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Looking Ahead to KORUS FTA Ratification

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Despite an historic delay and continued opposition in some quarters, passage of the Korea-U.S. Free Trade Agreement (KORUS FTA) looks set to proceed quickly through the United States Congress. The road has been a long and difficult one, but for what has become a burgeoning global alliance and a keystone for regional security, allowing the deal to unravel once reached would have been unthinkable. However, with the submission of the pending free trade agreements with Korea, Panama, and Colombia by President Barack Obama to Congress on October 3, the KORUS FTA will likely soon reach the end of its journey.

How We Got Here

Many hoped that after the 2007 signing of the KORUS FTA that the U.S. Congress would pass the agreement before the 2008 U.S. presidential election. Those expectations, however, proved to be unrealistic.

Soon after the agreement was concluded, key players on Capitol Hill came out against specific provisions of the KORUS FTA creating roadblocks for its ratification. Sander Levin, then chairman of the trade subcommittee on Ways & Means, attacked the provisions on automobiles as being inadequate. Meanwhile, while not formally part of the agreement, Senator Max Baucus continued to push for the opening of Korea's beef market to U.S. exporters.

Although prospects for the trade agreement improved in early 2008 when newly elected President Lee Myung-bak in his inaugural visit to the United States announced that Korea would fully reopen its market to U.S. beef, this optimism was quickly dashed by other political factors. Just prior to President Lee's visit, President George W. Bush sent the Colombia FTA to Congress for consideration. The move was immediately countered by the House of Representatives, which stopped the procedural clock on the Colombia FTA. The larger obstacle became the end of mutual trust and cooperation between the outgoing president and U.S. Congress on trade issues. Complicating matters, protests in Korea over the

opening to U.S. beef would force a renegotiation of the beef opening. Before long, the financial crisis and presidential politics would intervene as well.

As we now know, the immediate impact of the 2008 global financial crisis and the subsequent economic downturn were deeper than many realized at the time. However, regardless of who had won the 2008 presidential election, the economic contraction in the fourth quarter of 2008 and the beginning of 2009 was significant enough to take the trade agenda off of the table until 2010.

Ironically, North Korea's belligerence last year may have provided the impetus needed to get the United States and Korea to tackle head on the issues related to beef and autos that had stalled the KORUS FTA earlier. In December of last year, both sides announced a new understanding on autos that would remove barriers to the Korean market of concern to the U.S. auto industry. An agreement was also reached between the administration and domestic interests on the steps to take to fully reopening Korea's market to all ages and all cuts of U.S. beef a few months later.

Despite progress on resolving areas of disagreements in KORUS FTA, U.S. domestic politics continue to complicate ratification of the agreement. Republicans were concerned that, if the Korea agreement proceeded to a vote without being tied to a vote with the Colombia FTA, Democrats would never vote on the Colombia FTA because of their opposition to it. At the same time, Democrats feared that Republicans would prevent the renewal of Trade Adjustment Assistance (TAA) if the FTAs were allowed a vote before TAA was renewed. Not until October 3 after much political wrangling and backroom compromises were the two sides finally comfortable enough to move forward with submitting the Korea, Colombia and Panama FTAs for ratification.

Unsurprisingly, not all domestic political issues are confined to the United States. While the Grand

National Party (GNP) has the required votes to pass the FTA, the Democratic Party (DP) is calling for renegotiations of the agreement along the lines of what it refers to as the "10+2" agreement. While the GNP has ruled out renegotiation, it is open to considering domestic changes that are compatible with the DP's demands to ensure South Korea's ratification of the agreement soon after the U.S. Congress passes it.

What Does the KORUS FTA Mean for the United States and Korea?

The benefits of the KORUS FTA are well known. The U.S. International Trade Commission estimates that the KORUS FTA would mean an additional \$9.7-\$10.9 billion in U.S. exports to Korea and an increase of \$10.1-\$11.9 billion in U.S. GDP. According to the Obama administration, these gains would support 70,000 U.S. jobs. For Korea, the export gains would be in the range of \$6.4-\$6.9 billion. The Korea Institute for International Economic Policy has calculated that the agreement could mean an additional 0.32 to 5.97 percent in GDP for Korea.

However, the world has changed notably in the four years since the KORUS FTA was signed in April 2007. The global economy has gone through a significant shock that continues to linger in the form of the European debt crisis and the anemic economic growth in the United States. As the United States unemployment rate has stayed over 9 percent, job creation has become a top priority for both parties.

Ordinarily, the current state of the economy might preclude consideration of the FTAs. Americans remain skeptical of the benefits of free trade. However, the nature of the current crisis changes that dynamic. In the aftermath of a financial crisis, consumers are primarily focused on paying down debts, hence reducing domestic demand. If the United States is to create jobs it needs to find consumers outside the United States, preferably where economic growth is strong. In the case of Korea, economic growth last year measured 6.1 percent and is expected to be 4.4 percent next year when the KORUS FTA would likely come into effect.

However, the significance of the KORUS FTA has always extended beyond the raw benefits from increased bilateral trade, and the agreement's importance has only grown. Originally an opportunity to gain a competitive advantage in the Korean market, it is now needed to maintain competitiveness with Korea's other FTA partners. Additionally, the

agreement has become the template for other trade agreements. In Korea's talks with the EU, the KORUS FTA was the template both sides worked from, and it could be so for a prospective agreement with China. Beyond that, much of its text is likely to become the baseline for negotiations in the Trans-Pacific Partnership (TPP), making the KORUS FTA the standard for negotiations in the Asia-Pacific.

Additionally, it has provided added momentum to both the United States and Korea's trade agendas. Prior to consideration of the KORUS FTA, many of the United States' trading partners had concerns regarding whether the United States could live up to its commitments. Passage of the KORUS FTA should help ease those concerns and spur talks in the TPP. At the same time, Korea had largely put other potentially significant deals on hold. With the KORUS FTA now moving towards closure, Korea is likely to pursue additional robust agreements.

What Comes Next?

A decade ago the United States was Korea's top trading partner. That no longer remains the case, with the United States having fallen behind Japan and the European Union in overall trade with Korea. While perhaps disconcerting to some Americans, the level of trade all three do with Korea has remained relatively close. The real change has been the explosion in trade with China. As recently as 2004, Korea did roughly the same amount of business with the United States and China. However, in the six years since, Korea's trade with China has grown to double that with the United States.

This monumental change underscores the significant economic growth China has seen in the last decade and will likely have long-term implications for U.S.-Korea relations and Korea ties with China. The most immediate of which will likely be a Korea-China or a Korea-China-Japan FTA. While the United States and its TPP partners will likely encourage Korea to join the Trans-Pacific talks, it would not be unsurprising to see Korea focus on an agreement that deals with its largest trading partner.

However, that does not mean that Korea will not join the TPP as well. Once the KORUS FTA is done, ongoing talks with New Zealand and Australia will likely reach swift conclusions, adding two more TPP members to Korea's FTA network. Consolidating all of these agreements in the TPP would make sense for Korea.