



FACT SHEET

South Korea-U.S. Economic Relations



South Korea is a major economic partner for the United States. In 2006, trade between the two countries surpassed \$75 billion, making South Korea the United States's seventh-largest trading partner — ahead of France and Italy — and its seventh-largest export market. In 2006, the U.S. was Korea's third-largest trading partner, second-largest export market, and its second-largest supplier of foreign direct investment (FDI).

Bilateral economic relations have advanced to the point that the two sides in February 2006 announced their intention to negotiate a bilateral free trade agreement (FTA), which they hope to complete in 2007. If an agreement is reached, it would be the United States's largest FTA since the completion of the North American Free Trade Agreement. To go into effect, FTAs must be approved by Congress and the Korean National Assembly. The FTA negotiation and ratification processes are likely to politicize bilateral trade disputes and produce spillovers between the economic and strategic aspects of the relationship, particularly if there are dramatic developments in the crisis over North Korea's nuclear weapons program.



Increased U.S.-South Korean economic interaction has been accompanied by numerous disagreements over trade and economic policies. The intensity of the disputes has diminished considerably since the late 1980s and early 1990s, in part because South Korea has enacted a set of sweeping market-oriented reforms as a quid pro quo for receiving a \$58 billion package from the International Monetary Fund (IMF) following the near collapse of the South Korean economy in 1997. In recent years, the United States and South Korea appear to have become more adept at managing their trade disputes, so that they tend to be less acrimonious than they were in the 1980s and 1990s. This is due in part to the quarterly, working-level bilateral trade meetings that have been held since early 2001. Strategic factors, including South Korea's increased economic integration with North Korea, have become issues on the bilateral U.S.-South Korea economic front. In the FTA talks, South Korean officials are attempting to secure preferential tariff treatment for goods made by South Korean firms in the Kaesong industrial zone, located inside North Korea. In 2003, China surpassed the United States as South Korea's largest trading partner. Many South Korean exports to China are believed to be intermediate goods that are incorporated into products sent to the United States.



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