

## **Testimony of Deputy U.S. Trade Representative Karan Bhatia**

**House Committee on Foreign Affairs, Subcommittee on Terrorism, Nonproliferation and Trade**

**June 13, 2007**

### **Introduction**

Chairman Sherman, Ranking Member Royce, and distinguished committee members, I am delighted to be able to join the Subcommittee today, together with my colleague Ambassador Hill, to discuss the United States-Korea Free Trade Agreement (or KORUS FTA).

On April 1, the United States and South Korea successfully concluded negotiations on the KORUS FTA, an agreement that if approved by Congress, would represent the most commercially significant FTA the U.S. has implemented in nearly 15 years. This comprehensive trade agreement would eliminate tariffs and other barriers to trade in goods and services, open South Korea's agriculture market, promote economic growth in both countries, and strengthen economic ties between the United States and South Korea. Just as importantly, the KORUS FTA would bolster one of the United States' most vital strategic relationships in an increasingly significant region of the world.

### **Benefits of KORUS FTA**

I will defer to Ambassador Hill to describe the geopolitical implications for the KORUS FTA and how the deal will serve to fortify the 50-year alliance between the United States and South Korea. I will focus my remarks today on the economic and trade benefits of this historic Agreement.

From an economic perspective, the KORUS FTA offers us an opportunity to grow our already significant bilateral trade and investment relationship with one of the world's most diversified and vibrant economies. It has been said that choosing an FTA partner is like choosing a business partner. With its fast-growing, dynamic economy and industries and its creative people, South Korea is precisely the kind of business partner America needs.

Boasting an average growth rate of 4.6 percent over the past six years, South Korea is the world's 11th largest national economy, with a nominal GDP of nearly \$1 trillion. With a population of approximately 49 million people, South Korea's per capita GDP last year was close to \$20,000. South Korea is today the world's 13<sup>th</sup> largest goods import market, the United States' seventh largest goods trading partner, and our seventh largest goods export market. Korea is also one of our faster growing major trading partners, with growth of U.S. goods exports to South Korea in 2006 at 17 percent and U.S. goods imports from South Korea at almost 4.6 percent.

Just to place that relationship in perspective, the \$78 billion in bilateral goods trade we currently have with South Korea is more than 70 percent of the total bilateral trade that we enjoy with all 10 trading partners with whom we have implemented FTAs since 2000 (\$110 billion). And, this is the case even though South Korea's current average tariff for industrial goods is seven percent and for agricultural products is 52 percent, numbers that will decrease substantially under the FTA.

With this background in mind, allow me to touch for a minute on just a few of the many benefits U.S. companies, workers, farmers, and service providers stand to gain from the KORUS FTA:

- The KORUS FTA would grant unprecedented access to the South Korean market. Under the Agreement, nearly 95% of bilateral trade in consumer and industrial products becomes duty-free within three years of the Agreement's entry into force, including key U.S. exports such as electronic machinery and parts, auto parts, power generation equipment, most chemicals, and medical and scientific equipment.
- U.S. farmers and ranchers would benefit from the fact that more than half (or \$1.6 billion based on 2003-2005 numbers) of current U.S. farm exports to South Korea will become duty-free immediately, including high value agricultural products such as almonds, pistachios, wine, and cherries. For many other key agricultural goods, such as pork and citrus products, the KORUS FTA will provide unparalleled access to the South Korean market and its prosperous consumer base.
- The KORUS FTA contains an unprecedented package of provisions designed to ensure that U.S. automakers can compete in South Korea on a level playing field. Besides immediately eliminating tariffs on most U.S. priority automobiles, the Agreement would require South Korea to overhaul its system for taxing cars based on "engine displacement" by reducing existing tax rates and eliminating the discriminatory aspects of key taxes. In addition, the FTA addresses current emissions and automotive safety standards that U.S. industry has identified as priorities to ensure that technical standards do not preclude U.S. automotive manufacturers from accessing the South Korean market. Perhaps most significantly, U.S. automakers would be protected by an innovative and unprecedented dispute settlement process that will serve as a powerful deterrent against any violations of the FTA's auto-related provisions. This enhanced dispute settlement process will cut in half the time for disputes to be addressed and includes a "snap-back" provision that will allow us to suspend our tariff concessions on South Korean imports of passenger cars if Korea is found to have violated, nullified, or impaired an auto-related FTA commitment.
- For U.S. investors operating in South Korea, the KORUS FTA establishes a stable legal framework that will protect all forms of investment. Under nearly all circumstances, U.S. investors will enjoy the right to establish, acquire, and operate investments in South Korea on equal footing with local investors, and investor protections will be backed by a transparent, binding international arbitration mechanism. In short, I believe it is fair to say that the investment protections in this Agreement are as strong as those in any U.S. FTA to date.
- U.S. services suppliers also stand to gain significantly from this Agreement. Korea has vastly improved upon its WTO commitments in this FTA, providing meaningful market access commitments across virtually all major services sectors. In particular, Korea provided greater and more secure access to international delivery services and charted a course for future reform of domestic delivery services. South Korea also made particular strides on legal services, opening up for the first time to foreign legal consulting.
- In the area of telecommunications services, U.S. suppliers will benefit from South Korea's agreement to permit U.S.-controlled companies to own 100 percent of South Korean telecommunications operators within two years.

- The KORUS FTA goes further than any prior U.S. FTA in securing benefits for U.S. financial services providers in areas such as market access, transparency, and due process. In addition, South Korea has agreed under the FTA to begin the process to ensure that the same rules and regulations apply to Korea Post as apply to private insurers.
- In the area of intellectual property rights, the Agreement provides significantly enhanced standards for protection and enforcement of a broad range of intellectual property rights, including trademark-, copyright-, and patent-related provisions and will provide effective - protection and enforcement for emerging technologies.

Indeed, these are but a few of the many sectors in which benefits were secured for U.S. stakeholders in the course of the KORUS FTA negotiations. Substantial gains were also netted in areas including pharmaceuticals, electronic commerce, government procurement, standards, and competition. In addition, the Agreement will provide for important improvements in transparency and due process in South Korea, including through the most advanced transparency obligations in any U.S. FTA to date, which will benefit U.S. companies trading with South Korea across the board.

These benefits, and the many that I have not had time to provide details on here, will generate significantly improved market access for U.S. companies. Consequently, U.S. exports can be expected to grow appreciably as a result of the Agreement. And, studies published by the University of Michigan, the Institute of International Economics and the U.S. International Trade Commission, among others, have estimated that the potential income gains to the U.S. economy from a KORUS FTA range from \$17 billion to \$43 billion.

With this in mind, it is important to note that the outcome of KORUS FTA negotiations has been roundly lauded by many business groups. Statements of support for this deal have come from a diverse set of stakeholders, from the National Association of Manufacturers to the Recording Industry Association of America, from the American Council of Life Insurers to the National Pork Producers Council, from the Coalition of Services Industries to the Electronics Industry Alliance – all of which embrace the enormous commercial potential of this Agreement and recognize its significance to American businesses, farmers, ranchers, and workers.

### **The Importance of the KORUS FTA to the U.S. Commercial Position in East Asia**

Not only will U.S. stakeholders benefit from increased market access provided by the FTA, the Agreement is important to our trade position and strategy in East Asia as a whole. The FTA will offer American companies a preferential advantage vis-à-vis competitors in the South Korean market, at a time when many of our global competitors are actively seeking to “lock-up” East Asia’s fast growing economies into trading relationships that would exclude the United States. It is worth reflecting on this trend.

Today, there are some 19 free trade agreements in force among members of the Asia Pacific Economic Cooperation (APEC) forum, and many more either under negotiation or consideration across Asia.

- China already has an FTA with Association of Southeast Asian Nations (or ASEAN) that covers goods, and a comprehensive services FTA between the two parties will enter into force

in July. In addition, the Chinese are actively negotiating or have proposed FTA discussions with South Korea, Japan, India, Australia, New Zealand, the GCC, Pakistan, and the South African Customs Union, among others.

- Japan has concluded FTAs with Singapore, Malaysia, and the Philippines, and is considering engagement with the major players within Asia, including South Korea.
- India has implemented FTAs with Thailand, Singapore, and Sri Lanka, and is actively entertaining discussions with the region's larger economies.
- Demonstrating that the interest in establishing trade deals in Asia is not limited to the region itself, the EU launched FTA negotiations with South Korea on May 6, 2007 and is actively courting partners that include China, India, and ASEAN.
- We are witnessing efforts to construct an exclusive Asian regional free trade bloc – so-called ASEAN +3 or +6 arrangements.

A number of these FTAs unfortunately do not constitute high standard, comprehensive agreements of the type that the United States has negotiated. However, they do afford preferential trading positions to the companies of these countries and have the effect of placing U.S. businesses, workers, and farmers at a relative disadvantage in accessing fast-growing East Asian markets. This web of agreements also has the potential to encourage U.S. companies seeking to compete in these markets to relocate production to those countries.

Against this backdrop, the KORUS FTA takes on added significance. To date, the United States has concluded two FTAs in this critical region – with Singapore and Australia, important but smaller economies. A successful FTA with South Korea could provide an important boost to U.S. efforts to remain an active economic presence in a strategically vital region that last year accounted for over 37 percent of total world GDP, 26 percent of global trade flows, and 29 percent of U.S. exports. A KORUS FTA would establish a model that we believe could be replicated with other Asian economies and could help us expand trade liberalization throughout the region.

By contrast, any lessening of focus that results in our inability to complete agreements with major emerging-market economies like South Korea could have unfortunate consequences. It would likely result in a shift of the region's attention away from strengthening their relationships with the United States to doing deals with other major trading partners.

## **Conclusion**

Members of the Committee, I submit to you that we have reached an agreement with South Korea of great economic and political significance to our country. In the next few weeks we plan to finalize and execute the Agreement, and in due course, submit it to Congress.

From an economic standpoint, the potential benefits of the KORUS FTA to America's workers, farmers, manufacturers, and service suppliers are undeniable. The KORUS FTA will certainly add to the track record of significant growth in U.S. exports and gains in U.S. export share produced by the United States' recent FTAs. Politically, successful implementation is further evidence that a U.S.-

South Korea bilateral relationship once centered solely on defense has evolved into one of the most dynamic economic partnerships on the globe. The KORUS FTA is the next step in broadening and modernizing a strategic alliance with a critical ally that is a vital force for stability at a time of change and challenge on the Korean peninsula and in the broader Northeast Asia region.

Thank you.