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The Korea Trade Agreement: A Good Deal for America

By Ed Gerwin and Ryan McConaghy

To compete and win in the global economy, America must become an export powerhouse. For this to happen, it's essential that we break down unfair foreign barriers that keep American companies and workers from selling their goods and services to the world. The U.S.-South Korea Free Trade Agreement (KORUS) would do just that, allowing America to go toe-to-toe with China and Europe in the competition for global business. By winning fairer treatment for American exports, KORUS would lead to greater economic growth, support good American jobs, and benefit American companies, communities, and families. And it would do all of this in a manner that's in keeping with America's values.

49 MILLION CONSUMERS

A Good Deal for American Growth and Jobs

On March 28th, FedEx launched new, direct Boeing 777 freighter service to South Korea from its world hub in Memphis.¹ This new route positions FedEx and its U.S. customers to seize the many new opportunities that KORUS would create for American exports to South Korea.² Under KORUS, the cargo holds of FedEx aircraft—as well as South Korea-bound shipping containers, passenger aircraft and international data networks—would carry a wide array of U.S. products to waiting South Korean customers—from Florida orange juice, Michigan auto parts, Campbell's soup and Hershey's Kisses, to Hollywood movies and life insurance for Korean families.

This story, and many more like it, illustrates how KORUS would help industries, communities, companies and workers throughout the United States. Below, we outline some of the compelling stories and convincing data that demonstrate why KORUS is a good deal for America.

Over the next 5 years, 87% of global growth will take place outside of the United States. By 2030, the global economy will add some 2 billion new middle class consumers.³ South Korea's 49 million consumers are a dynamic part of the rising global middle class. But, to reach these eager customers, America needs to clear away the many barriers that deny us fair access to the South Korean market.⁴

Tearing Down Tariffs

America boasts one of the world's most open economies, and this openness is a key source of U.S. economic strength. South Korea, on the other hand, currently maintains significant barriers to exports from the United States. For example, Korea's duties on imported farm products average 54%—compared with U.S. tariffs on the same imports that average 9%. On non-farm goods Korean duties average 6.6%—compared with 3.2% for the United States.⁵

By eliminating these high tariffs KORUS would significantly expand the pipeline for American companies and workers selling to South Korea.⁶ The agreement would immediately make almost-two thirds of U.S. farm good exports (by value) duty free and eliminate Korean duties on almost 95% of U.S. exports of industrial and consumer products within 5 years.⁷

Breaking down Barriers

However, high tariffs aren't the only barriers that KORUS would help to break down. U.S. exporters have long complained that Korea employs an array of tactics—from discriminatory standards and closed rulemaking, to a lack of due process—to exclude American manufactured and farm goods, services and investments from the Korean market.⁸ KORUS would tackle many of these unfair barriers head-on. The agreement's provisions on rules and standards would, for instance, strengthen Korea's obligations to provide transparency in rulemaking, provide American firms with greater opportunities for meaningful participation in Korea's development of standards and establish effective procedures for resolving disputes.⁹

For example, the KORUS revisions negotiated by the Obama Administration would address Korea-specific auto standards that have acted as severe barriers to U.S. auto exports. Under the agreement, Korean safety officials would allow each American automaker to import 25,000 U.S. originating cars per year that comply with U.S. safety standards. American cars would also meet Korea's soon to be issued fuel economy and emissions standards if they achieve targets within 19% of those benchmarks.¹⁰ Both the United Auto Workers and Ford, along with the other American automakers, now support KORUS because these changes would significantly open up Korea to American auto exports.¹¹

Opening Opportunities for Growth

Studies by the U.S. International Trade Commission (ITC) also estimate that just the tariff cuts on goods under KORUS would increase American exports by \$10-11 billion per year, and it's estimated that these exports would support tens of thousands of good American jobs.¹² And these estimates don't include the additional exports and jobs that KORUS would support by opening up South Korea's half-trillion dollar services sector to highly competitive U.S. firms. Nor do they account for the job-creating impact of breaking down many of South Korea's non-tariff and regulatory barriers to U.S. exports, which the USITC estimates could "substantially increase" U.S.-Korean trade.¹³

As detailed in Appendix I, the strong track record of recent U.S. free trade agreements further shows how trade deals like KORUS have the potential to boost American exports, in many cases well beyond the U.S. International Trade Commission's original, more conservative estimates.

South Korea's vibrant economy—which has been growing at twice the rate of America's—could be an important source of new economic growth.¹⁴ By making it easier to sell American products and services to South Korea, KORUS would allow America to tap into the market's potential to drive growth and create jobs at home.

SQUEEZING THE COMPETITION

A Good Deal For American Companies and Workers

The data on the benefits of KORUS is convincing, but what will the deal mean on the ground for American workers and businesses? It's worth taking a closer look at how KORUS would help America's producers, workers and iconic American products compete and win in Korea. (Appendix II contains additional examples of how KORUS would drive American export sales to Korea.)

Helping Florida Squeeze the Competition in Korea

Orange juice is the most popular juice drink in Korea, with imports exceeding \$100 million annually. The 1,100 grower-members of Florida's Citrus World cooperative (owners of the "Florida's Natural" brand) currently export concentrated frozen orange juice to Korea, but these exports face high Korean duties of 54%. KORUS would immediately eliminate these high Korean duties, slashing the price that Korean consumers would pay for U.S. orange juice. This would give Citrus World and other American exporters a huge competitive advantage over suppliers from Brazil (the current lead) and other countries that would still pay the higher Korean duties. After all, if you were a savvy Korean shopper comparing a six-pack of Florida's Natural juice concentrate at \$14.49, and a Brazilian brand priced at \$22.32, which would you buy?¹⁵

Food and Farm Products

South Korea is already America's fifth largest export market for high-value food products—importing \$5.1 billion worth of U.S. processed foods and beverages in 2008.¹⁶ Leading U.S. exports include juices, chocolate products, prepared foods and frozen French fries. Korea's demand for these and other consumer-ready products is continuing to grow as Korean consumers become more affluent, adopt a more international diet and demand quality and product variety.¹⁷

But it's hard for American food and beverage exporters to take full advantage of growing opportunities in Korea when their products face a variety of Korean trade barriers, especially high duties—often over 50% and some as high as 75%—that make American processed foods far too expensive for even affluent Korean consumers. American meats, grains, vegetables and fruits similarly face high Korean tariffs and an array of non-tariff trade barriers.

KORUS would help a wide range of American food producers, farmers and their workers win more business from Korean consumers. Opening up Korea's market for these and other American food products would also help create good American jobs. The United Food and Commercial Workers Union—which represents American workers in agriculture, food processing, meatpacking and other sectors—has endorsed KORUS, citing estimates that the agreement would create over 20,000 jobs in meat export producing sectors alone.¹⁸

Pass the Spicy Pork

Koreans eat more pork than any other meat. One very popular Korean dish is Spicy Pork (Daeji Bulgogi) which is made with thinly sliced pork marinated in spicy chili pepper sauce. In recent years, more and more Korean retail stores have been selling high quality and well-priced American chilled pork to Korean consumers. KORUS would eliminate many Korean pork duties of up to 30% by 2014, helping American pork producers and processors like Swift, Tyson and Hormel make sure that more Korean Spicy Pork has an all-American flavor.¹⁹ But without KORUS, American pork would eventually be priced out of the Korean market by foreign suppliers whose countries get improved access to Korea, such as the EU and Chile. This would leave a bitter taste for our producers, who would lose \$215 million in current business and \$687 million in future sales.²⁰

Manufacturing

Manufactured goods account for some 80% of U.S. exports to Korea, supporting 230,000 American jobs in 2008. KORUS would significantly boost American manufactured exports to Korea—including medical equipment, information technology and environmental goods—helping to support related jobs. The National Association of Manufacturers estimates, for example, that U.S. exports of machinery and equipment to Korea would grow by more than a third under KORUS.²¹

Dredging-Up Korean Business

Ellicott Dredges, a 200-employee company in Baltimore, has been recognized as one of the 100 fastest growing inner-city headquartered companies in America. Ellicott has over a century of experience in the dredging industry—it built the dredges used to dig the Panama Canal. Ellicott has been active in Korea for decades. In 1983, for example, it designed and delivered to Korea a massive dredge which is still one of the largest of its type in the world. But while Ellicott can offer high-quality American-made dredges, it must also compete on price in a very competitive global market. KORUS would eliminate Korea's 5-15% duties on Ellicott's dredges, and help assure that Ellicott's high quality products can continue to compete on price with European dredges that are already set to benefit from tariff cuts under the European Union's new trade deal with Korea.²²

Services

Services are a superstar of American exporting. But because services are usually intangible and often harder to quantify, they are frequently ignored—especially by critics of new trade deals. However, the benefits of U.S. services exports are undeniable—America exports over a half trillion dollars in services annually and runs a trade surplus in services of almost \$150 billion. These exports support some 3 million good U.S. jobs, in sectors including travel, tourism, logistics, finance, insurance, entertainment, IT, health care, education, consulting, accounting and law.²³

Korea's \$580 billion services market is the world's seventh largest. America already runs a services surplus of over \$6 billion with Korea, despite Korea's very significant barriers to American services trade. KORUS would significantly open up opportunities for increased U.S. services exports to Korea by:

- Requiring much greater transparency in Korea's services regulatory power;
- Enabling American firms to participate fully in the Korean regulatory process; and
- Eliminating many industry-specific restrictions, such as limits on the ability of financial firms to establish and fully own branches, and restrictions on express delivery, legal services, and electronic commerce.

According to the U.S. International Trade Commission, KORUS would benefit a number of important services sectors in particular. For instance, it would likely increase American film and entertainment services exports "significantly" and result in "sizable" new exports of U.S. financial services to Korea.²⁴

Flying Snoopy to Seoul

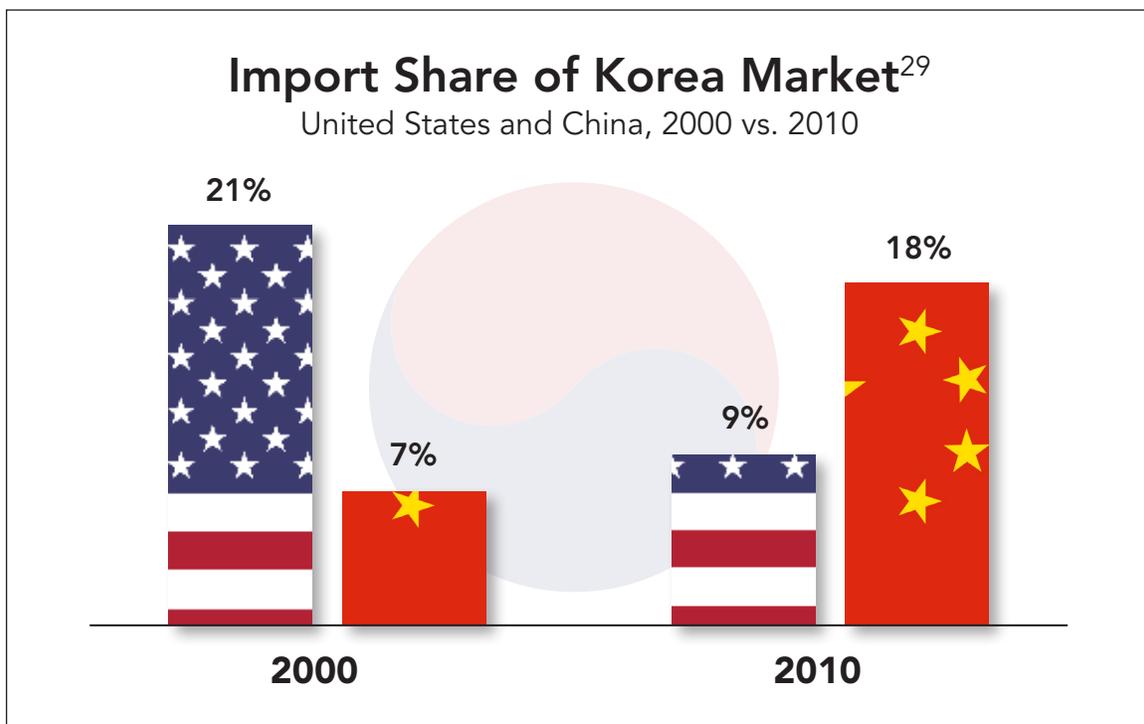
New York-based MetLife is a global leader in insurance and financial services. MetLife has been in Korea for 20 years and Korea is MetLife's third largest market. KORUS would provide MetLife with substantial new opportunities to compete in Korea's \$65 billion insurance sector. The agreement would provide MetLife and other American insurers the same rights in Korea as they enjoy in the United States, including the right to freely own branches and to offer innovative products. And new business opportunities in Korea for MetLife would, in turn, support good, well-paying American jobs. MetLife's international investment, product development and actuarial professionals who develop new products for the Korean market are largely based in the United States, as are many of the administrative, research, IT and human resources staffs who work with them.²⁵

SOUPED UP SALES

A Good Deal for American Competitiveness

As the world's 15th largest economy, South Korea is a very attractive target for American exporters. But America is not the only country that has its sights on Korea's \$1 trillion market, and many of America's global competitors are increasingly doing a better job than the United States in hitting the mark.²⁶

In 2003, the United States was the world's leading exporter to Korea. Today, we are struggling with Europe for third place, behind China and Japan.²⁷ Other countries are working hard to ensure that their companies have preferred access to the Korean market. Countries like Chile, India, and Singapore face fewer barriers in the Korean market under free trade deals, the European Union and Peru are set to implement trade agreements with Korea this summer, and countries including Australia, Canada, China, Japan, New Zealand, and Turkey are either negotiating or exploring trade-opening deals with South Korea.²⁸



The United States must keep pace with these international competitors by concluding KORUS. If we don't, we will fall further behind in Korea as Korea's barriers to other countries' exports fall away. Failure to act will not only keep American companies from gaining new business in Korea, but will increasingly cost them current business as well. For instance, within a year of Chile's trade deal with Korea, Chilean wine exports to Korea overtook U.S. wine exports.³⁰

A U.S. Chamber of Commerce study estimates that the United States would lose some \$35 billion in global exports and 345,000 jobs if it fails to implement KORUS while the EU and other global competitors continue to strike new market-opening trade deals.³¹

If, on the other hand, KORUS is implemented, American companies would not only stay in the game, but gain some clear advantages. Among other things, under KORUS, the U.S. service sector would gain better access to Korea than its European competitors. And KORUS would give producers like Citrus World a potentially decisive price advantage over foreign competitors because of much lower duties.³²

Shopping in Seoul for Clam Chowder

Seafood soups are popular with Korean consumers. But imported chowders can be expensive because they are subject to Korea's 30% import duties. These duties would be phased out under the EU's trade deal with Korea and under KORUS. But the 30% duty would still apply to Campbell's and other American exports **if KORUS is not implemented**. If you were a budget-conscious Korean consumer looking at a can of Campbell's Clam Chowder for \$5.36, and a European brand priced at \$4.12, which would you buy?³³ KORUS will help Campbell's win on quality and not lose on price.

FAIR PLAY

A Good Deal for American Values

Critics claim that KORUS and other trade agreements are unfair, charging that they subvert vital American health, safety and environmental policies. However, KORUS affirms the right of the United States to maintain these and other protections.³⁴ And it includes strong, enforceable environmental and labor protections that were long sought by advocates and were agreed to by bipartisan Congressional leaders.³⁵

At its core, KORUS wins fairness for America by breaking down Korea's unfair barriers to U.S. commerce and establishing clear and fair rules-of-the-road. It mandates that Korea apply quintessentially American principles like fair play and due process to American traders and investors. It requires that rules be developed in an open and transparent manner, prohibits unfair discrimination against American products, services or companies, and protects American property rights against seizure without due process and just compensation.³⁶ Indeed, Korea has agreed to these and other provisions precisely because it wishes to reform its

economy and government sector by emulating important American principles—principles that promote fairness, openness, opportunity and prosperity.³⁷

By itself, KORUS will provide a shot-in-the-arm for the American economy. However, for America and Americans to maximize the overall benefits of KORUS—and of trade generally—KORUS must be part of a broader, comprehensive trade strategy that assures that trade's opportunities are widely shared and that America keeps the advantages we've won at the bargaining table. This strategy must include more aggressive international enforcement against barriers to U.S. exports, more robust export promotion, more good trade deals, full restoration of Trade Adjustment Assistance, stronger enforcement of import rules, better workforce development, and more sustained pressure on other competitors to comply fully with international rules.

ABSOLUTELY, POSITIVELY KORUS

A Good Deal for America

America is the world's largest manufacturer, leads the world in services and boasts a large and highly productive farm sector.³⁸ But we also underachieve significantly as an exporter. Of the world's 12 largest economies, we are last in the share of our economy derived from exports. Only 1% of our companies are exporters.³⁹ To grow, we can and must become an export powerhouse. KORUS provides a key step forward.

Since last month, FedEx Boeing 777's have been making direct cargo flights from Memphis to Korea. But how often will those planes fly, and how much will be in their cargo holds as they wait on the runway to take off? KORUS would expedite these cargo shipments and other U.S. express delivery services⁴⁰ and make them more profitable for America. Under KORUS, FedEx freighters would carry more shipments from American small businesses who export to Korea because they no longer have to leap regulatory hurdles, from innovators no longer worried that their intellectual property will be up for grabs, and from domestic parts suppliers reaching new Korean customers through increased "just-in-time" shipments.

More of these flights would also mean more FedEx workers to handle the shipments, more purchases in the local Memphis economy and more 777s built and supported by Boeing's over 150,000 employees and 22,000 suppliers in 50 states.⁴¹ And of course, more export sales for American farmers, manufacturers, service providers, and innovators would continue to keep these flights and other shipments to Korea stocked with new cargoes. Together, this example and countless others would all add up to growth and jobs to help America and Americans recover and prosper. But before this growth can take off, KORUS must take flight.

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APPENDIX I

Track Record of U.S. Trade Agreements

The track record of other U.S. trade agreements underscores the potential of KORUS to promote U.S. exports and create opportunity for American communities, companies and workers. Some examples of how recent trade agreements have been a catalyst for robust, export-driven growth in important regions and industries include:

- **North Carolina:** Since the Chile Free Trade Agreement went into effect in 2004, North Carolina's exports to Chile have grown by over \$64 million, growing twice as fast as the state's exports to the world overall.
- **Michigan:** Since the Chile Agreement went into effect in 2004, Michigan's exports of transportation equipment—the state's largest export category—have increased nearly four times faster to Chile than the state's transportation equipment exports to the world overall.
- **Colorado:** Since 2002, Colorado's exports of processed foods—the state's second largest export category—have increased twice as fast to free trade agreement countries as the state's processed food exports to the world overall.⁴²

According to 2010 U.S. trade data, America's 17 free trade agreement partners represent only about 7% of global economic output outside of the United States. But they accounted for over 40% of U.S. exports, while contributing 31% of U.S. imports.⁴³ The data also shows that, in 2008 and 2009, the United States had a manufactured goods trade surplus of almost \$50 billion with its 17 free trade agreement partners, and that our manufactured exports to these countries continued to exceed imports for 2010. This is in stark contrast with our 2009 manufactured goods deficit of \$345 billion with countries—especially China—with which we do not have a free trade agreement.⁴⁴

A Rising Tide: The Impact of Recent U.S. Trade Agreements on U.S. Exports & Imports⁴⁵

Trade Agreement	Change in U.S. Exports	Change in U.S. Imports
Australia (2004-2008)	+59%	+41%
Bahrain (Aug. 2006-July 2009)	+48%	-20%
Chile (2003-2008)	+341%	+122%
Morocco (2005-2008)	+199%	+97%
Singapore (2003-2008)	+68%	+5%

APPENDIX II

More KORUS Stories

Farm and Food

- **Chocolate:** The Americans who make chocolates and candies, like Hershey's Kisses, would benefit from Korea's elimination of duties ranging from 8% to 754%, either immediately or in stages.⁴⁶
- **Processed Foods:** Workers at major American food products companies like Kraft and Proctor & Gamble would be able to produce more for the Korean market when Korea eliminates duties ranging from 8% to 754% on their products. Many would be eliminated immediately.⁴⁷
- **Beef:** Tariff eliminations on Korea's current 40% duty on beef would lower the Korean price of U.S. beef by \$1300 per ton (\$0.65/pound) and increase U.S. exports by American ranchers and processors substantially.⁴⁸
- **Potatoes:** American potato growers from Idaho to Maine, along with their processors and workers, would gain a larger slice of Korea's \$20-\$30 million import market for processed potatoes. KORUS would immediately eliminate Korea's 18% duty on American frozen French fries and phase out duties of up to 304% on dehydrated potatoes.⁴⁹
- **Wine:** Napa Valley winemakers are battling with competitors from Chile and Europe for business in Korea's growing market for wine. Chilean wine exports to Korea overtook American wine exports within a year of Chile's trade agreement with Korea. If KORUS is not implemented, the United States would be the only major wine exporter that still pays Korea's 15% duty.⁵⁰

Manufacturing

- **NU Core** (Inkster, Michigan) – immediately eliminates Korea's 8% duty on exported auto parts.
- **LM Glasfiber** (Little Rock, Arkansas) – immediately eliminates Korean duties of up to 8% on windmill blades.
- **Bristol Compressors** (Bristol, Virginia) – eliminates Korean duties of up to 8% on pumps, compressors and fans immediately or within 3 years.
- **Cummins** (Columbus, Indiana) – eliminates Korean duties of up to 8% on certain engines immediately or within 3 years.
- **Medical Equipment** – U.S. medical equipment firms like Johnson & Johnson and Medtronic generate a \$500 million U.S. medical equipment trade surplus with South Korea, and are neck-and-neck with their European competitors. But, without KORUS, EU firms would gain the upper hand because their equipment would face duties averaging only 1%, while duties on American equipment would average 5.6%. Moreover, only EU companies would gain clearer and more transparent treatment under Korea's national health insurance.⁵¹

APPENDIX III

KORUS – Just the Facts

Korea

- World's 15th largest economy (2010 est.).
- GDP – \$989 billion (2010 est.).
- Population – 49 million (2010 est.).
- Services sector – \$580 billion.

Current Comparative Tariffs

- Farm products – average Korean duties of 54% (vs. U.S. average of 9%).
- Non-farm goods – average Korean duties of 6.6% (vs. U.S. average of 3.2%).
- Food and beverage products – Korean duties often over 50%, as high as 754%.

Current U.S.-Korea Trade

- Manufactured goods are 80% of current U.S. exports to Korea, supporting 230,000 jobs in 2008.
- Services – U.S. runs a \$6 billion surplus with Korea.
- United States was the World's #1 exporter to Korea in 2003. Now China is #1, with the U.S. competing with the European Union for third place.

KORUS Impacts

- Would immediately eliminate Korean duties on almost two-thirds of U.S. farm goods (by value).
- Would eliminate Korean duties on almost 95% of U.S. industrial and consumer products within 5 years.
- Would increase U.S. exports to Korea by \$10-11 billion per year, based on conservative estimates not including services.
- By eliminating many of Korea's non-tariff and regulatory barriers, KORUS could "substantially increase" trade, according to the U.S. International Trade Commission.
- National Association of Manufacturers estimates that U.S. exports of machinery and equipment to Korea would grow by one-third.

U.S. Economy and Trade

- U.S. is the world's largest manufacturer and exported \$1.3 trillion in goods in 2010.
- U.S. is the world's largest services economy and services exporter, and ran a services surplus of almost \$150 billion in 2010.
- Of the world's 12 largest economies, the U.S. is last in the share of its GDP (13%) derived from exports. Only 1% of U.S. firms export.

Opportunities in the Global Economy

- 87% of global growth will occur outside the United States over the next 5 years.
- 2 billion new middle class consumers will join the global economy by 2030.

■ ENDNOTES

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36 Office of the United States Trade Representative, "Free Trade Agreement between the United States of America and the Republic of Korea." For example, Articles 5.2 and 5.3 require fair, reasonable and non-discriminatory rules and transparent procedures relating to pharmaceuticals and medical devices, Article 7.1 requires publication, advance publication and opportunity to comment on customs rules, Article 9.6 provides for transparency and non-discriminatory opportunity to participate in the development of standards and technical regulations, Articles 11.5 and 11.6 mandate fair and equal treatment and fair compensation for investors, Articles 12.7 and 12.8 provide for fair regulation of services and transparency in development and application of services regulations, Article 13.11 mandates transparency in financial services regulations, Articles 16.1 and 16.5 provide for due process and transparency in the enforcement of competition-related matters, Chapter 17 sets forth fair bidding procedures and Chapter 21 provides transparency requirements relating to laws, regulations and proceedings.

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