Policy Forum Online 07-007A: January 25th, 2007

-“A Proposed Korea–U.S. Free Trade Agreement and Kaesong Industrial Complex”

by Suk Hi Kim

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Suk Hi Kim, editor of North Korean editor a professor of international finance and the coordinator of finance and international business at the University of Detroit Mercy, writes, “From a U.S. perspective, it is difficult to see how the FTA could grant advantages to North Korean production while North Korea continues to engage in developing weapons of mass destruction… However, it also makes sense to support the South Korean vision for Korean reunification by setting out procedures in the FTA itself for updating the pact if and when that process moves forward.”

The views expressed in this article are those of the author and do not necessarily reflect the official policy or position of the Nautilus Institute. Readers should note that Nautilus seeks a diversity of views and opinions on contentious topics in order to identify common ground.

II. Article by Suk Hi Kim

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Introduction

A free trade agreement is one form of a trading block, a preferential economic arrangement amongst a group of countries that reduces barriers to trade. Trading blocs have emerged as the most debated topic in world trade. While countries around the world are making efforts to suppress national interests in favor of trading blocs, these groupings are also seen as evidence of difficulties in preserving the current global trading system under the World Trade Organization (WTO).

The WTO has five major functions: (1) administration its trade agreements; (2) acting as a forum for trade negations; (3) monitoring national trade policies; (4) offering technical assistance and training for developing countries; and (5) cooperat9ng with other international organizations (Kim and Kim, 2006, p. 38).

As a multi-party trade negotiation promoted by the WTO travels along a bumpy road, making little progress, trading blocs—particularly FTAs—have seen accelerated expansion. For example, a total of 43 trade agreements were reported to the WTO during a roughly one-year period from January 2004 to February 2005 (Lee, 2006, p. 122).

South Korea and the U.S. agreed to start serious negotiations for a free trade agreement between the two countries on February 2, 2006. During the first preliminary session held in Seoul on March 6, they agreed to begin the formal negotiations on June 5. Because the U.S. president's authority to negotiate trade agreements, called the "trade promotion authority," expires on June 30, 2007, and includes the 90-day congressional review period on the final negotiation results, the deal must be concluded by late March. One of the major sticking points for a successful conclusion has to do with disagreement between the two countries over the inclusion of products made by the Kaesong Industrial Complex (KIC), the first large-scale economic project jointly undertaken by both Korean governments.

This article is organized as follows. The first section discusses types of trading blocs. The second section analyzes reasons for trading blocs. The third section describes U.S. objectives in an FTA. The fourth section considers Korean objectives in this FTA. The fifth section covers the Korean request for duty-free treatment for goods produced by the KIC. The last section describes the impact of the U.S. elections on the KORUS FTA.

Trading Blocs: Types of Economic Cooperation

A trading bloc is a preferential economic arrangement amongst a group of countries that reduces interregional barriers to trade in goods, services, investment, and capital. Historically, trading blocs have consisted of member countries with similar levels of per capita income, geographic proximity, comparable trading regimes, and political commitment to regional organization (Ronkainen, 1993, pp. 1–18). While the European Community displayed all of these characteristics in its early stages with six members, recent developments have shown that political will to cooperate does overcome consequences of dissimilarity in the first three characteristics. The admission of Greece and Poland into the European Union and the bilateral trade agreement between Chile and Korea indicate that a united political will can overcome the consequences of most dissimilarity. Thus, five forms of economic integration have developed among countries: the free trade area, the customs union, the common market, economic union, and political union (Kim and Kim, 2006, pp. 39–43).

The free trade area type of cooperation requires member countries to remove all tariffs amongst themselves. However, the member nations are allowed to have their own tariff arrangements with nonmember countries. The North American Free Trade Agreement (NAFTA) involving the U.S., Canada, and Mexico illustrates this free trade area type of agreement.

Under the customs union arrangement, member nations not only abolish internal tariffs amongst themselves but also establish common external tariffs. The trading bloc known as Mercosur in Spanish constitutes a customs union. The four members of Mercosur—Argentina, Brazil, Paraguay, and Uruguay—account for 70 percent of South

America’s total output. The aims of this customs union are to establish free trade amongst the member countries and to impose a common tariff of 5–20 percent on products imported from the outside. Furthermore, the leaders of these four countries wish to develop a unified strategy for trade negotiations with the U.S. over the proposed Free Trade Area of the Americas.

In a common market type of agreement, member countries abolish internal tariffs amongst themselves and levy common external tariffs. Moreover, they allow the free flow of all factors of production, such as capital, labor, and technology. The Central American Common Market involving Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua exemplifies the common market type of agreement. This common market wishes to permit the free flow of production factors between its member countries, but its goal is hampered by the nonuniformity of the countries’ economic conditions.

The economic union combines the characteristics of a common market with the harmonization of economic policy. Member nations are required to pursue common monetary and fiscal policies. This means that economic union members have to synchronize taxes, money supply, interest rates, and the regulation of capital markets. The current version of the European Union (EU) represents an economic union. The name of the European Economic Community (EEC) was officially changed to the EU on November 1, 1993, when the Maastricht Treaty of the EEC came into effect.

The political union combines the characteristics of an economic union with political harmony amongst the member countries. Essentially, countries merge with each other to create a new nation. Thus, it is the ultimate market agreement amongst nations. In the 1950s, Egypt, Syria, and Yemen formed a political union, but it did not last long. Thus, in its pure form, an example of the political union does not exist. However, a newly created commonwealth of former Soviet republics could be considered a political union.

The world has been swiftly moving toward trading blocs in recent years, particularly free trade agreements. One hundred and twenty free trade agreements have been entered to date, 95 percent of them in the past five years. Fifteen agreements were reached in 2005 and 37 are currently under way (Byun, 2006). It will become evident to the whole world that companies will compete within the boundaries of trading blocs for years to come. Each of these trading blocs is expected to pose its own challenges. If countries continue to compete with one another as single nations, they could lose their competitiveness in the world marketplace. Many world leaders loudly criticize both bilateral and multilateral trading blocs that serve as protectionist trade umbrellas. However, they also concede that trading blocs may be an unfortunate but emerging trend.

Reasons for Trading Blocs

World leaders have recognized that the reduction or elimination of artificial barriers to trade is necessary in order to expand world trade. The worldwide postwar efforts to expand foreign trade included the elimination of tariff barriers through the World Trade Organization and the stabilization of currencies through the International Monetary Fund. At the same time as these efforts went forward on the international level, many countries around the world also pursued economic cooperation at the regional level. Regional economic cooperation was based on the premise that countries in a region that were connected by historical, geographic, cultural, economic, and political similarities might be able to strike more intensive cooperative agreements for mutually beneficial economic advantages. However, world leaders have recently recognized that a united political will can yield even greater economic gains by overcoming the consequences of most dissimilarities.

Open, comparative trade promotes the economic welfare of all countries that engage in it, and does it in four ways. Open trade secures the benefits of national comparative advantage; increase domestic competitive pressure; accelerates the flow of technology and ideas; and broadens the variety of goods and services available to both producers and consumers (Kim and Kim, 2006, p. 33).

Economists agree that economic integration through a variety of trading blocs will lead to the most efficient use of society's scarce resources, because of allocation efficiency from comparative advantage and production efficiency from economies of scale (Hunter, 1991, pp. 17–27).

To achieve allocation efficiency, resources must be apportioned among firms and industries to obtain the particular mix of products most wanted by consumers. This traditional approach depicts a world in which markets are competitive and economies of scale do not exist. In these situations, gains stem from comparative advantage. Product costs vary from country to country because countries have different economic resources, such as climate, raw materials, manpower, and technology. Thus, a country is better off if it exports those goods that it can produce more cheaply, and if it imports those goods that other countries can produce more cheaply.

For production efficiency, each product embodied in this optimum product mix must be produced in the least costly way. Economic integration creates opportunities for economies of scale or synergistic effects. They exist when combined economies are worth more than the sum of their parts. The reduction of barriers automatically increases total demand. As economic resources shift to more efficient production due to increased competition, companies can expand production to take advantage of the larger market. This dynamic change in market size allows companies to spread fixed costs over more and more units of production. As Adam Smith rightly pointed out more than 200 years ago, productive power of resources and thus the unit cost of production depend on the extent of the market.

U.S. Interests and Objectives

After signing its first FTA with Israel in 1985 and its second FTA with Canada and Mexico in 1993, the U.S. had seemed uninterested in FTAs, until it signed an FTA with Jordan in early 2000. Since then, however, the U.S. has signed FTAs with at least 16 countries. Two factors have motivated the U.S. to pursue FTAs with a large number of countries. First, as it becomes increasingly difficult to preserve the current global trading system under the WTO, the U.S. wishes to advance the WTO negotiations. In addition, the U.S. pursues FTAs as a fallback position, given the potential incapacity of the WTO system. Second, the U.S. considers free trade as a primary weapon in suppressing new security threats, by allowing for economic growth that will reduce social and political instability (Lee, 2006, p. 124).

The U.S. selects countries for new FTA partners based on the following two criteria. First, the partner country must demonstrate its commitment to pursue further liberalization of long-standing restrictions to trade and investments in the domestic economy. Second, the partner country must show its willingness to work with U.S. officials to achieve a successful conclusion to the Doha Round of the WTO negotiations (Schott, 2004, Chapter 13). In June 2006, the U.S. started FTA negotiations with South Korea, because Korea had met these two conditions by liberalizing restrictions on farm trade, screen quota, and in other areas.

The Office of the United States Trade Representative released the following facts on February 2006. First, as the U.S. market is largely open to Korean goods and services, an FTA will make duty-free treatment a two-way street. A reduction in Korea's average applied tariffs of 11.2 percent, which are three times greater than the U.S. average of 3.7 percent, on all products will be of significant benefit to U.S. businesses, farmers, and workers. Second, a reduction of Korea's average applied tariff of 52 percent on agricultural products, which is four times greater than the U.S. average of 12 percent, will be of significant benefit to U.S. agriculture. Third, addressing a wide variety of tariff and nontariff barriers against U.S. goods and services imposed by Korea will create significant new opportunities for U.S. exporters in these sectors, in which U.S. companies are highly competitive (Office of the United States Representative, 2006).

If completed, a KORUS FTA would be the latest U.S. free trade pact since the North Korean Free Trade Agreement of 1994, producing substantial export gains while advancing important U.S. foreign policy objectives in Northeast Asia. More specifically, key issues for the U.S. include autos, beef, and pharmaceutical pricing and reimbursement issues. (1) U.S. formal efforts to resolve bilateral trade frictions over automobiles have spanned more than a decade. (2) During 2003, Korea was the third largest foreign market for American beef. At the end of that year, however, Korea banned imports of American beef after officials confirmed the first U.S. case of "mad cow" disease. (3) The U.S. charges that Korea enacted cost containment measures that discriminate against imports by systematically undervaluing pharmaceuticals and skewing demand toward domestically produced generic drugs (Schott, Bradford, and Moll, 2006, pp. 8–11). (4) An FTA between the U.S. and Korea could improve their strained relationships over U.S. military redeployment and their differences over how to respond to North Korean provocation. In addition, the FTA would deepen the already strong economic ties between the two countries and curb the rising tide of China's economic and political influence in East Asia.

Korean Interests and Objectives

South Korea is a major economic partner for the United States. The total volume of two-way trade between the two countries reached approximately $70 billion in 2005, thus making South Korea the seventh-largest trading partner of the U.S., ahead of France and Italy. South Korea is among the largest markets of the U.S. for agricultural products. Nevertheless, South Korea is far more dependent economically on the U.S. than the U.S. is on Korea. Table 1 shows that, in 2005, the U.S. was Korea's third-largest trading partner, second-largest export market, third-largest source of imports, and its largest supplier of foreign direct investment.

Table 1: Asymmetrical Economic Interdependence

Country	Total trade	Export market	Source of imports	Source of investment
For the U.S., Korea ranks	#7	#7	#7	#28
For Korea, the U.S. ranks	#3	#2	#3	#1

Source: Mark E. Manyin and W. H. Cooper, "The Proposed South Korea–U.S. Free Trade Agreement," CRS Report for Congress, Congresses Research Service, the Library of Congress, May 24, 2006, p. CRS-4.

The KORUS FTA is a free trade type of agreement. This pact is expected to require the two countries to remove all tariffs for more than 90 percent of the traded goods between the two countries over 10 years, which is likely to have a significant, impart on the Korean economy. According to the Korean Institute for International Economic Policy, the KORUS FTA would increase mid/long-term production by 1.94 percent ($27 billion), employment by 0.63 percent (104,000 people), the real GDP by 1.99 percent ($13.5 billion), exports by 15.1 percent ($7.1 billion), and imports by 39.4 percent ($12.2 billion) (Lee, 2006, p. 122). Nevertheless, most analysts believe that the Korean benefits would derive not from the short-term reductions in U.S. trade barriers, but rather from medium- to long-term effects of improving the dynamism and efficiency of the South Korean economy.

Key issues for Korea include exclusion of agricultural products from the FTA, the resolution of U.S. steel antidumping problems, access to the U.S. visa waiver program, and coverage of production in the Kaesong Industrial Complex (Schott, Bradford, and Moll, 2006). On the political front, the Korean people hope that there will be positive spillover effects from the FTA on the broader bilateral relationship. For example, observers consider the FTA as a means of strengthening the U.S.–Korea alliance. They feel that the two countries need to boost their strategic relationship mainly due to bilateral strains over major alliance issues, primarily caused by different views about how to handle North Korea and China. Many Koreans expect that the FTA will have even broader strategic effects. This FTA can elevate the standing of South Korea in Northeast Asia by boosting its status as a middle-ranking power. It might conceivably help Korea to play this role not only by boosting its economic performance, but also by ensuring that the U.S. remains a strategic and economic counterbalance to China and Japan.

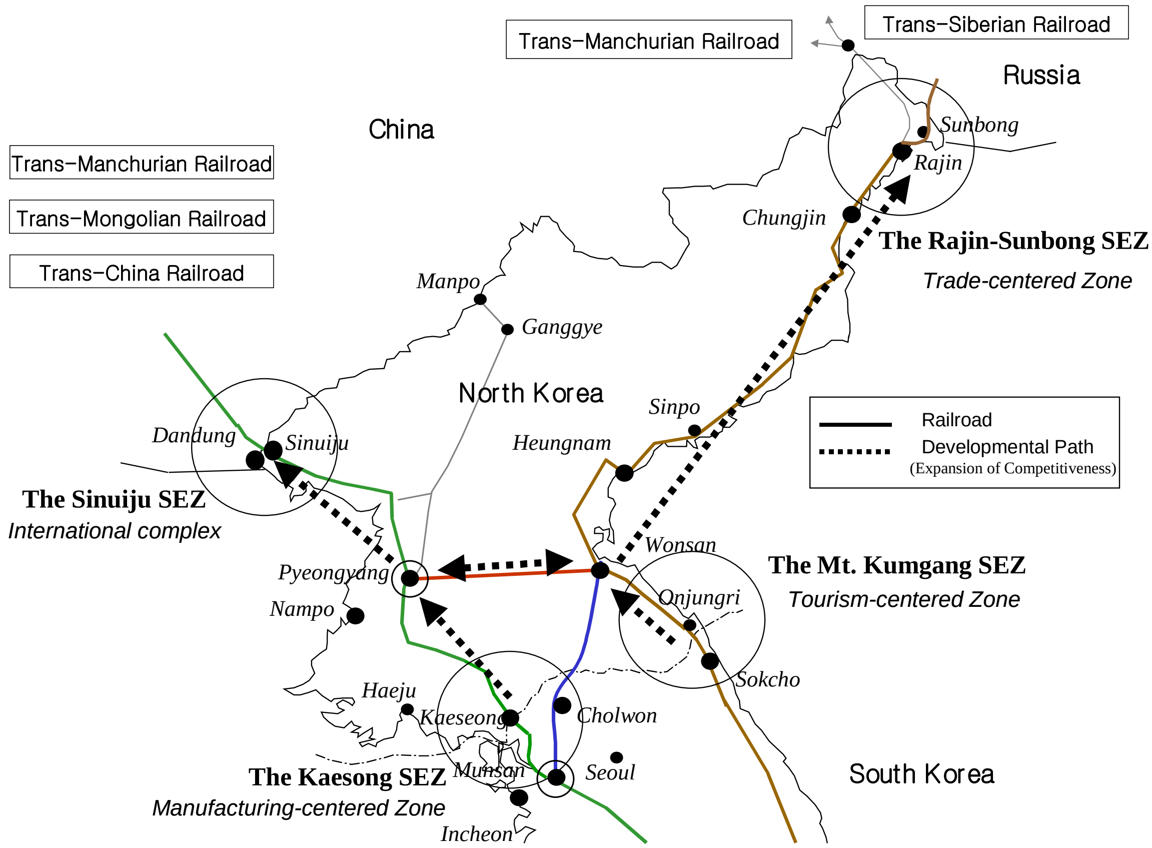
Furthermore, Korean officials expect that the FTA will produce a better climate for pursuing North–South trade and investment on the Korean peninsula. To that end, they regard the KIC as a practical manifestation of that development and want its output covered by the FTA.

The Kaesong Industrial Complex

Special Economic Zones as Survival Strategy of North Korea

The potentially contentious issue in the FTA talks is the status of the Kaesong Industrial Complex (KIC), one of four special economic zones (SEZs) in North Korea. North Korea has recently begun to develop two new projects: the KIC and the Mt. Kumgang tourism project. In terms of their levels of cooperation, partners, and functions, these new projects have been distinguished from the two earlier SEZs. The Rajin–Sunbong SEZ is a trade-oriented center that includes China, Russia, and Japan. The Sinuiju SEZ has focused on the trade-oriented function in order to cooperate with countries in the Yellow Sea rim area, including China. In contrast, Kaesong is envisaged as a production-centered SEZ, to attract small and medium-sized South Korean businesses. The Mt. Kumgang SEZ is also cooperating with the Hyundai Asan Corporation of South Korea in the development of an international tourism venture. Figure 1 presents the developmental path in linking the four SEZs; that is, the "*Westward Expansion Line*," running from the Kaesong SEZ (via Pyongyang) to the Sinuiju SEZ, and the "*Eastward Expansion Line*," from Mt. Kumgang (via Wonsan) to the Rajin–unbong SEZ (Lim and Lim, 2006).

Figure 1. The Developmental Path of the North Korean SEZs



These two new projects were apparently an advanced step toward economic cooperation when compared with the previous level and form of interaction between the two Koreas. The projects have not only contributed to economic exchange, but have also demonstrated the possibility of advancing the two Koreas' political relations. South–North Korean economic cooperation is important in aiding the recovery of cultural and emotional homogeneity, as well as promoting reciprocal economic development, the development of the industrial infrastructure, and the building of a harmonized industrial structure between the two Koreas. Furthermore, such changes in the economic sector could lead to political stability in North Korea, which, in turn, would contribute to the political and military stability of the entire Korean peninsula.

These SEZs are capitalist regions that secure free capitalism and private ownership, with independent legislative, judicial, and executive branches, without interference from the central government. Foreign companies have been advised to locate their manufacturing plants and other business operations in these four areas. North Korea welcomes foreign investment and trade, because it generates the transfer of technology and skills, increases national employment and domestic wages, contributes to tax revenues, develops import substitute products, and helps to increase exports.

Even though communication and commercial transactions between North and South Korea have increased dramatically in recent years, the Kaesong project stands out because it is the first large-scale economic project jointly undertaken by both Korean governments. As a result of the Korean War, Kaesong is remembered as a place of suffering. It is where the soldiers of North and South Korea confronted each other as tension mounted between the two countries for over half a century. During the U.S. President Bill Clinton's visit to a four-mile demilitarized zone (DMZ) in 1994, he called it the scariest place on earth. The basic structure of this national division has not changed much since that time. In fact, many experts still regard the DMZ as the world's most dangerous flashpoint.

Seoul and Kaesong are only 60 km apart—it is only a one-hour car ride between the two cities. Despite this small distance, for the South Koreans, Kaesong has remained a forbidden city. However, Kaeseong is now changing into a rapidly growing industrial site with the construction of the KIC, the first major economic project undertaken jointly by the two Korean governments. For North Koreans in particular, the KIC is the first major development project to be promoted based on capitalist principles. During the three years of its preparation, the North and South Korean governments worked on ensuring free passage across the DMZ, and on establishing tax, accounting, banking, and labor laws to be applied to the KIC. Although the KIC is geographically located in North Korea, general North Korean laws do not apply; instead, it is governed by a special set of laws. A groundbreaking ceremony was held in Kaesong to officially inaugurate the KIC in June 2003.

The KIC is the centerpiece of North–South economic cooperation under the peace and prosperity policy of South Korean President Rho Moo-Hyun. At present, roughly several dozen South Korean firms operate in the industrial park, with a total of 6,000 North Korean workers. The project will be carried out in three stages over 10 years, starting in 2003 and ending in 2012. The first stage is currently well under way and is expected to be completed by 2007. In April 2006, the Ministry of Unification of the Republic of Korea projected that the KIC would grow to over 16,000 acres, employ 700,000 North Korean workers, and have 3,000 tenant companies at the end of 2012 (see Table 2). The U.S. officially supports the KIC. In 2004 and 2005, the U.S. approved several export controls clearances that were required by U.S. law in order for South Korean firms to bring items such as computer and telecommunications equipment to Kaesong (Manyin and Cooper, 2006, p. CRS-18). This and other signs indicate that the road to increasing Korean integration will continue.

Table 2: The development of KIC by stages

	Stage 1	Stage 2	Stage 3	Extended	Kaeseong	Total

					area	Urban area	
Area (acres)	Industrial zone	817	1,225	2,859	1,634	–	6,536
	Supporting zone	–	817	1,634	4,085	3,268	9,805
Tenant Firms		300	700	1,000	–	–	2,000
Employees (thousands)		70	130	150	350		700
Development schedule		2003–2007	2006–2009	2008–2012			

Source: The Ministry of Unification of the Republic of Korea, "Introduction to and Implications of Kaeseong Industrial Complex Project," www.keia.org on July 14, 2006.

KIC as the Major Obstacle to a KORUS FTA

South Korean products made in the joint-Korean Kaesong Industrial Complex are expected to become the greatest obstacle to the $20 billion free trade agreement between the U.S. and Korea. William Watts, president of Potomac Associates (PA), a nonpartisan research organization, has conducted a number of opinion surveys on the KORUS FTA, upon request by the Korea Economic Institute of America. According to the PA's second opinion survey, conducted on August 31, 2006, 68 percent of respondents said that a satisfactory agreement cannot be reached on the question of duty-free treatment for products made in Kaesong. At least a majority of the respondents said that a satisfactory agreement can be reached on the six other tough issues (Watts, 2006). South Korea is counting on the free trade deal to help attract local and overseas companies to the industrial park. Thus, South Korea aims to include goods made at this industrial zone in North Korea in the free trade deal with the U.S., despite Washington's apparent opposition. Since the KIC opened, it has been South Korean policy to request that its FTA partners allow exports from Kaesong to be considered as "made in Korea," thereby enabling these products to receive the preferential status conferred by the FTA. Korea's agreement with Singapore, the European Free Trade Association, and the Association of South East Asian Nations contain such a provision. In the case of the KORUS FTA, however, the situation is a little more complicated. Realistically, the volume of exports stemming from Kaesong will likely remain trivial for some time. Nonetheless, the South Korean side may well insist on its inclusion as a way of ensuring stability on the Korean peninsula and of easing the presumed costs of an eventual Korean reunification.

The U.S. is reluctant to include Kaesong in its negotiations with South Korea, because of a number of thorny issues. Some labor and human rights advocates have argued that the North Korean regime exploits its workers in Kaesong. South Korean officials and some other analysts counter these claims by saying that conditions in Kaesong are far better than those in the rest of North Korea. Substantially, North Korea does not meet internationally recognized core labor standards; rights to associate~~,~~ organize, and bargain collectively ~~are~~ is absent entirely in autocratic North Korea. In addition, the North Korean government retains a large share of the $57.50 per month paid to each North Korean worker; in fact, Schott, Bradford, and Moll (2006) claim that North Korean workers net less than $3 per month.

These labor and human rights concerns add to the considerable list of U.S. problems with North Korea; these problems include North Korean nuclear proliferation, drug trafficking, U.S. currency counterfeiting, and other illicit, illegal, and objectionable behavior that already poses serious political impediments to an extraterritorial extension of the FTA to products from Kaesong. If labor and human rights are not adequately addressed, the Kaesong issue could well damage the prospects for concluding the FTA and condemn the ratification process in the U.S. Congress to failure.

The KIC, which has broad support among South Koreans, has become the centerpiece of South Korea's "sunshine policy" of engaging North Korea. South Korea views the complex as a way of maintaining stability on the Korean peninsula and of easing the enormous costs of an eventual Korean reunification, by introducing South Korean economic standards to North Korea and linking North Korea to the global economy. The complex is also designed to make North Korean economic activity more transparent. Furthermore, the use of cheap North Korean labor would make it easier for small South Korean firms to compete with lower-cost Chinese firms in South Korea and elsewhere. Many South Koreans believe that the U.S. position on Kaesong in the FTA negotiations is the litmus test for the U.S. approach toward South Korea's entire sunshine policy.

U.S. Elections and Trade Policy

In the November 6, 2006 U.S. elections, the Democrats picked up enough seats to gain control of both the House and the Senate. In their victory news conference on November 11, 2006, congressional Democrats pledged to work with President Bush when they assume control of the Houses and Senate in January 2007, but everybody knows that disagreement on U.S. trade policy can be assured. The Democrats' stance against free trade helped to build the party's success at the polls and could tip the balance on trade matters. The new dynamic could put a definitive end to the already troubled efforts to reach global agreement to reduce tariffs and open markets through the WTO, known as the Doha Round. It could also jeopardize lesser deals, such as those that the U.S. has crafted with Vietnam, Colombia, and other countries (Hitt and King, 2006).

Most important for the international agenda will be Congress's decision on whether to extend the trade promotion authority, also known as the "fast track authority," when it expires in June 2007. Fast track is the traditional trade negotiating authority granted by Congress that allows the President to negotiate international trade agreements.

Under fast track procedures, the President submits negotiated trade deals to Congress for approval or rejection. No amendments are allowed. Congress has 90 legislative days to approve or reject them. While congressional and private-sector leaders are consulted throughout the negotiations, the final agreement presented as a package assures the trading partners that any solutions they strike with U.S. trade negotiators will not be renegotiated by Congress.

The Democrats will try to attach protection for labor rights, the environment, and food safety to the Bush Administration's request for renewal of the fast track trade negotiating authority. In fact, some trade experts say that the Democrats may try to extract concessions from President Bush that would render a fast track deal virtually impossible. In addition, the Democrats are unlikely to approve a number of trade deals that the Bush administration has successfully negotiated. Legislation to normalize trade relations with Vietnam was defeated in the House on November 13, 2006, just four days before President Bush was scheduled to make his first visit to the only country ever to defeat the U.S. in a major war. The measure failed to win the necessary two-thirds majority that it needed to pass under a procedure that the House Republicans adopted in an effort to rush it through with limited debate. Republican leaders pledged to bring the measure up again under normal procedures, which will require only a majority for passage. However, the prospects for congressional approval of several free trade bills by the administration were cast into doubt on November 14, when House Republican leaders abruptly withdrew the bill aimed at Vietnam, even through the Republicans had enough votes for its approval. The failure of the Vietnam bill brought an end to the president's hope that its passage would signify a milestone in the improvement of relations with a country in which tens of thousands of Americans died more than 30 years ago.

Some Democrats and business executives expect President Bush to meet his critics halfway on trade. For example, R. Bruce Joston, executive vice president of the U.S. Chamber of Commerce, expects a limited extension, one that would allow only specific trade deals to go forward. Furthermore, U.S. trade officials are optimistic that they can preserve the president's trade authority with moderate Democrats (Hennessay-Fiske, 2006). Furthermore, both Republicans and Democrats have publicly encouraged a Korea–U.S. free trade agreement throughout the negotiations since early 2006. Thus, if the U.S. and South Korea can reach a FTA agreement in the first half of 2007, the possibility remains that Congress will approve it. The U.S. trade deal with South Korea is different in one notable way from all other U.S. free trade agreements, because it could have broad implications for the Korea–U.S. bilateral relationship that go way beyond economic benefits. For example, the KORUS FTA is essential for strengthening the two countries' military alliance. The readjustment of the Korea–U.S. alliance that is currently in progress embraces bilateral agreements on important issues such as U.S. force repositioning, command relocation, reduction of the size of the military force, and strategic flexibility (Lee, 2006, p. 127).

Both countries consider the FTA as a vehicle for the advancement of important foreign policy objectives, particularly the strengthening of cooperation on North Korea. Getting the two countries to agree on policies toward North Korea will be contentious and will require skillful management. From a U.S. perspective, it is difficult to see how the FTA could grant advantages to North Korean production while North Korea continues to engage in developing weapons of mass destruction. Schott, Bradford, and Moll (2006, p. 15) correctly state that “the prudent course would be to exclude North Korean-produced goods and services from the FTA until compliance with the pact’s rights and obligations can be adequately monitored and enforced.” However, it also makes sense to support the South Korean vision for Korean reunification by setting out procedures in the FTA itself for updating the pact if and when that process moves forward.

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