

## The Korean Free Trade Agreement and the California Exporter

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Over the last month the U.S. dollar has risen in value as the Federal Reserve seems to have shifted gears away from the weak economy and credit crunch to fighting inflation. Recently with commodity prices soaring and the U.S. dollar near all-time lows, the Fed through a series of speeches primarily by Chairman Ben Bernanke seems to have shifted gears toward fighting inflation expectations and the weakening U.S. dollar. While the markets do not anticipate any official change in interest rates for quite a while, market rates are ramping up in anticipation of Fed action. The U.S. trade picture continues to be the one bright spot for the U.S. economy and has helped to stabilize the U.S. dollar. U.S. exports continue to increase rapidly due to higher growth rates abroad combined with the relative cheapness of U.S. goods compared with goods from other G7 countries.

On April 1, 2007, the United States and Republic of Korea (South Korea) successfully concluded a free trade agreement that will create economic and trade opportunities for both countries. The U.S.-Korea Free Trade Agreement (also known as KORUS FTA) is a trade agreement between the United States and Korea that, if ratified, would be the second largest trade agreement ever for the U.S. after NAFTA.

What are free trade agreements and what do they mean for your business? Simply put, Free Trade Agreements (FTAs) can help a company enter and compete more easily in the global marketplace by effectively leveling the international playing field, and encouraging foreign governments to adopt open and transparent rulemaking procedures and non-discriminatory laws and regulations. FTAs help

eliminate or reduce tariff rates, improve intellectual property regulations, open government procurement opportunities and ease investment rules. Today, the U.S. has FTAs with 14 countries, and FTAs pending with Panama, Colombia, Oman and Korea.

The KORUS FTA is particularly important. Korea is the world's tenth largest economy, with a GDP of nearly \$1 trillion. Korea is already the United States' seventh largest goods trading partner, with two-way goods trade in 2006 valued at approximately \$72 billion. When implemented, the KORUS FTA will expand trade and investment flows between the two countries across many sectors, particularly agriculture, industrial goods, consumer products, automobiles and textiles. Of importance to California, on ratification, almost two-thirds of agricultural exports will be immediately duty-free. Within the next three years, nearly 95 percent of U.S. exports of consumer and industrial products – including computers, electronic products, auto parts, power generation equipment, chemicals, medical and scientific equipment and certain wood products – will enter Korea duty-free. Most remaining tariffs will disappear within 10 years.

The California economy increasingly depends on world markets. In 2007, with exports of more than \$134 billion, California ranked second only to Texas (with \$168 billion) in terms of total state exports. California exports specifically to Korea in 2007 topped \$7.4 billion in aerospace, industrial and consumer goods alone. Export-supported jobs linked to manufacturing account for nearly 5 percent of California's total private-sector employment and about 20 percent of all manufacturing jobs.

At City National Bank, we actively leverage the benefits of all U.S. FTAs for our clients. We are ready to help them export worldwide with export working capital finance to support production of goods for export and the resulting global accounts receivable. Should clients' foreign buyers prefer invoicing in their own local currency, City National also offers a comprehensive foreign exchange suite to serve them.

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