

Executive Memorandum

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A Bumpy Road for the U.S.–ROK Free Trade Agreement

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After much anticipation, the United States and the Republic of Korea (ROK or South Korea) announced on February 4 the commencement of preliminary negotiations on a bilateral free trade agreement (FTA). This announcement was heralded on both sides of the Pacific as a milestone in elevating the relationship between the two allies to a new level. An FTA with South Korea would undoubtedly advance U.S. economic interests by expanding trade and investment opportunities in South Korea, the world's 11th largest economy, and contribute to America's global trade agenda. It would also greatly enhance U.S. strategic objectives in Northeast Asia by counterbalancing China's growing economic influence in the region and by providing comprehensive support to the U.S.–ROK alliance.

Yet, for all the potential gains from an FTA, a number of substantial political hurdles lie ahead. Unless leaders in both Washington and Seoul properly manage these challenges, the two allies will be risking not only a trade agreement, but also the future of the alliance due to the short-term bilateral tensions that can be expected to arise during negotiations.

The two governments intend to conclude the agreement by the end of the year, which is an important goal given that the U.S. President's trade

promotion authority expires in June 2007. Thus, Washington and Seoul should focus not just on the intricate details of trade practices, but also on preparing for the expected rise in tensions and the domestic political battles that will challenge the viability of the agreement.

Political Challenges. As in any negotiation, the differences, not the areas of agreement, will garner the most attention. To its credit, Seoul has demonstrated its willingness to open broad areas of trade to the United States, but President Roh Moo-hyun's administration will likely face fierce opposition at home from increasingly well-organized special interests that will oppose aspects of an

FTA. In such a vibrant democracy with a citizenry reveling in its recently earned public voice, the government needs to manage domestic political pressures rather than fall victim to their whims. South Korea's FTA with Chile, which was ratified only after more than a year of intense political wrangling, is a warning of the immense pressures awaiting the Roh government.

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- A U.S.–South Korea FTA would significantly benefit both economies and enhance the alliance.
 - If the leaders of both countries do not manage tensions and the domestic political battles that will arise during the negotiations, they risk permanently damaging the alliance.
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The Bush Administration will face similar domestic pressures. The Central American Free Trade Agreement (CAFTA) barely passed Congress in 2005, and the upcoming mid-term elections increase the potential of political grandstanding. Because the U.S.–ROK FTA surpasses CAFTA in economic and political terms, the political fight is likely to be that much greater.

Issues outside the technical scope of an FTA will also cause friction, such as whether or not products manufactured in the Gaesong Industrial Park—a special economic zone in North Korea being run by South Korean investments—should be included. Although minute in terms of total trade volume, this is a topic of high sensitivity in both Korea and the United States and highlights their starkly different stances toward North Korea.

Given the almost certain difficulties, both governments should commit early on to make every effort to manage the process as smoothly as possible. Presidents Bush and Roh are to be credited for their initiative in advancing a U.S.–ROK FTA, which, if successful, will be critical in setting the bilateral relationship on the right track.

What the U.S. Should Do. To ensure a positive outcome, the Bush Administration should:

- **Immediately reach out to the business community and key congressional leaders** to energize support for an FTA. Given the short timeframe available for completion of the agreement, the Bush Administration must generate a broad base of support sooner rather than later.
- **Quickly launch strong public diplomacy campaigns** in both South Korea and the United States to explain the benefits of an FTA and alleviate concerns. The controversy over the ROK–Chile FTA indicates that South Korean political opposition to an FTA with the U.S. will be loud, vociferous, and expressed in “anti-American” terms. American leaders should be prepared to address these misplaced nationalist sentiments, and South Korean leaders should be equally prepared for any ensuing “anti-Korean” backlash in America. Emotional outbursts, if not managed well, could overshadow the legitimate

debate over substantive issues and permanently sour the relationship.

- **Continue to improve the alliance** through ongoing strategic dialogue initiatives. The alliance, sealed by American and Korean blood shed together more than a half-century ago in defense of South Korea, has long served as a fundamental pillar of the bilateral relationship. An FTA will undoubtedly improve the relationship by enhancing economic stability and prosperity for both partners. Yet an FTA alone cannot sustain the alliance unless the two countries’ current differences, such as their policies toward North Korea, are addressed jointly and constructively.
- **Consider admitting the ROK to the U.S. Visa Waiver Program.** It is U.S. policy to separate immigration issues from trade negotiations. Nevertheless, Korea’s current status of non-inclusion is clearly one of the most troublesome issues plaguing the bilateral relationship. Moreover, the economic advantages of including the ROK in the Visa Waiver Program would be tremendous and would complement the benefits derived from an FTA. Freer movement of goods, capital, and services should be synchronized with freer movement of citizens between the two countries.

Conclusion. A U.S.–ROK FTA should not be seen as an antidote to alliance tensions that have recently arisen, particularly over managing threats from North Korea and the alliance’s role in regional security. Nor will it address the root causes of growing South Korean dissatisfaction with the United States and its security policies. Indeed, FTA negotiations will likely magnify “anti-American” sentiments in the short run and unleash a backlash in America.

The FTA, however, presents a unique opportunity for both countries to commit to a new and more meaningful level of cooperation that will be of profound mutual benefit and enhance the bilateral relationship in the long term. Without question, an FTA is a political risk worthy of significant American and South Korean effort.

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