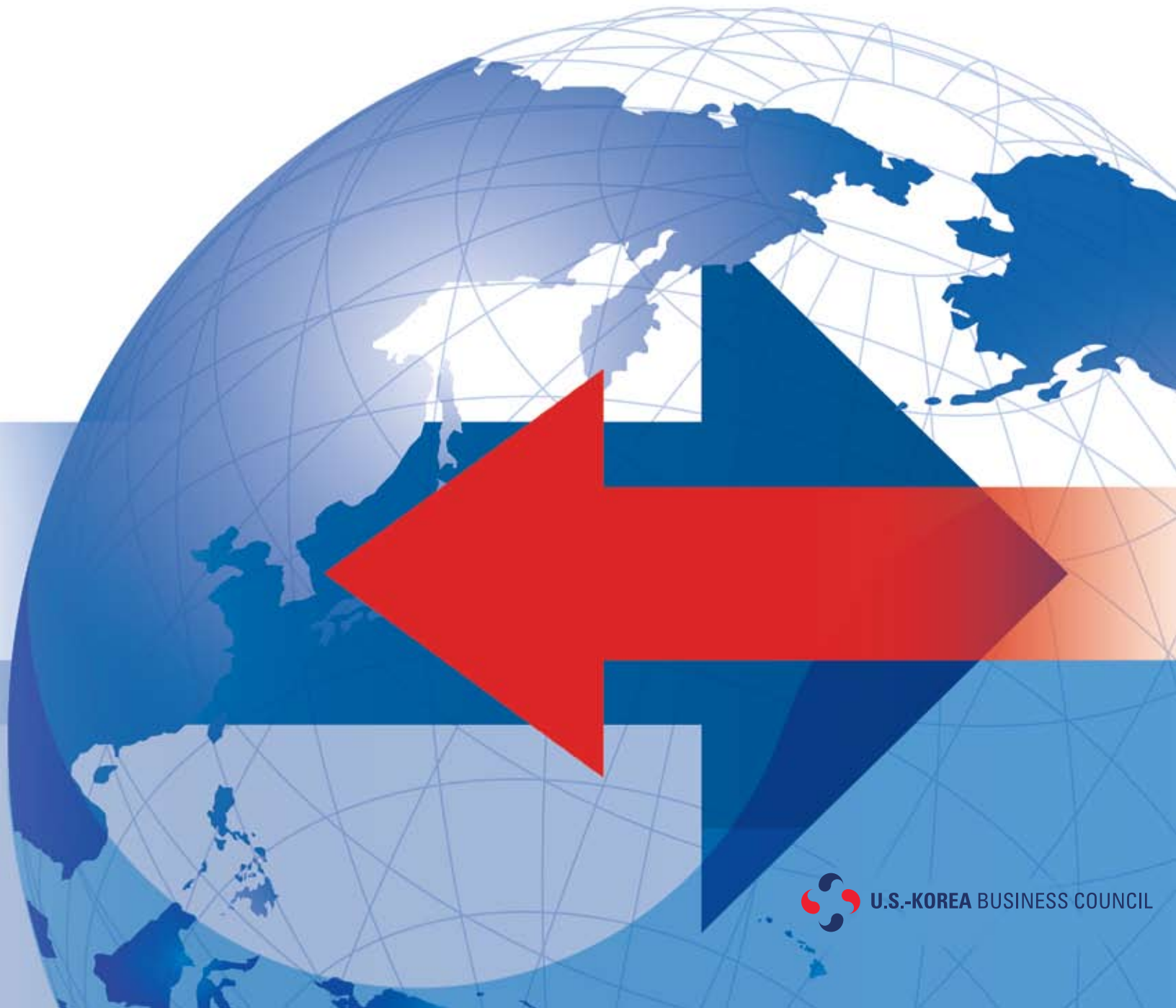


# The U.S.-Korea Free Trade Agreement

Economic Opportunity, Strategic Imperative



U.S.-KOREA BUSINESS COUNCIL

**The views contained in this report are solely those of the U.S.-Korea Business Council and do not necessarily reflect the views of the Korea-U.S. Business Council, our counterpart organization in Korea.**

Report prepared by Sean Connell, Executive Director, U.S.-Korea Business Council.  
Robert C. Reis Jr. and Jeffrey Pardini contributed to this report.

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Order Information:

U.S.-Korea Business Council  
c/o U.S. Chamber of Commerce  
1615 H Street, NW  
Washington, DC 20062-2000  
Telephone: 202-463-5461

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# **The U.S.-Korea Free Trade Agreement**

Economic Opportunity, Strategic Imperative



## ABOUT THIS REPORT

The U.S.-Korea Free Trade Agreement (FTA) was signed on June 30, 2007. This report is intended to provide an overview of the benefits of the U.S.-Korea FTA for the U.S. economy and its importance for promoting broader U.S. foreign policy goals and economic competitiveness in Asia. It outlines new opportunities under the agreement for specific U.S. economic sectors and industries and explains how the agreement successfully addresses long-standing challenges to U.S. businesses in the Korean market.

This report reflects the U.S.-Korea Business Council's submission to the U.S. International Trade Commission on the potential economic impacts of the U.S.-Korea FTA and testimony submitted by the Council to the House Committee on Foreign Affairs about the foreign policy implications of the agreement.

## ABOUT THE U.S.-KOREA BUSINESS COUNCIL

The U.S.-Korea Business Council is the leading American business organization promoting a strong economic and political relationship between the United States and Korea. Founded in 1987, the Council is made up of senior executives representing U.S. companies from every major industry sector that are firmly committed to the Korean market. The Council advocates and supports policies that encourage the expansion of trade and investment between the United States and Korea. The U.S. Chamber of Commerce serves as secretariat of the Council.

More information on the U.S.-Korea Business Council is available at [www.uskoreacouncil.org](http://www.uskoreacouncil.org).



## ABOUT THE U.S.-KOREA FTA BUSINESS COALITION

The U.S.-Korea FTA Business Coalition is a broad-based group of U.S. companies, industry organizations, and trade associations working to secure the approval of the U.S.-Korea FTA by the U.S. Congress. The U.S.-Korea Business Council serves as the Coalition's secretariat.

More information on the U.S.-Korea FTA Business Coalition is available at [www.uskoreafta.org](http://www.uskoreafta.org).



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# THE U.S.-KOREA FREE TRADE AGREEMENT: ECONOMIC OPPORTUNITY, STRATEGIC IMPERATIVE

**T**he U.S.-Korea Free Trade Agreement (FTA), signed by the U.S. and Korean governments on June 30, 2007, is the most commercially significant U.S. trade deal in more than a decade. It will bring important economic benefits and opportunities to U.S. businesses, farmers, and workers by immediately opening new access for U.S. goods and services in Korea, one of the world's largest and most dynamic economies. By securing a more open and competitive Korean market, the U.S.-Korea FTA will boost U.S. exports to and investment in Korea—generating new jobs and economic growth in the United States.

However, the U.S.-Korea FTA has great significance beyond U.S. trade with Korea. By deepening our two countries' economic links, the agreement will bring new energy and vitality to the overall U.S.-Korea partnership—an alliance critical to regional and global security. And by giving U.S. businesses and farmers an advantage over global competitors in Korea's market, the agreement will ensure that the United States not only remains competitive in Korea but is a critical part of Asia's rapid market integration. It is a significant U.S. economic and foreign policy success.

**The U.S.-Korea FTA is an economic opportunity for American businesses, farmers, and workers and an imperative for U.S. competitiveness, leadership, and security.**

## AN ECONOMIC OPPORTUNITY

The U.S.-Korea FTA—by removing high tariffs and complex regulatory barriers in Korea—will give U.S. manufacturers, farmers, and service providers a fair and level playing field to compete and succeed in Korea. Expanded trade and investment between the United States and Korea will spur new growth and jobs. The U.S. International Trade Commission's (USITC) September 20, 2007 report on the economic effects and benefits of the U.S.-Korea FTA concluded that the U.S. GDP would grow by \$10.1 to \$11.9 billion if the agreement is fully implemented. In addition, the study projects that U.S. exports to Korea would increase by \$9.7 to \$10.9 billion under the FTA, with an additional boost to U.S. exports to other countries of \$4.8 to \$5.3 billion—and these figures do not include the great potential for the growth of U.S. services to Korea. In addition, studies by the Peterson Institute for International Economics, and the University of Michigan on the potential economic effects of the U.S.-Korea FTA have forecast that U.S. exports to Korea could increase between 49% and 54% under the agreement and that U.S. economic welfare could increase from \$13.7 billion to \$25 billion.

Korea, with its nearly \$1 trillion economy, is a large and growing market for U.S. goods and services:

- Korea is the seventh-largest U.S. trading partner in terms of two-way trade, which reached over \$82.3 billion in 2007. U.S. exports to Korea grew to \$34.7 billion in that year.
- U.S.-Korea trade grew by nearly \$25 billion, or 43%, between 2002 and 2007. During this same time period, U.S. exports to Korea increased more than \$12 billion, or 56%.
- The U.S. trade deficit with Korea has declined by more than 35% since 2004.

Korea is an important market for U.S. producers across every economic sector:

- The United States exported \$29 billion in manufactured products to Korea in 2007.
- Korea is the sixth-largest market worldwide for U.S. agricultural goods. U.S. agricultural exports to Korea totaled \$3.5 billion in 2007.

## Korea Profile

Population:	49 million
Size:	98,480 square miles
Capital:	Seoul
Government:	Republic
Independence:	August 15, 1945
Language:	Korean
Literacy:	97.9%

### Economy (2007)

GDP (purchasing power parity):	\$1.206 trillion
GDP growth rate:	4.9% (2007)
GDP per capita:	\$24,600
Unemployment rate:	3.2%
Inflation:	2.5%
Exports:	\$371.5 billion
Imports:	\$356.8 billion

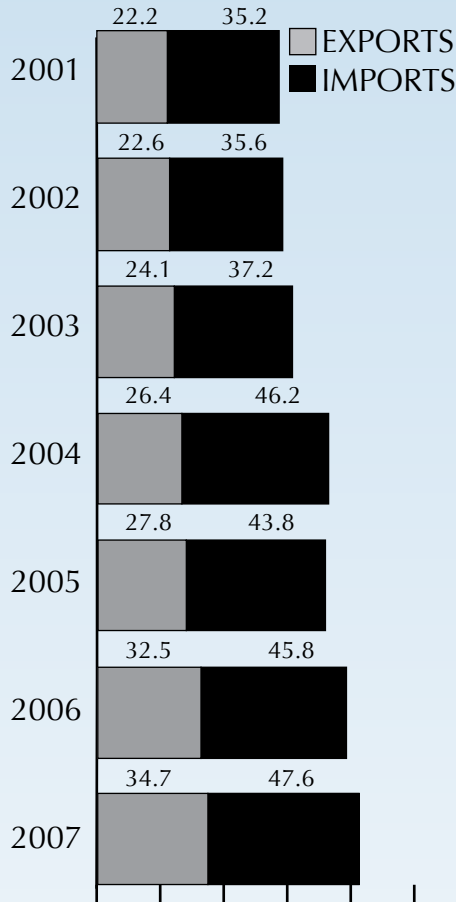
(Source: 2008 CIA World Fact Book)

## Did You Know ...

- Since 1994, Korea has averaged a 4.8% GDP growth rate.
- Korea is the world leader in household Internet penetration, at 94%.
- Korea's Busan and Gwangyang seaports are the world's 9th and 13th busiest seaports, respectively.
- Korea imports 60% to 70% of its yearly agricultural needs.

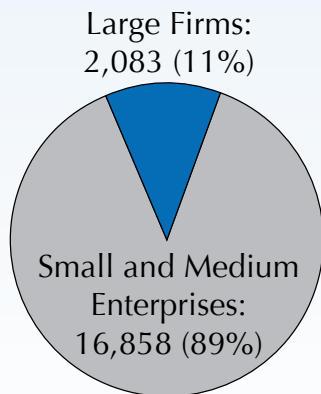
## U.S. Trade with South Korea (2001–2006)

All figures in USD billions



### U.S. SMEs accounted for 88% of all U.S. exports to Korea in 2005:

U.S. Exporters to Korea (2005)



(Source: U.S. Census Bureau)

- Korea is the second-largest market for U.S. services in Asia. U.S. cross-border exports of services to Korea totaled \$11.5 billion in 2006.
- Korea is the seventh-largest market for U.S. information technology (IT) products, exports of which to Korea reached \$8.9 billion in 2007.

U.S. small and medium-size companies are big players in U.S.-Korea trade:

- Eighty-nine percent of U.S. companies exporting products to Korea in 2005 were small and medium-size companies.
- These small and midsize companies exported \$9.5 billion worth of merchandise to Korea in 2005. This amount represented more than 32% of all U.S. exports to Korea that year.

### Leveling the Playing Field

The U.S.-Korea FTA is an unprecedented opportunity to level the playing field in Korea for American workers, farmers, and businesses. U.S. producers have long faced far higher tariffs in Korea than Korean producers face in the already open U.S. market. The FTA promotes fairness and boosts U.S. competitiveness by eliminating these barriers to U.S. goods and services:

- **Nearly 95% of bilateral trade in consumer and industrial products will become duty free within three years—and tariffs on almost all goods will be eliminated within 10 years.** Nonagricultural U.S. goods currently face an average applied tariff in Korea of 7%.
- **Nearly two-thirds of current U.S. agricultural exports to Korea will become duty free immediately.** U.S. agricultural products currently face an average applied tariff in Korea of 52%.

## Securing Open and Competitive Markets

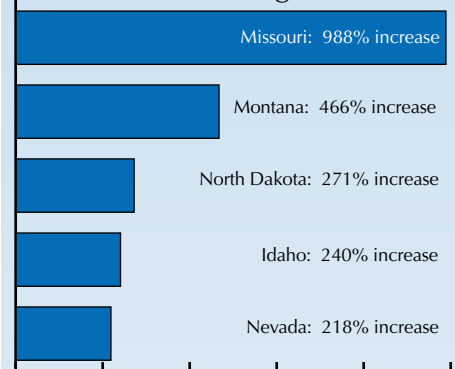
Korea's complex regulatory system and other nontariff market access barriers have limited opportunities for U.S. businesses and investors to compete and succeed in the Korean market. The U.S.-Korea FTA addresses these challenges with strong provisions and protections that open Korea's market, protect U.S. interests, and set the bar higher for future trade pacts:

- Korea will expand market access in financial services, telecommunications, broadcasting, express delivery, legal, and other major sectors.** U.S. companies currently face restrictions on investment and on their operations in these sectors.
- Korea will implement clear, consistent, and predictable regulatory and rulemaking procedures across all sectors of its economy.** These and other guarantees of transparent, fair, and open regulatory processes address one of the most costly challenges for U.S. businesses and farmers doing business in Korea.
- Korea will strengthen significantly its protection and enforcement of copyrights, trademarks, and intellectual property rights (IPR).** This will protect innovative U.S. products and ensure that the companies that create them can fairly compete in Korea's technology-savvy market.
- Korea will simplify and expedite customs procedures.** This will enable U.S. goods to reach Korean customers more quickly and with less red tape, facilitating increased trade and sales for U.S. exporters—especially small businesses.

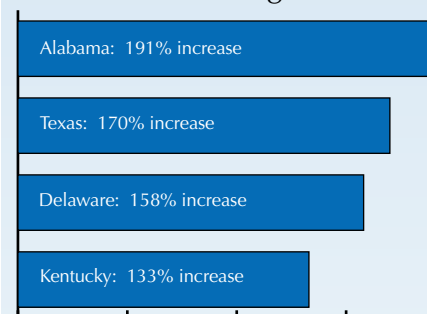
## Korea: A Growth Market for U.S. States

The following states have seen their exports to Korea increase significantly since 2002:

More than 200% growth:



More than 100% growth:

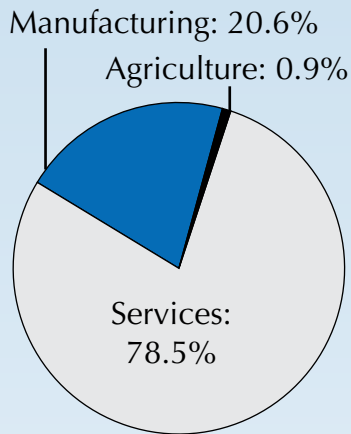


## Top Exporting U.S. States to Korea (2006)

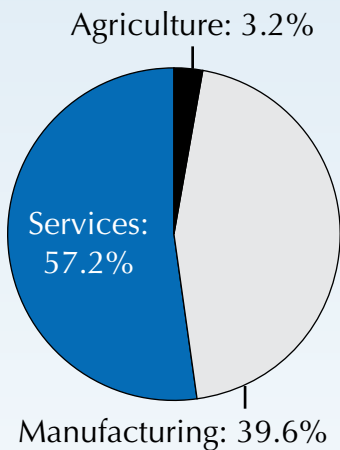
U.S. total exports	\$34.7 billion
California	\$7.4 billion
Texas	\$5.5 billion
Washington	\$3.0 billion
New York	\$1.6 billion
Missouri	\$1.3 billion
Oregon	\$1.3 billion
New Jersey	\$972.4 million
Louisiana	\$920.7 million
Massachusetts	\$821.3 million
Illinois	\$754.9 million
Alaska	\$702.9 million
Pennsylvania	\$659.8 million
Michigan	\$627.2 million

(Source: U.S. Department of Commerce)

## U.S. GDP Composition by Sector



## Korea GDP Composition by Sector



(Source: 2008 CIA World Fact Book)

## Opportunities for New Job Growth

Trade creates American jobs. The *2007 Economic Report of the President* says that U.S. companies engaged in international trade increased their employment by 9.8 million workers between 1993 and 2000. Studies by the U.S. Bureau of Economic Analysis have found that as U.S. firms expand their operations and investment abroad, they also increase their hiring and investment in the United States.

### Trade and investment with Korea already supports tens of thousands of American jobs across all sectors of the U.S. economy.

Expanding this trade and investment through the U.S.-Korea FTA will generate new jobs for American workers and growth opportunities for local communities:

- By removing trade barriers, the FTA will generate new demand in Korea for U.S. products and create a cascade of new jobs in the United States.
- U.S. exporters will need not only production workers but engineers, designers, and advertising and marketing specialists. The demand for truckers, railroad workers, airline employees, logistics specialists, and port operations workers will also grow. These new workers, in turn, will contribute to local economic growth.
- Increased imports from Korea to the United States resulting from the FTA will create new American jobs at ports, in transportation and logistics, warehousing, advertising, retail sales, and other sectors.
- Strong new investor protections and regulatory reforms in the FTA will attract new U.S. investment to Korea. The returns from this investment will enable U.S. companies to grow, innovate, and generate more skilled, high-wage jobs in the United States.

**Significantly, Korean companies are rapidly expanding their investment in the United States and have created tens of thousands of American jobs** in manufacturing and in dealerships and distribution and supplier networks across the country. These jobs contribute to economic growth in local communities, generating jobs in services and other sectors. Over the next few years, Korean companies are scheduled to open major new manufacturing facilities in the United States, which will employ thousands of American workers.

## A STRATEGIC IMPERATIVE

The U.S.-Korea FTA has significant implications for broader U.S. political and economic goals on the Korean Peninsula and in Asia. It will strengthen the United States' partnership with Korea, a critical strategic ally. It will give U.S. exporters a preferential position in Korea's market at a time when Korea and other Asian countries are rapidly integrating their economies through bilateral trade agreements and the cross-border investment of billions of dollars each year—especially in China. For these reasons, the FTA is a strategic imperative for the United States in promoting American competitiveness and leadership, as well as regional and global security.

### Strengthening a Critical Partnership

The U.S.-Korea FTA will reinforce the U.S.-Korea political and security partnership:

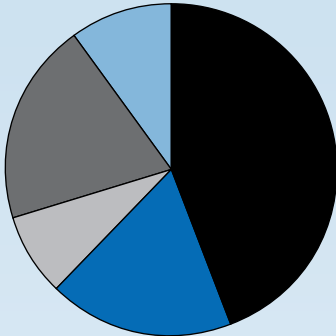
- **Korea is a close and long-standing U.S. ally and one of our strongest partners in advancing regional and global security.** The U.S.-Korea security alliance has contributed to peace and stability in Asia since 1953, and U.S. and Korean forces have stood together in Vietnam, Somalia, Afghanistan, and Iraq. Currently, more than 27,000 members of the U.S. military serve side by side with the Korean armed forces to protect peace and prosperity on the Korean Peninsula and in Asia.
- **The FTA is an important step in updating our countries' critical partnership.** U.S.-Korea ties have long focused on defense and security. By expanding trade and investment, the FTA deepens the economic links between our two countries and broadens our relationship. It reaffirms to the Korean people that the United States is a strong and reliable partner.
- **The FTA is a powerful display of unity between the United States and Korea as our two countries work together to address regional security challenges and promote shared strategic goals**—including removing North Korea's nuclear threat, maintaining regional stability, and guaranteeing a prosperous and secure Asia.

“This day is a milestone in the enduring economic and security alliance between the United States and Korea. Today we look ahead to building on a half century of friendship and cooperation to promote the greater prosperity of the people of both our nations.”

- U.S. Trade Representative Susan Schwab, June 30, 2007

## U.S. Export Market Share in Korea

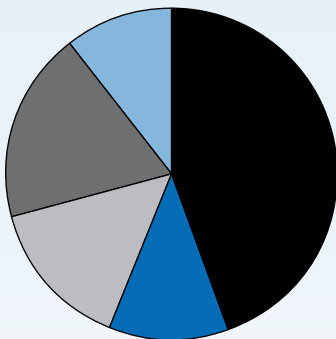
2000



- United States: 18.2%
- China: 8%
- Japan: 19.8%
- European Union: 9.8%
- Rest of the world: 44.2%

(Source: Korea International Trade Association)

2006



- United States: 11.6%
- China: 15.9%
- Japan: 18%
- European Union: 10.2%
- Rest of the world: 44.3%

(Source: European Commission)

- **The FTA contributes to Korea's efforts to reform its economy and promote its global competitiveness.** Korea's tremendous economic growth and prosperity testify to the benefits of market economies and global trade. Advancing reform in Korea benefits both U.S. and Korean businesses and offers a model for other Asian economies to emulate.

## Promoting U.S. Competitiveness and Shaping the Regional Trade Agenda

The U.S.-Korea FTA not only promotes the competitiveness of U.S. producers in Korea but also establishes new benchmarks for free trade and open markets—shaping the future trade agenda in Asia:

- **The FTA gives U.S. businesses and farmers a competitive advantage in Korea's market.** Strong competition from other exporting countries has reduced sales of U.S. products in Korea in recent years. China has overtaken the United States as Korea's largest trading partner.
- **The FTA covers trade across all economic sectors.** Other trade agreements negotiated by Korea and our global competitors exclude many agricultural products, services, and other highly politically sensitive sectors. The strong protections and rules in the FTA offer a model for addressing these issues in trade negotiations.

## THE COST OF INACTION

**T**he timing of the U.S.-Korea FTA is crucial. Korea is rapidly expanding its network of trade agreements with other countries. It launched FTA negotiations with the European Union in May 2007, is continuing negotiations with Canada and Mexico, and is studying possible FTA talks with China.

If the United States misses the current opportunity to complete the U.S.-Korea FTA, there will be considerable setbacks to American economic competitiveness and strategic goals:

- U.S. businesses and farmers would not only lose new access to the Korean market but also could lose market share as Korea concludes other bilateral trade agreements with global competitors.
- There would be an adverse effect on the overall U.S.-Korea strategic partnership at a critical moment in our countries' efforts to address challenges to security and stability on the Korean Peninsula and in Asia.
- It would undermine U.S. leadership and credibility in promoting open markets and fair competition not only in Korea but globally, set back vital U.S. geostrategic goals, and undercut U.S. global economic competitiveness.

The U.S.-Korea FTA is too important an opportunity for the United States to pass up. Timely approval by the U.S. Congress of this agreement will enable American businesses, farmers, and workers to reap its full benefits and will ensure continued American leadership in setting the agenda for free and fair trade bilaterally, regionally, and globally.

“Our trade agreement is an opportunity to help a key democratic ally in a rapidly changing Asia to lock in economic reform and the rule of law. It is an opportunity for the U.S. to anchor trans-Pacific visions for the 21st century.”

- U.S. Secretary of State Condoleezza Rice, May 9, 2007

“The free trade deal with the U.S., if ratified, would make South Korea the most open market in the world. We depend on exports and trade for our survival. We have to open up to foreign competition; otherwise our economy would be constrained.”

- Korean President Roh Moo-hyun, April 2, 2007

## SERVICES

**E**ight out of 10 U.S. workers are employed in the services sector, and services now account for more than half of Korea's economic output. U.S. cross-border exports of services to Korea reached \$10.2 billion in 2006. Korea holds significant growth potential for U.S. services companies, which have faced significant barriers to trade and investment there.

The U.S.-Korea FTA provides U.S. companies significant benefits and opportunities across all services sectors in Korea, including financial services, telecommunications, legal services, accounting, computer and related services, media and broadcasting, management consulting, and express delivery. Some benefits that all U.S. services companies will enjoy are listed below. (Benefits to financial services and telecommunications are taken up in following sections.)

### Key Benefits in the U.S.-Korea FTA

- Improves transparency and predictability in Korea's regulatory and rulemaking procedures, removing costly impediments for U.S. services companies doing business in Korea.
- Korea has committed itself not to introduce new restrictions in its services sector unless provided for in the agreement.
- Applies to the United States any future trade concessions and benefits given by Korea to other trading partner countries, as well as any trade liberalization efforts that it undertakes unilaterally.
- Opens new sectors of Korea's market to U.S. services suppliers, including Korea's legal services sector, and liberalizes Korea's health care and education services sectors—giving U.S. businesses new opportunities in these areas.

### *Audiovisual Services:*

- Allows, within three years, 100% foreign ownership of program providers by U.S. companies.
- Locks in Korea's film screen quota (the number of days Korean cinemas are required to show Korean films) at 73 days, giving Korean audiences more opportunities to view U.S. films.
- Reduces Korea's television content quotas on the broadcast of foreign animation programs and films—providing U.S. entertainment companies new access to Korean audiences.
- Allows U.S. programmers to invest and transmit content over digital platforms in Korea, including Internet Protocol Television (IPTV)—opening up substantial opportunities for U.S. interests in this emerging market sector.

### *Express Delivery Services:*

- Includes Korea's recognition of express delivery as a distinct services sector and Korea's commitment to ensure fair and equal access by U.S. express delivery services companies to its market. Korea also has charted future reform of its express delivery system.

## FINANCIAL SERVICES

**F**inancial services is the third-largest sector of the U.S. economy and accounts for 8% of U.S. GDP. Korea is a significant market for U.S. financial services companies. It is the world's eighth-largest insurance market, with a total premium value of more than \$65 billion, and it is the largest insurance and security market subject to a U.S. free trade agreement.

The U.S.-Korea FTA creates important new opportunities for U.S. financial services companies by removing significant trade barriers in Korea to the delivery of financial services. Combined with ongoing reform efforts by the Korean government, the FTA will strengthen Korea's economy and establish a more competitive Korean financial market. This should increase U.S. financial services exports to Korea and attract long-term U.S. investment in the Korean market, with the potential to generate new jobs in the United States as these operations in Korea grow.

### Key Benefits in the U.S.-Korea FTA

- Gives U.S. financial services companies the right to full ownership of a financial institution in Korea, including the establishment of branch banks, insurance companies, and asset managers.
- Allows U.S. companies to supply financial services on a cross-border basis, including portfolio management services for investment funds.
- Improves transparency and predictability in Korea's regulatory procedures in financial services. It allows U.S. companies to engage in financial businesses unless they are specifically prohibited by Korean law; requires regulators to give advance notice of proposed regulations and adequate opportunities for companies to comment on them; and requires regulators to put in writing and make public all administrative guidance to financial services companies.
- Includes commitments by Korea to undertake other regulatory reforms to make its financial services market more open and competitive.
- Promotes a fair and competitive market in Korea for U.S. insurers through measures that will help level the playing field between private insurers on the one hand and Korea Post and quasi-governmental cooperatives on the other. Korea Post and the cooperatives have unfair advantages over U.S. and Korean private insurers in Korea's insurance market.

## **INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS**

**K**orea is a global leader in information technology (IT) and telecommunications. It boasts the world's highest broadband penetration rate and is a leading source of cutting-edge technology in these sectors. Korea is the sixth-largest export market for U.S. high-tech goods. Korea's imports of U.S. high-tech products reached \$8.9 billion in 2007 and Korea's market holds strong future growth potential for U.S. companies in this sector.

The U.S.-Korea FTA gives U.S. information technology and telecommunications companies a more competitive playing field in Korea by eliminating high tariffs and unfair regulations and standards that have made it difficult for U.S. companies to introduce new products and technologies there. This creates new opportunities for U.S. companies to invest in Korea and expand their businesses.

### **Key Benefits in the U.S.-Korea FTA**

#### ***Information Technology and Telecommunications:***

- Eliminates Korean tariffs on almost all U.S. high-tech sector products immediately upon the agreement's entry into force.
- Eliminates nontariff barriers by including key provisions ensuring that Korean technology and telecommunications standards are determined by the market and consumer choice, rather than set by the government.
- Improves transparency in regulatory and rulemaking procedures by giving companies advance notice of proposed regulations and reasonable opportunities to comment on them.
- Allows U.S. companies to participate in the development of standards and technical regulations in Korea.
- Permits U.S. companies to own up to 100% of a telecommunications services operation in Korea. Currently, foreign ownership is limited to 49%.

- Gives U.S. telecommunications services operators nondiscriminatory access to Korea's basic telecommunications networks and services, including submarine cable stations.
- Provides safeguards ensuring a competitive market in Korea. These include commitments that Korean regulatory bodies will be independent from public telecommunication or technology services providers and will not have management roles or financial interests in them.

#### ***Electronic Commerce:***

- Gives all digital products—including software and audiovisual products—duty-free and nondiscriminatory treatment, whether they are sold on the Internet or in physical form.

# AGRICULTURE

**K**orea is the sixth-largest export market for U.S. farmers, ranchers, and food processors. The United States is Korea's largest supplier of agricultural goods, with U.S. exports to Korea totaling \$3.5 billion in 2007. In fact, U.S. farm exports to Korea have been growing rapidly despite high Korean tariffs on these products. With Korean incomes rising and Western food products becoming more popular among Korean consumers, Korea is a promising growth market for U.S. agricultural exporters. However, competition from other foreign exporters in Korea is getting stronger and has reduced U.S. market share in recent years.

The U.S.-Korea FTA gives U.S. farmers, ranchers, and food processors a breakthrough opportunity to expand sales in Korea and to compete against other global suppliers. It eliminates nearly all Korean tariffs on U.S. agricultural products—some immediately, others over time—and removes other barriers to U.S. farm goods in Korea's market. The FTA stands to significantly increase U.S. agriculture exports to Korea. The American Farm Bureau Federation has estimated that once the FTA has gone into effect, annual U.S. farm exports to Korea will be \$1.6 billion more than they are at present.

## Key Benefits in the U.S.-Korea FTA

- Immediately eliminates Korean tariffs on nearly two-thirds of U.S. agricultural exports to Korea.
- Removes over 15 years more than 90% of all Korean tariffs on major U.S. agricultural exports including beef, pork, poultry, oranges, soybeans, dairy products, and processed food products.
- Includes commitments by Korea to follow animal health, plant health, and food safety measures that are science based and developed in a transparent manner. Korea has previously used sanitary and phytosanitary measures to keep U.S. agricultural imports out.

**Beef:** Korea was historically the third-largest export market for U.S. beef exports, which totaled \$815 million in 2003 before Korea banned U.S. beef later that year following the discovery of a single case of mad cow disease in the United States. The American Farm Bureau Federation has forecasted that U.S. beef exports to Korea could increase by as much as \$265 million per year under the FTA.

## The following agricultural goods will enter Korea duty free immediately:

Frozen orange juice concentrate  
Wheat for milling  
Cotton  
Almonds  
Wine  
Grape juice  
Frozen french fries  
Fresh asparagus  
Hides and skins  
Corn for feed  
Soybeans for crushing  
Pistachios  
Raisins  
Fresh cherries  
Bourbon whisky  
Pet foods

## The duties on the following products will decline to zero over time:

Sweet corn	5 years
Carrots	5 years
Pulses (peas, beans, other legumes)	5 years
Alfalfa hay and cubes	5 years
Shelled walnuts	6 years
Lentils	10 years
Frozen chicken leg cuts	10 years
Pork, all cuts	10 years
Frozen chicken breasts/wings	12 years
Beef and beef offal	15 years
In-shell walnuts	15 years
Fuji apples	20 years

(Source: USTR)

**Rice:** The U.S.-Korea FTA does not include new market access or reduced tariffs for U.S. rice, but it requires that Korea follow through with its WTO commitments to increase rice imports. The U.S. government has pledged to vigorously pursue the opening of Korea's rice market through the WTO.

**Below are the percentages of certain U.S. manufactured goods that will enter Korea duty free immediately:**

Aircraft and related equipment (83%)  
Agricultural equipment (100%)  
Auto parts (99%)  
Building products (45%)  
Chemicals (47%)  
Consumer goods (73%)  
Construction equipment (100%)  
Electrical/electronic equipment (93%)  
Environmental goods (79%)  
Furniture (100%)  
Footwear and leather products (100%)  
Infrastructure and machinery (48%)  
Lumber and wood (76%)  
Medical equipment (43%)  
Metals and ores (91%)  
Paper and paper products (100%)  
Scientific equipment (nearly 100%)  
Shipping and transportation (98%)  
Toys (100%)

**After 5 years, the following U.S. manufactured goods will enter Korea duty free:**

Aircraft and related equipment  
Auto parts  
Building products  
Consumer goods  
Metals and ores  
Scientific equipment  
Shipping and transportation

**After 10 years, the following U.S. manufactured goods will enter Korea duty free:**

Chemicals  
Electrical/electronic equipment  
Environmental goods  
Fish/fish products  
Infrastructure and machinery  
Lumber and wood  
Medical equipment

*(Source: U.S. Department of Commerce)*

## MANUFACTURING

**K**orea is an important and growing market for U.S. manufacturers, whose exports of consumer and industrial goods to Korea totaled \$29 billion in 2007. However, U.S. manufacturers face high tariffs in Korea, while Korean manufacturers already have duty-free access in the U.S. market for most of their products. Unique and nontransparent standards, testing, and certification procedures, as well as other regulatory barriers have made Korea a difficult country for U.S. manufacturers to enter and do business in.

The U.S.-Korea FTA boosts the competitiveness of U.S. manufacturers of all sizes in Korea and opens new opportunities in the Korean market by immediately eliminating tariffs and removing other challenging trade barriers. Increased U.S. exports of manufactured goods to Korea under the FTA will create new American jobs and reduce the trade imbalance between our two countries.

### Benefits in the U.S.-Korea FTA

- Eliminates 95% of tariffs on consumer and industrial goods within three years after the FTA enters into force.
- Gives U.S. manufacturers certainty that they can continue to export to Korea remanufactured goods such as medical equipment, machinery, and auto parts.
- Makes the development and implementation of technical regulations and related conformity assessment procedures in Korea more transparent and predictable—removing a costly impediment for U.S. companies.
- Strengthens opportunities for U.S. companies to participate in the development of standards and technical regulations in Korea.
- Secures strong new investment provisions that protect U.S. manufacturers.
- Creates strong new levels of protection from infringement and unfair commercial use of U.S. manufacturers' intellectual property, including patents and test data.
- Provides for national treatment, due process, and greater transparency in Korea's application and enforcement of its competition laws.

## AUTOMOBILES

**K**orea, a major auto manufacturing and exporting country, has long been a challenging market for the U.S. auto industry to penetrate. Korea has the lowest market share for imported autos of any industrialized country, and it has used high tariffs, autos-specific taxes, unique and arbitrary auto standards and certification processes, and other rules to effectively close its market to foreign competition. The United States negotiated two bilateral auto agreements with Korea in the 1990s that addressed some of these challenges, but they did not lead to an open automotive market in Korea. The U.S.-Korea FTA sets out a binding set of commitments by Korea that address many of these barriers and go further than any other agreement in establishing a level playing field for U.S. autos in Korea.

### Key Benefits in the U.S.-Korea FTA

- Immediately eliminates Korea's 8% tariff on U.S. vehicles.
- Eliminates discriminatory aspects of Korean auto taxes on the basis of engine size that disproportionately affect U.S. autos and ensures that Korea will not impose any new engine displacement taxes.
- Ensures that Korea will not adopt technical regulations that create unnecessary barriers to trade and will cooperate with the United States to harmonize standards.
- Creates an autos-specific expedited dispute settlement mechanism, under which the U.S. tariffs on Korean cars—about \$220 million in 2006—will snap back into place if Korea violates the FTA's auto provisions or if expected FTA benefits are nullified or impaired.
- Establishes an autos-specific working group to review and discuss potential new Korean regulations affecting U.S. auto manufacturers and to address future regulatory issues in Korea that may arise.
- In response to U.S. automakers' requests, addresses several specific nontariff barriers including vehicle emissions and safety standards.

## **PHARMACEUTICALS AND MEDICAL DEVICES**

**K**orea is ranked in the world's top 12 pharmaceutical markets, with annual sales of about \$7.9 billion. Korea's pharmaceutical reimbursement system, in which Korea's National Health Insurance (NHI) system is effectively a single purchaser, has, in practice, lacked transparency and clear and fair criteria to determine the value of innovative biomedical products. This has created significant barriers in Korea to U.S. manufacturers of these products.

The U.S.-Korea FTA makes progress on this and other challenging market access barriers in the Korean market for U.S. pharmaceutical and medical device manufacturers. Early and effective implementation of these commitments under the FTA will ensure that U.S. manufacturers in this sector will benefit from the agreement.

### **Key Benefits in the U.S.-Korea FTA**

- Strengthens intellectual property protections in Korea, which will increase Korean patients' access to innovative U.S. medicines.
- Includes agreed general principles that acknowledge the importance of adequate access to pharmaceuticals, economic incentives for the development of pharmaceuticals, and government support for R&D and intellectual property protection.
- Includes a statement that rules for pricing and reimbursement must be fair, reasonable and non-discriminatory and must recognize the value of patented products.
- Promotes transparency through provisions that ensure that stakeholders can participate in the development of rules governing the pharmaceutical sector, and provisions for an independent review mechanism.
- Includes an article on ethical business practices that requires both countries to prohibit improper inducements by any pharmaceutical companies to healthcare professionals and institutions.
- Establishes a Medicines and Medical Devices Committee that will monitor and support the implementation of the FTA chapter on Pharmaceutical and Medical Devices.

### INVESTMENT

The United States is the largest single-country source of foreign direct investment in Korea, the stock of which totaled \$36 billion in 2005. Korean investment in the United States is also growing, reaching \$8.6 billion in 2006. These investment flows benefit both economies and create economic growth. Korea has significantly opened its market to foreign investment in recent years and has made important regulatory, labor, and other reforms to attract investors and promote its goal of becoming a regional hub in Northeast Asia.

The U.S.-Korea FTA includes a strong investment chapter with important protections for U.S. investors in Korea. These protections will help promote more two-way investment between the United States and Korea, which, in turn, will generate new jobs and contribute to economic development in both countries.

#### Key Benefits in the U.S.-Korea FTA

- Secures strong new investment provisions in Korea that protect U.S. investors by guaranteeing fair and equitable treatment, national treatment, and most-favored-nation treatment.
- Creates a binding and transparent investor-state dispute settlement procedure.
- Eliminates performance requirements for investors.
- Requires compensation for investors in the event of a direct or indirect expropriation of property.
- Permits ownership by U.S. companies in Korean market sectors where investment is currently restricted, including the audiovisual and broadcasting sectors.

### INTELLECTUAL PROPERTY RIGHTS

Strong IPR protections and enforcement are critical for encouraging the innovation and creativity essential to future U.S. economic growth and global competitiveness. Korea is a large and growing export market for U.S. copyright-based goods and services, including technology, information, films, music, publishing, and entertainment software. However, U.S. companies face severe challenges from counterfeiting, patent infringement, and online piracy in Korea. This not only hurts U.S. companies in copyright-based industries—which employ millions of high-skilled U.S. workers—but can also put Korean public safety and health at risk.

The U.S.-Korea FTA features some of the strongest IPR protections and enforcement rules ever included in a U.S. trade agreement. These build upon the Korean government's active efforts to combat counterfeiting and piracy and give it powerful tools to effectively tackle IPR violators. The FTA will ensure that U.S. companies can compete fairly in Korea, deters theft of ideas by counterfeiters, and sets a powerful precedent for IPR protection and enforcement for other major Asian markets.

**Key Benefits in the U.S.-Korea FTA**

- Strengthens protection for intellectual property, including software, music, film, videos, and text.
- Secures Korea's commitment to fully implement the World Intellectual Property Organization (WIPO) Copyright Treaty and Performances and Phonograms Treaty—ensuring that Korea's IPR protections are up to par with global standards.
- Commits the Korean government to use legitimate computer software.
- Strengthens Korea's enforcement against Internet online piracy and holds liable those who profit from unauthorized downloading.
- Establishes penalties for end-user IPR piracy, including holding Internet Service Providers (ISPs) liable for copyright infringement.
- Requires the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce them.
- Includes new standards protecting IPR for emerging technologies.
- Deters IPR violators from shipping counterfeit products through Korean ports and free trade zones through new customs enforcement rules.
- Protects patents and test data from infringement and unfair commercial use, especially for pharmaceutical products.
- Requires Korea to implement a patent linkage system that will prevent marketing approval of infringing products.

## COMPETITION POLICY

**T**he U.S.-Korea FTA includes strong competition policy provisions that will promote greater fairness and transparency for U.S. companies in Korea. These will enhance the ability of U.S. companies to do business in and compete in the Korean market, particularly in new industries such as biotechnology, telecommunications, IT, and e-commerce.

**Key Benefits in the U.S.-Korea FTA**

- Secures strong provisions on national treatment and due process and on Korea's commitment to enforce competition law in a manner that promotes consumer welfare and economic efficiency.
- Ensures greater transparency in competition policy and enforcement in Korea, both in applying competition law to particular sectors and in investigating specific transactions or conduct.
- Facilitates the efficient market-based resolution of antitrust investigations.

# STANDARDS AND TECHNICAL BARRIERS TO TRADE

**K**orean standards-setting, testing, and certification procedures have impeded U.S. companies from selling their products in Korea. The U.S.-Korea FTA makes progress in eliminating these barriers, and this will make Korea a fairer market for U.S. companies to compete in and offer their goods and services to Korean customers.

## Key Benefits in the U.S.-Korea FTA

- Makes the development and implementation of technical regulations and related conformity assessment procedures in Korea more transparent and predictable. Government agencies will give companies advance notice of proposed regulations and reasonable opportunities to comment on them and will publish final regulations with responses to comments received from companies and an explanation of changes made.
- Strengthens opportunities for U.S. companies to participate in the development of standards and technical regulations in Korea.
- Requires Korea to promote the use of international standards that are consensus based.
- Gives national treatment to U.S. testing and certification bodies where the Korean government allows nongovernmental bodies to perform procedures for compliance with technical regulations.
- Provides national treatment when U.S. products are being tested and certified in Korea.
- Establishes a bilateral committee to monitor implementation and promote cooperation on technical barriers to trade.

# GOVERNMENT PROCUREMENT

**K**orea's government procurement market accounts for about 12% of Korea's GDP—making it an attractive market for U.S. manufacturers and suppliers of all sizes. The U.S.-Korea FTA creates important new opportunities for U.S. companies to do business in Korea in this sector.

## Key Benefits in the U.S.-Korea FTA

- Gives U.S. suppliers new access to Korean government entities that are not covered under other agreements, including the WTO Agreement on Government Procurement.
- Creates a working group on government procurement that will take up matters such as IT-related government procurement issues.
- Expands the number of procurements to which U.S. suppliers will be ensured nondiscriminatory access by reducing by half the threshold value of covered procurements.

## **CUSTOMS**

**K**orea's customs procedures—including onerous inspection requirements and nontransparent customs classifications—have been barriers for U.S. exporters to Korea that raise the costs of doing business there. The U.S.-Korea FTA, by simplifying and expediting Korean customs procedures, will make Korea a more accessible and affordable market for U.S. exporters—especially small businesses—and will help them get their products to Korean customers more quickly and cheaply.

### Key Benefits in the U.S.-Korea FTA

- Simplifies customs procedures between the United States and Korea.
- Facilitates customs clearance by establishing a targeted window of no more than four hours for clearance of most express shipments. This is critical for U.S. express delivery carriers to operate efficiently.
- Speeds up delivery by allowing for advance electronic submission and processing of information before goods arrive at the point of entry and for goods to be released upon arrival—saving U.S. exporters time and money.
- Ensures transparency in Korean customs laws and regulations by requiring advance notice of proposed regulatory changes on customs matters and opportunities for companies to comment on them before they are implemented.
- Gives U.S. importers, exporters, and producers the ability to obtain binding advance rulings from customs authorities on tariff classification and the application of customs valuation criteria and other matters.

## OTHER ISSUES IN THE U.S.-KOREA FTA

### LABOR

- **The U.S.-Korea FTA includes all of the labor protections specified in the U.S. Congress' Bipartisan Agreement on Trade Policy.**

Korean laws guaranteeing labor rights are recognized as strong by the Organization for Economic Cooperation and Development (OECD) and other international organizations. In fact, in June 2007, the OECD officially acknowledged the progress achieved by Korea related to labor reform, and in recognition of this progress it announced that OECD monitoring of labor laws and industrial relations in Korea would end immediately. Under the U.S.-Korea FTA, Korea reaffirmed its obligation as a member of the International Labor Organization (ILO) to ensure that its labor laws provide for labor standards consistent with internationally recognized labor rights, and it agreed to other commitments that protect and promote workers' rights. Korea agreed to include in the FTA reinforced commitments on labor protections and its commitment to adopt, maintain, and enforce the four core internationally recognized labor principles from ILO's Declaration on Fundamental Principles and Rights at Work in a way that is fully consistent with the trade policy agreement made by the U.S. Congress and the Bush administration on May 10, 2007.

### ENVIRONMENT

- **The U.S.-Korea FTA includes all of the environment provisions specified in the U.S. Congress' Bipartisan Agreement on Trade Policy.**

Korean environmental protection laws are strong, and Korea is a signatory to major multilateral agreements on the environment. Under the U.S.-Korea FTA, Korea reaffirmed its obligations to effectively enforce its domestic environmental laws—which can also be enforced under the FTA's dispute settlement procedures—and to establish high levels of environmental protection. Korea in the FTA reaffirmed its environmental protection commitments in a way that is fully consistent with the trade policy agreement made by the U.S. Congress and the Bush administration on May 10, 2007.

### KAESONG INDUSTRIAL COMPLEX AND OUTWARD PROCESSING ZONES

- **Products manufactured in Korea's Kaesong Industrial Complex are *not* included under the U.S.-Korea FTA.**

The Kaesong Industrial Complex is an industrial park located in North Korea just across the Demilitarized Zone (DMZ) from South Korea. South Korean companies have established in the complex facilities that employ North Korean workers.

#### **The U.S.-Korea FTA does not apply to goods manufactured in the Kaesong Industrial Complex.**

During U.S.-Korea FTA negotiations, Korean officials pushed the U.S. government for duty-free status for goods produced in Kaesong under the FTA. The U.S. government rejected this request. The FTA does create a Committee on Outward Processing Zones on the Korean Peninsula. This committee will meet once a year to consider whether conditions on the Korean Peninsula are appropriate for the establishment and development of any outward processing zones. It will determine the location of such zones and establish criteria that must be met before products made in any such zones can be considered eligible for coverage under the FTA. **Any recommendations made by the committee to amend the FTA to include an outward processing zone must be approved both by the U.S. Congress and the Korean National Assembly.**

## CONCLUSION

**The U.S.-Korea Free Trade Agreement is in the United States' national economic interest.** American economic growth, competitiveness, and prosperity are built on open markets for goods, services, and capital. The FTA removes obstacles to trade and investment with Korea, one of the world's largest markets and one of our most important trading partners. At a time of growing economic competition in Korea and in Asia, the FTA is a breakthrough opportunity for U.S. manufacturers, farmers, and services providers. By generating new growth and jobs all across America through increased trade and investment with Korea, the FTA will benefit the entire U.S. economy.

**The U.S.-Korea FTA is also in the United States' national strategic interest.** It reaffirms and strengthens our country's vital partnership with Korea at a time of changing dynamics and emerging trends that could challenge both our countries' goal of promoting a secure and stable Asia. And it will ensure that the United States remains competitive in Korea and in Asia as the region's economy grows and integrates.

**The U.S.-Korea FTA promotes U.S. competitiveness, leadership, and economic security at a critical time—and is too important an opportunity for the United States to let pass by.**





**U.S.-KOREA BUSINESS COUNCIL**

**U.S.-Korea Business Council  
c/o U.S. Chamber of Commerce  
1615 H Street, NW  
Washington, DC 20062  
[www.uskoreacouncil.org](http://www.uskoreacouncil.org)**

