



US-Korea FTA: Some Progress but No Deal

Jeffrey J. Schott says that despite headlines of a “failure” to secure a Korea-US trade accord, some progress was made and efforts are underway to finish the job in the next week or two.

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Steve Weisman: The failure to resolve differences over the US-Korea free trade agreement in Seoul was a major setback for President Obama’s trip in Asia this month in November. This is Steve Weisman at the Peterson Institute for International Economics with Jeff Schott, who has been studying the ups and downs of that Korea agreement for years now. Jeff, was this a debacle?

Jeffrey J. Schott: It wasn’t a debacle, but it was a disappointment. With all of the attention and all of the political capital invested in this negotiation, there were high hopes that the trade ministers would get together and resolve the issues that have delayed ratification of the free trade agreement (FTA) for the past three years. They made some progress, but they didn’t get far enough for the leaders to say, “This deal is now done.”

Steve Weisman: What progress did they make?

Jeffrey J. Schott: I think they focused primarily on provisions on autos and how the agreement could be improved, how certain aspects of regulation of the auto sector could be clarified—made more transparent. There, I think there was some progress made, but that is being assessed more at the political level.

Steve Weisman: What do you mean?

Jeffrey J. Schott: There has been a great deal of concern about the auto provisions in the United States by certain auto companies, by the auto unions.

Steve Weisman: By Ford primarily?

Jeffrey J. Schott: By Ford and Chrysler, and by the auto workers unions, and by a number of members of Congress. Now, a lot has happened in the world economy, and in international trade, and in auto production and in employment since the deal was signed in June of 2007. Those developments obviously affect the political calculus of the value of the free trade agreement for each country. And other things have happened in the past three years as well: the European Union and Korea have signed a free trade agreement that will enter into force in July of 2011. That was based substantially on the Korea-US (KORUS) deal, but contains some provisions that differ from the KORUS FTA in light of the different factors in the European and Korean markets.

Steve Weisman: Let me interrupt. Ford and Chrysler and the auto workers say that Korea has nontariff barriers that, if lowered or eliminated, could produce more American exports of cars to Korea. What movement was there in negotiating a possible adjustment by Korea that could at least give comfort to some, if not all, of the skeptics of the treaty?

Jeffrey J. Schott: First, the criticism of the trade agreement provisions as they now stand are in part correct and in large measure inflated. There is no doubt that certain regulatory procedures and provisions discriminate against foreign cars in the Korean market, and some of those relate to safety standards, some with auto emissions standards, and some with just a transparency of regulatory proceedings which are sometimes opaque and don't provide the opportunity for foreign companies to get their views onto the table.

Steve Weisman: Okay, but you're saying that even though these are legitimate, and even if they were eliminated, Ford would not be suddenly exporting cars to Korea.

Jeffrey J. Schott: Ford would be exporting more cars than they currently do. They export from the United States to Korea more cars than GM or Chrysler, but it's still a very small amount. They might be able to double or triple or quadruple their sales in the Korean market, but from a very low base. That is not going to make a big deal of difference for Ford.

Steve Weisman: Coming back to these apparently discriminatory features, have the Koreans just dug in their heels? Isn't there some give there?

Jeffrey J. Schott: We don't know what was done this week in terms of the detail of the negotiations.

Steve Weisman: But you do have the impression there was movement?

Jeffrey J. Schott: Absolutely. From discussions I had with principals on both sides in the run-up to these negotiations over the past month, there was a clear indication that the negotiators in both countries wanted to bridge the gap both in terms of substance and perception so that the deal could move forward in both legislatures.

Steve Weisman: President Obama said we can do it in a number of weeks. What do you think of that prospect?

Jeffrey J. Schott: They certainly can do it in a number of weeks if the principal problem is consulting with political constituencies at home with regard to the progress that they made over the past few days in Seoul and seeing whether that was enough, or whether a bit more needs to be added to the pot.

Steve Weisman: But shouldn't President Obama know what his constituents already think?

Jeffrey J. Schott: The constituencies have changed dramatically since November 2. And the members of Congress that will actually take up the KORUS, implementing legislation for the Korea-US Free Trade Agreement are substantially different than the legislative leaders who have been discussing the KORUS FTA for the past several years.

Steve Weisman: But shouldn't the Congress be more receptive in the wake of the Republican takeover of the House?

Jeffrey J. Schott: On balance I think the answer is yes. But to his credit, the incoming chairman of the Ways and Means Committee, Mr. [David] Camp, [Republican] from Michigan, has been trying to work closely with his colleagues across the aisle and is sensitive to the plight of the auto industry in his home state.

Steve Weisman: Let's just talk about beef for a second. The Koreans have a political problem opening their markets to American beef producers. They are concerned about Mad Cow Disease and the like. What happened on that front?

Jeffrey J. Schott: From Korean sources and the Korean news agencies, it was clear that the Koreans said that the issue of beef was not on the table for the FDA [Food and Drug Administration]. In fact, the sanitary restrictions on US beef imports into Korea are not a part of the FTA agreement. The FTA only covers the reduction in the tariffs on beef and those are substantial—40 percent. And those are scheduled to be reduced over time.

Steve Weisman: But as a practical, political matter, aren't they part of the discussion?

Jeffrey J. Schott: As a practical, political matter they are integrally linked, yes.

Steve Weisman: And so, progress on that?

Jeffrey J. Schott: It is hard to tell. I think that it was clear that the Korean negotiators wanted their constituents to know that they dug in and did not change existing policy. Now the existing policy is that almost all US beef shipments have access to the Korean market. The sanitary restrictions now cover only a sliver of shipments that the US would otherwise ship to Korea—more than 90 percent of US shipments come in without those restrictions. So we're talking about getting from near 100 percent to 100 percent. There's a question of how the procedural steps that are needed to be in full compliance with the guidelines of the World Organization for Animal Health, which has some regulations on these matters. I think that as was done two years ago. A lot of progress can be done through private commitments. That already has succeeded in resolving most of the problem.

Steve Weisman: Jeff, you're a glass half full guy on these developments.

Jeffrey J. Schott: A lot depends on what happens in the next few weeks because there is a very narrow window for finishing these talks in time to allow the Congress to take up implementing legislation next year.

Steve Weisman: I would imagine that President Obama has a political interest in being able to announce something after the first of the year.

Jeffrey J. Schott: That's too late. I think when he said [it was a] matter of weeks, not months, we're talking about finishing it up this year so that when the new Congress organizes in January and sets its agenda, that the members will have a clear idea of when implementing legislation can be put forward to the House Ways and Means Committee and begin the fast track process.

Steve Weisman: I was more thinking of the State of the Union as the opening of that Congressional consideration.

Jeffrey J. Schott: Yes, but the action will have to start in January, and that's when the committees organize themselves and begin to set their priorities for the Congressional calendar for 2011.

Steve Weisman: Okay Jeff. Thanks.

Jeffrey J. Schott: Thank you very much.

