The US-Korea FTA ("UKF")

- Its Geopolitical Implications & Some Lessons for the Japan-Korea FTA

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Professional experiences as a former trade negotiator, with USTR

Sabbatical Research in US and at Waseda

As a member of
“Presidential Committee on the UKF”
大統領 國民経済諮問會議
“Dramatic” conclusion of UKF
- 2 a.m. 2nd April -

- Originally scheduled 8 round + ONE
  - 1st Round: 5th June, 2006 (US)
  - 8th Round: 8th-12th March, 2007 (Seoul)

- ONE extra negotiation: 28th March

- Designated Deadline: 7 a.m. 31st March
  - US TPA (July, 2007)

- “Breath-Taking” 48 hours extension
  - 7 a.m. 31st March → 7 a.m. 2nd April
Why “DRAMATIC”? 

Geopolitical Implications of the US-Korea FTA and its Domestic Politics 

September 26, 2006 

Pro AHN Se Young 

at the CSIS-Chosun Conference 

Washington D.C. USA
Cautious Perspectives on the development of the UKF

Scenario 1  Technical Failure

As a matter of practice, the deadline of March, 2007 is a too short time frame for such a complicated and controversial deal.

Scenario 2  Unilateral Withdrawal

Scenario 3  Political Conspiracy

Scenario 4  Hard-positional/Die-hard bargaining, but successful UKF
What US and Korea agreed?
# Industrial products & fishery

<table>
<thead>
<tr>
<th><strong>Early-elimination</strong>: 100% concession</th>
<th><strong>Sensitive fisheries</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Immediate + 3 Year-period)</td>
<td>ex) Pollack: 15 year-period, Halibut: 12 year-period</td>
</tr>
<tr>
<td></td>
<td><strong>Automobiles, Digital TV, LCD Monitor, Camcorder, TV Camera, Color TV etc.</strong></td>
</tr>
<tr>
<td><strong>94% of bilateral trade</strong></td>
<td></td>
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</tbody>
</table>
## Textiles & Apparel

<table>
<thead>
<tr>
<th></th>
<th>Milli on US$</th>
<th>%</th>
<th>Major items</th>
<th>EXCEPTION &quot;US Yarn-forward rule&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate</td>
<td>1,650</td>
<td>61.1%</td>
<td>Cotton yarn, Sweater, women’s apparel, etc.</td>
<td>Women's Jackets, etc 33 items</td>
</tr>
<tr>
<td>5 year-period</td>
<td>500</td>
<td>18.6%</td>
<td></td>
<td>Men’s shirts, etc</td>
</tr>
<tr>
<td>10 year-period</td>
<td>550</td>
<td>20.2%</td>
<td></td>
<td>Yarns &amp; fabrics made in China</td>
</tr>
</tbody>
</table>
## Agriculture

<table>
<thead>
<tr>
<th>Products (Tariff Rate)</th>
<th>Concession</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beef</strong> (40%)</td>
<td>15 year-period elimination + SG 15 years</td>
</tr>
</tbody>
</table>
| **Pork** (25%)        | Refrigerated Pork: 10 year-period elimination + SG 10 years  
Frozen Pork: elimination until 2014 |
| **Oranges** (50%)     | Harvesting season(Sep. – Feb.): Current Tariff + TRQ 2,500 ton (3% increase)  
Non-harvesting season: 7 year-period elimination from 30% |
| **Grapes** (45%)      | Harvesting season(May – 15th Oct.) 17year-period elimination  
Non-harvesting season: 5 year-period elimination from 24% |
| **Apples** (45%)      | Fuji apple 20yr + SG 23yr / others 10yr + SG 10yr |
| **Safeguard:**       | temporal increase in tariff in case of sudden increase in import |
Automobiles Tariffs

- **Immediate elimination**
  1. Passenger vehicles with engine capacity below 3,000cc
  2. Automotive parts & components

- **3 year-period - with engine capacity over 3,000cc**

- **10 year-period - Trucks:** Current 25% → 12.5% (after 5 years)
“Committee on Outward Processing Zones on Korean Peninsular”

→ OPZ (Outward Processing Zones)

Provided ground for the duty-free status of products made in Kaesong
- Trade Remedy (AD, CVD, SG)
  - “The US-Korea Committee on Trade Remedies”

- Extension of Copyright protection period
  - 50 years → 70 years

- Pharmaceutical Issues
  - US: minimum price for new drug (X)
  - transparency for the pricing for drugs
- Foreign Legal Consulting service in 5 years
  - Extended financial market opening
    - acquire financial institutions in Korea to supply a complete range of financial services
    - Introduction of Temporal Financial Safe Guard
  - Health Care service
  - Educational market
What has enabled US and Korea to reach an agreement?
Korea’s new experience in negotiating with USTR (I)

- **Defensive & Soft trade negotiation with USTR**
  - 1995 Japan-US auto
  - 1997 Korea-US auto

- **“Pro-US Korean government”**
  - no walk-away

- US ; stronger bargaining power

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- **Mutual Concession-Making Game**
- **Hard-Positional Game**

- President Noh’s “complicated” attitude towards UKF
<table>
<thead>
<tr>
<th>Category</th>
<th>Duration</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>RICE</td>
<td>open</td>
<td>2hrs before</td>
</tr>
<tr>
<td>Passenger</td>
<td>5 yr</td>
<td></td>
</tr>
<tr>
<td>Trucks</td>
<td>10 yr</td>
<td></td>
</tr>
<tr>
<td>Beef</td>
<td>immediate</td>
<td></td>
</tr>
<tr>
<td>Textile</td>
<td>no</td>
<td></td>
</tr>
<tr>
<td>IPR</td>
<td>50-70yr</td>
<td></td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>minimum price of</td>
<td>new drug</td>
</tr>
<tr>
<td>Kaesung</td>
<td>never</td>
<td>Joint Committee  - duty free status</td>
</tr>
</tbody>
</table>
Jones Act: never

Safe guard: never

agriculture

Safe guard: never

Finance

Safe guard: SG

textile

- Exception

- SG

- SG

no
Korea’s new experience in negotiating with USTR (II)

- “Pro-US Korean government”
- President Noh’s “complicated” attitude towards UKF

Korea: No walk-away

Korea: Walk-away
"We should be aware that the negotiation could break down depending on the term of the negotiations. There may be an excessive US demands that we could not accept."

- Korean President Roh, Presidential Committee for on Foreign Economic Policy, 2006
Bottom line of President Noh's statement?

- What is clear is that he has been repeated sending messages to US that the DEAL could break down if USTR bashes Korea too much.

Korea: walk-away
US double-edged motives
- Economic & Geopolitical

- Economic
  - Korea: US 7\textsuperscript{th} largest market
  - "Most commercially meaningful FTA"
    since NAFTA (1994년)

- Geopolitical
  - the UKF; "Ice-breaker" for President W.
    Bush’s Hanoi Vision on APEC-wide FTA
    (Nov. 2006)
China’s FTA Policy

南方政策 → 中華經濟圈

Greater Chinese Economic Zone

- 300 mil. Oversea Chinese
- 10% population → 60% economic power
Korea has a Casting Vote

Korea’s major trading partner

<table>
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<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>59 (15.8%)</td>
<td>72 (15.0%)</td>
<td>70 (12.2%)</td>
</tr>
<tr>
<td>China</td>
<td>57 (15.3%)</td>
<td>79 (16.6%)</td>
<td>107 (18.6%)</td>
</tr>
</tbody>
</table>

Source: Korea International Trade Association
Different Domestic Politics

losers

Korea-Chile very fierce silent
FTA

UKF very fierce strong
Anti-UKF National Front opinion-leader (280 NGOs)

winners

* Consumers’ reaction: Korean people, most expensive beef
Changing attitudes towards UKF

- **Public Opinion**
  - Mistake in the Korea-Chile FTA

- **Court**
  - judged Anti-UKF NGOs to indemnify police for damages caused by their illegal & violent demonstration

- **Union members**
  - Hyun-Dai Union members decline to join anti-UKF strike
Strong Political Leadership

- Political willingness
- President Noh, turned against his traditional political supporters

- Popularity
Hunger strikes
Ruling Party Leader / former Justice Minister
Political leadership and Deadline Game

8th Round
8th-12th March

Plus ONE

48 hrs
Rice, Orange
Automotive
Pharmaceutical
textile
Beef
IPR
Kaesung

June 2006 2007 28th 31th March 2nd April
Some Lessons for Japan-Korea FTA

• Six rounds of negotiation

• at standstill since Dec. 2004
Competitive Liberalization

us

EU

Canada, Mexico, India

China

end 2007  2008
WHEN Reopen dialogue?  
- 2008 -

- US-Korea FTA?
  - Trade diversion effect in Korean market?
  - Competitiveness in US market?

- Korea-EU FTA
  - Lexus vs BMW in Korean market
  - Competitiveness in EU market (Eastern)

- Korea-China FTA
  - Geopolitical landscape

- Korea-China FTA + Japan-Korea FTA
Build mutual trust

- Japan
  - unilateral withdraw from negotiation table
- Korea
  - weak willingness of agricultural market opening
- Inter-personal relation between political leaders.
  - US-Korea FTA?
Political leadership

- JK FTA: Japan: winner (manufacturing) as a whole
  - JKF will aggravate Korea’s chronic trade deficit
- Korea, Japan’s agricultural market opening
- Agricultural market opening
  - not matters of bilateral negotiation,
  - but political leadership
- Korea, skeptical about political leadership
  - Prime minister’s vis-à-vis LDP
- Japan-Australia FTA (May, 2007)
  → Test FTA
Symmetric reaction

- Pro-JKF in Japan (Winners)
  "politically" countervail against Anti-JKF’s political opposition
  - just like Korea’s recent new experience

- Interview with Japanese opinion leaders
  - non-confrontation
Mid-level FTA as a second-best

100% High-FTA

70-80% Mid-FTA

50% Low-FTA

Employees, 1.1 mil.
46% of manufact. SME
-33,282 firms, 30%

Agriculture
JAPAN

Parts & components
KOREA
Win-win solution

- Intra- agricultural trade
  - Japanese consumers’ attitudes

- Cheaper Japanese parts & components

- Time-pressure?
  - UKF: June 2006-April 2007
  - Korea-Canada: July 2005- 10th Round
  - Korea-India
Thank you!

Q & A

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Officially aiming at High-level FTA
→ Mid-level FTAs
- highly sensitive items -

- US-Australia FTA

  Exception: Sugar, beef, dairy products (partly)

- EU-Mexico (Chile) FTA

  - Tariff elimination of 58% Agricultural products

- Singapore-India FTA

  - 51% of two Countries bilateral trade

- China-ASEAN FTA: Exception (Agricultural products):

  Cambodia 30 items, Vietnam 15 items