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**Hearing of the U.S. House of Representatives
Committee on Ways and Means
Trade Subcommittee**

on

U.S.-Korea Free Trade Agreement Negotiations

**Tuesday, March 20, 2007
2:00 p.m.
1100 Longworth House Office Building**

**Testimony by
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on behalf of the

**U.S. Chamber of Commerce
U.S.-Korea Business Council
American Chamber of Commerce in Korea
U.S.-Korea FTA Business Coalition**

On behalf of the U.S. Chamber of Commerce, the U.S.-Korea Business Council, the American Chamber of Commerce in Korea (AMCHAM Korea), and the U.S.-Korea FTA Business Coalition, it is an honor for me to appear before the Trade Subcommittee of the U.S. House of Representatives Committee on Ways and Means to set out the views of our organizations on a potential U.S.-Korea Free Trade Agreement (FTA).

The U.S. Chamber of Commerce is the world's largest business federation, representing over three million businesses and organizations of every size, sector, and region. The U.S.-Korea Business Council and AMCHAM Korea are the premier broad-based organizations promoting the bilateral U.S.-Korea economic and commercial relationship. The launch of U.S.-Korea FTA negotiations was a long-standing priority for the Chamber, the Council, and AMCHAM Korea, and our organizations actively led efforts in both Washington and Seoul to promote the resolution of outstanding trade issues that were major barriers to moving forward with these negotiations. The Council is leading the U.S.-Korea FTA Business Coalition, a group of over 200 U.S. businesses, trade associations, and business organizations that support the negotiation of a comprehensive and commercially meaningful free trade agreement between the United States and Korea. AMCHAM Korea, as a key coalition steering committee member, is leading Coalition activities and outreach to the Korean government and business community in Korea.

Our organizations strongly support an FTA with Korea that is comprehensive in scope and fully consistent with the World Trade Organization's framework for liberalized trade. We urge that an agreement eliminate tariff and non-tariff barriers in the Korean market as rapidly as possible. We also call for an FTA that provides for transparent and predictable regulatory and rulemaking procedures across all sectors in the Korean economy and that contains specific commitments to address long-standing issues for U.S. companies in the agriculture, automotive, and pharmaceuticals sectors.

We are now at a critical moment in the FTA negotiations with Korea. We call on the leaders of both countries to make the near-term completion of these negotiations a top priority. We also urge negotiators to consider creative approaches and solutions to addressing the outstanding issues remaining in these talks.

Last week, U.S. and Korean negotiators concluded the eighth round of FTA negotiations. We understand that significant progress was made in these discussions. Press reports indicate that agreements were reached by negotiators in the areas of competition policy, government procurement, and customs and that negotiators are close to final agreements in several other chapters. A number of important issues within these negotiations remain to be resolved, particularly in agriculture, automobiles, pharmaceuticals, textiles, and investment. Negotiators are meeting this week both in Washington and Seoul to address these serious issues.

Our organizations remain focused on the broad benefits that a comprehensive agreement with Korea could have for U.S. workers, consumers, and businesses, including manufacturers, service providers, and farmers. A "gold standard" FTA with Korea that eliminates tariff and non-tariff market access barriers would serve as a new model for future FTAs around the world and would bring substantial and tangible benefits in the following ways.

Create New Access in a Dynamic Market: A comprehensive FTA will stimulate U.S. exports to Korea to the benefit of U.S. businesses and workers, and will create new opportunities for U.S.

goods and services to compete in one of the world's largest and most dynamic economies. Korea is our seventh-largest trading partner in terms of two-way trade and investment. Two-way trade in goods reached \$78 billion last year, with U.S. exports to Korea totaling \$32.4 billion, an increase of 17 percent from 2005. Korea is the second-largest market for U.S. services in Asia, and the most significant market for the U.S. banking, insurance, and securities industries among recent U.S. FTA partners. Korea was the ninth-largest destination for U.S. information and communications technology (ICT) exports and is considered an important potential growth market for this sector. It is important to note that U.S. small and medium enterprises play a significant role in bilateral trade with Korea, comprising over 88 percent of all U.S. companies exporting to Korea in 2004 and accounting for over 32 percent of total U.S. exports to Korea that year. The United States is also Korea's largest source of foreign direct investment.

A U.S.-Korea FTA would generate economic benefits for both countries. Studies by several leading U.S. and Korean 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 2001 study by the U.S. International Trade Commission forecast 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 the IIE and others have pointed to similar net gains for both the United States and Korea under an FTA, indicating that an agreement is clearly in both countries' interests.

A Key Opportunity for Agriculture: A comprehensive agreement with Korea promises important new access to the Korean market for U.S. farmers. U.S. agricultural exports to Korea reached \$2.2 billion in 2005, making Korea the seventh-largest market for U.S. agricultural goods. Major U.S. agricultural exports to Korea include fruits and vegetables, soybeans, wheat, corn, meat and hides, and consumer-ready products. Although the United States has long been Korea's chief source of agricultural goods, competitors such as China, Australia, and the European Union have rapidly increased their market shares in this sector in recent years. An FTA that quickly reduces Korea's average applied tariff of 52 percent on U.S. farm goods, along with the full reopening of the Korean market to U.S. beef, will give U.S. farmers and food producers new export opportunities and ensure they can compete aggressively with other major exporters in the Korean market.

Improving Competitiveness of U.S. Goods and Services: A principal benefit of an FTA will be the elimination of Korean tariffs on U.S. goods and services. Korea's average applied tariff on imports is 11.2 percent, while the U.S. average applied tariff is 3.7 percent. Korea's average applied tariff on agricultural products is more than four times as high as the U.S. average of 12 percent. Through eight rounds of FTA talks, U.S. negotiators have succeeded in obtaining commitments by their Korean counterparts to reduce tariffs on U.S. agricultural and industrial goods, which will enable U.S. manufacturers, farmers, and services providers to more competitively offer their products to Korean consumers. Our organizations urge a final FTA that includes the earliest possible elimination of tariffs on goods and services across all sectors.

Enhancing Regulatory Transparency: A comprehensive FTA with Korea would eliminate significant and long-standing non-tariff barriers in the Korean market to U.S. goods and services. The lack of transparency in and lack of equal access to the regulatory process are arguably the most significant market access barriers affecting U.S. companies in Korea. Examples of these include

Korea's failure to seek public comment for new regulations; the inconsistent application of regulations by Korean supervisory bodies; the delegation of regulatory authority to non-governmental organizations in ways that creates possibilities for conflicts of interest; and concerns that Korean regulations disproportionately target outside investors over Korean companies. The current FTA negotiations are a landmark opportunity to enhance regulatory transparency in Korea. The Korean government has made progress in regulatory reform in recent years, including through promoting reforms in the financial services sector to streamline regulations and consolidating separate laws into a single law providing overarching regulation for the securities area. An FTA with strong provisions on transparency would build additional momentum for this process across all business sectors in Korea.

Leveling the Playing Field: Other non-tariff barriers in Korea affect U.S. companies. Limitations on foreign investment in telecommunications, broadcasting, and in other key sectors can discourage foreign investment in these areas, undermining economic growth and competitive opportunities for Korea. Standards-setting, testing, and certification procedures that are unique to Korea, that do not follow the principle of "technology neutrality," and that are not science-based or in line with internationally accepted norms pose significant barriers to U.S. manufacturers, service providers, and agricultural producers in the Korean market. Additional barriers that present challenges U.S. business in Korea include inadequate protection for intellectual property rights and enforcement, and customs classification and clearance procedures. These are outlined in detail in the *FTA Position Paper* released last June by the Council and the AMCHAM Korea.

Our organizations have urged U.S. negotiators to obtain strong commitments by Korea to address these non-tariff barriers in a meaningful way in an FTA. Accomplishing this would lead to a high-quality agreement establishing important new precedents for future trade deals, both bilateral and multilateral. We understand that U.S. negotiators have made important progress on transparency issues and in tackling many of these non-tariff barriers.

Promoting Liberalization and Regional Trade Leadership: A comprehensive FTA with Korea is an important opportunity for the United States to shape the future trade agenda in Asia. It would give the United States a preferential position in the world's tenth largest economy and improve the ability of U.S. workers, farmers, and companies to compete in the dynamic Northeast Asia region. This agreement would be the largest bilateral trade agreement the United States has entered into since the North American Free Trade Agreement (NAFTA). It would also be the first U.S. agreement with a Northeast Asian economy, one in which the United States has been losing market share to China and the European Union in recent years. By eliminating tariffs on U.S. exports and removing non-tariff barriers in Korea's lucrative market, an FTA will give U.S. exporters an important edge vis-à-vis our global competitors. The FTA under negotiation with Korea addresses the full range of challenges U.S. businesses face in foreign markets. A strong FTA will offer a good example for other bilateral and multilateral agreements.

Strengthen a Critical Regional Partnership: An FTA with Korea will reinforce our two countries' important political and security partnership. Korea is a long-standing and close ally of the United States, and one of our strongest allies in advancing global security. The Korean people share our commitment to democracy and to promoting peace and prosperity in the Asia-Pacific region. The successful conclusion and ratification of an FTA between our two countries will bring our two countries even closer together as partners and as leaders in the dynamic Northeast Asia region.

Outstanding FTA Negotiation Priorities: While there has been significant progress towards the completion of a comprehensive and commercially meaningful FTA with Korea, a number of priority issues for our organizations remain to be fully addressed in the negotiations. In agriculture, an agreement must be comprehensive and the Korean market must be fully reopened to U.S. beef imports.

Automobiles: An FTA with Korea has significant implications for the U.S. auto industry. Korea remains the most closed auto market in the industrialized world, and past bilateral auto agreements have been unsuccessful in opening the Korean auto market to international competition. For this reason, our organizations have called for an FTA that addresses in a comprehensive manner the long-standing tariff and non-tariff barriers that have been effective in keeping the Korean auto market closed to auto imports, and that includes special measures to ensure real and meaningful import market access into Korea.

Pharmaceuticals: Korea's operating environment has long presented U.S. pharmaceutical companies with numerous challenges, which an FTA provides an ideal means to address. Moreover, in May 2006 the Korean Ministry of Health and Welfare announced the introduction of a radically new pharmaceutical reimbursement scheme which contained numerous elements of concern to U.S. industry. The U.S. government and U.S. industry submitted concrete suggestions on ways Korea could improve this new system to ensure that it does not discriminate against foreign companies, that it encourages innovation, and that it facilitates patient access to new, life-saving medicines. However, the Korean government implemented the new system at the end of 2006 without incorporating any of these suggestions. Our organizations continue to view the FTA as an important opportunity to enhance the access of Korean patients to leading U.S. medical products, to further improve the transparency and accountability of Korea's National Health Insurance system, and to secure better and lasting recognition of the value of innovative U.S. biomedical discoveries.

Investment: An FTA with Korea must include strong investment protections and investor-state dispute settlement procedures following the model U.S. bilateral investment treaty (BIT), which is the basis for the investment chapters in other recent U.S. FTAs. Our members value the protection from discriminatory, arbitrary, direct and indirect expropriatory actions by governments, the market access, and the investor-state dispute settlement provisions that strong FTA investment chapters afford American investors overseas. An agreement that includes these provisions would further promote Korea as an attractive destination for U.S. investors. Further, the agreement should guard against investment caps and any limitations on majority ownership by U.S. companies.

If an FTA with Korea is not concluded, these and other critical issues would remain and resolving them could become even more challenging. Moreover, Korea is rapidly working to engage other leading economies in FTA negotiations. Korea has announced its intention to launch FTA talks with the European Union in May 2007 and is currently conducting a study on possible FTA talks with China. If we miss the current opportunity to complete an FTA with Korea, U.S. manufacturers and farmers would not only lose the chance to gain new access in the Korean market, but also could lose market share as Korea concludes other bilateral trade agreements with other countries. Moreover, the failure to conclude an agreement almost inevitably would affect the strategic partnership between our countries, which is important to ensuring stability and security in Northeast Asia.

On a separate issue, our organizations are pleased that there is support in Congress for reforms to the U.S. Visa Waiver Program that, while enhancing border security, would also enable Korea to qualify for inclusion in the Program. Although U.S. visa policy falls outside the scope of a bilateral FTA negotiation, we highlight the importance of a visa waiver for Korean travelers to the United States to our bilateral economic and political relationship. Korea plays an important role in sending visitors to the United States for business, tourism, and academic study, and in fact Korea was the largest source of foreign students studying in the United States last year. In 2006 the number of Korean travelers to the United States grew by six percent, and this total is forecast to increase by 26 percent over the next five years. Together with a free trade agreement, Korea's inclusion in the U.S. Visa Waiver Program will further promote flows of people and trade between our two countries.

Conclusion

Mr. Chairman, Mr. Ranking Member, members of the committee, we greatly appreciate this opportunity to testify before the Trade Subcommittee on the U.S.-Korea FTA negotiations. While many critical issues remain to be resolved in these negotiations, we are optimistic that a commercially meaningful agreement FTA can be successfully concluded in time for Congress to consider it under the current Trade Promotion Authority. An agreement would bring real benefits for U.S. and Korean workers and businesses, and will reinforce our two countries' economic leadership in the region by demonstrating that we are ready and willing to embrace new opportunities in an increasingly competitive global market environment. Our organizations are firmly committed to working with Congress and the Administration to secure a successful U.S.-Korea FTA. Thank you very much.