



Ways & Means Trade Subcommittee Ranking Member Kevin Brady

American Enterprise Institute: U.S.-Korean Relations

June 9, 2009

- At the outset, I'd like to thank Claude Barfield and Phil Levy for the kind invitation they extended to me to offer my perspective. I am honored to be here.
- It goes without saying that South Korea is a long-time ally. We have an important bilateral trading relationship, but also a geopolitical strategic commitment to one another. That said, as the Ranking Member of the House Ways & Means Trade Subcommittee, I will focus my remarks on the economic side and leave the security side—in large part—for subsequent panelists. I say in large part because I will touch on the security piece a bit.
- In today's world, the starting point for any discussion on economic relationships has to be the global economic crisis. And the key question is: what are we going to do to emerge from it? We're all trying to get a handle on this question—those of us in Congress, the Administration, the business community, academia, NGOs—but one thing is certain: The international community will need to work together, and trade must be a cornerstone of an economic recovery strategy.
- To ignore trade – which represents 13 percent of U.S. GDP and was the single largest contributor to America's growth last year – disregards heedlessly a vital engine of potential economic stimulus. Guarding against protectionism is not enough. We need to be proactive and progressive.
- In that regard, I don't think there's any question that the U.S.-South Korean economic relationship is a necessary and important piston in the engine.
  - U.S. trade with South Korea, which is the 13th largest economy in the world and the 3<sup>rd</sup> largest market in East Asia, comprises a significant and important piece of America's trading profile.
  - It is the 7<sup>th</sup> largest U.S. trading partner, our 5<sup>th</sup> largest agriculture export market, and our 10<sup>th</sup> largest market for manufactured goods.

- Two-way trade in goods reached \$83 billion last year.
- And even more to the core of the impetus of today's event, I am also certain that passage and implementation of the U.S.-Korea Free Trade Agreement, or KORUS— the most commercially significant FTA the United States has negotiated in 16 years—could and would further lubricate an economic recovery.
- The International Trade Commission estimates that implementation of the FTA would increase annual U.S. goods exports to Korea by \$10 to 11 billion and increase U.S. GDP by \$10 to 12 billion annually. We've all heard those statistics.
- But what isn't as well known is that the average Korean tariff for U.S. exporters is more than four times the average tariff that Korean products face in the U.S. market.
- The agreement levels the playing field for U.S. exports by quickly slashing Korean tariffs on U.S. exports: 80% of Korea's tariff lines would go to zero immediately upon implementation.
- I don't fear imports, but I know there are some out there who do. I would remind those people that the ITC says full implementation of the agreement would increase U.S. exports to Korea by nearly 30% more than imports from Korea would increase.
- With respect to farm trade, two-thirds of South Korea's agricultural tariffs would go to zero immediately, and the agreement would commit South Korea to follow animal health, plant health, and food safety measures that are science-based and developed transparently, with full notice and comment.
- The agreement would also open for U.S. service providers one of the world's largest and most sophisticated markets, valued at nearly \$500 billion.
  - Through the removal of existing barriers, the agreement would facilitate entry for U.S. firms into Korea's financial, insurance, telecom, audiovisual, express delivery, and professional services markets, among others.
  - For example, the ITC estimates based on tariff equivalents that KORUS would reduce barriers in the banking sector by 62%.
- This all strikes me as a logical component of a recovery strategy, because it would create markets at a time when American workers need it most.

- So, we've established that KORUS makes economic sense and also has the potential to accelerate an economic recovery. But we've got to look at the other side of that coin too. The dangerous flip side is that *delay is costly*. In trade, there is no such thing as status quo. There is no such thing as standing still. Doing nothing means we lose ground. Four points, which I'll elaborate on, illustrate this.
- First, we are *already* losing ground in South Korea.
  - We were once South Korea's most important trading partner. That is no longer true.
  - South Korea's bilateral trade with China, Japan, and the EU, respectively, has each overtaken that with the United States.
- Second, our shrinking slice of the pie looks like it will be getting even smaller.
  - South Korea is close to concluding an FTA with Europe and is negotiating with Canada. These agreements, when implemented, will significantly disadvantage U.S. exporters. Why? Roughly 70 percent of the United States' key exports to South Korea, or roughly \$37 billion in 2007, compete head to head with European and Canadian exports in the South Korean market.
  - When South Korea implements those agreements, our competitors' access to the South Korean market will further improve.
  - And China is seeking FTA negotiations with South Korea as well.
- Third, KORUS presents a golden opportunity for the United States to set an anchor in the fast-growing Asia-Pacific region.
  - Implementation of the FTA would send a pro-reform, pro-rule of law message to other East Asian economies, particularly China.
  - In addition, KORUS would provide a hub or operations base for U.S. companies—particularly financial services companies—to find and tap into important growing markets.
  - Without KORUS, however, our competitors will quickly fill the void.
- Fourth, not moving forward on KORUS is to miss an important opportunity to demonstrate our commitment to the nation of South Korea and to send a

powerful message to North, which is now trying to drive a wedge between us and our longtime ally on the peninsula.

- The U.S.-ROK strategic partnership is critical to peace and stability in Northeast Asia, which is in not only the U.S. interest, but the world interest as well.
- The nature and strength of the partnership is being tested—it's that simple. I have no doubt that recent actions by North Korea to raise tensions will strengthen, not weaken, the U.S.-South Korean bond. But to waver on the FTA at a time when North Korea is overtly testing the mettle of the bond, to me, sends exactly the wrong message at exactly the wrong time.
- As an aside, let me expand a little bit on this relationship between the economic side and the security side. We're told by opponents of KORUS time and time again not to associate their antagonism toward the FTA with a weakening of their commitment from the overall bilateral relationship. I've got to be honest, I don't know what to make of that instruction. KORUS is very important to South Korea. A lack of interest from the U.S. side in figuring out a way forward diminishes the relationship. Does it jeopardize the alliance? No. But it takes a significant toll.
- So, to summarize, we've established that moving forward with KORUS would have economic benefits and that delay is costly. This brings us to the key question: What needs to happen to get this agreement passed?
- To answer this question, I'll start with an anecdote. You all may know that Kia has plans to open a new plant in Georgia this year. In April, the *New York Times* published a photograph of a sign on a lawn in West Point, Georgia, that read, quote, "Thank you Jesus for bringing Kia to our town."
- Now, hold on, I know what you all are thinking. Let me assure you that I don't believe the prospects for KORUS depend on divine intervention. But I would say that while I would vote for the agreement tomorrow, the political reality is that Congress isn't ready for KORUS in its current form. And the road ahead is going to require some hard work and creativity to resolve some tough, outstanding issues.
- First, several Members have raised concern with respect to non-tariff barriers (NTBs) in South Korea, particularly in the auto market. While KORUS eliminated the two known key NTBs and established a process for monitoring new NTBs in the future, some Members believe a stonger framework is necessary.

- Second, on beef, South Korea has not yet fully implemented an April 2008 protocol that would have opened the South Korean beef market to all U.S. beef, regardless of age, consistent with international standards and sound science. While under-30 month beef is selling well in South Korea, which is now the largest export market for U.S. beef outside of North America, a pathway toward a full reopening of the South Korean beef market is still important.
- On the positive side, I think the Obama Administration has said the right things. According to the White House, when President Obama and President Lee met in April, the two men committed to work together to chart a way forward on KORUS. And Ambassador Kirk said in May that USTR plans to consult with Congress, U.S. stakeholders, and his South Korean counterpart Minister Kim to determine how to move the agreement forward.
- I am glad that USTR and the President recognize that their role is critical to break the current gridlock. But understanding that a solution is necessary is not the same thing as aggressively pursuing the resolution. One gets the sense that pursuit of the resolution isn't happening as quickly as current economic, political, and geopolitical circumstances demand. Chairman Baucus and Senator Grassley urged the President in April to, quote, "begin the hard work of winning broad approval of the U.S.-Korea FTA without delay."
- I don't get the sense that that's happened.
- Our experience with the Panama FTA, unfortunately, is illustrative. That relatively noncontroversial agreement seems to have fallen off the triage, and my fear is that other trade initiatives, particularly larger, more complicated agreements, like KORUS, have fallen with it. I think many around the world are starting to get the sense that the United States and its new Administration are all talk and no action, and that delay has become the default.
- Let me take this opportunity to be clear about my position: Time is not on our side. If there are problems with the FTA, then the interested parties should hunker down now and fix them. Slow-walking KORUS cannot be an option.
- I'll close by echoing the words Ambassador Kirk offered at his speech at Georgetown University a couple months ago, quote: "Now is not the time to be timid." End quote. I couldn't agree more, but I'd also like to see the Administration back that up.
- I'll stop there, and I look forward to your questions.