

盧武鉉的南韓自由貿易策略

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關鍵字：南韓、自由貿易協定、美國、中國崛起、盧武鉉

中文摘要

由於南韓對國外市場倚賴甚深，其對國際環境的變遷一向極為敏感，而且因應迅速。其自由貿易協定（Free Trade Agreement, 簡稱 FTA）的政策亦不例外。就南韓簽訂 FTA 的情況而言，其起步在東亞國家裡並不算晚，1998 年 11 月金大中政府即選定智利與日本作為洽簽 FTA 的對象，但是直到 2003 年 2 月南韓始與智利簽署其第一個 FTA，在東亞 FTA 熱潮中顯然居於落後的地位。因此，求生存，不被孤立與防止被邊緣化遂成為盧武鉉政府積極對外簽署 FTA 的是南韓積極簽署 FTA 的主要動機。在南韓看來，在區域經濟區塊化與全球化並存的今日，沒有雙邊 FTA 的國家等同遭到孤立與邊緣化。所以簽署 FTA 對南韓言，沒有選擇之餘地，是必要的抉擇。2003 年 8 月盧武鉉政府釐定「積極推進 FTA 的路線圖」，宗旨是同時、多方、積極推進 FTA，

並將與美國完成 FTA 簽署作為其「同時洽簽多個 FTA 政策的最終目標」。原因是如不加快與相關國家進行 FTA 協商，南韓將在世界出口市場上被孤立。

而隨著中國-東協 FTA 進展加速，南韓的 FTA 策略轉而越來越著重於與亞洲國家簽 FTA 之走勢。但南韓主要經濟智庫皆建議政府為了要擴大商機與在海外市場取得有利的地位，南韓必須積極推動與美國、中國、歐洲聯盟（EU）與印度等經濟大國或主要經濟區塊展開 FTA 協商，並將這些國家與區塊列為主要洽簽的對象，尤其美國應列為首要對象，其次為中國與 EU。2007 年 4 月韓美完成 FTA 談判，並於 7 月正式簽署，由於南韓搶在東北亞各國之前與美國簽訂 FTA，取得先機與戰略優勢，提升自身的地位。南韓最大的收穫是能對其越來越不利的區域商業環境旋乾轉坤，借力使力，扭轉成對其有利的環境。南韓的獲利是可藉韓美 FTA 確保美國市場，增加南韓產品在美國市場的競爭力，並大幅提昇其未來與其他大經濟體 EU、中國與日本等進行 FTA 的談判籌碼以及在東北亞乃至亞洲經濟整合中取得戰略優勢。從政治與戰略來看，南韓與美簽署 FTA 大幅提升身價，成為中美爭取合作的與國，為盧武鉉所欲扮演的東北亞平衡者的角色提供有利的環境。更何況，韓美 FTA 也為南韓亟欲成為的東北亞營運中心的理想製造有利的契機。在外交方面，南韓尋求中國的奧援來化解美日對北韓的強硬立場以及制衡日本的擴軍與強烈的政治企圖心。

South Korea's FTA Strategy under Roh Moo-hyun¹

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Key words : South Korea, FTA, the United States, Rising China,
Roh Moo-hyun

Introduction

There have been two competing approaches to promoting international trade since the end of the Second World War. One approach focuses on building a multilateral trading system, while the other on forming Preferential Trade Agreements (PTAs) including Free Trade Agreements (FTAs) and Regional Trade Agreements (RTAs). People who support the former approach advocate regulation of cross-border trade flows through a global trading organization.² The establishment of the

General Agreement on Tariffs and Trade (GATT) in 1947 was the first attempt to do so. The subsequent accumulated strenuous efforts finally brought about the creation of World Trade Organization (WTO) in 1995. Since then, it has emerged as the most influential and important organization for managing the exponentially increasing global trade and economic relations and resolving the disputes that arise in the process. This International Organization, as originally envisaged by its founders, has become the most important multilateral mechanism in governing global economy and trade and has the most deciding influence in states' political and economic policies.

Nevertheless, forming FTAs and RTAs has become a newly emerging trend of worldwide trade since the late 1990s. In the period between 1947 and 1994, right up to the launching of the WTO, there were 125 FTAs including a customs union concluded. However, between 1995 and 2003, the number soared to 130 with over 70 cases in progress. Up to January 4, 2005, there were 122 FTAs referred to the WTO worldwide. Sixteen FTAs were in the Asia-ocean area.³ This trend has further expedited since the consecutive failures of the WTO Millennium Round's Third Ministerial Conference in Seattle in November-December 1999 and the 5th WTO ministerial talks in Cancun, Mexico in September 2003. Countries began to hurry into FTAs with each other instead of pursuing the multilateral Doha Development Agenda (DDA). In East Asia, countries did

¹ A draft of this paper was presented in the Program of the Global Trade Development Forum and Sixth Annual Convention on China and WTO in Beijing China Academy of WTO Study University of Foreign Trade and Economic Cooperation on November 10, 2007.

² Marc Williams, "The World Trade Organization and Challenges to the

Global Trading System," *Taiwanese Journal of WTO Studies*, Vol. 1, 2005, pp. 135-136.

³ <http://www.jetro.go.jp/biz/world/international/column/pdf/034.pdf>

not actively pursue signing the FTAs until the end of 1990s,⁴ mainly because they firmly believed that the best way to protect their national interest is through the multilateral trading system. However, with the failure of the WTO Millennium Round's Third Ministerial Conference in Seattle in 1999, they began losing confidence in the multilateral trading system and shifted to exploring FTAs. Singapore was the first East Asian country to start FTA initiative, followed by Japan and South Korea.

Against this background, in this paper, the author intends to first explain why FTA is more popular than WTO since the late 1990s, then analyze South Korea's FTA strategy as a case study by first examining the evolution of its FTA policy, then exploring motivations behind Seoul's decision for initiating the FTA negotiations with the US in June 2006, assessing the results of their FTA negotiations versus South Korean motivations, and finally the implications of the deal on South Korea and Northeast Asia.

Why Countries Favor PTA rather WTO?

By the end of 2005, more than 160 FTAs had taken effect and over 55% of world total trade volume was conducted between FTA members.⁵ There are several reasons why FTA (or RTA) is able to surpass WTO and become the most favored approach to international trade by national decision makers in

the world. According to Alan Oxley who was Australia's former Ambassador to GATT, one primary reason is that FTAs are much easier to enter into in comparison with WTO negotiations in which more than a hundred countries are involved. As a result, state authorities tend to favor signing FTAs for they can gain visible political and economic interests in a shorter period vis-à-vis WTO negotiations. Another major difference between FTAs (and RTAs) and WTO is that the former may embrace political and strategic meanings,⁶ while the latter, as it is, is nothing but an agreement on trade. Australia-US FTA is a good example of this. Both sides signed the agreement based primarily on strategic and political consideration. The Howard government tended to further strengthen its close strategic alliance with Washington via FTA,⁷ while the Bush administration viewed the FTA as a reward to Canberra for its staunch support to its war against anti-terrorism and Iraq, in particular the latter. America's FTAs with Middle East also strongly reflected this characteristic. America signed its first FTA in 1985 with Israel and was primarily motivated by strategic considerations; so was the Bush administration's FTAs with Bahrain and Jordan in the wake of 9/11, 2001 terrorist attacks.⁸ In addition, in contrast with

⁴ Barry Desker, "In Defence of FTAs: from Purity to Pragmatism in East Asia," *the Pacific Review*, Vol. 17, No.1, March 2004, p. 4.

⁵ "FTA negotiations from ASEAN to Central America," *Chosun Ilbo* December 12, 2005, http://chinese.chosun.com/big5/site/data/html_dir/2005/12/12/20051212000031.html

⁶ "...political and security considerations have been of considerable importance in the decision to form a number of RTA, especially in Europe, these would have been established even if strict economic criteria were not met." Jo-Ann Crawford and Sam Laird, *Regional Trade Agreements and the WTO*, Centre for Research in Economic Development and International Trade, University of Nottingham, May 2000, p.1, <http://www.nottingham.ac.uk/economics/credit/research/papers/cp.00.3.pdf>

⁷ Richard Leaver, "The Australia – United States Free Trade Agreement: The Boomerang of Competitive Liberalisation?," *Taiwanese Journal of Australian Studies*, Vol. 6, 2005, pp. 126-127.

⁸ Editorial: Pact Could Mature Alliance, <http://joongangdaily.joins.com/>

WTO, FTA enables a third advantage: selectivity. Countries may avoid opening their markets they do not want to open and offer other incentives. For instance, in their FTA negotiations, Japan was able to persuade Malaysia to allow it not to open its agricultural market. In return, Japan promised to provide Malaysia more quotas for job training.⁹ Another reason why FTA is more popular than WTO is that FTA is largely linked with regional economic development. If one nation is slow in signing FTAs, that nation will be exposed to the dangers of marginalization. Alternatively, a nation with more FTAs can not only secure its export markets, but also pile up its bargaining chips for future FTA negotiations. That is why Singapore has been the most popular target for signing FTAs. Moreover, signing FTAs have dividends such as stimulating foreign investment, increasing the country's products' competitiveness in international market and so on.¹⁰

Evolution of South Korea's FTA Strategy

In the case of South Korea, the 1997 Asian financial crisis was a turning point in its politics, economy and security. The outburst of the crisis suddenly turned the country from the developed economy to a country in the Third World plunging into what South Koreans call the IMF era, a national disgrace. The conservative triangle including government, conglomerates, and banks was blamed for the disaster. With a strong resentment

at the corruption of conservative government and conglomerate coalition, South Koreans elected their first-ever liberalist President Kim Dae-jung. The paramount task of Kim Dae-jung was to bail out South Korea from the financial crisis as soon as possible. Sensing the need for bringing the export driven economy to better utilize the international connections, trade, a traditional bastion of the Economic Ministry was brought under the fold of Foreign Ministry and the Ministry of Foreign Affairs was rechristened as the Ministry of Foreign Affairs and Trade (MOFAT) in 1998.

Economically, South Korea depends on foreign trade for 70 percent of its GDP. With rapidly changing global economy characterized by the rising trend of forming RTAs and FTAs unfavorable to South Korea's exports, South Korea decided to promote FTA in 1998 and picked up Chile as the first country to conclude FTA.¹¹ In the same year, Kim Dae-jung also proposed bilateral FTA to Japanese Prime Minister Obuchi when visiting there. The Kim Dae-jung Government started negotiations on the trade pact with Chile in 1999 and concluded the FTA in October 2002. However, the agreement was not ratified by the National Assembly until January 2004, almost one year after President Roh Moo-hyun was sworn into the office. It took almost five years to negotiate and implement the agreement largely due to opposition to opening the agricultural market to Chile. Main reasons include fears of liberalization and the difficulty in coordinating conflicting interests between exporters and domestic farmers. For exporters, South Korea's losing out

200602/02/200602022213229339900090109011.html

⁹ <http://www.asahi.com/international/aan/hatsu/hatsu041027b.html>

¹⁰ Xu Qiang, "The Trend of World FTAs Development and Analysis of China's Strategy," http://caitec.mofcom.gov.cn/article/200408/20040800269901_1.xml

¹¹ http://www.president.go.kr/cwd/kr/archive/archive_view.php?meta_id=policy4_3&id=25842f0bbb9fce930d42a546&list=4

in FTA deals worldwide will translate into deteriorating the national competitiveness in export. A FTA allows its parties concerned special favors, such as no tariffs in exports. This means that South Korean companies should bear the brunt of disadvantages in trading.

In Chilean markets, Korean automobiles occupied 20.2% of the market in periods from January to April 2002, yet the market share dropped to 13.8% in 2003 over the same period. Mobile phones were losing in the battle as well. This was because Chile began to import car and mobile phones en masse from the EU, Argentina, Paraguay, Brazil, and Uruguay as the bilateral FTAs took effect. According to the MOFAT forecast, the proportion of FTAs to global trades would grow to 55% by 2005 from 43% in 2002. As more trade occurred between FTA signatories, South Korea would lose its overseas markets and competitiveness at the same time.¹² 'Alternatively, farmers bitterly resisted the FTA, not only the FTA symbolizing South Korea's first foray into the world of FTAs but also worrying especially about the impact of cheap Chilean fruits on the South Korean market. They banded together with civic groups to demand a suspension of related discussions until the completion of the Doha Development Agenda negotiations. For allaying farmers' concerns, President Roh in November 2003 vowed that his government would provide strong support to farmers, including a massive 191 trillion won assistance package to be dispensed over the next ten years to help farming households address financial difficulties.¹³

Subsequent to the Chile FTA, the Republic of Korea (ROK) reached a FTA agreement with Singapore in November 2004.¹⁴ In fact, by 2005 conclusion of more FTAs became an urgent task for the Roh Moon-hyun Government with almost half of global trade being made through about 200 bilateral accords. At the time, more than 50 percent of global trade was undertaken between countries bonded by free trade deals. Given it concluded only two FTAs, South Korea was lagging far behind the trend thus far. Furthermore, South Korea faced an urgent need to diversify its export markets. In 2004, China, the United States and Japan accounted for 45 percent of its exports, the highest concentration ratio ever. China took up 19.6 percent, the U. S. 16.8 percent and Japan 8.6 percent. South Korea's reliance on the three markets kept rising from 35.5 percent in 1998 to 44.7 percent in 2003. The excessive concentration of exports in these countries makes South Korea vulnerable to external shocks. Unexpected developments in these countries could cause a drastic fall in exports, which in turn could slow down the national economy.¹⁵ South Korean President Roh Moo-hyun indicated in December 2004 that his country has to choose FTA in order to ensure overseas markets and the continuation of economic growth. South Korean major economic think tanks such as KIEP and KIET suggested that for expanding business opportunities and acquiring favorable position in overseas markets, South Korea must actively promote FTA negotiation with those countries with huge markets. As a result, South Korea was pursuing FTA negotiation with Japan, ASEAN and

¹² Korea Marginalized in FTA Deals, <http://english.donga.com/srv/service.php3?biid=2003092294308>

¹³ <http://times.hankooki.com/lpage/200311/kt2003111116204710220.htm>

¹⁴ *Seoul Economic Daily*, April 17, 2005.

¹⁵ "Free Trade with Chile: A Two-way Street," Commentary, *the Korea Herald*, April 1, 2005.

EFTA and regarded the U.S., China and the EU as primary targets to conclude FTA.¹⁶

Taking advantage of the first anniversary of the free trade agreement between Korea and Chile in March 2005, the Roh Moon-hyun Government hailed it as a win-win deal and announced that it has chosen more than twenty countries as targets to promote FTA simultaneously and has an ambitious plan to conclude 15 free trade agreements by 2007.¹⁷ Between April 2004 and March 2005, South Korea's exports to Chile increased 58.6 percent to US\$735 million, while imports grew 54.3 percent to US\$1.7 billion. South Korea had a trade deficit of US\$1 billion due to a surge of importing minerals, copper in particular, from Chile.¹⁸ The ROK's market share in the Latin American country has surpassed that of Japan with damage to the domestic agricultural industry remaining minimal. There are two reasons for success that should be considered in future negotiations: the selection of a complementary partner in industrial structure and gradual import liberalization in agriculture. Talks with major trade partners, however, remain slow in process. The Korea-Japan FTA negotiation, originally supposed to end of 2005, but hit a snag mainly because of Tokyo's reluctance to open its farm market and the diplomatic dispute over Dokdo (Takeshima in Japanese) and Japan's revision of primary and middle school's history textbooks adding contents such as "Takeshima is traditionally part of

Japan" and South Korea is illegally occupying that island.¹⁹ Also, Japan only allows 50% of agricultural products for complete tariff abolition.²⁰

While visiting Japan in December 2004, South Korean President Roh Moo-hyun urged Japanese Prime Minister Junichiro Koizumi to take bold steps to open agricultural and seafood markets so as to expedite their bilateral FTA negotiation.²¹ In addition, many experts in South Korea urge government not to rush to sign FTA with Japan as the two countries are engaged in fierce competition in steel, petrochemical, auto, electronic and machinery industries in the global market. What is more, South Korea's current tariff rate is higher than that of Japan. Once there is no tariff after the implementation of FTA, South Korea is expected to import much more from Japan rather than export to Japan.²² As a result, South Korea's trade deficit with Japan will greatly increase and thus further exacerbate the chronic problem. Last year, South Korea's trade deficit with Japan was a record US\$24.4 billion in 2004, more than double in three years from US\$10.1 billion in 2001.

A report on ROK-Japan FTA done by Hyundai Economic Research Institute indicates that once the FTA takes effect, the price of domestic auto and electronic products will in particular drop due to no tariff on Japanese products of same kind.

¹⁶ <http://www.fnnews.com/html/fnview/2004/1216/092013699613121300.html>

¹⁷ <http://www.fnnews.com/html/fnview/2005/0201/092019635813121200.html>

¹⁸ "Our Economic Survival and Korea-Chile FTA," Editorial, *the Korea Times*, March 29, 2005, <http://economy.hankooki.com/lpage/opinion/200503/e2005032917220448010.htm>

¹⁹ http://chinese.chosun.com/site/data/html_dir/2005/04/05/20050405000021.html

²⁰ March 24, 2005, <http://www.hani.co.kr/section-004000000/2005/03/004000000200503241843171.html>

²¹ <http://www.fnnews.com/html/fnview/2005/0201/092019635813121200.html>

²² <http://www.fnnews.com/html/fnview/2004/1219/092013909613171113.html>

Furthermore, the dependency of South Korea's electronic industry on Japan will also increase, especially those cutting edge products. Based on KIEP analysis, if ROK-Japan FTA takes effect, South Korea's machinery exports to Japan will rise by 1.9%, while imports from Japan increase by 29.0%. The deficit of machinery trade will be around US\$4.8 billion. South Korea's auto exports to Japan will be up by 17.1% in a year, while imports from Japan will surge by 77.5%. The deficit of the industry will be US\$524 million. As for trade in electric and electronic products, South Korea's exports to Japan and imports from Japan are expected to rise by 4.6% and 42.1% respectively and thus South Korea's trade deficit in the sector will total US\$482 million.²³ Japan is now South Korea's third largest export market and second largest source of imports, while South Korea is Japan's third largest exports market and third largest source of imports.²⁴ According to Korean and Japanese government data, Japan's investment in Korea was \$1.1 billion in the first half of 2004. The figure accounted for 22 percent of the total foreign investment in South Korea. But Korea's investment in Japan was only \$33 million in 2003, making up 0.2 percent of the total foreign investment in Japan.²⁵

According to Korea Institute for International Economic Policy(KIEP), South Korea, whose trade scale is expected to expand 86.94%, will be the country that can benefit most among the three countries (China's trade scale to increase 55%, while

Japan's 26%) , if China-Japan-South Korea FTA is signed. With the aim of East Asian economic integration, the first-ever East Asia Summit (EAS) was held in Malaysia in December 2005.²⁶

Meanwhile, South Korea actively engaged in FTA talks with the European Free Trade Association (EFTA) consisting of Iceland, Liechtenstein, Norway and Switzerland. The two sides signed the final free trade agreement (FTA) in July 2005 and took effect in the ensuing year. The EFTA consented to remove tariffs on industrial products and fishery goods immediately after the launch of the FTA with Korea, while Korea in exchange promised to implement a comprehensive market opening, excluding less competitive products as oil and cosmetics.²⁷ This is the third FTA of South Korea but the first one with Europe and with a group of developed economies. It is estimated that South Korean auto and shipbuilding industries can benefit from their increasing exports to the area by more than US\$600 million. Another gain for South Korea is that its products made in North Korea's Kaesong Industrial Zone and Rajin-Sonbong Industrial Zone are regarded as made in ROK in case that more than 60% of its raw material must come from the ROK.²⁸ In politics, this implies South Korea's legitimacy over the entire Korean peninsula. In the economic sphere, this clause enhances the competitiveness of South Korean products and brings in an estimated annual economic dividend of US\$20 billion for the

²³ March 21, 2005. <http://www.hani.co.kr/section-004000000/2005/03/004000000200503211402624.html>

²⁴ March 25, 2005. <http://www.mk.co.kr/>

²⁵ http://joongangdaily.joins.com/200408/26/20040826_2150262309900090509051.html

²⁶ <http://www.fnnews.com/html/fnview/2005/0210/092020320317111100.html>

²⁷ *The Korea Times*, April 11 2005.

²⁸ Editorial: Made in which Korea? <http://joongangdaily.joins.com/200511/04/200511042208034109900090109011.html>

two Koreas.²⁹ In 2004, South Korea's exports to EFTA were valued at US\$860 million, while imports at US\$1.79 billion. EFTA was the ROK's 20th largest trading partner.

Subsequently, South Korea and ASEAN member countries, with the exception of Thailand, signed an agreement in May 2006 to liberalize merchandise trade by 2010 as part of their free trade agreement pact. The two sides will eliminate tariffs on 90 percent of their imported goods by 2010, while reducing tariffs on another 7 percent of imports by 2016. Tariffs on the remaining 3 percent, which are mostly "sensitive" agricultural products, would be fine-tuned with individual countries and protected either with a gradual decrease in tariffs over a long period or by fixing a tariff rate quota. For Korea, this included rice.³⁰

South Korea-US FTA

Given the asymmetry of economic size, the impacts of the agreement on South Korea will be tremendous (more than that of the U.S.) and far beyond economy. Nevertheless, it was the Republic of Korea (ROK) which made the FTA proposal to the Bush administration. Hence, it is worthwhile exploring the motivations and goals behind Seoul's active FTA approach to the U.S.

Economic motivation

²⁹ <http://joongangdaily.joins.com/200511/04/200511042208034109900090109011.html>

³⁰ "Korea, ASEAN sign FTA on goods," http://www.koreaherald.co.kr/SITE/data/html_dir/2006/05/17/200605170059.asp

South Korea has been an export-oriented economy ever since the 1960s. As a result, it heavily depends on foreign markets. South Korea ranks at the eleventh to thirteenth in terms of Gross Domestic Product (GDP) and exports, relying on 80 to 90 percent of its economic growth on external sectors.³¹ With rapidly changing global economy characterized by the rising trend of forming RTAs and FTAs unfavorable to its exports, South Korea under President Kim Dae-jung decided to promote FTA in 1998 and picked up Chile as the first country to conclude FTA.³²

In fact, by September 2003, among 145 WTO members, only South Korea and Mongolia did not have any FTAs taking effect. South Korean exporters, think tanks and media began to worry that it would suffer economic loss in a fever of signing FTA all over the world. In particular, while the procrastination of the ROK National Assembly's ratifying its FTA with Chile, other Asian countries were expanding their exports via the newly signed FTAs. Given South Korea was lagging far behind its Asian neighbors in concluding FTAs, its export competitiveness was declining.³³ In addition, with almost half of global trade being made through about 200 bilateral accords at the time, fighting for survival and avoiding being marginalized emerged as the primary motivations behind Roh Moon-hyun Government's active FTA strategy. If not participating actively

³¹ <http://english.donga.com/srv/service.php3?bicode=080000&biid=2007040227928>

³² http://www.president.go.kr/cwd/kr/archive/archive_view.php?meta_id=policy4_3&id=25842f0bbb9fce930d42a546&list=4

³³ "Korea International Trade Association (KITA) KITA indicates that slow signing FTA affects Korea's export competitiveness in Asia," *Mooyok Ilbo*, September 22, 2003.

in the globalization trend, "there is a great possibility of the entire country being marginalized by dropping out of the global competition."³⁴

The Roh Moo-hyun government set up its 'FTA Promotion Road Map' in August 2003, with the conclusion of FTA with USA as the ultimate aim of the 'Simultaneous and Multilateral FTA Policy'. As President Roh indicated in December 2004, his country had to choose FTA in order to ensure overseas markets and the continuation of economic growth. South Korea's major economic think tanks such as the Korea Institute for International Economic Policy (KIEP) and the Korea Institute for Industrial Economics and Trade (KIET) also suggested that for expanding business opportunities and acquiring favorable position in overseas markets, South Korea must actively promote FTA negotiation with those countries with huge markets such as the U.S., China and the European Union (EU) and regarded them as primary targets to conclude FTA. The actualization of Korean FTA negotiations with large economies such as China and the EU, following the United States, is significant because the country will be able to "secure a more advantageous position in the global trade war by exporting more than 60 percent of its total exports to FTA partner countries at preferential tariff rates, which is a significant increase from the 0.3 percent in 2004."³⁵

Against this background, President Roh Moo-hyun decided to focus on its FTA strategy on the U.S. According to the ROK's Minister for Trade, Kim Hyeon-jong, Roh government took the lead in preparing conditions for the bilateral FTA. Initially, the U.S. was passive about concluding FTA with the ROK, since there were opinions within the U.S. insisting that there have not been any economically meaningful FTA's after North American Free Trade Agreement (NAFTA). Nonetheless, the Roh government dispatched its Minister for Trade to the USA in July and September 2005 to persuade U.S. Congress, business circles and the industries. As a consequence, South Korea was able to be chosen by the Bush government as the primary target for FTA negotiation over twenty-five other countries vying to conclude a FTA with the U.S.³⁶ In February 2006, President Roh reiterated that an FTA with the U.S. was one of his top priorities during his remaining tenure until February 2008. That FTA is regarded by his government as the survival strategy for the country's economy. He stressed that "The Korea-U.S. Free Trade Agreement is a strategic choice for the Korea of the 21st century to join the ranks of advanced countries. The FTA with the U.S. will help Korea gain stable access to the world's largest market and upgrade its economic structure by sharpening the competitive edge of the service industry."³⁷ More specifically, Deputy Minister for Trade Kim Hyun-jong spelled out the priority of South Korea's FTA strategy is first to secure markets afar (the

³⁴ http://english.president.go.kr/cwd/en/archive/archive_view.php?meta_id=en_infocus&category=160&id=e40eb62630495a32464e99ae

³⁵ "Korean Government Pursues FTAs with Large Economies including China and EU," March 19, 2007, http://www.mofat.go.kr/me/me_a005/me_b022/1221813_1020.html

³⁶ "Winning Blow Staking the Pride of Korean Economy, July 18, 2006, http://english.president.go.kr/cwd/en/archive/archive_view.php?meta_id=en_infocus&category=170&id=3156bd6dc4b5e300742708b5

³⁷ "Roh vows to continue inter-Korean cooperation and dialogue," 2006-11-06, http://english.president.go.kr/cwd/en/archive/archive_view.php?meta_id=en_korea_net&id=01557eb461d2002f22f27f93

U.S. and the European Union), then back to Northeast Asia (China and Japan).³⁸

Furthermore, a FTA with the U.S. can boost South Korean economy which has been sluggish since President Roh came to power in 2003. The bilateral FTA can also offset South Korea's unfavorable foreign business environment and declining foreign direct investment (FDI). South Korea's economic growth has been at a low rate of 3% for three consecutive years since 2003.³⁹ Major Korean companies' profitability declined over the past two years as well due to the strong won against the U.S. dollar and rising prices of oil and other raw materials. Corporate profitability has slipped from a peak in 2004 as the strong won made South Korean export products lose price competitiveness abroad while domestic consumption was sluggish. The average operating profit to sales ratio of the nation's top 30 enterprises by market value, excluding the financial sector, dropped from 12 percent in 2004 to 9.4 percent in 2005 and 7.8 percent in 2006.⁴⁰ FDI from January to November 2006 stood at US\$1.8 billion, a decrease of 64.8% from the same period in the previous year. The total FDI of last year is estimated around US\$2 billion, the

lowest level in eleven years since 1995.⁴¹ In addition, despite of a record high of US\$325.9 billion exports and five percent of economic growth,⁴² South Korea's trade surplus has shrunk by 28 percent from 2005 to US\$16.6 Billion in 2006 owing to the rising cost of imported energy and raw material.⁴³

As a result, Samsung chairman Lee Kun-hee analogizes the potential economic crisis that South Korea is facing to a sandwich caught between technologically advanced Japan and China with strong price competitiveness in January 2007.⁴⁴ South Korea's exports to the U.S. reached US\$41.7 billion in 2006, accounting for 13.3 per cent of its total outbound shipments, a steep drop from 2000 when that figure was 20.1 per cent. South Korean products have also seen a decline in their share of the U.S. market. In 1995 its goods accounted for 3.2 per cent of the world's biggest marketplace, but saw that number drop to 2.6 per cent in 2005.⁴⁵ According to a report released by the Korea Trade-Investment Promotion Agency (KOTRA), South Korea's exports to the U.S. decreased 5.2 percent in 2005

³⁸ "Korea-US FTA Era: to initiate FTA negotiations with China after concluding FTA with EU," *The Financial News* (Seoul), April 4, 2007, http://www.fnnews.com/view?ra=Sent0701m_01A&corp=fnnews&arcid=0920967065&cDateYear=2007&cDateMonth=04&cDateDay=04&

³⁹ "Korea is facing dual dilemma of sluggish economy and skilled labor shortage," Editorial, *The Chosun Ilbo*, December 25, 2006, http://chn.chosun.com/big5/site/data/html_dir/2006/12/25/20061225000016.html

⁴⁰ "Corporate profitability drops two years in a row," *The Korea Herald*, March 20, 2007, https://www.koreaherald.co.kr/SITE/data/html_dir/2007/03/20/200703200041.asp

⁴¹ "Why FDI Suddenly Decreases?" Editorial, *Maeil Business*, January 16, 2007, <http://www.mk.co.kr/>

⁴² "Grim Reality: Income Remains Low Despite Economic Growth," *The Korea Times*, December 28, 2007, <http://times.hankooki.com/lpage/opinion/200612/kt2006122818102654040.htm>

⁴³ "Korea Trade Surplus abruptly dropped in 2006," *Channel NewsAsia*, January 1, 2007, <http://www.cnachinese.com/stories/economicnews/view/46623/1/b5/.html>

⁴⁴ "Lee Kun-hee : Both Korea and Samsung face critical times," *The Chosun Ilbo*, March 10, 2007, http://chn.chosun.com/big5/site/data/html_dir/2007/03/10/20070310000012.html

⁴⁵ "US FTA to Boost South Korea's Automobile, Textile Exports," April 2, 2007, *Yonhap*, <http://au.biz.yahoo.com/070402/17/169rb.html>

and increased 4.7 percent last year, but the figure was still far behind China's 20.9 percent and Japan's 7.2 percent increases. South Korea's share of America's import market has been declining since 1989 when it was 4.2 percent, down to 2.5 percent last year. Of South Korea's 10 largest export categories including semiconductors, autos, wireless communications, petrochemical products, machinery, ships, petroleum products, steel, home appliances and LCD panels, China edged out South Korea in exports to the U.S. in all but two: autos and petrochemicals. Meanwhile, South Korea's share of the U.S. imported machinery market was even smaller than Malaysia's.

In a comparison of the competitiveness of South Korean, Chinese, Japanese, Taiwanese and Indian products, South Korea lagged China in manufacturing costs and Japan in brand recognition, technology and quality. South Korean products failed to rank the first place in any of the eight categories. The abolition of textile quotas is also hurting South Korea's exports, particularly to its main U.S. market. Korean companies are struggling to compete with manufacturers in China and India armed with lower labor costs.⁴⁶ The KOTRA report summarized that in the all-important U.S. market, South Korean products are sandwiched between those from developing countries in terms of price and those from advanced countries in terms of technology and marketing.⁴⁷ "For South Korea, an export-driven economy, the FTA deal will help South Korean products gain price

competitiveness in the U.S. market, and their market share will rise as well," said Chung Jae-hwa, a researcher at the Korea International Trade Association (KITA). *The Dong-A Ilbo* editorial straightforwardly indicates that in a FTA era South Korea-US FTA which upgrades Korea to a trading powerhouse is the best way out of its sandwich dilemma.⁴⁸ As the first Northeast Asian nation with a FTA with the U.S., the competitiveness of the South Korean products vis-à-vis Chinese, Japanese and Taiwanese products in the U.S. market will definitely increase.⁴⁹

According to KIEP, South Korea-US FTA is expected to increase U.S. exports by US\$1.7 billion to US\$3 billion annually and South Korean exports by US\$3.5 billion to US\$4.6 billion annually. South Korean proponents believe that the bilateral trade pact will help the country quickly surpass a per capita income of about US\$20,000 and raise it up to US\$30,000.⁵⁰ Another report by KIET immediately after the conclusion of the South Korea-U.S. FTA predicts South Korea's trade surplus with the US will increase an average of US\$745 million annually for the next 10 years, when the FTA goes into effect. South Korea will export US\$1.327 billion more and import about US\$582 million more per annum from the U.S. It forecasts that the auto industry will get the most benefits and that the car industry's

⁴⁸ "Korea-U.S. FTA Caught Japan and China Off Guard," Editorial, *The Dong-A Ilbo*, April 4, 2007, <http://english.donga.com/srv/service.php3?bicode=080000&biid=2007040465498>

⁴⁹ "Korea-U.S. FTA Should Maximize Substantial Benefit," Editorial, *Maeil Business*, February 2, 2006.

⁵⁰ "FTA to boost global interest in Korea," *The Korea Herald*, April 5, 2007, https://www.koreaherald.co.kr/SITE/data/html_dir/2007/04/05/200704050067.asp

⁴⁶ "South Korea's textile trade takes a tumble," 4 April 2005, <http://www.just-style.com/article.aspx?id=92444>

⁴⁷ "Korea's Exports to the U.S. Lagging Rivals," *The Chosun Ilbo*, March 12, 2007, <http://english.chosun.com/w21data/html/news/200703/200703120009.html>

annual trade surplus will grow US\$741 million more every year. The textile industry and the electrical and electronics industries are also estimated to earn more money than before.⁵¹

Security motivation

For the Roh government, its security motivation to sign FTA with the U.S. is equally important as its economic motivation. Since George W. Bush came to power in 2001, South Korea and the U.S. have a disagreement over how best to deal with North Korea. The former favors a soft approach, while the latter a hard line. Their fundamental contradictions have been worsened since President Roh took his office in February 2003. The pet ideologies of the two governments belong to two extremes of political spectrums with a neo-conservative dominated Bush administration and an ultra-leftist Roh government. Moreover, President Roh was considered as a radical anti-American leftist by the neo-conservatives in the Bush administration. Apart from this, US feels unhappy about President Roh's outspoken personalities and liberal approaches, such as seeking more autonomy in their alliance such as emphasizing diplomacy on an equal footing with the U.S.,⁵² requesting the U.S. to return the wartime operational control over its military,⁵³ and claiming that

South Korea is able to play a balancer in Northeast Asia.⁵⁴ Nevertheless, like his predecessor, President Roh has done his best to practically accommodate himself to demanding U.S. ever since he took his presidency in an attempt to persuade the Bush administration to soften its approach to North Korea,⁵⁵ and to play a balancer between Washington and Pyongyang as the inter-Korean relations and the ROK-U.S. alliance are entwined with each other.⁵⁶ From the South Korean perspective, a FTA with the U.S. has a function of cementing their strategic alliance.⁵⁷

Professor Cheong Inkyo, Director for Center on FTA Studies at Inha University pointed out that ROK-U.S. FTA cannot be simply regarded as a bilateral deal but a FTA involving both

⁵⁴ President Roh Moo-hyun in his speech at the Air Force Academy in March 2005 argued that the southern trilateral alliance created to counter the North Korea-Soviet-China northern trilateral alliance in the cold war period has become an obstacle to, rather than a bulwark for, peace and security in Northeast Asia because the northern alliance has disintegrated. Hence, he advocated that under the circumstances the southern alliance should be replaced by a Northeast Asian Security Community and South Korea should play the role of a balancer in this process. Park Sang-seek, "Korea-U.S.-Japan southern alliance," *The Korea Herald*, April 4, 2005, http://www.koreaherald.co.kr/SITE/data/html_dir/2005/04/04/200504040013.asp

⁵⁵ To-hai Liou, "U.S.-South Korea Relations under Kim Dae-jung and Beyond," *Tamkang Journal of International Affairs*, Vol. 9, No. 2, 2005. p. 81. <http://www2.tku.edu.tw/~ti/Journal/9-2/922.pdf#search=%22US-South%20Korean%20relations%20under%20Kim%20Dae-jung%2C%20Tamkang%20Journal%20of%20International%20Affairs%22>

⁵⁶ "New Year Special: Diplomacy Faces Daunting Tasks in 2005," *The Korea Times*, December 31, 2004.

⁵⁷ "Maximize Substantial Benefit of the Korea-US FTA," Editorial, *Maeil Business*, February 2, 2006.

⁵¹ "Manufacturers See 707.7 Billion Won FTA Surplus with U.S.," *The Dong-A Ilbo*, April 10, 2007, <http://english.donga.com/srv/service.php3?bicode=020000&biid=2007041073578>

⁵² "Roh Emphasizes Alliance With US," *The Korea Times*, February 25, 2005.

⁵³ "Operational control," Editorial, *The Korea Herald*, February 26, 2007, http://www.koreaherald.co.kr/SITE/data/html_dir/2007/02/26/200702260002.asp

East Asian economic integration and security on the Korean peninsula. Concluding the FTA can not only uplift South Korea's position vis-à-vis China and Japan in the East Asian economic integration but also strengthen the weakening South Korea-U.S. security alliance.⁵⁸ In addition, as the course of normalization of North Korea-U.S. relations evolves after the February 13 accord in which North Korea agreed to dismantle its nuclear program in return for one million tons of fuel aid, *the Dong-A Ilbo* editorial stressed the ROK-U.S. alliance is more important than ever and urged the nation to strengthen its national power and deepen the Korea-U.S. alliance via the South Korea-U.S. FTA.⁵⁹

Political motivation

According to a poll by Gallup Korea on March 3, 2007, the ROK-U.S. FTA has more influence on voters than the inter-Korea summit. The poll also showed more public support for the Korea-U.S. FTA (56.7 percent) than opposition (35.1 percent).⁶⁰ A majority of surveys and researches on the South Korean business sector reveal that the U.S. is the most favored country to sign FTA. For example, according to Korea Economic Research Institute (KERI), 36.8% of the 154 Korean companies which completed questionnaires regarded the U.S. as the best

partner for FTA, followed by China (29.3%), ASEAN(12.6%), Japan(8%), Latin America(6.9%) and European Union(5.7%). However, by 2002 there was very limited progress in ROK-U.S. FTA which was far behind South Korea's FTA negotiations with other potential partners.⁶¹ Hence, a FTA with the U.S. would certainly increase Roh Moo-hyun government's domestic popularity. Additionally, a Korea-US FTA is supported by both the main opposition Grand National Party (GNP) and pro-government Uri Party. So, promoting FTA with the U.S. can have a function of improving Roh Moo-hyun government's relations with the opposition party as well. Representative Kim Tae-nyeon of the Uri Party stressed that "it is important that signing the FTA was ahead of China or Japan doing so with the U.S."⁶²

Reality check

Despite the U.S. preponderant leverage in the bilateral FTA negotiations with the ROK in term of economic size, the final results of the FTA deal seems to be in South Korea's favor. Concessions that U.S. made to Seoul are evident in excluding rice in FTA, allowing resumption of the import of US beef not included in FTA and agreeing South Korea to eliminate tariffs on beef over 15 years, a lenient treatment to South Korean imported autos, not as strident as US Congressmen had requested, and let the South Korean goods produced at the North Korean industrial park in Gaeseong to be discussed in the future.

⁵⁸ Cheong Inkyo, "If Korea-U.S. FTA inks, South Korean Economy will be upgraded," *Maeil Business*, February 24, 2005.

⁵⁹ "Principles on Peace Heard at International Conference," Editorial, *The Dong-A Ilbo*, March 29, 2007, <http://english.donga.com/srv/service.php3?bicode=080000&biid=2007032966308>

⁶⁰ "Inter-Korean Summit, FTA To Be Top Election Issues," *The Chosun Ilbo*, March 22, 2007, http://www.bilaterals.org/article.php3?id_article=7568

⁶¹ "Headline: Korea lagging behind in global FTA trend: KIEP report," *The Korea Herald*, January 27, 2002.

⁶² "Assembly committee spars over FTA," *The Hankyoreh*, April 7, 2007, http://www.bilaterals.org/article.php3?id_article=7799

South Korea used the differentiated negotiation strategy when considering the sensitiveness for each item in the basic stance, agricultural sector in particular. Its negotiators made efforts to exclude the items key to food security such as beef and the economy of the farm families such as the rice from the subject of tariff elimination. Additionally, they attempted to secure a long grace period for items sensitive to high tariffs that the tariffs on which cannot be eliminated in a short period of time.⁶³ The final deal reveals that the two sides have deliberately and artfully left sticky issues unelaborated in the agreement.

Automobiles emerged as one of the thorniest issues between South Korea and the U.S. during the FTA negotiations. Washington strongly urged South Korea to revise its auto tax system by levying taxes according to price, not engine displacement, and eliminate the 8 percent tariff on car imports. Chief U.S. negotiator Wendy Cutler pointed out U.S. imports 800,000 Korean cars, while only about 4,000 of its cars are exported to South Korea on an annual basis. Cutler maintained that the ROK's tax system discriminates against foreign cars and forces American-made vehicles to lose competitiveness in the auto market. South Korea, however, defended its stance by stating that its taxation on imported cars based on engine size and that the country adopted the system according to the engines' environmental standards.⁶⁴ U.S. auto producers and law makers assert that South Korea uses a combination of tariffs,

taxes and regulation to keep out their vehicles. Democratic Representative Sander Levin of Michigan, chairman of the trade subcommittee, and other lawmakers echoed automakers' concerns, and urged Deputy U.S. Trade Representative Karan Bhatia to embrace their proposal to cut U.S. tariffs only on the same number of South Korean cars that the ROK imports from the U.S. in an attempt to get guaranteed market access.⁶⁵ At present, South Korea imposes an 8-percent tariff on U.S. autos, whereas the U.S. levies a 2.5-percent tariff on South Korean vehicles. The final result is that South Korea will remove an 8 per cent import duty and will revise its domestic vehicle registration taxes, which are heavier for larger engines. The US will remove a 2.5 per cent tariff on auto parts and cars with engines smaller than 3000cc. Tariffs on larger models will be phased out over three years.

Concerning the agricultural sector, the U.S. side insisted on a full market opening with no exceptions, it even rejected South Korea's offered to cut or eliminate tariffs on 240 agricultural products, excluding rice, beef and oranges.⁶⁶ The final result is that more than half (US\$1.6 billion) of current U.S. farm exports to the ROK will become duty-free immediately, according to USTR. On other sensitive farm products, South Korea promises to eliminate tariffs after a grace period, noticeably such as apples and pears in twenty-year tariff phase-outs; beef in fifteen-year

⁶³ http://english.president.go.kr/cwd/en/archive/archive_view.php?meta_id=en_infocus&category=170&id=3156bd6dc4b5e300742708b5

⁶⁴ "800,000 to 4,000 _ Where Korea, US Stand," *The Korea Times*, July 18, 2006, <http://times.hankooki.com/lpage/biz/200607/kt2006071818222711910.htm>

⁶⁵ "U.S. official due in Seoul to tackle free trade issues," *The Korea Herald*, March 24, 2007, https://www.koreaherald.co.kr/SITE/data/html_dir/2007/03/24/200703240030.asp

⁶⁶ "Contentious FTA issues test political commitment," *The Korea Herald*, March 14, 2007, https://www.koreaherald.co.kr/SITE/data/html_dir/2007/03/14/200703140055.asp

tariff phase-outs; pork and chicken in ten-year tariff phase-outs; and orange in seven-year tariff phase-outs. Seasonal tariff will be introduced for oranges for seven years. The current 50% tariff on oranges will be maintained during the period from September to February when oranges are in season in the ROK, while 30% tariff will be applied to the remaining period.⁶⁷

On the beef issue, South Korea was the world's third-largest export market for U.S. beef, with annual sales totaling US\$840 million. However, the ROK placed an import ban on U.S. beef for three years since December 2003 when cases of the mad cow disease were found in the country. South Korea resumed US beef import as a part of accepting the US preconditions to initiate bilateral FTA negotiation. Then, US beef exports to South Korea have been rejected again because of the discovery of bone fragments which are suspected to carry the mad cow disease. Seoul has demanded that South Korea's quarantine standards on U.S. beef be kept apart from FTA negotiations. However, Washington stressed a bilateral free trade deal cannot be concluded without the settlement of the beef issue. Chief U.S. negotiator Wendy Cutler on several occasions reiterated that the U.S. Congress insists that "there will be no FTA without the full opening up of Korea's beef market." In the end, both side decided to not include beef issue in the FTA. According to the agreement, South Korea will renegotiate beef import rules after the OIE, the World Organization for Animal Health, reviews the

health risks of mad cow disease.⁶⁸ Nevertheless, Deputy USTR Karan Bhatia told a press conference that he made clear to Seoul the Congress would not approve the FTA without the resolution of the beef issue.⁶⁹

In the FTA negotiation, one item on South Korea's high-priority list was to include South Korean goods produced at the North Korean Industrial Complex in Gaeseong as those manufactured in the South in its FTA with the U.S.⁷⁰ However, US negotiators has adamantly rejected that demand on the ground that the request was against the WTO's rules of origin. The U.S. also raised question of labor standards on the North Korean workers. Jay Lefkowitz, the U.S. special envoy on North Korean human rights, indicates that North Korean workers at the Gaeseong Industrial Complex are being exploited in an environment that fails to satisfy the standards of the International Labor Organization. Though South Korean businesses pay North Korean workers at the Gaeseong complex an average of \$66 per month, the North Korean government reportedly takes most of that salary as a contribution to a social welfare fund. Another reason why Washington insists on excluding any Gaeseong products from the bilateral FTA is that the Bush

⁶⁸ "Beef Tariff To Be Phased Out over 15 Years," *The Financial News* (Seoul), April 3, 2007, http://www.fnnews.com/view?ra=Engl0501m_01A&corp=english&arcid=070403023528&cDateYear=2007&cDateMonth=04&cDateDay=03&

⁶⁹ "U.S. warns it will not sign FTA with Korea until beef issue is resolved," *The Korea Herald*, April 5, 2007, https://www.koreaherald.co.kr/SITE/data/html_dir/2007/04/05/200704050075.asp

⁷⁰ "Balance Sheet of South Korea-U.S. Free Trade Talks," *Korea Economic Daily*, February 8, 2007, http://www.koreafocus.or.kr/economy/view.asp?volume_id=58&content_id=101502&category=B

⁶⁷ "Beef Tariff To Be Phased Out over 15 Years," *The Financial News* (Seoul), April 3, 2007, http://www.fnnews.com/view?ra=Engl0501m_01A&corp=english&arcid=070403023528&cDateYear=2007&cDateMonth=04&cDateDay=03&

government considers it a political issue. The U.S. might discuss the matter at a later stage when certain circumstances are met, such as progress on denuclearizing the Korean Peninsula. Alternatively, the Gaeseong Industrial Complex is viewed by Roh government as a flagship of inter-Korean economic cooperation, where 22 South Korean manufacturing companies employ more than 11,000 North Korean workers. As a result, the issue is not specified in the FTA. According to Deputy U.S. Trade Representative Bhatia, both sides agreed to establish a special committee and to discuss economic development issues within the committee.⁷¹

Post-FTA political and strategic Impact

On the South Korean side, with the conclusion of South-US FTA, South Korea has greatly increased its popularity as a target of signing FTA and has piled up bargaining chips in its future FTA negotiations with other countries. Immediately after a FTA was made between South Korea and the U.S., both Japan and China approached Seoul expressing their intent to start bilateral FTA talks. Japanese Prime Minister Shinzo Abe on April 3, 2007 suggested resuming negotiations for Japan-Korea FTA. This urge is interpreted as coming from a sense of crisis after the Korea-U.S. FTA was sealed. China is also interested in accelerating its FTA negotiation process with Korea, exemplified by Chinese Premier Wen Jiabao's remarks during his visit to Seoul in April 2007. In fact, accelerated by the conclusion of Korea-U.S. FTA, South Korea launched FTA talks

with the European Union (EU) of 27-country since May 2007. The FTA negotiations with the EU have gone through five rounds already. What is more, the signing of Korea-U.S. FTA has also brought about favorable overseas assessments, exemplified by South Korea's rise to 11th place in the World Economic Forum's 2007 Global Competitiveness Index -- from 23rd in the previous year.⁷²

An immediate political dividend for President Roh is that his popularity sharply rose and a shower of praise was poured even from opposition parties and conservative media which have been critical of his administration. In an April 3 poll conducted by broadcaster MBC and Korea Research, 32 percent of 700 respondents approved of Roh's performance, up by 10 percent compared to a March 20 survey. The other poll conducted by Chosun Ilbo and Gallup Korea showed 29.8 percent support for Roh, an increase of 6 percent and 12.5 percent from February 2007 and December 2006, respectively. In the survey, 58.5 percent supported the deal, while 30 percent were against it. Furthermore, even his opponents praised his leadership in FTA negotiations. Roh has frequently clashed with South Korea's conservative media such as *Donga Ilbo*,⁷³ *Chosen Ilbo*. Both newspapers' editorials gave President a rare positive evaluation of his performance on FTA negotiations.⁷⁴ More important to

⁷² "FTA Ratification," Editorial, *The Korea Herald*, November 14, 2007, <http://www.koreaherald.co.kr/>

⁷³ "Roh's Anti-Newspaper Policy Sets Back Democracy", Editorial, *The Dong-A Ilbo*, March 31, 2007, <http://english.donga.com/srv/service.php3?bicode=080000&biid=2007033109568>

⁷⁴ "Editorial] President Roh's FTA Leadership," *The Dong-A Ilbo*, April 3, 2007, <http://english.donga.com/srv/service.php3?bicode=080000&biid=2007040343028>

⁷¹ "Korea, U.S. at odds over products made in Gaeseong," *The Korea Herald*, April 10, 2007, https://www.koreaherald.co.kr/SITE/data/html_dir/2007/04/10/200704100062.asp

President Roh is that the successful conclusion of FTA with the U.S. vindicated him and proves that he is a practical leader with vision and courage. There was an argument that the FTA would eventually fail and that Roh and his allies would try to take advantage of the botched deal to arouse anti-American sentiment.⁷⁵

Conclusion

South Korea sensed the growing trend of FTAs in international trade and realized the need for signing FTAs to secure its own markets abroad. Although South Korea was quite early to pursue FTAs, lacking behind only Japan and Singapore, fell behind as its negotiations with Chile for an FTA dragged on for several years due to various reasons given above. The situation was further worsened by a rising China and accelerating economic integration in the East Asian region. As late as 2005, South Korea was far behind and the major think tanks and Korean exporters started urging expediting FTAs. In this background, Roh Moo Hyun government took a bold initiative to sign a FTA deal with U.S.

It adopted a change in attitude towards FTA strategy - from a cautious adopter to an aggressive adopter of FTA. Such a policy has greatly enhanced South Korea's competitiveness abroad and has enhanced the popularity of the present government and has added bargaining chips to South Korea.

⁷⁵ "KOREA-U.S. FTA (14) Roh's leadership key to sealing FTA with U.S.," *The Korea Herald*, April 16, 2007, https://www.koreaherald.co.kr/SITE/data/html_dir/2007/04/16/200704160059.asp

South Korea and the United States reached their FTA deal on April 2, 2007 after ten months of negotiations since February 2006 and met the deadline of the Trade Promotion Authority Act (TPA), the fast track requirement for the U.S. Congress approval.⁷⁶ Given the asymmetry of economic size, the U.S. obviously has upper hand in the bilateral FTA negotiations, while South Korea is supposed to be in an inferior position in the negotiations. Immediately after they struck the FTA deal, both governments claimed the agreement as a win-win deal, the final results are widely believed to be more in South Korea's favor. The ROK seems to have gotten the best deal it could get for Seoul by succeeding in exempting rice from the agreement. A 40 per cent tariff on US beef is allowed to be phased out over 15 years after the agreement takes effect. South Korea's education and health-care sectors are also excluded from the opening up of service sectors.⁷⁷

In terms of asymmetric size between the two countries, South Korea did a fairly good job in the FTA negotiations. The ROK can tap the US\$1.7 trillion American import market and

⁷⁶ TPA is the full authority over international trade negotiations entrusted to the President by the US Congress. The Congress cannot amend the negotiation concluded by the President but can only decide whether or not to adopt the results. In addition, the President must report to the Congress 90 days before the negotiation begins and notify Congress that he is willing to ratify the negotiation within 90 days before the conclusion. The TPA will be expired on July 1, 2007.

⁷⁷ South Korean rice farmers get about \$US1 billion in subsidies for produce sold to consumers at four to five times the world price. "Free trade deal to prise Seoul from China," *The Sydney Morning Herald*, April 7, 2007, <http://www.smh.com.au/news/world/free-trade-deal-to-prise-seoul-from-china/2007/04/06/1175366474370.html?page=2>

became the second Asian nation after Singapore to sign an FTA with the U.S. Excluding the multilateral NAFTA, the Korea-US FTA is the largest deal among 212 FTAs signed worldwide. Furthermore, South Korea's greatest gain is to turn the increasingly disadvantageous regional business environment to its advantage. Securing the U.S. market through the bilateral FTA obviously has greatly improved South Korea's bargaining position vis-à-vis China and Japan in Northeast Asia as well as in the East Asian economic integration. With the virtual expiration of TPA and another TPA unavailable in the foreseeable future, South Korean products will enjoy an advantageous position in the U.S. market for several years, if the bilateral FTA is ratified by the law makers of both countries. The FTA deal with the U.S. also provides a better chance for South Korea to realize its dreams of becoming a Northeast Asian hub.⁷⁸

On the strategic and political fronts, as a minor power who can not deal with either China or the U.S. alone, South Korea's successful conclusion of FTA with the U.S. will enable it to play a balancer role between Washington and Beijing to its own interest. On the North Korea issue and rising Japan, South Korea seeks China's assistance to soften America's hard line toward North Korea,⁷⁹ and to check and balance increasing Japanese military buildup and political ambition as well as

reinforcing U.S.-Japanese military alliance without due consideration for Seoul,⁸⁰ whereas taking advantage of U.S. market to counterweigh ballooning China clout and Japanese competition in the economic sphere.⁸¹ South Korea's playing China card against the U.S. seems to be working in terms of Washington's endorsement of Seoul's FTA initiative and willingness to take a considerate approach to the bilateral FTA negotiations. As the conclusion the FTA with the U.S., ROK's military alliance with the U.S. will understandably be enhanced through increasing economic interactions and interdependence.

In conclusion, in a broader sense, the importance of strategic and political implications of South Korea-US bilateral FTA is no less than that of the economic implication. However, given the strong opposition from both the U.S. Congress and South Korean domestic forces, the destiny of the FTA remains uncertain.

⁷⁸ Lee Chang-jae, "Korea as a Northeast Asian Business Hub: Vision and Task," in James M. Lister (ed.) *The Newly Emerging Asian Order and the Korean Peninsula*, Korea Economic Institute, 2005, p. 36; <http://www.keia.org/2-3-monograph.html>

⁷⁹ Robert Sutter, "The Rise of China and South Korea," in James M. Lister (ed.) *The Newly Emerging Asian Order and the Korean Peninsula*, Korea Economic Institute, 2005, p. 30; <http://www.keia.org/2-3-monograph.html>

⁸⁰ Chung Jae Ho, "The Rise of China and its Impact on South Korea's Strategic Soul-searching," in James M. Lister (ed.) *The Newly Emerging Asian Order and the Korean Peninsula*, Korea Economic Institute, 2005, p. 9; <http://www.keia.org/2-3-monograph.html>;

⁸¹ To-hai Liou, "South Korea's Approach to FTAs," *Taiwanese Journal of WTO Studies*, Vol. 4, 2006, pp. 147-148.