



Hearing of the
U.S. House of Representatives
Committee on Ways and Means Trade Subcommittee
on the
U.S.-South Korea Trade Agreement

Thursday, April 7, 2011
10:00 a.m.
1100 Longworth House Office Building

Statement by

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on behalf of the

U.S.-Korea Business Council
U.S.-Korea FTA Business Coalition

Thank you for this opportunity to share the views of the members of the U.S.-Korea Business Council, and the U.S.-Korea FTA Business Coalition, on the economic benefits and geopolitical implications of the U.S.-South Korea Trade Agreement.

The U.S.-Korea Business Council is the leading business organization promoting the bilateral U.S.-Korea economic and commercial relationship and is composed of U.S. companies that are significant investors in and exporters to the Republic of Korea (South Korea). The Council is secretariat for the U.S.-Korea FTA Business Coalition, which represents nearly 1,000 American companies, business and agricultural organizations, and chambers of commerce that support approval of the pending trade agreement with South Korea.

The members of the Council and of the Coalition vigorously support the U.S.-South Korea trade agreement (“KORUS”). This groundbreaking market opening agreement will bring significant benefits to American workers, businesses, farmers, consumers, and the U.S. economy. The scale and breadth of U.S. trade with South Korea—a \$1 trillion economy with 49 million consumers that is already the seventh-largest U.S. export market and trading partner—make KORUS the most commercially significant bilateral U.S. trade agreement in nearly two decades. The comprehensive scope of this agreement, and its strong protections and provisions eliminating non-tariff barriers to trade, set important new benchmarks for future U.S. and global trade agreements. Moreover, the agreement cannot solely be quantified in terms of its bilateral economic impact, but also has significant implications for U.S. national economic security and geostrategic priorities, including promoting trade liberalization in Asia and globally.

Approval and implementation of the agreement with South Korea, along with the agreements with Panama and Colombia, are among the most important actions that the U.S. Congress can take to achieve President Obama’s goal of doubling U.S. exports in five years—creating new jobs and economic opportunities in communities across the country—and to building an infrastructure that promotes regional prosperity and stability. I would like to describe why the U.S. business community sees the South Korea agreement, specifically, as beneficial to U.S. economic and geostrategic goals.

Economic Benefits

Trade and investment with South Korea already contributes significantly to the U.S. economy and supports tens of thousands of U.S. jobs. Two-way trade in manufactured and agricultural goods reached nearly \$88 billion in 2010. Demand in South Korea for “made in U.S.A.” products is growing: U.S. goods exports to South Korea rose to \$38 billion in 2010, and South Korea was the fastest growing export market for U.S. manufactured goods that year, increasing 39.6%. South Korea was the seventh-largest export market for U.S. goods and fifth-largest market for U.S. agriculture exports last year.

Two-way trade in cross-border services amounted to \$19 billion in 2009, with U.S. exporters running a \$6.2 billion trade surplus in services exports that year. South Korea is also an important export destination for U.S. small and medium-sized enterprises, which accounted for more than

89% of all U.S. companies exporting to Korea in 2008 and \$14.2 billion of U.S. exports to Korea that year.

U.S. producers face significantly higher tariffs in South Korea than Korean producers face in the already open U.S. market. Currently, non-agricultural U.S. goods face an average applied tariff in Korea of 6.2%, and U.S. agricultural products face an average applied tariff of 54%. Under KORUS, nearly 95% of bilateral trade in consumer and industrial products will become duty free within five years and tariffs on almost all goods will be eliminated within ten years. Additionally, nearly two-thirds of U.S. agricultural exports to South Korea will become duty-free immediately, and the agreement will phase out over 90 percent of all South Korean tariffs on major U.S. agricultural exports, including beef, pork, poultry, and oranges, over 15 years.

The Council and the Coalition expect the elimination of these tariffs to boost significantly U.S. exports to South Korea. The United States International Trade Commission (USITC) estimated in September 2007 that the agreement could increase U.S. exports by \$10 billion to \$11 billion annually.

KORUS will also remove significant non-tariff market access barriers in South Korea to U.S. goods, services, and investment. It guarantees transparent and predictable regulatory and rule making procedures in South Korea, and includes commitments to apply a negative list approach, under which all sectors are liberalized except where South Korea has taken a specific reservation, and will automatically include future liberalization actions taken by Korea under the agreement. It includes possibly the strongest ever protections for intellectual property within a bilateral U.S. trade deal, which is of great importance given the significant impact that counterfeiting and piracy in South Korea have had on U.S. companies in the entertainment, software, ICT, and other sectors.

KORUS includes strong provisions and protections on investment and competition policy, and will help ensure the fair and transparent application of competition policy for all U.S. companies doing business in South Korea. Under the agreement, the Korean government has committed to provide national treatment to U.S. stakeholders so that they will have equal footing in regulatory proceedings and in standards-setting processes. South Korea has also agreed to allow 100 percent foreign ownership of telecommunications providers and certain broadcasting channel operators, areas in which foreign investment has been restricted until now, and committed to opening previously closed sectors, such as legal and health care services, to U.S. companies. In addition, the agreement includes important new commitments on customs administration and rules of origin, and streamlined procedures that will facilitate more trade by ensuring timely and efficient clearance of customs.

KORUS includes the strongest financial services chapter in a U.S. bilateral trade agreement. It will create a more level playing field for U.S. financial services companies in South Korea and establish a more competitive market environment, which we expect will generate significant new business and benefits for U.S. firms in this sector. Even though U.S. financial services companies have in recent years made major investments in South Korea, it remains a challenging market because of complex regulatory procedures and other non-tariff barriers. KORUS will address these through commitments that are the most progressive made with any U.S. trading partner to date and that will increase transparency, predictability, and accountability in its financial services sector. These

commitments will promote greater sectoral stability and international regulatory cooperation, and will increase—not decrease—sound regulatory oversight of the financial system. KORUS also includes provisions that will allow for cross-border data flow, which will enable U.S. based back office support to U.S. firms' operations in South Korea and bring U.S. best practices there.

We expect these and many other provisions in KORUS to level the playing field for U.S. workers and businesses in South Korea, and to stimulate new demand there for U.S. goods and services—which will generate new American jobs and growth.

Job Creation Benefits

KORUS holds great potential to grow new U.S. American jobs. Increased demand in South Korea for U.S. manufactured and agricultural products—and increased imports to the United States from South Korea resulting from the FTA—will create new American jobs at ports, in transportation and logistics, warehousing, marketing, advertising, retail sectors, and other sectors. U.S. exporters would not only need production workers but also engineers, designers, and marketing specialists. All of these new employees will help drive retail and other services-sector growth in their communities.

South Korean companies are expanding their investment in the United States, and have created tens of thousands of American jobs in manufacturing as well as in distribution and supplier networks across the country. These jobs contribute to economic growth in local communities, generating jobs in services and other sectors. By reaffirming the openness of the U.S. market and attractiveness of the United States as a destination for investment, KORUS has the potential to accelerate this trend.

President Obama has said that at least 70,000 U.S. jobs would be supported by KORUS. This figure is a conservative estimate and does not capture the potential for growth of U.S. services exports to South Korea. An updated assessment of the potential economic effects of the agreement prepared in January 2011 by USITC economic staff at the request of the Senate Finance Committee Trade Subcommittee estimated that the agreement could generate as many as 280,000 U.S. jobs.

KORUS includes all of the labor protections and environmental provisions specified in the May 10, 2007, Congressional-Executive Agreement on Trade Policy, which ensure that U.S. trading partners promote and protect global labor and environmental rights and standards.

Geostrategic Benefits

KORUS is also important for U.S. security and geostrategic goals, both in the Asia-Pacific region and globally. Implementation of KORUS will strengthen the United States' relationship with South Korea, one of our country's strongest partners in advancing regional and global security. U.S.-South Korea ties have long focused on defense and security and, by expanding trade and investment, KORUS will broaden this relationship by deepening economic links. North Korea's continuing provocations, including the sinking of the *Cheonan* navy ship and the attack on Yeonpyeong Island last year, firmly reinforce the importance of the U.S.-Korea security alliance for protecting regional stability.

KORUS is a core component of U.S. strategies to secure a competitive edge in Asia, as the region becomes increasingly interwoven by trade agreements that leave out the United States. It provides a model for ways that major developed economies can successfully tackle challenging regulatory and other market access barriers to create a fair and competitive business environment. KORUS' strong rules and protections are seen as the baseline for the ongoing Trans-Pacific Partnership negotiations which, if successful, could lay the foundation for a possible future free trade area of the Asia-Pacific region.

The South Korean government has been steadfast in reiterating its commitment to open markets and in cautioning against protectionism during the recent global economic downturn. South Korea has increased its international leadership role as well through the G-20, partnering closely with the United States to address shared global challenges. In fact, South Korea was the chair of the ambitious and successful G-20 summit last November. Approval and implementation of the FTA will send a powerful signal to other major economies that the United States is committed to advancing global economic recovery and prosperity through open markets and the removal of barriers to opportunity and fairness.

South Korea is also an important provider of international development assistance, and plays an increasingly active role in peacekeeping and disaster relief efforts. U.S. and South Korean leaders say bilateral relations today are at their strongest level ever—and it is in America's interests to take every action that will reinforce this. By further integrating the two countries' economies, the FTA will deepen and add to the resiliency of this partnership.

The Cost of Inaction

The window of opportunity for the United States to take full advantage of the potential to create new jobs and growth through KORUS is, however, shrinking rapidly. On February 17, the European Parliament approved a free trade agreement with South Korea that will eliminate nearly 99% of all duties on trade in manufactured and agricultural goods between the European Union (EU) and South Korea within five years. That agreement will also offer EU manufacturers, farmers, and services providers many of the same protections and market opening provisions that their American counterparts will enjoy under KORUS. The EU agreement is slated to enter into effect on July 1. Without KORUS, American workers and producers risk losing out on the chance to increase their business and market share in South Korea while European exporters enjoy vast new market access there. We have already seen these kinds of market share losses in Colombia and Panama with the delay to act on passing these two important agreements as well. A study by the U.S. Chamber found that as many as 345,000 U.S. jobs and \$35 billion in U.S. exports will be lost if the EU-Korea FTA and the pending Canada-Korea FTA enter into effect and KORUS does not.

Since the U.S. and South Korean governments first announced the launch of trade agreement negotiations more than five years ago, the Council and the Coalition have worked to inform the wider U.S. public about the important potential benefits of KORUS to the U.S. economy and geostrategic goals. During the nearly four years since the agreement was signed on June 30, 2007, U.S. exports to and trade and investment with South Korea have increased, but at nowhere near the level that could have been possible had the agreement been implemented then—costing American workers and exporters valuable opportunities to grow their business in Korea.

We recognize that concerns raised by U.S. stakeholders with respect to certain measures in KORUS needed to be addressed in order for the agreement to move forward. We applaud the tireless efforts of the White House and Blue House, the Office of the U.S. Trade Representative, in consultation with members of Congress and their Korean trade negotiator counterparts, to identify solutions. The provisions agreed to in December have created important new access in South Korea for U.S. automakers, brought together business and labor in support of the FTA, and added powerful new momentum to moving the agreement forward.

Now it is time for Congress to swiftly approve the agreement with South Korea – as well as the other two pending agreements with Colombia and Panama - in order to open significant new access in South Korea's \$1 trillion economy to U.S. workers, manufacturers, farmers, and services providers. This is the strongest action that Congress can take to support new American job growth through export creation, and to ensure that American workers and producers can compete in rapidly integrating markets across the Asia-Pacific.

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