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The U.S.–Korea Trade Deal's Time Has Finally Come

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After four long years and an estimated $40 billion in lost U.S. exports, the Korea–U.S. free trade agreement (KORUS FTA) has finally been submitted to Congress. Although signed in 2007, the FTA languished as U.S. legislators demanded additional conditions on behalf of the auto and beef sectors and organized labor. The agreement now appears on track for approval with strong support from both sides of the political aisle. But this is no time for complacency, since trade protectionists and special interest groups remain determined to snatch defeat from the jaws of victory.

KORUS Benefits the U.S. The trade accord would provide significant economic and geo-strategic benefits for both countries. It would be America's largest FTA in Asia. KORUS expands U.S. business access to the $1 trillion South Korean market by reducing 95 percent of trade tariffs within five years and increasing regulatory transparency. South Korean manufacturing tariffs are double those of the U.S. Korean agricultural tariffs are 54 percent, compared with 9 percent in the U.S.

The agreement would generate an estimated $10–11 billion in new U.S. exports annually, increase U.S. gross domestic product by $11 billion, and add at least 70,000 new U.S. jobs—*all without a dime in government spending.* Those estimates do not even include the benefits arising from the reduction of tariffs on the services industries.[1]

The FTA would also expand the bilateral relationship with critical partner South Korea beyond traditional military ties, be an important U.S. bridgehead into the broader Asian market, and serve as a powerful statement of the U.S. commitment to East Asia at a time when many perceive declining American interest, presence, and influence in the region.

The Cost of Failure. Had KORUS been implemented in 2007, it would have given U.S. businesses an advantage over their foreign competitors and enabled it to regain lost market share. The U.S. was formerly South Korea's largest trade partner, but in less than five years it was passed by China, the European Union, and Japan.

While the U.S. sat on KORUS for four years, the European Union began and completed its own FTA negotiations. The Korea–EU agreement went into effect on July 1 of this year, and EU exports to Korea increased 16 percent within the first month. If Congress fails to approve KORUS, it would doom U.S. businesses to competing on an uneven playing field against European firms now exempt from South Korean tariff and non-tariff barriers.

U.S. companies would continue to fall further and further behind. Since Seoul signed KORUS, it has begun negotiations and in some cases completed trade agreements with India, Australia, Canada, Japan, New Zealand, Colombia, Peru, and the Association of Southeast Asian Nations. China—South Korea's largest trading partner—announced it will

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begin FTA talks with Seoul this year. The U.S. Chamber of Commerce estimates that not enacting the KORUS would lead to a loss of $35 billion in exports and 345,000 jobs.

KORUS Does Not Benefit North Korea. Hoping to derail KORUS approval, opponents of free trade now falsely claim that the agreement would surreptitiously open up the United States to a flood of North Korean imports through the Kaesong industrial zone—a joint North–South Korean business venture 10 miles north of the Demilitarized Zone. Trade protectionists wrap themselves in a cloak of national security by raising the fallacious specter of Washington subsidizing the despotic North Korean regime by importing its products.

Although the assertions make for good sound bites, they are untrue. Existing U.S. laws, executive orders, and regulations would continue to prevent any North Korean imports without case-by-case approval by the U.S. government. How good are these existing U.S. restrictions? Very strong considering that, since 2005, total cumulative North Korean imports into the United States were only $8,363 worth of stamps.

Critics claim that KORUS's rules of product origin provide a loophole for North Korean products. Yet KORUS specifically separates eligibility for tariff preferences from admissibility into the United States. Rules of origin do not apply if the product is not allowed into the U.S.

To clarify existing rules, President Obama approved a new executive order in April that declares "the importation into the United States, directly or indirectly, of any goods, services, or technology from North Korea is prohibited." The "indirectly" clause applies to North Korean parts, components, or labor incorporated into products made in other countries, including South Korea.

So long as U.S. sanctions remain in place, the allowable percentage of Kaesong content in South Korean goods is zero. The bottom line is that KORUS cannot allow North Korean goods into the United States since U.S. sanctions trump KORUS without exception. It is blatantly wrong to claim that the Kaesong Industrial Complex is a "Trojan horse" that threatens U.S. national security or props up Kim Jong-il's regime.

The only way for KORUS rules of origin to allow Kaesong products, including components, to be imported into the United States would be if Washington first removed its sanctions against North Korea. That would require Pyongyang to abandon its nuclear weapons, cease its illegal behavior of currency counterfeiting and drug smuggling, and stop threatening South Korea.

Nor, as some assert, can South Korea sue Washington if U.S. laws and the FTA are in conflict. The reason is that KORUS specifically allows Washington to maintain any existing measures against North Korean imports. For example, the Essential Security Exception clause states that KORUS does not "preclude a Party from applying measures that it considers necessary for…the protection of its own essential security," such as sanctions or restrictions on imports.

Move Forward. South Korea will continue to open its dynamic market; the question is whether U.S. or foreign companies will benefit. The United States has already lost $40 billion in lost exports as Washington dithered on the KORUS FTA. Without KORUS, U.S. businesses would remain even more disadvantaged against EU competitors.

Congress should stop bending to a narrow group of special interests and focus on an agreement that fulfills U.S. national interests. At a time of economic malaise, a cost-free jobs stimulus initiative is exactly what the United States needs. It is also time for Washington to reassert its leadership role in Asia.

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1. U.S. International Trade Commission, *U.S.–Korea Free Trade Agreement: Potential Economy-Wide and Selected Sectoral Effects*, September 2007, at *http://www.usitc.gov/publications/332/pub3949.pdf* (October 4, 2011).