

EMBASSY ACTIVITIES

Remarks by Ambassador Karan Bhatia Deputy U.S. Trade Representative

Yonsei University

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Introduction

Thank you. I am delighted to be in Seoul, and very pleased to have been invited to Yonsei University. Yonsei is a center of international learning and I know many of you here are keenly interested in global economic and business issues as you begin your careers.

What I would like to talk about today is how international trade creates economic opportunities and why I believe enhanced trade is critical to the future prosperity of young people like yourself, both here in Korea and in the United States.

Over the next 20 years, in both countries, trade can play a vitally important role in providing exciting new career opportunities, in raising standards of living for citizens across the economic spectrum, and in contributing to the stature and security of both the U.S. and Korea.

The question is whether we have the courage and will to boldly embrace this exciting and dynamic future. Today, we, together, confront that issue in the context of a free trade agreement that our two countries are negotiating. What is really at issue in those negotiations is not just detailed matters of tariffs and nontariff barriers to trade. Rather, the KORUS FTA is really about the future of the U.S.-Korea economic relationship and, perhaps even more importantly for you, what Korea's own economic identity will be in the 21st Century.

In our view, the KORUS FTA can be one of the pillars upon which a new 21st Century U.S.-Korea partnership is founded – a partnership that benefits both of our countries economically, that binds the United States firmly to North Asia, and that serves as a model of open markets to countries on both sides of the Pacific.

As importantly, the KORUS FTA can a key part of Korea's own strategy toward long-term growth, competitiveness and prosperity – helping to support changes already under way as Korea transitions to becoming a modern, global economic power.

It is a once-in-a-generation opportunity that we cannot miss. To be sure, we have a lot of work to do. As I speak here this afternoon, our negotiators are beginning their

first day of the fourth negotiating round on Jeju island. I am hopeful that important progress will be made during this round. But, as important as the negotiations themselves, we have to explain to the people of the United States and Korea why this endeavor is a good thing and worth supporting.

America's Experience with Trade

To that end, let me share with you the experience the United States has had with free trade.

The U.S. is the most open major market in the world. Our tariffs are some of the lowest, we impose almost no "nationality" requirements for participation in most sectors of our economy, and there are relatively few barriers to be able to start up and compete.

As evidenced by a recent study issued by the Chicago Council for Global Affairs, Americans still overwhelmingly support free trade and maintaining an open economy, notwithstanding growing concerns about whether other countries are pursuing "unfair" trading practices.

There are various reasons for that strong support. Being a nation of immigrants, America is culturally inclined towards international engagement and international trade. We're also a nation of optimists – Americans tend to believe that they can compete and succeed (even when, as with the recent international baseball championships where Korea shined, we sometimes don't do so well!)

But above all else, I think that public support in America for trade is based on our experience that trade works. Since 1945, U.S. annual incomes are \$1 trillion higher – or \$9,000/household – because of trade liberalization. In just the last 15 years, trade has been one many key factors in boosting U.S. GDP by 60 percent and in creating 27 million new jobs.

The benefits are not limited to boosting exports. By bringing in new, lower-priced inputs, technologies, and ideas, trade has helped make our companies competitive and our economy nimble. And it has helped our consumers enjoy a wide array of choices of quality, competitively-priced goods.

And I should note, that on those occasions where we have not embraced free trade, the results have been painful. In 1930, in response to an economic downturn and stock market crash, Congress enacted the Smoot-Hawley Tariff Act, which greatly restricted access to the U.S. market, deepened our Great Depression. To this day, the folly of the Smoot-Hawley Tariff Act – the folly of turning against trade -- is widely remembered.

Korea's Experience with Trade

A review of Korea's economic development suggests that support for trade should be similarly strong here.

Korea's economic rise since the early 1960s has been breathtaking. By any measure, Korea was a poor war-ravaged country in 1960. Today, it has \$1 trillion economy, growth rates of 5-10 percent a year for the past ten years, and per capita incomes in the neighborhood of \$20,000 a year.

How did this happen? Through engagement in the international trading system. And, in particular, through strong economic ties with the United States, which remains Korea's largest developed country export market. While each step Korea has taken to integrate itself into the global economy has been accompanied by understandable uncertainty, Korea has repeatedly seen firsthand what many others have only recently come to appreciate – engagement in the global trading system can bring great benefits.

The challenge Korea now faces is whether it is willing to take the next step -- to embrace trade not just as an engine of export-led growth, but for the far greater benefits open trade can generate in enhancing domestic standards of living and competitiveness. In short: whether to rely on open and competitive markets to help fashion the advanced Korean economy of the future. I believe that that decision is critical to Korea's continued economic growth.

History has shown us that competitive markets are the best way to encourage human initiative, creativity and inventiveness and to allocate productive resources for the greatest reward to individuals and to society as a whole. Look, for example, at the Internet or the software revolution that have flourished because government had only a tangential role in their development.

I would respectfully submit that, for a country at Korea's now high state of development, the way forward is for government to lighten its hand on private decision making and the direction of industrial development, and unleash the tremendous capacity of the Korean people to invent, build and create. Doing so will be critical to Korea's ability to compete in an increasingly competitive Asian environment.

How the KORUS FTA Can Help

Both the U.S. and Korea have seen how trade benefits their economies. With the opportunity presented by the KORUS FTA, now is the time to take the next step to deepen and strengthen our trade ties.

The KORUS FTA is truly a win-win situation that will create significant new economic opportunities for both our countries. It will allow each of our nations to focus on producing and exporting the products, goods, and services that each does best, while opening up new economic opportunities in both countries.

Now, it is true that the same possibility could exist with other trading partners in the region. Indeed, a number of others have approached us about pursuing an FTA. I am sometimes asked: "why does the U.S. want an FTA with Korea?" I have said that choosing an FTA partner is like choosing a husband or wife: you want your partner to be interesting, to be committed, and to share common values. Korea fits all three.

First, from an economic perspective, Korea is interesting: it's the kind of country that the United States wants to have as an FTA partner. Korea is a proven economic powerhouse with which we already have a strong trade and investment relationship. Korea is the United States' 7th largest trading partner and 6th largest export market. The United States, in turn, is Korea's second largest market, importing 17 percent of Korea's exported goods.

Second, Korea has shown its commitment to pursuing internal reforms and opening its economy. And Korea, more so than many other countries in the Asia-Pacific region, has been very successful at doing just that. For example, Korea's economic policy leaders have been bold in pushing forward with financial services deregulation and reform. Korea has also taken steps to ensure that its intellectual property laws keep pace with the global changes in this area. It is our hope that the FTA will help expedite reforms Korea is making and promote multilateral and regional cooperation.

Third, the U.S. and Korea share common values. We are both democracies. We have been allies for more than 50 years. The value of that alliance has only become clearer in light of recent developments in the region.

Debunking Four Myths About the KORUS FTA

So, that very simply is our thinking. Now I know that there are some in the media that believe there's something else going on here. The myths abound. The worst thing that could happen would be for these myths to gain currency. So, I thought that in the time left that I'd try to debunk a few of the more pernicious ones.

Myth #1: The U.S. will get the bulk of the benefits of the FTA

If history is any judge, it may well not turn out to be true that the U.S. will get the bulk of the benefits, if measured by increased exports. From Chile to Singapore to

Mexico, the history of our FTAs is that bilateral trade surpluses of our trading partners go up initially.

For the U.S. economy, estimates of the benefits to be derived from the KORUS FTA range from a quarter to 1/3 of a percent of GDP—not a small contribution. But the benefits to Korea may be even greater – with estimates in the range of a 2 percent increase in Korean GDP, creating as many as 500,000 new jobs and establishing a foundation for Korea to achieve a per capita income as high as \$30,000. And, of course, there would be untold additional benefits to Korea including increased foreign direct investment, improvement in Korea's sovereign credit ratings, and support in achieving its goal of becoming an economic and financial hub in Northeast Asia.

But, above all, measuring who gets the bulk of the benefits is simply the wrong way to assess trade liberalization. The evidence is clear, based on history with other FTAs, that exports of both sides can be expected to increase. So too will the benefits to consumers. The fact is that the United States will want Korea to benefit greatly from the KORUS FTA, and Korea should want the US to. Each country will benefit more when its trading partners are prosperous and growing and when more and more consumers can afford the goods and services it produces.

Myth #2: The Korean agriculture sector will be devastated by U.S. imports

Many critics have argued that as a result of the FTA with the United States, the Korean agriculture sector will be wiped out overnight. We, in the U.S., are well aware of Korean sensitivities in the agricultural sector. All countries, including the United States, have politically sensitive product areas.

The fundamental goal of free trade agreements is to achieve comprehensive liberalization, including in the agricultural sector. Without liberalization of the agricultural sector, FTAs would not be as beneficial as they are with these products included.

Studies suggest that potential gains of a KORUS FTA would be at least cut in half for both economies if agricultural trade were somehow to be excluded. Recognizing that, I understand that the Korean government has earmarked 119 trillion won (currently about \$125 billion) for investment in agriculture and income support for farmers over a 10-year period, which it hopes will spur productivity growth and help manage adjustment pressures in the farm sector. I understand that similar programs adopted in the past have been successful.

But, the notion that this will devastate the Korean agricultural sector is way off base. First, no one is saying that immediate free trade in agriculture is a requirement of

finalizing this Agreement. Transition periods have been used in past FTAs to address sensitive products and would likely be employed here.

Second, history has shown us that FTAs don't destroy agriculture production. If you look at NAFTA, for example, Mexican agriculture production increased by 14 percent after the FTA.

Myth #3: Only big corporations will benefit from the FTA

A common misunderstanding about FTAs is that only big businesses or multinational corporations have anything to gain from these agreements. Actually, it is our experience that the opposite is true.

Since SMEs represent the biggest percentage of U.S. companies exporting to many of our FTA partners, including Canada, Mexico, Australia, Singapore, Chile, and Morocco, they have stood a great deal to gain from these Agreements.

Studies have shown that these benefits are likely to translate to small and medium-sized businesses as a result of the KORUS FTA, as well. According to a recent survey by the Korea Federation of Small and Medium Businesses, 80 percent of firms exporting to the U.S. from Korea support the FTA. Indeed, most of the Korean products that will benefit from increased market access resulting from the FTA, such as textiles, leather, rubber and shoes, are mainly produced by small and medium-sized businesses.

Myth #4: We are rushing into an FTA and would be better off slowing down

In some senses, I think this is the most superficially appealing myth. "This is a big deal," some have argued. "We need more time to adjust. What harm can result from slowing down?"

My answer is that current events make clear that, while we must work carefully and cooperatively, we cannot and should not slow down. Indeed, the reasons for moving forward quickly are more compelling than ever.

First, recent events in North Korea have made abundantly clear how critically important the US-ROK partnership is. There is no doubt that the KORUS FTA will help strengthen that partnership. It will create government-to-government ties, it will create stronger ties between the business sectors of our two economies, and it will create new bonds between the people of our two countries. The KORUS FTA will be a powerful signal of our deep resolve to continue our alliance for the next 50 years.

Second, recent news that Korea's economic growth may be slowing makes conclusion of the FTA all the more important. Conclusion of an FTA will not only

afford Korean companies an advantage in exporting to the U.S. market, it will also encourage stronger foreign investment flows to Korea. And more broadly, conclusion of a major FTA, like the KORUS FTA, could send reassuring signals to global markets, at a time when there are increasing fears of protectionism on the rise. The markets would reward Korea and the United States, and they would rightly expect that it would trigger other trade liberalizing deals to come.

Third, it is at best uncertain whether our Congress will extend the authority needed to conclude this FTA past its expiry deadline next year. If not extended, the window of opportunity to gain Congressional approval of the FTA could be delayed, potentially for years. Some may ask why Korea should have to conclude an agreement based on the deadlines established by the U.S. Congress? To them, I say Korea should not sign any deal it is not comfortable with. But if there is a deal to be done, would it not be in everyone's best interests to get it done while we still can?

Conclusion

In closing, it is important to look at these negotiations, and the resulting Agreement, and remember these are not negotiations between adversaries: They are discussions between trading partners who are looking for better ways to do business with one another, and who have both voluntarily come to the conclusion that an FTA will help foster economic growth and prosperity for both our nations.

There is an adage that fortune favors the bold. That has been true for both our nations. As we stand as trading partners in a rapidly changing world and contemplate ways to preserve and enhance our competitiveness, we must both continue to be bold. We must be prepared to make tough political decisions to open our economies to competition and prepare for new challenges and seize new opportunities and to enjoy new fortune. I look forward to you all being great beneficiaries of that boldness in years to come. Thank you.