

**Center for Strategic and International Studies (CSIS)
“The United States and Korea 2006” Conference**

**Luncheon Speaker
Ambassador Karan Bhatia
September 26, 2006
12:30-1:30 pm
(As Prepared for Delivery)**

Introduction

- Thank you all for coming today. I would like to thank the Center for Strategic and International Studies and Chosun Ilbo for inviting me to this conference.
- This is an auspicious time to discuss the KORUS FTA as President Bush and President Roh reaffirmed their commitment to, and the importance of, the FTA in Washington, D.C. just over two weeks ago.
- Their meeting has provided important momentum to the FTA negotiations and refocused our efforts.
- With our confidence at a new high point, I have reason to be more confident than ever before that, in the coming months, our two countries will sign a

high-quality, comprehensive, and mutually-beneficial agreement that will be the cornerstone of our economic trading relationship long into the future.

- Now, I say that notwithstanding that we've got a lot of work to do – both in negotiating the Agreement and in winning over the people of the United States and Korea to believe that this endeavor is a good thing and worth supporting.

“Back to Basics” – why are we doing this?

- And it's on that point – winning over support for the FTA – that I'd like to focus my remarks today.
- I would submit to you that globally there are few topics that have a more polarizing effect right now than trade.
 - Some of you may have seen an interesting piece in the Financial Times last Thursday talking about the challenges to free trade and the rise of economic nationalism, pointing to signs of protectionism in Italy, in China, in Thailand, and in Russia that occurred just last week.

- Here in America we see ample signs of economic protectionism – be it on the subject of China (legislation that would impose a 27 percent tariff on China may well get approved by the Senate this week) or foreign investment. President Bush and the Administration are working strongly against this trend, including through a robust FTA agenda.

- And, of course in Korea, the FTA has aroused some amount of public concern, with the FTA attracting substantial attention in the press and among interest groups. Press reports indicate that strong initial public support – in the neighborhood of 80 percent – has fallen to below 50 percent, although that has recently shown an uptick.

- I should point out that this isn't unusual – it's a common occurrence with FTAs. At the outset of negotiations, there's a great deal of enthusiasm. When you start getting down to negotiating details, those special interests who stand to face greater competition under an FTA (and those groups exist in both Korea and the United States), will express concern and may even work to undermine it. The media catches hold and the next thing you

know, citizens on both sides who stand to benefit in myriad ways and to a great extent from trade liberalization are left wondering whether the whole endeavor is worthwhile.

- So I think it is appropriate to regularly ask and answer the question, “Why are we doing this?”
- In this case, the answer is simple. We are doing this because free trade agreements are truly win-win situations, creating significant new economic opportunities for both sides.
- Both the U.S. and Korea have learned how trade can benefit their economies.
- The United States is the most open economy in the world, one of the world’s biggest traders, and over the past 50 years, one of the world’s most committed advocates of trade liberalization. Trade liberalization opens markets to permit our exporters to compete abroad; it affords our consumers access to goods and services at lower costs; and it makes our companies more competitive.

- Korea's economic miracle has been built on trade. As Korea has expanded its trade ties both regionally and globally, its citizens have enjoyed higher living standards and its economy has grown at a robust rate.

- An FTA between the United States and Korea makes sense. It will allow each of our nations to continue to focus on producing and exporting the products, goods, and services that each does best.

- And it will pay economic dividends.
 - Estimates of the benefits to the U.S. economy range from a quarter to 1/3 of a percent of GDP—not a small contribution.

 - Benefits to Korea may be even greater – with estimates in the range of a 2 percent increase in Korean GDP, creating as many as 100,000 new jobs and establishing a foundation for Korea to achieve a per capita income as high as \$30,000.

- And, of course, there would be untold additional benefits to Korea including increased foreign direct investment, improvement in Korea's sovereign credit ratings, and support in achieving its goal of becoming an economic and financial hub in Northeast Asia.

Why Korea?

- One of the more telling signs of whether an FTA would in fact benefit Korea is the reaction that we've gotten from many of our trading partners. That reaction has ranged from disguised jealousy to concern among some partners that they will be disadvantaged by not having equal access to the U.S. market. Numerous trading partners in the region have pressured us to commence FTA negotiations with them.
- This begets the question: Why Korea?
- There's no single answer to that question. Some have analogized an FTA to "getting married" – which is a good analogy. In many ways, much like

getting married, there's not just one characteristic that causes you to choose a spouse: it's a mélange of factors. But here, I'd suggest three:

- First, the partner is interesting;
 - Second, the partner is committed; and
 - Third, the partner shares common values.
-
- All three of these qualities are present in Korea.
 - First, from an economic perspective, Korea is interesting: it is the kind of country that you want to have as a partner. Korea has a highly-dynamic and innovative economy with which we already have a strong trade and investment relationship.
 - Korea is the United States' 7th largest trading partner and 6th largest export market. The United States, in turn, is Korea's second largest market, importing 17 percent of Korea's exported goods.

- I would note, however, that our share of Korea's market has declined – from 21 percent in 1999 to 12 percent in 2005. To remain competitive in a global environment, we want to capture that back and believe the FTA will help us do so.
- Second, Korea has shown its commitment to pursuing trade and investment liberalization of its domestic economy. And Korea, more so than many other countries in the Asia-Pacific region, has been very successful at doing just that.
- In recent years, Korea has undertaken major economic reforms and market opening measures with the goal of creating a prosperous long-term future for its people.
- For example, Korea's economic policy leaders have been bold in pushing forward with financial services deregulation and reform. Korea has also taken steps to ensure that its intellectual property laws keep pace with the global changes in this area.

- These steps have clearly produced results. Korea's economic growth rate has averaged 5 percent per year for the past 10 years, its exports have grown at an average rate of 10.1 percent per year over the past 7 years, and inflation and unemployment rates in Korea have remained low.
- It is important to note that Korea has undertaken these market-oriented reforms and increased its trade and investment with other countries on its own initiative, not at the prodding of the United States.
- Third, the U.S. and Korea share common values. We are both democracies. Notwithstanding ups and downs in the relationship, Korea has been an ally for more than 50 years. It's a good friend in a part of the world where we need more and stronger friends. And, it is our hope that the FTA will help expedite reform and promote multilateral and regional cooperation.

Debunking the 5 myths of KORUS FTA

- So, that very simply is our thinking. Now I know that there are some in the media that believe there's something else going on here. The myths abound. The worst thing that could happen would be for these myths to gain

currency. So, I thought that in the time left that I'd try to debunk a few of the more pernicious ones.

Myth #1: The U.S. will get the bulk of the benefits of the FTA

- If history is any judge, that may well not turn out to be true. From Chile to Singapore to Mexico, the history of our FTAs is that bilateral trade surpluses of our trading partners go up.
- Moreover, relative benefit to GDPs of this FTA clearly will favor Korea. As I mentioned, estimates are that the U.S. will gain 0.30 percent vs. 2.4 percent for Korea.
- But, in any event that's the wrong way to think about trade liberalization. The fact is that, after concluding FTAs, evidence is clear that exports of both sides goes up. So too do benefits to consumers.

Myth #2: Korea's sovereignty will be destroyed – that the U.S. is so big that

Korea will be forced to make huge concessions, change its laws, and reorganize its government and traditions.

- I know that there is some concern in Korea that given the size of the U.S. economy that Korea, by entering into these negotiations, will in some way lose its sovereignty or be pushed by the U.S. into accepting a bad deal.
- FTAs, though, are two-sided agreements by countries to conduct economic affairs on the basis of openness, transparency, and non-discrimination. They do not result in the subjugation of one economy to the other, but instead focus on the exchange of benefits between sovereign states.
- The U.S. is not going to be able to force Korea into doing anything it doesn't want to do. Whatever changes in laws and regulations Korea would undertake as part of the implementation of the KORUS FTA, would be for the purpose of reforming its own economy, furthering its own goal of attracting foreign investment, and expanding its trade ties with the United States and other countries.
- I should also note that this is a two-way street. The U.S. is also being asked by Korea to make concessions in these negotiations, and we are seriously deliberating these requests.

Myth#3: The Korean agriculture sector will be devastated by U.S. imports.

- Many critics have argued that as a result of the FTA with the United States, the Korean agriculture sector will be wiped out overnight.
- We, in the U.S., are well aware of Korean sensitivities in the agricultural sector. All countries, including the United States, have politically sensitive product areas.
- The fundamental goal of free trade agreements is to achieve comprehensive liberalization, including in the agricultural sector. Without liberalization of the agricultural sector, FTAs would not be as beneficial to economies as they are with these products included.
- Studies suggest that potential gains of a KORUS FTA would be at least cut in half for both economies if agricultural trade were somehow to be excluded. Recognizing that, I understand that the Korean government has earmarked 119 trillion won (currently about \$125 billion) for investment in agriculture and income support for farmers over a 10-year period, which it

hopes will spur productivity growth and help manage adjustment pressures in the farm sector.

- But, the notion that this will devastate the Korean agricultural sector is way off base.
 - First, no one is saying that complete and immediate free trade in agriculture is a requirement of finalizing this Agreement. Transition periods have been used in past FTAs to address sensitive products and would likely be employed here.
 - Second, history has shown us that FTAs don't destroy agriculture production. If you look at NAFTA (most comparable of our FTAs), Mexican agriculture production increased by 14 percent after the FTA.

Myth #4: The U.S. is trying to rush Korea into an agreement to meet a deadline dictated by U.S. legislation without regard to Korea's domestic needs.

- Much has been made recently about the deadline for completing a KORUS FTA.
- Neither the United States nor Korea are going to rush into just any agreement for the sake of meeting a deadline.
- Deadlines can be helpful in keeping negotiations moving and on the U.S. side the expiration of TPA is a fact that does shape our timeline. But, we will not let it dictate the content of the agreement.
- The U.S. and Korea are committed to working together to achieve a high-quality, comprehensive, and mutually-beneficial deal that will be accepted and ratified by both the U.S. Congress and the Korean National Assembly and have domestic support in both countries.

Myth #5: Only big corporations will benefit from the FTA.

- A common misunderstanding about FTAs is that only big-businesses or multinational corporations have anything to gain from these agreements. Actually, it is our experience that the opposite is true.

- Since SMEs represent the biggest percentage of U.S. companies exporting to many of our FTA partners, including Canada, Mexico, Australia, Singapore, Chile, and Morocco, they have stood a great deal to gain from these Agreements.
- Studies have shown that these benefits are likely to translate to small and medium-sized businesses as a result of the KORUS FTA, as well.
- According to a recent survey by the Korea Federation of Small and Medium Businesses, 80 percent of firms exporting to the U.S. from Korea support the FTA. Most of the Korean products that will benefit from increased market access resulting from the FTA, such as textiles, leather, rubber and shoes, are mainly produced by small and medium-sized businesses.

Status of Negotiations

- We are busily preparing for the fourth round of negotiations, which will be held the week of October 23 in Jeju Island, Korea.

- In the lead up to and at that meeting, we hope to capitalize on the momentum that was provided by the leaders of both countries as a result of their meeting two weeks ago.
- We still have tough issues to work through, though.
- But, we need to keep in mind that these are serious negotiations between two large trading partners and each side has many interests to be considered before we can reach an Agreement.
- Let me assure you that the Administration is placing top priority on these negotiations and we have fully committed ourselves and our team to negotiate intensively and in good faith.

Conclusion

- In closing, it is important to look at these negotiations, and the resulting Agreement, and remember these are not negotiations between adversaries: They are discussions between trading partners who are looking for better ways to do business with one another, and who have both voluntarily come

to the conclusion that an FTA will help foster economic growth and prosperity for both our nations.

- Coming out of the meeting between Presidents Bush and Roh, there is no doubt that there is sufficient political will and momentum to ensure a successful KORUS FTA.
- Thank You.