

Moving Forward on the KORUS FTA: Now for the Hard Part*

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Thank you very much. That was a very generous introduction; I wish my wife were here to have heard it. And my daughter, my daughter is that age where she goes to the computer and Googles things and she Googled me and said "Dad, you've written more books than JK Rowling," (of Harry Potter fame). And I said, "Yes, I have." She said, "Why aren't you famous?" So I think of that when I hear those kinds of introductions, the wisdom of children is sometimes needed to be kept prominently in mind.

It is a great pleasure to be back here and my Institute, named the Peterson Institute for Economics and the Institute for Global Economics have been partners for a long time. But even before that me and Dr SaKong were very good friends, starting when we were very fortunate to have Dr. SaKong as a visitor a few years ago when he produced a very influential book on the Korean economy. I am glad about that partnership and I hope it continues for a very long time.

It is a link to another partnership that has been around for a very long time, which is the US-Korea relationship where we have a very strong and durable alliance for the entire post-war period. And has been a central focus on efforts to build up the trade relationship. I believe the government officials have been successful in doing that. The Korea-United States Free Trade Agreement, or KORUS FTA, is a historic agreement that should enhance bilateral economic relations and reinforce our longstanding partnership on political and security matters.

Now before I get into a discussion of how I see this agreement and how it is being seen in Washington, it is important to make a disclaimer. I was a US trade negotiator many years ago and I am an adviser to the US government both the USTR and the State Department. But my views do not represent the US government. I think that is particularly important this week as Wendy Cutler is here to put the finishing touches to the FTA so that it can be signed on June 30th. I hope Dr. SaKong is right that I am influential, while my views may not represent those of the US government, they should.

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And I try to talk to the chief officials on trade so they know what I think and get my advice on how to proceed on US trade negotiation.

Now what we have seen in the KORUS FTA have been a very intense negotiation but one where they knew what they wanted from the start. And the only difficulty was trying to match the terms of the agreements with the political requirements at home. I think both sides were successful, the agreement was not perfect, no negotiated text is ever perfect, but the common objectives of both sides was so important that they came up with a deal that is truly win-win.

In economic terms, it is important because it opens up substantial new opportunities for trade and investment in goods and services. At the same time, it is controversial both here and in the United States in part because it is so important. Because it creates new competition for Korean and American firms, workers, and farmers and this require adjustment in both of our economies. But when you think about it, we have to undergo adjustment anyway everyday to meet the challenges of globalization. And this agreement should help us be better prepared for that continuing challenge in the global market place.

Both countries will benefit, though it is important to emphasize, the size of the gains for each country will depend importantly on how government policies and firm strategies respond to the new competitive environment.

Now, the agreement is comprehensive. If you try to look at it, it is a daunting task, if you go through it, it's over a thousand pages, many of it in cryptic trade-negotiators' jargon. It is important to know that it included compromises on several important issues especially at the end of the day in negotiations here at the end of March and the beginning of April that covered rice, treatment of the Kaesong Industrial Complex, and autos. Let me touch very briefly on some of the points of the agreement, which is important background for the way the FTA is viewed from Washington.

The FTA outcome on Autos, the discussion of it has been confused; there have been criticisms both here and in Washington. But if you look at what is being done and how it changes the situation. The outcome on autos makes both sides better off than they would be in the absence of the bilateral deal. The FTA should help the competitiveness of US and Korean firms in each other's markets. US exporters will benefit with a tariff

preference in competition with German and Japanese firms here in the Korean market. And elimination of US tariffs will help the Korean firms in the US market.

The agreement goes beyond tariff cuts, substantially reduces the burdens to tax and other regulatory policies. And also includes important investment provisions which should provide more protection to investors and also includes commitments. The pact goes beyond the WTO agreement on trade-related investment measures to bar performance requirements that require the transfer of technology (which could be of increasing importance given the industry focus on new hybrid-fuels and engine technologies). This has not been covered in the debate in either country as I have seen yet is a significant factor in what the agreement can do to strengthen the auto industry in both countries.

Now one can ask why did Korea give such a high priority to producers, why did Korea give such priority to eliminating the small US tariff and why have these provisions provoked such criticism among labor unions in both countries? The US car tariff is only 2%. The answer to the first question seems to relate primarily to Japanese competition in the US market. Korean exporters have had to price aggressively in the US market to compete with Japanese-made cars to compensate for currency movements.

The won/\$ rate has appreciated markedly in the past two years while the yen has weakened against the dollar. Korean profit margins have been squeezed as Korean manufacturers try to compete on price and have to swallow some of those margins. In these circumstances, while the swing in the won/\$ and yen/\$ rates swamps the impact of tariff reforms, the immediate 2.5 percent tariff reduction does provide a small cushion for Korean exporters in a highly competitive market. Such price competition is good for US consumers, but adds further to the challenges facing the Big 3 American producers in their home market.

Labor unions in both countries also are unhappy with the deal. If you think about it, one or the other can't be right, either the Korean unions are right and the Americans are wrong, and vice versa, but there is one other possibility and that is that both of them are wrong and that is the case. It is understandable why US unions are concerned, they are reacting to declining employment trends in the US market and the stagnation in real wages in the US market and to new competition in the US market from foreign

transplants in the past many Japanese and German firms, but more recently from new production facilities by Hyundai and KIA which projects production in the US market to be 600,000 cars by the end of this decade. This has increased, what my friend Barry Eichengreen said yesterday is the angst in the American market, particularly American labor. It has resonated in some of the political debates including a speech made last week by Senator Hilary Clinton in which she denounced the KORUS FTA for its provisions on autos, I'll talk about that some more in a minute.

Let me turn quickly to agriculture, the negotiations would never have started if Korea hadn't been willing to put agriculture restrictions on the table. When the decision was made it did not mean there would be free trade on agriculture, there is almost no free trade agreement that has free trade in agriculture, but there has been significant liberalization for a number of products. It is noteworthy that the pact covers almost all agriculture trade between the two countries; it is also noteworthy that US agreed to remove rice from Korea's commitments. The political benefit of excluding rice outweighed the benefit of a modest increase in US sales under quota in the Korean market. Wouldn't have made much difference for US rice exporters, wouldn't have made much difference for our bilateral trade but would have greatly complicated the politics of the deal, that point was brought forward to us early on in the negotiations aggressively and consistently by the Korean negotiators and towards the end of the day this was a political decision made in the White House that this would be a concession made for harmony and the successful conclusion of the deal.

Now there is one other agricultural product that is central to this agreement and that is beef. The main barrier to the Korean market is not covered by the FTA provisions but relates to the health regulations established after the BSE outbreak in 2003. But the recent determination by the World Organization for Animal Health should allow Korean regulators to renew certification of US beef products and hopefully that process is underway. There have been some bumps in the road, both sides having been working on that and I hope it can be resolved. It is clear from the political debate, if the beef issue is not fully resolved then the Administration will not submit implementing legislation for the KORUS FTA to Congress.

One of the biggest supporters of KORUS FTA is Senator Baucus, the Chairman of Senate Finance Committee and his support is particularly important because of the need to counter the "squeaky wheels" from other legislators that are concerned about

protecting their own constituents. But Senator Baucus will not do anything that harms his cattlemen and I think this is a key block, if this is not resolved it will be difficult to move on the political process in the United States. I can talk a bit more about this later. One area that deserves much more attention in the agreement and will get underrepresented in this talk as well is the results that were achieved on services. If you think about regulatory reform in services was one of the key objectives of the Korean side upon entering into the negotiations and indeed it was a key objective of US negotiators to improve access for trade and investment of services in the Korean market. For the United States, FTA provisions on trade and investment in financial services, express delivery, and professional services (such as legal and accounting services), create significant new business opportunities. And there were numerous Korean “concessions”, in the parlance of trade negotiators. But all these Korean “concessions” are good news for the Korean economy and for Korean companies and workers. The ancillary benefits of Korean regulatory reforms and more productive service providers accrue across the industrial economy and it is key to the objective of boosting productivity and economic growth in the Korean economy. I know there are members of this group who have worked very closely on this and are experts, including Dr. SaKong. It bears mention this is an area where the results of the FTA go in lock step with the economic strategies of the Korean government.

There is one area of services that is deficient. That is in its lack of obligations regarding the movement of natural persons. This is the fault of the US negotiators whose hands were tied by a Congressional mandate that “immigration” issues broadly defined could not be discussed in the context of a trade pact. As a result, the FTA does not expand the H-1B visas for Korean nationals; despite the inherent need of many US firms for qualified workers. However, the United States and Korea have been discussing, in parallel with the KORUS FTA, the inclusion of Korea in the US Visa Waiver Program, with the expectation that the Administration will qualify Korea for this preferential treatment in the very near future.

And indeed at a meeting of the Korea-US Business Council last week in Washington, Chris Hill gave a short talk and mentioned how he was working very hard to make this a reality in the near-term.

Let me mention one more sensitive point in the negotiations before I turn to the debate in Washington. And that is on the treatment of production in the Kaesong Industrial

Complex. The two partners share a common objective of promoting cooperation on security issues in Northeast Asia and on encouraging the process of policy reform in North Korea. That is where we have common objectives; we have pursued different tactics in the pursuit of those objectives. And the challenge for the trade negotiations in the KORUS FTA was bridging the gap of that tactical divide to come up with a common approach for moving forward. The agreement does *not* accord trade preferences to goods produced in the Kaesong Industrial Complex but it does create a process for future consideration of such a development, if the economic and political situation on the Korean peninsula changes as desired by both FTA partners.

This was a very thoughtful compromise, I suggested a similar type of arrangement in a paper I presented to both governments a year ago, I think they found a way that the priorities of both governments can be met in a way that makes the KORUS FTA a living agreement that can expand as favorable conditions are created on the Korean Peninsula.

This is all relatively good news, the confusing news on the FTA is that why are we still talking about negotiations. Let me try to explain this and explain why Wendy Cutler is here and why I am optimistic that there isn't a real major problem in finishing the final text and having it signed next week.

The conclusion of the KORUS FTA negotiations in early April 2007 took place while another set of high stakes trade negotiations—those between leaders in US Congress and the Bush administration—were still being contested. At issue in the domestic talks was nothing less than “A New Trade Policy for America” and the start of a process to restore bipartisan support in the Congress for US trade initiatives after a decade of fractious partisanship by the Republican majority that controlled both the House of Representatives and the Senate until January 2007. If you look at major trade legislation in the past decade only a handful of Democrats had voted for it and it was only a very, unusually tight support among Republican members that allowed major trade legislation to pass by one or two votes on various occasions. That obviously wasn't going to stand up with new Democratic leaders with new Democratic priorities that had been brazenly ignored, is a diplomatic way of putting it, over the past six years by Republican leadership in Congress.

So this negotiation started early this year and was thought that it would finish before

trade negotiations finished between the United States and Korea. But there are a number of political obstacles representing real problems in trying to bring together a very fragmented Democratic caucus in Congress. And a deal was only reached on May 10th of this year, that deal included commitments by the Administration to re-craft its FTA template to give more priority to labor and environmental rights and obligations and to address other issues including pharmaceuticals. This deal gave a "green light" to go forward with the four existing trade agreements that had not been ratified by Congress those were with Peru, Panama, Columbia and Korea. It promised very strong support among the Democratic caucus for the Peru and Panama agreements. But members of the House of Representatives cautioned that they still had major concerns with the agreement with Korea, particularly relating to the auto provisions.

So since May 10th, we have had a situation where the lawyers trying to take the new provisions for labor, environment and a few other issues, primarily drafted because of concerns of low levels of labor protection and environmental abuse in Latin America but noting that this requires that a common template needs to be applied to all four countries.

This is the process going on, these are the legal changes and suggestions that were sent to the Korean negotiators last weekend. I should note that from the beginning of this process, US and Korea officials have consulted very closely about the negotiations with Congress and what Congress would like to see in a trade agreement and have done so extensively since the agreement was concluded last April. So it is no surprise that Korean officials know very well the areas that require further clarification and some argumentation particularly in the area of labor standards. None of these areas in my view create any obligations for Korea that are not already consistent with current Korean law practice and with Korean commitments. Obviously these provisions are still confidential but when the debate first broke in the public about these additional demands by Congress, public debate understandably questioned whether this was going to require a renegotiation of provisions particularly on autos given the opposition that had been voiced by some legislators representing auto constituencies. From what I understand there is no changes requested in any substance of provisions on liberalization in this agreement. There are additional procedural requirements on labor and environment and a few additional rule-making additions, some of which could actually be more favorable to the Korean side than the original text.

In pharmaceuticals, for example, the views of the Democrats in Congress are closer to the original Korean negotiating position than the position of the Bush Administration. So I don't believe this process of consultation the completion of the drafting of the legal text will be a contentious one this week and I fully expect that there will be a consensus on the text so that the two Presidents can sign it by June 30th.

In my last few minutes, let me talk about the Congressional debate going forward. Assuming that I am right and I am sure that I am right, what happens after June 30th, particularly in the United States? Right now, there has been a rather one-sided debate in Congress, without a "signed, sealed and delivered" text, the proponents have been rather quiet. Most of the lobbying that goes on in support of trade agreements occurs in the context of specific implementing legislation. So the opponents have had an open-field to voice their concerns without any rebuttal. Congress is now hearing the "squeaky wheels", especially from Detroit. Some feel disadvantaged by the KORUS FTA; others seem to be opposing the trade deal in order to leverage beneficial changes in domestic policies of interest to their industry.

If you look at the US car companies and the opposition by Chrysler and Ford to this deal, Chrysler and Ford are not going to resolve the problem by selling 20,000 more cars to the Korea market. That would be a four-fold increase in their current shipments and that would make a difference for their problems, what Chrysler and Ford need is a relief from the legacy costs that were derived from very generous labor contracts signed twenty years ago that require extensive payments for pension and health care costs for retired workers and others that placed them at a competitive disadvantage in a very price competitive market. And I think at the end of the day, much of the opposition from the auto sector in the United States is really focused, leveraging changes on domestic changes in the United States and trying to ensure that the trade policy debate in the US becomes a debate on the competitiveness of US industry, a much more constructive criticism than just protectionism. And in that respect, the Democratic leadership is moving in the right direction, whether the Republicans can command enough political force to deal with them in the waning days of the Bush Administration is another matter.

Now the ratification debate can be contentious. To say that here is to state the obvious, if you just reflect that the economic benefits of the pact will be weighed with the adjustment costs just as they are being done here in Korea. In addition though in the

United States, proponents will argue that the deal is needed to counter the discrimination that US exporters and investors face due to trade agreements between Korea and other countries. And here, the conclusion of the FTA between EU and Korea if it occurs this year or next year will be further impetus to Congressional interest in ratifying the trade agreement because they will see that many of the benefits to be derived from the Korean market will have to be shared with European firms in the not too distant future. There are also concerns in Congress to ensure that the growing wave of bilateral and regional arrangements among East Asian countries continues to include the United States. Ultimately, however, the Congress will vote in favor of the KORUS FTA because of the durability of the US-Korea alliance over the past half-century, our common objectives in promoting peace and prosperity on the Korean peninsula, and the breadth of the US commitment to the East Asian region.

When will Congress vote on implementing legislation for the KORUS FTA? Right now there is no clear timetable. The current session of Congress (through the 2008 presidential election) has an unusually large number of prospective trade votes on its legislative calendar and some of these votes have to occur very soon particularly the vote on a new farm bill that has very strong trade implications. But there is also an extension of Trade Adjustment Assistance which is of priority concern to the Democrats and the possibility of extending the Trade Promotion Authority for the Doha round if those talks achieve a breakthrough in the coming weeks. Right now, the trade ministers of the G4 countries, US, Europe, India and Brazil are meeting in Potsdam to try to find a way out of the deep hole that they have dug for themselves over the past few years. And I would be happy to go into that if there is interest.

All of this is going to make it difficult to move very quickly on implementing legislation, my best guess is that the Administration will be able to start the process of implementing legislation later this fall or early next year. I think the administration will decide to invest substantial political capital in pushing legislation and a vote could well occur once some of the important primary elections to choose candidates for President are conducted in early February of 2008. After that primary there will be a little bit more flexibility by Democrats willing to stick their head up and vote positively for a trade deal without suffering retribution from the labor unions.

That particularly holds for Senator Clinton, however her position was so straight forward and un-nuanced that it left her little flexibility to move off for opposition, that was

a political mistake, one that her husband didn't make many years ago when he was running for President and had concerns about the NAFTA, but he balanced his concerns for the NAFTA so that he could embrace it as his achievement. That kind of political skill is something that Senator Clinton can develop or enhance, she is certainly smart enough and tough enough but this is an area of concern and her comments about the KORUS FTA were severely criticized by the major US newspapers.

That leaves us with the open-ended question about when this agreement will come to fruition and when it will be implemented. I think there is a good chance that it will occur by early next year and by this scenario that the US Congress and the National Assembly will act around the same time and which would be an encouraging coincidence. But what is more important is that both countries begin planning for this new era of enhanced trade and investment, that firms begin their strategies and build into their strategies the new competition and new opportunities that will be developed by this agreement. So that both economies do better and workers in both countries with the help of the FTA achieve the development and growth goals that we both aspire to.

Questions & Answers

Q Thank you very much for your presentation. What strikes me in what is going through the whole presentation is politics, here we are with economists talking about FTAs but the logic of FTAs economically it seems to be quite obvious but when there is politics in the way, and that is in the way, then something goes wrong. It means in fact the most important thing in getting an FTA accomplished is communication, selling it to the greater public in order to get away politically for the politicians that have to make the decision politically. That seem to be the heavy obstacle for discussions and there are a few things that I have looked at that have to be solved in that way. One is the present discussion for the renegotiations, for the Korean public that is a step-back for the Korean negotiators to go to the table again and renegotiate. You said there is no real renegotiation, but there are some real issues that have to be ironed out. The point is that there should be something for the Korean politicians to come back to the public again, what in your view can the Koreans get out of these renegotiations so that they can come home safely for their political skins. Do you have a view on that? Thank you.

A Well, it is a very astute point you made before the questions. If governments could do everything that economists tell them to do, we would be out of business but we would enjoy a much higher standard of living. There are many reasons why one enters into FTA negotiation or a WTO negotiation for that matter. You need the help of an international bargain to change your own domestic policies. And I know from my own I experience the primary US objective during the Tokyo Round was to "tie my own hands" and to get other countries to "tie my hands" in a way that Congress would accept it. At that point the US did not have an injury test in US countervailing law, so we could countervail whenever we saw a subsidy without respect to injury or not. Similarly now, there are a number of regulatory reforms that governments find difficult to get through the domestic political process in the United States, Korea and many other countries. And often the added benefit of a trade deal or a trade commitment will smooth that process.

But you raise a valid point about the process that is going on this week. In any negotiation when the negotiators shake hands, the lawyers get to work and that is when you have to grab onto your wallets. What is supposed to be just a legal scrub can inadvertently or on purpose lead to changes in substance requirements in the agreement. So you have to be careful in this legal editing to ensure that the agreement is internally consistent but does not go beyond what the negotiators had originally committed to. That process has been underway since early April, what is being added to that process is additional clarifications in the areas of labor and environment. If you actually saw the respective changes, they are to the legal text that was agreed to by officials in the beginning of April.

Still your point is correct, there is a public perception of what do the Koreans get out of it, why go back and actually have to have this consultation even if it is augmenting areas, which are fully consistent with Korean practices. I think that as with my talk there might be one area where Korea will benefit but you would have to talk to experts in the pharmaceutical industry to get a clearer appreciation. I just had a very scant reading of this and did not have time for a detailed analysis.

The other area that Chris Hill was talking about last week of trying to accelerate the eligibility of Korea for the visa-waiver program, that has never been part of the negotiation but has always been an area where the US said they could do something constructive to the partnership for goodwill. And certainly this is a good time to send a

positive signal that this process is nearing its completion. That's what I would recommend to the US side but they have to first and foremost have to ensure that they have a deal that they can sign on June 30th otherwise the benefits for Trade Promotion Authority will expire.

Q Thank you, Jeff for such a secant but comprehensive review of the matter. I have three substantive questions but I have two quick technical questions. Like implementing legislation, do you mean something else other than ratification? And also I thought there was certain deadline by which your Congress has to ratify the agreement after the submission of the bill by the Administration to Congress, your speech indicates that there is no such deadline, did I get you right?

A Let me correct you on those points. Implementing legislation under the US system means legislation that changes US law to bring it into conformity with the obligations undertaken in the agreement. Unlike other legal systems, the agreement does not have a direct effect in US law. So Congress has to translate what it think the US has committed to and then change the appropriate laws. And this has led to in some areas confusion and dispute, particularly in anti-dumping where the Congressional interpretation of international agreements is different from what everybody else thinks. But in the context of that implementing legislation, the Congress also accepts and ratifies and approves that agreement and then implements it into US law.

In terms of the deadline under the Trade Promotions Authority, once an agreement qualifies for Fast Track procedures under Trade Promotions Authority that implementing legislation can be submitted at any time. There is one small requirement, first there has to be a report from the US International Trade Commission on its assessment on the agreement. That should be done quickly and should be finished by the end of the summer. Once that report is submitted to Congress, the Administration can implement legislation at any time, it can delay and not submit it for years it would still qualify for Fast-Track procedures. Once the implementing legislation is submitted to Congress there is a time-clock and within a short period of time the Congress has to vote on the agreement without amendment up or down, so that is the time limit, that clocks starts when the implementing legislation is formally tabled by the Administration.

Q Does that have any time or specific time limit?

A Yes, it is 90 days.

Q The 90 days is not since the submission of the bill but since the submission of the implementing of the bill. And there is only one vote on implementing bills and that would constitute ratification?

A Yes.

Q Ok, then I will come to the more substantive question. The biggest disappointment to me as an economist about the contents of the agreement was the portion on services. I was a bit surprised when you mentioned that while the Korean government aim in pushing in negotiations in this area was to push regulatory reform in Korea that they in fact have achieved many concessions. My disappointment was not due to the fact that there was no progress on the movement of natural persons, let's put that aside. Apart from that issue, where are the areas, the three most important concessions that you can cite in support of the services agreement. Financial, some very few minor ones I thought, can you cite anymore?

A Insurance, express delivery. So essentially infrastructure services, provisions on financial services, particularly insurance, distribution services, telecommunications.

Q Also the Korean government and many trade economists like myself including Dr. Ahn, who is sitting next to me, were saying that a major benefit of the FTA on the Korean economy would come through its impact on direct foreign investment in Korea. What are the key contributors among the agreements to this positive affect on FDIs, maybe the ISDE agreement, that constitutes a major item. How much of a significant impact will this be on the FDI in Korea and through what channels?

A Well that one, Dr. Ahn gave a very detailed paper discussing this in much more detail and I am sure he will be happy to give you a copy. But I have never thought that the Investor-State dispute provisions are a major factor in investment decisions. You don't

plan your investments on the availability to file disputes, you look at the positive benefits you can accrue from your investment, there the provisions in the FTA on transparency, some provisions on the investment chapter on governance remove the restrictions that made it difficult for some foreign firms to do business and provided better guarantees or a better safety net of consistent policy regime than you get from the dispute policy settlement provisions. I am a big proponent of transparency and that will be one of the important features of this agreement.

Q One more footnote to what Dr. Ahn has done, I frequently ask him what has been done in Korea to promote FDI, in answering to me he invariably come up with a long list of what should be done instead of what has been done, that is just a note. I am surprised your lecture did not refer to trade remedies, I thought there was substantial progress from the Korean government perspective, in terms of soft-peddling the United States approach to anti-dumping measures and so on. How do you assess the significance of trade remedies from that perspective?

A Here again on trade remedies, the procedures adopted in the agreement are for consultation and information flow between the two governments. They don't fundamentally affect the way petition cases are brought or adjudicated, so that is not what many foreign observers would like, in reference to US or European practices for that matter. But if you look back at the incidents of US anti-dumping cases against Korea, a lot of it is steel. We have had a restructuring in our steel market and because of the relatively good economic conditions we haven't had that many cases as in past years but that could change if there was a sharp downturn in the US market. That restructuring as well as a series of successful litigations in the WTO which have pared back some of the certain specific procedures in the conduct of US anti-dumping investigations which have been deemed to be inconsistent with WTO rules which I think will make it a little more difficult to pursue the broad based cases that were brought in the past. So when I counseled people on this initiative before this started, given the Congressional view on anti-dumping, which is almost theological, you can equate it with the Korean view on rice. There are procedures that create better information so that if there is a case it is based on solid evidence brought from both sides.

Q With regard to the ratification, early ratification is very important for both countries. Last week I was in Washington to take part in the Business Council meeting, at that time I met many lawyers and lobbyists who are working for the KORUS FTA, unfortunately I heard some pessimistic views of the ratification process in the US Congress. According to their comments there is little chance for early next year but because of the US Presidential election it might be very difficult to ratify next year. In that case the ratification process might be delayed until 2009. What do you think about these views?

A To be honest I heard the same views and they were not very convincing. In fact I had a discussion with Tom Hubbard, former Ambassador here, and he remarked that he as well was not very convinced. Many people say that well we have a Presidential campaign therefore we can't consider controversial issues. Well, if that were the case we would not have concluded the negotiations because our Presidential campaign started about six months ago. We are having a two-year campaign for President right now. That is not going to stop the United States from moving forward on an agreement that is in our profound political and economic interest. And I mentioned a tactical issue of certain Democratic Primaries, certainly the Michigan Primary in early February where you would want to schedule a vote not immediately before Democratic members want to go before Union workers in a Primary Election. But I would not see any bar for moving forward with that later in the first quarter of next year. I should caution that the debate is very one-sided because you are not hearing the proponents loud and clear, because that lobbying will start taking place when they have a concrete piece of paper that they need to see acted on by Congress. So that gives critics primarily in the auto sector a free ride right now. That hopefully will begin to be reversed once the agreement is signed and proponents come forward and say we have a lot to gain from this agreement besides which the critics from the autos have their facts wrong.

Comments On that issue I would like to put a footnote. I would like to send a message to American proponents of this FTA. We have our own Presidential Election this year and then more importantly we have a National Assembly Election next year. I think it would be in my view the best thing that could happen that if the US Congress ratifies this pact as soon as possible then the Korean National Assembly can vote for it this year rather than next year. If we go to next year which is closer to our National Assembly Elections then I think many of the Congressional members may not

participate in the session so it is my personal view that I think the Korean National Assembly may wait and see what is happening in the US, if they were to pass it then the Korean National Assembly would be able to act on it this year. So I think it is very important that they act on it this year rather than next year because it would be very difficult to get approval next year.

Q A very short and legal question. You explained about the implementation legislation, for your information, the Korean Constitution Article 6 to 7 where an agreement pact ratified by the National Assembly will have equal legal effectiveness as Korean domestic law. I wonder if the US has a similar clause or not and also the US is a Federal System so even though the US approved that kind of agreement will the State government follow the US government or not. The reason why I ask this question is because we had a funny situation in 1968 when I was in the Bank of Korea, the Foreign Exchange Bank was set up and they were going to establish a New York agency, those experts went to Washington D.C to get the license and Washington said that is the territory of the New York Department and so they wasted ten days in Washington playing golf and came back to New York and applied again. That's the reason why I am asking that one.

A The legislation that I was talking about in response to Sukgil's question is to implement an executive agreement and therefore requires a simple majority of both houses of Congress, it is not a treaty, a treaty would be ratified by two-thirds of the Senate and would not require a vote in the House. And an executive agreement does not have a direct affect in US law, so the text of the agreement is not US law, it has to be translated into US law, some provisions are taken verbatim and applied into US law, others are not.

In the particular area that you mentioned in your example, there are differing regulatory responsibilities and in some service sectors and in particular states have primary regulatory function. So in those areas, the main states involved like in financial services you would have to deal with New York and Illinois, those regulators have to work very closely with the Federal regulators. In other areas there is a Federal preemption under the Commerce Clause of the Constitution. But I am not a lawyer, when I was at Graduate School I had three law students as room mates so that is the extent of my legal education.

Q I would like to come back to this political question in the FTA negotiations. If I am correct and I am not an economist per se but maybe I can make some assumptions, at the beginning of the Bush Administration we saw a lot of protectionism of American industries. There was the protection of the steel industry that he promised in his election and that he had to follow up and now controversially an opening of markets like this one in Korea to force the industrial sector to actually become more competitive. Is that a contradiction or is that something I have made up?

A No, it is a policy of two steps forward one step back. Where sometimes for political reasons you have to retrench in order to marshal political forces to move the liberalization process forward. I can't say that I think the Bush Administration followed the best strategy, there were bigger problems than steel, there was the Farm Bill that was passed in 2002 that led to an extensive increase in subsidies that are now confounding the negotiators in the Doha Round. That was not a political campaign promise it was as a result of the downturn that began at the beginning of the Bush Administration that created some adjustment pressures. And those adjustment pressures translated into political opposition. Now interestingly in both those examples, on steel, the safeguard actions on steel were removed ahead of time in order to facilitate the progress on trade negotiations and also because someone bright in Washington noticed that we were taxing some of our competitive firms by increasing the price of steel that they used as inputs for their products.

On agriculture, six weeks after the Farm Bill was signed, Bob Zellick went to Geneva and tabled a very significant proposal to drastically reduce US farm subsidies and tariffs. And perhaps it was obviously ambitious for that point in the negotiations but if we could of started from that point we would have had a very successful Doha Round a long time ago.

Q I would like to ask a few questions. After concluding the KORUS FTA, I met some Japanese scholars and businessmen and responding after seeing the KORUS FTA they said they should also take the initiative to be in free-trade talks with the US. My question is how long do you think it would take for talks to begin on a US-Japan FTA and how long it would take even after the expiry of Bush's Fast Track authority.

The second question is Korea is now really pushing what is the multi-track FTA policy and while pushing this policy into action, the Korean government should take into consideration the prospect of the Doha Round, the multi-lateral regionalism. So would you like to share your views on when the Doha Round will reopen and what are the major issues and how that is related to the ongoing bilateral free trade agreements and how that is related to Korea.

Q That's funny, I wanted to raise exactly the same two issues but I would have rephrased them in the following different ways. About the possible US Japan FTA, is there any political momentum in Washington or Tokyo towards launching a negotiation of that sort?

And secondly, now that all trading nations have negotiated or are actively negotiating FTA relationship among themselves and Korea has joined this and is now doing this with the EU and Canada. Is there any political momentum left towards re-launching the Doha Development Agenda?

A Either way you put it those are both good questions. Let me take Japan first, I was in Tokyo in late March as things were finishing up here and had some talks with some senior Japanese officials. When there was indications that rice would be excluded their eyes opened up and they said now we have an opening to move forward with the proposals that we have wanted to pursue for quite some time but we could not get past our Ministry of Agriculture. Perhaps they were a little optimistic because when the agreement was reached here in Seoul, officials from the United States and Japan were preparing for a summit meeting between President Bush and Prime Minister Abe in late April and that meeting included extensive discussions to start work on an FTA. Start work in a traditional Asian sense means begin a study, but when the meeting actually took place and you looked at the declaration that followed it did not go that far and in the ensuing weeks there was a concern in Tokyo there was a concern about the impact on the Upper House elections this summer and there was a backlash from the Agriculture Ministry that said even if you excluded rice there were other problems. I think they took the briefing paper from the Agriculture Ministry here.

So, the answer is yes there is great political momentum, there is interest in moving forward, there is unlikely to be any progress before the Upper House Elections and then it is a question of what will happen to the current administration. But as Dr Ahn

has said this is going to run up against the strain of Trade Promotion Authority. By the time the Japanese act, the United States will not have Trade Promotion Authority. And it is very unlikely that Trade Promotion Authority will be renewed as it is for the rest of the Bush Administration. There is a chance, and a fairly good chance I think, that if there was a breakthrough in Doha Round that Congress would give a short-term extension of Trade Promotion Authority to allow US negotiators to complete the Doha Round within a year and I will get to the timetable of that in a second. What this means for the US and Japan that in the near-term there could be work on studies and preparation, much like Korea undertook in the fall of 2004 but it would be difficult to launch trade negotiations until well on into the next Administration. That would be a benefit for Korea because it would mean less Japanese competition in the US market or at least maintenance of preferences for at least a few years.

Now on Doha, there are talks underway in Potsdam, as I mentioned, right now and I actually got an email from a reporter trying to cover those talks and it was a long rambling email because he was so bored because nothing was being reported or said. That is either good news that they are so hard at work that they don't have time to talk to reporters or bad news that they have nothing to say. And from comments I have had from top US officials in the past week, while hopeful for a breakthrough, are concerned that some countries including India have not been constructive. Indeed my assessment is that India's strategy is to be a free rider on these negotiations and they could very well succeed.

Now what are the prospects for the Doha Round? If there is a breakthrough among the G4 before the summer break at the end of July then Ambassador Schwab would have a rationale for going back to Congress and saying "give me an extension for a short period of time." Any breakthrough among a small group of countries still means in an optimistic effort another 9 or 10 months of negotiations, both to pass out what a breakthrough in agriculture means for negotiations on manufacturers and services and also to bring more countries, more of the major trading countries into the mix. And that is more of an additive process that will take time to develop. There is not enough time in my view to have a comprehensive package on services and because of that it will dilute the perspective outcome on manufactures and agriculture as well. Though Pascal Lamy severely criticizes me for saying this, I think they are focusing on a modest package that in other circumstances would not be acceptable. But when the alternative is a failure and a drift in multi-lateral negotiations for a number of years

while regional initiatives further proliferate in a way that deepens discrimination particularly in East Asia, I think it would be very damaging to the multilateral system to have a long-term delay in negotiations.

So if there were going to be a success, it is going to be a limited one, the deal would be concluded by the middle of next year. Which means it might not be ratified until the next administration. But that is a time frame that provides a glimmer of hope for the WTO, which could then lead to some further reforms in the institution that Pascal Lamy has been talking about for sometime. But it also means that the limited results on the multilateral level will further encourage countries such as Korea and others to go deeper on the regional front.

So for all the economists who have pledged allegiance to the multilateral system they've got their economics right, but the multilateral system is not productive enough to overcome the political demands that more be done faster. When you look at the alternatives, the more is for a limited number of countries at a faster pace but with more discrimination and inherent transaction costs for inheriting different policy regimes. This is covering a huge universe of issues, but what is required is the concern how do you take this mess that has been created and begin to integrate it back into a coherent whole which would of occurred if you could of had a productive multilateral system. And there in particular the Asia-Pacific region's proposals have been vetted to try to integrate or harmonize the regional initiatives in the Asia-Pacific region. And they varied from the ASEAN +3 to the much more broad based free trade area of the Asia Pacific which my colleague Fred Bergstein has been a proponent of, which is eventually trying to invigorate over a period time the initial vision for free trade and investment in the Asia Pacific region. It would not occur immediately, it would provide an umbrella over the existing arrangements, but it would provide a way of trying to harmonize and reduce the distortions and complications that have arisen by this network of this conflicting bilateral arrangements.

Q Is the US serious on that?

A The US is serious of this FTA-AP, it is a long-term project but interestingly Fred convinced the US Cabinet, they had a very intensive discussion a year ago about this before the APEC summit and President Bush made very positive comments about

studying the FTA-AP as one possible solution for moving forward for building stronger trade relations in the Asia-Pacific Region. It is an idea that is less controversial in Congress than Free Trade with Japan and it is an area where we could restore some momentum. But Fred suggests I do a more detailed study so I can demonstrate the value and drawbacks of this approach and we are in the process of doing that.