

# **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 國民經濟諮問會議**

# **“Dramatic” conclusion of UKF**

## **- 2 a.m. 2<sup>nd</sup> April -**

- ❖ **Originally scheduled 8 round + ONE**
  - 1<sup>st</sup> Round : 5<sup>th</sup> June, 2006 (US)
  - 8<sup>th</sup> Round : 8<sup>th</sup>-12<sup>th</sup> March 2007 (Seoul)
- ❖ **ONE extra negotiation : 28<sup>th</sup> March**
- ❖ **Designated Deadline : 7 a.m. 31<sup>st</sup> March**
  - US TPA (July, 2007)
- ❖ **“Breath-Taking” 48 hours extension**
  - 7 a.m. 31<sup>st</sup> March → 7a.m. 2<sup>nd</sup> 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

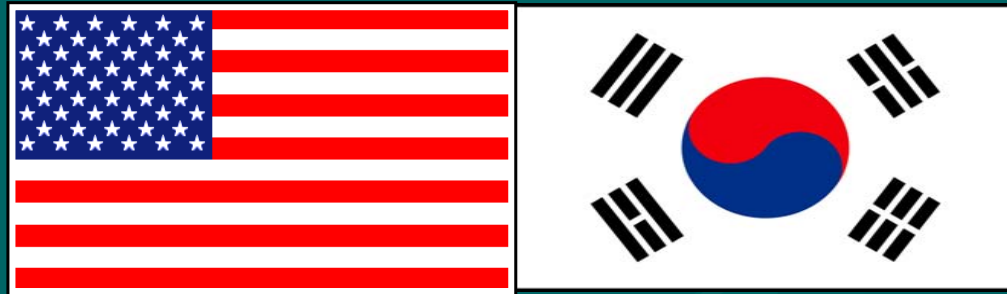
As a matter of practice, the deadline of March, 2007 is a too short time frame for such a complicated and controversial deal.

## Scenario 2 Unilateral Withdrawal

## Scenario 3 Political Conspiracy

## Scenario 4 Hard-positional/Die-hard bargaining, but successful UKF

# What US and Korea agreed?

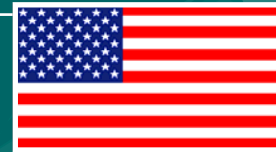


# Industrial products & fishery

Early-elimination: **100% concession**

(Immediate + 3 Year-period)

94% of bilateral trade



## **Sensitive fisheries**

ex) Pollack : 15 year-period, Halibut: 12 year-period

Automobiles, Digital TV, LCD Monitor, Camcorder, TV Camera, Color TV etc.

# Textiles & Apparel



	Milli on US\$	%	Major items	EXCEPTION "US Yarn- forward rule"
Immediate	1,650	61.1%	Cotton yarn, Sweater, women's apparel, etc.	Women's Jackets, Men's shirts, etc 33 items -Yarns & fabrics made in China
5 year- period	500	18.6%		
10 year- period	550	20.2%		



# Agriculture



Products (Tariff Rate)	Concession
Beef (40%)	15 year-period elimination + SG 15 years
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 – 15 <sup>th</sup> 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

## ❖ 10year-period - Trucks : Current 25% → 12.5% ( after 5 years)

# Kaesong Industrial Complex

- ❖ “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**



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



- ❖ **President Noh's “complicated” attitude towards UKF**



# RICE

- open

2hrs before

- Never

Passenger - 5 yr

- immediate

Trucks - 10 yr

- 5 yr

Beef - immediate

- int'l ICG

Textile - no

- Exception for yarn-rule

IPR - 50 → 70yr

- no

Pharmaceutical - minimum price of new drug

- Never

Kaesung - never

Joint Committee

- duty free status





**Jones Act**    **never**

- Exception

**Safe guard**    **never**  
**agriculture**

- SG

**Safe guard**    **never**  
**Finance**

- SG

**Safe guard**    **SG**  
**textile**

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

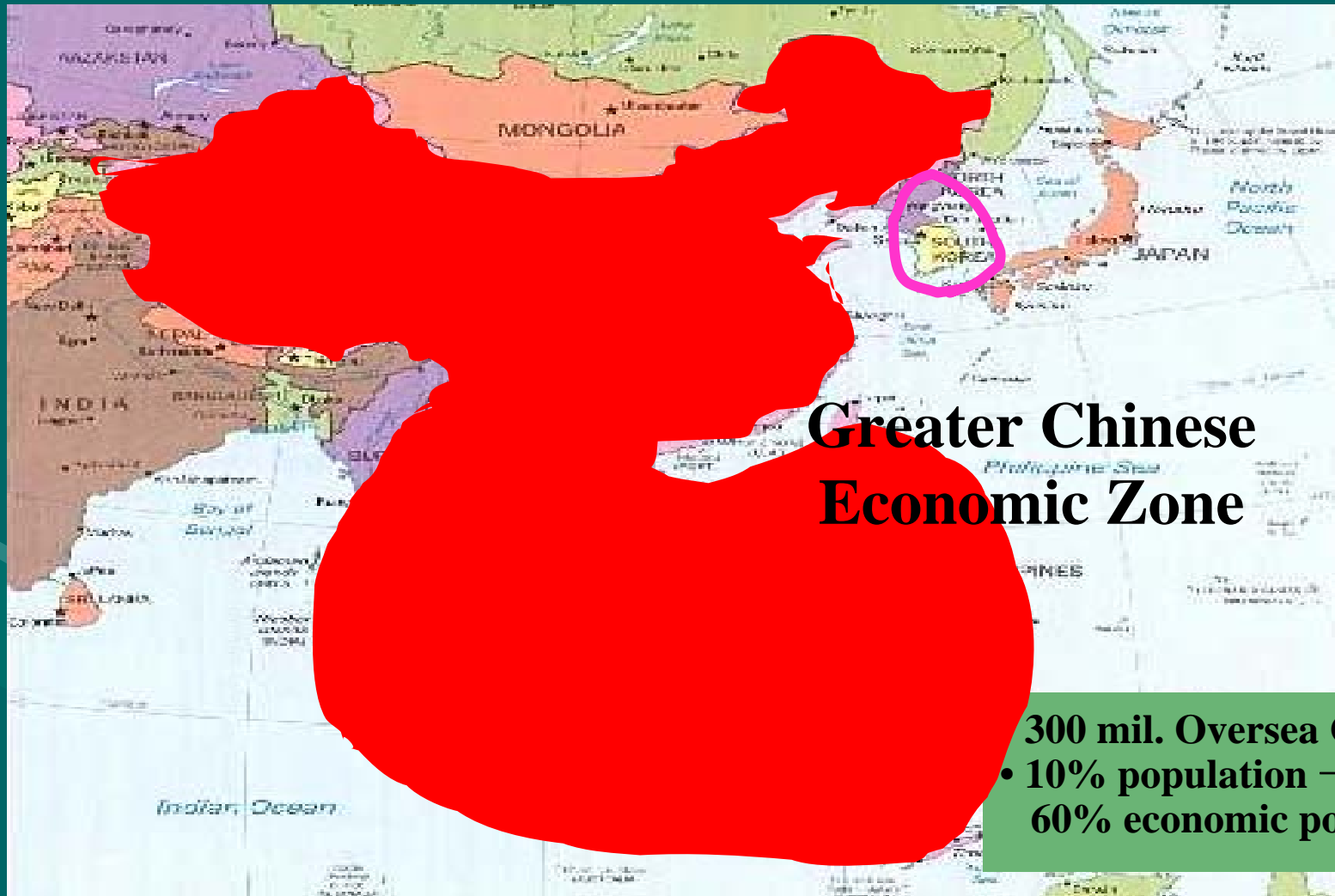
- Korea: US 7<sup>th</sup> largest market
- "Most commercially meaningful FTA" since NAFTA (1994년)

### ❖ 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

Billion US\$

	2003	2004	2006
US	59 (15.8%)	72 (15.0)	70 (12.2%)
China	57 (15.3%)	79 (16.6)	107 (18.6%)

Source : Korea International Trade Association

# Different Domestic Politics

	losers	winners
Korea-Chile FTA	very fierce	silent 無賃乗車
UKF	very fierce	strong
<u>Anti-UKF National Front</u> (280NGOs)		opinion-leader

\* Consumers' reaction : Korean people, most expensive beef



## Anti-US-Korea FTA



## Pro-US-Korea FTA



# 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

8<sup>th</sup> Round  
8<sup>th</sup>-12<sup>th</sup> March

**Plus ONE**  
**48 hrs**  
Rice, Orange  
Automotive  
Pharmaceutical  
textile  
Beef  
IPR  
Kaesung

June 2006

2007

28th

31th

March

2<sup>nd</sup>

April

# Some Lessons for Japan-Korea FTA

- Six rounds of negotiation  
(Oct. 2003 – Dec. 2004)
- at standstill since Dec. 2004

# Competitive Liberalization

end 2007

2008

→ **US**

→ **EU**

→ **Canada, Mexico, India**

→ **China**

# 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農民族議員
- ❖ **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 <sup>36</sup>

# Win-win solution

- ❖ **Intra- agricultural trade**
  - **Japanese consumers' attitudes**
- ❖ **Cheaper Japanese parts & components**
- ❖ **Time-pressure ?**
  - UKF : June 2006-April 2007**
  - Korea-Canada : July 2005- 10<sup>th</sup> 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