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Landmark U.S.-Korea Free Trade Agreement Enters Into Force

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Effective March 15, 2012 entry into force of the **U.S.-Korea Free Trade Agreement (KORUS)** marks a historic milestone in the economic integration of the United States and Korea. Companies with U.S.-Korea business interests should carefully plan to take full advantage of the many opportunities KORUS presents.

Effective March 15, 2012, with justifiable fanfare, the United States and South Korea bring into force the **U.S.-Korea Free Trade Agreement (KORUS)**, marking an important and historic milestone in the economic integration of these two major trading partners. With two-way trade already valued at more than US\$85 billion annually, KORUS is the most commercially significant U.S. free trade agreement (FTA) since the North American Free Trade Agreement (NAFTA). Businesses across industries in both countries stand to benefit immediately, and over the long term, from the trade liberalizing commitments in KORUS. Companies with U.S.-Korea business interests should carefully plan to take full advantage of the many opportunities KORUS presents.

KORUS offers substantial opportunities for U.S. and Korean farmers, ranchers, manufacturers and service providers to expand the already robust bilateral trade relationship. Once KORUS is fully implemented, it is expected to boost U.S. exports to Korea by US\$10-\$11 billion, and Korean exports to the United States by nearly US\$7 billion. The U.S. International Trade Commission (ITC) estimates the U.S. gross domestic product will likely increase by US\$10-\$12 billion as a result of tariff reductions in the agreement.

As with all FTAs, tariff elimination is a key element of KORUS. Beginning today, bilateral trade covering 80 percent of U.S. and Korean tariff lines is duty free. Within five years, 93 percent of U.S. tariff lines and 92 percent of Korean tariff lines will be duty free, and within 10 years 99 percent of U.S. tariff lines and 98 percent of Korean tariff lines will be duty free.

KORUS also provides meaningful benefits beyond duty reduction, including the elimination of non-tariff barriers and the opening of a wide range of service sectors covering energy, entertainment, audio-visual, health care, financial services, insurance, professional services (e.g., legal, accounting), distribution, express shipment and telecommunications. Importantly, KORUS also establishes state-of-the-art protections of intellectual property rights and creates a transparent, rules-based dispute settlement regime.

The agreement's entry into force presents new advantages for virtually all sectors of the U.S. and Korean economies, including agriculture, chemicals, plastics, pharmaceuticals, industrial goods, high technology, medical devices and a full range of service providers.

Summary of Key Benefits

U.S. Exports to Korea

The ITC estimates the largest increases in U.S. exports are likely to be in machinery and equipment, chemicals, rubber, plastics and beef. Regarding automotive trade, long one of the most contentious bilateral trade issues,



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the arrangements reached in December 2011 provide that Korea's 8 percent car tariff will be cut in half immediately, then phased-out entirely in 2017, while the United States' 2.5 percent car tariff will remain until 2017, when it will be fully eliminated.

U.S. Imports from Korea

The largest increases in U.S. imports from Korea are likely to be in textiles and apparel, footwear, leather products, machinery, electronics and transportation equipment. Computers and most information technology products exported from Korea to the United States are already duty free under the World Trade Organization (WTO) Information Technology Agreement.

Agriculture

The United States is currently Korea's top supplier of agricultural products, and KORUS creates new opportunities for U.S. farmers, ranchers and food processors by eliminating tariffs and addressing non-tariff barriers for key exports, including citrus, dairy and processed foods. U.S. beef also could be a big winner, as reductions in Korea's 40 percent tariff and continued adherence to the bilateral beef market access protocol reached in 2008 will further boost exports.

Services

KORUS introduces market-liberalizing disciplines throughout the services sectors and all modes of supply, which will allow new and improved access in both markets for U.S. and Korean service providers in areas as diverse as audio-visual, health care, hospitality, distribution, express delivery, insurance, financial services, legal, brokerage, energy, telecommunications and electronic commerce.

Investment

KORUS increases investment opportunities for U.S. and Korean companies by establishing rules-based disciplines covering fair and equitable treatment of cross-border investments; expropriation and nationalization; transfers of capital, profits, dividends, capital gains, interest and royalty payments; limitations on performance requirements and conditions on senior management and boards of directors; and incorporation of strong investor protections through an investor-state dispute settlement regime, which provides a credible mechanism for investors to enforce their rights.

Government Procurement

KORUS implements commitments beyond those in the WTO Government Procurement Agreement that will expand and improve access for U.S. and Korean firms to each other's enormous government contracts markets, valued in the hundreds of billions of dollars annually. Among other key elements, KORUS reduces current government contract thresholds by half, making it easier for firms to compete for procurements.

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