



# **FTA: United States & Republic of Korea**

## **Economic and Strategic Benefits**

Office of the United States Trade Representative

February 2, 2006

# Korea is a Major High-Income Economy

- **World's 10<sup>th</sup> Largest Economy** (\$983 billion – 2005)
  - *3rd Largest in Asia (behind China and Japan)*
- **Per Capita Income of \$20,300** (2005)
- **Strong Growth** (4.9%) over past 10 years (1994-2004), despite Asian Financial Crisis
  - *U.S. Growth was 3.2% during same time frame*
- **Population: 48 Million** (2005)

# Korea is a Major World Trader

- World's 7th Largest Goods Exporter (\$278 billion) and Importer (\$248 billion) in 2005
  - *4th Largest in Asia (behind China, Japan, Hong Kong)*
- World's 7th Largest Services Exporter (\$40 billion) and 6th Largest Services Importer (\$50 billion) in 2004
  - *Asia's 4th Largest Exporter/3rd Largest Importer*
- Over the Past 10 Years, Korea's Real Average Annual Growth Rate in Trade was two and a half times the Pace of its GDP Growth
  - *12.5% to 4.9%*

# Korea is a Major U.S. Trade Partner

## Launch with Largest FTA Partner in 15 Years

### Goods Trade

- **7th Largest U.S. Goods Trade Partner**
  - *3rd in Asia (behind China and Japan)*
- **U.S. Exports: \$28 billion**
  - *Up 53% from 1994*
  - *6th Largest Ag Market (\$2.2 billion)*
- **U.S. Imports: \$44 billion**
  - *Up 122% from 1994*

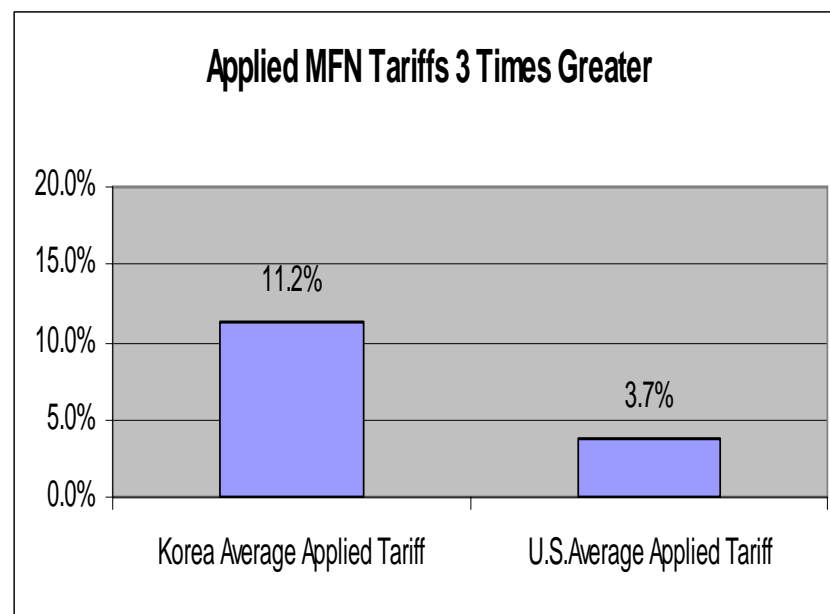
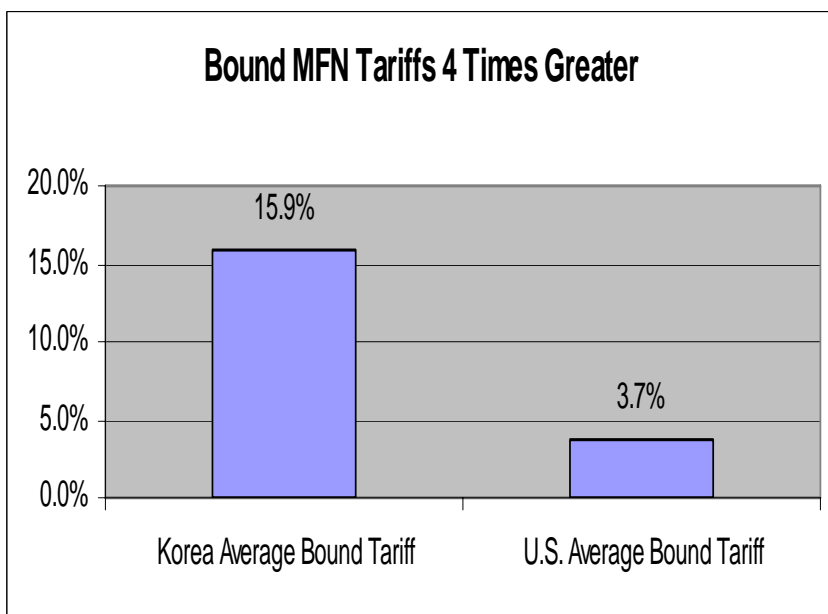
### Services Trade

- **U.S. Exports: \$9 billion**
  - *2<sup>nd</sup> Largest in Asia (behind Japan)*
  - *Up 98% from 1994*
- **U.S. Imports: \$5 billion**
  - *Up 72% from 1994*

# The United States is Korea's 2nd Largest Trading Partner

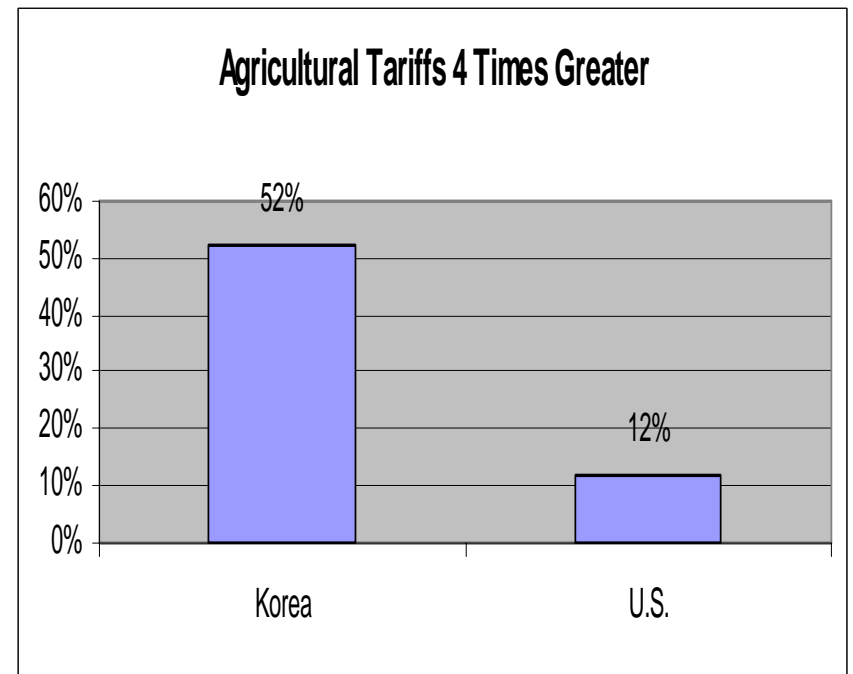
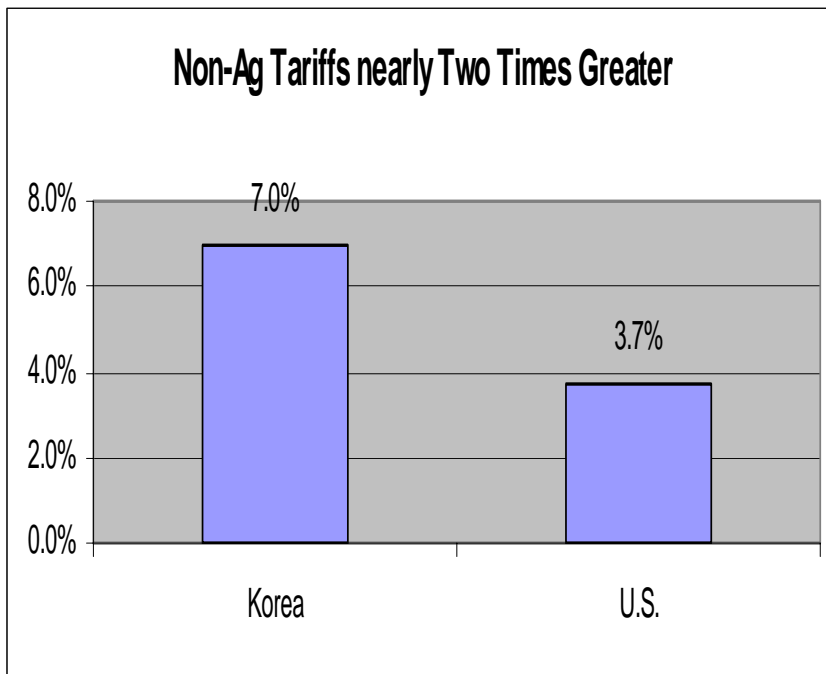
- The United States Supplies 13% of Korea's Goods Imports from the World
  - *3rd largest Supplier (behind Japan - 21% and China – 13%)*
  - *Note: from 2002 through 2004 the U.S. goods imports percentage has dropped (15%, 14%, 13%) and the China percentage has increased (11%, 12%, 13%)*
- The United States Accounts for 17% of Korea's Goods Exports to the World
  - *2nd Largest Market behind China (20%)*

# U.S.-Korea FTA will Level the Playing Field



- **U.S. Trade Weighted Tariff Rate on Imports from Korea is only 2.2%**
- **Only 5.7% of the Korean tariff schedule is currently duty free vs 30.9% for the United States**

# Korea's Applied MFN Tariffs Higher than U.S. for both Non-Ag and Ag



# Sector by Sector, Korea's Tariffs Exceed the U.S.

## Non Agricultural Applied Tariffs

	Korea	U.S.
Wood, pulp, paper, and furniture	3.7%	0.7%
Textiles and clothing	10.1%	9.6%
Leather, rubber, footwear, and travel goods	7.9%	4.3%
Metals	4.9%	2.1%
Chemicals and photographic supplies	6.9%	3.4%
Transport equipment	5.4%	3.2%
Non-electric machinery	6.1%	1.2%
Electric machinery	6.0%	1.9%
Mineral products and precious stones	5.8%	2.0%
Manufactured articles not specified	6.5%	2.5%
Fish and fish products	16.1%	1.1%
Petroleum	5.1%	1.9%

## Agricultural Applied Tariffs

	Korea	U.S.
Fruit and Vegetables	53.6%	6.0%
Coffee, tea, cocoa	54.4%	4.9%
Spices, cereal, and other food prep	93.6%	4.1%
Grains	188.4%	1.5%
Animals and Products	22.6%	3.3%
Oil seeds, fats and oils	14.0%	4.3%
Cut flowers, plants, vegetable materials	28.0%	1.2%
Beverages and spirits	31.6%	6.3%
Dairy products	69.1%	19.0%
Other agricultural products	10.3%	1.5%



# Economists Agree that a U.S.-Korea FTA is Beneficial to Both Countries

- ***Both the United States and Korea stand to benefit significantly from a U.S.-Korea FTA through enhanced trade and income for both countries.***

## **University of Michigan, 2002**

- U.S. income up \$30 billion (0.33% of GNP); Korea Income up \$12 billion (2.11% of GNP) World Income up \$45 billion.

## **U.S. International**

### **Trade Commission, 2001**

- U.S. Income up \$20 billion (0.23% of GDP); Korea Income up \$3.9 billion (0.69% of GDP).
- U.S. exports to World up \$7 billion (0.8%); U.S. imports up \$13 billion (1.0%)
- U.S. exports to Korea up \$19 billion (54%); U.S. imports up \$10 billion (21%)

## **Institute for International Economics, 2001**

- U.S. Income up \$8.9 billion (0.13% of GDP); Korea Income up \$10.9 billion (2.41% of GDP) (Long run effect)
- U.S. exports to Korea up 49%; U.S. imports from Korea up 30%.

## **Korean Institute for International**

### **Economic Policy, 2005**

- Increase Korea GDP by 2.27% (Dynamic model, most liberalizing scenario)

# FTA with Korea will Strengthen Our Alliance and Support U.S. Policy in the East Asia Region

- An FTA would serve to strengthen our Fifty plus year alliance with Korea, an important strategic partner
- FTA would underscore substantial US engagement and commitment to East Asia
- FTA would help cement important political and economic reforms that Korea has undertaken in past decade
- FTA would help promote strong economic relations with the region.