

## **KORUS LEADS THE WAY**

By Stephen Jacobi<sup>1</sup>

*Is Korea the new poster child for trade liberalisation ?*

While the World Trade Organisation (WTO) negotiations continue to languish, attention is turning to the groundbreaking agreement signed between the United States and Korea at the end of March.

“Korus” as it is known is significant for several reasons. First, it is a very big deal indeed, covering US\$75 billion in two way trade, and as such is the biggest bilateral deal concluded since NAFTA in 1993. Second, it was concluded within hours of the effective expiry of the US President’s trade negotiating authority and in the face of significant opposition from some sectors in Korea, especially farmers. And third, the agreement positions Korea at the centre of a new impetus for trade liberalisation in the Asia Pacific region: with Korea already looking at possible new deals, including with the EU, even Japan is coming under pressure from its own business lobby to conclude free trade agreements with major trading partners including the United States.

Where might all this lead ? There is increasing likelihood that the WTO’s Doha negotiations, if they can be finished at all by year end, are going to fall short of the high expectations that were set when the round was launched in November 2001. That will inevitably focus renewed attention on bilateral and regional deals. Just this week Canada, which has not concluded an FTA for the last six years, announced a new deal with the six members of the European Free Trade Association (EFTA). Canadian Trade Minister David Emerson announced Canada would also seek agreements with Korea, Singapore, Vietnam and Indonesia, saying that Canada risked being left behind by the US, Australia and Chile.

What is most interesting at this point is that countries, like Korea, once reluctant to embrace the concept of freer trade on account of their highly protected sectors are now at the centre of the game. And the stakes in the game are becoming significantly raised as larger countries now seek to conclude these deals between themselves.

As always for the wood industry there are pluses and minuses. These were highlighted in the American Industry Trade Advisory Committee’s reaction to Korus. While the industry welcomed the deal – “we support any bilateral, regional or multi-lateral trade negotiations that advance our core objective of eliminating tariffs on forest products” – it expressed disappointment that achievement of this core

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objective was not accomplished. Rather than immediate tariff elimination, Korus provides for a phase out of tariffs within a 3-10 year timeframe.

The wood industries in New Zealand and Australia have good reason to watch this development carefully. Both countries are interested in a possible FTA with Korea and Australia has moved ahead of New Zealand in entering negotiations with Japan. Korea is an important market for logs but could become more significant as a market for added value products if, somewhat like the Chinese, Koreans, with American and Canadian encouragement, embrace the use of wood in construction. That was the rationale for the former Forest Industries Council supporting a project to translate New Zealand's building standards into Korean. Continuing to influence the perceptions of wood in Korea could be a sensible investment for an industry concerned about future demand for its products.

Trade negotiations often seem removed from the realities of everyday business. Industries as well as governments need to have some capacity to keep abreast of developments and try to position themselves to take advantage of major shifts in international trade conditions. The entry of Korea and Japan into the freer trade business – however phased in terms of tariff reductions – could be one of these shifts.