SOUTH KOREA-UNITED STATES FREE TRADE AGREEMENT: AN ASSESSMENT

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Executive Summary

1. The official report issued by the United States Trade Representative (USTR) in March 2017 had stressed the need to reconsider the Republic of Korea-United States free trade agreement (KORUS FTA) due to America's enlarging trade deficit with Korea after the trade deal took effect on 15 March 2012.

2. Since 2012, 89.8% of industrial products and 28.6% of agricultural products from the United States have enjoyed zero tariffs in Korea. At the same time, 87.3% of Korean industrial products and 57.4% of its agricultural product items are now tax free in the US market.

3. South Korea's merchandise trade surplus with the United States has grown from US$11.6 billion in 2011 to US$23 billion in 2016. Passenger vehicles accounted for 83% of total Korean trade surplus with the United States in 2016.

4. Despite the growing merchandise goods surplus, South Korea's service trade deficit expanded from US$6.9 billion in 2011 to US$10.7 billion in 2016. Travel services and intellectual property rights have remained the main sources of Korea's service trade deficit with the United States.

5. The KORUS FTA adopted a "negative list" approach to services which allows Korean and US companies to invest in all service sectors except for those specially exempted. The more regulated business environment established through the KORUS FTA was expected to attract more US investment in South Korea, hence improving Korean service sectors' competitiveness.

6. Although US investment in South Korea increased from US$28.2 billion in 2011 to US$34.5 billion in 2015, the reverse witnessed an even greater jump from US$19.9 billion to US$40.1 billion during the same period. US investments are mostly in Korea's manufacturing while Korean investments are chiefly in US wholesale trade sectors.

7. Given South Korea’s greater foreign trade reliance, overall Korean exporters are the bigger beneficiaries of this FTA. For the United States, the overall impact of the FTA on its output and employment was estimated to be insignificant due to the small economic size of Korea, whose total GDP is less than 10% of America’s.

8. The bilateral FTA is a facet of the two countries’ strategic alliance. South Korea hoped that the strengthening of relations with the United States would help to stabilise the geopolitical situation in the Korean Peninsula whereas the United States considered the FTA important in the face of an unstable North Korea and a rising China.

9. The United States’ withdrawal from the Trans-Pacific Partnership will add saliency to the KORUS FTA. The FTA has set the “rules of game” for other Asian countries to establish similar institutionalised economic relations with America. Its potential revisions would have profound implications for future US-Asia economic relations and development of institutionalised regional economic integration.