



## Reviving the Korea-US Free Trade Agreement

*Jeffrey J. Schott assesses the prospects for approving the stalled trade accord after Presidents Obama and Lee pledged in Toronto to remove the impediments this year.*

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Steve Weisman: Is the Korea–United States Free Trade Agreement revived and likely to be approved in Congress this year or next? This is Steve Weisman at the Peterson Institute for International Economics with Jeff Schott, senior fellow here, who is an expert on that agreement among other trade negotiations, to discuss that. Jeff, thanks.

Jeffrey J. Schott: Thank you for having me.

Steve Weisman: The big news out of Toronto, on the trade front at least, was that President Obama and the president of South Korea announced that they would push to complete negotiations on revisions of this agreement, which was actually signed three years ago. What is the significance?

Jeffrey J. Schott: Today is the third anniversary of the signing of the Korea-US Free Trade Agreement and ratification has been delayed in both countries though it has advanced through the national assembly in Korea through some very important steps. It still has not been completed in either country. [In] three years, a lot of things have changed and neither country has been able to take advantage of the extensive new trade and investment opportunities that would be created once the obligations of the trade agreement enter into force.

Steve Weisman: Give me a sense of what some of those opportunities would be.

Jeffrey J. Schott: They're very extensive for the United States. In fact, after the agreement was signed, by law, the US Trade Representative had to request an analysis from the US International Trade Commission and the US ITC study showed that the agreement, when fully implemented, would increase US exports by 10 or 11 billion dollars a year.

So a very substantial increment over what we have now. Indeed, the Korea-US Free Trade Agreement would be the biggest bilateral agreement that the United States has entered into since the NAFTA. Major areas of advance—it's really across the board but particular attention should be given to the opening up of the Korean market for particular service exports from the United States, particularly financial services, insurance and the like, air express delivery services and—

Steve Weismann: Telecom too?

Jeffrey J. Schott: And telecom—really across the board and interestingly, the US agricultural sector would benefit enormously from this agreement because there is a substantial opening up of the Korean market.

Steve Weisman: As with all trade agreements, it's stalled because of fears that Korean imports would create problems for American producers, especially cars. That led to some criticism of the agreement in the Democratic primaries of 2008. What's the state of play on that?

Jeffrey J. Schott: Actually, the US negotiators and Korean negotiators did a very good job of consulting very closely with their domestic constituencies in crafting the terms of the agreement. And unlike many agreements, there isn't as big a concern about Korean penetration of the US market in part because the US market is already substantially open. The main areas of concern with the deal—where there has been criticism in the Congress—have involved autos and beef, and in both cases the ability of US exporters to access the Korean market. There hasn't been as much concern about Korean access to the US market in part because the US market is already substantially open.

Steve Weisman: Aren't American producers of trucks worried that the Koreans are going to move into that area and take away jobs?

Jeffrey J. Schott: There are extensive rights and obligations with regard to autos in the trade agreement, and the United States commits to eliminating its 2.5 percent tariff on autos. Korea's tariff is 8 percent and that will be eliminated, so there's a relative advantage for the United States in that liberalization. The United States also agreed, over a 10-year period, to incrementally eliminate the 25 percent duty on light trucks and SUVs, which is an extremely high tariff dating back to the 1963 Chicken War, when we imposed a high tariff in retaliation against Volkswagen.

And it's strange that 47 years later we still have that high tariff and now we're trying to apply it against goods from many other countries. This was, at the time that the agreement was being negotiated, one of the objectives of the Korean government—to try to seek the elimination of that high tariff as a way of encouraging investment in Korea in the production of light trucks and SUVs for export to the United States and other markets.

Of course, as you said in the interim, in the last three years, there have been dramatic changes in both the US and Korean markets. As a result of the economic crisis and the oil price shock of the last few years, the demand for these types of vehicles has been sharply reduced. And indeed, it seems unlikely that there would be a great incentive for investors to go and produce these types of goods in Korea for export. If there was a resurgence of demand, the Korean manufacturers may consider producing these types of vehicles in their assembly plants in the United States, which employ US workers.

Steve Weisman: What has changed to make President Obama suddenly more interested in concluding this agreement?

Jeffrey J. Schott: I think there are two very important changes just in the past year. The first, and perhaps the most important, is the political developments on the Korean Peninsula and the sinking of a Korean ship by North Korea. This has put in clear focus the importance for the United States of the strong alliance with South Korea, and I think both sides recognize that they don't want small political friction to send a signal to their adversaries that there is any chink in the armor in the US-Korean alliance. And so standing up with our strong ally is I think a very important consideration.

Second, there's also an economic component. While the United States has delayed acting on the Korea-US Free Trade Agreement, Korea has been very actively engaged with other countries and is on the verge of signing a comprehensive free-trade agreement with the European Union that is substantially modeled on the US agreement with Korea. In fact,

that was the basic document at the start of those negotiations. And so within a short period of time, perhaps even by the end of this year, European manufacturers will have preferences in the Korean market that originally were going to be given to US exporters.

Steve Weisman: And European providers of these financial services that you mentioned?

Jeffrey J. Schott: Financial services, automobile exporters, and other products as well.

Steve Weisman: Is it realistic for the United States to think about exporting automobiles or auto parts to Korea?

Jeffrey J. Schott: Not from US manufacturing plants, not in large quantities. We export a small number of goods—cars that are in demand in Korea. But most of the markets [that] US manufacturers serve, with the exception of North America—Canada and Mexico—are basically served from foreign manufacturing subsidiaries and there are very few US exports—from Detroit, from Ohio—that go across the oceans, with the exception of specialty vehicles that are sold in small quantities.

So, the US does sell, GM does sell a lot of cars in Korea and they are predominantly produced by the GM Daewoo Manufacturing subsidiary in Korea. And the market share of those goods, by the way, is about the same. GM's share of sales in the Korean market is about the same as sales by Hyundai and Kia in the US market.

Steve Weisman: What are the prospects of concluding the agreement this year?

Jeffrey J. Schott: I think the chief negotiators have been thinking about this for some time but haven't been given the green light to go ahead and start developing new initiatives that could address some of the political problems in both countries. Now that the two presidents have given that green light, I think there are opportunities to look at ways of augmenting the agreement or elaborating on specific rights and obligations in the agreement in ways that can promote additional trade and investment in each country and support additional employment.

And the auto sector is ripe for these types of initiatives. Companies in both countries have been working together on new engine technologies, on the development of electric batteries. And it seems to me that there should be some way of finding, with the support of alternative energy programs that have been developed in the United States, support for joint ventures that would lead to opening up new production facilities in the United States that would employ more workers. So, I think this can be a win-win for both governments building on a very solid foundation of the existing Korea-US Free Trade Agreement.

Steve Weisman: This year?

Jeffrey J. Schott: I think the negotiators can come up with a plan that both presidents could bless by the time they meet at the Seoul G-20 summit in the middle of November. And with appropriate consultation on both sides, I think it's quite feasible for the president to then be able to submit legislation—implementing legislation for the agreement to the new Congress when it convenes in early 2011.

Steve Weisman: Jeff, thanks. I know you'll be doing an event here at the Institute later this summer. So, we'll talk again about it as this proceeds.

Jeffrey J. Schott: Thank you.

