

The First Round of KORUS FTA Negotiations

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Senator Max Baucus,
Distinguished guests,
Ladies and gentlemen,

I am very pleased and honored to be here today to discuss the results of the First Round of Korea-US, or KORUS as we have decided to call it, FTA negotiations.

The case for a KORUS FTA is obvious. The overall benefit from a KORUS FTA will far outweigh the costs. The KORUS FTA will bring about positive, long-term, dynamic effects beyond simple trade expansion, and will significantly upgrade the overall competitiveness of the Korean and American economies.

Korea is now the tenth largest economy in the world, and seventh largest trading partner of the US with a trade volume over 70 billion dollars a year. If we are successful, this FTA will be the most commercially meaningful trade agreement since NAFTA.

Second, beyond trade and economics, KORUS FTA will be the single most important agreement to be reached between our two countries since the Mutual Defense Treaty of 1953. It will mark a monumental phase in the history of the development of our bilateral relationship, with Korea and US transforming into a comprehensive partnership that boasts a strong economic linkage matching our solid military alliance.

The first round of FTA negotiations was held last week. Thus, I think it is most opportune and appropriate to present to you the results of the First Round of KORUS FTA negotiations which ended last Friday.

Overall Results of the First Round of KORUS FTA Negotiations

The first round of negotiations lasted for a full week, with 146 participants from the Korean side, and about 180 from the US side

Table 2 Bilateral FTA partners of Korea as of June 2006 (billions of dollars)

Country/region	2005 GDP	Korean merchandise trade, 2005			Total trade	FTA status ^a
		Korean exports to	Korean imports from	Trade balance		
Japan	4,571.3	24.0	48.4	-24.4	72.4	C
United States	12,485.7	41.5	30.8	10.7	72.3	C
ASEAN-10 ^b	861.9	27.4	26.1	1.4	53.5	B
Singapore	117.9	7.4	5.3	2.1	12.7	A
India	775.4	4.6	2.1	2.5	6.7	D
Canada	1,130.2	3.4	2.6	0.8	6.0	C
Mexico	768.4	3.8	0.5	3.3	4.2	D ^c
Chile	114.0	1.2	2.3	-1.1	3.4	A
EFTA-4 ^d	679.4	1.1	1.8	-0.7	2.9	A (July 2006)
New Zealand	108.5	0.7	0.9	-0.2	1.6	D ^e
Subtotal^f (FTA partners)	21,612.8	115.1	120.7	-5.6	235.8	
Korea (world trade totals)	793.1	284.4	261.2	23.2	545.7	

a. A = in effect; B = signed; C = under negotiation; D = under consideration

b. ASEAN-10: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. All signed except Thailand.

c. Korea and Mexico have begun talks on a strategic economic complementary agreement, which is similar to a trade and investment framework agreement-plus and is seen as a precursor to an FTA.

d. EFTA-4: Iceland, Liechtenstein, Norway, and Switzerland. Due to data unavailability, figures for EFTA-4 do not include the contribution from Liechtenstein.

e. No date has been set for the start of formal Korea-New Zealand negotiations.

f. Due to its inclusion in ASEAN-10, Singapore is counted twice in these subtotals.

Sources: GDP: IMF's *World Economic Outlook* database, September 2005; trade data: UN Comtrade database.

participating in 15 different chapters and 2 working groups that cover pretty much all the critical sectors of the economy. Two negotiating groups, Government Procurement and TBT(Technical Barriers to Trade), had their first session in Geneva a week prior to the negotiations that took place in Washington DC.

We also had additional visitors from Korea who staged anti-FTA demonstrations while the negotiations were in session. I presume some of you have actually heard them and seen their eye-catching performances. This shows Korea is indeed a vibrant democracy where divergent opinions can be heard freely.

To be frank, the Korean delegation, and I am sure it was similar for the US side too, was not without concern on how well the first round of talks would proceed. However, at the end of the week, both the Korean and US sides were very satisfied with the outcome.

Of course, since this was just the first round, both sides were focused more on identifying key areas of differences and understanding each other's positions, rather than actually resolving the differences.

There are still many areas that both sides need to work on. But through this round, we became convinced that despite the initial difficulties and points of contention, we will be able to close the deal with mutually-acceptable solutions that address both sides' needs and concerns in a balanced way. The atmospherics of the first round of negotiations was very friendly and at the same time very professional, with both sides willing to listen to each other's positions on a number of contentious issues.

In the negotiations, both sides basically concentrated on learning each other's positions on a variety of issues, and on tried to fix a consolidated text for the respective chapters. At the end, we were able to come up with consolidated text for 12 of the 17 chapters.

There are still a lot of brackets in the consolidated texts. But we are definitely making constructive progress, for our negotiators will be able to discuss on the basis of one document at the second round in Seoul.

The five chapters that do not yet have a consolidated text are agriculture, SPS, textile, trade remedies, and TBT. For these chapters, both sides will have to engage in in-depth discussions to iron out differences.

Nonetheless, we made progress in these five chapters as well, since both sides now have a clearer and better understanding of each other's positions.

Results of Negotiations of Major Sectors

Since we've just begun to take our first few steps, it would be difficult to go into full details of each sector at this time. However, I will give you an outline of the sectors that might be of interest to many of you this morning.

(Agriculture)

The agricultural sector is the most sensitive sector for Korea in these negotiations. Agricultural products will be subject to different tariff schedules that will lead to the opening of the markets.

We are well aware of the United States' high expectations regarding this particular sector. However, for a successful conclusion of the FTA negotiations, we will need to maintain a practical and balanced approach that takes into consideration both the US interest and Korean concern.

(Textile)

On textile, Korea also has high expectations. Our goal is to achieve a wider opening of the US textile market. However, because the US applies different rules of origin and trade remedy regulations for textiles, this is a chapter for which we will need to exert considerable efforts in future negotiations.

(Trade Remedy)

We have a great interest in starting discussions regarding anti-dumping regulations with the US. We know that political and legal

constraints of the US administration in dealing with this issue. Yet, too many times, Korea has experienced difficulties in its trade relationship with the US due to its anti-dumping measures.

The US has stated that it would be difficult to discuss changes in anti-dumping rules that would undermine its trade remedy system, and changing the rules would be against the TPA mandate. However, Korea strongly hopes that we will be able to find a constructive resolution to this very important issue.

(Automobiles)

In the automobile chapter, tariff reduction along with taxation and standards will be discussed throughout the negotiations. The U.S. continues to express its dismay over Korea's taxation system based on engine displacement.

This will be a difficult road ahead for us since Korea's auto tax is a direct result of its policy of energy-saving and environmental protection, and it is at the same time a major source of revenue for local governments.

(Pharmaceuticals)

The US has also expressed concern on Korea's pricing system of pharmaceuticals. Korea's medical system is different from the US system, for we have a National Health Insurance Program to which every Korean citizen is a beneficiary.

The goal of Korea's reform in the pharmaceutical sector is to maintain a financially sound National Health Insurance Program, and whatever reforms that take place will in no way discriminate against foreign pharmaceutical manufacturers.

(Miscellaneous)

In the services, financial services, and telecommunications sectors, we discussed mutual recognition of professionals, temporary entry, transparency of financial supervision and freedom to choose

telecommunications technology. These issues will certainly be discussed in more detail as the negotiations unfold.

Also, we welcome the US position that they are not interested in attaining additional market opening in educational and medical sectors through the change of Korea's domestic laws which only allow non-profit corporations in these service areas.

Future Negotiations

We expect the negotiations to get into full swing as we get into discussions of tariff schedule at the second round of negotiations, which is scheduled for July 10 to 14 in Seoul. There will also be additional rounds of negotiations in September, October and December. Korea and the US are aiming to achieve agreement on most of the contentious issues by the end of the year.

We are under no illusion. There will be unexpected obstacles, and the road ahead will be bumpy. But if we continue our journey with firm determination and commitment, no matter what difficulties we might encounter down the road, we will be able to accomplish this daunting task. We will succeed.

I will continue to brief you and bring you up to date on the latest developments of the KORUS FTA negotiations, and I would like to count on your continued support for the negotiations.

Thank you so much for your attention. /END/