

U.S. and South Korea in Landmark Trade Deal

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United States and South Korean negotiators struck the world's largest bilateral free trade agreement on Monday, giving the United States a badly needed lift to its trade policy at home and South Korea a chance to reinvigorate its export economy.

Negotiators announced the agreement, the culmination of a 10-month effort.

"This is a strong deal for America's farmers and ranchers, who will gain substantial new access to Korea's large and prosperous market of 48 million people," Karan K. Bhatia, the deputy United States trade representative, said in Seoul Monday .

"Neither side obtained everything it sought," he added.

If ratified, the trade deal would eliminate tariffs on more than 90 percent of the product categories traded between the countries. South Korea agreed to lift trade barriers to important American products like cars and beef, while the United States agreed to allow Seoul to continue to subsidize South Korean rice.

The agreement is a significant victory for the Bush administration, which needed a prominent deal with clear benefits for American producers to shore up support for bilateral trade pacts with Panama, Peru and Colombia, which have thus far received a cool reception from a skeptical Congress.



Lee Jin-man/Associated Press

Wendy Cutler, the assistant United States trade representative, and Kim Jong-hoon, the chief negotiator for South Korea, after the trade agreement was concluded Monday.

Free trade between the United States and South Korea — the world's largest and 11th-largest economies, respectively — could give American companies an important stronghold in Asia, where they have steadily ceded market share to European, Japanese and Chinese competitors.

The deal may also prompt a wave of bilateral trade pacts as an alternative to stalled multilateral negotiations under the World Trade Organization, economists said Monday.

As South Korean workers and farmers protested in the streets — on Sunday, one man even set himself on fire — negotiators haggled to the end early Monday.

The breakthrough came when both sides compromised on the most delicate deal-breaking issues. Washington dropped its demand that the South Korean government stop protecting its politically powerful rice farmers, and Seoul agreed to resume imports of American beef, halted three years ago over fears of mad cow disease, if, as expected, the World Organization on Animal Health declares United States meat safe in a ruling next month.

South Korea also agreed to phase out the 40 percent tariff on American beef over 15 years. It will remove an 8 percent duty on cars and revise a domestic vehicle tax system that United States officials say discriminates against American cars with bigger engines.

The United States will eliminate the 2.5 percent tariff on South Korean cars with engines smaller than 3,000 cubic centimeters; phase out the 25 percent duty on trucks over the course

of 10 years; and remove tariffs, which average 8.9 percent, on 61 percent of South Korean textiles.

Both sides also agreed to discuss the treatment of goods made at an industrial park in Kaesong in North Korea, a capitalist experiment by South Korea in engaging its neighbor. The project has drawn criticism from the United States.

The trade deal "will generate export opportunities for U.S. farmers, ranchers, manufacturers and service suppliers, promote economic growth and the creation of better-paying jobs in the United States," President Bush said in a letter notifying Congress of his intention to sign the accord.

President Bush said that the trade pact would strengthen ties between the countries — an assessment shared by analysts who had repeatedly warned that the alliance, forged during the Korean War, has frayed during the terms of Mr. Bush and President Roh Moo-hyun of South Korea, largely over policy toward North Korea.

The deal is the biggest of its kind for the United States since the North American Free Trade Agreement in 1994 with Canada and Mexico. It is Washington's first bilateral trade pact with a major Asian economy.

Studies have estimated that the accord would add \$20 billion to bilateral trade, estimated last year at \$78 billion. Potential gains to the United States economy range from \$17 billion to \$43 billion, according to Usha C. H. Haley, director of the Global Business Center at the University of New Haven. South Korea's exports to the United States are expected to rise in the first year by 12 percent.

Analysts doubt that the deal will provide an immediate lift to American car manufacturers. Only 5,000 American cars were sold here last year, while South Korean automakers sold 800,000 vehicles in the United States. The gap accounted for 80 percent of the \$13 billion United States trade deficit with South Korea last year.

American officials hope that the deal will placate American cattle farmers, who are struggling to recapture global market share after an outbreak of mad cow disease in late 2003. Before the import ban, South Korea was the world's third-largest consumer of American beef, importing \$800 million a year.

Consumers in both countries are the deal's biggest winners. Hyundai cars and Samsung flat-panel TV sets, as well as Korean-made clothing, will become significantly cheaper in the United States.

American beef and oranges, as well as Ford cars and Toyota vehicles built in the United States, will be more affordable in South Korea. South Korean TV networks will be able to broadcast more American movies and TV series like "CSI," which already command a huge following here, after Seoul eases a cap on foreign content to 80 percent of total airtime from 75 percent.

The deal entails heavy political costs for South Korea, which can expect the loss of tens of thousands of farming jobs. Up to 2 trillion won (\$2.2 billion) in agricultural revenue will be lost as cheap American corn, soybeans and processed foods come in, according to studies by South Korean economists.

Once hailed for seeking a greater distance from Washington, President Roh now stands accused by his leftist supporters of turning his country into the 51st state of the United States.

But the South Korean government is desperate to reverse a decline in its competitiveness, as a resurgent Japan outspends it in research and development, and China offers an ever-increasing variety of goods produced with cheap labor.

"President Roh believes the free trade agreement with the United States will serve as a springboard for South Korea to become an advanced economy," said Mr. Roh's spokesman, Yoon Seung-yong.

The Bush administration wanted to conclude negotiations with South Korea before its authority to send fast-track agreements to Congress expired July 1. Congress must ratify or reject a trade deal submitted under the special authority, but cannot amend it.

Originally, United States officials said a deal with Seoul needed to be concluded by March 31 in order to take advantage of that fast-track authority, but later said the deadline was April 1. Soon after midnight Sunday, the White House released Mr. Bush's letter to Congressional leaders, dated April 1.

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