



Korea FTA: A Done Deal but Not Right Away?

Jeffrey J. Schott says the Korea, Panama, and Colombia trade agreements will probably be approved in the fall, but Korea's deal with Europe is stealing the United States' thunder.

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Steve Weisman: The Korea Free Trade Agreement is on again, off again. So are the other free trade agreements with Colombia and Panama. This is Steve Weisman at the Peterson Institute for International Economics with Jeffery Schott, who's been monitoring the ups and downs of these agreements, and also the parallel efforts by Korea to reach agreements with the Europeans.

What is the latest on the prospects for approval of the Korea agreement and the others?

Jeffrey Schott: I think the substance of the deal has been worked out, and the administration of the Congress just has to traverse the political minefield to ensure that they can implement the substantive deal they've reached. There were hopes that this deal could be done before the August recess of Congress. It looks now like it will have to wait until Congress reconvenes in September.

Steve Weisman: Presumably that implies a successful resolution of the debt talks.

Jeffrey Schott: The debt talks aren't linked substantively to the trade agreements, but they have created a vast distraction for the politicians who are having to try to reach compromise on both the broad economic problems that we face and also on the small tactical, but nonetheless nettlesome problems of how to get the votes done on the trade agreements.

Steve Weisman: Coming back to the elements of the compromise, the main hang-up was whether or not some sort of Trade Adjustment Assistance would be a part of the agreements. How is that being resolved?

Jeffrey Schott: The substance, which I think is generally supported by majority of members from both in the Congress.

Steve Weisman: From both parties?

Jeffrey Schott: I'm not sure a majority of Democrats will support the free trade agreements, but a substantial minority certainly will.

Steve Weisman: Which has been the pattern.

Jeffrey Schott: Right, and perhaps a majority of Democrats on the Korea-US Free Trade Agreement, because it has support of significant labor unions. But essentially the deal that was worked out by senior leaders in the Congress and in the White House was to agree that TAA, the trade adjustment assistance program, would be reauthorized at a somewhat

reduced level of expenditure from that that was passed at the height of the economic crisis in February of 2009, but with many of the key reforms that were introduced at that time, including coverage of services workers.

That will provide a victory for the Republicans in the sense that they can say that they are paring back expenditures, and a victory for the Democrats, in saying that they have preserved the important reforms that were instituted regarding the coverage of the program two years ago.

Steve Weisman: Tell me why you feel that time is of the essence.

Jeffrey Schott: The Korea trade agreement was signed on June 30, 2007, more than four years ago. And the first cost of not moving forward is that we haven't been able to take advantage of the reforms that will be implemented as a result of this agreement. And therefore we have lost the additional exports and investment that would have benefited both US firms and workers for four years.

The second order of problem, and perhaps a potentially serious one, if we don't act quickly, is that Korea hasn't been standing still, but has negotiated very similar deals with other important trading partners, most recently with the European Union. And that deal actually entered into force on July 1 of this year.

To take an example, on July 1, Korea's auto tariff with regard to imports from the European Union was cut by 50 percent, benefitting BMW's shipments to Korea, benefitting Mercedes shipments to Korea, while Ford and Chrysler, when they export to Korea, they still have to pay the full eight percent tariff. That gives a big advantage to our competitors.

Instead of getting improved access to the Korean market, we are actually facing a situation where we're at an even more disadvantaged position when we signed the deal four years ago. But there's an easy remedy to that. If we just implement our own deal, we will reverse that discrimination.

Steve Weisman: On the other hand, the US was never going to export that many cars to Korea. But this was an opportunity to open up Korea to other exports, particularly in the services area.

Jeffrey Schott: Services and agricultural goods. Across the board Korea has very high protection on agriculture. In almost every area, US agricultural products, almost across the board, will benefit substantially. So we could see large increase in our food shipments to Korea.

And, as you mentioned, also important reforms in services that would allow better access for US air express delivery companies, for insurance companies, for telecommunications companies, huge changes that would create new opportunities for US firms to increase their business in Korea.

Steve Weisman: Why didn't the US Chamber of Commerce, which has said the Korea free trade agreement is its top international priority, press the Republicans to go along with a deal that included a modest TAA to get this through? Why did they not tell their allies to stop throwing up roadblocks?

Jeffrey Schott: Well, they talked the talk but they didn't put their money where their mouth is. Full stop. Why didn't they do that? It's in their interest. It's in the interest of the companies that they represent. I think their political agenda interfered, to some extent, with the economic agenda of their member companies.

Steve Weisman: Do you think that this now is on track at least for the fall, unless there's some new blowup that is not foreseen?

Jeffrey Schott: I think basically the substance of the deal between the White House and the Congress has been put together. And they have been arguing about the tactics of getting the deal done. So each side being a bit skeptical of the other after years and years of mistrust.

Steve Weisman: Sure.

Jeffrey Schott: And the Republicans in the Congress have taken TAA as a hostage. And the president has said, "Well I am not going to implement the FTA's unless we can also get a reauthorization of the Trade Adjustment Assistance program."

The reason I'm optimistic is that neither side really wants to harm the hostage. They want the hostage to go free. And it's just really, rather than a hostage, and insurance policy that the deal will be consummated.

I think after they return from their August recess, hopefully there will be some inspiration during that time off for good behavior that the leaders in the Congress and the White House can find the way to get through the procedural maze that has delayed the implementation of these agreements and the Trade Adjustment Assistance program.

Steve Weisman: Thank you Jeff.

Jeffrey Schott: Thank you very much.

