

# **THE KOREA-U.S. FTA: PROSPECTS AND IMPLICATIONS FOR THE BILATERAL STRATEGIC RELATIONSHIP**

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For the past fifty years, the relationship between Korea and the United States has rested on two strong pillars: one on the political security side and one on the economic side.

## ***The Period of Security Pillar Dominance***

In the early days of the relationship, the security pillar was clearly the stronger of the two. The 1953 mutual defense treaty provided the fundamental basis of the relationship and established an environment in which a healthy, dynamic and mutually beneficial economic relationship could grow and flourish. Freed from the need to devote energy and resources to guarding against a repeat invasion from the north, Korea was able to devote all its resources and energy to the task of economic development.

During the 1950s and 1960s, U.S development assistance formed the major content of the economic pillar. During the 1970s and 1980s U.S.-Korea trade expanded dramatically. The strong security relationship provided the rationale for the United States to provide Korea virtually unlimited access to its market for its exports which was instrumental in helping Korea pursue an export-led path to development. With the United States serving as the largest market for Korea's exports, Korea became one of the world's largest trading nations and the most successful member of the group of countries whose economic success has been dubbed the Asian Economic Miracle.

## ***The Economic Pillar Comes of Age***

By the mid-1980s, the footing under the U.S. Korea economic relationship had become very firm. American companies had established a substantial presence in Korea. In 1985, Korean exports to the United States surpassed \$10 billion from virtually nothing 20 years previously. By 1995 they had grown to \$24 billion.

As trade between the United States and Korea grew, trade friction between the two countries followed in its wake. During this period, strong U.S.-Korea security ties kept the overall relationship on an even keel. U.S. political and security interests in Korea acted as a restraint on U.S. government responses to pressure from U.S. domestic economic interests, which were negatively impacted by restrictions on access to the Korean market. These same political and security interests provided the impetus for the U.S.-led massive international financial assistance package, which was assembled to assist Korea weather the Asian financial crisis of 1997–1998.

## *The Security Pillar Shows Signs of Strain*

By the turn of the century, many features of the U.S.-Korea security relationship, which had been the source of strength and unity in the U.S.-Korea alliance, became bones of contention between the two countries.

*North Korea.* From the Korean perspective, North Korea no longer represents an existential threat. Korean policy toward North Korea is now geared toward a long, slow period of political and economic interaction with the goal of eventual peaceful reunification of the peninsula. From the American perspective, in contrast, North Korea has become a more, not less, dangerous place with the revelation of its secret enriched uranium nuclear program, its withdrawal from the NPT, its resumption of plutonium production, and, most recently, its test of a nuclear device.

*U.S. Troop Presence and Mission in Korea.* The events of 9/11 and the subsequent revision in overall U.S. military strategy led the United States to conclude that it could meet its deterrent responsibilities under the Mutual Defense Treaty with a reduced troop presence in Korea and to insist that the United States be able to implement a doctrine of “strategic flexibility” with the remaining troops so that they could be rapidly deployed outside the country to deal with crises elsewhere.

These decisions triggered a debate in Korea, which brought to the surface concerns across the political spectrum ranging from anxieties that the United States was “abandoning” Korea, fears that implementation of the doctrine of “strategic flexibility” would draw Korea into unwanted conflicts in Northeast Asia to accusations that the current Mutual Security Treaty is an infringement on Korean sovereignty and demands that it be renegotiated to reflect a more “equal” relationship between the two allies. Many Koreans objected when the Pentagon resisted demands to transfer operational wartime control of Korean forces to Korean authorities, and many others objected when the Pentagon suddenly reversed its position and insisted that the transfer take place within two years.

*Relations with Japan.* Japan’s future military role in the East Asian strategic architecture also became a bone of contention between the United States and Korea. In the wake of the end of the Cold War, American strategic thinkers began to give increasing importance to strengthening the U.S.-Japan alliance with less reference to the importance of the U.S.-Korea alliance in the East Asian strategic equation. This emphasis on strengthening the alliance relationship with Japan, which became a central feature of the Bush administration’s policy toward East Asia, triggered a backlash in Korea resulting in a conscious government policy to move closer to China and to avoid being seen as part of a U.S.-Japan-Korea strategic triangle.

*Public Opinion.* Public opinion in Korea, which had been strongly pro-American for over 50 years, took a sharp turn in a different direction during this period. Manifestations of anti-Americanism in Korea, triggered by U.S. policies toward North Korea, the death of two school girls in an accident during training maneuvers by U.S. troops, and the release of pent-up hostility against U.S. policy toward Korea during the period when the country was ruled

by military dictators, led to questions in the United States about the continued reliability of Korea as a trusted ally.

### ***The Economic Pillar Assumes Increased Importance***

By 2004, both governments were concerned enough about the negative trends in U.S.-Korea relations that they decided to take a serious look at the possibility of negotiating a bilateral U.S.-Korea free trade agreement (FTA). Part of the motive was economic. Studies by think tanks and government agencies in both countries had concluded that a bilateral U.S.-Korea FTA would be a “win-win” for both countries. Part of the motive was also political. Governments and opinion leaders in both countries realized that the dynamic between the security and economic pillars supporting the overall relationship had reversed itself. Now the economic pillar seemed stronger than the security pillar, and each side saw an opportunity for the economic pillar to buttress the security pillar while the two sides addressed the underlying causes of weakness in the security pillar.

After a series of high-level consultations between the two governments, USTR Portman and Korean Trade Minister Kim Hyun-chong announced at a news conference on February 2, 2006 in the U.S. Capitol plans to begin formal negotiations of a bilateral U.S.-FTA, which was given the name KORUS FTA.

Reaction in the United States to the announcement was almost universally positive. Reaction in Korea, however, was mixed. Leaders of business organizations and economic think tanks expressed support while a number of individuals and organizations, including civic groups, politicians, and former aides to President Roh Moo-hyun expressed strong opposition.

### ***Status of the KORUS FTA Negotiations***

These negotiations contain many extremely sensitive economic and political issues. Both sides want increased market access for products and services in areas where there is strong political opposition in the other side either from strong domestic constituencies, which are determined to cling for dear life to their existing protectionist benefits, or on fundamental policy grounds. U.S. priorities include rice, beef, automobiles, pharmaceuticals, and financial services. Koreans give highest priority to textiles and to products produced in the Kaesong industrial zone just across the border in North Korea. Both sides want changes in the way the other government conducts its business. The Korean side wants the United States to agree to changes in U.S. anti-dumping regulations, which have been implemented in ways that have negatively affected the interests of many Korean exporters to the United States, and to provide for an increase in the number of professionals who can enter the country on a temporary basis for business purposes. U.S. negotiating objectives include making Korea’s notoriously opaque regulatory regime more transparent, eliminating many technical barriers to trade, streamlining Korea’s regulatory approval procedures, and abolishing Korea-specific rules and standards that do not conform to international norms.

The United States and Korea have conducted five rounds of formal negotiations on the KORUS FTA. At this point, the prospects for a successful conclusion of the negotiations remain uncertain. The fifth round of negotiations, which were held in Montana,

just ended this week, and both sides remain far apart on many key issues. In remarks to the U.S.-Korea Business Council in Washington, December 4, Trade Minister Kim Hyun-chong characterized the progress up to that point as “baby steps,” and argued that if the negotiations continue at the same pace, there is little prospect of concluding them in time to meet the Congressionally imposed deadline of March 31, 2007.

The political obstacles are daunting. On the U.S. side, Democrats have in recent years been strong opponents of FTAs, and they will control the Congress beginning in January. There is universal opposition in the executive and legislative branches to including products made in North Korea, including those made in the Kaesong Industrial Zone, to be included in this KORUS FTA.. Congress has provided specific legislative guidance to USTR not to agree to measures that would weaken U.S. anti-dumping procedures and not to include immigration provisions in FTAs. On the Korean side, there is strong opposition to the FTA among farmers, trade unions, and civic activists, many of whom argue that Korea is not yet strong enough to enter into a bilateral FTA with the United States, and that it will turn Korea “into a colony of the U.S.” Even the chairman of the ruling Uri party in the National Assembly, Kim Geun-tae, spoke out against the agreement stating, “The impact of a KORUS FTA on Korea’s system and culture could be greater than Korea can cope with.” This opposition to the KORUS FTA takes place in the context of a debate in Korea over whether its future lies in expanded links with the global economy, which would require increased openness to foreign influences or continued reliance on the more traditional Korean approach of substantial governmental intervention in the economy, less foreign penetration, and increased emphasis on the distributional aspects of economic policies.

It is clear that a successful conclusion to the negotiations will require political leadership from the top levels of each government to face down internal opposition and force the necessary compromises. This challenge comes at a time when the popularity of the chief executive in each country is not extremely high.

### ***Alternative Futures***

A successful negotiation of the KORUS FTA and its subsequent ratification by the U.S. Congress and the Korean National Assembly would be a concrete manifestation of the health of the overall relationship. It would demonstrate to the Korean people the determination of the United States to remain a strong, reliable partner for Korea and ease doubts about the long-term U.S. commitment to the relationship. Compromise language on products produced in the Kaesong Industrial Zone would show Koreans that the United States is not trying to block peaceful change on the peninsula.

Since the KORUS FTA would be the first U.S. bilateral FTA with a Northeast Asian country, it would boost Korea’s standing in the region and ease fears in both Korea and China that the United States is relying solely on Japan to anchor its presence in the Northeast Asia. Such a demonstration of the U.S. commitment to Korea and the value it attaches to the U.S.-Korea relationship should provide Koreans with a sense of pride and self-confidence that would ameliorate their feelings of unequal status in the relationship and permit the evolution of the U.S.-Korea alliance on the basis of hard-headed assessment of mutual interests. Korea’s need for a good security relationship with a powerful, far away friend with no territorial designs on the country has not disappeared.

A KORUS FTA would unleash dynamic economic forces in Korea, which would speed its transition to a knowledge-based economy that can compete successfully with its giant neighbors. As the only country in the region with an FTA with the United States, Korea's aspirations to be an economic hub in the region would be given a substantial boost.

A failure of the KORUS FTA negotiations would represent a serious setback to the overall U.S. relationship. It would drive many in the business and financial community to ask themselves, "Why bother with Korea? Why not just concentrate future trade and investment expansion in China and Japan?" Such an attitude on the economic and business side would naturally spill over onto the security side. If agreement cannot be reached in an area, which is so clearly win-win for both sides, then how are the two countries to deal with the difficult political/security issues where a mutually satisfactory resolution of many issues is less clear-cut?