FIFTH THIRD BANK

INTERNATIONAL INSIGHTS

Free Trade With South Korea, Colombia and Panama: The Impact

The United States completed negotiations and signed free trade agreements (FTAs) with Colombia in November 2006, and with Panama and South Korea in June 2007.[1] After much political wrangling, these agreements became stalled in Washington, D.C.

However, after various changes were made to the deals, in mid-October, with large bipartisan support, the United States' House and Senate approved the FTAs with all three countries. Soon afterward, on October 21st, President Obama signed legislation to implement the new accords. The governments of Panama, Colombia and South Korea approved their bilateral deals and now must demonstrate compliance.[2]

Fifth Third Bank's David Roden (right) Honorary Korean Consul, greets South Korean President Lee Myung-bak (left) upon his arrival in Detroit in October of this year.

The U.S. Chamber of Commerce anticipates American exports to all three countries will increase by approximately $13 billion annually. And the Business Roundtable, an association of chief executive officers of leading U.S. companies, estimates that the agreements will create 250,000 new jobs. The U.S. Chamber of Commerce puts this figure even higher, and concludes that the implementation of the three new trade accords will prevent the loss of 380,000 jobs to foreign competitors.

Most Significant FTA in Nearly Two Decades

The U.S.-South Korean pact, known as KORUS FTA, is expected to generate $10 billion to $11 billion in additional U.S. exports annually. Upon entry into force, KORUS FTA will be the first free trade agreement with a major Asian economy and the most commercially significant deal in 16 years, according to the United States Trade Representative. In fact, the United States International Trade Commission estimates that America's economic output will grow more from KORUS FTA than from the last nine U.S. trade agreements combined. South Korea, which has an economy close to $1 trillion, is the United States seventh largest trade partner and world's 12th largest economy.[3]

Currently, Korean tariffs on American non-agricultural exports are twice as high (6.6 percent) as American tariffs (3.2 percent) on similar Korean imports.[4] The good news: under the agreement, nearly 95 percent of bilateral trade in consumer and industrial products will become duty free within five years of the implementation date. And remaining tariffs will be phased out within 10 years.[5]

American manufacturers of medical equipment, information technology, environmental goods and machinery and others that have come to rely on the Korean market for export sales should benefit, the United States Trade Representative says. In the automotive sector, in December 2010, Korea agreed to a number of improvements to the accord that are expected to enhance market access for U.S. auto companies. In turn, the agreement has received the endorsement of all major automakers and the United Auto Workers, the Business Roundtable says.

In 2010, South Korea imported $5.3 billion in U.S. agricultural goods from the United States. As a result, that country ranks as America's fifth largest agricultural customer and fourth largest market for U.S. beef, the United States Trade Representative reports. This occurred even though American agricultural products were subject to an average Korean tariff of approximately 50 percent. The same Korean agricultural products were subject to an average U.S. tariff of only 9 percent.[6]

Once KORUS FTA is implemented, almost two-thirds of U.S. agricultural exports to South Korea, by value, immediately will become duty free.[7] In turn, KORUS FTA is anticipated to boost U.S. agricultural exports by $1.9 billion to $3.8 billion annually due to increased sales of major grain, oilseed, fiber, fruit, vegetable, and livestock products.[8]

David Roden, Fifth Third Bank Group Manager and Korean Honorary Consul, sees many opportunities for American farmers. Stated by David, “Due to KORUS FTA, the United States will be able to achieve a prominent position in Korean markets that were previously protected.”

KORUS FTA will give American service exporters “meaningful access” to Korea’s $580 billion services market. This is expected to benefit U.S. providers of financial, express delivery, legal, accounting, health care, and education services.[9] In the financial services sector, for example, the trade accord is anticipated to increase U.S. access to the South Korean market and ensure greater transparency and fair treatment for American companies.[10] Importantly, financial services, including banking, insurance and brokerage services, are guaranteed the right to full American ownership of financial institutions in Korea, the Business Roundtable says.

Colombia and Panama

The U.S.-Colombia Free Trade Agreement will provide U.S. producers duty-free access to the Colombian market for more than 80 percent of consumer and industrial goods upon implementation of the deal. Remaining tariffs will be phased out over ten years. In addition, Colombia has agreed to provide duty-free access to more than two-thirds of current U.S. agricultural exports when of the accord goes into effect.[11]

Upon implementation of the U.S.-Panama Free Trade Agreement, 88 percent of U.S. goods will receive duty-free treatment. Top U.S. exports to Panama include aircraft, machinery, oil, corn, soybean meals, wheat, and rice.[12]

More FTAs Will Boost Competitiveness

On July 11, 2011, South Korea entered into a free trade accord with the European Union. In the first three months after implementation, European Union exports to South Korea increased by nearly 28 percent over the same period the previous year.[13] Without KORUS FTA, European Union producers would have been given a significant competitive advantage over U.S. companies. And since many European and U.S. companies compete head-to-head in the Korean market, U.S. companies, farmers and workers certainly would have felt the disadvantages.[14]

The United States has been relatively slow to establish regional trade accords. For example, from 1989 through 1994, the United States established free trade agreements with Canada, Mexico and Israel. In the past decade, agreements with 14 additional nations were signed and implemented. In 2010, these 14 countries accounted for $96.4 billion in U.S. goods exports and $71.3 billion in imports, according to Dan Griswold, an author and analyst at the Cato Institute, a Washington, D.C.- based think tank.

Prior to the free trade agreements with South Korea, Panama and Colombia, there were 313 regional trade agreements in force around the world.[15] Although the three new deals bring the total number of U.S. free trade accords to 14 involving 20 partners, nearly 300 existing trade accords exist without American participation. This, no doubt, has put American companies at a competitive disadvantage. On the global stage, U.S. goods will continue to be subject to relatively higher foreign trade barriers, which increase their landed prices and decrease their attractiveness.

The World Trade Organization reports that trade agreements are becoming more complex and evolving towards deeper integration that extends well beyond tariff reductions. Thus, today’s trade accords involve domestic policies such as regulations on services and investment, intellectual property protection and competition policy.

Although some U.S. businesses will incur greater competition, the free trade accords with South Korea, Panama and Colombia are projected to boost overall output and create jobs in an environment of slow economic growth. Importantly, the FTAs signify that the United States is willing to re-engage in free trade and pursue deeper global involvement that benefits American producers, consumers and workers.

For information on financing your exports to South Korea, Panama and Colombia, as well as other countries, contact David Roden at 248-603-0423, or email David.Roden@53.com.

Footnotes

1. Trade Partnership Worldwide, LLC, 2. Sandler, Travis & Rosenberg, P.A., 3. United States Trade Representative, 4. Ibid, 5. Ibid, 6. Ibid, 7. Ibid, 8. Ibid, 9. Ibid, 10. Ibid, 11. Business Roundtable, 12. Ibid, 13. Ibid, 14. Ibid, 15. World Trade Organization