



What's next for Korea? by Troy Stangarone

Since signing the Korea-U.S. (KORUS) Free Trade Agreement (FTA), South Korea has pushed an ambitious free trade agenda that some in Korea hope will make it the FTA "hub" of Northeast Asia. This desire complements Korean efforts over the last several years to make the country a regional "hub" for different aspects of economic activity.

Though least discussed, Korea's ambition to become a regional FTA hub is perhaps the most developed of its goals. While much attention in the United States has focused on Congressional concerns about automobiles and U.S. beef exports, other countries have responded to the economic opportunity offered by the KORUS FTA by seeking agreements with Korea.

The regional response to the KORUS FTA was fairly immediate. China sought to expedite a feasibility study on the prospects of an FTA with Korea; Japan expressed a desire to restart the two nations' stalled talks. In this sense, the KORUS FTA has already been a success by acting as a catalyst for further liberalization in the region.

In addition, Korea began negotiations with the European Union on an FTA almost as soon as the ink was dry on the KORUS FTA. It is in negotiations with the U.S.'s NAFTA partners, as well as promising markets such as India. It is looking at FTAs with Australia and MERCOSUR, potential agricultural competitors for the U.S. It is even considering FTAs with Russia and the Gulf Cooperation Council.

FTA negotiations with China are likely to commence sometime after the next Korean administration takes office in early 2008. Taking a long-term perspective, China is likely to become a significant competitor for the U.S. in both autos and agricultural products, among others, in the Korean market. An FTA with Japan, however, is more problematic due to political difficulties in addressing culture in a meaningful way.

In contrast, negotiations with the EU are expected to be concluded by the end of this year, and China has indicated a willingness to be flexible with Korea to get a deal. In addition, Kwon O-kyu, the minister for finance and economy, has indicated Korea wants to quickly move ahead on an FTA with Australia.

The EU FTA is likely to have the greatest immediate impact on the U.S. The EU already does about \$1 billion more in trade with Korea than the United States, and would be well placed to expand that advantage in an FTA with Korea absent the KORUS FTA. Though Korea has the lowest import auto penetration level in the developed world, European producers already have a distinct edge over their U.S. rivals in sales.

Once Korea has completed its FTA agenda, including implementing the U.S.-Korea FTA, it will have preferential

access to markets representing over 80 percent of the world's GDP. In one sense, Korea's FTA policy as currently constructed could be seen as a national version of multilateral trade liberalization, in which Korea becomes a hub in a system of spokes that reach out to the world's developed markets as well as some of its most promising emerging markets. In essence, it would constitute a parallel system to ensure market access for Korea if multilateral trade negotiations continue to flounder or breakdown and help to address some of the challenges Korea faces as a result of the rise of China.

What does this mean for the United States? First, Washington has an opportunity to help shape liberalization in Korea and Asia with the KORUS FTA. As other countries seek agreements with Korea, they will seek access similar to that which the United States received, with Korea pushing to open their markets in return. Second, the U.S. would be liable to lose some of the regulatory and tax changes that Korea agreed to if the KORUS FTA does not come into effect. Take the controversial area of autos: it is difficult to see Korea making the changes to its tax system that it has committed to without the U.S. agreement. Lastly, the U.S. has the opportunity to be the first mover in a Korean market with a GDP of nearly \$1 trillion; alternatively, it could follow other competitors that gain preferential access.

Plainly, the Asian trade landscape is changing. In addition to its negotiations with Korea, the EU is negotiating FTAs with ASEAN and India. Through 2013, ASEAN plans on concluding deals with Australia, China, Japan, New Zealand, and India. Australia is negotiating or considering agreements with China, Japan, Malaysia, India, and Indonesia.

Many of these agreements will not have the comprehensive market opening that the United States would seek in an FTA. However, with Trade Promotion Authority having expired, the United States is constrained in its ability to negotiate more comprehensive liberalization in Asia. This means that, beyond the KORUS FTA, the U.S. will have limited leverage to shape the trading system that will develop, and risks losing some of the gains from the KORUS FTA to competitors should it fail to act.

Thus, for all its benefits, it is useful to view the KORUS FTA through a broader perspective: the competitive landscape that the United States will face in Korea and Asia in the near term. Failure to do so could leave the United States further behind in a highly competitive environment.

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