US Trade Policy in the Obama Era*

Jeffrey Schott

Thank you very much Dr. Lee. It is a great pleasure to be with you again and I appreciate the generosity of KITA and IGE in inviting me back. It's always a pleasure when I am in Seoul to have the opportunity to meet with you on this type of occasion. I feel a strong skinship with the IGE which was founded about 16 years when one of my colleagues, a visiting fellow at the Institute for International Economic, Dr. SaKong Il, returned after a brief visit at our institute and wanted to establish a similar type of institute here in Seoul, but we told him that he couldn't call it the Institute for International Economics. So, he called it the Institute for Global Economics. It shows that we are really family -- that we come from the same source. I greatly appreciate the opportunity to work again with the IGE.

I was asked today to make a few remarks about trade policy in the Obama administration. I think it is very important to spell out what is going on in Washington, so that there is a better understanding. In part because it was only about one year ago, in February 2008, that Barack Obama and Hilary Clinton were arguing very aggressively about who would be more protectionist and whether they would withdraw from North America Free Trade Agreement (NAFTA). Those comments were listened to very carefully all over the world and in the interim there has been much less reporting about what is being said and done on trade. The memories of a year ago are still very fresh in the minds of people when they think about US policy.

Let me say one thing very clearly, we are not in February 2008. The world has changed very dramatically since then. Those changes have had a very big influence on US policy. The election of Barack Obama and the appointment of Hilary Clinton as Secretary of State, who just visited here last week, I think indicate a dramatic change from the discussions the two had when vying for the nomination of their party. There is a big difference when you are campaigning for the selection among your own party and when you have responsibility for governing a great country. That is part of the reason why there is a new sense of urgency in the US in engaging with its trading partners. I

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hope that Secretary Clinton gave that message to both the Korean government and the Korean people during her visit here last week.

Now, it's important when describing US trade policy to make one thing clear, there has to be an understanding of who is shaping US trade policy before you can understand what is shaping trade policy and where it is likely to go. In the United States, even though we now have a President from the Democratic Party and leaders in Congress from that Party with very large majorities, there is a tension because in the Congress which has constitutional responsibility for trade there is a growing caucus of new members that were elected on platforms that were very skeptical of trade, of increasing trade liberalization. Those Democrats, particularly in the House of Representatives, do not necessarily share the views of the more centralist and international-minded Obama administration. So, in dealing with the Congress which will want to continue to pursue narrower constituent interests from labor unions and rust belt industries, the Obama administration will have to be very careful, diplomatic, and make compromises. That is one of the biggest challenges for President Obama, not in working with the opposition but with working with elements of his own Party.

Now, what is shaping US policy?

If you look at the priorities of the Obama administration coming in, you would see a very clear focus on domestic policy, reforming various domestic programs but most of all, trying to revive the US economy from a very deep recession. There is concern about health care and strengthening the social safety net which is quite weak in the US. This gives great anxiety to workers if they lose their jobs and have inadequate health care or have less than adequate pensions. These are all big challenges that President Obama wanted to face in coming into office. Trade was not a top priority. In fact, it probably wasn't in the top ten of the priorities of his administration. But, as the Obama administration already discovered in the debate over the economic stimulus package in the US Congress, which included buy-American provisions, it is very difficult to separate domestic policies from their international implications. Indeed, if you had asked a body of experts six months ago what the trade policy of the Obama administration would be, no one would have said that the first trade policy issue that would be addressed by the Obama administration would be government procurement policies and "buy-American" policies in domestic law. In fact, I can assure you that is true because I participated six months ago in the drafting of a memo to the president by a group of experts and former cabinet members from both parties including people like Carla Hills (former US Trade Representative), Clayton Yeutter (former US Trade Representative), Stuart Eizenstat (top Democratic official in several governments), and Fred Bergsten (my colleague). Among all of these great men and women with their great experience, no one considered “buy American” would be the issue that started to frame US policy on trade.

When I got a call from the White House a few weeks ago asking what our advice would be on the “buy US-provisions” in the US legislation, we worked all weekend to send some advice to ensure that the first actions taken by the Obama administration would not send the wrong signal to our trading partners. It was very gratifying that the following week, President Obama came out with a very clear statement that what was critical for the United States was to be able to work with our trading partners and ensure that we develop a multilateral approach to resolving the global economic crisis. In that way, he said that it would be a mistake to pursue new protectionist policies. The White House then worked with the Senate to try to modify the provisions on “buy-American.” They were not able to remove them because of the strong interest in those provisions within the Democratic caucus, but they were able to modify them in a way that made sure those provisions were consistent with international trade obligations. So that was the first story in the trade policy of the Obama administration and what will follow.

In many ways the trade policy agenda will be dictated by non-trade events and non-trade considerations. When I raised the question what is shaping US trade policy, I think it will be dominated by much broader strategic concerns. First is the perception of the US in the international community. President Obama made it very clear during his campaign and, as I said, since becoming President that it is important for the US to again embrace multilateral approaches to global economic problems. He will face a challenge to craft a multilateral approach to the global economic crisis. In this realm, I should note that he has a wonderful ally in Korea, working in the G20. Dr. SaKong Il, when he was in Washington a few weeks ago, met with the leaders in the White House who are working on the G20. It is clear that the priorities that Dr. SaKong Il has are fully shared by the Obama administration which are trying to seek a very strong result out of the G20 Summit in London on April 2nd. The fact that the US and Korea are working so closely together in this venture and the fact that Korea is one of the leaders of the G20 as part of the leadership troika and will chair the G20 process next year, I think, are very encouraging for the world economy and will be very helpful in deepening US-Korean economic ties going forward because none of the problems we have in trade will be easily resolved if we continue to have the deep economic problems that the US and other countries now face. Working together on economic recovery is essential and having such a strong partner as Korea is incredibly valuable for the United States.

The second point on strategic interests that will shape US trade policy are foreign policy concerns. Here, it is very clear that no matter how various domestic constituencies feel about international trade or trade agreements, US foreign policy and security interests are overwhelmingly important with our key trading partners. That will temper the way the US treats China. It will also have, of course, a very important consequence for the deliberations on US-Korea trade. You saw the beginning of that recognition and sophistication in US policy when Secretary Clinton was here last week. I think there will be a very positive influence on the trade policy considerations because of the overall importance of the US-Korea bilateral relationship. I will say a few words more on the KORUS FTA in a few moments.

Next, trade policy will also be effected by the trade implications of domestic recovery plans, particularly in the auto sector. If one looks at what major trading countries are doing to support their domestic auto industries and the potential for discrimination and distortions in trade and investment, this will be an element that has to be considered. The trade policy will hopefully temper the more protectionist instincts that have already arisen very strongly in Europe. They have been vetted as well in the US Congress when considering the bailout and the restructuring of General Motors and Chrysler. That saga is still being worked out, but it will have implications for US-Korea trade relations because each country has substantial investments in the auto sector of the other. How we treat our auto companies may affect the role of foreign subsidiaries. So, it is a very important issue and one that will have a high profile going forward this year.

Last, but not least, one of the broader strategic interests that will in the future, I think, possibly even dominate trade policy is one that has very high priority in the Obama administration. That is the need to develop a Post-Kyoto global climate change regime. It is an issue where the environmental objectives are critical and where the tensions between achieving those objections and meeting the competitiveness concerns of local industry are great. Particularly at a time of economic stress, when you already have declining employment, the thought that new carbon taxes or regulatory mandates may further impede the competitiveness of domestic industries will lead governments, not just in the US but everywhere, to consider programs that supports local industries and discriminate against foreign suppliers or imports through border taxes or other means. This is already beginning to surface. The European Union has been discussing such measures against “dirty” American imports for several years. No action has been taken, but these types of concerns -using exceptions in the World Trading rules under article 20 which for GATT/WTO experts is an article that provides general exceptions for a number of reasons including environmental, public health and safety rules -- could become legal under the WTO and provide a channel for a rollback of a lot of the liberalization that we have seen over the past few decades. It’s a very serious issue, one that could be damaging if not given adequate attention by national governments when they are framing their environmental policies and their trade policies.

This is also the opportunity, however, for trade policy to move in a very constructive agenda. To take the US-Korea example, while there are some concerns among members of congress about provisions relating to the auto industry in the KORUS FTA when someone compares those concerns to the broader concerns about climate change, they seem very small. The fact that Korea and the US are working together in this area will provide a very constructive channel for finding a political solution to a number of more specific trade issues that have been part of the bilateral commercial relationship for sometime. This is also true in the North American context where President Obama during his campaign, as I said, threatened to withdraw from NAFTA at one inopportune moment in the primary debates. He now sees that NAFTA can be an opportunity and that there is an advantage in upgrading trade agreements to expand the scope of bilateral cooperation to new areas like climate change, concerns about border security, and energy security. In that context, when there are issues that both countries will benefit tremendously from by working together, smaller disputes, though seemingly intractable in the past, are put in a different context and are more likely to be resolved amid this broader constructive discussion. This an area where we will see positive influence on trade policy going forward.

What will be US priorities for trade negotiations?

Members of Congress basically allowed the President’s trade promotion authority to expire almost two years ago, in fact, right after the signing of the KORUS FTA. There’s little likelihood that that authority will be renewed in the very near term, in part, because there are few new opportunities for bilateral trade going forward. If one looks at US FTA Policy, the list of countries that want to have negotiation with the US is now very small. We have had a policy that has run its course. The countries that continue to be interested in dealing with the US basically want a political deal to enhance the political relationship and that will probably be dealt with through other means. The one negotiation that the Obama administration will give priority to is the Doha Round, and I think for several reasons.

First, as I said before, because of Obama's interest in bolstering multilateral initiatives and ensuring the viability of the multilateral negotiating process. If the Doha Round were allowed to fail, it would be the first failed negotiation in the post-war history of the world trading system. I think it would deal a terrible blow to the multilateral trading system and severely undercut the ability to use the multilateral forum for negotiations in the future. If one went through all of the work and almost a decade of effort to try to achieve a result and ended up with nothing, I think many businessmen and government officials would question whether it is worth the investment to try to do it again. So, completing the Doha Round -- reaping the benefits of the modest but nonetheless important results that can be achieved -- is critical.

It is also critical because the symbolic importance of having a viable WTO negotiation as part of the trade response to the global economic crisis is crucial. If talks were allowed to fail, it would almost send a signal that governments did not care that much about holding the line against new protectionism. And we are going to follow a more "go-it-alone" and "beggar-thy-neighbor" policies that we have already begun to see surface in some of the policies in some of the major trading nations. Now, there has been concern, particularly in the US business community, that there is not much on the table in Geneva. They say that a Geneva Agreement is not valuable unless it creates new liberalization in the areas of agriculture, manufacturing, and services. That's a very good position to take, but I think it underestimates the value of maintaining the current level of openness because many countries have unilaterally reduced their trade barriers over the past 15 or 20 years but haven't made a legal obligation to maintain that in the WTO. As a result, the WTO actually allows a new protectionism. It is legal under the WTO to raise tariffs for many countries, to impose all sorts of trade restrictions that distort commerce and investment, and countries are beginning to do that. The simple point here is that if we have a failed Doha Round, we don't continue the status quo and that isn't sustainable. If we don't have a forward progress in the

Doha Round, we are likely to see a trading system that is much more restrictive with many more obstacles to trade and investment. That, of course, wouldn't be good news for the US or Korea.

One final reason, that the politicians in the audience will appreciate, is that pushing for the Doha Round now does not mean that you have to spend political capital now to change policies. It means that you have to establish a process, allow the negotiators to negotiate, so that political decisions can be taken probably next year on whether to change policy in sensitive industries and service sectors in order to achieve the final deal. It will take almost a year to get to the final stages of the negotiations and, in the meantime, we hope that the world economy will have hit bottom and have begun to recover. It is very difficult to conclude trade negotiations at a time of economic distress, but once countries begin to move back into a positive growth and there is more optimism, it will be easier for politicians to say that we are going to make these changes to invest in our future. That is essentially what the Doha Round is. It's an investment in our future. It's something that will hopefully start paying dividends a year from now. I think for those reasons, because of the importance of extending a multi-lateral approach in international trade the Obama administration will give priority to the Doha Round. Bilateral negotiations will not receive much attention.

The other area of interest will likely be in North America with the upgrading of NAFTA. I like that word so much that I think we need consider "upgrading" the KORUS FTA. It has almost been two years since negotiators shook hands on the KORUS FTA, April 2nd 2007. Of course, a lot has changed, particularly in the auto sector -- big changes in both countries. Clearly, what I would advise to the new US administration is to quietly sit down with the Korean government and discuss what each are doing with regard to helping their domestic auto industry and the implication that has for the trade and investment interests of each other. Also, they need to discuss what each is doing to promote growth and employment in their own countries, and how they may work together to bolster the global competitiveness of their industries through joint initiatives. This type of discussion is very important for partners to have. It may yield some ideas on how one can augment the already important provisions and agreements that have been reached to make sure that the KORUS FTA and US-Korea bilateral initiatives meet the needs of our economy as it now stands in the face of very difficult economic times. "Upgrade" is a much nicer word and "renegotiate" should, perhaps, be expunged from the diplomatic vocabulary.

That, of course, introduces me to one of the more difficult problems that the Obama administration will have on trade policy and that is dealing with unfinished business. I've already talked about the Doha Round and that could be considered unfinished business and it will be given priority. There is also unfinished in ratifying three Free Trade Agreements: Colombia, Panama, and, of course, Korea. Each one poses difficult problems. The least difficult one is Panama because the political problems that lead to the delay in the ratification of Panama have been resolved. There are a number of American companies who are interested in Panama because they are planning on digging a new hole, a new Panama Canal. US companies would like to provide the equipment to dig that hole. I see that agreement being completed sooner rather than later.

Colombia provides a different challenge. Congressional concerns about Colombia do not involve provisions of the agreement but the environment in which the agreement is implemented in Colombia, in particular, concerns about the murder of trade union leaders in Colombian society. This is part of a broader problem of insurrection and drug trafficking in Colombian society that the Uribe government has been trying to expunge. That will require some political deal that involves processes in Colombia that would allow for greater prosecution of suspected criminals and murders and greater transparency in the judicial process.

It's a lot different from the situation in Korea with the Korea agreement where there is a small but vocal constituency in the Democratic Party that is concerned about the auto provisions. That has led President Obama to voice their concerns and say that there was a need to fix the problem. If one looks at the trade and investment, one can see that the political debate has been somewhat distorted, but there is a clear political concern which at a time of massive unemployment in the US auto industry, particularly the big three, and the restructuring of GM and Chrysler make it very difficult to pursue a solution that is both political and economic until there is greater clarity on what will happen with the major auto makers. So for that reason, I think there will be some delay in the consideration of the KORUS FTA by the US Congress, at least for the first half of this year. The bailout program is still being elaborated and the consequences of that will have to be pursued both in terms of the domestic implications and how it will affect US-international relations. I would think that once that is clarified and with the growing recognition of how constructive Korean policy has been in working in the US on the global financial crisis, that there will be a better atmosphere for pragmatic discussion in the second half of this year. Clearly, President Obama recognizes the critical importance of resolving this issue successfully so that the KORUS FTA can be implemented. Clearly, Chairman Rangel, one of the key officials in the Congress who will be responsible for the implementation of the agreement, wants to see the Congress say “yes” to the KORUS FTA. I can tell you very clearly that it is inconceivable that the Congress would say “no.” The cost to the US, the damage to our bilateral would be too great. So, the question is what can be done in terms of domestic US politics to get the Congress to say “yes,” I think this will be a task that the administration will take on probably in the second half of this year. Hopefully, they will find some constructive approach, so that the very good agreement that was signed in 2007 can be implemented, that both of us can begin to reap the dividends of our hard work that was done, and make use of the opportunities that are there for both of us to benefit - - both our companies and our workers.

Let me note one final area where there maybe initiatives on trade policy and implications for Korea. One of the difficulties we have in implementing trade policy at a period of economic recession is that domestic industries and workers want to play defense. They want to use the tools available in the trading system to limit competition so that they have an easier time adjusting to the more difficult conditions in the marketplace. We are likely to see more anti-dumping petitions, we are likely to see more WTO complaints filed by the US government in Geneva and many of these will be directed against China. That is part of the process. It is also important, as Secretary Clinton discussed during her visit there as well, that there be a balance in the discussion and maintenance of a constructive dialogue so that we continue to work together in a wide area of issues of common concern. Climate change is critical. I don’t have to tell anyone in Seoul, that there won’t be a resolution on greenhouse gas emissions unless China plays a major part in the solution.

The US, the world’s greatest emitter, will have to contribute substantially to ensure that China is part of the solution as well. China is critical in discussions on North Korea, on dealing with Iran and in other areas. It is important to have some balance to the bilateral discussions, which at times will be contentious on trade as they have in the past. There the United States started working with an initiative that George Yeo thought up of more than a decade ago. Originally, he introduced this idea at our institute in a speech in the 1990s. He said that we should think about a “P5” where countries that have common trading interests get together to begin to integrate more closely and provide a core for other countries in the region to begin to join with them so that they can move towards the vision of free trade and investment in the Asia-Pacific region. I should note that in that speech he said that maybe P5 wasn't the right number, and maybe it should be P6 and we should include Korea. George Yeo made that statement as far back as the early 1990s. Well today that argument is even more powerful than it was when he originally made the speech. A small group of countries got together to make a P4 agreement: Singapore, New Zealand, Brunei, and Chile. They are very nice countries, but they are small. So, the reaction was "who cares." But, then other countries came and said "you know there are some good ideas here and we already have strong trade ties or trade agreements with these countries." Now, Australia is going to join the discussions next month. Vietnam has said that they want to participate, at least in the discussions. Other countries, as well, are beginning to consider it because they already have free trade agreements with Chile, Singapore and New Zealand. Who are those countries? Mexico, Canada, Japan, and even Korea have many trade agreements with many of those countries. China does too. China has a free trade agreement with Chile, New Zealand, and Singapore. The thought that this could produce a new forum for interaction on a regional level which would take into account the needs of East Asia and provide better understanding between countries on both sides of the Pacific offers a very interesting opportunity for the Obama administration to take up the new initiative that has yet to be really framed, put its own mark on it and use it as a basis for expanding regional cooperation. I put that out not as something that has been fully elaborated but as a potential that could serve as great interest for the US and for Korea as we deepen our bilateral partnership. Also we could use that as a scope for improving relations and opportunities in our broader neighborhood. On that optimistic note -- I wanted to end a talk on US trade policy on an optimistic which is hard to do sometimes -- want to thank you for your attention and would be very happy to answer your questions on whatever subject is of interest.

Questions & Answers

Q Already two years have passed since the conclusion of the negotiation; in the US the Obama administration is positioning itself to renegotiate the KORUS FTA as well as worrying it is about taking long political steps forward in the Congress. Could you please comment on this?

A A further thing to say is that Chairman Rangel, on the House Ways and Means Committee and a Korean War veteran, has very strong feelings about Korea and wants to see it get passed. He will work very closely with President Obama on a strategy to do so. The key is to find a way of accommodating the interests of Korea and the interests of the United States. If you look at the current state of trade and investment in each other's economy in the auto sector, which is the area of great concern, we already have a very vibrant relationship. Korean firms have invested in the United States and produce and sell a large number of cars even in our declining market. US sales of vehicles declined from a peak of about 17 million cars a year to about 12 million cars last year, and will be down to about 10.5 this year. So, there is a huge drop in demand. Yet, in January, Hyundai was one of the only companies, producing in the US, that had an increase in sales as consumers reacted very positively to two events: one, the naming of the Hyundai Genesis as the North American Car of the Year and two, a marketing strategy that said to Americans concerned about making a purchase of a new car for fear of unemployment "if you lose your jobs, you can give us the cars back." It seems like a risky strategy, but many Americans said, "Well, in that case, we'll buy a Hyundai." It gives us an insurance policy, much like a long-term warranty on the car's maintenance. Hyundai has done very well and has great support among members of Congress in the parts of the country where Hyundai produces.

There is a big fight in the Congress between representatives in one part of the country that have many of the foreign subsidiary plants producing Mercedes, Hyundai, or Toyota and representatives in the North of the country which represent districts in which GM, Chrysler, and Ford produce many of their cars. There is a bit of tension within the country. Part of that is going to be resolved because the restructuring of GM, Ford, and Chrysler and the concessions that have been made by the labor unions in the context of the efforts to restructure the overall industry. But, the problem of unemployment will remain a political concern. Politicians in those areas will continue to work for some improved benefits for their citizens.

Now, if you think about it, the Ford, Chrysler, and GM workers are not going to benefit very much by exporting cars from Detroit to Seoul. First of all, the market in Korea is weaker. It's less than one-tenth the size of the US market. More importantly, US producers don't export very many cars from the United States. The strategy, except for the NAFTA region, of the big three is essentially to produce and source their cars for a particular country from foreign subsidiaries. So, GM sells many cars in the Korean market, but they are produced by GM Daewoo which until very recently was doing very well. GM and Ford sell a lot of cars in Europe, but they are produced in Europe. The thought that the workers in Detroit will benefit by selling more cars to Korea, that is not going to take care of their problem. The politicians, at the end of the day, will want a solution that addresses the needs of their constituents. That will require a domestic response. Part of it is being developed in the stimulus package. More will have to be done in terms of health care, benefits, pension benefits, and other job programs that will be an immediate benefit for constituents in those areas. Once the administration takes care of the domestic problem, I think the international issue can be more easily managed. That is an important point that is difficult to translate to an overseas audience. At the end of the day, the important is the politicians want to take care of their constituents. There is no way the auto provisions can be adjusted to provide the needs of the workers in Detroit, and Columbus and other cities in the United States. Hopefully, that will be a priority of Obama on domestic policy that will then make it easier for him to manage our international trade relations.

Q Thank you very much for your enlightening presentation, Dr. Schott. I have a very short and quick question. Yesterday, I read an article in the newspaper that said that the US government would give subsidies to American buyers of new cars. I wonder if this will apply to imported cars and what about cars made by foreign manufacturers made in America? Thank you.

A That issue came up last month during the debate on the stimulus package. In the House of Representatives, one member of Congress proposed giving a subsidy only to people who buy cars from Chrysler, GM, and Ford. Mazda made a statement and said that it was illegal under the WTO, a blatant violation. They also said that they would file a complaint, America will be found guilty and there will be retaliation. The congressman didn't have a response to that, all the lawyers said that Mazda was right, and the provision was dropped. I don't know what was worded in the paper yesterday, but it could be that there is an interest in subsidizing the purchase of new cars. This is why I mentioned the story of "Buy American" before because as a result of the "Buy American" incident President Obama made a very strong and clear statement that the US will abide by its international trade obligations. When these proposals come forward, the first test is whether it is consistent with US international trade obligations. The only way that such a provision can be consistent with WTO rules is if the subsidy is applied to all sales in the US markets. It cannot discriminate against imports. It cannot discriminate among producers in the United States. It would have to apply to someone buying a car from Hyundai produced in Alabama or buying an imported Hyundai landing in Seattle or Los Angeles. The concern is how to ensure that the entire infrastructure of the auto industry- not just the companies but also the parts suppliers and service suppliers- across a wide range of activities in our economy that maintains a level of activity that allows them to survive the current downturn. In that sense, it might make sense to have that broad based subsidy, but if you're subsidizing 10 or 11 million sales that can get expensive. One idea that has been pursued in France and Germany is to provide subsidies for people who take their old cars that are highly polluting or fuel-inefficient cars and scrap them for new a car that is more fuel-efficient. That is an opportunity to replace the old fleet, create demand for new durable goods, and that is an idea worth investigating as well, but there are many ways in which people get around those rules for a financial advantage. So, one has to construct that program very carefully.

Q Thank you, Mr. Schott, for your poignant and timely presentation on the US trade policy in Korea. My question is that in order to make the WTO function and run more effectively, don't you think that it is necessary to reorganize or rearrange the WTO to cope with the world trade expansion problems which will be helpful in alleviating the global economic crisis and beneficial to both developed and developing countries rather than protectionism? Will it not be more effective to change or shift WTO activities to a new international trade organization under the banner of the United Nations Economic and Social Commission? We appreciate your views on this issue of converting the WTO into part of the UN Organization.

A Thank you for your question. I agreed with everything you said until the last sentence. It is very important for the WTO to play a constructive role in the current crisis and to restructure so that it better addresses the needs of international trade in the 21st century. On the first point, Pascal Lamy is working very closely with his counterparts in other international organizations and with national governments to do what the WTO can do to contribute to the multilateral solutions that are needed to get us out of this deep economic hole. I understand that he met with your President during his stay here and with other ministers and will continue to stay in close touch. I know that he has had long meetings with Dr. SaKong Il about what the WTO can contribute to the G20 process. I am trying to facilitate further discussions of that type. Clearly, if you look at the Doha Round Agenda, it is the agenda of problems in the 20th century. It does not address many of the new challenges and opportunities that have arisen in the past decade. However, if you do not complete the work of the Doha Round, as I mentioned earlier, it will be very difficult to get the political support for using the WTO or restructuring it to meet these new challenges including climate change. These new challenges will require the WTO to change the way it works and with whom it works. The way it works means there has to be institutional reforms to bring in views and expertise of other groups including civil society, including parliamentarians that have a stake in what goes on in the development of international trade disciplines. Importantly, it means that it has to rearrange its institutional structure to work more closely with other institutions.

Right now, on an informal basis, the WTO is working closely with the World Bank, with the IMF, with the international labor organizations, with the OECD, and with a number of other international institutions. Many of these linkages are built on strong personal relationships because the leaders of these organizations are very energetic, insightful, and have had past working ties. That’s very good for now, but it’s a coincidence at the moment. Those relationships need to have an institutional structure, so that when the next generation of leaders comes into these organizations they don’t have to rely on this coincidence of having personal relationships but rather build on the work that has been done in the past by their institutions. Therefore, there will be some continuity in effort. This is one of the reasons, I believe, that Pascal Lamy agreed to run for a second term as Director General of the WTO. I think that he has strong commitment to WTO reform to deal with the types of concerns that you raised.

I am more concerned about your suggestion that the mandate be changed to become an agency of the UN system because the last thing we need is a bureaucratic overlay in organizations that have to respond more adroitly to rapidly changing conditions in the world market. Layers of bureaucracy bog some of the old UN institutions down, and so reform is very difficult because of the large numbers of countries that have to be accommodated in any decision. The UN does have a trade organization in Geneva, UNCTAD, headed by former Director General of the WTO, Dr. Supachai Panitchpakdi. Dr. Supachai and Pascal Lamy work closely together. I was remiss in not mentioning

UNCTAD in the list of organizations where there was close collaboration. I would worry about merging the two organizations in a broader UN system. It is much better to have closer institutional ties and formal arrangements between the WTO and select UN agencies that would bring the needed expertise to the problems that are interrelated. One can't just talk about trade, one has to worry about the employment consequences, and one has to worry about development concerns and finance -- not just trade finance but the overall role of trade in development strategies. This requires a greater integration of work at the international level than we have seen so far. I should also note- and this is a criticism of my own country -- it requires a greater integration of policy at the national level. Too often there have been bureaucratic firewalls between ministries or agencies of government that are trying to work on these big global problems. One of the interesting things in the Obama administration is that he has set up a number of coordinating offices in the White House to integrate energy, environment, and climate change to deal with the problems of financial restructuring. He has independent groups such as one headed by Paul Volcker to provide independent advice across a range of financial issues. I think this is the future direction for international agencies and I also hope that it will be echoed at the national level.

Q In Korea there is a very sharp confrontation between the ruling party and opposition party over the KORUS FTA. The ruling party would like to ratify it immediately, preferably during the current session. The opposition parties argue to wait until the bill is submitted to the US Congress. If you were an advisor to the Korean National Assembly, what would your view be on this issue? Would you support trying to ratify it as soon as possible or taking a wait-and-see stance?

A At the end of the day, the strategy that is most useful for Korea to pursue or for the US to pursue is the one that will achieve the greatest political support in your own country for moving forward with the trade agreement. But perhaps even more importantly, pursuing the domestic policies that allow you to take full advantage of the trade agreement which is why essentially you have this trade agreement to encourage the type of policy reform that boosts productivity in your economy and creates more economic growth and employment. There are a number of factors. My advice to the National Assembly would be very simple and that is do what is in the best interest of Korea by looking at the risks and opportunities in the political debate in Korea. There are a number of advantages in moving quickly. There are a number of advantages to having a deliberate approach. There are risks in both sides.

One thing that I have found working on trade for the past 35 years is that when there is a delay a number of things can happen that you didn't anticipate. It doesn't have to be in trade. It can a political event; it can be some security event; some kind of event that distracts some attention away from the legislative agenda. So that would argue that when there is an opportune time to make progress, you should make progress. Also, delays provide an opportunity for further criticism in society because they are getting the benefits of the agreement that have been promised. So the critics can focus on the perceived adjustments without having to say that they are losing the gains that will come once the agreement is implemented. It's a one-way bet. We saw that in the US when President Clinton delayed the ratification of the NAFTA. During the eight months in which we negotiated side agreements on labor and the environment, the opponents of the NAFTA had an open field to attack the agreement and no one responded. That would argue for action as soon as there was a good opportunity and the benefits greatly outweighed the risks. The bottom line is this is a political decision in the context of Korean politics and consideration of the United States should be secondary. Hopefully, the US Congress will have the same overall perspective of the Korean National Assembly, seeing the agreement as a highly valuable accord that is one piece of a very important bilateral relationship and will agree to implement it as soon as possible. I'm hoping that it can be done in the second half of this year. I think the best we can do is create the atmosphere that makes it more amenable for congressional approval in the US. When the US does act, I hope we have a partner that firmly supports the agreement like we do.

Q This morning I saw Mr. Bernanke on TV saying that the economic downturn in the US will end at the end of this year. I would like to know what predictions economic experts in the US are making about the business cycle in America. I hope that American business improves because the bad economy in the US has affected Korea very seriously.

A Some of my colleagues have worked very closely with Mr. Bernanke in the past. Our Deputy Director General has co-authored a book with him on inflation targeting. So, we are fairly close to his thinking. I think his projections, those of the fed, which have some of the most able economists in the country and who devote a lot of resources to their analysis, are usually very credible. They reflect the common view among American economists. This current quarter will be the worse one that we have had. We will have a gradual improvement, though weakening of the economy through the year, a bottoming of the economy towards the end of the year, and recovery next year. The concern is that the recovery won't be as rapid as one would hope for, and so we are still looking at a prolonged period of softness in the economy. Now that, I think, is a view that many of my colleagues share. We have among us former members of the Council of Economic Advisors, chief economics of the IMF, treasury officials and others.

There are views that are more pessimistic. Some of the great pessimists cannot be totally discounted because their forecasts last year have been more correct than the consensus economists. The downturn has spiraled downward faster than he had predicted. I think that we have more information now about the fragility of the banking system and the transition mechanisms that have spread the recession around the world. I am cautiously optimistic that we'll see modest growth in 2010 and hopefully stronger growth in Korea as demand begins to recover. One thing that we are concerned about is the response in Europe. That's why the G20 process is so important and the need to ensure that all of the major economic regions contribute to the global stimulus that is needed to recover from this deep recession. China has done quite a bit. Now, the United States has put in a large amount of money. Other countries including Korea have also committed substantial resources for recovery. We need to see that in Europe.

Q First, I would like to say that I was very impressed by your comments on "upgrading" rather than "renegotiating" the KORUS FTA. As for the environmental technologies being one of the key areas of interest these days, I would like to know what the American auto industry has been doing with regards to environment-related technology. And more broadly speaking, would you comment on how Korea and the US can collaborate in this field within the context of the KORUS FTA? Thank you very much.

A Well I'm glad that we pushed for one last question because that is a wonderful question to pose. This is an area where US and Korean industries can work more cooperatively. We are already beginning to see that in the development of new engine technologies. LG Chem has been a major developer of new battery technologies. This is one area where working together can boost productivity in both sectors and one the things that I had in mind when I suggested that we should look into ways in which we can work together to boost our global competitiveness of our industries. This is more important for the future. GM, Chrysler and Ford are not going to go back and make a lot of SUVs and go back to the production profile that they had 5 or 10 years ago. They are going to have to look at a new business model, one that will have to accommodate the new regulatory environment in which carbon will have a price and will affect the way things are produced, what is produced, and where it is produced. That is why, in essence, climate change is such an overriding challenge for our economies because if we want to price carbon, which has been free, we are essentially saying we are going to redistribute wealth both within countries and between countries. If we want major developing countries to participate in this global scheme -- to reduce greenhouse gas emissions -- some of the wealth or technology will have to be transferred to them as part of the global bargain. That will change the competitive climate of many industries that have a large carbon footprint depending on how the schemes are developed and whether you have carbon taxes or whether you have emissions permits or whatever type of regime is established to reduce the level of greenhouse gas emissions. This is new. There are lots of economic issues and legal issues. But, we are already beginning to see it take place.

I was in Canada last summer, and in one of the provinces in Saskatchewan, they are imposing a carbon tax on electric utilities. That tax is also going to include regulatory mandates that require upgraded facilities that would cost on average $1 billion for a medium size power plant. Well, someone is going to have to pay for that even if that cost is spread over the twenty to thirty year life span of the power plant. It will either be the taxpayer, or the shareholder of the electric utility, or the consumer of the electricity. If you’re paying more as a consumer of electricity and you’re an industry, then you’re going to be at a disadvantage against competitors on the other side of the border who don’t have that carbon tax or added fee. So it’s going to create competitiveness challenges that politicians are going to want to address right away to defend their local industries and workers. So, this is a huge challenge. That’s why I think climate change is one of the issues that Secretary Clinton talked about in terms of the need for broad cooperation between the United States and Korea and many other countries.

It is also something that individual industries have to think about as they go forward and probably none more than the auto industry because transportation has such a big carbon footprint. It’s one of the biggest of greenhouse gas emissions in the United

States. The ability to work together in this could yield great benefits and breakthroughs for the auto industries in both countries and give us both a competitive advantage going forward. Depending on the skills of the companies, researchers, and scientists, Korea and the US clearly have a good advantage given the wealth of human resources and expertise that we have in these areas. So, I see it as an area of opportunity and I'm very pleased that you raised that question because it is such a central issue going forward.