

# Web Memo



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## Round One of the U.S.-ROK FTA Talks Sails Through

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The United States and the Republic of Korea (ROK) took an important step forward last week to strengthen their ties and promote prosperity in the two nations. The successful completion of the first round of negotiations for the US-ROK Free Trade Agreement (FTA) marks the beginning of a process that could culminate in the largest U.S. trade deal since the North American Free Trade Agreement (NAFTA). If completed, the agreement would be one of the most significant developments in U.S.-South Korean relations since the two countries entered into a military alliance in 1953. Based on last week's negotiations, there is every reason to be optimistic about the prospects of the U.S.-ROK FTA.

The greatest achievement of the first round is the establishment of a strong momentum that will be critical for completing the negotiations within the ambitious time-frame established. Both sides hope to sign a deal by early next year, before President Bush's Trade Promotion Authority expires on July 1, 2007. The next round of negotiations will begin in Seoul on July 10, with additional rounds tentatively scheduled for early September, October, and early December.

Although both sides were careful to emphasize that difficult issues remain to be resolved, significant progress was made last week. The goal of the first round was to reach a general consensus on the

FTA, and last week's progress included drawing up language for 11 of the 15 areas addressed, including e-commerce, telecommunications, financial services, trademark protection, trade competition, and labor. Among the remaining topics, however, are agriculture, textiles, and automobiles—all highly sensitive and politically contentious.

While the first round exceeded both sides' expectations, challenges lie ahead in the mechanics of the negotiations and the economic and political stakes involved. Each negotiating team is made up of nearly 150 officials, divided into groups for 17 sectors. In addition, two working groups are dedicated solely to the automotive and pharmaceutical and medical devices sectors, a unique feature of this FTA process. These arrangements are intended to ease dialogue over very difficult issues—a smart move given that both sides are among the toughest trade negotiators in the world.

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Both governments are committed to the belief that tearing down barriers to trade and investment is good for economic growth and prosperity. The economic fruits of an FTA would be significant for both the United States and Korea. For American consumers, a free trade deal would lower U.S. tariffs and thus lead to cheaper prices on a wide array of goods, including high-tech products. Moreover, U.S. producers would benefit from being able to compete in the Korean economy on an even playing field with domestic firms.

South Korean consumers will benefit from the accelerated restructuring of domestic financial markets. The FTA would also strengthen corporate and financial transparency in Korea, which will greatly increase the level of economic freedom in the economy. Koreans will also benefit from greatly reduced tariffs. On average, the South Korean market is currently more protected than the U.S. market. South Korean tariffs for industrial and consumer goods average 11.2 percent, compared to 3.7 in the United States. The difference is even greater in the agricultural sector, where South Korean tariffs average 52 percent, more than four times the U.S. level of 12 percent. The FTA would reduce bilateral duties on both sides to zero.

By achieving an agreement of such economic magnitude, the two countries would serve as an example to two economic giants in the region, Japan and China. A U.S.-ROK FTA would not only raise the level of competitive standards in the region, but also put pressure on these countries to

follow suit. An FTA could also create momentum for the troubled Doha round of the World Trade Organization.

The geo-political ramifications of a successful FTA may be less tangible, but they may be more profound. As the U.S. Ambassador to the Republic of Korea, Alexander Vershbow, has observed, the U.S.-ROK relationship has been lacking an institutional framework for bilateral ties. An FTA would increase the responsibilities and mutual obligations of both sides in a manner similar to how the Mutual Defense Treaty influences their security relationship. The FTA would also allow the United States to extend its long-term presence and leadership role in Northeast Asia beyond the realm of security and into the economic arena.

Following the conclusion of the first round of talks between the U.S. and North Korea, the Assistant U.S. Trade Representative leading the negotiations on the American side, Wendy Cutler, said that she “remains optimistic about our ability to conclude a high-quality, comprehensive agreement.” To be sure, serious challenges await both sides the next rounds, but the positive momentum established already will make reaching agreement easier. Both sides should be commended for this achievement.

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