



GLOBAL IMPACT



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NEW TRADE AGREEMENTS SIGNED WITH SOUTH KOREA, COLOMBIA AND PANAMA

WHAT IS THE IMPACT ON YOUR BUSINESS?

Dear Friends:

The United States recently signed free trade agreements with South Korea, Colombia and Panama. According to the United States Trade Representative, they represent the most commercially significant trade deals in 16 years. Read how your company may benefit. (p1-2)

These are difficult times for marinas and boat dealers. With consumer demand modest, the industry is focusing on retaining and attracting new customers. Read about strategies you can employ. (p3)

Due to its financial crisis, many are wondering the fate of the eurozone. How many of its problems are due to a failure to adapt to globalization or put on Thomas Friedman's golden straitjacket? (p4).

We hope you enjoy this issue and, as always, welcome your comments.

Sincerely,

John A. Rowney
Divisional President
Ocean Marine Division

In October, the United States signed free trade agreements with South Korea, Colombia and Panama. According to the United States Trade Representative, they are the most commercially significant in 16 years.

Why? The U.S. Chamber of Commerce estimates the accords will increase American exports to these countries by \$13 billion annually. And the Business Roundtable, an association of leading U.S. companies, says the three deals are anticipated to create 250,000 new jobs in the United States. The U.S. Chamber puts this figure higher, and says the implementation of the accords also will prevent the loss of 380,000 jobs to competitors. What is the impact on your business?

SOUTH KOREA

The Korean-U.S. free trade deal, known as KORUS FTA, by far has the biggest impact of all three agreements. With an economy close to \$1 trillion, South Korea is the world's 12th largest economy and the United States' seventh biggest trading partner. As a result, it is estimated to generate \$10 billion to \$11 billion of the projected \$13 billion in annual export gains. This agreement also marks the first major trade deal with an Asian country.

In the agricultural sector, a number

of trade-enhancing improvements are expected to significantly benefit American farmers. Thus, American agricultural products are subject to an average Korean tariff of approximately 50 percent. U.S. tariffs on the same Korean products are subject to an average of only 9 percent. Upon implementation of the accord, nearly two-thirds of American agricultural exports to Korea will become duty-free.^a

Korea is a very important market. It ranks as America's fifth largest agricultural customer and fourth largest market for U.S. beef.^a

In 2010, South Korea imported \$5.3 billion in U.S. agricultural goods from the United States. The significant tariff reductions noted above are projected to boost yearly U.S. exports of major grain, oilseed, fiber, fruit, vegetable, livestock products and other agricultural goods by \$1.9 billion to \$3.8 billion, says the U.S. International Trade Commission.

On average, Korean tariffs on American non-agricultural exports are 6.6 percent. American tariffs on similar Korean imports are considerably less, at 3.2 percent on average.^a

Within five years after implementation of the accord, nearly 95 percent of bilateral trade in consumer and industrial products will become duty free.

The remaining tariffs will be phased out

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within 10 years.

Interestingly, the United States maintains a surplus in manufactured goods with its current free trade partners.^b Lower Korean tariffs on American manufactured goods will help increase that flow to Asia. This includes American medical equipment, information technology, environmental goods, and machinery. And stronger intellectual property protection, afforded under KORUS FTA, will help prevent piracy of American technology.

In the automotive sector, additional negotiations concluded in December 2010 resulted in increased U.S. protection from imported Korean automobiles, reports the Peterson Institute for International Economics, a Washington, D.C.-based think tank. In turn, the agreement has received the endorsement of all major auto producers and the United Auto Workers.^b

KORUS FTA will give American service exporters greater access to Korea's \$580 billion services market. This is expected to benefit U.S. providers of financial, express delivery, legal, accounting, health care, and education services.^a

In the financial services sector, for example, the trade accord is anticipated to increase U.S. access to the South Korean market and ensure greater transparency and fair treatment for American companies. Importantly, banking, insurance and brokerage services are guaranteed the right to full American ownership of financial institutions in Korea.^b

COLOMBIA

Colombia is the third largest economy in Central and South America. Under the U.S.-Colombia FTA, U.S. producers will receive duty-free access for more than 80 percent of consumer and industrial exports upon implementation of the deal.^a This includes agriculture and construction equipment, aircraft and parts, auto parts, fertilizers and agricultural chemicals, information technology equipment, medical and scientific equipment, and wood.^b Remaining tariffs on other products will be phased out over ten years.

The U.S. maintains a surplus in manufactured goods with its current free trade partners. Lower Korean tariffs on American manufactured goods will help increase that flow to Asia.

Colombia also has agreed to provide duty-free access to more than two-thirds of current U.S. agricultural exports when the accord goes into effect.^b This includes wheat, barley, soybeans, flour, high-quality beef, and all fruit and vegetable products.^a The accord also will provide U.S. companies access to Colombia's \$166 billion service industry.

PANAMA

Top U.S. exports to Panama include aircraft, machinery, oil, corn, soybean meals, wheat, and rice. Upon implementation of the U.S.-Panama Free Trade Agreement, 88 percent of

U.S. consumer and industrial goods will receive duty-free treatment.^b

Currently, 99 percent of Panama's agricultural exports to the United States enter duty free. Less than 40 percent of U.S. agricultural exports to Panama receive the same treatment. Upon implementation of the deal, nearly 60 percent of U.S. agricultural exports will receive duty-free treatment; tariffs on the remainder will be phased out over 15 years.^b

U.S. service firms will receive increased access to the Panama markets and various investment restrictions will be removed.

A LONG WAY TO GO

With the addition of South Korea, Panama and Colombia, the United States now has 14 free trade agreements involving 20 partners. However, the U.S. is not a participant in nearly 300 other trade accords. This has put American companies at a competitive disadvantage. Nevertheless, the new accords do signify that the United States is willing to re-engage in free trade agreements that benefit American producers, consumers and workers. ■

Source a: United States Trade Representative; source b: Business Roundtable.

A DIFFICULT TIME FOR MARINAS AND BOAT DEALERS

STRATEGIES TO IMPROVE BUSINESS

Marinas and boat dealers have been hard hit by the Great Recession, as well as Hurricane Irene and the Japanese tsunami. What can the industry do to improve business and reduce risk?

A POOR ECONOMY

Estimated revenues for marinas reached a high of \$4 billion in 2007. Since then, they have fallen to \$3.3 billion in 2009, according to the latest available Department of Commerce data. During this period, the number of marina establishments declined from 4,085 to 3,891; the number employed fell from 28,788 to 26,643.

More recently, anecdotal data seems to be more positive, as the maritime industry adapts to today's economic realities. Stated by Rodney Matteson, a Great American Insurance Divisional Assistant Vice President located in the Lake Mary, Florida, office, "Many marina and boat dealers I've spoken with feel their businesses are stabilizing."

Recently reported in the marine publication *Soundings Trade Only*, Thom Dammrich, president of the National Marine Manufacturers Association, says new boat sales trend directly with consumer confidence. The good news: the Consumer Confidence Index, which declined in October, improved in November. It now stands at 56.0 (1985=100), up from 40.9 in October, says The Conference Board, an independent business and research association. Overall, however, it is significantly down from 2007.

The news that U.S. gross domestic product (GDP) growth reached 2 percent in the third quarter is good news. It's well above the first half of 2011 and reduces concerns of a double dip recession. However, it's far from what's needed to significantly shrink the

high U.S. unemployment rate, which declined to 8.6 percent in November.

To really drive it down, the economy must produce many more jobs. A McKinsey Global Institute report says to return to pre-recession employment levels by 2020, the U.S. needs to create 21 million net new jobs this decade. This is a tall order.

In the 1970s, 1980s and 1990s, the net gains or total number of people employed in the United States rose by 20.9 million, 18.5 million and 16.1 million, respectively. In the last decade, the number of employed rose by less than 5.6 million, according to the Labor Department's Household data.

Due to the employment situation and various other factors, the Conference Board anticipates consumer spending to grow by 2.2 percent this year and 1.5 percent in 2012. What does this and the overall economic picture mean to the marine industry? Stated

"Many marina and boat dealers I've spoken with feel their businesses are stabilizing."

by Phil Keeter in *Soundings Trade Only*, most boat dealers remain conservative about their ordering in 2012.

NATURAL DISASTERS INCREASED COSTS

In 2011, natural disasters further injured the maritime industry. For example, in August, Hurricane Irene caused notable damage from North Carolina to New York City. And, according to the November 12th edition of the *Los Angeles Times*, "The long arm of a ferocious tsunami crashed into California and the Pacific Northwest on Friday, with 6 to 8-foot surges flooding beaches and harbors, splintering docks, crushing scores of boats in marinas and triggering evacuations of shoreline residents."

ATTRACT MORE CUSTOMERS

With consumer demand modest, marinas and boat dealers are focusing on retaining and attracting new customers. What strategies can they employ?

When selecting a marina, customers typically focus on several key factors. These include the quality and variety of services, knowledge and courtesy of the staff, and the condition and overall safety level of the facility. The greater the level of satisfaction with services provided, including year-round storage, boat launching, hauling, repairing and cleaning, mooring, and fueling, the more likely customers will be to sign-up or return.

Additionally, facilities that are exceptionally clean, in good condition, and hazard-free boost customer confidence. Plus, secure and unobstructed piers and walkways, and visible fire

protection provide a strong sense of safety. And very importantly, proper sewage facilities, an effective storm water system, good solid and liquid waste management, and prudent boat and fish cleaning control will protect against personal injury or costly damage to the environment.

In today's difficult economy, organizations need to do more with less. And taking preventive measures always makes good business sense. It can reduce the potential for costly environmental fines and penalties. For more information on the marine industry, how to enhance attractiveness and reduce risk, contact Ed Wilmot at ewilmot@gaic.com or (212) 510-0135. ■

HAS THE EUROPEAN FINANCIAL CRISIS REVEALED A FAILURE TO ADAPT TO GLOBALIZATION?

SOME EU MEMBERS DIDN'T PUT ON THOMAS FRIEDMAN'S GOLDEN STRAITJACKET

The 27 members of the European Union (EU) have different economies, fiscal disciplines, democracies, histories, values, and languages. Holding together a group this diverse is difficult in the best of times. Now, due to its financial crisis, many are wondering if the eurozone, the 17 EU member countries using the euro, will survive. Martin Wolf, an economist and *Financial Times* columnist, says the eurozone as designed, already has failed and has two options: to move toward a closer union or partial dissolution.

THE GOLDEN STRAITJACKET

EU efforts are underway to establish stricter fiscal controls to improve less disciplined members. In some ways, this is similar to putting on what *New York Times* columnist Thomas Friedman in 1999 called the "Golden Straitjacket."

When a country recognizes the rules of the free market and globalization, and decides to abide by them, it puts on the Golden Straitjacket. But to fit, Friedman said, countries must adhere to various policies to enhance national competitiveness, including shrinking the size of bureaucracy and maintaining a balanced budget. Today, one could argue that Greece and other eurozone members haven't donned the straitjacket or, in some ways, adapted to globalization.

TO ADAPT OR NOT TO ADAPT

Globalization is the integration of national markets through international trade and investment. Based on capitalism and powered by advances in telecommunications, transportation and finance, global integration has boosted competitiveness, productivity, innovation and standards of living. Plus, since 2005, the world poverty rate has declined by approximately 70 million people each year, a number equal to the population of Turkey, and globalization is responsible, says Geoffrey Gertz of the Brookings Institution, a Washington, D.C.-based think tank.

But global integration also presents difficult challenges similar to those introduced by the industrial revolution. The shift from an agrarian society to an industrial economy compelled people and organizations to adapt to the new economic reality or face harsh consequences. Today, globalization places demands no less daunting.

Stated by Friedman, "The relative decline of the United States in the 1980s was part of America's preparing itself for and adjusting to the new globalization system." The European Union, on the other hand, may not have adapted to the same extent.

In 2006, Jason Saving, a senior research economist and advisor at the Federal Reserve Bank of Dallas,

said, as globalization heated up in the 1980s and 1990s, the cost of inflexible European labor markets and other less competitive policies led to lower output, slower job creation and foregone productivity. In turn, he continued, either the EU must liberalize its economy to compete in a globalized world, or band together to resist further liberalization, knowing that unemployment will become more prevalent and economic growth will remain slow.

Also in 2006, a *Brussels Journal* article by Martin De Vlieghere and Paul Vreyman said Europe's social model is unsustainable, unable to tackle the modern challenges of globalization, and is a social disaster unfolding. Today, others are echoing similar thoughts.

This year, Daniel Mitchell of the Washington, D.C.-based Cato Institute, stated "The welfare state was adopted earlier in Europe and government spending among euro nations now consumes a staggering 49 percent of economic output. This heavy fiscal burden, especially when combined with onerous tax systems, help explain why growth is anemic."

To what degree EU countries have adapted to globalization is uncertain. Nevertheless, one thing is sure: unless eurozone nations better grasp today's new economic realities and abide by similar fiscal policies, major difficulties will continue. ■

For more information on how we can help your business stay profitable, contact your agent or **Ed Wilmot** at (212) 510-0135 and ewilmot@gaic.com

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