

Remarks by Wendy Cutler
Assistant U.S. Trade Representative for Japan, Korea and APEC Affairs
to the American Chamber of Commerce
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United States-Korea Free Trade Agreement: A Win-Win Proposition
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MS. CUTLER: Thank you, Wayne and Tami. It is a real pleasure for me to be here speaking to you this afternoon at what I consider to be an historic moment in U.S.-Korean relations. As Wayne said, I've been Chief Negotiator for the U.S.-Korea FTA since February 2. Since that time, people do not say "Congratulations," they say "Good luck!" But I am personally very excited about the events of the past several weeks and about the upcoming negotiations. My meetings over the past two days here in Seoul have only confirmed my view that both countries recognize that there is much to gain from this landmark undertaking.

I am also extremely fortunate to have as my counterpart in these negotiations Ambassador Kim Jong-hoon. I worked with him in his capacity as APEC Chair last year, where he demonstrated his ability to work through tough issues, while always defending Korean interests. So the Korean people are extremely lucky to have him as their Chief Negotiator.

AN HISTORIC OPPORTUNITY

We have come such a long way in our bilateral trade relations in recent years. It wasn't so long ago that the U.S.-Korean trade relationship was characterized by acrimony and tension – and by one bilateral dispute after another. Negotiations conducted under the threat of Section 301 sanctions seemed almost par for the course.

Yet, here we are, in early 2006, preparing to enter into a partnership that has the potential to take the already important relationship between the United States and Korea to a new phase of cooperation and integration.

As Ambassador Portman said at the February 2 launch of the FTA, “A successful negotiation and a comprehensive trade agreement will deepen our economic relationship and indeed will enhance the peace and security of the people in both of our countries.”

In my view, the main explanation for this tremendous and positive shift in our economic engagement is threefold:

First, Korea, on its own initiative, has undertaken economic reforms and market opening measures in recent years in response, not to the United States, but to its own domestic needs and vision. For example, Korea has taken proactive steps to ensure that its laws covering intellectual property rights keep up with the changing environment, as Korea becomes one of the most sophisticated users of online Internet technology. Similarly, Korea's economic policy leaders have been bold in pushing forward with financial service deregulation and reform, helping to

make the Korean economy stronger and more transparent. This demonstration of the Korean commitment to reform is truly impressive and has served to bring our two countries closer.

Second, Korea has become an important advocate for trade liberalization on the regional and multilateral front. Last year, as chair of APEC, Korea was instrumental in advancing trade liberalization in the region and overseeing the significant contribution that APEC made to the Doha Development Agenda negotiations. Korea and the United States are also working together closely in Geneva on the WTO negotiations to achieve ambitious results in the DDA, particularly with respect to industrial goods -- the NAMA negotiations -- and services negotiations.

And, third, U.S. and Korean trade officials have worked successfully to change the tone of our trade talks and adopt a problem-solving approach to difficult issues, in such sectors as telecommunications, autos, pharmaceuticals, and agriculture. As a result, both sides have developed the kind of trust and confidence in each other that mark a productive partnership, while at the same time resolving a number of long-standing trade irritants that would have only complicated our ability to launch and conclude an FTA.

The strides that have been made in the past several months have been impressive and have certainly set the stage for what I am confident will be a successful negotiation that will create new opportunities for both our countries.

WIN-WIN AGREEMENT

As you all know, a comprehensive FTA between the United States and Korea promises very significant economic benefits for both sides – a win-win proposition in the truest sense. From the U.S. perspective, there are a number of reasons behind our decision to pursue an FTA with Korea.

First, Korea is an important and attractive trade partner for the United States. In fact, Korea is currently our seventh largest trading partner, our seventh largest export market, and our sixth largest agricultural market. We expect the amount of two-way trade between our two countries, now valued at \$73 billion, to only continue to grow under an FTA. In a recent study, the Korea Institute for International Economic Policy estimates that two-way trade will increase by almost \$20 billion as a result of this agreement. This represents a tremendous opportunity for U.S. businesses and workers.

Second, an FTA will provide increased access to the Korean market for U.S. farmers, manufacturers, and service providers in a wide range of sectors. To date, both tariff and non-tariff barriers have impeded our companies' ability to compete in this important market. By addressing these issues in an FTA, we will be able to level the playing field and provide our industry a better chance to compete.

Third, as our first FTA with a North Asian partner, this agreement will help underscore the U.S. commitment to and engagement in the Asian region. From our FTA with Singapore to our high-level of engagement in APEC, to our new Trade Policy Forum with India, the United States is

committed to developing robust trade relationships in Asia. Without giving anything away, we may even be announcing the launch of an FTA with another Asian partner shortly.

Fourth, we in the United States hope that this FTA will further motivate other countries in the region, such as China and Japan, to accelerate their market opening and economic policy reform efforts, which will help spur growth in the region and help advance the DDA negotiations.

Korea is also expected to benefit substantially from this agreement. Reading through just some of the flurry of news reports, op-ed pieces, government statements, and Korean economic analysis, the major gains to Korea appear to fall into four main areas.

First, an FTA with the United States is predicted to produce significant economic benefits for the Korean economy, increasing Korea's real GDP by as much as 2%, establishing a foundation for Korea to achieve per capita income to as high as \$30,000, boosting exports to the United States by 15%, and creating 100,000 new jobs.

Second, Korean consumers should also benefit immensely, enjoying lower prices for daily commodities and special purchases. An FTA will contribute to Korea's goal to become an advanced service economy by contributing to economic reform and deregulation in essential services sectors. In addition, the tariff reductions that will come as part of the agreement will benefit key Korean export products.

Third, as Korea looks ahead towards its own future, an FTA with the United States will help it position itself as a major force in the Asia Pacific region – the fastest growing region in the 21st century. The agreement, by more closely linking Korea with the U.S. economy, will enable it to become more competitive and will assist in moving Korea towards its goal of becoming an advanced developed nation.

Fourth, an FTA will have real strategic benefits to Korea, helping to strengthen its capacity to serve as a regional economic hub by making it a more desirable and stronger partner for other countries in the region.

And of course, an FTA will help update, strengthen, and build-on our 50-year old alliance with Korea.

Both the United States and Korea have learned first hand how FTAs can benefit their economies. Korea exports increased almost 60 percent within the first year after the Korea-Chile FTA went into force. Similarly, in the three months following entry into force of the U.S.-Chile Free Trade Agreement, total U.S. exports to Chile increased by 24 percent. In fact, the annual growth rate for U.S. exports to FTA partners grows twice as fast as exports to non-FTA partners.

WHERE WE ARE IN THE PROCESS

Let me turn to the process. As you know, we launched the FTA just over one month ago, on February 2. We are now in the process of preparing for the start of the actual negotiations.

Under our TPA we have a consultation period with Congress. We are not allowed to negotiate during that time. During this 90-day consultation period, we are focusing on two main tasks: First, we are internally preparing ourselves for what will be our biggest FTA negotiation in 15 years, since we launched negotiations with Canada and Mexico. This includes identifying key tariff and non-tariff measures in the Korean market, reviewing our other FTA provisions to see if they indeed address these barriers, and if not, identifying ways to do so.

On all these issues, we are consulting with and seeking views of stakeholders, including businesses, workers, NGOs, and Congress. The formal process begins on March 14 with our public hearing and written comments from the public are due on March 24. We would encourage AmCham members and their companies to take advantage of these opportunities to communicate their views.

Second, we are using the coming weeks to undertake as much preparatory work as possible with our Korean counterparts, so that once we officially start the talks, we will have concluded all the necessary organizational and technical work and will be ready to hit the ground running.

The second point is the purpose behind for our trip this week. We had a long meeting with our Korean counterparts yesterday to discuss the schedule for negotiations, how to structure the talks, the key elements of our respective FTAs with other trade partners, and other technical and organizational issues. This was a very productive meeting and we look forward to remaining in close contact over the coming weeks.

Coming out of our meetings yesterday, we announced that our first round of talks will begin June 5 in Washington and the second round will be the week of July 10 in Seoul. After those, there will be a fairly intensive schedule, with subsequent rounds to be held at 6-8 week intervals. Trade Promotion Authority expires in mid-2007 and to meet this deadline my marching orders are to seek to conclude this comprehensive agreement by the end of the year.

So, we really have our work cut out for us. Maybe that is why people tell me, "Good luck!" Given the complexity and size of our trading relationship, and the range of tariffs and non-tariff measures addressed in our FTAs, this negotiation will not be easy. We have come a long way in our economic relations with Korea in recent years and have found a way to work together in a productive and constructive fashion. But, big FTAs are difficult to negotiate and, undoubtedly, there will be ups and downs as both sides struggle to find ways to overcome impasses and move forward. The biggest rewards, though, usually require the most work and pose the greatest challenges.

I am optimistic about our ability to succeed for a couple of reasons. First, the United States and Korea have demonstrated that we have the ability to work together to resolve issues in a way that addresses our mutual concerns. Moreover, both sides bring what is essential to negotiations like these, which is strong political will to do this deal.

At the highest levels of both our governments, there is a true commitment to this process, which will give us the extra resolve needed to conclude a high-quality agreement in a timely fashion. President Bush recently said, "A Free Trade Agreement with the Republic of Korea will provide

important economic, political, and strategic benefits to both countries and build on America's engagement in Asia."

President Roh Moo-hyun emphasized his commitment to this undertaking in his New Year's address, "We should conclude a Free Trade Agreement with the United States for the future of our economy," and I think just last week identified this FTA as one of his priorities for the remainder of his term.

Even in the difficult agriculture sector there is recognition of the importance of this agreement. We could not help but notice that Korea's Agriculture Minister – Park Hong-Soo – came out yesterday in support of free trade, stating that, "Opening the market through free trade agreements is my duty to all Koreans and to future generations."

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Q&A SESSION

MODERATOR: To do the question in English, we're going to do consecutive translation. So you give your question, she'll translate into Korean, Wendy will give her answer in English, and then they'll translate back into Korean. Thank you.

QUESTION: Okay, to give our members a little time to gather their thoughts, Wendy, I thought I would ask the first question. Again, thank you so much for taking time from your schedule to be with us. You touched on in your presentation, but if you could, maybe for our members and for the people that are present, with the pending expiration you mentioned of the TPA Authority next year, and of course, a long list of potential partners, what do you see as the key reasons USTR chose Korea to try to go forward with this FTA?

MS. CUTLER: Let me just say it's not clear if we chose Korea or Korea chose us. (Laughter) But never the less, I guess we're joined at the hip right now. Korea proved to be a very attractive partner for us when we looked at the range of countries to launch an FTA negotiation with. Korea is such a large and important trading partner – (one) that I think Ambassador Portman felt is particularly important to try and do an FTA with such a key partner. Also, Korea has been undertaking a lot of reforms that we think bode very well for an FTA negotiation. As I mentioned in my remarks, there has been a real change in attitude and tone in our trade negotiations with Korea – where Korea has adopted kind of a what we would call a problem solving approach – and that's always so important when you're trying to embark on an FTA with

a country. Lastly, I think I was the only assistant at USTR who was not doing an FTA and Ambassador Portman thought it was time I did something to earn my money. (Laughter) So Korea came to the forefront.

MODERATOR: Next question? Steve?

QUESTION: Hi, Ms. Cutler. I'm Steve McKinney, McKinney consultant. One question with two parts. Are you worried about the tight timelines that you have to do this? And, is it possible to get an extension of the time?

MS. CUTLER: Clearly, tight timelines provide a challenge for any negotiator with any negotiation as large as this negotiation. So that is going to mean that we need to operate as efficiently as possible with the Koreans. I'm hoping that the work we're doing now during this 90-day period will really facilitate our ability come June 5th to sit down at the table and start talking substance in the range of areas that will be under negotiation. In terms of whether there will be an extension of this timeframe, I think you may be asking is there any chance of extension that our statutory authority to do these negotiations – Trade Promotion Authority – I can say that no one in Washington is talking about that and I'm clearly under orders to try and conclude a high quality agreement by the end of the year. But, I want to make it clear that our desire to conclude this negotiation does not mean we're going to sacrifice on substance. It's concluding a high quality, comprehensive agreement that's going to gain support in the United States necessary for ratification. So those are my marching orders and I'm proceeding.

MODERATOR: Third question? Right there.

QUESTION: (Inaudible) This is going to be an FTA for the U.S. with the largest economy ever in U.S. history. I know the U.S. has NAFTA with Canada and Mexico – the U.S. has a large trade volume with those countries – but in terms of economic size, Korea, I think, is larger than those two countries. Do you think you and the USTR have enough support from Capitol Hill – Congressional support?

MS. CUTLER: For any of you who've been watching U.S. trade negotiations and our ability to work with Congress over recent years, you are all well aware that it's tough up on Capitol Hill in terms of getting our trade deals through. I think the (CAFTA-DR) experience underscored this. When Ambassador Portman, you know former member of Congress, (Ways and Means) committee when he seriously considered an FTA with Korea, one of the first things that he instructed his team to do was to kind of gauge Congressional interest in this negotiation with the recognition that there's going to have to be strong bipartisan support for this agreement if we're going to be able to get this through Congress. We were quite pleased at the launch of the negotiations on February 2nd. That strong bipartisan support was evident – Senator Backus, the leading Democrat in the Senate Finance Committee, who was at the actual event and other Democrats on the same day or shortly thereafter, issued press releases of support. But, the work there with Congress does not stop. We are going to be in close contact with Congress throughout the negotiations. We would hope that the U.S. business community and other stakeholders supporting this negotiation would take the opportunities to educate our Congressmen on the

benefits of this agreement for them. We look forward to coming home with a good deal and a fair deal for the United States and Korea that we can get through our Congress.

MODERATOR: We have time for one last question. In the back, Dave Campbell.

QUESTION: Hi, I'm Dave Campbell with Pfizer Pharmaceuticals. I'm just wondering what you have accomplished this week with the Korean government?

MS. CUTLER: The objective of our discussions this week was to try and take care of some of the organizational details. I think there we've made some important progress. We agreed on a negotiating schedule. We entered into an intensive discussion on how we're going to structure the negotiations with those discussions on the need to continue. And, we also were able to discuss issues that are very technical but very important for negotiation including the kind of tariff data we would need to exchange before the actual negotiations. So there are other issues as well that we've discussed. But, overall, I think it was a productive session. We're hoping to stay in close touch with the Koreans now in the coming weeks so we can do as much of this organizational work as possible and so we don't spend the time during our rounds of negotiation focused on process that we can actually focus on substance and airing our differences on the range of issues addressed in an FTA.

MODERATOR: I think we're out of time. If you would now join me please thanking Wendy and I'll ask Wayne to come up and offer his closing remarks and give her our small token. Please give a warm welcome for Wendy Cutler.

(Applause)