US negotiates free trade agreement with South Korea

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Both the Obama administration and the South Korean government of President Lee Myung-bak hailed the renegotiation of the US-South Korean (KORUS) free trade agreement over the weekend as a “win win” deal. In reality, Washington has essentially forced its junior ally to make key concessions on the economic front, in exchange for greater US military protection amid sharp tensions on the Korean peninsula.

Because of rising protectionism in both countries, talks on the KORUS—the biggest US FTA since the North American Free Trade Agreement in 1994—had been stalled since the initial agreement was signed in 2007. Seoul was reluctant to open up its highly protected car market and livestock sector to US imports, while the US Democrats and trade unions opposed any further penetration of South Korean imports into the American auto market. In 2008, President Lee’s resumption of US beef imports became the focus of large anti-government protests and strikes over the perceived danger of mad cow disease.

Just last month, another attempt to salvage the 2007 deal collapsed on the eve of the G20 summit in Seoul. Now Washington has taken advantage of the tense situation following the exchange of shelling between the two Koreas on November 23 to force Seoul to make significant concessions. Major American banks and corporations have supported the FTA, which will eliminate tariffs on 95 percent of US-South Korean trade in five years and pave the way for the opening up of South Korea’s banking sector.

In the revised accord, South Korea gained a few trade-offs. It will cut its 8 percent tariff on American auto imports to 4 percent immediately, instead of eliminating the impost entirely, as was agreed in 2007. The tariff will be scrapped after five years. There will be a two-year delay on eliminating tariffs on US pork, and South Korea refused to restart the controversial US beef imports.

By contrast, the US extracted much bigger concessions on the auto industry. The US will now end its 2.5 percent tariff on South Korean vehicles in five years, instead three years, as was agreed in 2007. Moreover, Seoul has permitted the US to maintain its 25 percent tariff on trucks for 8 years, instead of phasing it out immediately.

The new deal will also allow all the American car giants to export to South Korea 25,000 of each of their models per year with US safety standards, instead of Korean ones. South Korea has been using its high safety standards to prevent foreign competitors from dominating the country’s car market and to protect its own auto giants like Hyundai. Foreign brands account for just 6 percent of the car sales in South Korea, making it one of the world’s most shut-in markets.

The deal is designed to allow the US to catch up with its rivals in the imported car market in Korea. The US share in that market of 10.1 percent last year fell from 11.3 percent in 2008. European auto companies held 62 percent of that market, and Japanese brands, 28 percent, in 2009.

Ford CEO Alan Mulally, who previously opposed the FTA, welcomed the pact, thanking the Obama administration for “opening the Korean auto market”. According to the *Wall Street Journal*, the US Chamber of Commerce has “put its muscle behind the modified agreement”. Chamber president Thomas Donohue declared his organisation would “do everything in our power to round up the votes” to ratify the agreement in the US Congress.

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Nevertheless, the US is still lagging behind its major rivals. A South Korea-EU free trade deal will come into effect next July. It will eliminate tariffs on European cars in four years, while the KORUS agreement is still waiting for ratification in the Congress and South Korean National Assembly.

The KORUS is one of a handful of American FTAs in Asia, putting Washington well behind Beijing. China's FTA with the Association of South East Asian Nations (ASEAN) came into effect in January, boosting Sino-ASEAN trade by 50 percent. Even without a full FTA with South Korea, China's $156 billion trade with that country last year was much larger than the US's $68 billion. If the KORUS is ratified, US-South Korean trade will increase by only an estimated $10 billion a year.

President Barack Obama has latched onto the FTA to boost his claim that his administration will create tens of thousands of jobs for American workers, amid a 9.8 percent official unemployment rate. Obama boasted on Saturday that KORUS would help achieve his goal of doubling US exports in five years. "Essential to that is opening new markets around the world to products that are made in America," he declared.

The FTA is likely to exacerbate US-South Korean trade tensions, however. According to a 2007 study by South Korean economic think tanks, the proposed FTA would allow South Korea to widen its trade surplus with the US by $463 million each year over the next decade, spearheaded by expanding exports of auto, electronics and textile. At the same time, US agricultural exports to South Korea would grow by $370 million annually over 15 years, further undermining the social conditions of Korean farmers.

In US ruling circles, the FTA with South Korea is linked to strategic considerations in Asia. In a letter to Obama by the US Senate Committee on Foreign Relations in May, John Kerry and Richard Lugar called for support for the KORUS because the US "cannot afford" to lose the Korean market to its rivals, especially China. Moreover, they argued, South Korea was important to Washington as it "hosts the only substantial US troop presence in mainland East Asia".

In South Korea, the Democratic Party (DP) and other opposition parties that favour a policy of economic engagement with North Korea, as well as China, have condemned the FTA, saying the present North Korean crisis had been utilised to make a deal "benefiting only the US side". DP chairman Sohn Hak-kyu said it was a "humiliating negotiation". The minor Liberty Forward Party said the right-wing Grand National Party government had "failed to protect the nation's interests by holding the talks at a time when it desperately needs military cooperation from the United States".

South Korean Trade Minister Kim Jong-hoon declared in an hour-long televised address on Sunday that the FTA was not a concession in exchange for stronger US military protection. "I only negotiated this on the basis of economic principles," Kim claimed. President Lee's spokesman Hong Sang-pyo insisted that the timing of the FTA and the conflict with North Korea "was just a coincidence".

Nonetheless, the government has ratcheted up the confrontation with North Korea. Newly-appointed defence minister Kim Kwan-jin provocatively declared last Friday that the south would "definitely strike North Korea by air" in the event of any further attack from the north. With strong backing from the US, South Korea launched new live-fire naval exercises around the Korean peninsula in 29 locations on Monday, after a major joint exercise with the US in the Yellow Sea.

The KORUS agreement is not a sign of new-found US economic strength. Rather it is a by-product of Washington's efforts to strengthen its ties in Asia and undermine growing Chinese influence that are having a destabilising impact throughout the region.

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