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KORUS FTA: A Good Deal Unnecessarily Delayed

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After three years of needless delay, the South Korea–U.S. free trade agreement (KORUS FTA) may finally be submitted for legislative approval. On December 3, U.S. and South Korean negotiators produced a supplementary agreement that rewarded narrow U.S. special interests but still maintains the significant benefits of the original accord. While capitulating to U.S. auto demands may help President Obama with his political base, it concurrently makes South Korean ratification more difficult.

Touting the Benefits of KORUS. The Obama Administration will now need a full-court press to overcome lingering congressional resistance to FTAs. Over the weekend, the White House began highlighting the extensive benefits that the FTA would provide to U.S. American manufacturing and service industries. Ironically, these were the same talking points that advocates had long used to try to overcome foot-dragging by the Obama Administration and congressional leadership.

Except for the newly created auto provisions, *all* of the benefits highlighted by Administration officials come from the original agreement. The U.S. International Trade Commission estimates that the reduction of Korean tariffs and tariff-rate quotas on goods alone would add up to $12 billion annually to U.S. GDP and $10 billion to annual merchandise exports to Korea.

As impressive as those numbers are, they surely underestimate the total benefit of the agreement to the U.S. economy. In a 2009 study, the U.S. Chamber of Commerce estimated the costs to the U.S. of failure to implement the agreement while Korea implemented a similar agreement with the European Union to be more than $40 billion per year in GDP and about 345,000 American jobs.[1]

Yet U.S. companies and consumers were deprived of these benefits for three years due to the demands of the auto and beef lobbies. During these trying economic times, an additional $30 billion in U.S. exports would have been extremely useful. Moreover, the commensurate increase in American jobs would have occurred without any additional federal stimulus spending.

Special Exemptions Are Not "Leveling the Playing Field." Three years of delay resulted in a few additional benefits for U.S. auto companies and organized labor. The Obama Administration and the auto industry claim that the provisions were to create more equitable trading conditions. The reality, however, is that the supplementary agreement simply boils down to greater protectionism for the U.S. auto market for more years than the original agreement.

The original agreement would have immediately eliminated U.S. tariffs on 90 percent of Korea's auto exports with remaining tariffs eliminated by the third year. The revised agreement keeps the existing 2.5 percent U.S. tariff in place until the fifth year. Rather than immediately eliminating the 8 percent South Korean tariff on U.S. cars, the new agreement only halves the tariff for five years, at which point it is eliminated.

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Similarly, the original agreement would have required the U.S. to begin phasing out its 25 percent tariff on light truck imports until full elimination in the 10th year. The revised agreement allows the U.S. to maintain the existing tariff for eight years. Korea is still required to immediately remove its 10 percent tariff.

U.S. auto manufacturers and their advocates in Congress have long complained about unfair non-tariff barriers. It turns out that these were the Korean safety and environmental standards that U.S. cars were unable to meet. In a special exemption for U.S. cars, up to 25,000 cars per U.S. manufacturer can now enter Korea with lower safety standards than Korean cars.

Environmental standards—and labor standards, for that matter—have always been dubious subjects of FTAs, ones with their own built-in constituencies and special interest advocates. But in a very interesting, hypocritical twist, under the new KORUS, it is *U.S. auto manufacturers* who are given the exemptions from meeting higher environmental standards.

The Dogs That Didn't Bark: What Was *Not* in the New Agreement. The supplementary agreement did not include earlier demands by auto industry advocates for managed trade. The Congressional Auto Caucus proposed in March 2007 that South Korean cars would "get a benefit in the form of duty free entry for a specified number of autos every year that U.S. auto sales in the Korean market increase from a designated baseline."

Doing so would have created a one-for-one linkage in which the U.S. tariff would be lowered on one South Korean car whenever one U.S. car was sold in South Korea. Although the congressional caucus described the provision as a "positive incentive to open Korea's auto market," it was clearly a form of managed trade that violated the most basic precepts of free trade.

The U.S. also abandoned its longstanding demands for further opening of the South Korean beef market. Although beef is not a part of the FTA, Senator Max Baucus (D–MT) had insisted that U.S. beef sales be linked to FTA negotiations.

After massive anti-U.S. beef demonstrations swept across South Korea in 2008, U.S. beef exporters agreed to self-limit exports from cows under 30 months old. Since then, U.S. beef exports have regained 35 percent of South Korean market and are expected to continue growing.

Rather than risk a resurgence of South Korean protests, U.S. beef exporters supported the existing agreement rather than demand opening of the final 3–5 percent of the Korean market. Yet Senator Baucus expressed deep disappointment with the revised agreement, ominously threatening that his Senate Finance Committee "has exclusive jurisdiction over international trade."

We Waited Three Years for This? During the presidential campaign, Barack Obama claimed the KORUS FTA was "badly flawed." Now the Obama Administration is claiming that the supplementary agreement is a "deal that's better for American workers, better for businesses" despite the only difference being special protections and exemptions for U.S. auto manufacturers.

It is clear that critics' difficulties with the original KORUS had more to do with declining U.S. market share in domestic auto sales rather than any provisions of the FTA. Protecting the U.S. auto industry was more important than opening overseas markets.

Better Late Than Never. Make no mistake: The KORUS FTA, even with the supplementary text, is in the best interests of both the United States and South Korea. The agreement will augment U.S. exports and GDP while strengthening Washington's important geostrategic relationship with a key Asian ally.

It is unfortunate that the FTA was held hostage to such a narrow group of special interests for so long. The United States was forced to sacrifice extensive national economic advantages so that a few could eke out additional protectionist provisions. This strategy has hurt U.S. credibility in international trade and may well make achieving additional FTAs more difficult.

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1. U.S. Chamber of Commerce, "Trade Action—or Inaction: The Cost for American Workers and Companies," September 15, 2009, p. 3, at *http://www.uschamber.com/sites/default/files/press/uscc_trade_action_inaction_study.pdf* (December 7, 2010).