

The 6th KOPEC Asia-Pacific Strategy Forum

“2006 Korea-US FTA Negotiations: Progress and Prospects” with special speaker Dr. Marcus Noland

Seoul, Korea
December 14, 2006

1. Overview

Korea National Committee for Pacific Economic Cooperation (KOPEC) held its sixth Asia-Pacific Strategy Forum at the Westin Chosun Hotel in Seoul on December 14, 2006. The session was titled “2006 Korea-US FTA Negotiations: Progress and Prospects,” with Dr. Marcus Noland of the Institute for International Economics as a key speaker. Attendees include prominent figures from both the government and academia. The list of participants is attached at the end. The forum began with opening remarks by Dr. Soogil Young, KOPEC Chair, followed by Dr. Noland’s presentation and then free discussion.

2. Session Summary

Opening Remarks

In his opening remarks, Dr. Young welcomed Dr. Marcus Noland back to Korea and thanked him for his presence. The central purpose of Dr. Noland’s visit to Korea was the release of the report, “The North Korean Refugee Crisis,” which he edited. Dr. Noland has written extensively on Korea, most notably in his *Avoiding the Apocalypse: The Future of the Two Koreas*, for which he was given the Ohira Masayoshi Award. Given his experience on this topic, Dr. Young asked Dr. Noland to include some observations regarding the North Korean crisis in his remarks.

Presentation

Dr. Noland began by speaking of the tendency of economists to revert to nationalism when discussing trade policy, particularly bilateral trade policy. He asked those present, including himself, to avoid this tendency and appeal to their inner economists. He then noted that Koreans tend to be more well-informed about America and the relevant issues than the Americans are informed about Korea and the relevant issues. He extended this observation to those present at the meeting, saying that everyone at the table was probably more well-informed about the FTA issues than he was. This “fundamental asymmetry” is a result of the size disparity between not only the United States and Korea, but also the United States and the rest of the world. He gave a brief outline of his talk—broad context, specifics, politics on the US side, and North Korea—saying that he would go easy on the specifics, as he suspected the other participants would be better informed than he.

The FTA negotiations are taking place on a background of rising economic integration between Korea and the United States, especially in services. Despite fluctuations, the general trend is that economic integration is rising. However, while the relationship is still significant, it

has become much less important than it was 20 years ago in relative terms. In addition, while the United States is far ahead of Korea, both economies are in a state of transition to being a post-industrial economy. In light of this, he believes that there is undue emphasis put on merchandise trade, and that while the reality of the relationship between the two countries is taking on an increasingly post-industrial character, the political relationship between the two countries has yet to catch up.

Dr. Noland then articulated the dangers of trade diversion, were the FTA to fail, and presented the prospects of a potential US-Japan FTA or an EU-Korea FTA as motivating factors for a successful Korea-US FTA. Two main points of dissention between the two countries have been agriculture and antidumping.

According to the FTA models conducted thus far, South Korea is the main beneficiary of FTA benefits, mostly due to the fact that Korea is the smaller economy. He touched on Korean public opinion, which seems to believe that most of the benefits will go to the United States, and then went on to explain US interest in Korea's agriculture market. First, the United States wants access to the Korean agriculture market because they believe it will be financially beneficial. Second, the agriculture lobby is the only large, well-organized lobby in favor of trade liberalization. As a result, in order for a trade liberalization bill to pass Congress, agriculture had to be on board. Another aspect is the fact that with agriculture, unlike with services, it is clear where the benefits are going: to the US economy.

He next mentioned automobiles as a source of friction, citing low Korean imports of American automobiles. He passed over textiles, services, and pharmaceuticals in the interest of time, as the audience would already be well-informed on these.

The next topic was antidumping. While he believes that US antidumping policy is "terrible," he likened it to the third rail of trade policy. According to his calculations, US antidumping policy is the cause of about a quarter billion dollars a year in welfare loss for the United States, and that Korean concerns about this were understandable. Regarding the politics on the US side, the trade promotion authority (TPA), in which the president is given authority to negotiate trade deals with the guarantee of a simple yes/no vote on whatever package he then presents to Congress, is lapsing in June, making March the effective deadline for any deal. He observed that the new Democratic congress would make a deal more difficult, though it will be hard to predict exactly what will happen. However, Dr. Noland believes that the head of the House Ways and Means committee, Charles Rangel, could work out well for Korea. Sandy Levin, chair of the trade subcommittee, however, poses a problem. He is making unreasonable demands, either to gain leverage for issues more important to him or because he is simply "duplicitous." Dr. Noland then warned against hoping for a TPA extension, saying one would only be granted if the deal were extremely close to being concluded. He also questioned whether the current president of Korea would be able to push any FTA agreement through the National Assembly.

Dr. Noland concluded by speaking about North Korea, expressing that he had a fairly negative outlook on the situation. While there may not be a repeat of the famine of the 1990s, the people of North Korea are at serious risk of another humanitarian crisis. He also expressed skepticism about the argument that economic cooperation can sustain or facilitate an otherwise problematic relationship. He then touched on the two central, competing strategies with regard to North Korea. The United States has chosen to present North Korea with the simple binary choice of either retaining its nuclear arsenal or accepting aid through economic and political inducements. South Korea and China, conversely, fear the effects of political instability in the region and prefer to provide aid, which allows North Korea to play the two competing strategies off each other. Dr. Noland pointed out that this situation would make it difficult for the North Koreans to know where the real "red lines" are, those boundaries over which they should not step

under any circumstances. This could lead to North Korea crossing those boundaries out of pure miscalculation. He believes that the current state of “dangerous and regrettable equilibrium” has brought us much closer to the apocalypse he spoke of six years ago in *Avoiding the Apocalypse*.

Free Discussion

The discussion was then opened to the participants. Dr. June-Dong Kim of MOFAT expressed his belief that while Dr. Noland thinks there is too much emphasis on merchandise trade, it is the backbone of the current Korea-US FTA negotiations. He said that the most important issues in agriculture have not yet been discussed, and so January and February will be when they are discussing the most sensitive issues. In addition, he stated that while he agrees that most of the benefits are going to the Korean side, the FTA will not be politically feasible without further US concessions, due to interest groups in Korea. He stated that Korea’s original 20 proposals on antidumping have been narrowed down to 5 proposals, and that they are waiting for the USTR’s response, which he hopes will help to push forward negotiations. He agreed that both sides were running out of time, and added that there will be a presidential election to think about in Korea as well.

Dr. Keuk-je Sung of Kyunghee University asked if a TPA extension would be possible if, despite stalled WTO negotiations, the Korea-US FTA made a lot of progress in the next few rounds of negotiation. Dr. Noland said that while it is true that Congress could conceivably write the FTA legislation any way it wanted, the mere fact of this discussion indicated the unlikelihood of such legislation. Dr. Young asked again if it were truly possible to extend TPA legislation, and Dr. Noland responded that yes, a two-week extension would be conceivable, but six months or a year would be out of the question.

Dr. Kihwan Kim, KOPEC honorary Chair, asked what the consequences of failure would be on the US side. According to Dr. Noland, failure would have two implications. Failure to conclude an FTA with an ally, especially a relatively high-income ally, would have quite negative implications for future US trade policy. Dr. Noland added that there would be two implications, economic and political. The economic impact in the narrow sense would not be great, but there would be a negative impact on US trade policy and on the bilateral relationship.

Dr. Soogil Young asked how serious the United States should be on pushing the rice issue forward. Dr. Noland said that while the magnitude of a concession may be open to discussion, there needs to be some sort of concession on rice. He noted that the negotiations are at the stage where demands are being dropped in view of the need to make a deal, but that rice and the issue of Gaesong have yet to be addressed. He warned that the current trajectory was likely to lead to an agreement that both parties could accept, though it would not necessarily be a particularly robust or valuable one.

Dr. Jeong Taik Lee noted that Dr. Noland took a conservative approach, but that he was also seen as one who was familiar with the Korean perspective. He characterized the internal conflict in Korea as between an interest-based approach and a position-based approach. The Korean government takes the former approach, while interest groups take the latter. He concluded by saying that what was necessary was a winning based approach, which ran the risk of not meeting the March deadline, and asked Dr. Noland’s perspective on this issue. Dr. Noland replied that the problem with bilateral negotiations such as these is the impossibility of understanding the subtleties of your counterpart’s political system, especially in the sense of understanding which demands are essential and which are not.

Dr. Junsuk Yang asked if there was support in the US Congress for the Korea-US FTA and whether there were other FTAs in line for the United States if this one failed in terms of TPA.

He then commented on the PR success of the anti-FTA camp in Korea, saying that despite the fact that the issues they raise tend to be peripherally related to the heart of the FTA, they have managed to convince a significant portion of people that it would be highly damaging to Korea. He added that the Korean government was not doing enough to address these issues. Dr. Noland said that the US Congress has shifted further away from trade liberalization. Max Baucus, head of the Senate Finance Committee, basically supports trade liberalization. Charles Rangel in the House is also in favor of trade liberalization. But Sandy Levin poses a problem, and Dr. Noland added that it is still uncertain how the newly elected Democrats will affect the potential success of the FTA. There is also the question of Bush's political capital—how much does he have, and how much is he willing to spend on this issue? These are not clear. Finally, Dr. Noland said that there is a general reservoir of goodwill toward Korea and that a nuclear North Korea may push Congress to vote for the FTA on foreign policy grounds. Regarding other FTAs, Dr. Noland mentioned that Malaysia and some countries in South America have ongoing trade negotiations with the US, but that the biggest worry for Korea should be Japan, which is trying to implement deeper economic integration with the United States.

Dr. Soojong Kwak pointed out that the United States is in fact selling a good amount of cars in Korea through the GM-Daewoo partnership and then compared Korea's position to that of the trigger in a cannonball. Though small, it is of great importance with regard to future US trade policy.

Dr. Noland was then asked to use the remaining time to talk about the report on the North Korean refugee crisis, of which he was editor. The report is divided into three parts: a survey of more than 300 North Korean refugees in China, Chinese policy regarding these refugees, and a section by Andrei Lankov on South Korea's policy on resettlement and integration. Regarding resettlement and integration, Dr. Noland commented that Korea need not reinvent the wheel in this case, and that the United States has had tremendous experience in this area. He concluded by saying that this is an area in which the United States and Korea could productively cooperate.

3. List of Participants (in alphabetical order)

Hur, Jai-Joon	Korea Labor Institute (KLI)
Kim, June-Dong	Ministry of Foreign Affairs and Trade (MOFAT)
Kim, Kihwan	KOPEC Honorary Chair
Kwak, Sanghyun	Ministry of Finance and Economy (MOFE)
Kwak, Soojong	Samsung Economic Research Institute (SERI)
Kwon, Young-min	Myongji University
Lee, Jeong Taik	Korea Research Institute for Vocational Education and Training (KRIVET)
Lee, Woosung	Science and Technology Policy Institute (STEPI)
Park, Hyunsoo	Samsung Economic Research Institute (SERI)
Sung, Keuk-Je	Kyung Hee University
Yang, Junsuk	Catholic University of Korea
Young, Soogil	KOPEC Chair