

Free Trade Across the Pacific?

The Political Economy of a Korea-US FTA

I. M. (Mac) Destler

School of Public Policy
University of Maryland*
and

Institute for International Economics*

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This report addresses an issue at once simple and complex: whether Korea and the United States should enter into a bilateral free-trade agreement. It concludes that they should: that such an agreement is both desirable and feasible for both countries, and beneficial for East Asia. But the main focus here is analytic, not prescriptive, and a detailed examination of forces at play shows that a Korea-US FTA faces serious obstacles in each.

The pages that follow spell out both: the *promise*, and the *problems*. We begin with a general discussion—raising broad issues, presenting facts and assertions that are often not documented until later in the report. Next comes economic and political background, centering on developments in the two countries that are particularly relevant to an FTA negotiation. Then we will move to the specific substance and politics involved, highlighting the most serious problems and how they might be resolved. The conclusion seeks to put the issue in the context of 21st century East Asia and its evolution.

Introduction: First Thoughts

At first glance, a free-trade agreement (FTA) between South Korea and the United States seems a deal made in heaven. In Washington, the Bush administration

has been criticized for choosing second- or third-tier trading partners for its FTAs: Australia, Singapore, Chile, Morocco, Bahrain, the Dominican Republic, and the states of Central America. But Korea is clearly first-tier: ranking number seven among all nations as a market for US merchandise exports and number seven globally as a source of US imports.¹

Viewed from Seoul, the market across the Pacific looms even larger: the United States is second as a buyer for exports; second as a source of imports.² And Korea has recently concluded FTAs with smaller states—Chile, Singapore—with the explicit goal of preparing for deals with *its* larger trading partners.

The potential strategic significance of a bilateral FTA is undeniable also—the two nations are allies dating from the war of 1950-53 and the security treaty that followed. Korea has provided troops in support of US operations from the Vietnam War of the 1960s and 1970s to today's ongoing conflict in Iraq. They are necessary partners in removing the nuclear threat from the north; a strong bilateral relationship can buttress both of them within the in dealings within the East Asian region. No

¹Bureau of the Census, U.S. Department of Commerce, as reported periodically in *FT 900: U.S. International Trade in Goods and Services*.

Globally, Korea ranks sixth in the world as a trading nation (just behind Canada, ahead of Mexico) if the European Union and China-Hong Kong are treated as economic units. If their individual components are counted separately, Korea ranks twelfth in exports and thirteenth in imports. See World Trade Organization. *International Trade Statistics 2004*, Table 1.5: "Leading exporters and importers in world merchandise trade, 2003."

(http://www.wto.org/english/res_e/statis_e/its2004_e/its04_overview_e.pdf)

²US Central Intelligence Agency, *The World Factbook*, available at: (<http://www.cia.gov/cia/publications/factbook/geos/ks.html#Econ>)

wonder Jeffrey J. Schott argues, in his broad review of US FTA policy, that a deal with Korea would produce “big dividends in economic and foreign policy terms,” and should therefore be given priority.³

On closer inspection, some of the bloom comes off the rose. On the economic side, the United States has longstanding problems of access to Korean markets: the most recent report of the US Trade Representative on Foreign Trade Barriers details thirty-seven pages of difficulties American producers have faced selling goods and services to Korea: only China (58 pages), the European Union (49) and Japan (45) receive more extensive treatment.⁴ Moreover, specific political problems in both nations make it unclear whether either can and will give what the other wants most: market access for films, agriculture, automobiles, and services on the US side; concessions on anti-dumping law for the Korean.⁵

And the broader political base for FTAs is less than perfect on both sides. Anti-American sentiment remains substantial in Korea, particularly among youth, though it has declined from its 2002 peak.⁶ Seoul’s diplomacy has been moving away

³Schott, editor, *Free Trade Agreements: US Strategies and Priorities* (Institute for International Economics, 2004), p. 377. He advocates FTA talks with Brazil for the same reason.

⁴Office of the United States Trade Representative, *2005 National Trade Estimates Report on Foreign Trade Barriers*, , www.ustr.gov/Document_Library/Reports_Publications/2005/2005_NTE_Report/Section_Index.html.

⁵These problems are spelled out in the body of this report.

⁶According to one balanced Korean analysis, “The surge of anti-Americanism in December 2002 [in response to incidents involving US military forces] was qualitatively different in size and duration. . .by far, the largest anti-American demonstration ever to be held in South Korea.” (Lee Nae-young,

from overriding focus on the US relationship to the multipolar engagement appropriate to a middle-sized power among giant neighbors. President Roh Mo-hyun has implicitly signaled greater autonomy vis-a-vis the United States in his talk about playing the role of “balancer” in Northeast Asia. And his government’s legislative base is shaky: the President’s party lacks a majority in the National Assembly, and the government “faced great difficulties in getting the National Assembly’s ratification of the Korea-Chile FTA.”⁷

In Washington, Seoul’s move to a more sympathetic policy toward North Korea has generated anxieties among Bush administration policymakers—complicating efforts to build a united front against Pyongyang in the ongoing six-party talks, raising concern about the long-term relationship. And bitter polarization between Republicans and Democrats in the US House of Representatives has undercut the political viability of trade agreements, as illustrated by the overwhelmingly partisan, razor-thin, two-vote margin by which the House approved the Central American Free Trade Agreement (CAFTA) in July.⁸

“Changing South Korean Public Opinion on the US and the ROK-US Alliance,” Paper for workshop on “America in Question: Korean Democracy and the Challenge of Non-Proliferation on the Peninsula,” May 10-11, 2005, Seoul, p. 2.) Since 2002, the author finds that anti-Americanism has “substantially waned,” but there remains “sharp polarization. . . based on age groups, ideological orientations, and support for political parties.” (pp. 3, 8)

⁷Jin-Young Chung, “South Korea’s Turn to Regionalism and Its Implications for East Asian Economic Cooperation,” (Korea Economic Institute, forthcoming), draft page 7.

⁸The vote was 217-215, with Republicans voting 202-27 and Democrats 15-187. (The one Independent member voted NO.)

It is doubtful that there are many people in Washington who want to relive the CAFTA experience. So as the George W. Bush administration considers whether to negotiate a US-Korean free-trade agreement, the political test will be whether some sort of bipartisan trade policy coalition can be resurrected. For the government of President Roh Mo-hyun, the test will be whether a country that has moved away from economic and political dependence on the United States can take the tough trade and economic policy steps necessary to consummate a bilateral trade deal that looks like it increases such dependence.

Hence, to summarize these “first thoughts,” a free trade agreement between the United States and Korea is (1) exceptionally promising and (2) politically complicated on both sides. The pages that follow will put some flesh on those bones. The deeper discussion begins by asking why each nation might choose the other as an FTA partner. It follows with a look at the last forty years—economically, politically. With this background, the essay will then address the specific political economy of the bilateral free-trade agreement that both Seoul and Washington are contemplating.

Korea as an FTA Partner for the United States

Why would the United States choose South Korea as an FTA partner in 2005? There are ample reasons for caution. Bilateral political relations have become more difficult in the 21st century, with the two nations pursuing different approaches to relations with

North Korea.⁹ The Doha Round of multilateral trade negotiations demands increasing attention from the new, inexperienced, and heavily burdened United States Trade Representative, Rob Portman. And Washington is already in the midst of FTA negotiations with Thailand, Southern Africa, the Andean nations of Colombia, Peru, Ecuador, etc., etc. It is considering a deal with Egypt, a priority because of its critical role in the Middle East. Why should it think of adding Korea?

In fact, there is a strong case for the United States to launch talks with Korea, even moving Korea ahead of others already in the queue. It is, in some respects, an obvious case, built upon the current and future importance of Korea to the United States, economically and politically. It begins with economics. But reasons at least as powerful lie in the broad geopolitical sphere.¹⁰

Economics. Korea has long been an important trading partner for the United States, on both the export and the import side. In 1991, it ranked sixth among nations as a

⁹This difference was signaled by US President George W. Bush in March 2001, when he publicly rejected the negotiating approach of his predecessor, Bill Clinton (and more broadly, Korean President Kim Dae-jung's "sunshine policy" toward the North), at a joint press conference with Kim following their White House meeting.

¹⁰A January 2004 GAO report lists "six factors" driving US choice of FTA partners: country readiness, economic/commercial benefit, benefits to the broader trade liberalization strategy, compatibility with [broader] U.S. interests, Congressional/private sector support, and U.S. government resource constraints [i.e., availability of staff to conduct the negotiation]. These are a consolidation of thirteen criteria specified by US Trade Representative Robert B. Zoellick. Government Accounting Office, *International Trade: Intensifying Free Trade Negotiating Agenda Calls for Better Allocation of Staff and Resources* (GAO-04-233). The discussion that follows incorporates the first five, since the sixth is, in this case, a function of US trade priorities.

market for US exports and eighth as a source of US imports. In the past three years, Korea has been No. 7 in both categories. In the interim, there were actually two years (1995 and 1997) when bilateral trade showed a surplus on the US side. The norm, of course, has been bilateral trade deficits—as with *all* major US trading partners. This is only natural, given the large—and recently burgeoning—US global trade imbalance. But Korean trade with the United States is more balanced than that of the average trading nation.¹¹ This is particularly true if one compares Korea with other East Asian economies.¹²

Combined with Korea's overall trade importance, this relative balance should prove helpful in the US political arena. More helpful may be the fact that aside from those nations with which the United States already has free-trade agreements, Korea is the most important economy with which an FTA seems feasible.¹³ China and Japan would pose daunting substantive and political problems, in part because their US trade

¹¹In the 1991-2005 period, Korean products comprised an average of 3.0 percent of US imports, while her purchases from the United States were 3.4 percent of US exports. (In 1985-90, by contrast, imports from Korea were relatively larger (3.85 percent of the US total) than exports to Korea (3.3 percent). The calculations in this section of the report are based on data from the Bureau of the Census, U.S. Department of Commerce, as reported periodically in *FT 900: U.S. International Trade in Goods and Services*.

¹²If one looks at the ratio of US exports to imports (Jan-June 2005) in other East Asian economies' trade with the United States, the highest is Taiwan at .66. Korea is .62, Thailand .40, Japan .39, Malaysia .31, Indonesia .30, and China brings up the rear at .17.

¹³Who ranks above Korea? The top six markets for US exports in Jan-June 2005 were Canada, Mexico, Japan, the United Kingdom, China, and Germany. The top six sources of US imports were the same nations in somewhat different order: Canada, China, Mexico, Japan, Germany, and the UK. Canada and Mexico are, of course, members of NAFTA.

is substantially less balanced. Germany and the United Kingdom are members of the European Union and hence not available.¹⁴ And Taiwan, just below Korea (#8 in US imports and # 10 in US exports) poses special political problems of its own.

Another positive factor for the United States is Korea's recent management of its exchange rate. Unlike Beijing—which has kept its peg to the dollar despite the latter's recent depreciation, and then made just a token, 2.2 percent revaluation in July—Seoul responded to *its* recently-growing current account surplus by allowing substantial *won* appreciation—14 ½ percent against the dollar in 2004.¹⁵ This not only limits the bilateral trade imbalance, but offers a model for broader regional action to redress the US-East Asian trade and financial imbalance.

The composition of bilateral merchandise trade is fairly typical of US commerce with relatively advanced industrial nations. Prominent among what the United States sells Korea are high-end manufactured products—aircraft and parts, and advanced integrated circuits top the list—and agricultural commodities (corn, soybeans, etc.). Ranking highest among Korea's exports to the United States are relatively

¹⁴If one treats the European Union as a "country," it ranks first as a source of US imports and second to Canada as a US export market.

¹⁵"IMF Executive Board Concludes 2004 Article IV Consultation with Korea," International Monetary Fund, Public Information Notice No. 05/13, February 4, 2005, p. 2. See also IMF, "Staff Report for the 2004 Article IV Consultation," December 29, 2004, pp. 13-14 and 27. The won/dollar relationship has been stable in January-September 2005.

sophisticated mass-produced manufactures—passenger cars, telecommunications equipment, and a range of semiconductors and other standardized computer inputs.¹⁶

In the main, this bilateral trade reflects comparative advantage and most of it seems more complementary than directly competitive, though there are product areas—automobiles, for example—where trade restrictions contribute to a one-sided pattern that US producers have long inveighed against. And the impact of an FTA could be significant. Inbom Choi and Jeffrey J. Schott estimate that in the case of full liberalization, including agriculture, US exports to Korea would increase by 46 percent in the medium term, and imports would grow by 26 percent.¹⁷ Reflecting this potential, the National Association of Manufacturers (NAM) has listed South Korea as one of five countries that should top the US list of potential new FTA partners. The NAM stresses that “an FTA with Korea could generate a considerable increase in U.S. exports,” though it also highlights “formidable non-tariff barriers” and “Korean subsidies” that must be addressed.¹⁸

¹⁶For a summary of US-Korean bilateral trade in 2002-2004, see U.S. International Trade Commission, *The Year in Trade 2004* (USITC Report 3779, July 2005), Tables A-34 through A-36.

¹⁷Choi and Schott, “Korea-US Free Trade Revisited,” in Schott, *Free Trade Agreements*, p. 185. Overall, a “lower-bound” estimate is that welfare gains would range from \$1.5 to 8.9 billion for the United States. Exclusion of agriculture would cut these gains in half. See also Choi and Schott, *Free Trade between Korea and the United States?* (Institute for International Economic, Policy Analysis No. 62, April 2001).

¹⁸“NAM’s Recommended Candidates for Additional Free Trade Agreement Negotiations, 2005,” May 9, 2005, pp. 1 and 5. The other four are Egypt, India, Malaysia, and New Zealand. (http://www.nam.org/s_nam/bin.asp?CID=201736&DID=234080&DOC=FILE.PDF)

Finally, the Bush administration has pursued an explicit policy of “competitive liberalization” aimed, in the words of its first trade representative, Robert Zoellick, at creating “a competition in liberalization,” employing the leverage of specific negotiations to encourage market-opening elsewhere.¹⁹ Here an agreement with Korea has particularly high potential. Assuming that includes the agricultural sector (an American prerequisite), it would surely exert strong pressure on Japan. And if talks with Korea were moving forward in the context of stalled Doha Round negotiations, it could create the impression that the United States has alternatives and conceivably make the EU, Brazil, etc., a bit more flexible.

Geopolitics. From the end of World War II to the turn of the 21st century, the United States was the dominant military-strategic power in East Asia. The US network of alliances and bases, and US naval supremacy, served to constrain military conflict within the region. It provided a shelter for Japan, allowing Tokyo to maintain the low military profile rendered necessary by memories of Japanese militarism and intermittent fears of its resurgence. It helped China deal with the threat of Soviet power during the latter decades of the Cold War, and assuaged others’ concerns about rising Chinese power thereafter.

¹⁹See, for example, address by Zoellick in Phoenix, Arizona, April 30, 2002; *Remarks by Ambassador Robert B. Zoellick* (Office of the US Trade Representative, 2002), p. 81.

US naval deployments reassured Taiwan in the face of the potential military threat from the mainland, though Washington kept to its policy of “strategic ambiguity” concerning how it would respond if Beijing attempted to achieve unification by force. The US-Korea alliance and supporting US troop deployments helped insure against the renewal of war on the peninsula in the face of the extraordinarily militaristic, isolated, and seemingly volatile Pyongyang regime. And as all of these roles illustrate, the United States nurtured a “hub-and-spokes” system in East Asia where US bilateral relationships were dominant. This contrasts sharply with Europe, where the United States worked substantially through multilateral institutions: the North Atlantic Treaty Organization (NATO) and the emerging European Union.

The United States still plays these stabilization roles in Asia to a considerable degree. But with the rise of China, Washington has encouraged the government of Junichiro Koizumi in Tokyo in its steps toward making Japan a “normal nation” in its military deployments, as part of a gradual strengthening of the bilateral security alliance. Some in Washington express alarm at recent increases in Beijing’s military spending, notwithstanding that nation’s still-modest military strength and its remarkably restrained deployment of its nuclear arsenal.²⁰ More moderate voices see

²⁰See Jeffrey Lewis, *The Minimum Means of Reprisal: China’s Search for Security in the Nuclear Age*, Ph.D. diss., School of Public Policy, University of Maryland, 2004. Lewis estimates that China deploys less than a hundred nuclear weapons, none of which are positioned for rapid use.

For a current, multifaceted Bush administration perspective on the US-China relationship, see “Whither China: From Membership to Responsibility?” Remarks of Robert B. Zoellick, Deputy Secretary of State, to the National Committee on U.S.-China Relations, September 21, 2005 (State Department Press Release)

a real “Chinese military threat” as, at minimum, decades away. But all recognize that China’s continuing rise will transform the area and the world strategically as well as economically, even if China does not become, as Singapore’s Lee Kwan Yew famously forecast, THE Superpower of the 21st century.

There is, moreover, a growing mood of East Asian cooperation, reflecting a nascent economic and political community that was nonexistent when the post-World War II hub-and-spokes system came into being. The ASEAN Regional Forum has hosted an emerging regional security dialogue. Active Chinese diplomacy has furthered this trend.

In this changing context, South Korea has real significance. A nation of roughly 50 million people, it has been second to none in the rapidity of its growth toward advanced industrial status. On some measures of modernization—per capita use of computers and cell phones—it has surpassed Western nations.²¹ In overall economic advancement, Korea is second only to Japan in the region, and it is less inhibited than Japan by external and internal constraints. Korea’s economic and political roles will likely continue to grow, giving the relationship a value to the United States well beyond what its population would suggest.

²¹As one American expert puts it, “Korea is the quintessential connected society and is far more wired than any nation on earth, including the United States. Korea has the highest computer literacy rate in the world.” Steven Linton, “Wither the Alliance?” *Journal of the American Chamber of Commerce in Korea*, September/October 2005.

Korea remains situated, of course, at what remains one of East Asia's two potential military flashpoints (the other being the Taiwan straits) notwithstanding the six-party denuclearization agreement reached on September 19, 2005. The uncertain future of that agreement offers a powerful reason for Washington to strengthen its ties with Seoul. And if that agreement leads over time to normalization of the situation on the Korean peninsula, and the Pentagon ends up withdrawing most if not all its troops, the United States will find it strategically useful to build a new basis for durable bilateral ties to complement its relations with China and Japan (not to mention Russia, Korea's neighbor to the north). A free-trade agreement is the best such basis available.

The United States as an FTA Partner for Korea

Why would Korea choose the United States as an FTA partner in 2005? Just as Washington has reasons for caution, there are certainly factors that might make Seoul wary of moving in this direction. Korean diplomacy has shifted in recent years from an overriding focus on US relations to a priority to East Asia. An FTA with the United States would seem to run counter to this trend. Moreover, although anti-American sentiment has declined from its peak in 2002, popular frustration with the United States remains considerable, triggered in particular by the 21st century divergence in the nations' approaches to dealing with North Korea.

President Roh Mo-hyun has, to some degree, played to this unhappiness with the United States, which is widespread among his supporters. More generally, with the end of the Cold War, the image of the North as a relentless military threat has been replaced, in the South Korean mind, by an image of a weak, failed state whose starving people deserve aid.²²

Economically, the United States has long been one of Korea's primary trading partners, but Korea's dependence on this bilateral commerce has been decreasing. In the 1980s and 1990s, the United States was always Korea's number one export market—with shares of the total ranging from 15 to 40 percent. As a source of imports, the United States was generally number two to Japan, but consistently accounted for 20-25 percent of Korean purchases.²³ The numbers for 2004 show somewhat smaller Korean trade dependence on the United States. China has become Korea's number

²²Steven Linton writes, *ibid.*, “The greatest change in South Korea’s psychological roadmap has been a tectonic shift in attitudes toward North Korea. The place that once inspired fear has given way to curiosity and even condescension. Images of the Korean War have faded in the national memory, to be replated by pictures of the North’s drab buildings, antiquated vehicles, empty streets, and hungry children. . . .Evidence of a total psychological break with the past [is that] red, once a symbol of communism, a taboo in South Korea, today is a symbol, not of Marxism, but of Korean nationalism.” “Wither the Alliance?”

According to a May 2005 public poll, conducted by the Korean Social Opinion Institute and the *Munhwa Ilbo*, more South Koreans (47.6%) say that they would side with North Korea than with US (31.2%), if US attacks North Korea. *Munhwa Ilbo*, May 12, 2005. This may reflect a concern that Washington might act precipitously: a 2004 survey found 50 percent of Koreans saw “U.S. unilateralism” as a “critical threat.” Fifty-nine percent saw “North Korea becoming a nuclear power” as a “critical threat.” (Chicago Council on Foreign Relations and The East Asia Institute, *Global Views 2004: South Korean Public Opinion and Foreign Policy*, [Chicago Council on Foreign Relations, 2004], p. 11.)

²³A good source for data on Korean trade with a range of nations is *East Asian Economic Perspectives*, Vol 10, Special Issue (February 1999), Chapter 5 (Korea). The trade shares with the United States, Japan, and China over a longer time period can be found in Choi and Schott, *Free Trade*, Table 2.3 (p. 12).

one export market, with 22.4 percent of the total (the United States is second with 17.8 percent). Japan remains Korea's top source of imports (21.6 percent), with China (12.3 percent) challenging the United States (12.7 percent) for number two.²⁴

Moreover, according to a recent survey, "South Koreans are fairly negative about the fairness of bilateral trade. . .only 28 % think the United States practices fair trade with South Korea, the lowest total for any of the five countries asked about."²⁵

Paralleling the modest relative decline in bilateral trade has been a rise in intra-regional commerce. Given this trend, Seoul has understandably centered much of its recent trade diplomacy on East Asia (ASEAN + 3 talks) and above all on Beijing and Tokyo. A US-Korea FTA could constrain or at least complicate this diplomacy.²⁶ And in a deal with the United States, Korea would have to make asymmetrical concessions, as its average tariff level (around 8 percent) is more than double that of the United States. Last but not least, to negotiate an FTA with the United States is to spotlight the Achilles' heel of Korean trade policy—the vulnerability and political power of the agricultural sector.

²⁴2004 percentages from Central Intelligence Agency, *The World Factbook*: <http://www.cia.gov/cia/publications/factbook/geos/ks.html#Econ>

²⁵The others (in order of increasing perceived unfairness) were the EU, China, Mexico, and Japan. *Global Views 2004*, pp. 14-15.

²⁶Kent E. Calder, Director of the Reischauer Center for East Asian Studies at SAIS/Johns Hopkins University, analyzes the tension between the US alliance and South Korea's regional role in "Regionalism, Alliance, and Domestic Politics: Can the Benelux Model Travel to Northeast Asia?" Paper presented at the Annual Meeting of the American Political Science Association, Washington, D.C., September 1-4, 2005. He sees it in Korea's interest to balance the two, but also sees external and internal political forces that could drive the country toward regionalism and away from the US connection.

But for Korea also, there are very strong positives, economic and strategic.

Economics. The United States may no longer be Korea's number one export market, but bilateral trade remains substantial. And for Korea, it is far more important than the converse: based on the sources previously cited, the US share of total Korean trade is currently around 15 percent, whereas the Korean share of total US trade dipped below 3 percent in the first six months of 2005.

An FTA will give Korea further advantages in the US market, and reverse the trade diversion that has resulted from NAFTA. It would bring the nation net welfare gains of \$1.7 to \$10.8 billion;²⁷ indeed, as the smaller partner Korea would gain more than the United States (though it would concomitantly suffer more adjustment pain). And the spur of increased competition with US producers could have broader importance: as a force for refueling the nation's economic rise. After a solid rebound from the financial crisis of 1997-98, Korean growth slowed in 2003-2004 as domestic demand stagnated. One Korean leader has characterized Korea as being stuck between 10 and 20 thousand dollar per capita income, between developing and developed country status.²⁸ A free-trade agreement with America could provide a kind of jolt, the constructive economic pressure on Korean producers, that would help Korea make that transition. It would bring high-quality investment and the transfer of

²⁷Choi and Schott, "Korea-US Free Trade Revisited," p. 185.

²⁸Private conversation.

technology that accompanies it, in spheres where US companies are world leaders. It would drive Korean manufacturers toward higher-tech, higher-value-added production, for with the United States remains the best market. Korea's Minister of Trade offers an example from the services sector:

Competitiveness comes from competition, which is clearly demonstrated in the success story of the largest Korean retailer: E-Mart. With distribution services open to foreign competition since 1996 under the WTO GATS, it was feared that the global giants would dominate the market and indigenous retailing firms would face disastrous injuries. E-Mart, however, turned the tide with an enhanced knowledge of the local culture and customer's needs, while rapidly absorbing the know-how of its bigger rivals. . .such as Wal-Mart, Carrefour and Tesco. The result was quite impressive: E-Mart has become a dominant market leader, with revenues surpassing those of its next two rivals combined.²⁹

Such success from "besting the best" is key if Korea is to become the "business hub of Northeast Asia," a role to which its leaders aspire.

Finally, an FTA with the United States would be a major victory for Korean trade diplomacy. Seoul entered the new century with a strong feeling of being "left behind" in the new, fluid FTA-prevalent world. A deal with the world's largest economy would put an end to this concern.

Geopolitics. The geopolitical case for Korea moving forward with a bilateral FTA is also strong. First and foremost, the American relationship remains of enormous importance—in the near term, because of uncertainties with the North; over the long run, because of Korea's need to maintain balance in its relations with larger nations.

²⁹Kim Hyun-chong, "Korea's FTA Policy and Prospects," *Korea Policy Review*, June 2005.

Under any northern scenario—from war to collapse to rapprochement to continuation of the basic status quo—Seoul will need Washington’s economic and political support. As for China, its relative economic and geopolitical position will continue to rise so long as political stability can be maintained. This is bringing, and will likely continue to bring, substantial economic benefits to Korea in the form of enhanced gains from trade, and many Koreans also view China as a welcome counterweight against the United States! But 53 percent of Koreans still see the United States as the country with which “South Korea should cooperate with most”—China is a distant second at 24 percent—and 78 percent “view America as beneficial to South Korea’s security.”³⁰

More generally, Korea’s geographic position among larger neighbors—China to the west, Japan to the east, Russia to the north—can offer a base of flexible diplomacy, balancing one against another. Korea has exploited this position quite skillfully in recent years, and President Roh has sought to give further impetus to this balancing role. But it can also be an insecure position, especially if the larger nations come into conflict. Hence Koreans are concerned that US engagement in the region be cooperative, not confrontational. A bilateral FTA offers a means to promote such constructive US involvement in East Asia, while enhancing Seoul’s position among its neighbors.

³⁰*Global Views 2004*, p. 19.

The sections that follow explore, in greater detail, the broad economic and political background in Korea and the United States. We then move to a more FTA-specific look at the domestic politics of both countries, the United States in particular.

Economic Background: The Last Forty Years

Korea. In 1965, South Korea was an exceptionally poor country, with per capita income below that of Malaysia, the Philippines, Ghana, and every Latin American country of consequence.³¹ Within two decades, Korea's progress would look as spectacular as Japan's had been (from a starting date a decade or so earlier). Policy reforms were launched by President Park Chung-hee in 1963, and real economic growth averaged 7 percent annually in the quarter-century thereafter.³² The goal of export-led growth was realized in truly spectacular fashion: in fact, exports grew 35 percent a year in the 1960s and by 20 percent annually in the 1970s. And by the calculations of a group of scholars led by Irving B. Kravis, Koreans' incomes—in terms

³¹See Edward M. Graham, *Reforming Korea's Industrial Conglomerates* (IIE, 2003), p. 1; and Bela Balassa et al, *Toward Renewed Economic Growth in Latin America (El Colegio de Mexico, Fundacao Getulio Vargas, and Institute for International Economics, 1986)*, p. 53.

In the spring of 1965, this writer was a student in a Princeton University graduate seminar on Asian economic development, taught by the distinguished East Asian expert, Professor William W. Lockwood. One of the puzzles we explored was why Taiwan had been successful and South Korea had not. We were right (if slightly out of date) about the previous decade but egregiously wrong, of course, about what was to come.

³²Marcus Noland, *Avoiding the Apocalypse: The Future of the Two Koreas* (Institute for International Economics, 2000), pp. 17-25.

of actual purchasing power—rose from 8 percent of the US level in 1960 to 25 percent in 1979.³³

Driving this progress were purposive, centralized economic policies that encouraged exports, favored large industrial conglomerates known as *chaebol*, gave priority to heavy industry, and kept down costs (and maintained short-run political stability) through repressive labor practices. Because Korean income distribution was relatively equal, however, there was broad sharing of the gains in national income. The system was in many respects inefficient, particularly in allocating capital across sectors within the economy—the heavy and chemical industries (HCI) drive of the 1970s caused particular problems in this regard.³⁴ But the volume of investments, and talents of Korean managers and workers, resulted in a relentless build-up of manufacturing capacity, with investment financed by high domestic saving. And the overall success of the endeavor was undeniable. In assessing “what explains this performance,” Marcus Noland points to an initial “level of human capital” well above what income levels would suggest, but also stresses the role of “sheer competence at the top”:

³³Kravis, Alan Heston, and Robert Summers, *World Product and Income: International Comparisons of Real Gross Product* (Johns Hopkins University Press [for the World Bank and the United Nations Statistical Office], 1982, p. 15. Export growth statistics are from World Bank, *World Development Report*, 1984.

³⁴Edward M. Graham, *Reforming Korea's Industrial Conglomerates* (Institute for International Economics, 2003), pp. 26-50.

South Korea was lucky to have a small but enormously important cadre of decision makers [military as well as civilian] who had some understanding of how a modern society was supposed to work—policymakers who through exposure to educational opportunities abroad had some notion of where they were heading and how to get there—an advantage that many other contemporary developing countries simply did not have.³⁵

And exceptionally strong economic growth continued well into the 1990s, with Korea now blessed with a world-class industrial sector..

Trade policy was not particularly liberal. Consistent with the general practice of heavy state intervention, domestic markets were long protected: as late as 1980, “the average tariff was 24.9 percent, and nearly one-third of imported products were under some form of quantitative restriction.”³⁶ Substantial market-opening proceeded thereafter, with tariff rates reduced to an average of around 8 percent after the Uruguay Round (which concluded in 1994). But barriers to particular imports have remained high, particularly in the agricultural sector, where the OECD’s latest calculation finds Korea’s overall support of farmers among the highest of all its members.³⁷

³⁵Noland, *Avoiding the Apocalypse*, pp. 25, 27.

³⁶*Ibid*, p. 39.

³⁷The OECD calculates a “producer support estimate” (PSE) for each member nation: the overall level of support received by farmers (and hence the degree of insulation from market forces). Korea’s PSE in 2004 was 63 percent (fourth behind Iceland, Norway, and Switzerland). The OECD average was 30 percent. That for the United States was 18; the European Union, 33; Japan, 56. See *Agricultural Policies In OECD Countries: Monitoring and Evaluation 2005: Highlights* (OECD, 2005), Table 1.3 (pp. 16-17).

Partly for this reason, Korea was long a defensive player in trade talks. In global rounds, Seoul has tended to wait for the consensus and yield what it had to yield. In dealings with the United States, the typical pattern was a US charge of “unfair” barriers to US exports, followed by a negotiation and (sometimes) Korean action to modify or remove them.³⁸ Finally, Korea has been a latecomer to the FTA game, completing its first agreement (with Chile) only in late 2002.

The financial crisis of fall 1997 caused a severe plunge in Korea’s economy generally, with growth turning negative and trade dropping with the exchange rate, particularly on the import side. It led to an accelerating of market-opening reforms (including, interestingly, a formal end to a ban on the import of automobiles from Japan) as part of the rescue package negotiated with the International Monetary Fund. But the liberalization has been marred by exceptions in implementation (auto imports are again a commonly-cited case, as discussed in detail later). Korea did bounce back from the crisis more smartly than did its other primary victims, Thailand and Indonesia. But growth slowed thereafter, and expansion has generally been below that of pre-crisis years.³⁹

³⁸A particularly sharp illustration of this pattern was Korea’s response to the threat of being named an unfair-trading country under the US “Super 301” law in 1989. The Seoul government came forward with several trade concessions it had hitherto resisted making. For details, see Thomas O. Bayard and Kimberley Ann Elliott, *Reciprocity and Retaliation in U.S. Trade Policy* (Institute for International Economics, 1994), chap. 7.

³⁹GDP growth was 8.5 percent in 2000, but fell to 3.1 percent in 2003 and 4.6 percent in 2004. (World Bank data)

The Asian Financial Crisis has also led to increased economic policy activism and nascent cooperation within the East Asian region, and Korea has become an important player in this diplomacy. After a joint study launched in 1998, Korea entered FTA talks with Japan that were scheduled to conclude in 2005 but have stalled, “due to Japan’s low level of concessions in the area of agricultural and fisheries products.”⁴⁰ And in addition to the previously-mentioned agreement with Chile, Korea completed an FTA with Singapore in April 2005 and one with the European Free Trade Association (EFTA) nations in July 2005. Finally, Korea has been active (along with China and Japan) in the ASEAN + 3 talks that are focusing on financial and monetary cooperation as well as trade liberalization.

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United States. In contrast to Korea, the United States was—in 1965—at the top of the world economically. The nation had emerged from World War II as the only major economy left intact, and the postwar period had brought strong growth, with the benefits spread through society as never before. And economists were at the top of the Washington policy world. Their recommended policy (the “new economics” based on Keynesian fiscal stimulus) had “gotten this country moving again”(to

⁴⁰They were so characterized at mid-year by Korea’s Minister of Trade, Kim Hyun-chong. See “Korea’s FTA Policy: Present Situation and Prospects,” p. 4.

paraphrase a John F. Kennedy campaign slogan), bringing growth up and unemployment down.⁴¹

The next three decades, however, were ones of relative American decline. At home, failure to raise taxes when the Vietnam War overheated the economy led to inflation beginning in the last 1960s, then recession, then boom-bust cycles exacerbated by the oil shocks of 1973 and 1979. “Stagflation” (sluggish growth and high unemployment joined with inflation) replaced “the new economics” in commentators’ lexicon. These problems at home were joined by renewed competition in world markets—first from a recovered Europe, then from resurgent Japan, then from its East Asian neighbors. The nation lost primacy in key industries, with steel followed by autos and (it was feared) semiconductors. Hard upon this came increasing trade deficits. These were in fact the product of declines in public and private savings, but they were widely interpreted as reflecting a loss of US competitiveness.

The overall impression, at home and abroad, was one of economic weakness spreading through the economy and the society, especially when compared to nations across the Pacific. The situation was symbolized by President George H.W. Bush’s

⁴¹For an account by Kennedy’s principal economic adviser, see Walter W. Heller, *New Dimensions of Political Economy* (Harvard University Press, 1967), esp. pp. 70ff. For a critical perspective, see Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond* (Simon and Schuster, 1985), chap. 4.

feckless trip to Japan in January 1992, and seemed summed up by the title of a book by Clyde Prestowitz, *Changing Places: How We Allowed Japan to Take the Lead*.⁴²

US trade policy came under serious stress during this period. In the initial postwar decades, the United States had led in the formation of the GATT and in a series of multilateral trade “rounds” that brought down import barriers at home and abroad. By the mid-1980s, however, there was global concern that decline plus deficits would usher in a new American protectionism. The free-trade-oriented Reagan administration felt compelled, in the words of Treasury Secretary James A. Baker III, to “grant more import relief to US industry than any of its predecessors in more than half a century.”⁴³ In the end, protectionism did not triumph. The basic policy of openness bent, but it did not break. Washington continued to keep an open market at home and press for reduction in trade barriers abroad. But there were two important changes.⁴⁴

First, US officials became far more aggressive in pressing other nations for market-opening, often unilateral. The Reagan administration began this new toughness in 1985; Congress reinforced it in the Omnibus Trade and Competitiveness

⁴²(Basic Books, 1988). A few years later, a book co-authored by Paul Volcker, the respected former head of the Federal Reserve, and Toyoo Gyohten, the also-respected former Japanese Minister of Finance came out with a softer title, but one pointing in the same direction: *Changing Fortunes: The World's Money and the Threat to American Leadership* (Times Books, 1992).

⁴³Address at the Institute for International Economics, 14 September 1987.

⁴⁴These developments, and those discussed below, are treated in much greater detail in my *American Trade Politics*, 4th edition (Institute for International Economics, 2005), esp. chaps. 4, 5, and 8. On Section 301 and Super-301, see also Bayard and Elliott, *Reciprocity and Retaliation*.

Act of 1988 by strengthening Section 301, the provisions of US trade law which mandated attacks on “unreasonable and unjustifiable” foreign trade practices, and by enacting so-called “Super-301,” which called on the US Trade Representative to identify “priority foreign countries,” selected for the “number and pervasiveness” of their “acts, policies or practices” that impeded US exports.⁴⁵ President Bill Clinton’s intensification of pressure on Japan in 1993-95 was very much in this mold.⁴⁶

Second, beginning in the 1980s, US pursuit of global barrier reduction came to be complemented by negotiations for bilateral, then regional free-trade agreements. The first ones were with Israel (1985) and Canada (1988). They were followed by the North American Free Trade Agreement concluded in 1992 and approved by Congress in 1993. Then, in 1994, Clinton joined in multi-nation pledges to complete a Free

⁴⁵The initial deadline for such country-naming was May 31, 1989, and as this date approached the Korean press was seized with the issue of whether their nation would be among those so designated under Super-301. One leading US expert who arrived in Seoul around that time was beseiged by reports asking about “PFC.” He was baffled—in the United States, PFC was a military rank: “Private, First Class.” We did have a military relationship with Korea, but he was not a military expert—why were they asking *him*? Then he figured it out—“priority foreign country.”

In fact, Korea made modest trade concessions to the United States that spring in order to avoid the PFC designation. This pleased members of Congress—they had thought the US would gain bargaining leverage by naming foreign countries, but hadn’t considered the possibility of trade gains from NOT naming them. (Japan, Brazil, and India *were* named, but USTR Carla Hills softened the blow by limiting the indictment to specific sectoral [rather than economy-wide] practices.)

⁴⁶Leonard Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do* (Columbia University Press, 1997), chap. 9; Edward J. Lincoln, *Troubled Times: US-Japan Relations in the 1990s* (Brookings Institution, 1999), chap. 4.

Trade Area of the Americas (FTAA) by 2005 and to achieve free trade among the nations of the Asia-Pacific Economic Cooperation (APEC) group by 2010-2020.⁴⁷

As noted earlier, these trade policy changes took place when Americans saw themselves on the economic defensive. And indeed, frustration fueled by decades of sluggish growth in living standards led Americans first to drive George Bush (the father) from the Presidency in 1992, then turn against his successor Clinton in 1994, ending Democratic Party control of the House of Representatives after forty uninterrupted years. Then a strange thing happened: what might be called “a reversal of reversal of fortunes” for the United States and Japan. Beginning around 1995, it became clear that the United States—with its flexible, entrepreneurial economy—was reaping the fruits of the electronic age. Productivity grew at rates unseen since the early postwar period: from 1997 to 2002, it jumped by 16.3 percent, the greatest five-year gain since the 1960s.⁴⁸ The growth rate of GDP averaged over four percent annually in 1996-2000, and unemployment dropped, but inflation did not reappear. Meanwhile, Japan was suddenly mired in a decade of stagnation, and Europeans faced slow growth and high unemployment.⁴⁹ Asian NICs went through their financial

⁴⁷The FTAA target date was not met, and progress toward free trade within the APEC framework has been minimal.

⁴⁸*Economic Report of the President*, February 2005, Tables B049 and B-50.

⁴⁹For a comprehensive comparison of the two economies during the 1990s, see C. Fred Bergsten, Takatoshi Ito, and Marcus Noland, *No More Bashing: Building a Japan-United States Relationship* (Institute for International Economics, 2001), chaps. 1-3.

crisis, relying on the strong US market for their exports to help pull them out of deep economic recession.

The America of the 1990s also experienced a stock market bubble, which burst in 2000. So George W. Bush inherited a sluggish economy when he assumed the presidency in 2001. American's economic welfare was further threatened by the 9/11 terrorist attacks, and employment growth remained modest for most of Bush's first term. But robust productivity growth continued, particularly in manufacturing, and by mid-2005 unemployment was down to five percent.

Ironically, overall economic success was accompanied by greater domestic challenge in trade policy. Clinton won an uphill battle for ratification of NAFTA in 1993, and decisive Congressional approval of the Uruguay Round/WTO agreement in 1994. But these triumphs were followed by years of domestic stalemate, as Americans sparred over whether and how much to address labor and environmental issues in trade negotiations. After Clinton failed to win renewal of trade negotiating authority in 1997, the George W. Bush administration broke this stalemate, barely, by winning hair's breadth approval of fast-track (now renamed Trade Promotion Authority [TPA]) in 2001-2002. And its US Trade Representative, Robert Zoellick, both led in launching the Doha Round of global trade negotiations in 2001, and initiated and completed a number of new FTA negotiations under a policy labeled "competitive liberalization." Between 2001 and the summer of 2005, Congress had approved FTAs

with Jordan, Singapore, Chile, Australia, Morocco, and a regional pact with the Dominican Republic and Central America (DR-CAFTA).

To sum up, over the past forty years Korea has made enormous relative gains vis-a-vis the United States. Those gains came particularly in the first thirty—through 1995, Korea was surging, and the US seemed to be languishing. In the last ten, the United States gained new economic life while Korea struggled to complete the transition to modernity.⁵⁰ And both showed increasing interest in free trade agreements.

Politics Since 1965: Korea Democratizes, America Polarizes

The *Republic of Korea* spent roughly half of these four decades under authoritarian rule. The regime of General Park Chung-hee was increasingly repressive politically, and relied on economic success for whatever popular legitimacy it attained. The dictatorship was tolerated by the United States, which maintained a close relationship for security reasons and deployed tens of thousands of troops in the country, many near the armistice line with the Communist North. Washington did seek to ameliorate the regime's worst features, intervening twice to block official efforts to assassinate opposition leader (and later President) Kim Dae-jung. But among Korean critics of

⁵⁰Still, Korea continued to gain relative to the United States, albeit more slowly. Adjusted for purchasing power, Korea's per capita GDP rose for 12.1 percent of the US level in 1965 to 46.2 percent in 1995. It dropped to 43.1 percent in 1998, but rebounded to 52 percent in 2003. During this period, most other OECD nations lost ground vis-a-vis the United States. See the convenient compilation for 1960-2003 by Demographia at <http://www.demographia.com/db-ppp60+.htm>.

the regime, the United States was widely blamed for acquiescing in the brutal suppression, in 1980, of a labor-student demonstration in Guangju which left at least 200 dead.

In the years after Park's assassination in 1979, South Korean authoritarianism began to unravel. His successor, General Chun Doo-hwan, was not as effective as Park had been, and with the rise of the middle class, societal political frustration increased and pro-democracy activities accelerated. Moreover, Seoul had won the honor of hosting the summer Olympics in 1988, and the world was watching as never before: political unrest—or a government crackdown—threatened that event. So Chun's designated successor (his coup partner, Roh Tae-woo) endorsed direct election of the President (a key demand of the activists), as part of a June 29, 1987, declaration of political liberalization that proved a watershed act for Korea's democratic transition.

Roh won the December 1987 election against the divided opposition of Kim Dae-jung and Kim Young-sam, both longtime pro-democracy activists. And the process opened up steadily thereafter. Kim Young-sam joined his party with Roh's and won the Presidency in 1992; their common opponent and longtime leader of the Korean left, Kim Dae-jung, triumphed five years later over divided conservative opposition. Finally, Roh Mo-hyun (also identified with the left) rose from relative obscurity to win the presidency in 2002. The presidency could well switch back to the more conservative GNP in 2007. But democratization has moved Korea politics, overall, from the authoritarian right to the political center.

Nowhere was this more evident than in policy toward the Communist regime in Pyongyang. The authoritarian South Korean governments were consistently negative—indeed, national security laws, enforced by the Korea Central Intelligence Agency (KCIA) still prohibit direct citizen communication with the North. And this orientation carried over into the 1990s. When the Clinton administration struggled with the first North Korean nuclear crisis, and (with the uninvited mediation help of former President Jimmy Carter) ultimately negotiated the “agreed framework” in fall 1994 freezing North Korean nuclear activity (at least at its Yongbun reactor), the government in Seoul was, if anything, more wary of Pyongyang than Washington was. But Kim Dae-jung launched in 1997 a “sunshine policy” toward the north (winning in 2000 the Nobel Peace Prize for his efforts), and though a substantial portion of his countrymen remained skeptical, the political balance shifted from isolation of the North to aid and efforts at engagement.

From 1987 onward, Korean society also became much more open—and sometimes tumultuous. Long-repressed workers responded immediately to the liberalization of 29 June of that year: “South Korea experienced more strikes in July and August 1987 than in the previous 25 years combined,” and labor-management disputes continued at abnormal levels until 1990.⁵¹ Thereafter, matters quieted down and the Korean economy continued to experience rapid growth—until weaknesses and

⁵¹Noland, *Avoiding the Apocalypse*, p. 37.

imbalances in the financial system led to the financial crisis of late 1997. The impact was wrenching—a drop in GDP, as earlier noted; the collapse of Daewoo, one of the major *chaebol*; dependence on an IMF stabilization rescue package and hence commitment to pursue economic reforms—particularly in opening up the domestic economy and unwinding the privileged relationship among the *chaebol*, the banks, and the government. Eight years later, it is clear that the Korean economy has come back. And the market-opening reforms have made Korea a stronger candidate for an FTA with the United States. But recent growth has been at rates well below those in the heyday of Korean expansion.

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In the *United States*, one broad political trend has been in the conservative direction. Liberalism dominated the half-century from the election of Franklin D. Roosevelt in 1932 to the victory of Ronald Reagan in 1980. Such was their dominance during this period that the administration of Republican Richard Nixon (1969-74) saw the extension of a number of liberal reforms (in social security and environmental policy, for example). The Watergate scandal brought Nixon down, of course, and Democrats increased their Congressional majorities. Moreover, double-digit inflation, exacerbated by the “oil shock” of 1973-74, led to deep recession and slow recovery, contributing to the 1976 victory of Democrat Jimmy Carter over Nixon’s successor, Gerald Ford.

During the Carter administration, however, conservatives began a rise that would soon make them ascendant. Aided by perceived weakness in Carter foreign policy—symbolized by the taking of American hostages in Iran and the Soviet invasion of Afghanistan—and above all by new double-digit inflation fueled by the second “oil shock” of 1979, former California Governor and longtime conservative spokesman Ronald Reagan won a landslide electoral triumph in 1980, and an even more impressive one in 1984. Republicans also surprised the political establishment by winning control of the Senate in 1980 after twenty-six years of Democratic control. And while Democrats recovered control of the Senate in 1986 and the Presidency in 1992, the Gingrich revolution swept Republicans to control of both House of Congress two years later.⁵²

The presidency of Bill Clinton was, on balance, an experiment in centrism. His major policy achievements in 1993 were a deficit-reducing budget package and ratification of a NAFTA agreement backed by more Republicans than Democrats. The perception that his administration was not centrist—fueled by the failure of his health care reform proposal—contributed to his party’s devastating losses in the mid-term election of 1994. Thereafter, Clinton stayed even more in the middle, even as he

⁵²In 1980, Republicans gained twelve Senate seats, moving from a 41-58 minority to a 53-46 majority. (One Senator was an Independent.) In 1994, Republicans gained 52 House seats, catapulting from a 178-256-1 minority position to a 230-204-1 majority.

used Republicans' overreaching against them.⁵³ Welfare reform, long a Republican objective, was enacted in 1996. After Clinton's reelection that year, a fiscal compromise in 1997—combined with an unanticipated upsurge in tax revenues—brought the overall budget into balance and then surplus. And the rise in American productivity post-1995 generated the best economic conditions for Americans since the early 1970s—low unemployment, low inflation, annual growth of four percent plus, and broad societal sharing of the benefits.

Why then did this not bring durable Democratic electoral gains? One obvious reason was the Monica Lewinsky affair—Clinton's astonishing relationship with a White House intern that was exposed in early 1998 and led to his impeachment in December of that year.⁵⁴ Clearly, this undercut his capacity to pursue other initiatives, and it enormously complicated Vice President Albert Gore's barely unsuccessful run for the Presidency in 2000. But the public thought impeachment was crazy, and Democrats actually gained House seats in the election (1998) when it was most at issue.

A deeper problem was that Clinton's achievements did not energize the Democrats' core (liberal) constituency. They were unhappy with welfare reform and

⁵³The prime example was his exploitation of the insistence of House Republicans on (temporarily) shutting down the federal government in early 1995 rather than accept a budget compromise. The public found this somewhat crazy, and Clinton began a political recovery as a man of common sense.

⁵⁴The Senate voted not to convict him in early 1999.

saw the balanced budget as achieved at the cost of government programs that had long supported. One of their more articulate spokesman, Representative Barney Frank (D-MA), used this as an explanation for Democrats' refusal to support renewal of fast-track trade negotiating authority in the fall of 1997—they had “taken a hostage,” trade policy, to protest against spending cuts; they would presumably release the hostage when social programs were funded to their satisfaction.⁵⁵

American politics has become highly polarized.⁵⁶ In the decades since 1965, the political parties have become ideologically more distinct. And those elected to Congress are far more likely to represent the ideological extremes. This does not reflect a discernable polarization, on political issues, in the American public generally.⁵⁷ Rather, it is polarization of their elected representatives. And this is the product—above all—of the way the Congressional districts are drawn. Their boundary lines must be adjusted every ten years after each national census to reflect population movements, and politicians control that process in almost all states. Not surprisingly, they think first and foremost of their own survival. So in every decade since the 1960s

⁵⁵Quoted in Jeffrey J. Schott, editor, *Restarting Fast Track* (Institute for International Economics, Special Report 11, 1998), p. 24. Skeptics remarked that Frank did not leave a ransom note.

⁵⁶For more detailed treatment of Congressional polarization and its impact on US trade policy, see Destler, *American Trade Politics* (4th ed.), chap. 11 and Appendix A.

⁵⁷In 2004, in the midst of the most polarizing Presidential election in recent American history, the National Election Survey based at the University of Michigan found that 60 percent of Americans who responded still placed themselves in the political center (“slightly liberal,” “moderate,” or “slightly conservative”). (Pre-election survey, Question E.1.A, results provided by NES)

A splendid short book refuting the proposition of a “50-50 America” more generally is Morris P. Fiorina et al, *Culture War? The Myth of a Polarized Electorate* (New York: Pearson Longman, 2005).

the number of competitive seats in the US House of Representatives has declined, and the number of “safe” seats has increased. If they can also do so, politicians may tilt the process in their partisan direction—as Democrats did recently in California and Republicans in Texas. But above all they think of their own survival.

This process insulates members against electoral loss to a challenger from the opposite party. But they remain vulnerable, potentially, to challenge for renomination within their own party. And the activists who vote in party primaries tend toward their parties’ extremes. Hence the pressure on a member of Congress is to reflect the views not of the median voter overall, not even of the median voter within his own party, but of the *median party primary voter*.

This leads inexorably to what former Senator John Breaux has labeled “the incredible shrinking middle,”⁵⁸ the evisceration of the Congressional center. And with the limited and only partial exception of Presidential election campaigns, it leads politicians to play to their “base” and eschew reaching to the center or compromise across ideological or party lines. It has also tended to tilt politics toward the Republicans, because more Americans define themselves as “conservatives” than as

⁵⁸Quoted in Sarah A. Binder, *Stalemate: Causes and Consequences of Legislative Gridlock* (Brookings Institution, 2003), p. 69.

“liberals.”⁵⁹ Liberal activists who play just to the base, nationally, are on track to defeat. Conservative activists who do so have a much better shot at victory.

Lacking Clinton’s political touch, and burdened by Clinton’s personal-behavioral legacy, Vice President Albert Gore failed to win in 2000 though the economic climate was heavily in his favor. And though George W. Bush campaigned in 2000 as a moderate, he governed as a hard conservative, to a greater degree than had Ronald Reagan. Until mid-2005 at least, this formula worked. Democrats did regain control of the Senate for an eighteen-month period in the beginning in June 2001, but Republicans retook it in 2002 and widened their congressional majorities in 2004. And the President achieved the popular-majority victory in 2004 that he had failed to gain in 2000, though he did not win the sort of popular and electoral vote mandate that went for previous re-elected presidents from the 1920s onward.⁶⁰

But Congress remains bitterly divided on partisan lines, the House in particular. And the Republican leadership formula of relying overwhelmingly on Republican votes may grow less viable as Bush’s lame-duck status waxes and his popularity and political power wanes.

⁵⁹The same NES question found that, in 2004, 41 percent placed themselves on the conservative side (“slightly” to “extremely”) and just 25 percent on the liberal side. This ratio has been fairly consistent since 1980.

⁶⁰Bush’s 286 electoral votes (out of 538) were the fewest won by any re-elected President since Woodrow Wilson, who won 277 (out of 531) in 1916. All others since then topped 400 except for Clinton, who electoral vote count was 379 in 1996.

A Korea-US FTA? From “Initial Flirtations”⁶¹ to Serious Consultations

The idea of a free-trade agreement between Korea and the United States is at least two decades old. Concerned from 1985 onward about US negotiating pressure under Section 301, and facing the adverse potential effects of the pending FTA (completed in 1988) between Canada and the United States, Korean officials raised the idea with Reagan administration counterparts. Their discussions produced nothing concrete, but various studies were launched in both countries. NAFTA rekindled interest in Seoul in the early 1990s, but the United States remained unready, and Korea then gave priority to the conclusion of the Uruguay Round at the end of 1993. Thereafter, the issue lapsed—as the Clinton administration failed to get renewal of fast-track negotiating authority, and both nations joined at Bogor, Indonesia, in 1994 in the APEC commitment to non-discriminatory free-trade across the Asia-Pacific region.

By century’s end, the two nations became re-interested in FTAs, though not immediately with each other. The APEC free-trade initiative had stalled. The Clinton administration completed a pact with Jordan and (in its final months) launched talks with Singapore and Chile in 2000. East Asia, a regional latecomer to the FTA game, was suddenly filled with initiatives.⁶² Koreans, convinced that their financial crisis had made longstanding business practices unviable, looked for ways to generate new

⁶¹The phrase is from Choi and Schott, 2001, p. 2.

⁶²Robert Scollay and John P. Gilbert, *New Regional Trading Relationships in the Asia Pacific?* (Institute for International Economics, Policy Analysis No. 63, May 2001).

growth through greater openness. They launched talks with Chile in 1998—not so much for their own sake, but as a trial run for possible future deals with Japan and the United States. And the US-Korea FTA idea resurfaced—both in analytic studies and in proposals by private groups and legislators.⁶³

By late 2004, both nations were ready to take the next step. Korean officials had concluded their Chile deal (ratified in February); USTR Zoellick had won ratification of Chile and Singapore (2003), and completed pacts with Australia, Morocco and CAFTA thereafter. Minister of Trade Kim Hyun-chong broached the matter of a bilateral FTA at the APEC summit in Santiago, Chile, in November 2004, and the two agreed to hold bilateral consultations of experts. In these, representatives of each government described the elements of their current FTAs, in order to educate one another on what each side expected. Since the United States had more extensive experience with such agreement, most of the time was spent conveying US prerequisites and expectations. Outside experts were also consulted. And after Zoellick left USTR to become Deputy Secretary of State, Kim met with his successor, Rob Portman. No commitments were made, but the structure of a potential negotiation became clearer.⁶⁴

⁶³One example is Choi and Schott, *Free Trade between Korea and the United States*, and their study gives several others.

⁶⁴The following paragraphs are based on conversations with officials of both governments and reports in specialized publications, especially *Inside U.S. Trade*.

First and foremost, both sides saw the matter as very serious. Given the importance of the economic and geopolitical relationship, failure should not be an option—in other words, talks should not be launched unless there was every prospect they would succeed. This meant that some matters needed to be settled in advance. Specifically, the United States saw two Korean actions as just about essential.

One involved Korea's quota limiting the market for foreign films, enforced by requiring that domestic films be shown a minimum of 146 days per year in each cinema. This had long been a thorn in the side of the US motion picture industry—negotiations on a Bilateral Investment Treaty were suspended in 1999 pending its resolution. Recently, however, the quality and popularity of Korean films has risen—such that their market share is well above 50 percent. This compares to the 40 percent minimum that the National Assembly established as a minimum for relaxation of the quota. USTR considers major reduction of the quota, such as a halving of the minimum, a prerequisite for the launching of talks.

A second, perhaps more thorny issue concerns Korea's current ban on imports of US beef, put in place in 2003 when a cow imported from Canada into Washington state was discovered to have BSE (aka "mad cow disease"). Korea had been a major market for for US beef and products, with sales totalling \$1.3 billion in 2003. The US insists that its beef is safe, notes that WTO rules require that such restrictions be based

on science, and has pressed constantly for reopening; the matter was complicated, however, when a second BSE cow was detected in 2005.⁶⁵

The Office of the US Trade Representative (USTR) sees these as part of a “critical mass” of potential Korean liberalizing actions that would demonstrate a will for the kind of openness it seeks—also on the US list are intellectual property issues, discrimination against US pharmaceuticals, barriers to US autos, Korean industrial subsidies, and various restrictions on telecom trade, all discussed below. With sufficient progress, it might be possible to announce the launching of a formal negotiation at the APEC summit that Korea will host in November. That would bring the politics of an FTA to a new, much more public stage. There both nations will face—“micro” issues involved specific product barriers; and “macro” forces in broader trade politics that will help to shape the outcome.

⁶⁵Reporting on meetings of Korean Trade Minister Kim Hyun-chong with a range of US interest groups, *Inside U.S. Trade* notes, “The administration has pointed to the screen quotas and beef ban as areas that Korea needs to make progress on resolving before FTA talks are launched.” (September 30, 2005, p. 15) Then, on October 19th, *The Chosun Ilbo* (Korea’s leading daily newspaper) reported that the government had essentially decided to lift the ban on beef imports (effective perhaps in November). In response, the ministry of agriculture declared that no decision had yet been taken.

All this suggests that each government is moving step-by-step towards the goal, in consultation with the other. Consistent with this hypothesis, *Inside US Trade* reported on September 23, 2005 that Portman had recently “told his Korean counterpart that his country has not made sufficient progress in removing existing market access barriers to be considered for an FTA.” But it also reported “increasing confidence within USTR that Korea is willing to tackle the trade barriers the U.S. has identified.”

Trade Micro-Politics: Product Issues

Korea maintains higher average tariffs than the United States (8 percent vs. around 3 percent). But this overall figure masks a striking disparity: a “relatively low average weighted tariff rate of 4.5 percent for industrial products,” versus a weighted average of 64.1 percent for agricultural products!⁶⁶ It is hardly surprising, therefore, that many US product concerns are in the farm sector. *Korea* currently ranks fifth as a market for US farm exports, and the farm sector would be a necessary component of the support base for an FTA. The United States has insisted that agriculture be “on the table,” and *Korea* has indicated willingness. The Roh government has also embarked on a long-term program of compensating farmers (a diminishing and aging share of the population) for market losses to imports.

So in addition to the previously mentioned screen quotas and the BSE ban on beef imports, US attention is likely to focus on the following Korean market issues: *Agricultural products*. Traditionally, the most restricted product has been rice, where quota protection has shielded a market price several times the world level. Major protection continues, but *Korea* committed to a so-called Minimum Market Access (MMA) quota in the Uruguay Round, allowing imports at four percent of the domestic market. This expired in 2004, but the Roh administration negotiated a ten-year extension which doubles the market share of imports and guarantees US producers a

⁶⁶USTR, *2005 Trade Estimates Report*, p. 359.

specific share of the expanded market. This WTO-sanctioned deal, concluded in December 2004, effectively removes rice as a source of contention in the negotiations—though the National Assembly must still ratify the agreement. (The ten-year time period corresponds with a new ten-year agricultural adjustment program introduced the same year; the presumption is that imports will increase further thereafter.)

A number of other products are very much at issue. “Many products of interest to U.S. suppliers, including table grapes, beef, canned peaches, canned fruit cocktail, apples, pears, and a variety of citrus fruits are subject to tariff rates of 40 percent or higher.”⁶⁷ Imports have also been blocked of products such as oranges and poultry due to health concerns that US officials considered exaggerated or undocumented. Hence US negotiators in this sector will seek not only removal of tariff and quota barriers, but agreements on public health and border inspection procedures and the standards applied therein.

All of the products have strong farmer lobbies that will resist import expansion. Since agriculture is politically sensitive, there will doubtless be room for extensive phase-in periods for certain products, and partial exceptions for other. But US officials insist that the norm must be liberalization—there will not be major product areas excluded from the agreement. In some cases, the preferential access granted to

⁶⁷*Ibid.*

US producers will mainly divert trade from foreign competitors. While this will reduce the economic gains to Korea, it will also assuage the political pain.

Industrial products. The Korean market here is increasingly open, but the United States has some specific concerns. The most important, in economic and political potential, involves imports of automobiles. Though the Korean industry is highly competitive by international standards, foreign producers have found it extraordinarily difficult to sell their cars in Korea's market. In 2004, for example, Korean auto sales in the United States reached a record of 688,670 vehicles, and overall Korean car imports also were a record: 23,345, exactly 2.1 percent of the domestic market!⁶⁸ Until recently, imports of Japanese cars were banned entirely. Market resistance persists despite a bilateral Memorandum of Understanding concluded in October 1998 to address the market access problem. The issue is not just the 8 percent tariff; other automotive taxes "raise the effective rate to above 12 percent," and the overall tax system "discriminates against the larger vehicles that exporters tend to sell in the Korean market."⁶⁹ This will clearly be a prominent and difficult issue—the US auto industry, an important potential player in the talks—has long been angry about the

⁶⁸*Ibid.*, p. 388. Of these vehicles, 5,414 came from the United States.

⁶⁹*Ibid.*

situation. Whatever is agreed on Korean market access could conceivably end up being linked to the FTA's rules on motor vehicle imports into the United States.⁷⁰

Other product issues typically involve non-tariff barriers, like the screen quotas previously discussed, or subsidies to industries such as paper and semiconductors. There have been ongoing concerns about discriminatory treatment of US pharmaceutical products in the Korean marketplace. And US officials have expressed concerns about barriers in a wide variety of services markets—such as construction, advertising, and banking—though they have noted improvements in such areas as insurance and financial services.⁷¹

Intellectual property rights protection will also be an prominent issue, because of its importance to US economic interests—and because IPR interests are an important part of the pro-trade coalition in the United States. Here, some prominent US concerns have been assuaged. The “Omnibus Trade and Competitiveness Act” enacted in 1988 requires USTR to evaluate countries’ performance in this sphere at least annually, under so-called “Special 301,” and Korea was “elevated. . .to the Priority Watch List in January 2004” out of concern for insufficient government action

⁷⁰For example, the United States currently imposes a 25% tariff on pickup trucks—a legacy of trade retaliation against Europe in the 1960s. This has been eliminated for existing US free-trade agreements, but it is a live issue in the current US FTA talks with Thailand. See *Inside US Trade*, October 7, 2005, p. 16.

⁷¹These products take up many paragraphs in USTR's 2005 *Trade Estimates* report: see pp. 368-69, 371-72, 379-80, 382-84, and 390-92.

against piracy of software, sound recordings, films, etc.⁷² In April 2005, however, USTR noted that “Korea has taken significant steps to strengthen its intellectual property regime,” including in the areas just noted. “To recognize Korea’s efforts,” USTR moved Seoul back from the “Priority Watch List” (containing 13 countries) to its broader “Watch List” (36 countries). But it noted additional steps Korea needed to take to “join other economically advanced countries” in IPR protection.⁷³

Investment has typically been a prominent concern in US FTAs, both for US business and for trading partners. In NAFTA and CAFTA, improved ability to attract US direct investment was a major motivation for entering into free-trade agreements with the United States. And Washington and Seoul did explore a Bilateral Investment Treaty in the late 1990s. The fact that Korea has traditionally *not* been foreign-investment-friendly is reflected in the fact that the country’s share of all US direct investment abroad remained below one percent in 2004: \$17.3 billion out of a \$2.1 trillion global total.⁷⁴ This compares to the 3-plus percent Korean share of US trade noted earlier. The United States is nonetheless the leading source of FDI in Korea, and the amount has roughly doubled in the past four years.

⁷²*Ibid.*, p. 373.

⁷³Office of the United States Trade Representative, *2005 Special 301 Report*, USTR website, p. 42.

⁷⁴US Department of Commerce, Bureau of Economic Analysis, “US Direct Investment Abroad,” *Survey of Current Business*, September 2005, Table 16, p. 154.

The Roh government has continued steps, begin after the financial crisis, to relax government restrictions, and there have been major foreign purchases of Korean companies (or substantial shares therein) in recent years.⁷⁵ However, the environment is still lukewarm, and restrictions remain.⁷⁶

Feelings about investment are related to broader concerns about anti-foreign attitudes that contribute to informal but real economic barriers. As Marcus Noland has noted, “The metaphor ‘peeling an onion’ has been used to describe the process of stripping away the layer of legal and bureaucratic impediments to access.”⁷⁷ Koreans have taken many specific steps in recent decades to make the rules of doing business more transparent for foreign and domestic interests alike. And this opening process has accelerated in recent years. Still, the legacy remains, and it constitutes a problem for Korean credibility in FTA negotiations.

One final issue is important in US trade politics—Korean labor standards. House Democrats who are key to bipartisan support of an agreement will need this topic to be addressed in the agreement, and perhaps by parallel Korean action. Since Korean labor laws and worker protections have been substantially strengthened in recent decades, this issue should not prove impossible to address to these Democrats’

⁷⁵Marcus Noland lists the many incremental steps the government of Korea has taken, since the 1980s, to open its economy to foreign investment. See “South Korea’s Experience with International Capital Flows,” Institute for International Economics Working Paper 05-4, June 2005, pp. 25ff.

⁷⁶Noland, “Foreign Investors are a Progressive Force,” *Korea Times*, September 22, 2005.

⁷⁷*Avoiding the Apocalypse*, p. 39.

satisfaction. But given Democrats' sense of exclusion from serious bargaining on CAFTA, it should not be ignored.⁷⁸

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US market issues are generally less extensive than those in Korea. US tariffs are lower, and—as elaborated subsequently—globalization has brought a decline in producer-based protectionism. Moreover, Korea is fortunate *not* to be a competitive producer of those agricultural products—sugar, cotton, citrus, dairy—for which the United States retains high levels of effective protection. (The US sugar industry waged an all-out campaign against CAFTA, even though the added access granted under the pact amounted to only one percent of the US market.)

Another product that has caused complications in US FTAs is textiles. That industry no longer seeks to block imports directly, but it has pressed for highly restrictive FTA rules of origin requiring that clothing covered by the agreement be made from fiber and cloth produced within the free-trade-area (which has typically meant, in practice, US fiber and cloth). Textiles was once an important Korean export to the United States, such that the Nixon administration forced Seoul to sign a

⁷⁸In some respects, Korean labor may be too well protected. In their report of December 2004, IMF staff found “the fundamental labor market problem” to be “the strict employment protection for regular workers,” which has led to market rigidities and employment of “a growing number of nonregular workers—now accounting for half of the nonself-employed labor force—who face large gaps relative to regular workers in wages, conditions, and job security.” See “Staff Report for the 2004 Consultation,” p. 20.

restrictive orderly marketing agreement in 1971.⁷⁹ By the 2000s, however, textiles constituted less than 10 percent of Korea's exports to the United States, and the Multi-Fiber Arrangement imposing comprehensive quota restrictions expired at the end of 2004. An FTA would presumably remove the relatively high US textile tariffs.

Would the US textile industry seek an exception, or restrictive rules of origin?

Perhaps not, as US producers are far more concerned with the upsurge in sales from China.

US auto producers have a larger current stake, however, and given their unhappiness with what they see as non-access to Korean consumers, they might seek some sort of constraint of Korean access to American consumers. This could come in the form of product-specific rules of origin. Or the Big Three might seek a means of conditioning further liberalization of the US market to increased access in Korea.

But Korea's main concern is the use of antidumping and other trade remedies to keep Korean products out of US markets. This is a real problem.

As of the end of 2004, there were 19 US antidumping orders in effect against Korean products, dating from as far back as May 1986. They constituted 6.7 percent of the 284 such orders in effect against all countries. (Of US cases pending on December 31, 2004, just one of 22 involved Korean producers)

As of the same date, there were 6 countervailing duty (CVD) orders in effect that constrained Korean exports, 8.5 percent of the US total. (None of the four cases pending at the end of the year were for Korean producers.)

⁷⁹See I. M. Destler, Haruhiro Fukui, and Hideo Sato, *The Textile Wrangle: Conflict in Japanese-American Relations 1969-1971* (Cornell University Press, 1979), chap. 12.

All six of the trade cases Korea has brought against the United States to the WTO have involved antidumping, CVD, or “escape clause” safeguards. (Korea won four of these, the United States won one, and one was negotiated “out of court.”)⁸⁰

On closer examination, however, the problem is narrower than it seems. Of the nineteen current AD orders enforced by the United States against imports from Korea, sixteen involve steel products—as do five of the six CVD orders.⁸¹ Thus, as Choi and Schott put the matter recently, “It is only a slight exaggeration to say that Korea really does not have an antidumping problem with the United States; rather, it has a big steel trade problem.”⁸²

The US antidumping law is very unpopular internationally, and not without reason—the rules are clearly tilted against foreign suppliers, and the United States has lost numerous AD cases at the WTO—including the egregious Byrd Amendment, which directs the proceeds of antidumping duties to the industries that submit successful petitions! There is nothing Korea would like more from FTA negotiations

⁸⁰For the list of AD and CVD orders in effect, see US International Trade Commission, *The Year in Trade 2004* (USITC Report 3779, July 2005), Tables A-2 and A-4. For a listing of all AD and CVD cases submitted in the United States from 1979 through 2004, and the outcomes of WTO cases in which the United States was plaintiff or defendant, go to the data underlying the analysis of trade cases in Destler, *American Trade Politics*, 4th edition, IIE website at: http://www.iie.com/publications/chapters_preview/3829/atpguide.cfm.

⁸¹The US antidumping law has been written for the steel industry, and to some degree by the steel industry. In 1980-2003, 498 or 1067 cases submitted under the law were steel cases. See Destler, *American Trade Politics*, 4th edition, pp. 240-41.

Interestingly, the one WTO case that Korea lost was the CVD case not involving steel—US imposition of penalty duties against subsidies of DRAM sales.

⁸²“Korea-US Free Trade Revisited,” p. 180.

than some way of constraining application of this law—such as the NAFTA chapter 19 that establishes a separate procedure within the agreement.⁸³ There is also nothing, alas, that Korea is less likely to get. For reasons not entirely clear, the antidumping law is very popular with Congress—hence the Byrd Amendment has yet to be repealed despite over \$100 million in trade costs to US producers from WTO-sanctioned retaliation.⁸⁴ And the law is particularly popular among Democrats, whose support of an FTA is assiduously sought by both Korean and American officials. In theory, Korean negotiators could align with US export interests that are increasingly hit by anti-dumping action abroad, but in practice it has been hard to mobilize internationalist firms for this purpose. Hence, notwithstanding the reasonableness of Korea's case, it will have to wait until well after the period for negotiating an FTA, when the costs of the law to American interests finally undermine its support.

All of these product-specific issues will play themselves out in the two nations' broader domestic political processes. For any negotiation between two democratic

⁸³Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA Revisited: Achievements and Challenges* (Institute for International Economics, 2005), chap. 4. This chapter 19 process is not popular on Capitol Hill, because of decisions against the United States in high-profile cases like the softwood lumber dispute with Canada.

⁸⁴The Government Accountability Office (GAO) has just released a scathing report, finding that half of \$1 billion in payments under the law has gone to just five companies—basically producers of ball bearings, candles, and steel, which used some of the money for personal expenses. The GAO also found it not to be an effective trade remedy. The report is *International Trade: Issues and Effects of Implementing the Continued Dumping and Subsidy Offset Act*, September 2005. (GAO-06-979)

nations involves a “two-level game,” to use Robert Putnam’s felicitous phrase.⁸⁵

National representatives must seek agreement at home even as they pursue it abroad.

The Korean and American processes have common characteristics, yet they are also very different. The section that follows addresses both.

Trade Macro-Politics: Coalitions, Presidents and Parties

For any bilateral negotiation to succeed, the substance of the agreement must gain, in each country, the support of a coalition sufficient to achieve its adoption and implementation. Following Putnam’s metaphor further, the range of “win-sets” (politically sustainable outcomes) within each country must overlap so that there is a potential agreement between them that can be ratified in both. If the negotiating parties are democracies with independent legislatures, the ultimate test will be whether the agreement can gain legislative approval. This can be difficult: National Assembly ratification of the Korea-Chile FTA took about a year; Congressional approval of DR-CAFTA took more than a year, and the House margin was just two votes.

For trade, the main elements of a support coalition are typically (1) government leaders who are negotiating the agreement, (2) influential legislators who favor it, and (3) economic interests that see themselves as gaining from it. Generally, these interests are highly competitive producers who see larger markets as their friend, but

⁸⁵Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games,” *International Organization* Vol. 42 (Summer 1988), pp. 427-60.

they can also include producers looking to gain from trade diversion and/or cleverly crafted rules of origin. In any case, the economic interests will not normally engage automatically—typically, the gain for them is uncertain, conjectural. Government leaders will typically need to go on the offensive to mobilize them.⁸⁶

At the same time, advocates of market-opening need to play defense—to impede the formation of a majority coalition *against* the prospective agreement. On trade, the traditional concern is over protectionist logrolling: those who will be hurt banding together to block the accord. Currently, in both countries, trade officials must worry about a combination of protectionists, ideological critics (including anti-globalists), and partisan adversaries.

In a negotiation between democracies, the politics will initially center on government (executive branch) decisionmakers. They will decide whether to launch a negotiation. If that decision is positive, they will be making, during the course of the negotiation, decisions about priorities—what is most important to get from the other side—and what concessions need to be made to powerful domestic interests to make the agreement politically viable. Once the agreement is signed, the political arena shifts to the legislature. At all stages, there will be interplay among officials, interest groups, and other actors—including members of the legislature who specialize in trade.

⁸⁶On this process in American trade politics, see I. M. Destler and John S. Odell, *Anti-Protection: Changing Forces in United States Trade Politics* (Institute for International Economics, 1987), chap. 6.

Korea. Seoul is a capital with a tradition of strong career officials and strong ministries. Technical and policy competence is valued, and officials have considerable leeway in crafting policy. Hence, the first need for an FTA is to win consensus and support *within* the government. Korea has a capable trade minister, Kim Hyun-chong, who is working assiduously for an FTA with the United States. He is pursuing it, moreover, in the context of a broad, government-endorsed “FTA roadmap,” which endorses such agreements in general and ambitious (comprehensive, deep) FTAs in particular. Hence the President, Roh Mo-hyun, is clearly on board.

But the fact that something is official government policy does not assure effective government-wide support. To the greatest degree possible, this support needs to be real as well as formal, and extending to the ministries that oversee key sectors of the economy, both industry and agriculture. This need is reflected in the Presidential directive of June 2005 establishing an organizational process for decisions on free-trade agreements. The Trade Minister’s central role is embodied in his chairmanship of the “Executive Committee on FTA,” and inter-ministerial body which formulates basic FTA strategy and deliberates on negotiating details. His limited power is reflected in the fact that his Committee reports to the Ministerial Council of Foreign Economic Affairs, whose members are the senior Cabinet officials involved.⁸⁷

⁸⁷Chung, “South Korea’s Turn to Regionalism,” draft pp. 8-9 and Figure 1.

Korea also boasts a range of world-class firms that can clearly gain from the enlarged market that would emerge under free trade with the United States. Their active support is not automatic, however—because trade winners are not always active in trade politics in any country, and because in Korea there is a longstanding tradition of insularity and privileged relationships and opaque regulatory processes that even globally-successful business leaders may be still be reluctant to sever. The government will need to compile—and no doubt is compiling—a product and sector-specific list of “gains from the FTA” to build the needed support.⁸⁸

As important is the need to head off formation of a strong coalition in opposition. To date, anti-Americanism in Korea has been centered mainly on security issues in general and relations with the North in particular. Leaders in both countries need to work to keep it from spreading to the trade/economic policy arena. If they can show cooperation and progress in addressing the nuclear threat from Pyongyang—and the September 19th agreement is an important, hopefully landmark step in this direction—it will be easier to hold this tendency in check.

However, the Korean left does include its share of vocal anti-globalists: intellectual and emotional heirs, perhaps, to those who opposed capitalist export-led growth in the 1960s. The populist character of recent Korean politics gives them leeway and a market for their perspective. Prior to ratification of the pact with Chile,

⁸⁸It will presumably not make such a list public, since doing so would suggest that other sectors would be “losers.”

“Agricultural unions mobilized a great number of supporters, often in alliance with progressive labor unions, to wage massive and often violent protests against the FTA.”⁸⁹ Regarding an FTA with the United States, there is a danger that they will be joined by some globalization-wary firms. In the words of Kent Calder,

. . .one may also speculate about the emergence, in the Korean case since 2003, of a “*regionalizing coalition*” that is internationalist enough to find liberalization in a regional context congenial, but that eschews globalization. The analogy here would be Mercosur, in the Southern Cone of South America, during the 1990s. Brazilian industry and labor, in particular, wanted the opportunities of expansion into congenial markets like Argentina, without the rigors of competition with American multinationals that would be implicit in more global, or even hemispheric accords. Similarly, some Korean firms, labor unions, and NGOs, appear to desire access to rapidly growing China under regionalist arrangements.”⁹⁰

It is helpful that President Roh seems to see closer economic relations with the United States as a means of balancing his differences with Washington in the national security sphere. And the political prospects of an FTA will be strengthened by the support of a President whose base is on the “left.” He will coopt some who might otherwise be critics, and conservatives may support it on its merits. This would suggest that the politics of ratification may be easier under President Roh than under a possible GNP successor.⁹¹

⁸⁹Chung, “South Korea’s Turn to Regionalism,” p. 7.

⁹⁰Calder, “Regionalism, Alliance, and Domestic Politics,” pp. 32-33.

⁹¹The political parallel in the United States is captured in the oft-repeated phrase, “Only a Nixon could go to China [and reverse the US policy of isolating Beijing in 1971].” Earlier in his political life, Nixon had denounced acceptance of the Communist regime as “appeasement.”

Roh's political needs also suggest that Americans should exercise caution in evoking concern over China as an argument for an FTA. This could play well on Capitol Hill. But it could reawaken anti-Americanism and fuel resistance in Seoul if it looked like the United States was trying to alienate Korea from its largest regional neighbor. The last thing that Koreans want to do is choose between the two!

Korea's FTA-ratification experience with the Chile agreement, however, suggests that the ultimate need is to buy off the losers. "The government came out with a massive aid package of around \$1 billion for those who would be damaged. . . especially for fruit farmers of grape, peach, and kiwi."⁹² The good news for FTA advocates is that it worked. But if \$1 billion was required for a deal that was marginal to Korean trade, what will be the price-tag of one that is central?

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United States. Washington does not feature the strong career bureaucracies present in many other Democratic nations. More often than not in the past four decades, however, it has possessed a relatively strong "trade ministry," the Office of the United States Trade Representative (USTR). The official who heads it (*the* USTR) is, by definition, a coalition-builder and two-level negotiator. S/he is tasked with negotiating trade deals *and* bargaining with Congress and interest groups to gain their implementation. The job requires working with counterparts abroad, executive branch colleagues, and Congressional trade leaders. The USTR is not, typically, one of the

⁹²Chung, "South Korea's Turn to Regionalism," p. 7.

most powerful Cabinet members, and few occupants of the office have had strong direct ties with the President. But most have garnered sufficient power to be effective in negotiating abroad and building consensus at home.

Traditionally, the US Trade Representative has found support from bipartisan Congressional coalitions centered in the committees with trade jurisdiction: House Ways and Means, and Senate Finance. They have collaborated to balance economic interests, constrain protectionism, promote barrier-reducing negotiations, and (sometimes) toughen the administration's trade stance. When trade deals were struck, the implementing legislation would go to Congress under "fast-track" procedures barring amendments and limiting debate. To assure maximum support, this legislation would typically be co-drafted by USTR and committee staff, based on "non-markups" where the USTR and committee members met and determined its basic content.⁹³

This is still the formal process: as earlier noted, the Bush administration won renewal of fast track (renamed Trade Promotion Authority [TPA]) in 2002. But over the past two decades, US trade politics has changed in fundamental ways, which have, on balance, made it harder for the USTR to manage the trade-political process.⁹⁴

First of all, traditional protectionism has declined. As a result of ongoing globalization, businesses producing in the United States and wanting protection from

⁹³I. M. Destler, *Renewing Fast-Track Legislation* (Institute for International Economics, Policy Analysis No. 50, 1997), Part One.

⁹⁴The following summarizes analysis presented at much greater length in Destler, *American Trade Politics 4th edition*, chaps. 9-11.

foreign competition are fewer in number and weaker in overall political strength than at any time since the nation industrialized. When the US trade deficit ballooned in the 1980s, producers of textiles, steel, shoes, autos, machine tools, and semiconductors all sought some form of *new* barriers to imports. In the past decade, steel has been the only petitioner—and it got exactly nineteen months of temporary import relief (plus whatever producers could accumulate over the years from the AD and CVD statutes). The textile industry has transformed its trade strategy, from protection for domestic apparel producers who were historically its primary market to crafting rules of origin in FTA agreements to promote foreign use of American fiber and fabric. Auto manufacturers are in trouble in the mid-2000s—but not demanding protection as in the early 1980s. The common element, in all these cases, is that American producers have globalized, becoming too dependent on international trade to take straightforward positions against it.

Of course, sugar growers are fighting to keep their current protection, and textile producers want to slow the growth of imports from China triggered by the end of the Multi-Fiber Arrangement (MFA). But the dominant fact is that, contrary to widespread predictions, the MFA was in fact allowed to expire, and there is no serious movement to reinstate it.

Had this decline in traditional protectionism been the only change in US trade politics, market-opening agreements might have smooth political sailing—even though

organized labor remains, by and large, resistant to barrier-reducing measures. But two other changes have made the going harder.

One of these has been the rise of the “trade. . .and” issues—e.g., trade and labor standards, trade and the environment. Globalization has reduced protectionism, but it has also fueled concerns about trade’s social effects. It is quite natural that it would. A century ago, Americans were seized of the problem of business spilling over state boundaries and rendering states impotent to regulate it in the name of other social values. *Nationalization* was wrenching problem. To a lesser but substantial degree, globalization is a problem for US national governance today. There is worry that it undercuts domestic labor and environmental regulations. There is concern that it fosters exploitative business practices overseas.

These are legitimate concerns, and they are not simply a new form of protectionism. But the proposed remedy—including labor and environmental standards in trade agreements--causes real difficulties for trade policy. Internationally, these issues generate suspicion, especially at the WTO, where many third-world governments see them as one more way for the rich to exclude their products. So such standards are hard to negotiate. At home, movement on this agenda is resisted by Republicans, just as they resist strengthening of labor and environmental laws that directly govern Americans. But the social agenda is pressed by Democrats and by some of their “cause” constituencies. It has therefore dovetailed with the third important change: the polarization of Congress discussed earlier in this report.

Polarization undercuts the longstanding trade policy process in several ways. It impedes bipartisan cooperation by making personal relations between Republicans and Democrats more rancorous. It weakens the committees which have the locus of such cooperation—the more substantively coherent the parties are, the greater the separation between them, and the fewer the centrists to broker compromise, the greater is the tendency for legislation to be crafted by members of the majority party outside the committees and brought there only for the requisite approval. Once legislation reaches the floor, leaders rely overwhelmingly on votes from their own party—and if they have to extend the voting time beyond that which House rules provide, they do so.

This is exactly what has happened on trade policy. The agenda in 2001 was the Bush administration's desire to win negotiating authority for WTO negotiations and FTAs. The new and aggressive Ways and Means Chair, Bill Thomas (R-CA), led in crafting the legislation, but he worked out the basic provisions outside the Ways and Means Committee, going around the senior committee Democrats to work out a deal with three junior members of that party. Those senior committee Democrats--Charles Rangel (D-NY) and Sandy Levin (D-MI)—sought to engage Thomas on substance, seeking stronger labor and environmental provisions, but they were rebuffed. They led the bulk of their colleagues into opposition, driving the House Republican leadership to pressure colleagues who have never before supported free-trade legislation. And the House Speaker kept the vote open until a final member was

bought with a textile concession, making the tally 215-214.⁹⁵ Just 21 Democrats voted in favor, and an incredibly low 23 Republicans cast negative votes.⁹⁶

As previously noted, USTR Robert Zoellick used this authority to complete a series of FTAs. All included commitments to enforce labor and environmental standards—as Democrats wanted—but the basic formula was the “Jordan standard,”⁹⁷ which required that both parties to the FTA agree to enforce their existing laws. The political fates of these agreements diverged sharply, depending on whether Democrats accepted the practical outcome. Four of the FTAs won easy approval—Singapore, Chile, and Australia because their basic labor laws were judged strong, and Morocco, where parallel negotiations involving House Democrats led to their strengthening before the agreement reached Congress for a vote. CAFTA-DR faced fierce opposition, because the Democrats found some Central American nations’ laws wanting. They therefore sought to base Central Americans’ commitments on the core

⁹⁵For details, see my “Trade Promotion Authority in 2001: The Bargain That Wasn’t,” in *American Trade Politics 4th edition*, Appendix A.

There was bipartisan cooperation in the Senate, with Democrats there bargaining successfully for major expansion of the Trade Adjustment Assistance program to aid workers displaced by imports. But after a comfortable 66-30 Senate vote in May 2002, two more close, partisan House votes were required before Trade Promotion Authority became law in August 2002.

⁹⁶In the fall of 2001, this author compiled a list of 20 hard-core anti-trade Republicans who had voted to withdraw from the WTO and against all important trade expanding legislation. Eleven of the 20 voted in favor of TPA, and two others were among the five House members who did not cast votes at all.

The 23 Republicans who voted No compare to the 50-plus GOP “Nays” on every previous important trade bill since NAFTA, including the Uruguay Round/WTO and normal trade relations with China.

⁹⁷So labeled because it was employed in the US-Jordan FTA negotiated by the Clinton administration.

labor standards of the International Labor Organization. They were rebuffed (in part due to fears of some Republicans that partner nations might enforce such standards on American states).

So CAFTA became a bitter partisan struggle. Organized labor went all-out in opposition, joined by NGOs who saw the agreement as exploiting workers and peasants for the benefit of multinational business. The new USTR, Rob Portman, confirmed only in late April 2005, was a former House member who was unusual (in the 2000s) for being well regarded on both sides of the aisle. But with his late start he was unable to crack the basic partisan pattern. The Democratic leadership pressed for a maximum negative vote, angry at the Republicans' systematic exclusion of their party from legislative influence across the board, and driven by the idea that this was a vote they might actually win. They didn't, but they forced the Bush administration and House leaders to spend major political capital (and, apparently, substantial public funds) to win over undecided compatriots. In the end, their July 2005 victory was a less frantic replication of TPA December 2001—the final count was 217-215, with only 15 Democrats in favor but three additional Republicans available just in case.⁹⁸

⁹⁸The vote was 214-211 when time expired. But according to one who was in the room with the leadership, the Republicans wanted 217 votes in favor, and also to allow the maximum number of colleagues to vote their constituencies. So they held six on-the-fence members in abeyance until the final Democrat voted “nay,” had three of them vote “aye,” and then let the three most politically vulnerable off the hook.

The fifteen Democrats were the smallest number ever to vote in support of a trade agreement.

So the politics of FTAs has been of two types—CAFTA and Singapore-Chile-Australia-Morocco. Korea doesn't fit obviously in either camp. It is far more advanced economically than the Central American nations, so it does not pose the same sort of “low-wage” threat to American workers. And its labor conditions are substantially better. But it is more important to US trade than any partner since NAFTA—hence it could trigger greater anxiety on economic grounds..

In the months since CAFTA, Portman has worked hard to mend fences with alienated Democrats. Insisting that the CAFTA process was “a train wreck not of my own making,” he has worked with them, listened to them, and signaled some willingness to do more on labor issues. And though negotiations have not yet begun, the issue of a potential Korea FTA is very much in play on Capitol Hill. Democrats like ranking Trade Subcommittee member Ben Cardin (D-MD) and his predecessor, Levin, have been involved, indicating the sort of real policy-influencing roles they want to play. Active also, potentially, is Rangel, whose association with Korea dates back over fifty years, from his service in the Korean War, and who—by some reports—would like to play a supportive role. On the Republican side, Chairman Thomas has endorsed a Korea FTA: one of its advantages, he reportedly believes, is that it could be a “bank shot” to pressure Japan. Nor have Korean officials been idle. They have been busy trying to lay the groundwork, talking with members and staff on both sides of the aisle.

An issue that could play in Korea's favor is broad bipartisan concern over China. Legislators have been upset with that nation on several counts—the huge bilateral trade deficit, its maintenance of an exchange rate widely seen as undervalued, the surge of Chinese apparel sales after the end of the Multi-Fiber Arrangement. And behind this is a broader anxiety over China's future potential—economic, political, military, whatever. An FTA will be supported, by some, as a means to counter potential Chinese dominance in East Asia. The fact that Korea has allowed its *won* to appreciate may be cited as an example Beijing should emulate. But US officials should deploy anti-China arguments with care. They will not play the same way in the politics of their negotiating partner across the Pacific.

All involved in a potential US-Korea FTA are aware of an important US deadline date—the expiration of Trade Promotion Authority in mid-2007.⁹⁹ Given the requirements for consultation built into that law, this means that an FTA would have to be signed by February of that year to benefit from the special legislative procedures. So, of course, would a Doha Round agreement. The bulk of USTR Portman's negotiating energy will almost certainly go to the latter. This is one more reason for advocates of a US-Korea FTA to make haste.

⁹⁹The 2001 legislation granted TPA until mid-2005, with an extension for two more years unless either the House or the Senate passed a disapproval resolution. Since no such resolution was reported out of committee, neither house had the chance to do so, and the extension became effective on July 1, 2005. A further extension, beyond 2007, would have to come through the normal legislative process, and would be difficult to achieve under a lame-duck President and a likely-less-Republican Congress.

Conclusions and Consequences for East Asia

For both nations, the decision on whether to negotiate a free-trade agreement will be, in the end, at least as much geopolitical as economic. The projected national welfare gains are real, but not overwhelming. An FTA will help some producers and harm others, though the net should be gains in efficiency in both countries—Korea in particular. Of course, calculations of this sort tend to understate dynamic effects—such as competition bringing and keeping firms in both nations at the world-class standard. But even under the reasonable assumption that such dynamic effects are positive and important, both nations will need to think also about the impact on East Asia and their places within it.

Does Korea see a special economic relationship with the United States as enhancing its global and regional roles? Does the United States see one as a new and useful anchor in its dealings across the Pacific? To make it happen, both will have to build coalitions among economic interests. But they will also need arguments that reach beyond commerce to the shape of the 21st century world.

East Asia is central to that world, of course, and both nations are central to East Asia. One is geographically embedded there; the other continues to fuel the region's remarkable progress through its security and economic roles. And each needs to be sure that any free-trade agreement it negotiates will contribute to the type of regional future it wants.

Fortunately, both are served by the same outcome: an East Asia characterized by open regionalism, one where deepening ties between nations located there do not serve to exclude nations outside, one where no one nation dominates and no two nations shape its politics through their rivalry. A Korea-US FTA would, by reinforcing an important relationship, reinforce constructive US engagement in East Asia. It would strengthen Korea's capacity to serve as a regional economic hub, and could enhance Korea's strategic role as a "middle power" bringing larger powers together.

If Korea and the United States conclude an FTA over the next two years, it should prove a force for openness elsewhere. The greatest immediate impact could well be on Japan, which would see itself being "bypassed" in a new way. Assuming the FTA was essentially economy-wide, meaning that Korea really bit the bullet on agriculture, there would be great pressure on Japan to do the same. How Tokyo would respond in the short run is hard to predict. Over time, however, it would likely become the sort of "*gaiatsu*" necessary to end the quasi-veto the Japanese farmers have held over comprehensive market-opening. This could, at minimum, end the stalemate in its own FTA talks with Korea. More ambitiously Tokyo might even seek a parallel agreement with Washington.

China would probably react with moderation if a US-Korea FTA were not cast as anti-Beijing, and if regional cooperation continued to advance. For the near term, however, Korea would be *seem to be* making a geopolitical choice: given current

American politics, Seoul would have to forego—for several years anyway—any steps toward a bilateral FTA with China. But in practice, Korea is not ready, politically, for open trade with China, which would be a much greater threat to Korean agriculture than a deal with the United States. And Seoul would not be constrained from more gradual deepening of economic cooperation with Beijing on the model of ASEAN + 3. Nor would it be blocked from pursuing FTAs with other nations in the region and beyond—the deal with the United States would, presumably, make Korea a stronger and more attractive partner for others. An FTA with the world's largest economy could well shift Koreans' future FTA priorities, however. At minimum, Korea would no longer need to accumulate them to show it was not being left behind in the FTA game, and its leaders might decide to give greater priority to Asian regional groupings.

Whether or not this FTA is negotiated, both Korean and American firms will continue to seek deepening engagement in the remarkable Chinese economy. A bilateral FTA should, however, facilitate US-Korean corporate strategic alliances that engage in China (and elsewhere) from a position of enhanced strength. And these firms would, in turn, lend their political weight to keeping regional markets open.

The process of negotiating the free-trade agreement could make a successful Doha Round more likely. It could make Korea marginally more forthcoming on agricultural market access, and make third parties marginally more concerned over the trade consequences of the FTA for them in the absence of a global deal. The two should be seen, on balance, as complementary, not competitive. In some respects, of

course, a bilateral FTA could be more consequential in a world where Doha fails and trade multilateralism appears in jeopardy: the tariff preferences would mean more economically, and the pull toward regional and other economic groupings would be more powerful politically. In this unhappy context, however, an FTA across the Pacific between two lead trading nations would be blow against exclusive regionalism on either continent.

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This study has been analytic more than prescriptive, seeking to shed light on the substance and the politics of a potential Korean-American FTA. In the end, though, the analysis leads to an affirmative conclusion. A free-trade agreement between these two important trading nations should prove a winner for both, and constructive for East Asia and the world. The economic potential is serious and positive. The potential contribution to a benign East Asia is at least as important.

But the deal would best be done soon. Political scientists write of policy “windows,” political openings when the forces at play make what was once infeasible, feasible.¹⁰⁰ But windows unexploited have a habit of closing, and this one could close fairly quickly. As 2006 moves toward 2007, US trade policymakers will focus more

¹⁰⁰The classic work on this topic is John Kingdon, *Agendas, Alternatives, and Public Policies* (Scott, Foresman, 1984).

and more on the expiration of Trade Promotion Authority—and if a decent Doha deal seems viable, they will be centering their attention more and more in that direction. And before 2007 is very far advanced, Korea will be approaching its Presidential election.

For Korea, more than the United States, an FTA is a reach for new competitive stimulus, for a new impulse for growth and development. For both, however, it is a reach for a renewal of their broad relationship and for partnership in building an open, constructive East Asian polity. Are they ready to take this step? The months that come will tell.