative may be to change the basis of the model to include the internalization of the change in productivity or a more elastic supply of production factors. An analysis of the latter case is a bit easier than that of the case before it. Both the KIEP and the DLP studies' production factors are assumed as inelastic, with full employment as their caveat. This paper uses a CGE model that assumes the inelasticity of the production factors to estimate the economic effects of the KORUS FTA.<sup>27</sup>

Both the KIEP and the DLP use the industrial tariff reduction rates to estimate the economic effects of the KORUS FTA. KIEP researched the actual negotiation results, item by item, to assume the complete tariff reduction of the manufacturing industry, with the exception of the chemical industry and in the agriculture industry, with grains at 94%, fruits and vegetables at 39%, and meat at 46%. In addition, it includes in the estimation process the productivity improvement of the manufacturing and service industries stemming from policy improvements. The DLP set up two different scenarios; under scenario 1, it was assumed that tariffs on agriculture products were reduced by 60-80% (rice was exempt) and tariffs on textiles with a strict product specific rule attached were only reduced by 20% out of the total implement tariff. In scenario 2, it was assumed that tariffs on all goods, with the exception of rice, were eliminated.

This study references both the KIEP and the DLP studies to set up two analysis models and six economic effect assumption scenarios, combining a total of three tariff reduction assumptions. First, the analysis models use the traditional GTAP, which was used by the DLP, an inelastic supply of productivity factors CGE model (basic/standard) and an elastic productivity factor CGE model (elastic model) to analyze the economic effects of the KORUS FTA. Also, this study introduced three tariff reduction assumptions used by the two institutions. As in the KIEP study, this study agrees with the argument that many parts of the FTA economic effects stem from service industry improvements, but because the DLP study did not include the service industry, this study did not consider the service industry.

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<sup>27</sup> Like Itakura, Hertel, and Reimer (2003), this study introduced factor productivity endogenization. This research uses the method in which productivity is not influenced; rather, productivity factor supplies are endogenized.

**Table 10.** Assumption of Tariff Reduction

	KIEP	Democratic Labor Party	Full Liberalization
Details of Tariff Reduction	- Agriculture: 50% - Manufacturing: 100%	- Agriculture: 70% - Textile & Clothing: 20% - Manufacturing: 100%	- Agriculture: 100% - Manufacturing: 100%

Data: Combined assumptions sourced from the KIEP (2007) and the Democratic Labor Party’s study (2007).

<Table 11> suggests an FTA economic effect that was derived from the two models (basic/standard and elastic) and the tariff reduction assumptions (<Table 10>). According to the GTAP model, which is very similar to the model used by the DLP, the Korea GDP is expected to increase by 0.33-0.46%, whereas, according to the elastic production factor model, which was used as an alternative to the KIEP model, the Korea GDP is estimated to increase by 2.12-2.98%, showing large differences in the economic effects of the KORUS FTA depending on the model. The DLP study assumes a small textile opening range while also assuming wide agriculture liberalization, which estimates a much larger economic effect than the KIEP study regardless of the model it uses.

**Table 11.** Estimated Results of the KORUS FTA’s Effects on Korean GDP Growth

		Assumption of tariff reduction		
		KIEP	Democratic Labor Party	Full Liberalization
Assumption of supply of production factors	Standard Model	0.33	0.41	0.46
	Flexible Model	2.12	2.48	2.98

If one looks only at the economic effects of tariff eliminations, <Table 11> the estimations are not much different from that of the KIEP and the DLP studies.<sup>28</sup> The DLP report states that “the KIEP reports that the real GDP,

<sup>28</sup> For this, the reader is invited to compare the figures shown in <Table 11> and the figures in the table below.

according to the basic model, is expected to increase by 0.42% and that the real GDP, according to the accumulation of wealth model, is expected to increase by 1.99%, which shows a large gap,” but the current study, which used an elastic model and the complete liberalization of tariff assumption, shows that the real GDP can increase to 2.98%, suggesting that the KIEP figures are actually underestimated. However, the 2.98% increase suggested in this study, which is approximately half of KIEP’s 5.97% maximum increase, arises because the study does not include service sector productivity improvement assumptions. Therefore, according to the analysis by the author of this article, there are no significant differences between the KIEP and the DLP studies. It seems that because the DLP study compartmentalized the 57 industries in the GTAP model used, the economic effects were underestimated. The usual CGE model study compartmentalizes one nation’s economy into 12-15 industries. There hasn’t been a single CGE study conducted thus far that compartmentalizes GTAP 57 industries.

## 2. Qualitative Evaluation of the KORUS FTA

The pros and cons of the KORUS FTA have been suggested numerous times through the press and in many articles. However, the Korea’s domestic qualitative evaluations of the KORUS FTA have been rather radical in comparison to the American perspective on it. The most prominent pro-KORUS FTA publications include “KORUS FTA, the Right Choice for the Future,” published by the KORUS FTA Civil Measures Committee (2007); “KORUS FTA, Industrial Evaluations of Negotiation Results and its

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The Impact of the KORUS FTA’s Tariff Elimination Envisaged by the KIEP and the Democratic Labor Party

(Unit: % Change vs. GDP)

Section	Standard Model	Capital Accumulation Model
Democratic Labor Party’s Scenario	0.22	0.71
Democratic Labor Party’s Scenario	0.28	0.87
KIEP’s Analysis	0.42	1.99

Data: Democratic Labor Party, “Assessment of the KORUS FTA’s Impact on Economy and Legal Systems”, 2007.

Implications for Korean Businesses,” by Cheong, I. et al. (2007); and “KORUS FTA, Korea Report,” by Sung-Lin Na (2006, Compiled) and others. The most prominent anti-KORUS FTA publications include “KORUS FTA, Citizens’ Report,” published by the Korean Alliance against the KORUS FTA (2006); and “Unfamiliar Colony, KORUS FTA,” by Lee, H. (2006) and others.

The publications from the anti-KORUS FTA groups do include logically explained negative aspects of the KORUS FTA, but it is true that most of these groups are fundamentally against neo-liberalism, understand the FTA as a representation of neo-liberalism, and therefore oppose the FTA itself. Thus, I would like to suggest an American scholar’s qualitative review of the KORUS FTA and my own evaluation of it to attempt a qualitative analysis of the KORUS FTA.

#### *a. Schott’s Evaluation*

Jeffrey Schott is a world-renowned FTA analyst and a FTA scholar, and the institution that he belongs to, the Peterson Institute for International Economics, is the most highly reputable institution that researches and advises the US government with its trade policies.

According to “The Korea-US Free Trade Agreement: A Summary Assessment,” by Jeffrey Schott (2007), the KORUS FTA, which limits certain parts due to political reasons and minimizes openings, is not the ‘best agreement,’ but Schott evaluates it as an agreement that can bring considerable mutual economic benefits and increased welfare to both nations. The KORUS FTA is by far the most inclusive trade agreement since NAFTA, as it will bring the two nations closer economically.

Schott argues that the KORUS FTA also has security implications and other non-economic implications, which will enhance the Korea’s status in East Asia while bringing stability to the Korean peninsula, while also setting the direction for economic cooperation within East Asia. Schott ultimately suggests that the KORUS FTA can serve as a milestone for the US to improve its understanding of the politics surrounding the Korean peninsula. Schott also states that East Asia is by far the most active “hotbed” where economic cooperation is most vigorous and that although the US has yet to secure a channel to get directly involved with the East Asian economic cooperation, the KORUS FTA can lead the US to become more involved in East Asian



politics and in other relations.

Schott agrees that the most important part of the KORUS FTA is definitely the automobiles part. In 2006, automobile trades between the two nations totaled \$11.6 billion dollars, and automobile trade (15%) clearly is of great importance as regards trade between the two countries. In the case of the total traded goods of the US, automobile imports from Korea stand at 24%, which is overwhelmingly high. Between 2001 and 2005, Korean automobile production increased from 2.95 million to 3.70 million, with 70% of them being exported. Within the same timeframe, American automobile production decreased, and due to foreign companies' increased construction and use of US-based factories, total production was maintained at about 12.00 million automobiles. Automobile industry laborers account for 9% out of the total employment (Korea: 0.25 million, US: 1.10 million<sup>29</sup>), and both nations' automobile labor unions are very critical of the KORUS FTA. The Korean automobile labor union takes on more of a political struggle characteristic. Its counterpart, the American automobile labor union, clearly takes a protectionist stance, being fearful of the fall of general manufacturing employment and the steady decline of employment in the automobile industry. Also, due to foreign automobiles entering the American market, the Big 3 market share has shrunk, and foreign companies tend to have a lower labor union membership rate, which has ultimately reduced the unionized wage premium. Labor unions, especially those from Ford and Chrysler, are exceptionally against the KORUS FTA, whereas GM, which bought Daewoo, is rather hopeful. Generally, the American labor unions are concerned mostly about the opening of the market itself.

In the case of automobiles, the current structure is rather unilateral, favoring Korean exports, which has been a growing issue that is continuously pointed out by the American Democratic Party; although the Korean government eliminated tariffs early on and reorganized the automobile tariff, there is a chance that Korean automobile exports may destabilize the current trade balance. Ford and Chrysler argue that Korean policies and tariffs are unfair when it comes to exports of larger automobile, but Schott evaluates

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<sup>29</sup> In the case of the US, jobs in the assembly, body, and parts industries number 0.25 million, 0.18 million, and 67 million, respectively.

that such an argument is not appropriate because American domestic sales of larger automobiles accounts for 40% of all automobile sales.

Agriculture accounts for 3% of all trades between the two nations, but it was the most sensitive issue during the negotiation. The Korea government set the rice market exception as its foundation during the negotiations, and the US government ultimately decided to accept the Korean demands for political benefits and because the economic profit in the rice market was rather small. The US government set beef exports as one of its major demands during the negotiations, and the two nations sought to resolve the beef export quarantine problem, though these efforts were halted during the negotiations due to the mad-cow disease outbreak. Schott sees that partial liberalization of the agriculture industry was settled due to the agriculture protectionist stance that the Korea decided to maintain, but negotiations ultimately allowed American agriculture products to enter the Korean market.

Schott optimistically evaluates the base preparation for the US to enter the Korean market with its financial, consignment and professional services (e.g., legal, accounting) and its other service industries. He also similarly evaluates the communication, film, and broadcasting deregulations and increased investment shares. Schott forecasts that the aforementioned service and investment industry improvements may benefit US companies but ultimately feels that the Korean employees and laborers in those industries will benefit the most. Recognition problems associated with Kaesong Industrial Complex products were settled by allowing an OPZ, and the two nations are expected to solve further problems later through working-level talks. Both nations understood that the Kaesong Industrial Complex could contribute to East Asian cooperation and stability, and also positively to American North Korean policies.

Schott sees the KORUS FTA as having a considerable effect on not only the economic benefits of both nations but also on the economies of other Asia-Pacific nations. The KORUS FTA can stimulate FTAs between various nations, the most prominent example of this being the Korea-EU FTA. East Asia-EU trade has become more active within the last few years, but the danger of a decrease in trade has been the key potential threat due to the number of FTAs that the EU is not a part of. Such a potential threat propelled the US to promote the KORUS FTA more actively, which stimulated the EU

to push forward an FTA with Korea as its first FTA partner. Additionally, the EU is looking into the possibility of establishing an FTA with the ASEAN countries and India, and China is requesting to establish an FTA with Korea. In September of 2007, China announced the beginning of China-India FTA negotiations.

Schott foresees a considerable effect of the KORUS FTA on Japan as well. The KORUS FTA can serve as a factor that will expedite Japanese agricultural reform. In the case of the Korea-EU FTA settlement, the Japanese government may resume the indefinitely postponed Korea-Japan FTA talks. Japan has been reviewing the possibility of entering into an FTA with the US for many years now, but the limits put on Japanese agricultural reform and the lack of a will to promote this measure have been the main causes of the stagnation. In April of 2007, the Abe-Bush summit talks postponed the possibility of the Japan-US FTA indefinitely.

The KORUS FTA is expected to have positive effects on the Free Trade Area of the Asia Pacific (FTAAP), but its short-term effects are expected to be weak. However, the status of the ASEAN, which has functioned as the main hub among the large FTAs, including the ASEAN+3, ASEAN+6, and FTAAP, is expected to decline. The ASEAN lacks internal cooperation, and each member state's dynamic economic structure, as well as its lack of central force, will limit its role as the hub of an enormous FTA.

#### *b. The Author's Evaluation*

The KORUS FTA negotiation, which began in June 2006, did not make much progress, even until late 2006, due to the differences in opinion between the two nations and due to the political pressure coming from the wide market-opening nature of the agreement. Also, the growth of KORUS FTA opposition in Korea, along with the mad-cow disease outbreak, did not help either. However, starting in 2007, representatives from both countries decided to accommodate each other's demands to a bearable degree, which aided in settling many disputes by the end of March of 2008 (actually April 2, 2008), as planned. Meanwhile, the American Democratic Party, which won an overwhelming victory in the midterm elections, proposed a new trade act to the Republican administration, requesting the new trade act to be reflected in the agreement that was already settled. The government of the Korea decided

to accommodate the American demands after determining that the new trade act, composed of environmental and labor contents, does not change the standing agreement significantly.

I expect the KORUS FTA effects to be dynamic in various aspects, which will ultimately have an extensive economic effect, as the US is one of the Korea's largest trading partners, and because mutual trade between the two countries has been complementary. According to Woo, C. et al. (2003), Korea-US trade is mainly "a trade of goods with different qualities." Furthermore, Oh, S. (2006) states that the Korea-US trade already includes an extensive volume of high-technology goods, and the complementary division of labor characteristics of trade is so evident that the increase in trade is expected to have high level of benefits with minimal damage.

Even the Korea Institute for Industrial Economics and Trade (KIET) finds that the "Korea-US trade, in all industrial aspects, has a high win-win, 2006 possibility of producing an international division of labor structure with minimal competition among industries." As noted in Table 12, the US tends to have comparative advantages in IT, BT, other new-technology industries, and the high-tech parts and materials industries, whereas the Korea has

Table 12. Comparative Advantages in Korea-US Manufacturing Industries

Industry	Korean Comparative Advantages	American Comparative Advantages
Wooden Furniture	Low- & Mid-Priced Furniture	Lumber, Raw Material
Petrochemistry	General Purpose Goods	High Value Products
Textile	Low- & Mid-Priced General Purpose Goods	Industrial Textile
Steel	General Purpose Goods	Scrap
Communication Device	Mobile Devices	Major Parts, Communications
Semiconductor	Memory	Non-Memory
Automobile	Small & Mid-Sized Vehicles, Parts	Large Luxury Vehicles
Planes	Plane Parts	Complete Planes
Shipbuilding	Merchant Vessels	Leisure Boats

Source: Korea Institute for Industrial Economics & Trade (2006).

comparative advantages in textiles, steel, electronics, shipbuilding, and other traditional industries. Generally, Korea-US trade is complementary.

In 2006, total US imports were the world's largest, at \$1.86 trillion dollars, and its market in 2006 currency standards is 16 times that of Korea, at 14 trillion dollars. It is true that BRICs and other new markets are important, but the Korea should put more weight on maintaining its current status in the US market and furthermore should assume leadership in trade in order to secure a world-renowned reputation. From such a standpoint, the Korean automobile industry and textile industry finalized a considerable amount of the negotiation results.

The primary economic effect of the KORUS FTA on Korea will be generated from the increase in exports to the US. The two nations have agreed to eliminate tariffs on 100% of traded goods. Tariffs on 94% of traded goods were set to be eliminated early (within 3 years) by agreement. Once the KORUS FTA takes full effect and eliminates the 4.9% of the tariff pressure, Korea will gain an opportunity to improve the current situation, in which it lags behind products from China and other developing countries. In addition, an additional US government procurement market was opened due to the agreement to reduce the current 0.2 million dollar federal government service bounded lower limit to 0.1 million dollars. As the KORUS FTA is expected to help Korea gain recognition in the auction participation process in the US, the US procurement market barrier should be lowered. It is generally known that the US procurement market is extremely difficult to enter. However, because the Korea Trade-Investment Promotion Corporation (KOTRA) and other export promoting institutions are promoting measures to enter the US procurement market, the situation appears hopeful for anxious Korean businesses.

Opening of the service and the investment industries was limited and centered around industries that exert less pressure on Korea industries. All of the regulation authority of the government on education, medical and other social and public services was inclusively deferred to disallow additional openings. In the case of broadcasting services, foreign investment admittance on ground-wave, satellite broadcasting, cable, and program providers (PP) was kept at the current level. Regulations on direct investment by program providers were to be eliminated within three years. Foreign investment

in telecommunication carriers was to be kept at the current share limit of 49%, but for carriers besides KT and SKT, 100% of foreign investment was allowed two years after the agreement goes into effect. Considering the highly saturated Korean domestic telecom market, the Korean industry needs to aim to enter the world's largest market, the American telecom market, instead of settling domestically. Furthermore, American program providers entering the Korean market will most likely make it possible for Korean program providers to export Korean program contents to the US.

The recently discussed FTA focuses quite heavily on the enhancement of economic regulations. Most nations face problems regarding policy reforms and how they slow the overall progress of reform. However, one of the FTA's greatest advantages is that it includes reform assignments as a part of the agreement, which then expedites the reform process. Apart from this, the KORUS FTA is helpful for Korea because it strengthens the transparency of the economy, boosts efficiency, improves legal procedures, and improves other systems in dynamic ways.

Regulation improvements, in the long term, help the Korean economy, whereas in the short term they may burden Korean industries. Traditionally, the agriculture industry is most vulnerable to opening. It was forecasted before, during negotiations, that the full opening of the agriculture industry was inevitable, but the negotiated agreement maintained the standing high-tariff structure through quotas, seasonal tariffs and other means. Nonetheless, the direct damage expected to be incurred owing to beef, pork and other meat imports is a concern.

In the case of intellectual property, the fact that the copyright protection period was extended from 50 years to 70 years after the death of the author does seem to have reflected the American demands, but rationalized patent examinations, trademark protection, and other intellectual property related policies are ways to strengthen Korean competitiveness in the global market. This will expand the added value of Korean intellectual property rights, as created by the Korean wave and other factors. It has also established the grounds for Korea to request intellectual property rights protection from China and other Southeast Asian nations that increasingly violate Korean intellectual property rights.

For the labor and environmental areas of the KORUS FTA, the two nations

agreed to check and efficiently carry out their duties to uphold internationally acknowledged labor and environmental rights. Negotiation results concerning the labor and environment areas were set at the level of checking domestic practices and regulations but not nearly at the level at which domestic firms bear heavy burdens.

Such regulation improvements usually do not show benefits immediately, but rather, the benefits appear in practice in the forms of eliminated unnecessary policies in business management, reduced uncertainty, and eliminated unnecessary costs. For foreign investors, such characteristics are especially attractive, as they simplify their decision-making process.

Meanwhile, those opposing the KORUS FTA have their reasons. Many simply take it for granted that opposition arises from the economic loss aspect of the FTA, but there are a handful of organizations that oppose entering into an FTA with the US from an ideological standpoint. In fact, simply speaking, the labor unions that foster the strengthening of labor rights and standards have no reason to oppose the KORUS FTA, which fulfills their desires, but they oppose it anyway, with temporary employment as their main argument against the agreement. In addition, for the opposing party, the investor-state dispute issue is one of the most toxic provisions, which ultimately fuels their strong argument that the KORUS FTA is an American attempt to spread neoliberal policies around the globe. However, according to many professionals in the field of international investment, previous FTAs in which Korea is a party, such as the Korea-Chile FTA, the Korea-Singapore FTA, and the European Free Trade Association (EFTA), contained all of the “toxic” elements that fuel the opposing arguments. Furthermore, the so-called “toxic” provisions and elements showed up in over 4,000 investment agreements, showing that such provisions and elements are indeed not as harmful as the opposing arguments present them, or are not harmful at all. According to the actual contents of the investment, the government allows ISD provisions to take effect only in cases of severely unfair domestic policies greatly damaging a foreign company. In the ten years since NAFTA went into effect, there was only one such case, which shows that the opposing arguments fueled by the negative effects of ISD are exaggerated. Nonetheless, it is important to realize that the ISD provisions prevent a government from arbitrarily introducing a policy.

The implementation of the KORUS FTA may bring some degree of hardship to less competitive industries and businesses. Once the agreement takes full effect, those industries with relatively strong competitiveness will react with joy, while others will do so with disappointment. Also, during the industrial restructuring process, some may experience short-term unemployment and stagnation. To accommodate such damages, social conflicts and confrontations must be rationally arbitrated. In order to minimize the implementation of the FTA and maximize its effects, the less-competitive industries must be accommodated with rational compensation for their loss.

Especially in the agriculture industry, damages may occur in one area or another; however, it is generally expected that the standing agricultural infrastructure will not collapse. The areas expected to suffer the most are beef, pork, and tangerines. Demands for imported beef may increase in Korea due to the beef tariff elimination; it is expected that US beef will replace the current Australian beef imported into Korea. In the case of pork, approximately  $\frac{1}{4}$  of all pork consumption in Korea is said to rely on imports. In particular, pork belly imports are distributed most commonly in Korea. Due to the tariff elimination on pork, American pork imports may increase, and it is likely that American pork will replace imports from third-world countries. Overall, net income will increase to a certain degree and will incur some damage, but the damage will not be severe enough to collapse Korean production. Nonetheless, Korean government should take the potential damage of this agreement into consideration and set complementary measures with Congress.

## V. CONCLUSION

Korean government, in its 17<sup>th</sup> Congress, announced the intention to ratify the KORUS FTA but failed to do so due to the April 18<sup>th</sup> controversy surrounding the beef quarantine standards negotiation results. As a result, the 18<sup>th</sup> Congress inherited the burden to ratify the agreement, and in accordance with the normalization of Congress on August 19<sup>th</sup> of this year, the KORUS FTA deliberation process will take place.



In early 2008, the United Democratic Party leadership that succeeded the (old) Uri Party openly suggested that the KORUS FTA should be ratified. However, due to the linking of the beef controversy and the agreement ratification, ratification has not been and will not be an easy task. In accordance with the June 26<sup>th</sup> standards, US beef is being distributed in Korea, which makes it difficult to understand how the beef issue is delaying the KORUS FTA ratification.

The beef quarantine standard controversy has, however, led many Koreans to put more emphasis on domestic negotiations regarding international trade negotiations. FTAs, beef, and other sensitive international trade negotiations require a gathering of opinions and a sharing of information between all of those concerned, including civil society and other interested parties. This year, the importance of government-to-people communications is being mentioned, but a plan to mediate such communication effectively has yet to rise to the surface. It is not easy to hope for harmonious communication between the government and the people simply by strengthening Blue House press functions, and Korean government must implement a plan systematically to collect public opinions on the KORUS FTA from the stage of the founding of the agreement to the stage of its settlement.

The delaying of the ratification of the KORUS FTA will also delay the benefits that come from it.<sup>30</sup> Not only is the content of the FTA important, but also its implementation timeframe is important as it is connected to the maximum economic results. The current political situation will most likely not allow the 18<sup>th</sup> Congress to ratify the agreement easily, but the US administration is showing a strong desire to use its lame-duck session between November, after the presidential elections, and the end of the year to ratify the KORUS FTA. Thus, the Korea Congress should ratify the agreement before the US and pressure the US to do the same. Furthermore, there is a need to develop logical complimentary measures for one government to

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<sup>30</sup> Most of our prominent corporations are for the KORUS FTA. In addition, approximately 71% of the small and medium size businesses answered optimistic or neutral about the KORUS FTA. ('06.3, Korea Institute for Industrial Economics and Trade). The small and medium size businesses answered that the most optimistic effects of the KORUS FTA are, increase in exports to the US (67.6%), high quality raw materials imports at a reduced costs (15.9%), and promotion of Korea-US joint venture (6.4%).

convince its Congress, and the Korea administration must request that the US administration take a more active role in attempting an early ratification of the KORUS FTA. The Korea Congress should also stop relying on nearsighted domestic politics and instead increase international exchanges, riding the globalization current to affirm its national interests.

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