

## FTA IN DANGER

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The Korea-United States Free Trade Agreement is in trouble in Washington. The new Democratic leadership of the U.S. House of Representatives declared on June 29<sup>th</sup> that it “cannot support the KFTA as currently negotiated,” owing to what it characterizes as “deep-seated and fundamental problems in market access.” Korean authorities have angered the most important trade Senator, Finance Committee chairman Max Baucus (D-MT), with their delay in reopening their market to US beef. If the agreement were to come up for a Congressional vote this summer or early fall, it would almost certainly fail.

One problem is bad political timing. The presidents of both nations are typically regarded as “lame ducks,” with low public approval ratings and waning policy influence. This limits their capacity to combat interests and politicians wishing to defeat the agreement or restrict its scope. In Washington, this means that those who seek ratification must build broad, bipartisan support. But the problem lies deeper. For most of his presidency, George W. Bush relied upon a narrow, partisan political base to sustain his trade policy. Particularly excluded from meaningful policy participation was the senior Democrat on the House Ways and Means Committee, Charles Rangel of New York. When his party won the November 2006 Congressional elections and Rangel became the committee’s chairman, it was clear that a new approach would be required.

US Trade Representative Susan C. Schwab recognized this need. So did Rangel. And the New Yorker believed that the new political base for trade should be genuinely

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bipartisan. So in January 2007, Rangel and Schwab joined with the senior Republican committee member, Jim McCrery of Louisiana, in talks aimed at “re-establishing a bipartisan foundation in trade policy.” Democrats gave priority to their longstanding goal of incorporating core ILO labor standards in free-trade agreements. They also sought a strengthening of environmental commitments, and greater leeway for partner developing nations to balance intellectual property commitments on pharmaceutical products with pursuit of public health needs. These talks took longer than expected, but on May 10<sup>th</sup> the Democrats—led by Speaker Nancy Pelosi—announced bipartisan agreement on “A New Trade Policy for America” that achieved the Democrats’ main goals.

The labor-environmental accord applied to all pending free trade agreements, and its language was incorporated in the final text of the Korea-United States accord. But the May 10<sup>th</sup> agreement did not address other provisions of this FTA, which was being negotiated over the same time period. Driven by deadlines in US trade legislation, Washington and Seoul had to agree on the basic substance by April 1<sup>st</sup>, and the final language by June 30<sup>th</sup>. And key Democrats were particularly concerned about the impact on trade in automobiles. The thrust of their argument was that Korean concessions on tariffs and special taxes would not be sufficient to open up the Korean car market, whereas removal of US auto and light truck tariffs would give Korea’s automakers substantially enhanced opportunities in ours. Already, they noted, bilateral trade in motor vehicles was extremely unbalanced, with 2006 US imports of 700,000 autos compared with under 5,000 in US exports, despite years of prior bilateral negotiations aimed at opening up Korea’s market. On March 1st, a group of fifteen, predominantly Democratic, senators and representatives led by Rangel, House Trade Subcommittee

Sander Levin (D-MI) and Senator Carl Levin (his brother, also from Michigan), sent President Bush a negotiating proposal that would have conditioned reductions of US auto trade barriers under the agreement on major improvement in actual US sales in the Korean market, (and reserved any reduction in light truck tariffs for the multilateral Doha round negotiations). This proposal was unacceptable to the Bush administration and certainly to its Korean counterparts. However, the Democrats also complained of a lack of consultation with them—and with the US auto industry—by US trade negotiators as the bilateral accord was being finalized.

These concerns find resonance among the considerable number of Americans who believe that Korean nontariff trade barriers are endemic and may not change fundamentally under the agreement. But they also respond to protectionist sentiment, to considerable labor and industry opposition to any expansion of US auto imports, fair or unfair, and to the larger group who believe that trade agreements have not brought benefits to the average American. Moreover, by reaching the May 10<sup>th</sup> agreement, Pelosi and Rangel rendered themselves vulnerable to attack from the substantial number of Democrats who feel the party should aggressively oppose *all* new Bush administration trade-liberalizing agreements. By taking a tough stand on the specifics of the Korea FTA, they can balance their trade position overall.

The results could be bleak. Under current political conditions, Congress is likely to enact FTAs of marginal economic importance with Peru and Panama, but reject or block consideration of a deal with a trading partner of enormously greater economic importance! In so doing, it would do considerable damage to broader US and Korean interests. Koreans need to understand that this danger is real, and look for ways to

counter it. On the positive side, they need to admit US beef without delay, and thus enhance political support from a range of US agricultural interests that have much to gain. They will also need, however, to keep an open mind about possible Korean actions outside the agreement that would respond to legitimate US concerns. And they will need to be patient, not demanding US action unless and until the Congressional votes are there.