

The Impact of KORUS on the U.S. Wine Exports

Abstract

On February 2, 2006, the U.S. Trade representative announced its intent to negotiate a free trade agreement (FTA) with the Republic of Korea (Korea). On April 1, 2007, the U.S. and Korea concluded this historic FTA. The FTA between Korea and the U.S. (KORUS) is a comprehensive trade agreement that will eliminate tariffs and other barriers to trade in goods and services, promote economic growth, and strengthen economic ties between the U.S. and Korea. The KORUS is the most economically significant FTA for the U.S. since NAFTA. Korea is a \$1 trillion economy and the 7th largest U.S. trading partner.

Within the first three years after implementing the KORUS, 95 percent of consumer and industrial products will become duty-free. The remaining tariffs will be eliminated within 10 years. This FTA will benefit farmers and ranchers by immediately eliminating duties on more than half of current U.S. farm exports to Korea on the date the FTA enters into force. In case of the U.S. wine exports, Korea will immediately eliminate 15 percent of current tariff on the date the FTA enters into force.

Based on Korean wine consumption and imports data, this paper uses a vector error correction model and forecasts that KORUS will increase additional 11 percent of Korean demand for the U.S. wine after implementing the FTA between the U.S. and Korea.