

From: The Korean Consulate General in Honolulu, State of Hawaii, USA

To: House Committee on International Affairs

Hearing: March 24, 2008, 09:30 a.m.

Subject: HCR 90 Status – Relating to Urging the United States Congress to Support the Korea-United States Free Trade Agreement

Dear Madam Chairperson Cabanilla,

It is a great pleasure and honor for the Consulate General of the Republic of Korea to express its testimony before the House Committee on International Affairs. The Consulate General of the Republic of Korea supports the Resolution urging the United States Congress to support the Korea-United States Free Agreement as currently is considered under the Committee.

As you are well aware, the modern alliance between Korea and the United States dates back to the Mutual Defense Treaty of 1953. For the past half century, this alliance has played a pivotal role in maintaining peace and security on the Korean peninsula and in Northeast Asia as well. During this time, Korea has been able to rise from the ashes of war to become the world's 11th largest economy, and a fully mature democracy. In tandem with Korea's domestic development, the Korea-US alliance has also matured, becoming more dynamic and reciprocal. To keep our alliance vibrant and strong, during the past few years, Korea and the US have closely consulted on a series of agreements to update our partnership.

The most dramatic change we are undertaking is the pursuit of the Korea-United States Free Trade Agreement (KORUS FTA). We believe the KORUS FTA is a good deal and is expected to give both the US and Korea tremendous mutual benefits.

(Rationale)

Why is the KORUS FTA a good deal – and why do we need it now?

First - You could say our thriving economic relationship has reached a “tipping point”. Korea is now the United States' 7th largest trading partner – a 1 trillion dollar economy with 49 million consumers. Our two-way trade has grown steadily over the years to where it now tops 80 billion dollars annually -- while investment is also expanding and becoming a two-way street.

In short, as both a developed and a growing economy with potential for many new market opportunities, Korea represents a prime candidate for an FTA with the United States.

Second - Because Korean and US trade patterns appear to be more complementary than competitive, the risk of imports from Korea having a negative impact on US industry should be minimal.

In fact, according to the US International Trade Commission, in contrast to the projected surge in US exports to Korea, Korean exports to the US are expected to have a negligible impact even on import-sensitive sectors such as textiles and passenger vehicles.

Third – and this should be a key consideration -- with the economy slowing, you can think of the FTA as a timely economic stimulus package. It will generate jobs, investment and growth. And it will do this without raising taxes or adding to the budget deficit.

(Overall Benefits for the US and Korea)

Almost two-thirds of US agricultural exports will become duty-free immediately. And tariffs on nearly 95 percent of all goods will be eliminated within three years. For the United States, the US government estimates that the economy will see a 10 to 12 billion dollar benefit once the KORUS FTA is in place.

Historically, the US has always ranked as Korea's number one trading partner. However, a few years ago, this status began to slip – behind China, Japan and the EU. The KORUS FTA could help reverse that trend.

In addition, the Agreement provides US companies a valuable springboard to further promote trade in the dynamic Asian region.

Even beyond the economic benefits, the strategic importance of the Free Trade Agreement cannot be overstated. This FTA will further strengthen the Korea-US alliance, which is vital to maintaining peace and stability in Northeast Asia.

(Benefits to Hawaii)

As for Hawaii – Korea already ranks as Hawaii's 6th largest export market for goods, with exports totaling nearly 24 million dollars last year.

When ratified, the FTA will eliminate 100 percent of all tariffs on industrial, forestry and maritime products. And as mentioned above, nearly 95 percent of these goods will become duty-free within 3 years -- including Hawaii's leading exports of petroleum and coal products, transportation equipment and processed foods

Korea accounted for nearly \$1.2 billion in two-way trade through the port of Honolulu in 2006, more than double its 2005 value of \$550 million, ranking Honolulu as the 15th largest Custom district trading with Korea.

Of particular benefit to Hawaii, the FTA will strengthen transparency, and further expand meaningful market access opportunities across virtually all major service sectors, including legal, insurance, and financial services. Korea is the 2nd largest market for American services in Asia and Hawaii's professional services industries, already its leading services exporter, will surely be one of the winners of the KORUS FTA. The Agreement will open Korea to American business services and phase in additional liberalization that will allow U.S. firms to offer a broader range of services.

Investment will be strongly protected under the agreement as well, as the FTA puts US and Korean investors on an equal footing, increases transparency, and provides for a binding investor-state dispute settlement mechanism.

Finally, US farmers and ranchers will also come out ahead, as under the Agreement, Korea will reduce its tariffs on US farm goods from the current average of 52 percent down to 4 percent in 15 years. It cannot be overemphasized that this is the first time Korea will open its agriculture market so widely. As a result, top Hawaii agricultural products such as coffee, tropical fruit and tree nut products will enjoy greater access to the Korean market.

(Prospects for Passage)

When you stop and think about the KORUS FTA, you have to wonder, what is not to like?

This agreement in many areas sets new standards in FTAs, for example in the areas of pharmaceuticals, labor, the environment and IPR protection.

To quote the US Trade Representative, Ambassador Susan Schwab, "This agreement ... will support thousands of American jobs and higher American incomes. Farmers, ranchers, manufacturers, and service providers in every state will benefit from deeper and stronger trade and investment ties with this key Asian ally."

Comprehensive trade agreements do not lend themselves to snappy sound bites. On the other hand, they present convenient targets for special interest groups, particularly in election years.

For example, the beef issue has been a stumbling block to congressional approval because full market access for beef has eluded the US since the outbreak of Mad Cow Disease (BSE). However, both governments are undertaking efforts to resolve this issue in a mutually satisfactory way -- and it is expected that these efforts will bear fruit soon.

On the auto issue -- despite the fact that the US automobile sector stands to gain immensely from this FTA – there are those who still claim that the auto chapter fails to open Korea’s market. But this opposition is based on myth. The US Government has actually labeled the auto chapter as an “unprecedented and strong package of automotive provisions.”

(Cost of Inaction)

So as the congressional calendar winds down this year, our work is cut out for us. As we consider the FTA, we should also consider what a missed opportunity would mean:

First, US companies would lose market share in Korea -- because Korea’s FTA negotiations with other major economies like the EU and Canada are well underway.

Second, the US would lose a valuable springboard to further promote trade in the region and beyond, because the KORUS FTA is the only US FTA in this dynamic region so far.

Finally, inaction on this FTA would also shake an important trading partner’s trust in US policy, while signaling rising protectionism in US.

Overall, the US Chamber of Commerce points out the cost of inaction on the FTA: (quote) “US businesses and farmers would not only lose new access to the Korean market but also could lose market share as Korea concludes other bilateral trade agreements with global competitors.”

(Conclusion)

As the economy is slowing, this is something that could give it a legitimate boost. The Consulate General of the Republic of Korea is urging people to consider the long-term national interest here. This is an opportunity not to be missed. The KORUS FTA will substantially expand bilateral trade and investment – for a better quality of life for the people of both our countries. Likewise, it will powerfully reinforce our strategic alliance that has served us so well. We appreciate your support and hope your initiative to adopt a resolution to urge the US Congress to support the KORUS FTA will be a good momentum to bring the Congress’s attention to the FTA.

Thank you very much.

Enclosure: The KORUS FTA Fact Sheet.

***The Facts
About the
KOREA-U.S. FTA***

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THE FACTS ABOUT THE KOREA-U.S. FREE TRADE AGREEMENT (KORUS FTA)

THE KORUS FTA...

Is the Most Commercially Significant FTA for the United States in More Than a Decade. The Korean economy is now the 11th largest in the world. Korea is already America's 7th largest trading partner and 6th largest importer of U.S. agricultural goods. Moreover, every U.S. state has a stake in the Korea-U.S. trade and investment relationship. A Free Trade Agreement with Korea will be America's largest and commercially most significant FTA in more than a decade.

THE KORUS FTA...

Will Bring Real Economic Benefits and Enormous Opportunities to both the U.S. and Korea. According to an independent study on the KORUS FTA by the U.S. International Trade Commission, the KORUS FTA will boost U.S. exports to Korea and increase U.S. national income.

The increase in exports to Korea is expected to happen across the full spectrum of U.S. sectors, from machinery, chemical, rubber and plastic products to meat and dairy products, corn, fruit, vegetables, wearing apparel and services.

The U.S. agricultural sector in particular stands to gain substantially from the KORUS FTA. Nearly two-thirds of U.S. agricultural products will enjoy immediate duty-free access to the Korean market upon implementation of the agreement.

U.S. automakers will also benefit from strong and unprecedented measures to ensure greater access to the Korean auto market.

All major service sectors in Korea, including financial, professional, audiovisual, and telecommunications services, will be further liberalized, providing exciting opportunities to the U.S. service sector.

The FTA also has state-of-the-art intellectual property rights protection measures that will serve as a model for future FTAs.

THE KORUS FTA...

Will Take the Alliance to a New Level. The robust economic relationship that Korea and the United States share is embedded in a solid alliance built upon shared values in democracy, the principle of open and free markets, and human rights. A Free Trade Agreement will take the Korea-U.S. relationship to the next level, so that our two countries will be ready to meet the challenges of the new century in Northeast Asia. *The KORUS FTA will be the first FTA that the United States concludes in Northeast Asia.* Given the economic as well as strategic interests at stake, the importance of strengthening the U.S. presence in this region cannot be overemphasized.

1. The Most Commercially Significant FTA for the United States in More Than a Decade

Korea is a large, developed and vibrant economy, and is a key player in world trade. A free trade agreement with Korea will be America's largest and commercially most significant FTA in more than a decade.

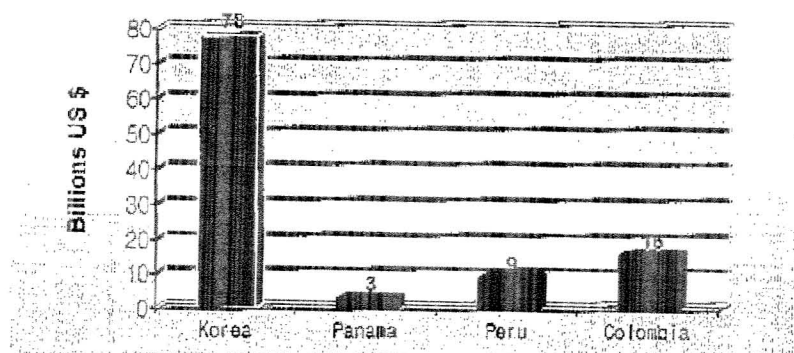
The Korean economy is now the world's 11th largest. Korea is already America's 7th largest trading partner and 6th largest importer of U.S. agricultural goods. Moreover, every U.S. state has a stake in the Korea-U.S. trade and investment relationship. Given such robust and sound economic partnership, the Korea-U.S. FTA (KORUS FTA) promises to provide numerous exciting opportunities for the United States.

The Korean economy is one of the world's largest. With an annual GDP of nearly \$1 trillion, Korea is the 11th largest economy in the world. Per capita income is fast approaching \$20,000.

Korea's economy is not only large, but vibrant. The Korean economy has been growing at annual rates of 5 to 10 percent over the last 10 years. According to OECD Secretary General Angel Gurría, "...[T]he OECD has learned much from Korea, which is one of our most dynamic members... Korea is a very unique and remarkable success story of rapid economic development."

The Korea-U.S. FTA is the largest the United States has negotiated in years. Korea's trade with the United States (\$78 billion) is almost equal to the combined trade of all CAFTA countries, Chile and Australia with the United States. Also, the Korea-U.S. FTA covers nearly three times the combined goods of the other three pending trade agreements – those with Peru, Panama, and Colombia.

Trade with the United States(06)



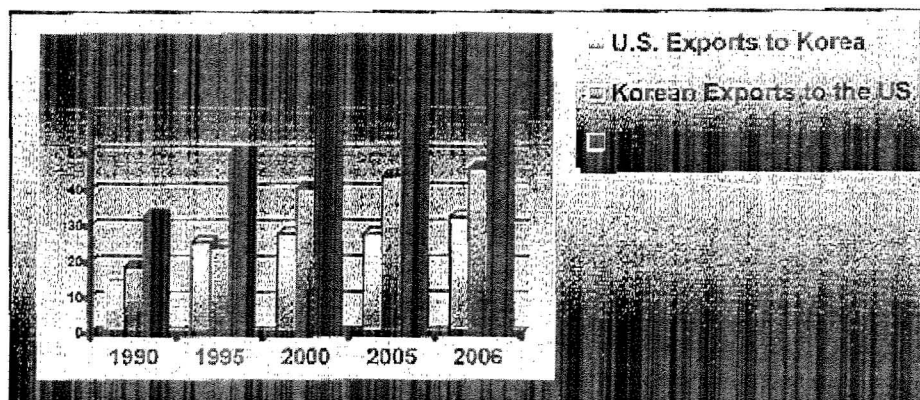
Source: U.S. Census Bureau

Two-way trade between the United States and Korea has doubled since 1990, reaching \$78 billion in 2006. Korea's current standing as the 7th largest U.S. trading partner places it ahead of France, Brazil and India. In turn, the United States is Korea's fourth largest trading partner after China, the EU, and Japan.

Korean direct investment in the United States is fast increasing, with the stock of investment reaching \$16.7 billion in 2006. Korean Investments such as a state-of-the-art automobile manufacturing plant in Alabama (Hyundai) and Georgia (Kia), and a computer chip manufacturing plant in Texas (Samsung) have generated numerous new jobs, benefits and opportunities for the American people. In turn, the United States is the largest source of foreign direct investment for Korea, with the stock of U.S. investment in Korea surpassing \$36.6 billion in 2006.

U.S.-Korea Trade in Goods, 1990-2006

(U.S. \$ in Billions)



Source: U.S. Census Bureau

Every U.S. state has a stake in the Korea-U.S. trade and investment relationship. Trade and investment activity with Korea is spread around the country. It includes the East and West Coasts, the "Manufacturing Belt" and Midwest, and the North and South. Korea ranks in the top 5 as an export destination for 9 states (Alaska, California, Idaho, Maine, Missouri, Oregon, Texas, Vermont, Washington) and is in the top 25 for 49 states.

2. Bringing Real Economic Benefits to Both the United States and Korea

The US International Trade Commission's independent study on the economic effects of the Korea-U.S. FTA (September, 2007) concludes that a free trade agreement between Korea and the United States will have a very positive effect on the overall U.S. economy by boosting U.S. exports to Korea and increasing U.S. GDP.

The Korea-U.S. FTA is expected to result in a greater increase in U.S. exports to Korea than in U.S. imports from Korea. In addition, the estimated increase of imports from Korea is estimated to have a negligible effect on U.S. employment. The overall U.S. GDP is expected to increase by as much as \$11.9 billion.

U.S. exports to Korea will increase substantially. According to the 2007 USITC report on KORUS FTA, once the KORUS FTA is fully implemented, U.S. exports to Korea are expected to increase by \$9.7~10.7 billion. This increase in exports is expected to happen across the full spectrum of products the United States exports to Korea, from machinery, chemicals, rubber and plastic products to meat and dairy products, corn, fruit, vegetables and wearing apparel. Services trade is also expected to grow significantly.

U.S. imports from Korea will have a negligible impact on employment in import-sensitive sectors. The 2007 USITC report predicts that U.S. imports from Korea will increase by \$6.4~6.9 billion. However, because much of the import increase in textiles and passenger vehicles would likely be diverted from other import sources (85~90% for textiles, 55~57% for passenger vehicles), the USITC report estimates that the effect on employment for "textiles and apparel and the broader passenger vehicles and parts sector would likely be negligible."

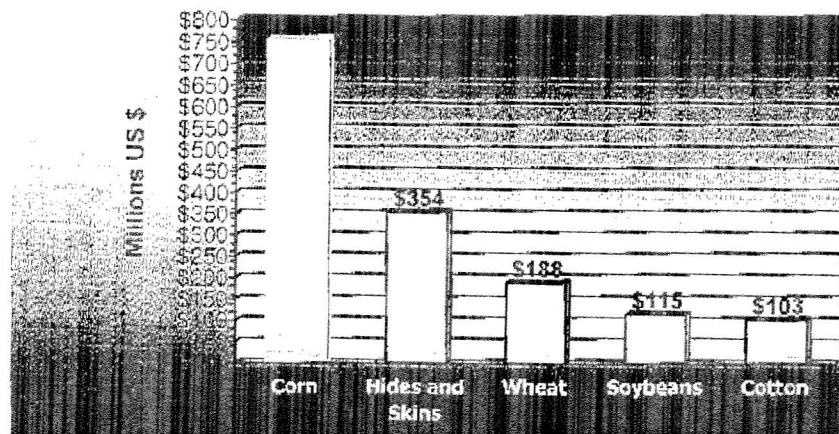
U.S. national income and spending power will also increase. The USITC report expects the U.S. GDP to increase by \$10.1~11.9 billion as a result of the full implementation of the KORUS FTA. This equates to additional new spending power for the economy of \$1.8~2.1 billion.

3. Enormous Opportunities for American Farmers and Ranchers

Korea is the 6th largest market for U.S. agricultural goods. Total U.S. agricultural exports to Korea have recently averaged \$3 billion annually. The average tariff applied by Korea on agriculture imports is 52% – nearly four times that of the United States. According to the U.S. International Trade Commission, the U.S. agricultural sector in particular stands to gain substantially from the KORUS FTA.

Tariffs will be immediately eliminated on almost two-thirds of U.S. agricultural exports (worth over \$1.9 billion) with the implementation of the KORUS FTA. These include wheat, corn, soybeans for crushing, hides and skins, cotton, almonds, pistachios, bourbon whiskey, wine, raisins, grape juice, fresh cherries, frozen french fries, fresh asparagus, eggplants, celery, cucumbers, spinach, and tomato paste.

Major U.S. Agricultural Exports to Korea, 2006



Source: U.S. Census Bureau

Also, Korea will be eliminating tariffs completely over time on key products such as beef (15 years), pork (7 to 10 years), and poultry (10 to 12 years). In particular, the USITC (2007) expects the U.S. meat sector to experience the largest increase in output, and the U.S. beef export to increase by \$600 million to \$1.8 billion.

In addition, tariffs on avocados, lemons, dried prunes, and sunflower seeds will be phased out over 2 years; tariffs on chocolate and chocolate confectionary, sauces and preparation, breads and pastry, grapefruit and dried mushrooms over 5 years.

Tariff rate quotas will be established for skim and whole milk powder, whey for food use, cheese, barley, popcorn and soybeans for food use.

4. Expanded Access to Services Markets and Enhanced Protection for U.S. Investors

Korea is the 2nd largest export destination in Asia for U.S. services. In 2005, total trade in services with Korea was over \$16 billion, with the United States running a surplus of almost \$4 billion.

The 2007 U.S. International Trade Commission study on the KORUS FTA concludes that "the U.S.-Korea FTA would provide U.S. services firms with levels of market access, national treatment and regulatory transparency that generally exceed those currently afforded by Korea's commitment under the GATS." As a result, U.S. services export to Korea is expected to increase significantly.

Key benefits for the United States in services:

- ✓ **Financial services:** Korea is a significant market for the U.S. financial services industry. Korea is the 7th largest insurance market in the world, making it the largest insurance market ever included in an FTA with the United States. U.S. firms will have full rights to establish or acquire financial institutions in Korea under the agreement and will also be able to offer the full spectrum of services in the Korean market. In addition, Korea has pledged to undertake a variety of regulatory reform measures to enhance U.S. firms' access to the Korean financial market.
- ✓ **Telecommunications:** U.S. firms will be able to have full ownership of a telecommunications operator in Korea. The agreement also ensures access for U.S. firms to any public telecommunications network or services on reasonable and non-discriminatory terms and conditions.
- ✓ **Entertainment:** U.S. broadcasting and audiovisual service providers will gain extensive access to the Korean market. The Korean television quotas for film and animation will be decreased, and U.S. firms which establish a Korean subsidiary will be able to own 100% of a program provider. The motion picture screen quota will also be locked in at half of what it used to be.
- ✓ **Legal services:** The Korean legal services market will be fully opened to U.S. legal consulting firms, and permit joint ventures between Korean and U.S. law firms. This is the first time that Korea has opened its legal market to foreign firms.
- ✓ **Express Delivery:** U.S. express delivery firms such as UPS and FedEx will enjoy greater access to the Korean express delivery service market.

Legal stability for U.S. investors operating in Korea will be substantially enhanced as almost all forms of investment are protected under the agreement. In particular, investor protections will be backed by a transparent and binding investor-state dispute settlement mechanism.

5. State-of-the-Art Intellectual Property Rights Protection

The Korea-U.S. FTA provides state-of-the-art protection of intellectual property rights (IPR), making it a model for future FTAs. It provides a comprehensive set of strengthened protection measures for trademarks, copyrighted works, and patents. The FTA also has rigorous enforcement provisions against piracy and counterfeiting.

The 2007 U.S. International Trade Commission study on the KORUS FTA confirms that U.S. IPR-related industries stand to benefit from the strengthened IPR provisions.

Key features of the IPR chapter:

Copyrighted work protection

- ✓ Extension of the term of protection for copyrighted works to life of the author plus 70 years (currently it's the life of author plus 50 years in Korea)
- ✓ Protection of temporary copies of copyrighted work (music, movies, text, etc.) on the Internet
- ✓ Anti-circumvention provisions to prevent tampering with technical protection measures
- ✓ Prohibition of recording of movies with a camcorder in movie theaters

Patent protection

- ✓ Extension of patent terms for undue delays in granting the original patent
- ✓ Abolition of revocation of patent due to non-usage

Penalties for piracy and counterfeiting

- ✓ End-user piracy criminalized
- ✓ Pirated and counterfeited goods, as well as the equipment used to produce them, to be seized and destroyed

Trademark protection

- ✓ Sound and scent marks receive trademark protection
- ✓ "First-in, first-in-right" to trademarks
- ✓ Protection for Internet domain names
- ✓ On-line system for registration and maintenance of trademarks

6. Greater Access to the Korean Auto Market

The Korea-U.S. FTA addresses many concerns raised by the United States and contains strong and unprecedented measures to ensure greater access to the Korean auto market by the U.S. automotive industry.

The U.S. International Trade Commission concludes that "U.S. exports of passenger vehicles to Korea would likely experience a large percentage increase as a result of the FTA." On the other hand, increases in U.S. imports of Korean passenger cars will be "small in percentage terms," and have "a negligible" impact on U.S. employment.

Key features of the auto sections of the Agreement:

Tariffs

- ✓ Korea will eliminate its 8% automotive tariff immediately
- ✓ The United States will eliminate its 2.5% passenger tariff 1) immediately for vehicles with engines up to 3,000 cc and 2) over 3 years for larger vehicles
- ✓ U.S. pick-up truck tariff (25%) will be phased out over 10 years

Auto taxation

- ✓ Korea has agreed to revamp its engine displacement taxation system so that larger vehicles will not be liable to pay higher taxes
- ✓ The special consumption tax on autos will be streamlined to a single rate of 5% on vehicles over 2,000 cc
- ✓ Korea will not introduce new engine displacement taxes

Emission and other standards

- ✓ Korea will provide special treatment for U.S. automakers with regard to emission standards
- ✓ Korea will provide a grace period until 2008 for U.S. automakers to comply with new environment-related regulations (the "On-Board Diagnosis" II issue)
- ✓ Korea will grant a two-year grace period to U.S. automakers for application of new safety standards

Expedited dispute settlement process with snap-back

- ✓ Special expedited dispute settlement process with "snap-back" (reinstatement of the pre-FTA tariff) mechanism.

Creation of Auto Working Group

- ✓ The Auto Working Group will address any future regulatory issues

What the 2007 USITC report on KORUS FTA says on autos:

- ✓ Removal of the 8 percent tariff on passenger cars and the 10 percent tariff on light trucks would likely have a positive effect on U.S. exports, potentially enabling U.S. exporters to lower their prices because of the tariff savings.
- ✓ Much of the import increase [in passenger cars] would likely be diverted from other import sources (55~57%). For this reason, declines in output or employment for the broader passenger vehicles and parts sector would likely be negligible.
- ✓ The overall tax burden on the Korea consumer who purchases an imported vehicle would be reduced, more or less equalizing the total taxes paid on imported and domestic vehicles

Facts about the Korean automobile industry:

- ✓ Market share of foreign vehicles in terms of the number of vehicles sold in Korea in 2006 was about 4.5%. But as foreign cars generally sell at relatively high prices, in terms of sales value, their market share in Korea was 14% in 2006.
- ✓ Sales of foreign-owned automobile manufacturers (such as GM-Daewoo) and imported cars combined are around 30% of the total domestic market in Korea now.
- ✓ Korea is not the main source of the U.S. auto trade deficit. According to U.S. Department of Commerce statistics (2006), the U.S. recorded an automotive trade deficit of \$43.2 billion with Japan, \$25.1 billion with Canada, and \$22.9 billion with the European Union, compared to \$8.5 billion with Korea.
- ✓ Korean manufacturers are opening state-of-the-art automobile manufacturing plants in the United States. The Hyundai plant in Alabama is a \$1.1 billion investment and has created 3,000 new jobs. The Kia plant in Georgia, expected to be in operation by 2009, is a \$1.2 billion investment that will generate around 2,500 new jobs.

7. The Strategic Dynamic: Taking Our Alliance to the Next Level to Meet the Challenges of the 21st Century in Northeast Asia

The robust economic relationship that Korea and the United States share is embedded in a solid alliance built upon shared values in democracy, the principle of open and free markets, and human rights. A Free Trade Agreement will take the Korea-U.S. relationship to the next level, so that our two countries will be ready to meet the challenges of the new century in Northeast Asia.

An alliance that transcends the test of time. For more than half a century, Korea and the United States have been strategic allies with shared beliefs in democracy, the principle of market economics, and human rights. We forged an alliance in the midst of the Korean War which placed Korea on the front lines of the Cold War. Since then, Korean troops have fought with the United States in every single major international conflict of the past half-century.

As demands upon the United States increase around the world, especially with the on-going war against terrorism, Korea is taking on more responsibility as a true partner and stalwart ally to the United States.

Currently, Korea has the 3rd largest troop deployment in Iraq, behind only the United States and Britain. Moreover, Korea has contributed nearly \$260 million to the reconstruction efforts in Iraq. Korea also maintains a sizeable military presence in Afghanistan.

The Korea-U.S. FTA will take our alliance to the next level. Approval of a free trade agreement between our two countries will not only boost the economic relationship and prosperity of both our countries, but will also further strengthen our alliance to effectively deal with the new challenges and opportunities of the 21st century.

The Korea-U.S. FTA will provide the United States with a strong foothold in Northeast Asia. The KORUS FTA will be the first FTA that the United States concludes in Northeast Asia. Given the economic as well as geo-political and strategic interests at stake, the importance of strengthening the U.S. presence in this region cannot be overemphasized.

**U.S.-Korea Business Council
and the American Chamber of Commerce in Korea**

**Testimony on House Concurrent Resolution 90,
Urging the United States Congress to Support the
Korea-United States Free Trade Agreement**

to the

**Committee on International Affairs
Hawaii State House of Representatives**

March 24, 2008, 9:30 a.m.

Thank you for this opportunity to share the views of the U.S.-Korea Business Council (“Council”) and the American Chamber of Commerce in Korea (“AMCHAM Korea”) on House Concurrent Resolution 90, urging the United States Congress to support the Korea-United States Free Trade Agreement. The U.S.-Korea Business Council, hosted by the U.S. Chamber of Commerce, is composed of U.S. companies that are significant investors in Korea and works to advance the bilateral U.S.-Korea economic and commercial relationship. AMCHAM Korea, which is affiliated with the U.S. Chamber, represents over 1,100 companies doing business in Korea.

The Council and AMCHAM Korea strongly support the Korea-U.S. Free Trade Agreement (“Korea-U.S. FTA”). This agreement, signed by the U.S. and Korean governments on June 30, 2007, is the most commercially significant U.S. trade deal in more than a decade. It will bring important economic benefits and opportunities to U.S. businesses, farmers, and workers by immediately opening new access for U.S. goods and services in Korea, one of the world’s largest and most dynamic economies. By securing a more open and competitive market, the Korea-U.S. FTA will boost U.S. exports to and investment in Korea, which will generate new jobs and economic growth in the United States and in Hawaii.

The Council and AMCHAM Korea have testified before Congress and the Bush Administration in support of the Korea-U.S. FTA, and are working together with the U.S.-Korea FTA Business Coalition, a group of over 500 U.S. companies, associations, and chambers of commerce of which the U.S.-Korea Business Council serves as secretariat, to inform Congress about the merits of the accord and to build bipartisan support for its approval. The Council and AMCHAM Korea would like to submit for the record a copy of our testimony before the U.S. International Trade Commission on June 27, 2007, and a report issued by the U.S.-Korea Business Council in September 2007, which explain in detail the very significant benefits of the Korea-U.S. FTA for the U.S. economy and for the global competitiveness of U.S. workers and businesses. However, these organizations also would still like to take this opportunity to present the members of the Committee on International Affairs with some facts about the Korea-U.S. FTA and how it will benefit Hawaii.

Korea, with its nearly \$1 trillion economy, is a large and growing market for U.S. goods and services. Korea is the seventh-largest U.S. trading partner in terms of two-way trade, which reached \$82.3 billion in 2007. U.S. exports of agricultural and manufactured goods to Korea grew to \$34.7 billion last year, a seven percent increase over 2006 and making Korea the seventh-largest U.S. export market. In fact, between 2001 and 2007, U.S. goods exports to Korea have increased 56 percent, while overall U.S.-Korea trade increased by over 43 percent. Korea is the second-largest market for U.S. services exports in Asia, and total U.S. services exports to Korea grew to \$11.5 billion in 2007, an increase of nearly 10 percent.

The Korea-U.S. FTA will create important new opportunities for U.S. and Hawaiian companies to do business with Korea. This agreement is an unprecedented opportunity to level the playing field in Korea for American and Hawaii workers, farmers, and businesses. U.S. producers have long faced far higher tariffs in Korea than Korean producers face in the more open U.S. market. The Korea-U.S. FTA will promote fairness and boost U.S. competitiveness by eliminating these barriers. Under the Korea-U.S. FTA, 95 percent of bilateral trade in consumer and industrial products will become duty free within three years, and tariffs on almost all goods will be eliminated within 10 years. Nearly two-thirds of current U.S. agricultural exports to Korea will become duty-free immediately, which will provide significant benefits to U.S. farmers and producers of processed food given Korea’s current average applied tariff of 52 percent on these products.

The Korea-U.S. FTA also includes strong provisions on intellectual property rights, financial services, competition, regulatory transparency, and other rules that go beyond those included in any other U.S. trade agreement. Korea's complex regulatory system and other nontariff market access barriers have limited the opportunities for U.S. businesses and investors to compete and succeed in Korea. The Korea-U.S. FTA addresses these challenges with strong provisions and protections that will open Korea's market and set the bar higher for future trade pacts.

The U.S. International Trade Commission (USITC) has forecasted that, after full implementation of the FTA, *U.S. GDP is likely to increase by \$10 billion to \$12 billion, and U.S. goods exports to Korea are likely to increase by \$10 billion to \$11 billion.* Notably, the USITC forecasted that much of the projected increase in Korean imports to the United States would likely be *diverted* from other import sources, making potential declines in U.S. industries such as textile and apparel and passenger vehicle and parts industries *negligible*.

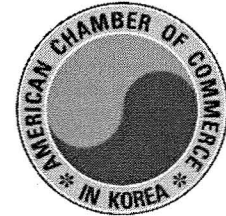
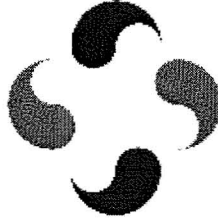
The Korea-U.S. FTA will secure competitive advantages for U.S. and Hawaiian companies in Asia's rapidly integrating market. By giving U.S. businesses and farmers an advantage over global competitors in Korea's market, the agreement will ensure that the United States not only remains competitive in Korea, but is a critical part of Asia's rapid market integration. U.S. companies have lost market share in Korea to European and Chinese companies in recent years, and Korea and other Asian countries are rapidly integrating their economies through bilateral FTAs and cross-border investment of billions of dollars each year, especially in China. By securing preferential access and strong protections for U.S. goods and services in Korea, the KORUS FTA will ensure that the United States is not left out of Asia's fast-growing and rapidly integrating regional economy.

The Korea-U.S. FTA will reinforce the critical political and security partnership between the United States and Korea by expanding trade and investment between the two countries. By deepening U.S.-Korea economic links, the agreement will bring new energy and vitality to our countries' overall partnership, which is an alliance critical to regional and global security. It will strengthen our relationship with Korea and show unity between our two countries as we work together to successfully address regional strategic and security challenges.

Hawaii, America's historic gateway to Asia, stands to benefit significantly from expanded U.S.-Korea trade under the Korea-U.S. FTA. Hawaii exported \$560 million in goods in 2007, led by petroleum and coal products, processed foods, waste and scrap, and transportation equipment. Fifty-five percent of these exports were generated by Hawaiian small and medium-sized enterprises. Korea was the third-largest market worldwide for Hawaiian exports last year, which totaled \$51 million. The Korea-U.S. FTA will eliminate Korean tariffs on almost every important Hawaiian export commodity—some immediately, others over time. By making trade rules more transparent, predictable, and consistent, and by speeding up the customs clearance process and making e-commerce duty free, the Korea-U.S. FTA will make Korea a more affordable market in which Hawaiian businesses of all sizes can compete. Korea is also an important source of overseas visitors to Hawaii, and tens of thousands of Koreans visit Hawaii every year for business, education, and tourism. The Korea-U.S. FTA, together with Korea's pending participation in the U.S. Visa Waiver Program, will encourage even more Koreans to visit and do business in Hawaii and the United States.

In short, the American economy and businesses, farmers, workers, and consumers in Hawaii and across the country stand to gain substantial and tangible benefits through an FTA with Korea, both in terms of new market access in Korea and increased competitiveness in a powerful Northeast Asian market.

The Council and AMCHAM Korea applaud the Committee on International Affairs of the Hawaii State House of Representatives for considering this resolution urging Congress to approve the Korea-U.S. FTA, and for its leadership in working to promote the vitally important relationship between the United States and Korea. These organizations are confident that this resolution will send an important signal to Congress of the strong support of the people of Hawaii, and indeed of the broader American public for this agreement. The Council and AMCHAM Korea appreciate the opportunity to share the views of our two organizations, and encourage this Committee to support this resolution.



As prepared for submission

**Views on the Economic Impact of the
United States-Korea Free Trade Agreement**

Testimony

of the

U.S. Chamber of Commerce

U.S.-Korea Business Council

and the

American Chamber of Commerce in Korea

Before the United States International Trade Commission

Investigation No. TA-2104-24

June 27, 2007

Thank you for this opportunity to share the views of the U.S. Chamber of Commerce, the U.S.-Korea Business Council, and the American Chamber of Commerce in Korea (AMCHAM Korea) on the economic impacts of the United States-Korea Free Trade Agreement (FTA). The U.S. Chamber is the world's largest business federation representing three million businesses of every size, sector and region. The U.S.-Korea Business Council, hosted by the U.S. Chamber, is composed of U.S. companies that are significant investors in Korea and works to advance the bilateral U.S.-Korea economic and commercial relationship. AMCHAM Korea, which is affiliated with the U.S. Chamber, represents over 1,100 companies doing business in Korea.

Our three organizations enthusiastically support the U.S.-Korea Free Trade Agreement (FTA). This agreement stands to advance trade between the United States and Korea by eliminating trade barriers to U.S. goods and services in the Korean market, enhancing protections for U.S. investors, and leveling the playing field for U.S. businesses in one of the world's largest and most globally competitive economies. It will deepen further the important economic links between our two countries and reinforce a bilateral partnership that has promoted regional security and prosperity in East Asia for more than fifty years.

The conclusion of a U.S.-Korea FTA has long been a top priority for our three organizations. In February 2006, when the U.S. and Korean governments announced their intention to enter into FTA negotiations, the Council established the U.S.-Korea FTA Business Coalition, a broad-based group of U.S. companies and business organizations that now totals over 400 members representing businesses of every size and sector. During the FTA talks, our organizations consulted closely with U.S. and Korean negotiators to ensure that the objectives of our members were reflected in the final agreement, and we worked vigorously to build support in the United States for an FTA. We applaud the U.S. and Korean governments for their leadership in concluding an agreement that successfully addresses many of the significant market access and other regulatory barriers that have long presented challenges to the expansion of trade and investment between our two countries.

Economic ties between the United States and Korea are robust, and the extension of the bilateral trade and investment relationship will make the U.S.-Korea FTA the most commercially significant trade agreement the United States has entered into since the North American Free Trade Agreement. Korea is the world's twelfth-largest economy, with an estimated gross domestic product of \$897.4 billion in 2006 and estimated per capita gross national income of \$18,000. Korea is the United States' seventh-largest trading partner in terms of two-way trade, which reached nearly \$78 billion in 2006, and U.S. exports to Korea totaled \$32.5 billion last year—an increase of nearly 17 percent over 2005. Korea is the sixth-largest market worldwide for U.S. agricultural goods, with U.S. agricultural exports totaling \$2.9 billion in 2006. Korea is also the second-largest market for U.S. services in Asia, and U.S. cross-border exports of services to Korea totaled \$10.2 billion in 2005. U.S. small and medium enterprises (SMEs) conduct significant trade with Korea; in 2004 (the most recent year for which data is available), 18,339 U.S. SMEs represented over 88 percent of all U.S. companies exporting to Korea and accounted for \$7.7 billion or 32 percent of total U.S. exports to Korea—an increase of \$1 billion from 2003.

The U.S.-Korea FTA will generate great new opportunities and economic benefits for businesses, farmers, consumers, and workers in both the United States and Korea through increased market access and new investment. Similarly, the agreement will benefit U.S. consumers by increasing their

access to quality Korean goods at more affordable prices. Korean businesses, consumers, and workers will likewise benefit from new access to the U.S. market.

Studies by several leading U.S. and Korean economic experts have indicated that a comprehensive bilateral FTA would lead to greater economic growth and net welfare gains in both countries through increased trade and investment. A 2001 study by the Institute for International Economics (IIE) on the potential benefits of a U.S.-Korea FTA estimated that under an agreement, U.S. exports to Korea could rise by 49 percent and U.S. imports from Korea could increase by 30 percent over the medium term. A 2006 update of the IIE study indicated that U.S. welfare could increase by \$6.3 billion in the medium term, assuming a fixed amount of capital, and by \$13.7 billion over the long-run assuming that capital stock is allowed to increase through investment after the new trade opening under an agreement. This same study forecasted a welfare increase for Korea of \$20.2 billion in the medium term and \$40.9 billion in the long-run. Similarly, a 2001 study by the U.S. International Trade Commission forecasted an increase of U.S. exports to Korea by up to 54 percent and of U.S. imports from Korea by 21 percent. Subsequent studies by others have pointed to similar net gains for both the United States and Korea under an FTA. An agreement is clearly in both countries' interests.

Investment flows between the United States and Korea have accelerated in recent years. The United States is Korea's largest source of foreign direct investment, with U.S. aggregate investment in Korea totaling over \$36 billion. As the Korean government proceeds with ongoing economic and regulatory reform efforts, Korea's attraction to overseas firms as an investment destination is growing. By strengthening investor protections and enhancing the transparency and predictability of Korea's regulatory process, the agreement is expected to draw more U.S. investors to Korea, which in turn will help to generate new growth for these companies in the United States and ensure they can create new high-skilled jobs here. Likewise, Korean companies continue to increase the size and scope of their investments and operations in the United States. Korean corporate investment in the United States totaled over \$6 billion in 2005 and has created tens of thousands of American jobs. Under the FTA, which includes strong protections for investors, we anticipate that this two-way investment will increase.

The anticipated effects of the U.S.-Korea FTA go far beyond bilateral trade. Indeed, the FTA is a historic agreement that has geostrategic implications and the potential to shape the trade agenda in an increasingly competitive Asia for years to come. The agreement will secure for U.S. businesses and farmers a preferential position in one of Asia's largest and most dynamic markets vis-à-vis our global competitors. The comprehensive scope of the agreement goes well beyond that of other bilateral trade agreements that Korea and other Asian countries have negotiated with each other and with countries outside the region. Importantly, the agreement includes some of the strongest chapters yet negotiated within a U.S. FTA on intellectual property, financial services, competition, transparency, and other rules that set important new precedents for future bilateral and multilateral agreements. In this way, the U.S.-Korea FTA provides a critical opportunity to make the strong protections and provisions included within this agreement the new standard for ongoing and future regional bilateral trade agreements.

The timing of this agreement is crucial, as Korea is rapidly expanding its own network of bilateral and multilateral trade agreements through ongoing negotiations with the European Union, India, Canada, and other countries. Korea is also studying possible FTA talks with China and possibly

reopening its FTA negotiations with Japan, which are currently on hiatus. The U.S.-Korea FTA, if put into effect, will help to set the terms for these negotiations and other future trade agreements. That is important as we do not want to have less comprehensive agreements set the rules of trade for us.

The FTA will also reinforce the critical political and security partnership between the United States and Korea by expanding trade and investment between our two countries. It will update our relationship with Korea and show unity between our two countries as we work together to successfully address regional strategic and security challenges.

In short, the American economy and American businesses, farmers, workers, and consumers stand to gain substantial and tangible benefits through an FTA with Korea, both in terms of new market access in Korea and increased competitiveness in the powerful Northeast Asian market. Our organizations are now working together and through the U.S.-Korea FTA Coalition, of which the U.S.-Korea Business Council serves as secretariat, to inform Congress about the merits of the accord and to build bipartisan support for its approval.

BENEFITS OF THE U.S.-KOREA FREE TRADE AGREEMENT

In our submission to the U.S. International Trade Commission in April 2006, our three organizations called for an FTA with Korea that was comprehensive in scope and fully consistent with the World Trade Organization's (WTO) framework for liberalized trade. We requested the early elimination of tariff and non-tariff market access barriers to U.S. companies in Korea, as well as specific commitments in the agreement addressing long-standing issues for U.S. companies in the automotive and pharmaceuticals sectors. In addition, we urged negotiators to include in the agreement enhanced commitments by Korea that would lead to transparent and predictable regulatory and rulemaking procedures across all sectors. Each of these elements is critically important to ensuring the greatest possible benefit for the United States and Korea from this agreement.

Our organizations and our members have reviewed the text of the U.S.-Korea FTA that was released by USTR on May 24, 2007, and based on our analysis of this text we are satisfied that these fundamental objectives and many of our other goals for the FTA negotiations have been successfully achieved in the final agreement. The agreement is comprehensive and addresses satisfactorily a significant number of non-tariff barriers that have long presented challenges to doing business in Korea.

We particularly welcome the strong commitments by the Korean government to promote transparency in Korea's regulatory process. As we outlined in our testimony before the U.S. International Trade Commission last year, the lack of transparency in and lack of equal access to Korea's regulatory process are arguably the greatest market access barriers impacting U.S. companies and investors in Korea. We are pleased that the agreement includes in the transparency chapter commitments by the Korean government to publish proposed regulations in advance, allow a reasonable opportunity to comment on the proposed regulations, address significant substantive comments received, and publish final regulations in an official journal of national circulation. We also welcome specific transparency provisions in other key areas, including customs administration, pharmaceutical pricing and reimbursement, technical regulations, services, financial services, and

telecommunications. The agreement additionally includes dispute settlement mechanisms allowing for open public hearings, public access to documents, and opportunities for third parties to submit views.

In this regard, it is imperative that the commitments made in the agreement be fully and effectively implemented as early as possible. Past memorandums of understanding and other bilateral agreements with Korea addressing challenging bilateral trade issues have not succeeded in large part because they were not effectively implemented. We urge the United States and Korean governments to enforce the terms of this agreement rigorously. Our organizations will closely monitor its implementation.

Below we describe how the final U.S.-Korea FTA concluded by negotiators compares with our organizations' negotiating objectives.

I. SECTORAL ISSUES

Market Access

Our organizations are pleased that, under the U.S.-Korea FTA, nearly 95 percent of bilateral consumer and industrial goods trade will become duty-free within three years, with almost all remaining tariffs on goods eliminated within ten years. The elimination of these tariffs is a significant accomplishment, as over 80 percent of U.S. merchandise goods to Korea are manufactured goods, and it will bring tangible and significant benefits to U.S. exporters. We note that trade in remanufactured goods is also covered under the agreement, which will additionally create new export and investment opportunities for U.S. firms producing these products, which include medical equipment, machinery, and auto parts.

Services

Our organizations sought the maximum liberalization of Korea's services sector within the U.S.-Korea FTA, in particular the elimination of market access barriers including restrictions on foreign ownership within several key services industries. Specific areas of interest in services to our member companies include financial services, telecommunications, legal services, accounting, computer and related services, audiovisual, media and broadcasting, management consulting, and express delivery.

We are satisfied that the FTA provides substantial new market access commitments that will give U.S. services suppliers new opportunities and stronger protections in the Korean market, thus encouraging competition and efficiency gains. We particularly welcome the Korean government's agreement to apply the negative list approach, under which all sectors will be liberalized except where Korea has taken a specific reservation. Importantly, the agreement includes a "ratchet clause" under which all future liberalization by Korea will be automatically included under the U.S.-Korea FTA.

In **audiovisual** services, our organizations called for the elimination of foreign content restrictions on broadcasting, cable, and other media. We welcome the Korean government's commitment to lock in the reduced 73 day local screen quota and existing access for foreign broadcasters. We also welcome the Korean government's commitment to decrease Korean television content quotas on the broadcast of foreign animation and films. The FTA will also open the door for programmers to invest and transmit content over digital platforms; and, the Korean government will allow US

investment in IPTV, which should open-up substantial new opportunities for US interests in that market. We sought the removal of Korean restrictions on dubbing and local advertising in foreign broadcast retransmissions, and will continue to raise this issue in bilateral trade discussions.

Our organizations are pleased by Korea's recognition in the FTA of **express delivery** as a distinct services sector and its commitment to ensuring at least the same level of market access as exists at the time the FTA takes effect. The agreement provides greater access to international delivery services and a commitment by the Korean government for future reform on domestic services. We are also pleased that the FTA includes a side letter clarifying the existing Korea Postal law and that accepts principles for ensuring a level playing field in the Korean market for private express delivery providers.

Additionally, we welcome Korea's commitment under the FTA to open its legal services market to foreign legal consulting services and to liberalize its health care and education services markets, which will create important new opportunities for U.S. businesses in these sectors and for Korean consumers. We are satisfied that the FTA includes anti-corruption principles similar to those included in other recent U.S. FTAs, as we sought.

Financial services and telecommunications are discussed in more detail below.

Financial Services

Our organizations welcome the strong financial services chapter of the U.S.-Korea FTA, which when implemented stands to generate significant benefits for U.S. financial services firms operating in Korea by establishing a more competitive market environment. We would note that Korea, which is the world's eighth-largest insurance market with total premium value of more than \$65 billion, is the largest insurance and retirement security market that will be subject to a U.S. free trade agreement.

Under the FTA, U.S. firms will have the right to full ownership of a financial institution in Korea, including the establishment of branch banks, insurance companies, and asset managers. Importantly, the agreement will give financial services companies the right to supply cross-border a specified list of financial services, realizing a longstanding goal of our organizations and member companies. We are pleased the agreement provides for regional integration of data processing, an important priority for our organizations.

In the area of insurance specifically, the FTA includes commitments by Korea to undertake regulatory reforms that include increasing the allowance of foreign currency reserves, bancassurance reform, and the adoption of a negative list approach to financial sector regulation. Importantly, the FTA includes commitments by the Korean government that will help level the playing field between private insurers and Korea Post and cooperatives selling insurance services. The agreement also addresses an important priority for our organizations by ensuring more transparent and predictable regulatory procedures, including commitments to standardized notice and comment periods and to putting in writing and making public all administrative guidance to financial services companies.

Combined with ongoing regulatory reform efforts by the Korean government, our organizations view the provisions of this chapter as a significant development that stands to attract major long-term investment in the Korean market from U.S. firms, with the potential to generate new jobs in

the United States as operations grow in Korea. It also represents an important step forward for Korea in its efforts to position itself as a regional financial hub for Northeast Asia, as well as in promoting the regional and global competitiveness of Korean financial services companies.

Information and Communications Technologies

Korea is a global leader in information and communications technologies (ICT), and boasts the world's highest broadband penetration. Korea was the sixth-largest market for U.S. high-tech goods exports and the ninth-largest destination for U.S. information and communications technology (ICT) exports last year, and is considered an important potential growth market for these sectors. However, despite Korean ICT companies' global competitiveness, the Korean government has continued to intervene directly and indirectly in its domestic market, particularly in selecting and mandating technology standards and in licensing and procurement procedures. This has created impediments to U.S. companies attempting to introduce new software and information technologies to the Korean market.

Our organizations are pleased that the U.S.-Korea FTA includes commitments by Korea allowing U.S. companies to own up to 100 percent of a telecommunications operation in Korea, an important priority for our member companies. U.S. companies will also have cost-based and non-discriminatory access to unbundled elements of basic telecommunications networks and services and to all communications platforms used in providing value-added services in Korea, including submarine cable stations. The agreement includes competition safeguards on incumbent communications platform owners to prevent such carriers from abusing their dominant position in the provision of basic communications services or cross-subsidizing affiliates in downstream market segments. We welcome commitments in the agreement under which Korean telecommunications regulatory bodies will be separate from and not accountable to any supplier of public telecommunication services or technology services or government agencies, and will not own equity or maintain an operating or management role in any supplier of public telecommunications.

Importantly, the agreement promotes technology neutrality through safeguards on the restrictions that regulators can impose on operators' technology choice, particularly in wireless technologies. These provisions, when implemented, will create new opportunities for U.S. companies and investors in Korea and for business cooperation in both countries' telecommunications and technology sectors. The agreement also includes important provisions on transparency in the publication by the Korean government of regulations, consultations, prior notice, and public comment periods for new regulations and changes, and by recourse to appeal the decisions of regulatory bodies.

Electronic Commerce

On e-commerce, the U.S.-Korea FTA provides for duty-free and non-discriminatory treatment of all digital products (e.g. software and audio-visual products) whether in physical form or over the Internet, and includes commitments facilitating the use of electronic authentication in their respective markets, as our organizations sought. This is consistent with e-commerce provisions in previous U.S. FTAs and will create new opportunities for U.S. companies in Korea's market.

Agriculture

Our organizations are pleased that the U.S.-Korea FTA will eliminate immediately Korean tariffs on nearly two-thirds of U.S. agricultural exports to Korea currently amounting to \$1.9 billion. Products

in this category include wheat, corn, soybeans for crushing, hides and skins, cotton, pistachios, almonds, wine, bourbon whiskey, raising, fresh cherries, and several kinds of fresh vegetables. Currently Korea offers duty-free access to just \$14 million of U.S. agricultural imports, so the removal of these duties will create immediate and tangible benefits for U.S. farmers and producers of these products, many of which have seen their exports of these goods to Korea grow rapidly in recent years.

We are satisfied that over 90 percent of all Korean tariffs on major U.S. agricultural exports, including beef, pork, poultry, oranges, soybeans, dairy products, processed food products, and other goods will be phased out over 15 years. Elimination of these tariffs will generate significant growth of U.S. exports of these products to Korea, which is a net importer.

The removal of these tariffs is a significant accomplishment in this agreement, given the strong political sensitivity in Korea of its agricultural sector. We are nevertheless disappointed that rice was excluded from the final agreement. We urge the U.S. Trade Representative to vigorously pursue the opening of Korea's rice market through the WTO and other negotiating forums.

Although not an issue negotiated within the U.S.-Korea FTA, Korea's ban on U.S. beef imports has had significant and detrimental effects on the U.S. agricultural industry. Prior to Korea's imposition of this ban following a single incidence of bovine spongiform encephalopathy (BSE) in the United States in December 2003, Korea was the third-largest market for U.S. beef with sales of over \$750 million that year. On May 22, 2007, the World Animal Health Organization (OIE) issued its recommendation that U.S. beef is "controlled risk" for BSE, reconfirming that U.S. beef from cows of all ages is safe for human consumption. Our organizations urge the Korean government to fully reopen its market to all U.S. beef imports as rapidly as possible, in line with the findings of the OIE. We furthermore recognize that Korea's market must be fully reopened to U.S. beef before this agreement can be considered by Congress for approval.

Additionally, the U.S.-Korea FTA includes commitments to transparent and nondiscriminatory procedures for administering tariff rate quotas (TRQs). It also reconfirms commitments by Korea to use sanitary and phytosanitary measures that are science-based and developed in a transparent manner. Our organizations will closely monitor the application and enforcement of these provisions under an implemented FTA, given their past use as trade barriers to U.S. agricultural imports.

Automobiles

The agreement includes commitments by the Korean government to address several significant tariff and non-tariff market access barriers to U.S. automobiles in Korea. The agreement will eliminate immediately Korea's tariff of 8 percent on U.S. vehicles. Under the FTA, the Korean government will amend its Special Consumption Tax and Annual Vehicle Tax to reduce existing maximum tax rates and to further eliminate aspects of these policies that have discriminated against U.S. autos on the basis of engine size.

Moreover, the FTA includes commitments by the Korean government not to adopt technical regulations that create unnecessary barriers to trade, and to cooperate on harmonizing standards. In particular, the Korean government has agreed not to apply its emission standards to vehicles produced by small-volume manufacturers or to apply standards more stringent than those used by the state of California. The FTA also provides for imported motor vehicles to be exempt from new

Korean safety standards for at least two years after the standards are issued, and will then only apply to models under certain conditions.

The FTA additionally provides for the establishment of an autos working group to address future regulatory issues that may arise and to review and provide comment on potential new Korean regulations affecting auto manufacturers. Importantly, the agreement includes an autos-specific dispute settlement mechanism under which the U.S. duty of 2.5 percent on Korean motor vehicles would “snap back” if Korea was found in violation of an auto-related commitment within the FTA or if expected FTA benefits were nullified or impaired.

Pharmaceuticals

Our organizations viewed the U.S.-Korea FTA as an important opportunity to enhance the access of Korean patients to leading U.S. biomedical products, as well as to further improve the transparency and accountability of Korea’s National Health Insurance (NHI) system and secure better and lasting recognition of the value of innovative U.S. biomedical discoveries. The Korean pharmaceutical reimbursement system, in which the NHI is effectively a single purchaser, has in practice lacked transparency and clear and fair criteria to determine the value of innovative medicines. This has created significant barriers in Korea to U.S. manufacturers of innovative biomedical products. Commitments in the FTA by the Korean government to ensure transparency in the pricing and reimbursement process for pharmaceutical products and medical devices, and to increase access by Korean doctors and patients to innovative products by ensuring fair, reasonable, and non-discriminatory treatment of these products, represent important steps forward.

Our organizations particularly welcome the inclusion of strengthened intellectual property protections, which will increase Korean patients’ access to innovative medicines. We are also pleased that the agreement includes commitments by the Korean government to adopt and enforce measures that promote ethical business practices in the Korean market and that prohibit improper inducements by manufacturers of pharmaceutical products and medical devices to health care professionals or institutions.

Our organizations note that a number of important issues affecting U.S. companies in this pharmaceutical sector remain outstanding, particularly in regards to the way pharmaceuticals are priced and reimbursed under Korea’s new government reimbursement guidelines under the NHI system that were introduced in May 2006. We will continue to work with the U.S. and Korean governments to address our members’ interests in this area. Regarding the pharmaceuticals chapter, we also urge the early and effective implementation of the commitments in this chapter and we will closely monitor this process.

II. CROSS-SECTORAL PROVISIONS

Investment

Our organizations are satisfied that the investment chapter of the U.S.-Korea FTA is strong and includes important protections for U.S. investment in Korea. These include provisions on the guarantee of fair and equitable treatment, national treatment, most-favored-nation treatment, the elimination of performance requirements, compensation for expropriation, and the free transfer of capital. The FTA includes a binding and transparent investor-state dispute settlement procedure.

This agreement requires, as do U.S. legal principles and practice, compensation for U.S. investors in the event of a direct and or indirect expropriation. The expropriation annex of the Korea agreement differs somewhat from prior chapters as a result of the negotiating dynamic of this agreement. As we look at the investment chapter and related annexes and letters, we are confident that the full scope of expropriation protections for U.S. investors remains in place, with strong disciplines against indirect expropriation based on the U.S. Supreme Court case in *Penn Central*, and strong guarantees that the broad scope of property rights, such as contract rights, that are covered under U.S. takings jurisprudence are similarly covered under this agreement.

On foreign ownership rules in audiovisual services and broadcasting, our organizations welcome the commitment by the Korean government to phase in 100 percent foreign ownership of program providers (channel operators) for firms that establish a local subsidiary. However, this rule does not apply to comprehensive channels and news channels, which we sought.

Overall, the strong investment protections in the FTA are expected to facilitate greater two-way investment between the United States and Korea, which in turn will generate new jobs and contribute to economic development in both countries.

Intellectual Property Rights

Our organizations called for the inclusion in the U.S.-Korea FTA of strong intellectual property rights (IPR) provisions in order to effectively address the challenges of IPR violations in the Korean market, which have long presented a significant trade barrier to U.S. companies. The International Intellectual Property Alliance (IIPA) estimated trade losses to U.S. companies as a result of copyright piracy in Korea at \$354 million in entertainment software in 2006 and \$200 million in business software in 2005.

Our organizations are pleased by what is the strongest IPR chapter yet included in a U.S. free trade agreement. It includes commitments by the Korean government to fully implement the World Intellectual Property Organization (WIPO) Copyright Treaty and Performances and Phonograms Treaty by the date of entry into force of the agreement. It requires that Korean government agencies only use legitimate computer software. Korea is obligated under the agreement to subject temporary copies to the reproduction right. Sound and recording producers are given levels of protection as close as possible to those of other rights holders under the agreement, which also provides trademark protection for sound, scent, and certification marks.

Importantly, the agreement extends the terms of copyright protection in Korea from the minimum standard of 50 years to 70 years for all copyrighted works, bringing Korea in line with other major international markets. While we sought the extension of copyright terms to 95 years, the standard that has been adopted by the United States, and are disappointed that the agreement includes a two-year transition period for of implementation of the new copyright term once the agreement enters into effect, this is nevertheless a major accomplishment that addresses a longstanding goal of our organizations.

On enforcement, the agreement makes some important advances and precedents for future agreements, particularly in regards to online piracy. It establishes strong anti-circumvention provisions to prohibit tampering with technologies designed to prevent piracy and unauthorized online distribution. It criminalizes end-user piracy, providing strong deterrence against copyright

piracy and trademark counterfeiting. Under the FTA, the Korean government is required to authorize the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce them. It provides rules for the liability of Internet Service Providers (ISPs) for copyright infringement, and includes the implementation of notice and takedown procedures. We also welcome the confirmation in a side letter of the commitment of the Korean government to strengthen enforcement against online piracy of all copyrighted works, and that liability will attach to those who profit from unauthorized downloading regardless of whether they are directly involved in the infringement. The FTA provides standards for protection and enforcement of intellectual property rights for emerging technologies.

Additionally, the agreement provides for customs enforcement against goods-in-transit in order to deter the use of Korean ports or free trade zones to traffic in pirated products. Under the agreement, customs procedures are streamlined to increase efficiency of enforcement, and customs officials and prosecutors can bring an IPR enforcement action without having to wait for a formal complaint from the right holders. These provisions will contribute to more effective enforcement of Korea's IPR laws.

On patents, the May 24 version of the agreement text clarifies and builds upon standards included under the TRIPS agreement, particularly those contained in TRIPS Article 39.3 on data exclusivity, providing for additional protection with respect to pharmaceutical products subject to a patent. It clarifies that test data submitted to a government for the purpose of product approval will be protected against unfair commercial use for a period of five years for pharmaceuticals and ten years for agricultural chemicals. It requires measures by Korea to prevent the marketing of pharmaceutical products that infringe patents and provide notice when the validity of a pharmaceutical patent is to be challenged. These provisions were a priority for our organizations in the agreement and we are pleased they are included.

Competition Policy

Our organizations welcome the strong competition chapter in the U.S.-Korea FTA, which builds upon the high standards and commitments included in other recent FTAs. This chapter includes robust provisions on national treatment, procedural rights and safeguards, and a commitment to enforce competition law in a manner that promotes consumer welfare and economic efficiency. We are pleased that the agreement includes commitments by the Korean government to ensure greater transparency in competition policy and enforcement, both as to the application of Korean competition law to particular sectors and in the investigation of specific transactions or conduct, including the basis for any remedies imposed. These provisions will enhance the ability for U.S. companies, particularly in "new economy" industries including biotechnology, telecommunications, information technology, and e-commerce, in which case law is less developed and markets are more dynamic and fluid, to do business in and compete in the Korean market.

Standards/Technical Barriers to Trade

The Korean government has long used technical barriers to trade (TBTs) to protect Korea's domestic market from foreign competition. Our organizations urged that the U.S.-Korea FTA eliminate Korea-unique standards and standards-setting, testing and certification procedures that are not in line with international norms and have adversely affected the ability of U.S. companies to provide goods and services in the Korean market. We also called for greater transparency and

predictability in these procedures, and for commitments in the FTA for procedures to ensure the full protection of trade secrets.

Our organizations welcome commitments in the U.S.-Korea FTA by the Korean government to enhance transparency in the development and implementation of technical regulations and related conformity assessment procedures. The Korean government will provide national treatment to U.S. entities for participation in the development of standards, technical regulations, and conformity assessment procedures. Korea has also committed to publishing the criteria used to recognize conformity assessment bodies, and to explain objectives and how proposed regulations will address those objectives when regulations are notified for comment and again when they are adopted as final. The Korean government will also make publicly available all comments received on proposals, notify proposals for comment even if they are based on international standards; allow sixty days for written comments on proposals; publish notice of proposed and final regulations in a single official journal; and in publishing final regulations will include responses to significant comments received together with an explanation of the revisions made to the proposal. These are important accomplishments that will address important priorities for our organizations in this area.

Under the agreement, the Korean government is required to promote reliance on international standards that are consensus-based. Moreover, in areas where Korea recognizes non-governmental bodies to perform testing and certification for compliance with its technical regulations, the agreement includes the Korean government's commitment to provide national treatment to U.S. conformity assessment bodies and for Korea's government authorities to provide national treatment when testing and certifying U.S. products. The agreement also provides for the establishment of a bilateral committee to strengthen FTA and WTO commitments on TBTs, which will monitor implementation and promote cooperation.

Government Procurement

Our organizations sought commitments by Korea in the U.S.-Korea FTA for transparent and nondiscriminatory government procurement policies that base procurement decisions on the merits and overall value of the products or services, and to address problems related to overly broad procurement contract provisions. We are satisfied that, under the FTA, the Korean government has made commitments to expand the number of Korean central government entities beyond those covered under the WTO Agreement on Government Procurement (GPA) to which U.S. suppliers will have access, as well as expand the procurements to which U.S. suppliers will be ensured non-discriminatory access by reducing by nearly half the threshold applied by GPA. We are also pleased by the creation of a government procurement working group that will address matters including IT-related government procurement issues.

Customs

Our organizations called for the inclusion of customs provisions within the U.S.-Korea FTA that would expedite Korea's customs and import clearance process and reduce impediments to trade. We are satisfied with provisions under the FTA that will simplify customs procedures between the United States and Korea. It contains important provisions to facilitate customs clearance, which is critical to the efficient operation of express carriers, including a targeted window of no more than four hours for clearance of most express shipments and provisions allowing for electronic record retention. In particular, the FTA provides for the release of goods in a timely and efficient manner;

advance electronic submission and processing of information before goods physically arrive at the point of entry; and allowance of goods to be released at the point of arrival.

The customs chapter includes commitments to ensure transparency in customs laws and regulations and by the Korean government to publish in advance proposed regulatory changes on customs matters and to provide opportunities for comment before they are implemented. It allows importers, exporters, and producers the ability to obtain binding advance rulings from customs authorities on tariff classification, the application of customs valuation criteria, whether a good qualifies for preferential tariff treatment and country of origin marking, and other matters. The provisions in this chapter will contribute to further facilitating trade and expediting the entry of U.S. goods into Korea.

CONCLUSION

The U.S. Chamber of Commerce, the U.S.-Korea Business Council, and AMCHAM Korea strongly support the negotiated U.S.-Korea FTA. Our organizations and our member companies view this agreement as a landmark opportunity to generate new commercial and investment opportunities in the Korean market. By eliminating significant trade barriers that have prevented U.S. businesses, farmers, and workers from fully competing in the Korean market and from providing U.S. goods and services to Korean consumers, the agreement will further promote two-way trade and investment between two of the world's largest and most dynamic economies. The "gold standard" provisions of this agreement and its overall strong and comprehensive provisions set new terms for trade liberalization at a time when regional economic integration in Asia is proceeding rapidly. Moreover, an FTA will further strengthen our strategic bilateral partnership, thus bolstering our two countries' efforts to promote security and stability on the Korean Peninsula and in the broader Asia region. Our organizations will continue their work to inform Congress about the merits of the agreement and to build bipartisan support for its approval.

Again, the early, full, and effective implementation of the commitments in this agreement is absolutely critical to its success and to ensuring that U.S. businesses, farmers, consumers, and workers will reap the full benefits of this agreement. We urge the U.S. and Korean governments to uphold these commitments, and our organizations will closely and carefully monitor the implementation and enforcement of the terms of the agreement.

The U.S.-Korea Free Trade Agreement

Economic Opportunity, Strategic Imperative



The views contained in this report are solely those of the U.S.-Korea Business Council and do not necessarily reflect the views of the Korea-U.S. Business Council, our counterpart organization in Korea.

Report prepared by Sean Connell, Executive Director, U.S.-Korea Business Council.
Robert C. Reis Jr. and Jeffrey Pardini contributed to this report.

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—From a statement of principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations.

The U.S.-Korea Free Trade Agreement

Economic Opportunity, Strategic Imperative

U.S.-Korea Business Council
September 2007



ABOUT THIS REPORT

The U.S.-Korea Free Trade Agreement (FTA) was signed on June 30, 2007. This report is intended to provide an overview of the benefits of the U.S.-Korea FTA for the U.S. economy and its importance for promoting broader U.S. foreign policy goals and economic competitiveness in Asia. It outlines new opportunities under the agreement for specific U.S. economic sectors and industries and explains how the agreement successfully addresses long-standing challenges to U.S. businesses in the Korean market.

This report reflects the U.S.-Korea Business Council's submission to the U.S. International Trade Commission on the potential economic impacts of the U.S.-Korea FTA and testimony submitted by the Council to the House Committee on Foreign Affairs about the foreign policy implications of the agreement.

ABOUT THE U.S.-KOREA BUSINESS COUNCIL

The U.S.-Korea Business Council is the leading American business organization promoting a strong economic and political relationship between the United States and Korea. Founded in 1987, the Council is made up of senior executives representing U.S. companies from every major industry sector that are firmly committed to the Korean market. The Council advocates and supports policies that encourage the expansion of trade and investment between the United States and Korea. The U.S. Chamber of Commerce serves as secretariat of the Council.

More information on the U.S.-Korea Business Council is available at www.uskoreacouncil.org.



ABOUT THE U.S.-KOREA FTA BUSINESS COALITION

The U.S.-Korea FTA Business Coalition is a broad-based group of U.S. companies, industry organizations, and trade associations working to secure the approval of the U.S.-Korea FTA by the U.S. Congress. The U.S.-Korea Business Council serves as the Coalition's secretariat.

More information on the U.S.-Korea FTA Business Coalition is available at www.uskoreafta.org.



TABLE OF CONTENTS

The U.S.-Korea Free Trade Agreement:	
Economic Opportunity, Strategic Imperative	2
An Economic Opportunity	3
A Strategic Imperative	7
The Cost of Inaction	9
Benefits of the U.S.-Korea Free Trade Agreement	10
Benefits for U.S. Economic Sectors	10
Services	10
Financial Services	11
Information Technology and Telecommunications	12
Agriculture	13
Manufacturing	14
Automobiles	15
Pharmaceuticals	16
Benefits Across All U.S. Economic Sectors	17
Investment	17
Intellectual Property Rights	17
Competition Policy	18
Standards and Technical Barriers to Trade	19
Government Procurement	19
Customs	20
Other Issues in the U.S.-Korea FTA	21
Labor	21
Environment	21
Kaesong Industrial Complex	21
Conclusion	22

THE U.S.-KOREA FREE TRADE AGREEMENT: ECONOMIC OPPORTUNITY, STRATEGIC IMPERATIVE

The U.S.-Korea Free Trade Agreement (FTA), signed by the U.S. and Korean governments on June 30, 2007, is the most commercially significant U.S. trade deal in more than a decade. It will bring important economic benefits and opportunities to U.S. businesses, farmers, and workers by immediately opening new access for U.S. goods and services in Korea, one of the world's largest and most dynamic economies. By securing a more open and competitive Korean market, the U.S.-Korea FTA will boost U.S. exports to and investment in Korea—generating new jobs and economic growth in the United States.

However, the U.S.-Korea FTA has great significance beyond U.S. trade with Korea. By deepening our two countries' economic links, the agreement will bring new energy and vitality to the overall U.S.-Korea partnership—an alliance critical to regional and global security. And by giving U.S. businesses and farmers an advantage over global competitors in Korea's market, the agreement will ensure that the United States not only remains competitive in Korea but is a critical part of Asia's rapid market integration. It is a significant U.S. economic and foreign policy success.

The U.S.-Korea FTA is an economic opportunity for American businesses, farmers, and workers and an imperative for U.S. competitiveness, leadership, and security.

AN ECONOMIC OPPORTUNITY

The U.S.-Korea FTA—by removing high tariffs and complex regulatory barriers in Korea—will give U.S. manufacturers, farmers, and service providers a fair and level playing field to compete and succeed in Korea. Expanded trade and investment between the United States and Korea will spur new growth and jobs. Studies by the U.S. International Trade Commission, the Peterson Institute for International Economics, and the University of Michigan on the potential economic effects of the U.S.-Korea FTA have forecast that U.S. exports to Korea could increase between 49% and 54% under the agreement and that U.S. economic welfare could increase from \$13.7 billion to \$25 billion.

Korea, with its nearly \$1 trillion economy, is a large and growing market for U.S. goods and services:

- Korea is the seventh-largest U.S. trading partner in terms of two-way trade, which reached nearly \$78 billion in 2006. U.S. exports to Korea grew to \$32.5 billion in 2006, a 17% increase over 2005.
- U.S.-Korea trade grew by nearly \$21 billion, or 36%, between 2001 and 2006. During this same time period, U.S. exports to Korea increased more than \$10 billion, or 46%.
- The U.S. trade deficit with Korea has declined by more than \$6 billion over the past three years, while Korea's market averaged 4.6% growth over the past six years.

Korea is an important market for U.S. producers across every economic sector:

- The United States exported \$24 billion in manufactured products to Korea in 2005.
- Korea is the sixth-largest market worldwide for U.S. agricultural goods. U.S. agricultural exports to Korea totaled \$2.9 billion in 2006.
- Korea is the second-largest market for U.S. services in Asia. U.S. cross-border exports of services to Korea totaled \$10.2 billion in 2005.
- Korea is the sixth-largest market for U.S. information technology (IT) products, exports of which to Korea reached \$10.6 billion in 2006.

Korea Profile

Population:	49 million
Size:	98,480 square miles
Capital:	Seoul
Government:	Republic
Independence:	August 15, 1945
Language:	Korean
Literacy:	97.9%

Economy

GDP (purchasing power parity):	\$1.196 trillion
GDP growth rate:	4.8% (2006)
GDP per capita:	\$24,500
Unemployment rate:	3.3%
Inflation:	2.2%
Exports:	\$326 billion
Imports:	\$309.3 billion

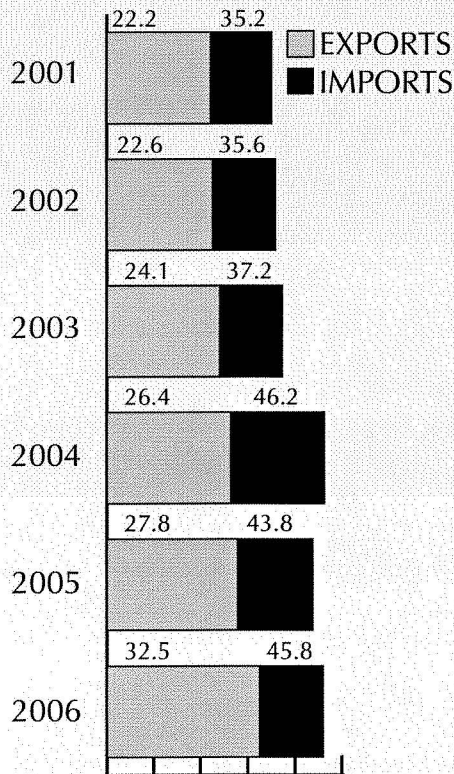
(Source: 2006 CIA World Fact Book)

Did You Know ...

- Since 1994, Korea has averaged a 4.8% GDP growth rate.
- Korea is the world leader in household broadband Internet penetration, at 83%.
- Korea's Busan and Incheon seaports are the world's 8th and 23rd busiest seaports, respectively.
- Korea imports 60% to 70% of its yearly agricultural needs.

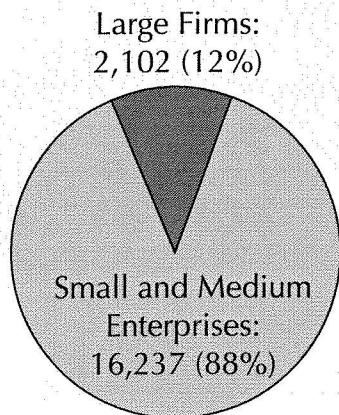
U.S. Trade with South Korea (2001–2006)

All figures in USD billions



U.S. SMEs accounted for 88% of all U.S. exports to Korea in 2004:

U.S. Exporters to Korea (2004)



(Source: U.S. Census Bureau)

U.S. small and medium-size companies are big players in U.S.-Korea trade:

- Eighty-eight percent of U.S. companies exporting products to Korea in 2004 were small and medium-size companies.
- These small and midsize companies exported \$7.7 billion worth of merchandise to Korea in 2004, an increase of more than \$1 billion from 2003. This amount represented more than 32% of all U.S. exports to Korea that year.

Leveling the Playing Field

The U.S.-Korea FTA is an unprecedented opportunity to level the playing field in Korea for American workers, farmers, and businesses. U.S. producers have long faced far higher tariffs in Korea than Korean producers face in the already open U.S. market. The FTA promotes fairness and boosts U.S. competitiveness by eliminating these barriers to U.S. goods and services:

- Nearly 95% of bilateral trade in consumer and industrial products will become duty free within three years—and tariffs on almost all goods will be eliminated within 10 years. Nonagricultural U.S. goods currently face an average applied tariff in Korea of 7%.
- Nearly two-thirds of current U.S. agricultural exports to Korea will become duty free immediately. U.S. agricultural products currently face an average applied tariff in Korea of 52%.

Securing Open and Competitive Markets

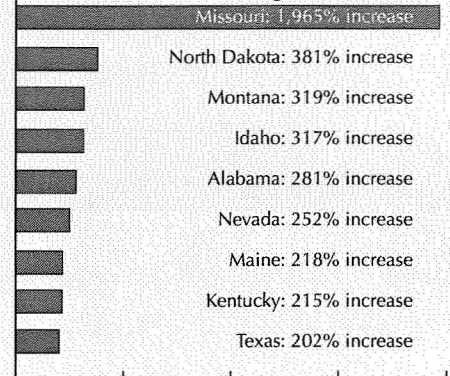
Korea's complex regulatory system and other nontariff market access barriers have limited opportunities for U.S. businesses and investors to compete and succeed in the Korean market. The U.S.-Korea FTA addresses these challenges with strong provisions and protections that open Korea's market, protect U.S. interests, and set the bar higher for future trade pacts:

- **Korea will expand market access in financial services, telecommunications, broadcasting, express delivery, legal, and other major sectors.** U.S. companies currently face restrictions on investment and on their operations in these sectors.
- **Korea will implement clear, consistent, and predictable regulatory and rulemaking procedures across all sectors of its economy.** These and other guarantees of transparent, fair, and open regulatory processes address one of the most costly challenges for U.S. businesses and farmers doing business in Korea.
- **Korea will strengthen significantly its protection and enforcement of copyrights, trademarks, and intellectual property rights (IPR).** This will protect innovative U.S. products and ensure that the companies that create them can fairly compete in Korea's technology-savvy market.
- **Korea will simplify and expedite customs procedures.** This will enable U.S. goods to reach Korean customers more quickly and with less red tape, facilitating increased trade and sales for U.S. exporters—especially small businesses.

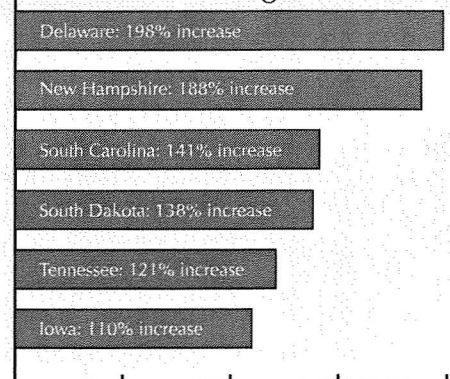
Korea: A Growth Market for U.S. States

The following states have seen their exports to Korea increase significantly since 2001:

More than 200% growth:



More than 100% growth:

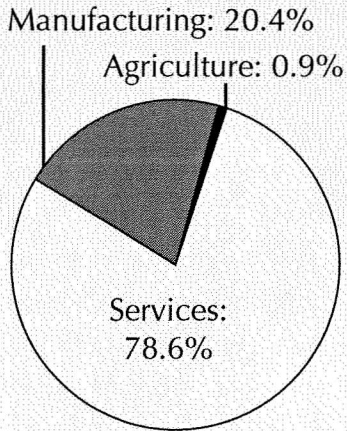


Top Exporting U.S. States to Korea (2006)

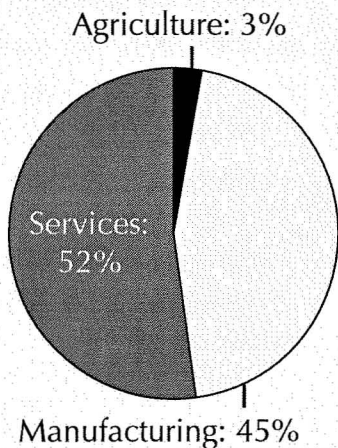
U.S. total exports	\$32.5 billion
California	\$7.0 billion
Texas	\$5.3 billion
Washington	\$2.5 billion
Missouri	\$1.6 billion
Oregon	\$1.3 billion
New York	\$1.3 billion
Massachusetts	\$874.9 million
New Jersey	\$848.9 million
Louisiana	\$834.7 million
Alaska	\$725.7 million
Illinois	\$630.9 million
Pennsylvania	\$586.9 million

(Source: U.S. Department of Commerce)

U.S. GDP Composition by Sector



Korea GDP Composition by Sector



(Source: 2006 CIA World Fact Book)

Opportunities for New Job Growth

Trade creates American jobs. The *2007 Economic Report of the President* says that U.S. companies engaged in international trade increased their employment by 9.8 million workers between 1993 and 2000. Studies by the U.S. Bureau of Economic Analysis have found that as U.S. firms expand their operations and investment abroad, they also increase their hiring and investment in the United States.

Trade and investment with Korea already supports tens of thousands of American jobs across all sectors of the U.S. economy. Expanding this trade and investment through the U.S.-Korea FTA will generate new jobs for American workers and growth opportunities for local communities:

- By removing trade barriers, the FTA will generate new demand in Korea for U.S. products and create a cascade of new jobs in the United States.
- U.S. exporters will need not only production workers but engineers, designers, and advertising and marketing specialists. The demand for truckers, railroad workers, airline employees, logistics specialists, and port operations workers will also grow. These new workers, in turn, will contribute to local economic growth.
- Increased imports from Korea to the United States resulting from the FTA will create new American jobs at ports, in transportation and logistics, warehousing, advertising, retail sales, and other sectors.
- Strong new investor protections and regulatory reforms in the FTA will attract new U.S. investment to Korea. The returns from this investment will enable U.S. companies to grow, innovate, and generate more skilled, high-wage jobs in the United States.

Significantly, Korean companies are rapidly expanding their investment in the United States and have created tens of thousands of American jobs in manufacturing and in dealerships and distribution and supplier networks across the country. These jobs contribute to economic growth in local communities, generating jobs in services and other sectors. Over the next few years, Korean companies are scheduled to open major new manufacturing facilities in the United States, which will employ thousands of American workers.

A STRATEGIC IMPERATIVE

The U.S.-Korea FTA has significant implications for broader U.S. political and economic goals on the Korean Peninsula and in Asia. It will strengthen the United States' partnership with Korea, a critical strategic ally. It will give U.S. exporters a preferential position in Korea's market at a time when Korea and other Asian countries are rapidly integrating their economies through bilateral trade agreements and the cross-border investment of billions of dollars each year—especially in China. For these reasons, the FTA is a strategic imperative for the United States in promoting American competitiveness and leadership, as well as regional and global security.

Strengthening a Critical Partnership

The U.S.-Korea FTA will reinforce the U.S.-Korea political and security partnership:

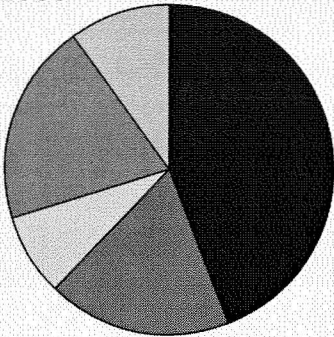
- **Korea is a close and long-standing U.S. ally and one of our strongest partners in advancing regional and global security.** The U.S.-Korea security alliance has contributed to peace and stability in Asia since 1953, and U.S. and Korean forces have stood together in Vietnam, Somalia, Afghanistan, and Iraq. Currently, more than 27,000 members of the U.S. military serve side by side with the Korean armed forces to protect peace and prosperity on the Korean Peninsula and in Asia.
- **The FTA is an important step in updating our countries' critical partnership.** U.S.-Korea ties have long focused on defense and security. By expanding trade and investment, the FTA deepens the economic links between our two countries and broadens our relationship. It reaffirms to the Korean people that the United States is a strong and reliable partner.
- **The FTA is a powerful display of unity between the United States and Korea as our two countries work together to address regional security challenges and promote shared strategic goals—including removing North Korea's nuclear threat, maintaining regional stability, and guaranteeing a prosperous and secure Asia.**

"This day is a milestone in the enduring economic and security alliance between the United States and Korea. Today we look ahead to building on a half century of friendship and cooperation to promote the greater prosperity of the people of both our nations."

- U.S. Trade
Representative
Susan Schwab,
June 30, 2007

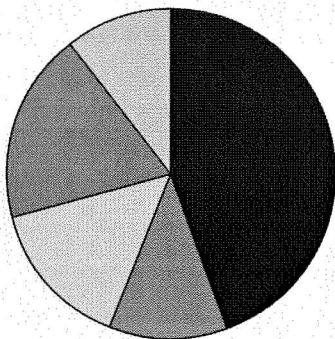
U.S. Export Market Share in Korea

2000



- United States: 18.2%
- China: 8%
- Japan: 19.8%
- European Union: 9.8%
- Rest of the world: 44.2%

2005



- United States: 11.7%
- China: 14.8%
- Japan: 18.5%
- European Union: 10.5%
- Rest of the world: 44.5%

(Source: Korean Ministry of Finance & Economy)

- The FTA contributes to Korea's efforts to reform its economy and promote its global competitiveness. Korea's tremendous economic growth and prosperity testify to the benefits of market economies and global trade. Advancing reform in Korea benefits both U.S. and Korean businesses and offers a model for other Asian economies to emulate.

Promoting U.S. Competitiveness and Shaping the Regional Trade Agenda

The U.S.-Korea FTA not only promotes the competitiveness of U.S. producers in Korea but also establishes new benchmarks for free trade and open markets—shaping the future trade agenda in Asia:

- The FTA gives U.S. businesses and farmers a competitive advantage in Korea's market. Strong competition from other exporting countries has reduced sales of U.S. products in Korea in recent years. China has overtaken the United States as Korea's largest trading partner.
- The FTA covers trade across all economic sectors. Other trade agreements negotiated by Korea and our global competitors exclude many agricultural products, services, and other highly politically sensitive sectors. The strong protections and rules in the FTA offer a model for addressing these issues in trade negotiations.

THE COST OF INACTION

The timing of the U.S.-Korea FTA is crucial. Korea is rapidly expanding its network of trade agreements with other countries. It launched FTA negotiations with the European Union in May 2007, is continuing negotiations with Canada and Mexico, and is studying possible FTA talks with China.

If the United States misses the current opportunity to complete the U.S.-Korea FTA, there will be considerable setbacks to American economic competitiveness and strategic goals:

- U.S. businesses and farmers would not only lose new access to the Korean market but also could lose market share as Korea concludes other bilateral trade agreements with global competitors.
- There would be an adverse effect on the overall U.S.-Korea strategic partnership at a critical moment in our countries' efforts to address challenges to security and stability on the Korean Peninsula and in Asia.
- It would undermine U.S. leadership and credibility in promoting open markets and fair competition not only in Korea but globally, set back vital U.S. geostrategic goals, and undercut U.S. global economic competitiveness.

The U.S.-Korea FTA is too important an opportunity for the United States to pass up. Timely approval by the U.S. Congress of this agreement will enable American businesses, farmers, and workers to reap its full benefits and will ensure continued American leadership in setting the agenda for free and fair trade bilaterally, regionally, and globally.

“Our trade agreement is an opportunity to help a key democratic ally in a rapidly changing Asia to lock in economic reform and the rule of law. It is an opportunity for the U.S. to anchor trans-Pacific visions for the 21st century.”

- U.S. Secretary of State
Condoleezza Rice,
May 9, 2007

“The free trade deal with the U.S., if ratified, would make South Korea the most open market in the world. We depend on exports and trade for our survival. We have to open up to foreign competition; otherwise our economy would be constrained.”

- Korean President
Roh Moo-hyun,
April 2, 2007

SERVICES

Eight out of 10 U.S. workers are employed in the services sector, and services now account for more than half of Korea's economic output. U.S. cross-border exports of services to Korea reached \$10.2 billion in 2005, and sales of services by U.S. affiliates in Korea reached \$4.3 billion in 2004. Korea holds significant growth potential for U.S. services companies, which have faced significant barriers to trade and investment there.

The U.S.-Korea FTA provides U.S. companies significant benefits and opportunities across all services sectors in Korea, including financial services, telecommunications, legal services, accounting, computer and related services, media and broadcasting, management consulting, and express delivery. Some benefits that all U.S. services companies will enjoy are listed below. (Benefits to financial services and telecommunications are taken up in following sections.)

Key Benefits in the U.S.-Korea FTA

- Improves transparency and predictability in Korea's regulatory and rulemaking procedures, removing costly impediments for U.S. services companies doing business in Korea.
- Korea has committed itself not to introduce new restrictions in its services sector unless provided for in the agreement.
- Applies to the United States any future trade concessions and benefits given by Korea to other trading partner countries, as well as any trade liberalization efforts that it undertakes unilaterally.
- Opens new sectors of Korea's market to U.S. services suppliers, including Korea's legal services sector, and liberalizes Korea's health care and education services sectors—giving U.S. businesses new opportunities in these areas.

Audiovisual Services:

- Allows, within three years, 100% foreign ownership of program providers by U.S. companies.
- Locks in Korea's film screen quota (the number of days Korean cinemas are required to show Korean films) at 73 days, giving Korean audiences more opportunities to view U.S. films.
- Reduces Korea's television content quotas on the broadcast of foreign animation programs and films—providing U.S. entertainment companies new access to Korean audiences.
- Allows U.S. programmers to invest and transmit content over digital platforms in Korea, including Internet Protocol Television (IPTV)—opening up substantial opportunities for U.S. interests in this emerging market sector.

Express Delivery Services:

- Includes Korea's recognition of express delivery as a distinct services sector and Korea's commitment to ensure fair and equal access by U.S. express delivery services companies to its market. Korea also has charted future reform of its express delivery system.

FINANCIAL SERVICES

Financial services is the third-largest sector of the U.S. economy and accounts for 8% of U.S. GDP. Korea is a significant market for U.S. financial services companies. It is the world's eighth-largest insurance market, with a total premium value of more than \$65 billion, and it is the largest insurance and security market subject to a U.S. free trade agreement.

The U.S.-Korea FTA creates important new opportunities for U.S. financial services companies by removing significant trade barriers in Korea to the delivery of financial services. Combined with ongoing reform efforts by the Korean government, the FTA will strengthen Korea's economy and establish a more competitive Korean financial market. This should increase U.S. financial services exports to Korea and attract long-term U.S. investment in the Korean market, with the potential to generate new jobs in the United States as these operations in Korea grow.

Key Benefits in the U.S.-Korea FTA

- Gives U.S. financial services companies the right to full ownership of a financial institution in Korea, including the establishment of branch banks, insurance companies, and asset managers.
- Allows U.S. companies to supply financial services on a cross-border basis, including portfolio management services for investment funds.
- Improves transparency and predictability in Korea's regulatory procedures in financial services. It allows U.S. companies to engage in financial businesses unless they are specifically prohibited by Korean law; requires regulators to give advance notice of proposed regulations and adequate opportunities for companies to comment on them; and requires regulators to put in writing and make public all administrative guidance to financial services companies.
- Includes commitments by Korea to undertake other regulatory reforms to make its financial services market more open and competitive.
- Promotes a fair and competitive market in Korea for U.S. insurers through measures that will help level the playing field between private insurers on the one hand and Korea Post and quasi-governmental cooperatives on the other. Korea Post and the cooperatives have unfair advantages over U.S. and Korean private insurers in Korea's insurance market.

INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

Korea is a global leader in information technology (IT) and telecommunications. It boasts the world's highest broadband penetration rate and is a leading source of cutting-edge technology in these sectors. Korea is the sixth-largest export market for U.S. high-tech goods. Korea's imports of U.S. high-tech products reached \$10.6 billion in 2006 and have grown by 45% over the past five years. Korea's market holds strong future growth potential for U.S. companies in this sector.

The U.S.-Korea FTA gives U.S. information technology and telecommunications companies a more competitive playing field in Korea by eliminating high tariffs and unfair regulations and standards that have made it difficult for U.S. companies to introduce new products and technologies there. This creates new opportunities for U.S. companies to invest in Korea and expand their businesses.

Key Benefits in the U.S.-Korea FTA

Information Technology and Telecommunications:

- Eliminates Korean tariffs on almost all U.S. high-tech sector products immediately upon the agreement's entry into force.
- Eliminates nontariff barriers by including key provisions ensuring that Korean technology and telecommunications standards are determined by the market and consumer choice, rather than set by the government.
- Improves transparency in regulatory and rulemaking procedures by giving companies advance notice of proposed regulations and reasonable opportunities to comment on them.
- Allows U.S. companies to participate in the development of standards and technical regulations in Korea.
- Permits U.S. companies to own up to 100% of a telecommunications services operation in Korea. Currently, foreign ownership is limited to 49%.

- Gives U.S. telecommunications services operators nondiscriminatory access to Korea's basic telecommunications networks and services, including submarine cable stations.
- Provides safeguards ensuring a competitive market in Korea. These include commitments that Korean regulatory bodies will be independent from public telecommunication or technology services providers and will not have management roles or financial interests in them.

Electronic Commerce:

- Gives all digital products—including software and audiovisual products—duty-free and nondiscriminatory treatment, whether they are sold on the Internet or in physical form.

AGRICULTURE

Korea is the sixth-largest export market for U.S. farmers, ranchers, and food processors. The United States is Korea's largest supplier of agricultural goods, with U.S. exports to Korea totaling \$2.9 billion in 2006. In fact, U.S. farm exports to Korea have been growing rapidly despite high Korean tariffs on these products. With Korean incomes rising and Western food products becoming more popular among Korean consumers, Korea is a promising growth market for U.S. agricultural exporters. However, competition from other foreign exporters in Korea is getting stronger and has reduced U.S. market share in recent years.

The U.S.-Korea FTA gives U.S. farmers, ranchers, and food processors a breakthrough opportunity to expand sales in Korea and to compete against other global suppliers. It eliminates nearly all Korean tariffs on U.S. agricultural products—some immediately, others over time—and removes other barriers to U.S. farm goods in Korea's market. The FTA stands to significantly increase U.S. agriculture exports to Korea. The American Farm Bureau Federation has estimated that once the FTA has gone into effect, annual U.S. farm exports to Korea will be \$1.6 billion more than they are at present.

Key Benefits in the U.S.-Korea FTA

- Immediately eliminates Korean tariffs on nearly two-thirds of U.S. agricultural exports to Korea.
- Removes over 15 years more than 90% of all Korean tariffs on major U.S. agricultural exports including beef, pork, poultry, oranges, soybeans, dairy products, and processed food products.
- Includes commitments by Korea to follow animal health, plant health, and food safety measures that are science based and developed in a transparent manner. Korea has previously used sanitary and phytosanitary measures to keep U.S. agricultural imports out.

Beef: Korea must fully reopen its market to all U.S. beef imports before the U.S.-Korea FTA will be submitted to Congress for approval. Korea was historically the third-largest export market for U.S. beef exports, which totaled \$815 million in 2003 before Korea banned U.S. beef later that year following the discovery of a single case of mad cow disease in the United States. U.S. boneless beef imports are for sale in Korea, but, at the time of this writing, Korea has not yet reopened its market to U.S. beef imports with bones, which the Korean government has committed to do. After Korea reopens its market, the American Farm Bureau Federation has forecasted that U.S. beef exports to Korea could increase by as much as \$265 million per year under the FTA.

The following agricultural goods will enter Korea duty free immediately:

Frozen orange juice concentrate
Wheat for milling
Cotton
Almonds
Wine
Grape juice
Frozen french fries
Fresh asparagus
Hides and skins
Corn for feed
Soybeans for crushing
Pistachios
Raisins
Fresh cherries
Bourbon whisky
Pet foods

The duties on the following products will decline to zero over time:

Sweet corn	5 years
Carrots	5 years
Pulses (peas, beans, other legumes)	5 years
Alfalfa hay and cubes	5 years
Shelled walnuts	6 years
Lentils	10 years
Frozen chicken leg cuts	10 years
Pork, all cuts	10 years
Frozen chicken breasts/wings	12 years
Beef and beef offal	15 years
In-shell walnuts	15 years
Fuji apples	20 years

(Source: USTR)

Rice: The U.S.-Korea FTA does not include new market access or reduced tariffs for U.S. rice, but it requires that Korea follow through with its WTO commitments to increase rice imports. The U.S. government has pledged to vigorously pursue the opening of Korea's rice market through the WTO.

Below are the percentages of certain U.S. manufactured goods that will enter Korea duty free immediately:

Aircraft and related equipment (83%)
 Agricultural equipment (100%)
 Auto parts (99%)
 Building products (45%)
 Chemicals (47%)
 Consumer goods (73%)
 Construction equipment (100%)
 Electrical/electronic equipment (93%)
 Environmental goods (79%)
 Furniture (100%)
 Footwear and leather products (100%)
 Infrastructure and machinery (48%)
 Lumber and wood (76%)
 Medical equipment (43%)
 Metals and ores (91%)
 Paper and paper products (100%)
 Scientific equipment (nearly 100%)
 Shipping and transportation (98%)
 Toys (100%)

After 5 years, the following U.S. manufactured goods will enter Korea duty free:

Aircraft and related equipment
 Auto parts
 Building products
 Consumer goods
 Metals and ores
 Scientific equipment
 Shipping and transportation

After 10 years, the following U.S. manufactured goods will enter Korea duty free:

Chemicals
 Electrical/electronic equipment
 Environmental goods
 Fish/fish products
 Infrastructure and machinery
 Lumber and wood
 Medical equipment

(Source: U.S. Department of Commerce)

MANUFACTURING

Korea is an important and growing market for U.S. manufacturers, whose exports of consumer and industrial goods to Korea totaled \$24 billion in 2005. However, U.S. manufacturers face high tariffs in Korea, while Korean manufacturers already have duty-free access in the U.S. market for most of their products. Unique and nontransparent standards, testing, and certification procedures, as well as other regulatory barriers have made Korea a difficult country for U.S. manufacturers to enter and do business in.

The U.S.-Korea FTA boosts the competitiveness of U.S. manufacturers of all sizes in Korea and opens new opportunities in the Korean market by immediately eliminating tariffs and removing other challenging trade barriers. Increased U.S. exports of manufactured goods to Korea under the FTA will create new American jobs and reduce the trade imbalance between our two countries.

Key Benefits in the U.S.-Korea FTA

- Eliminates 95% of tariffs on consumer and industrial goods within three years after the FTA enters into force.
- Gives U.S. manufacturers certainty that they can continue to export to Korea remanufactured goods such as medical equipment, machinery, and auto parts.
- Makes the development and implementation of technical regulations and related conformity assessment procedures in Korea more transparent and predictable—removing a costly impediment for U.S. companies.
- Strengthens opportunities for U.S. companies to participate in the development of standards and technical regulations in Korea.
- Secures strong new investment provisions that protect U.S. manufacturers.
- Creates strong new levels of protection from infringement and unfair commercial use of U.S. manufacturers' intellectual property, including patents and test data.
- Provides for national treatment, due process, and greater transparency in Korea's application and enforcement of its competition laws.

AUTOMOBILES

Korea, a major auto manufacturing and exporting country, has long been a challenging market for the U.S. auto industry to penetrate. Korea has the lowest market share for imported autos of any industrialized country, and it has used high tariffs, autos-specific taxes, unique and arbitrary auto standards and certification processes, and other rules to effectively close its market to foreign competition. The United States negotiated two bilateral auto agreements with Korea in the 1990s that addressed some of these challenges, but they did not lead to an open automotive market in Korea. The U.S.-Korea FTA sets out a binding set of commitments by Korea that address many of these barriers and go further than any other agreement in establishing a level playing field for U.S. autos in Korea.

Key Benefits in the U.S.-Korea FTA

- Immediately eliminates Korea's 8% tariff on U.S. vehicles.
- Eliminates discriminatory aspects of Korean auto taxes on the basis of engine size that disproportionately affect U.S. autos and ensures that Korea will not impose any new engine displacement taxes.
- Ensures that Korea will not adopt technical regulations that create unnecessary barriers to trade and will cooperate with the United States to harmonize standards.
- Creates an autos-specific expedited dispute settlement mechanism, under which the U.S. tariffs on Korean cars—about \$220 million in 2006—will snap back into place if Korea violates the FTA's auto provisions or if expected FTA benefits are nullified or impaired.
- Establishes an autos-specific working group to review and discuss potential new Korean regulations affecting U.S. auto manufacturers and to address future regulatory issues in Korea that may arise.
- In response to U.S. automakers' requests, addresses several specific nontariff barriers including vehicle emissions and safety standards.

PHARMACEUTICALS

Korea is ranked in the world's top 12 pharmaceutical markets, with annual sales of about \$7.9 billion. Korea's pharmaceutical reimbursement system, in which Korea's National Health Insurance (NHI) system is effectively a single purchaser, has, in practice, lacked transparency and clear and fair criteria to determine the value of innovative biomedical products. This has created significant barriers in Korea to U.S. manufacturers of these products.

The U.S.-Korea FTA makes progress on this and other challenging market access barriers in the Korean market for U.S. pharmaceutical and medical device manufacturers. Early and effective implementation of these commitments under the FTA will ensure that U.S. manufacturers in this sector will benefit from the agreement.

Key Benefits in the U.S.-Korea FTA

- Strengthens intellectual property protections in Korea, which will increase Korean patients' access to innovative U.S. medicines.
- Includes agreed general principles that acknowledge the importance of adequate access to pharmaceuticals, economic incentives for the development of pharmaceuticals, and government support for R&D and intellectual property protection.
- Includes a statement that rules for pricing and reimbursement must be fair, reasonable and non-discriminatory and must recognize the value of patented products.
- Promotes transparency through provisions that ensure that stakeholders can participate in the development of rules governing the pharmaceutical sector, and provisions for an independent review mechanism.
- Includes an article on ethical business practices that requires both countries to prohibit improper inducements by any pharmaceutical companies to healthcare professionals and institutions.
- Establishes a Medicines and Medical Devices Committee that will monitor and support the implementation of the FTA chapter on Pharmaceutical and Medical Devices.

INVESTMENT

The United States is the largest single-country source of foreign direct investment in Korea, the stock of which totaled \$36 billion in 2005. Korean investment in the United States is also growing, reaching \$6.2 billion in 2005. These investment flows benefit both economies and create economic growth. Korea has significantly opened its market to foreign investment in recent years and has made important regulatory, labor, and other reforms to attract investors and promote its goal of becoming a regional hub in Northeast Asia.

The U.S.-Korea FTA includes a strong investment chapter with important protections for U.S. investors in Korea. These protections will help promote more two-way investment between the United States and Korea, which, in turn, will generate new jobs and contribute to economic development in both countries.

Key Benefits in the U.S.-Korea FTA

- Secures strong new investment provisions in Korea that protect U.S. investors by guaranteeing fair and equitable treatment, national treatment, and most-favored-nation treatment.
- Creates a binding and transparent investor-state dispute settlement procedure.
- Eliminates performance requirements for investors.
- Requires compensation for investors in the event of a direct or indirect expropriation of property.
- Permits ownership by U.S. companies in Korean market sectors where investment is currently restricted, including the audiovisual and broadcasting sectors.

INTELLECTUAL PROPERTY RIGHTS

Strong IPR protections and enforcement are critical for encouraging the innovation and creativity essential to future U.S. economic growth and global competitiveness. Korea is a large and growing export market for U.S. copyright-based goods and services, including technology, information, films, music, publishing, and entertainment software. However, U.S. companies face severe challenges from counterfeiting, patent infringement, and online piracy in Korea. This not only hurts U.S. companies in copyright-based industries—which employ millions of high-skilled U.S. workers—but can also put Korean public safety and health at risk.

The U.S.-Korea FTA features some of the strongest IPR protections and enforcement rules ever included in a U.S. trade agreement. These build upon the Korean government's active efforts to combat counterfeiting and piracy and give it powerful tools to effectively tackle IPR violators. The FTA will ensure that U.S. companies can compete fairly in Korea, deters theft of ideas by counterfeiters, and sets a powerful precedent for IPR protection and enforcement for other major Asian markets.

Key Benefits in the U.S.-Korea FTA

- Strengthens protection for intellectual property, including software, music, film, videos, and text.
- Secures Korea's commitment to fully implement the World Intellectual Property Organization (WIPO) Copyright Treaty and Performances and Phonograms Treaty—ensuring that Korea's IPR protections are up to par with global standards.
- Commits the Korean government to use legitimate computer software.
- Strengthens Korea's enforcement against Internet online piracy and holds liable those who profit from unauthorized downloading.
- Establishes penalties for end-user IPR piracy, including holding Internet Service Providers (ISPs) liable for copyright infringement.
- Requires the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce them.
- Includes new standards protecting IPR for emerging technologies.
- Deters IPR violators from shipping counterfeit products through Korean ports and free trade zones through new customs enforcement rules.
- Protects patents and test data from infringement and unfair commercial use, especially for pharmaceutical products.
- Requires Korea to implement a patent linkage system that will prevent marketing approval of infringing products.

COMPETITION POLICY

The U.S.-Korea FTA includes strong competition policy provisions that will promote greater fairness and transparency for U.S. companies in Korea. These will enhance the ability of U.S. companies to do business in and compete in the Korean market, particularly in new industries such as biotechnology, telecommunications, IT, and e-commerce.

Key Benefits in the U.S.-Korea FTA

- Secures strong provisions on national treatment and due process and on Korea's commitment to enforce competition law in a manner that promotes consumer welfare and economic efficiency.
- Ensures greater transparency in competition policy and enforcement in Korea, both in applying competition law to particular sectors and in investigating specific transactions or conduct.
- Facilitates the efficient market-based resolution of antitrust investigations.

STANDARDS AND TECHNICAL BARRIERS TO TRADE

Korean standards-setting, testing, and certification procedures have impeded U.S. companies from selling their products in Korea. The U.S.-Korea FTA makes progress in eliminating these barriers, and this will make Korea a fairer market for U.S. companies to compete in and offer their goods and services to Korean customers.

Key Benefits in the U.S.-Korea FTA

- Makes the development and implementation of technical regulations and related conformity assessment procedures in Korea more transparent and predictable. Government agencies will give companies advance notice of proposed regulations and reasonable opportunities to comment on them and will publish final regulations with responses to comments received from companies and an explanation of changes made.
- Strengthens opportunities for U.S. companies to participate in the development of standards and technical regulations in Korea.
- Requires Korea to promote the use of international standards that are consensus based.
- Gives national treatment to U.S. testing and certification bodies where the Korean government allows nongovernmental bodies to perform procedures for compliance with technical regulations.
- Provides national treatment when U.S. products are being tested and certified in Korea.
- Establishes a bilateral committee to monitor implementation and promote cooperation on technical barriers to trade.

GOVERNMENT PROCUREMENT

Korea's government procurement market accounts for about 12% of Korea's GDP—making it an attractive market for U.S. manufacturers and suppliers of all sizes. The U.S.-Korea FTA creates important new opportunities for U.S. companies to do business in Korea in this sector.

Key Benefits in the U.S.-Korea FTA

- Gives U.S. suppliers new access to Korean government entities that are not covered under other agreements, including the WTO Agreement on Government Procurement.
- Creates a working group on government procurement that will take up matters such as IT-related government procurement issues.
- Expands the number of procurements to which U.S. suppliers will be ensured nondiscriminatory access by reducing by half the threshold value of covered procurements.

CUSTOMS

Korea's customs procedures—including onerous inspection requirements and nontransparent customs classifications—have been barriers for U.S. exporters to Korea that raise the costs of doing business there. The U.S.-Korea FTA, by simplifying and expediting Korean customs procedures, will make Korea a more accessible and affordable market for U.S. exporters—especially small businesses—and will help them get their products to Korean customers more quickly and cheaply.

Key Benefits in the U.S.-Korea FTA

- Simplifies customs procedures between the United States and Korea.
- Facilitates customs clearance by establishing a targeted window of no more than four hours for clearance of most express shipments. This is critical for U.S. express delivery carriers to operate efficiently.
- Speeds up delivery by allowing for advance electronic submission and processing of information before goods arrive at the point of entry and for goods to be released upon arrival—saving U.S. exporters time and money.
- Ensures transparency in Korean customs laws and regulations by requiring advance notice of proposed regulatory changes on customs matters and opportunities for companies to comment on them before they are implemented.
- Gives U.S. importers, exporters, and producers the ability to obtain binding advance rulings from customs authorities on tariff classification and the application of customs valuation criteria and other matters.

OTHER ISSUES IN THE U.S.-KOREA FTA

LABOR

- **The U.S.-Korea FTA includes all of the labor protections specified in the U.S. Congress' Bipartisan Agreement on Trade Policy.**

Korean laws guaranteeing labor rights are recognized as strong by the Organization for Economic Cooperation and Development (OECD) and other international organizations. In fact, in June 2007, the OECD officially acknowledged the progress achieved by Korea related to labor reform, and in recognition of this progress it announced that OECD monitoring of labor laws and industrial relations in Korea would end immediately. Under the U.S.-Korea FTA, Korea reaffirmed its obligation as a member of the International Labor Organization (ILO) to ensure that its labor laws provide for labor standards consistent with internationally recognized labor rights, and it agreed to other commitments that protect and promote workers' rights. Korea agreed to include in the FTA reinforced commitments on labor protections and its commitment to adopt, maintain, and enforce the four core internationally recognized labor principles from ILO's Declaration on Fundamental Principles and Rights at Work in a way that is fully consistent with the trade policy agreement made by the U.S. Congress and the Bush administration on May 10, 2007.

ENVIRONMENT

- **The U.S.-Korea FTA includes all of the environment provisions specified in the U.S. Congress' Bipartisan Agreement on Trade Policy.**

Korean environmental protection laws are strong, and Korea is a signatory to major multilateral agreements on the environment. Under the U.S.-Korea FTA, Korea reaffirmed its obligations to effectively enforce its domestic environmental laws—which can also be enforced under the FTA's dispute settlement procedures—and to establish high levels of environmental protection. Korea in the FTA reaffirmed its environmental protection commitments in a way that is fully consistent with the trade policy agreement made by the U.S. Congress and the Bush administration on May 10, 2007.

KAESONG INDUSTRIAL COMPLEX AND OUTWARD PROCESSING ZONES

- **Products manufactured in Korea's Kaesong Industrial Complex are *not* included under the U.S.-Korea FTA.**

The Kaesong Industrial Complex is an industrial park located in North Korea just across the Demilitarized Zone (DMZ) from South Korea. South Korean companies have established in the complex facilities that employ North Korean workers.

The U.S.-Korea FTA does not apply to goods manufactured in the Kaesong Industrial Complex.

During U.S.-Korea FTA negotiations, Korean officials pushed the U.S. government for duty-free status for goods produced in Kaesong under the FTA. The U.S. government rejected this request. The FTA does create a Committee on Outward Processing Zones on the Korean Peninsula. This committee will meet once a year to consider whether conditions on the Korean Peninsula are appropriate for the establishment and development of any outward processing zones. It will determine the location of such zones and establish criteria that must be met before products made in any such zones can be considered eligible for coverage under the FTA. **Any recommendations made by the committee to amend the FTA to include an outward processing zone must be approved both by the U.S. Congress and the Korean National Assembly.**

CONCLUSION

The U.S.-Korea Free Trade Agreement is in the United States' national economic interest. American economic growth, competitiveness, and prosperity are built on open markets for goods, services, and capital. The FTA removes obstacles to trade and investment with Korea, one of the world's largest markets and one of our most important trading partners. At a time of growing economic competition in Korea and in Asia, the FTA is a breakthrough opportunity for U.S. manufacturers, farmers, and services providers. By generating new growth and jobs all across America through increased trade and investment with Korea, the FTA will benefit the entire U.S. economy.

The U.S.-Korea FTA is also in the United States' national strategic interest. It reaffirms and strengthens our country's vital partnership with Korea at a time of changing dynamics and emerging trends that could challenge both our countries' goal of promoting a secure and stable Asia. And it will ensure that the United States remains competitive in Korea and in Asia as the region's economy grows and integrates.

The U.S.-Korea FTA promotes U.S. competitiveness, leadership, and economic security at a critical time—and is too important an opportunity for the United States to let pass by.

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HOUSE COMMITTEE ON INTERNATIONAL AFFAIRS HCR90, URGING THE UNITED STATES CONGRESS TO SUPPORT THE KOREA- UNITED STATES FREE TRADE AGREEMENT

March 24, 2008
9:30 a.m., Room 329

My name is Joan Takano and I serve as chair of the Hawaii Chapter of the Asian Pacific American Labor Alliance. Founded in 1992, APALA, AFL-CIO, is the first and only national organization of Asian Pacific American union members.

I am testifying in opposition to HCR90. We are opposed to all new free trade agreements including KORUS FTA that was negotiated under the same model as the North American Free Trade Agreement and the Central American Free Trade Agreement. The result of NAFTA and CAFTA has been the loss of over three million manufacturing jobs in the U.S., record trade deficits over the past five years and the driving down of wages and working conditions for workers in the U.S. and abroad.

It's interesting to note that KORUS FTA was signed on June 30, 2007; the same day that "fast track" expired. Who will benefit from KORUS FTA? Let me cite one specific example. The Pharmaceuticals and Medical Devices Chapter will mandate Korea favor brand name drugs over generic drugs for their national health insurance program. Like the Australia-US FTA, by reducing the ability for Korea to negotiate favorable drug prices, drug companies in the U.S. will enjoy a huge windfall and consumers in Korea will pay more for their prescriptions.

The reason for the resolutions before the committee today is to show that the legislature supports this failed trade policy approach. Please do not fall into this trap. Support fair trade agreements that don't favor multi-national corporations at the expense of workers.

The reason why the Peru NAFTA expansion was opposed by a broad coalition of labor, environmental, consumer, faith-based, family farm and development groups both in the U.S. and in Peru is that they realized that it was terrible foreign policy, terrible domestic policy, and terrible politics. It is for these reasons our two congressional representatives, Mazie Hirono and Neil Abercrombie voted against the Peru FTA.

We urge that you hold this resolution in committee.

Thank you.