

KOREA-U.S. FTA FACES UNCERTAIN FUTURE

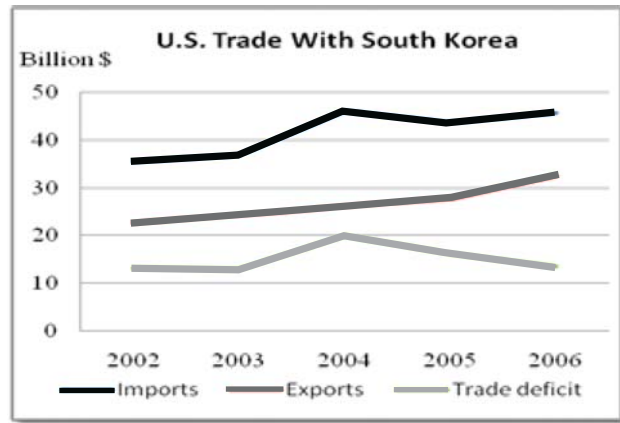
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I. INTRODUCTION

The ambitious Korea-United States Free Trade Agreement (KORUS FTA) faced a tumultuous year in 2007. On June 1, the U.S. and Korea finalized their negotiations. Following this initial success, the agreement has been swept up in the storm of election year politics in both countries, throwing its future in doubt. If passed, however, the KORUS FTA will become the largest U.S. FTA after the North American Free Trade Agreement (NAFTA).

Presidents George W. Bush and Roh Moo-hyun remained strongly committed to the KORUS FTA in 2007, seeing important strategic and economic imperatives for an FTA. The Bush administration hopes that the FTA will boost U.S. exports and generate strategic dividends at a time when the U.S. is struggling to deal with a nuclear North Korea and a rising China. The Roh administration saw the FTA as critical to securing Korea's position in a globalizing world economy and strengthening its alliance with the U.S.

The U.S. International Trade Commission (ITC) and the Korea Institute for International Economic Policy (KIEP) have predicted that the KORUS FTA will benefit both the U.S. and the South Korean economies. South Korea is the seventh largest trading partner of the U.S. and an important market for U.S. exports. Last year, U.S. exports to Korea grew by 17 percent, outpacing import growth by more than 10 percent and reducing the bilateral trade deficit to its lowest level since 2003 (see figure 1). This growth came despite the fact that currently only 13 percent of Korea's tariff lines are duty free, compared with 38 percent in the U.S. The KORUS FTA, by removing barriers to trade, is projected to boost U.S. exports and narrow the bilateral trade deficit.

Figure 1: U.S. Trade with Korea (2002–2006)

Source: USITC Trade Dataweb

The growing momentum in 2007 for FTAs in Asia has added greater urgency to the KORUS FTA. In that year, South Korea implemented an FTA with the Association of Southeast Asian Nations (ASEAN) countries, except for Thailand, and it started FTA talks with the European Union (EU) on May 7. South Korea also began a feasibility study with China on a joint FTA. KIEP has estimated that a Korea-China FTA would be more economically significant than an FTA with either the U.S. or the EU. Other countries engaged in FTA negotiations with South Korea include Australia, India and Japan.

South Korea's Minister of Economic Affairs and Trade, Choi Seok-young, warned U.S. officials in October 2007 that the U.S. risks losing market share if the KORUS FTA is not passed. The U.S. already lost its position as South Korea's top trading partner to China in 2003. U.S. Embassy officials have been upbeat, however, noting that Korea's new FTAs will provide alternative markets for Korean exports besides the U.S.

For South Korea, the incentives for an FTA are more complex. South Korean leaders worry that the U.S. has become distracted by commitments elsewhere, and they see the KORUS FTA as a way to strengthen the U.S.-Korea alliance. The South Korean trade minister remarked that he hopes the FTA will bring Korea's bilateral alliance with the U.S. to "the next level."

South Korea is worried about its declining market share in the U.S., despite continued growth in absolute terms. Korea's currency continued to appreciate in 2007, staying well below 950 won to the dollar. This has made Korean exports

less competitive and even small tariff rates painful. Trade accounts for 70 percent of Korea's GDP, and South Korean leaders see guaranteeing export markets as an economic imperative. South Korean officials also see an FTA with the U.S. as improving their bargaining position in FTA talks with other countries. Current FTA talks with the EU suggest this strategy may be working.

Just as significant from an economic perspective is the gain for Korean consumers. High agricultural tariffs in South Korea have made Korean agricultural products some of the most expensive in the world. The price of beef in South Korea has at times surpassed even Japan's famously high prices. The U.S. is South Korea's top foreign supplier of agricultural products, and the KORUS FTA is predicted to decrease the prices paid by Korean consumers.

II. NEGOTIATIONS AND THE CHANGING POLITICAL LANDSCAPE

The KORUS FTA negotiations got off to a rocky start in 2007. Seoul was rocked by anti-FTA protests in January, requiring the deployment of 15,000 riot police. Nine South Korean progressive lawmakers announced a five-day hunger strike, calling for a halt to negotiations. Farmers, the film industry and labor unions denounced negotiations, opposing relaxation of quotas and other barriers to trade.

President Roh Moo-hyun, a politician who once boasted proudly of his lack of connections to the U.S., has been the driving force behind ratification of the KORUS FTA in Korea. His support for the FTA has caused deep divisions within the traditionally progressive Uri Party, of which he was a member. In February 2007, a group of legislators left the Uri Party, and another group left in May to form their own party. Internal politics caused the Uri Party to break apart and re-form as the United New Democratic Party (UNDP). UNDP national committeewoman Suh Hae Suk admitted in November that the FTA has been a "hard issue within our party."

President Roh has managed to boost support for the FTA despite low approval ratings. The percentage of South Koreans who express support for the KORUS FTA in public opinion polls went from around 30 percent in mid-2006 to nearly 60 percent a year later. The president's approval rating shot up to 32 percent—a 10-point jump—when the KORUS FTA agreement was reached.

In Washington, D.C., the Democratic Party used its new majority to refocus the debate over U.S. trade policy away from President Bush's emphasis on free trade and toward labor and environmental concerns. On March 27, 2007, Charles Rangel (D-NY) and Sander Levin (D-MI) announced the Democratic Party's new trade strategy, titled "A New Trade Policy for America." The policy called on the

United States Trade Representative (USTR) to insist on the enforcement of “basic international labor standards,” equal access for U.S. investors, and environmental protections in any FTA agreement. The Democrat-controlled Congress also expressed opposition to renewing Trade Promotion Authority (TPA).

With his trade policy under attack, President Bush brought Secretary of the Treasury Hank Paulson in to negotiate a compromise with Democratic leaders. On May 10, the White House and Democratic leaders announced a deal. The White House promised to incorporate United Nations International Labor Organization (ILO) principles and environmental protection provisions in FTAs; in exchange, Democrats agreed to support the Panama and Peru FTAs.

Washington’s changing position on the FTA was not welcomed in Seoul. Floor leaders from the top six Korean political parties announced in a May 30 debate that they would oppose any renegotiation of the KORUS FTA. Chang Young-dal, floor leader of the ruling Uri Party, said that “unless the renegotiation is about changing expressions or phrases on the agreement, we will not accept the renegotiation.”

The Bush administration remained committed to the May 10 agreement with the Democrats despite Korean opposition. U.S. Trade Representative Susan Schwab explained that given the choice “between bipartisan cooperation or letting the U.S. trade agenda die—the administration chose the path of bipartisan cooperation.” U.S. negotiators tried to resolve the impasse by claiming that they were “not seeking a renegotiation,” only to “clarify and add” provisions required by the May 10 agreement.

The negotiations received another setback the next week. The South Korean agriculture ministry announced that it had discovered rib bones in shipments of U.S. beef to Korea by Cargill Inc. Beef bones from the U.S. have been designated as a “specified risk material” and banned in Korea because of concerns about mad cow disease. The incident sparked angry editorials in South Korean newspapers, and Korean officials stepped up controls on beef imports. U.S. officials insisted that U.S. beef was safe, but they promised to try to prevent mistaken shipments in the future.

By mid-2007, presidential campaigns were in full swing in the U.S. and South Korea, and the KORUS FTA became embroiled in presidential politics. Hillary Clinton spoke out against the KORUS FTA on June 19 in Detroit while talking to the AFL-CIO, saying “the agreement is inherently unfair” and would hurt the U.S. auto industry. Her comments followed similar criticism by John Edwards earlier in the year.

Large-scale protests continued in South Korea throughout this period, with the Korea Advanced Farmers Federation, the Korean Confederation of Trade Unions, and the Korean Metal Workers’ Union (KMWU) all organizing large anti-FTA protests, including strikes at Hyundai and Kia on June 28. The Roh Moo-hyun administration labeled the strikes illegal, and police issued arrest warrants for KMWU strike leaders.

That same day President Roh announced an aid package to South Korean farmers worth \$140 billion to mitigate the economic effects of the KORUS FTA and reduce hostility to its passage. The Korean pharmaceutical industry and other affected industries also received economic support worth billions to compensate them for losses resulting from the FTA. FTA skeptics, however, question how much of this aid would actually reach farmers and other affected groups.

At that point, time was running out. Democratic congressional leaders showed no intention of renewing TPA, thereby making the TPA expiration date of July 1 the effective deadline for Presidents Bush and Roh to finalize and sign an agreement. Prime Minister Han Duck-soo announced on June 29 that South Korea would accept U.S. demands for additional labor and environmental provisions. On June 30, mere hours before the TPA expired, the two presidents signed the KORUS FTA.

III. THE KORUS FTA

The KORUS FTA is notable for its broad scope, including both tariff and domestic policy changes. The U.S. achieved its major negotiating goals in agriculture, automotive trade, investment rights, service sector trade, intellectual property rights, labor and the environment. South Korea achieved some of its top negotiating goals, notably the exclusion of rice and the gradual removal of the U.S. tariff on light trucks, but it was forced to give up other goals. Among those, Korea failed to get the Kaesong industrial complex included in the agreement, to address U.S. trade remedy practices, or to increase visa access to the U.S.

The largest gains for U.S. exporters in the agreement are in agricultural products, which currently face an average applied tariff rate of 52 percent in South Korea. Under the KORUS FTA, more than half of all agricultural products will be able to enter South Korea duty free, with further reductions over the next 15 years. Rice was too politically sensitive in South Korea and was excluded from the final agreement. Tariffs on U.S. beef will be phased out over 15 years. The agreement does not resolve the dispute over import restrictions on U.S. bone-in beef, although negotiations are ongoing outside the FTA framework to resolve this issue.

Automotive trade, a top priority for U.S. and Korean negotiators, was also liberalized. Under the agreement, South Korea will remove its 8 percent tariff on cars and trucks, while the U.S. will remove its 2.5 percent tariff on passenger vehicles. Over the next 10 years, the U.S. will eliminate its 25 percent tariff on light trucks. The KORUS FTA also sought to address U.S. automakers' concerns about nontariff barriers (NTBs) that have restricted access to the Korean auto market. A special dispute settlement process was established to review complaints by automotive companies, with U.S. tariffs to be re-imposed if South Korea fails to adhere to the agreement.

The KORUS FTA eliminates tariffs on 95 percent of consumer and industrial products within three years, with most of the rest removed within 10 years. Other benefits of the KORUS FTA include liberalizing Korea's service sector, an area of traditional U.S. comparative advantage. Liberalized sectors include financial, legal, insurance, telecommunications and shipping services. The agreement also relaxes quotas on foreign content in film and broadcasting, and it bars duties on electronic commerce. The FTA requires the adoption of a "negative list" approach to services, which will allow U.S. participation in all service sectors except those specifically exempted.

The agreement Bush and Roh signed on June 30 sought to accommodate Democrats' concerns over labor rights, environmental protection and investor rights. The agreement includes ILO standards and Multilateral Environmental Agreements. U.S. investors will receive national treatment in most sectors, including the right to fully purchase telecommunication companies. Despite South Korean pressure, the North Korean Kaesong industrial park and other outward processing zones (OPZs) are not included in the KORUS FTA. A panel was created to discuss future inclusion of OPZs, but any change would require ratification by the U.S. Congress.

The KORUS FTA also requires changes to domestic regulations in South Korea. It creates an investor-state dispute settlement mechanism under which U.S. investors in Korea can appeal for international arbitration. The June 30 agreement requires the Korean government to change its health care system to pay for more expensive brand-name pharmaceuticals and restricts the use of data from brand-name drugs to approve new generics. South Korea also agreed to reduce and streamline engine-displacement-based automotive taxes and to increase the length of patents to 70 years. These regulatory changes are highly controversial in South Korea and face opposition from its strong industrial unions.

IV. ECONOMIC IMPACT OF THE KORUS FTA

The KORUS FTA will make 82 percent of U.S. and 80 percent of South Korean tariff lines duty free immediately, with close to 99 percent of tariff lines becoming duty free within 10 years. In September 2007, the ITC issued a report analyzing the economic impact of the KORUS FTA. Tariff cuts alone are predicted to raise U.S. GDP by slightly more than \$10 billion, with merchandise exports to South Korea predicted to increase by \$9.7–10.9 billion. Imports are also predicted to increase, but by several billion less.

Trade in agricultural goods is expected to see the largest growth in percentage terms, with exports of meat, grains, oilseeds (such as soybeans), fruits and vegetables all expected to see substantial growth. If the issue of U.S. beef safety is resolved, the KORUS FTA could increase employment in the U.S. meat sector by up to 2 percent.

U.S. textile and auto imports from South Korea are predicted to increase as a result of the FTA, but less than 1 percent of U.S. workers in these sectors are predicted to lose their jobs as a result of the agreement. In addition, as much as 85 percent of the increase in textile imports, 91 percent of apparel imports, and 57 percent of the increase in passenger vehicle imports are predicted to be diverted from other import sources.

The high level of expected trade diversion has two important ramifications: (1) it reduces the likely number of jobs lost due to the FTA in import competing sectors, as total imports will increase by less than bilateral imports, and (2) it reduces the overall economic gain from the agreement. If the drop in tariff revenue is greater than the gains from lowered prices, the FTA could potentially hurt the U.S. economy. The high level of predicted trade diversion raises questions about the economic justification for the FTA.

ITC projections should also be taken with a grain of salt. The ITC uses the Global Trade Analysis Project (GTAP) CGE model to calculate the effect of reducing or eliminating tariffs and tariff rate quotas. Pravin Krishna, a professor of international economics at Johns Hopkins University's School of Advanced International Studies, has expressed doubt about the accuracy of such models, noting that CGE models are only as good (or bad) as the elasticities they use. In addition, the GTAP model does not capture gains resulting from regulatory improvements and the reduction of NTBs, key parts of the FTA. The model also fails to capture gains from increased foreign direct investment. The actual benefits may therefore be significantly larger (or smaller) than ITC estimates.

V. BATTLE LINES DRAWN

The June 30 agreement was met with a mixed reaction on both sides of the Pacific. South Korean citizens complained that the negotiation process had been carried out secretly with limited public input and that the final outcome was unbalanced. People First Party floor leader Chung Jin-suk spoke for many South Koreans when he said, “We cannot avoid the FTA in the era of globalization,” but it is “naïve to think the Korea-U.S. deal was made on equal terms.” There was similar antipathy in the U.S.: agricultural and consumer-electronic organizations generally supported the FTA, while auto companies and unions expressed concern.

The mixed reaction in both countries is due to the uneven impact the KORUS FTA will have by sector. Trade inherently involves winners and losers, with labor and capital leaving less competitive sectors for those where countries have comparative advantages. In July 2007, *Korea Times* finance editor Cho Jae-hyon wrote, “Every deal cannot completely satisfy both sides. Just like the Korean farming and film industries, some have to bleed in the course toward free trade.” Few industries have shown eagerness to offer their blood for the sake of the greater good, and business and labor coalitions have lined up on both sides of the debate in South Korea and the U.S. in preparation for a fight over ratification.

FTA supporters in the U.S. include farmers, consumer-electronics companies, media companies and service industries. The ITC received written submissions from a wide range of industry groups expressing strong support for the FTA; among them were the Aerospace Industries Association of America, the Coalition of Services Industries, the Entertainment Industry Coalition, the National Potato Council, Pharmaceutical Research and Manufacturers of America, the Semiconductor Industry Association, and the Telecommunications Industry Association.

Other industry groups were generally supportive but not as enthusiastic. The National Association of Manufacturers said that while the KORUS FTA is not perfect, it will benefit the majority of manufacturers. The National Cattlemen’s Beef Association said it strongly supports the KORUS FTA, but only if beef trade is first normalized. U.S. opponents of the agreement are concentrated in labor and automotive companies. Organizations writing in opposition to the FTA included Ford Motor Company, the United Auto Workers, and the National Council of Textile Organizations.

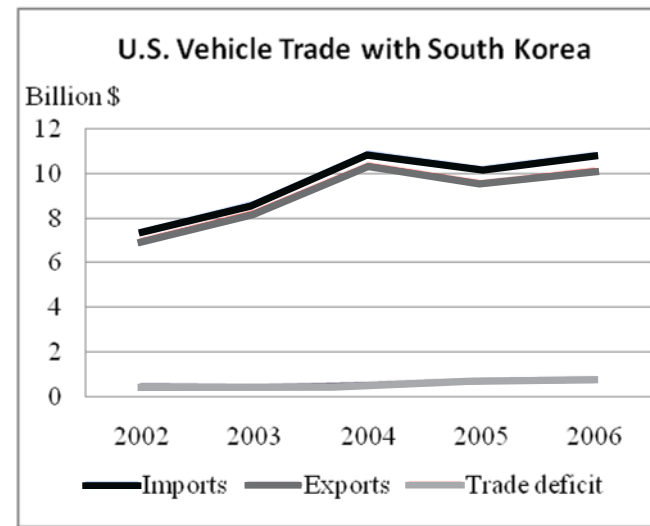
The KORUS FTA enjoys wide support among Korean manufacturers and automotive giants such as Hyundai. The general consensus is that while the FTA presents new challenges, it is essential to maintaining Korean companies’

international competitiveness. The largest opponents in South Korea are farmers, labor unions, and film and television show producers.

Autos

U.S. automotive company resistance to the KORUS FTA stems largely from concerns over NTBs. A range of tax and regulatory policies has limited the number of U.S. autos sold in South Korea. In 2006, the U.S. imported more than 100 times as many cars from South Korea as it sold there, with automotive trade accounting for 75 percent of the bilateral trade deficit (see figure 2). Senator Sander Levin (D-MI) described South Korea’s NTBs as an “economic iron curtain against all imported autos” in a written submission to the ITC.

Figure 2: U.S. Vehicle Trade with South Korea



Source: ITC Trade Dataweb; U.S.-South Korea trade statistics in HS 87

The KORUS FTA attempts to address the NTBs at issue and creates a dispute panel to review complaints by U.S. automakers. Auto companies, labor leaders and Democrats in the U.S. House of Representatives, however, have questions about whether the agreed-upon framework is enforceable and goes far enough. Concerns over NTBs have combined with general anxiety over the competitiveness of the U.S. automotive industry. Rep. Brad Sherman (D-CA) described the KORUS FTA in apocalyptic terms, comparing it to the destruction of Detroit in the War of 1812.

House Democrats have proposed renegotiating the KORUS FTA to shift the burden of proof to Korea in NTB complaints. Minister Choi Seok-young responded by saying that South Korea would not renegotiate the agreement and that the reverse burden of proof suggestion was without precedent and violates the General Agreement on Tariffs and Trade (also known as GATT). U.S. Embassy officials also said they had no intention of renegotiating the agreement.

Korean automakers have supported the agreement, expecting increases in sales in the U.S. to outweigh greater competition at home. Hyundai has already begun preparing for changes in production lines in anticipation of the FTA's passage. Even in the U.S. auto industry, opposition is not universal. GM, which purchased the automotive division of Daewoo in 2002, has remained conspicuously silent on the KORUS FTA.

Agriculture

The largest quota and tariff reductions under the proposed KORUS FTA are in agriculture on the Korean side. This has sparked vocal opposition from Korean farmers. The chairman of the Korean National Agricultural Cooperative Federation (NACF) said that the KORUS FTA and other proposed trade agreements “will deal a heavy blow to the agricultural industry, and put our agriculture and farmers in an even more perilous position.”

A range of factors converge in South Korea to make agriculture particularly volatile. Most farms in Korea are small, with an average of 1.43 hectares of farmland per agricultural household in 2005. Recent generations of Koreans have been reluctant to enter agriculture, and over 40% of farm households are now over 60. As a result, many Korean farmers are both unable to compete and ill prepared to change professions.

Rice is the most sensitive agricultural sector, accounting for 30 percent or more of agricultural income in South Korea. Farming groups portray rice production as the foundation of traditional rural culture, bringing cultural nationalism into the mix. Although U.S. negotiators gave in to South Korea's insistence that trade in rice be excluded, progress is being made in multilateral talks. Korea increased the quota allotment to U.S. rice exporters to 50,000 tons during the Uruguay round, and Korea's rice quota is set to double by 2014.

There is broad support for the FTA among farmers in the U.S., with almost all the written submissions to the ITC by agricultural lobbying groups expressing strong support. The National Potato Council wrote that it “strongly supports” the FTA, noting that South Korea is the “fifth-largest foreign market for U.S.

frozen french fry sales.” The National Pork Producers Council said it expects the FTA to increase pork exports by close to \$825 million. U.S. rice growers have opposed the KORUS FTA, fearing that the exclusion of rice will set a precedent for future agreements.

Beef

The issue of beef exports to South Korea is particularly thorny, having become embroiled in politics and safety concerns. In 2003, South Korea banned imports of U.S. beef after a case of mad cow disease was discovered in the U.S., although some imports of deboned skeletal muscle meat were later allowed. In May 2007, the World Organization for Animal Health (OIE) upgraded the U.S. to “controlled risk” status for mad cow disease, meaning that bone-in beef could be exported under OIE protocols. Korean regulators have refused to authorize the importation of U.S. bone-in beef despite U.S. pressure on South Korea to follow OIE protocols.

The threat of liberalized beef trade has already shaken Korea's heavily protected beef market. The NACF reported in May 2007 that the price of certain cut types of domestic beef had declined by as much as 27 percent since January because of fears of increased imports. Anti-FTA groups protested stores carrying U.S. beef when it was again allowed into Korea in July 2007, and some stores were pelted with cow feces.

Senate Finance Committee chairman Max Baucus (D-MT) has warned that he will block the FTA from being considered by the Senate until the beef issue is resolved. In October, South Korea's Finance Minister, Kwon O-kyu, met with senators and promised that the beef issue would be resolved “within the most reasonable time frame.” That same month, South Korean Agriculture Minister Im Sang-gyu told Korean lawmakers that he would not back down on beef imports under U.S. pressure over the FTA and that the resumption of beef imports would be decided on the basis of safety considerations.

U.S. and Korean negotiators met in October 2007 to try to resolve the impasse over beef. Thousands of South Korean cattle farmers surrounded the Korean legislature during the negotiations, opposing the admittance of U.S. beef into Korea. No agreement has yet been reached, although high-level and technical negotiations are continuing. The KORUS FTA has little chance of passage in the U.S. Senate until beef trade is normalized.

Outward Processing Zones

South Korean negotiators lobbied heavily to include in the FTA goods produced in OPZs located in North Korea. South Korean exporters feel squeezed by low-cost goods from China and high-end goods from Japan. Some South Korean companies have reacted to this pressure by looking into moving production to North Korea, where labor costs are even lower than in China. High logistics costs have made such ventures relatively unprofitable and South Korean officials had hoped to help these firms by including OPZs in the KORUS FTA.

This proposal quickly ran afoul of U.S. legislators on both sides of the aisle. Congress, having imposed economic sanctions on North Korea, was not about to include it in an FTA. Because of U.S. opposition, the final agreement does not include the Kaesong Industrial Complex or any other OPZ. The KORUS FTA does allow a committee to be formed to discuss the future inclusion of OPZs in the agreement. The Korean Ministry of Foreign Affairs and Trade continues to express the hope that OPZs will eventually be included, but any addition of OPZs will require separate U.S. congressional approval, which makes it highly unlikely.

Labor

Labor unions in the U.S. and South Korea are the most vocal opponents of the KORUS FTA. Union leaders have expressed concern that the FTA will weaken union bargaining power and result in the loss of union jobs, and labor unions in South Korea and the U.S. have participated in joint protests and issued joint statements against the KORUS FTA.

Unions in the U.S. are most concerned about the effect of the agreement on the auto sector. The AFL-CIO asked the USTR to delay reducing tariffs on Korean passenger vehicles until automotive import penetration reaches a level similar to that seen in Organization for Economic Cooperation and Development member states. This proposal was dismissed by the USTR as “managed trade.” Other concerns of U.S. labor include labor rights in South Korea and the possible inclusion of OPZs in the FTA.

Labor opposition to the KORUS FTA is even more intense in South Korea: labor-organized protests have attracted thousands and have involved clashes with the police. Korean Confederation of Trade international director Lee Chang-geun and Korean Metal Workers Union international director Chong Hye-won emphasized that their unions were opposed to FTAs in general and that specific aspects of the KORUS FTA were of particular concern. High among them were changes to domestic Korean laws mandated by the KORUS FTA, which they said would make healthcare less affordable for their members.

VI. CHANCES FOR PASSAGE

The impending elections in the U.S. and Korea, and the divisions outlined above have thrown the approval of the KORUS FTA into doubt. Top Democratic Party presidential candidates have expressed little interest in following President Bush’s push for increased trade, with Hillary Clinton, Barak Obama, and John Edwards all speaking out against the KORUS FTA in 2007. The mood is little better in Congress, with some calling for the KORUS FTA to be renegotiated. Timothy Reif, staff director of the House Ways and Means Trade Subcommittee, said in October 2007 that the agreement was a “missed opportunity” and that it has little chance of passing in its present form.

U.S. business coalitions remain determined to press for the approval of the FTA. The president of the U.S.-Korea Business Council, Myron Brilliant, said his organization is launching a national effort to increase support for the agreement, and he remains optimistic that it will be voted on and approved in spring 2008. The South Korean Embassy in Washington has started an extensive publicity and lobbying campaign of its own, and has spent much of 2007 lobbying Congress and traveling around the U.S. to rally support for the FTA.

The KORUS FTA is the last in a line of four FTA agreements to be ratified. The Peru FTA was the only one approved by Congress in 2007, and the Colombia and Panama FTAs will have to be resolved before the KORUS FTA will get a vote. If the KORUS FTA does not receive a vote in spring 2008, it risks getting lost in the heat of presidential elections in November. So far, the Bush administration has been reluctant to force a vote on the KORUS FTA, but it has not ruled out this option.

Prospects for passage of the KORUS FTA in South Korea improved in December 2007 with the election of conservative Grand National Party (GNP) candidate Lee Myung-bak. The FTA is awaiting a vote in South Korea’s National Assembly after being introduced on September 7, 2007. President Lee has said that passage of the KORUS FTA is a high priority for his administration and that he will get the agreement passed as soon as possible.

The National Assembly is likely to approve the KORUS FTA when a vote is held. The South Korean constitution requires only a simple majority to approve trade deals, and both the current pro-government UNDP and the conservative GNP support the agreement. The two parties control close to 80 percent of the seats in the 296-seat National Assembly; anti-FTA parties, such as the Democratic Labor Party (DLP), hold only a handful of seats. DLP National Assemblywoman Sim Sang-jeong, who sits on the Special Committee on the ROK-U.S. FTA, said in November 2007 that she expects the KORUS FTA to be approved in early 2008 before National Assembly elections are held in April.

VII. CONCLUSION

The KORUS FTA is the most ambitious FTA signed by the U.S. since NAFTA. It has the potential to upgrade relations with an important regional ally and boost U.S. exports. South Korean companies will benefit from increased access to the U.S. market, and consumers will enjoy the benefit of lower prices. The ITC and KIEP have predicted that the agreement will boost the U.S. and South Korean economies by billions of dollars. Labor and environmental clauses are included, and NTBs are addressed. The agreement is not perfect, but it does make progress in key areas.

The KORUS FTA also raises important questions. First, the agreement involves extensive changes to domestic policies that have little to do with tariffs or quotas. These changes may or may not be beneficial to South Korea, but it is not clear that they belong in a trade agreement. Second, and more fundamentally, FTAs are only ever a second-best policy. Preferential trade agreements inevitably involve trade diversion and are inferior to multilateral and unilateral trade liberalization. The KORUS FTA is no exception. Unfortunately, at a time when the Doha Round of trade negotiations seems stuck in perpetual stasis, second best may be the best available.

THE “TEETH OF DIPLOMACY”: U.S.-DPRK RELATIONS AND THE SIX-PARTY TALKS

Rian Jensen

I. INTRODUCTION

U.S. relations with the Democratic People’s Republic of Korea (North Korea, or DPRK) improved dramatically in 2007, although year-end events raised the specter of a renewed stalemate. The U.S. ended a four-year moratorium on direct negotiations with North Korea and achieved important breakthroughs in the Six-Party Talks, developing a more pragmatic and engaged approach toward Pyongyang that Secretary of State Condoleezza Rice has called the “teeth of diplomacy.” Wider diplomatic latitude (in spite of North Korea’s partial nuclear breakout in October 2006) enabled the top U.S. negotiator, Assistant Secretary of State for East Asian and Pacific affairs Christopher Hill, to meet with his North Korean counterpart, Vice Foreign Minister Kim Kye-gwan, to engage in serious discussions on North Korea’s denuclearization and the normalization of U.S.-DPRK relations. In a series of joint agreements in February and October 2007—each preceded by productive bilateral discussions—North Korea committed to shuttering and disabling its nuclear facilities in return for the initiation of U.S. efforts to normalize relations and for U.S. and international provision of economic, energy and humanitarian aid.

Important policy success during 2007 was achieved despite major developments that punctuated the negotiating process, galvanizing outside critics and raising important concerns about prospects for continued progress. Most seriously, North Korea failed to submit its nuclear declaration on time and will continue to work on disabling its Yongbyon facilities—although at a slower pace—beyond the December 31, 2007 deadline. U.S.-North Korea relations also must overcome the legacy of a protracted dispute over frozen North Korean funds