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Panel IV – Beyond KORUS FTA:
Toward Mutually Beneficial Economic Relations

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Panel IV - Beyond KORUS FTA: Toward Mutually Beneficial Economic Relations

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Former Ambassador and Special Envoy for Negotiations with the DPRK
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Discussants: CHO Kun-ho
Former Vice Chairman, Federation of Korean Industries

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Former Ambassador of the United States to the Republic of Korea

PROCEEDINGS

TAMI OVERBY: I'm honored to be here, and I want to give a special thanks to the Sejong Institute and the Brookings Institution for putting together this very important and timely forum and to our friends at the Korea Foundation for their sponsorship.

We are delighted with the progress of the KORUS FTA, and the very courageous decisions that both governments made to evaluate the economic relationship of our two great nations, and the desire to bring the economic cone to the same level as our security alliance. We have seen increased partnership among Korean and American companies, and it's reflective when one looks at the sheer volume of our trade. Last year, Korea was America's seventh largest trade partner, and our two-way trade was over \$78 billion. America last year was Korea's third largest partner, so we are very significant partners already, and many see this KORUS Free Trade Agreement as a way to take our economic relationship to a new level.

I'm absolutely delighted to be chairing this very illustrious panel; we would like to ask each of our presenters to speak for 15 or 20 minutes, and then we will give our discussants another 15 or 20 minutes. To begin we'd like to start with Jack Pritchard, who is the president of the Korea Economic Institute. He's also former ambassador and special envoy for negotiations with the DPRK, and U.S. representative to KEDO, and a long-time State Department official. So Jack, would you please begin?

JACK PRITCHARD: Well thank you very much, Tami. It's a great pleasure to be here on this panel. It's a different role for me, as Tami indicated; in a former life I had a great interest in security matters, and so this is really my inaugural public event on strictly economic issues, and if I get in trouble I'm going to reach down to Joe Winder, my predecessor, and he'll help me out I'm sure.

But for those of you that were at lunch today, we had a taste of things to come, as Ambassador Vershbow talked about the importance of the KORUS FTA. I wrote down one of the things that he said as a quote, and I think that's really true: It's an investment in the future. While this panel is described as "Beyond the KORUS FTA: Towards Mutually Beneficial Economic Relations," we haven't gotten beyond there yet.

So I'm really going to stick to the KORUS FTA, some of the issues that we have before us, and a couple of recommendations on perhaps how we can get it past at least the U.S. Congress, in recognition that, I hope that, the debate within Korea is going a little bit more smoothly, and we'll talk about that in a little bit as well. And as I said, there's no discussion about the future of our economic benefit unless we begin first about what's happened most recently.

As Tami has indicated, the economic viability of our relationship has always been there, and it's been growing. As she indicated, the United States was Korea's third-largest trading partner, its second-largest export market, its third-largest source of imports, and its largest supplier of FDI. So the United States is extraordinarily important to Korea,

and likewise Korea is fundamentally an important partner economically for the United States. U.S. goods exported to Korea last year were \$32.5 billion. Tami mentioned the overall relationship, in excess of \$78 billion, but for the U.S. there's \$32.5 billion headed towards Korea. U.S. foreign direct investment in Korea last year totaled roughly \$18.8 billion—and I'll get back around to that—to what the KORUS FTA may mean for the future of foreign direct investment in Korea.

But let me talk a little bit about the decision to get to an FTA. President Bush, on the second of February in 2006, what he said in the announcement of the decision to undertake the negotiations was: "The United States and the Republic of Korea have a strong alliance and are bound together by common values and a deep desire to expand freedom, peace, and prosperity throughout Asia and the world. Today, we seek to deepen the ties between our nations by negotiating a comprehensive U.S.-Republic of Korea Free Trade Agreement. A Free Trade Agreement with the Republic of Korea will provide important economic, political, and strategic benefits to both countries and build on America's engagement in Asia."

Now fundamentally, what that means was the United States was looking at this beyond just the economic benefits that it would gain from an FTA with Korea. It represented more than just the economic benefits; it meant an opportunity to enhance the totality of the relationship with Korea. Now, I don't want to minimize the extremely hard work that went into getting to the FTA; it just didn't happen with the announcement of the president and the commitment by President Roh Moo-hyun. Certainly USTR and their counterpart here in Korea placed a good deal of effort of laying the groundwork, making sure that those issues which would have precluded a successful FTA were either eliminated or minimized before the negotiation was even begun.

But there are other factors when going back to take a look at why the United States was looking at this. Tami mentioned this as well, in talking about wanting to increase the economic cone or pillar, to make it more commensurate to that of the security pillar between the United States and the Republic of Korea. But when you think back in February of 2006, there were a number of things that perhaps were not going as smoothly as possible. The Six-Party Talks that we have talked about over the last two days were at a standstill. The issue of OPCON, which we've also talked about, caused at that point in time a great deal of controversy. The response by Roh Moo-hyun's government in terms of, "We're prepared to move towards accepting operational control in 2012," you may recall, the Pentagon surprised everybody by saying, "Well guess what, you get it in 2009." So there was a good deal of criticism of the Roh Moo-hyun government that the United States was in fact looking to minimize its commitment in the security arena over some displeasures. It is in that environment that the prospects of a strengthening of our economic relations really were undertaken.

But from a Korean point of view, I go back to some comments made by former Foreign Minister Ban Ki-moon, now Secretary-General of the United Nations. When he was describing his expectations of a KORUS FTA around the eighth of February, about a week later, he said: "If we were to conclude an FTA with the United States, not only will we

see visible economic benefits in the long term such as increase in national income and trade amount with the U.S. as well as new jobs, but we can also expect to see various additional benefits with the advancement of the entire economic and social system and the alleviation of security threats, which will contribute to efforts to raise the confidence level of our economy leading to increased foreign investments.”

In short, what Seoul was looking at in terms of an FTA with the United States was an opportunity to increase trade, revitalize and reform sectors that otherwise would not rapidly and readily be acceptable to change, and enhance its overall relationship with the United States. That was the preparation for getting there, and then we take a look at the actual negotiations, and I don't intend to go through each of the rounds, as we know there were some very contentious rounds.

My own view was it wasn't until after the fifth round in Montana in December of 2006 that we began to see that it was potentially a possibility that agreement would be reached. But the early rounds, if you may recall, were marked by some very distinct vocal opposition in Korea and a lack of progress. This is despite the fact that they were begun with such strong emphasis by President Roh Moo-hyun.

But what you have in this agreement, and let me just explain something now, one of the things that I have done as the president of the Korea Economic Institute was to organize a series of very small but influential surveys in the United States, around Washington, DC, that focused on some congressional staff members, members of government, think tanks, and influential members of key trading sectors to find out what their views were throughout the process. Some of the things that we found in the third round of surveys that came after the Montana round gave us a revealing view of what the attitude in Congress and in the United States might be towards an eventual FTA, should it have been agreed upon.

One of the things that we found was a clear majority thought that there were certain areas that could turn out to be fatal in the negotiations. As an example, we asked, do you think any of these areas is so critical to either the United States or Korea that failure to reach agreement would kill the possibility of an FTA? Overwhelmingly 88% said yes; when we asked them, what is an example of some of those things, first thing they said was automobiles, beef, pharmaceuticals, financial services, etc. Now beef has absolutely nothing to do with an FTA in terms of the negotiation, but it has everything to do with the passage of the FTA, and I'll get to that in just a second.

One of the things that I talked about in terms of the FTA was the concern in the auto industry, and the results of the negotiations which we found out late on the first of April, within 20 minutes of the deadline, and I refer to it in my paper as the FTA deadline before TPA ran out, and that's really just a technical issue because the presidential authority does not run out until the first of July, but there's a requirement for 90 days prior to that to have an FTA in hand and agreed upon.

But the single biggest thing that came out of that was the automobile sector. And listening, as an example, to Wendy Cutler, whom we had up on the Hill at Congress just a couple of days after the FTA was agreed—she flew back, agreed to speak on the Hill, in which we had some twenty staff members of Congress there. She gave a very detailed example of the progress that they had made on the automobile sector, and I think most of us were very surprised at how much had been done. For example, when an agreement has embedded in it what's called a snapback provision, and which suggests that if the other side, in this case if Korea is not living up to the provisions of this sector's requirements, then the tariffs that are currently in place would immediately fall back and be a permanent punitive action to Korea.

That I think was probably in response to the key members of Congress who have been most outspoken about a sector in which they'd like to see a significant amount of progress. Going into this FTA most people will use some very specific examples where Korean exports to the United States in the auto sector are around 800,000 cars, U.S. exports to Korea in the auto sector in the neighborhood of 4,000 or so. Significant disparities in that, lots of reasons for that, but the members of Congress are not apt to go through a reasonable explanation of why that has occurred over the years, but they actually want to see some progress. Prior to the negotiations being finalized, key members of Congress sent a letter to the chief negotiator, Susan Schwab, the USTR, and essentially said, what we would like to see are benchmarks based upon the OECD averages, and that really came down to market manipulation. We'd like to see x number of cars sold in Korea before we would agree to accept an FTA with an auto provision of something less than that.

And I mentioned on the fifth of April, Wendy Cutler had spoken on the Hill, explaining in great detail what had been achieved. Three weeks later I was at a dinner with Representative Charlie Rangel, very powerful Chairman of the Ways and Means Committee, and he was asked, well you haven't said anything about the FTA. He spoke that evening, and he said, oh, on the KORUS FTA we have three concerns: autos, autos, and autos. We haven't seen the text yet, but we don't know if it's going to address our concern over non-tariff issues.

That text, as we all know, has not yet been released publicly; we think that it may be released in the next week or so, around the twentieth of May, but what we have lined up so far in the United States with regard to the auto industry, if you can lump it as one entity, are essentially the three big players—General Motors, which is very quiet on this; we have Chrysler, which previously they were not supportive but they weren't actively looking to scuttle the deal; but you had vocally Ford, which came out in opposition to it. I'm not quite sure what the change in the ownership of Daimler-Chrysler, the spin-off of Chrysler, is going to mean in the future.

But let me go to a couple of things here, and that is what I consider to be unnecessary problems. The auto industry is one in which we will revisit this. You may know that key members of Congress headed by Representative Charles Rangel have negotiated with the U.S. administration a labor and environmental chapter in which it

would be applicable to four FTAs that have already been negotiated—Korea, Peru, Panama, and Colombia—and to future FTAs. Those, as Ambassador Vershbow has indicated at lunch, should not pose a problem to Korea, given the high standards in labor and environment.

The beef issue is another one that is really inexplicable to most Americans, and that has caused one of the leading proponents of a Korea-U.S. Free Trade Agreement, Senator Max Baucus, who has for a long time called for and advocated a Free Trade Agreement to happen, to say point blank, unless the issue of beef is resolved, he will not allow the FTA to come to a vote in the Senate.

Now, as Ambassador Vershbow mentioned in his remarks at lunch, we also think this ultimately will be resolved around the twentieth of May, when the World Animal Health Organization issues their risk assessment about U.S. beef and we see a follow-through on the pledge by the Korean government to reopen its markets based on scientific evidence. But compounding this emotional issue, as you all know, were three shipments of boneless beef that were turned back, many tons of beef that were turned back over small chips, fingernail-size chips of bone that were found in the meat. Fortunately, since the approval of the FTA, we've had at least one shipment on the 26th of April that has been able to come through and meet the satisfactory requirements and I assume is either on the shelves or—is it on the shelves now?

MS. OVERBY: It is.

MR. PRITCHARD: How's it taste?

MS. OVERBY: Excellent.

MR. PRITCHARD: Excellent.

MS. OVERBY: Delicious and safe.

MR. PRITCHARD: Delicious and safe. You notice all the Americans say the same thing; it's safe and delicious beef. Let me speed up, I want to get to some of the conclusions and recommendations.

One of the concerns that some of the trade members in the United States have about if the FTA were to fail in passage either in the National Assembly or in the U.S. Congress, it has been described as a concern about potential backsliding by Korea, meaning that all of the progress that has been made to date by the reformers that are looking for an improvement in the economy, in the systemic situation here in Korea, would lose out to traditionalists and all the gains that had been made would be in jeopardy.

As was introduced when Tami was introduced as the moderator, she headed an AMCHAM doorknock, a visitation by a number of U.S. Chamber members in Korea to

the United States, and they talked to a number of us about some of the things they had been doing in Washington, and they mentioned they had gotten some advice by members of Congress as an example. Members said, I certainly can make up my own mind about how I'm going to vote on this, but quite frankly if you want to influence members of Congress, you need to go to their districts. You need to explain to their constituents, the people in their districts, why and how a Korea-U.S. FTA benefits that district and those people. And when you do that, and then they write their congressman, it has a significant impact on how they will vote.

So it doesn't take very much imagination as an example to translate that bit of advice into a recommendation that's a little bit tricky, but bear with me, in which the Korean Consul Generals throughout the United States, if given a good deal of support, could organize in very key places information about the KORUS FTA, particularly in those constituencies where members have not yet made up their mind. It is not important to go after members who are committed to vote yes, nor is it important to go after members who are committed to vote no; you need to go after two types of potential votes—the swing vote, those who've not made up their mind—and you need to go after the congressional leadership. Where the congressional leadership goes, then there will be others that will follow.

Let me just wrap up and suggest that the other thing that can be done here in Korea that will help with passage within the United States, and that's where it's going to be a much bigger problem in my estimation, is an early debate and an early passage within the National Assembly. That provides the members of Congress an element of added pressure in which they have to consider the overall relationship, the fact that another nation has fully debated, considered and passed the same resolution. And they cannot cavalierly dismiss or very easily dismiss the importance of this agreement, which will ultimately, as Ambassador Vershbow made reference to this most recent study, a potential annual growth by 6% over the next ten years, help create employment in Korea, increase exports to the United States by \$1.3 billion annually, and perhaps most importantly, perhaps contribute to an increase in direct foreign investment of \$2 -3 billion a year. So with that let me stop.

MS. OVERBY: Thank you very much; that was very thoughtful and comprehensive, and I strongly agree with your comment that this is a great opportunity for Korea to take leadership in this debate by having the Korean National Assembly get out in front and ratify this agreement as soon as possible.

And with that we'd like to introduce our second speaker, Professor Kim Sung-hoon, who is president of Sangji University and former Republic of Korea Minister of Agriculture and Forestry. Professor Kim?

KIM SUNG HOON: Thank you. Before I just go into depth, let me clarify myself. I love America as much as I love my motherland Korea, and I'm always grateful to the USA, who provided me scholarship education opportunities for my master's and Ph.D. degrees.

Also I've been critical of this KORUS FTA. This doesn't mean I object to or reject the FTA itself. In order to prepare and move toward more mutually beneficial economic relations between the two countries, I always believe we have to know in more detail and precisely what are the real contents and impact of the KORUS FTA. Therefore I will just review briefly from the beginning to the end of the FTA and possible impacts of it. And don't feel offended if I speak a little slow.

To begin with, President Roh Moo-hyun's government has failed to follow his own government's procedure of legitimacy in pursuing an FTA with the USA. As a matter of fact, all the mandatory pre-negotiation process was completed actually within one year, that is February 2nd last year. This has been done in a day, like secret military actions. No joint research has been done, both by Korean and U.S. scholars, as specified in the procedure, and no actual public hearings have been done.

So at the aborted public hearings on February 2nd last year, the ROK government distributed the KIEP's report that had predicted a rosy prospective picture of KORUS FTA on the Korean economy as a whole. According to that first report, GDP for the next 10 years, among others, would be increased by 1.99% and Korea's net trade surplus with the USA would be decreased by more than 7 billion U.S. dollars. Allegedly, having a scolding from the upper hierarchy, KIEP three weeks later re-issued a new version of the same analysis, reporting that GDP would be increased by 7.55%—this is 3.8 times inflated within 3 weeks—and the trade surplus with U.S. would only decrease by 4.7 billion dollars, not 7 billion dollars. The same kind of computational manipulation happened in the case of Korea-Chile FTA. In short, about 6 times difference between the original prediction and the actual happening has happened.

The most frequently raised question throughout the negotiation, which has never been clearly answered, is what is the real motivation of President Roh, who pushed rather heroically for the conclusion of KORUS FTA negotiation in preset time schedule? What is the motivation? The overall analysis of economic benefits and losses from the KORUS FTA, which will be explained later in detail, will not be much impressive as a driving force for him to act like a forefront warrior. Possible explanation can only be cast about based on the political scenario.

Notwithstanding his old pal's disappointment, it seems to be very imperative for President Roh politically to gain support from conservative forces, both domestic and U.S., and thereby enabling him to fulfill his longtime aspiration to have summit talks with North Korean leader Kim Jong Il or to bring a permanent peace on the Korean peninsula. That is certainly a tremendous achievement.

Of course, nobody may be assured that President Roh truly believes in the goodness of the KORUS FTA as one of his monumental achievements. However, his rather bold political rhetoric, "Market opening or return to the old closed economy one hundred years ago!" has got a good deal of echoes, to his own embarrassment, from general public, specifically from the conservative media and political parties like the Grand National Party (Hannara). As a matter of fact, 99.3% of all the Korean industrial

goods and agricultural products have been already market-opened on the occasion of joining the World Trade Organization in 1995. And still more, the government readily accepted the four preconditions imposed by the USA for the opening of FTA negotiations, which are not directly related to the regular FTA agenda. The four preconditions, as you all are aware, are 1) 50% reduction of screen quota for Korean films, 2) easiness of quarantine process and conditions for BSE-suspicious beef [Bovine Spongiform Encephalopathy, or mad cow disease], 3) preferential treatment for U.S. auto importation and lastly, 4) special privileges for patented U.S. medicine.

President Roh and his bureaucrats have often stated politically and publicly on several occasions that in order for Korea to escape from the sandwich positioning between China and Japan and to upgrade the Korean economy to the level of advanced countries, the KORUS FTA is an inevitable course of action, especially by means of complete opening of the service sector such as financing, education, medical services, law business, transportation, etc. But at the first glance of the Summary Report of FTA, after negotiations concluded, the service sector remains as the least affected area, just about 10 or more percent opened in terms of repealing tariff and non-tariff barriers. Then how can Korea reach its goal of [becoming an] advanced country, as stated so frequently by President Roh's government?

After President's direct scolding to two Ministers of Fisheries and Agriculture at the Cabinet meeting not to inflate the amount of damages caused by the Korea FTA, eleven government-invested national policy research institutions issued a joint analysis report on the overall effects, on April 30 this year. As shown in the table on page 111, the results estimated before and after the negotiation are quite diverging, largely owing to using different computational models and methods.

For instance, if the CGE model used to estimate trade surplus/deficit analysis before the negotiation was re-employed for the same analysis after the negotiation, the outcome would have been quite different from each other; that is, 6 billion dollars trade deficit instead of 4.6 billion dollars surplus. They changed the computational models.

For the projection of GDP growth rate owing to FTA, also, two rough baseless assumptions were adopted. For example, it was assumed that productivity of the manufacturing sector increased at a rate of 1.2% and that of the service sector whose opening remained as the least affected area grew even at 1%. Accordingly the total economic growth rate would rise unrealistically to 6% level, compared with KIEP's first estimation of GDP growth was 1.99%.

In contrast, some qualitative analysis of the negotiation undertaken by the participation of about 200 voluntary specialists is very suggestive. That is, out of 88 request items in dispute from 21 sectors, the USA won 64 items, a 77 % success, while 7 of Korea's requests were adopted, only 8%. The total score was 77 versus 8; this is a one-sided victory for the USA. Korea's four major requests, rejected among 77—that is, to ameliorate the U.S. rules related to anti-dumping and countervailing duties (AD/CVD), to exclude the U.S. Investor-State Dispute Settlement (ISDS) like the case of the U.S.-

Australia FTA, for Kaesong-manufactured goods to be treated as same domestic products “made in Korea”—that is the rule of origin extended to Kaesong like the case of Jordan-manufactured goods by Israeli investors—and lastly, to include Korea in the U.S. visa waiver program.

Unlike Korea making a series of painful concessions to its counterpart’s demands including a range of 30 laws, regulations, rules and ordinances to be revised, USA negotiators had been very tough and stern, telling that the amendment of laws and regulations, such as U.S. anti-dumping law and CVD, was beyond their capacity. For Kaesong products, after a lengthy negotiation both sides agreed to establish a kind of working group, “Outer Processing Zone Committee,” that would only deliberate the Zone based on the three specific conditions. These specific conditions are very interesting: There should be no nuclear threats, and environmental and labor conditions to be met by international standards. Of which the labor condition may long remain controvertible unless North Korea changes its economic systems towards a market economy.

With respect to ISDS, I mean investor-state dispute settlement; the core problem is who has the jurisdiction over the disputes; the concerned government or the third-party settlement organization. KORUS FTA entrusted the third party with a power of attorney handling the dispute. That is why FTAs between USA and Australia, China and ASEAN, Australia and Singapore, and even EU and other countries excluded this American type of ISDS.

According to the Korean government advertisements, the most blessed industry by KORUS FTA would be autos and textiles. Nevertheless, Chairman Chung Mong-Ku of Hyundai Motors replied a saucy thing saying, “There are positive as well as negative points of the auto negotiations co-existing in the KORUS FTA.” If and when the car tariffs of 8%, on the part of Korea, and the special consumption tax of 5% are abrogated in Korea, such popular small and medium-size American cars, especially Japanese cars manufactured in the USA like the Honda Accord and others, can price-wise strongly compete with the Hyundai Sonata in the Korean market. Even the big-size car like the Lincoln Continental may be smoothly increasing its sales, too, largely owing to the easiness of air effluent control and the reduction of domestic auto tax scale for larger cars. The reverse case for Korean cars in the USA will not be that much impressive, because the prevailing tariff on Korean cars in the USA is only 2.5%. However, the annual increases in export of Korean cars would average 836 million dollars, about 60% of Korea’s total export increases in the USA due to the FTA. This is KIET’s, a government-invested research institution, estimation.

Likewise, the annual average increase in textile exports to the U.S. market would be only 190 million U.S. dollars for the period of 15 years according to KIET. Originally KIET predicted it would be about 300 million dollars before the negotiations started. The main reason for the reduced estimation is that only 6 products out of 1,500 kinds are allowed to be exempted from the U.S. “yarn forward” regulations. Korea’s high-valued textiles use high-class foreign yarn, which is not applicable at all to this kind of exemption, while the low-valued textiles are being manufactured in other Asian countries.

So both items would not be affected at all by the FTA agreement. As a matter of fact, the Ministry of Industry and Resources officially admits that there casts a shadow on auto and textile industries, too.

In return for the U.S. concessions on textile exports as mentioned, Korea conceded to the USA loosening the inspection and importation procedures of LMO [living modified organism]—a sort of GMO [genetically modified organism]—products, although it is, by no means, the agenda item of the FTA. Procedural concessions on U.S. BSE-suspicious beef were also the same as above. At the last minute negotiations, additional concessions were given to fixed criteria for auto gas effluence, irreversible fixation of the screen quota of 73 days per year and medicine price guaranteed by not applying for the A7 floating rate. Korean delegates further promised that in May, when OIE [World Organization for Animal Health] judged the USA as a BSE risk-control country, Korea would consider to import U.S. beef even with bone, too. As a whole, the rules of the game for the FTA appeared to have favored one-sidedly the very experienced, huge country, the USA.

Well, I've prepared much detailed information of the analysis of the results on the part of Korea, but as my time is already up, I'd like to just jump into the conclusion, and I hope you'll find time to read over the rest of my paper later. The news a few days ago from overseas heralded that a USTR representative may come back to Korea with renewed requests, that is, as a result of consultation with U.S. Congress; labor and environmental plus auto and agriculture and perhaps some other requests may be included if they come. I think this is very high time for Korea to counteract in raising some revision of detrimental and unfair conditions imposed during this FTA period.

But repeatedly I'd like to say, most Koreans do not object globalization, nor an FTA, but only they'd like to see fair negotiations should be done to maintain the balance of national interest between two countries and [that] people's welfare and their working place could be kept for their good subsistent life. So I do hope our Congress, as same as the U.S. Congress, gives good consideration of what should be made in fulfilling and implementing this KORUS FTA to make it become successful. Thank you very much.

MS. OVERBY: Thank you, Professor Kim. You raised some very interesting points that I hope will be cleared up once the full text is released to the public, and we understand that might be as soon as next week.

Now it is my honor to introduce currently an advisor to FKI, the former vice-chairman and CEO of the Federation of Korean Industries, and before that Chairman Cho was the vice-chairman of KITA and also spent a long career as a senior official in the Korean government. Now I'd like to introduce Mr. Cho Kun-Ho.

CHO KUN-HO: Thanks Tami for your introduction. I'm very pleased to make a few comments on President Kim and President Pritchard's presentations. First I'd like to thank them for their informative and thoughtful presentations.

I agree with many points they indicated in their presentations, so I'd like to add a few more meanings of the KORUS FTA and the agenda beyond the KORUS FTA from the Korean perspective. The KORUS FTA has built a favorable environment in which both countries could make their relationship stronger economically, and politically as well. Just after the news of the conclusion of the KORUS FTA, the Korean stock market was moving positively. The KOSPI index, which was 1,450 at the end of March, soared to 1,600 at the end of last week. A private economic institute raised the Korean economic growth rate of this year a little higher.

More important, a long-term benefit the KORUS FTA will bring to us is the stability of the national security of Korea. Quite a few people in Korea, even though they did not express their views clearly, believe that the first rationale of the KORUS FTA should be strengthening the Korea-U.S. political alliance through market integration. We cannot exaggerate the economic positive effects which stabilizing national security will cause. Sovereign credit rating will improve, foreign direct investment will increase, and domestic consumption and investment by local companies will be boosted, to name just a few.

Lastly, I'd like to mention the most urgent agenda that most Korean stakeholders should think of seriously: the reform of Korea. The KORUS FTA is perceived by Koreans as going beyond just market integration between the United States and Korea. Korean business executives have thought that deregulation would be achieved more effectively through market liberalization, rather than efforts by domestic incumbents. In this regard, I expect and hope that the Korean government and business community will take advantage of the KORUS FTA as an opportunity in building a new paradigm for the next generation. If the Korean government wastes its time in just fine-tuning its regulatory system or tries to minimize changes, the KORUS FTA could reach a half-success.

Presidents Kim and Pritchard mentioned a few concerns of the U.S. Congress on autos and beef. On the negotiation result of autos, I am more optimistic for U.S. auto companies. I am already seeing more and more U.S.-made automobiles running in Seoul every day, even before the passage of the FTA package by the National Assembly. A recent survey shows that Korean car buyers who purchase foreign cars value the quality and brand more than the price of the vehicles. This is a tip that American automakers should remember as they compete in Korean car markets.

The opening of the beef market was the biggest challenge for Korea, since Korea expects a reduction in domestic beef production in the amount of US\$250 million every year as a result of the agreement. This amounts to 10% of total beef production in Korea. However, beef will not be a serious concern for the U.S. because Korea has already begun to import U.S. beef in early May.

The passage of the KORUS FTA in the Korean National Assembly I think will not be as difficult as a few months ago. Opposition from NGOs seems to be losing its momentum and popularity with the public. Recently, even the Federation of Korean

Trade Unions, who used to be vehemently opposed to the Korea-U.S. FTA, changed its position and announced its acceptance of the agreement with some conditions. However, I'm not in the affirmative on the timing of ratification of the KORUS FTA before the coming December if I'm asked to tell my views on that.

In closing my comments, I'd like to note that the KORUS FTA must be a written promise which both countries are committed to implement on the one hand, but on the other hand, the agreement is also a symbol for future collaboration between our two countries. The agreement, even almost 2,000 pages long, cannot say everything. We can dispute on a clause for interpretation or we can have new problems.

Still, there is a long way for us to go, so I hope people display wisdom and patience in order to make the KORUS FTA be a real momentum for strengthening the Korea-U.S. alliance. Thank you.

MS. OVERBY: Thank you very much for those very thoughtful comments. Now we'll turn to Ambassador Tom Hubbard, who really needs no introduction in this room. Ambassador Hubbard is now senior director at Kissinger McLarty Associates in Washington, D.C., where he specializes in Asian affairs. We all know him formerly as the U.S. ambassador to the Republic of Korea, and previously he also served as U.S. ambassador to the Philippines. Tom, will you take the podium please?

THOMAS HUBBARD: Thank you very much, Tami, for the nice introduction. It is indeed good to be back here in Korea and to have an opportunity to talk about what I consider to be a wonderful development that has taken place since I left, and that is the conclusion of a Free Trade Agreement between our two countries. I was looking around, I think I'm the last speaker in this entire conference, and this opportunity to speak is taking place late in my second day of jet lag, so if I fall asleep while talking somebody please shake me and wake me up.

But actually I can say that the presentation by Mr. Kim, the detailed presentation by President Kim, has succeeded in waking me up, if only to perhaps not surprisingly disagree with some of the things that you have said. The title of this segment of the conference is "Beyond the KORUS FTA"; I had planned to mainly talk about beyond the FTA, because I still am cautiously optimistic that our two legislatures will see the wisdom of approving this agreement and that it will come into effect. But I do feel that I need to perhaps follow Chairman Cho in rebutting a few of the points that President Kim has made.

First let me say that I, looking at this, see this as a high-quality free trade agreement; it is comprehensive and it is a balanced agreement. I think it's good for both countries in economic terms, as was outlined by Ambassador Vershbow earlier. I think it will be a model for free trade in the region and should be a stimulus for market-oriented reform in Korea. President Kim pointed out in his paper, and I quote, "The FTA is more than market opening. It is a treaty to abolish or reduce tariffs and/or non-tariff barriers." President Kim, that's precisely the point. The removal of these barriers and inefficiencies,

I am confident, will lead to an expansion of trade between our two countries that will result in higher GDP growth in both countries and benefit consumers in both countries.

I must respectfully disagree with what I sort of saw as your scorecard approach to the balance of benefits in this agreement. I think you can't really expect an exact balance in the removal of barriers because, in fact, the Korean market was much more closed than the U.S. market when we launched this process. At the same time, I don't think the United States or the United States auto industry can expect this Free Trade Agreement to result in balanced trade between our two countries. It is inevitable that Korea is going to continue to run a very substantial trade surplus with the United States, and I don't think anyone expects that this FTA can actually correct the balance in auto trade between our two countries, even if it does allow a few more American autos to be sold here, and I think the removal of discriminatory taxation and non-tariff barriers is very important.

I think in looking at this agreement and its benefits for Korea, I think it's important to point out that this will give Korea a leg-up in its competition with its two closest neighbors, Japan and China, who do not now have free trade agreements with the United States, and given the difficulties the United States will have in continuing the process of trade promotion authority, I think Korea might have this leg-up for some time to come. I think that the removal of the 2.5% U.S. tariff on Korean auto exports will give the Korean industry an important leg-up on Japan, on Toyota, and on the Chinese as they begin to export cars.

As you put together your scorecard, I'm surprised that as a former minister of agriculture you neglected to point out the United States did recognize the sensitivity of rice in Korea and left rice out of the agreement. I'm glad to say that—and many people have pointed out that—this agreement is achieving increasing popularity in Korea; it is now seems to be supported by 60% of the Korean public. Of course we do need to overcome some more hurdles. Ratification of the agreement is complex and will be politically sensitive in both countries. There are some outside issues; it is important that the beef issue be resolved if Congress is going to approve it.

We also need to find a way to incorporate in this agreement the recent bipartisan agreement reached in the United States over the treatment of labor and environment in free trade agreements. I think the U.S. understanding is that if we incorporate this U.S. bipartisan understanding in the agreement in some fashion it's not a revision of the agreement. In fact, we all haven't seen the agreements yet in text, but from the U.S. point of view there was sort of a marker put in the agreement saying these negotiations are going on in Washington and I think an understanding that they will need to be incorporated. I'd hate to see this issue, which should not really pose substantive problems for Korea, become a barrier to attaining all the other benefits that are going to come from this agreement.

And this brings me to the beyond part, the fun part of the FTA, what comes afterwards. I agree with the comments that many have made, that the FTA will become an important new, special element in the broader relationship, the alliance, between our

two countries. It will add a strong new piece to our strategic relations in the region in both economic and political terms. But let me go beyond simply talking about the FTA and its consequences to go back and review some of the other things that have been said about the future of the alliance in this symposium. This is my first and last chance to speak out on the subject and I thought I would add my voice as a strong friend and proponent of this relationship.

I agree with what a number of people, both Koreans and Americans, have said at this meeting, that despite some elements of public discord, President Bush and President Roh Moo-hyun during their terms in office have done quite a lot to lay the basis for a stronger U.S.-Korea alliance and relationship in the future. The modernization of our military ties is a timely adjustment to the new relative strengths of the two partners in this relationship and the changed international environment. This has not been an easy process; I was here as we launched the process of relocating our troops, of reducing our troops, of coming up with a new basis for the alliance. It hasn't always been easy.

I was struck by a comment that Korean Foreign Minister Song Min-soon made at a meeting that I attended in Washington, that this remodeling or modernization of our military ties is a lot like remodeling a house. It's very messy and painful while you're going through the process, with all the digging and some degree of creative destruction going on, but once you have that new remodeled house, you're much happier, and I think that's what's going to happen with this relationship. I think it will strengthen our ties and our deterrent rather than weaken it.

I'm pleased to say that we are working more closely together in dealing with North Korea, working more actively on both sides, understanding each other better, I believe, and that we are approaching North Korea in a more comprehensive way than we have in the past. Koreans often complained that all we cared about was the nuclear issue; we often argued that all Korea cared about was engagement. Well in fact we are approaching the North Korean problem from a very broad perspective, talking simultaneously about peace regimes, about the nuclear issue and about the different contributions that both of our countries can make. I think we are approaching North Korea in a much more sophisticated way than we have in the past.

We have our people-to-people ties to fall back on. I've worked in many places in Asia, but this is one of the few places where we can have a conference like this, spoken entirely in English. Maybe someday we can figure out a way to speak Korean in these conferences, but our people-to-people ties are well reflected in conferences like this where we can be frank and direct. There are now 100,000 Korean students in the United States, and I believe that the visa waiver program will in fact be instituted in not many more months, hopefully during Ambassador Vershbow's term here, and I think that will become an important part of this new relationship.

In conclusion, I think when we had this conference a year ago in Washington actually we reflected a lot more disagreement than we have this year. I was recently at a meeting hosted by Ambassador Pritchard at KEI in Washington when a Korean

representative made some of the same points I've just made about the progress we've made in building a new relationship, and a very respected observer of Korea, Don Oberdorfer, asked after he was finished, "Well, if things are going so well, how come we're all so worried?" Well I think that part of this is North Korea, in a continued sense that we're not singing from exactly the song sheet with regard to North Korea, but I think we're working to correct that problem.

Perhaps the sense of discord reflects the fact that in both countries, we have presidents reaching the ends of their terms and whose popularity has been rather low, and that has not inspired confidence on either side. We've had political fragmentation and great competition between political parties in both countries. But I think a lot of this has to do with what many of the Korean speakers here talked about, and that is poor communication, poor presentation. I think both sides are often talking past each other; extremists from one end are talking to extremists of the other end across the Pacific, and that doesn't often lead to good communication.

I think we all are of various minds; for example at this conference, I found some of the same people seemingly simultaneously still fixated on the idea that the United States might attack North Korea and some of those same people seemingly now concerned, now carrying the totally contradictory thought that we are so unconcerned about North Korea that we might actually accept North Korea as a nuclear power, and I hope the broad range of Americans who have been here have in their unanimity on both of these points helped to dispel some of these thoughts. But I do think conferences like this can help us diminish perception gaps like these; I hope to have many more opportunities for thoughtful exchanges with Koreans like those represented here.

MS. OVERBY: Thank you very much. I also want to echo your point on the leg-up on Japan and China that the KORUS FTA gives our Korean friends here, the preferential access to the U.S. market will be enjoyed for at least the foreseeable future. No one in Washington predicts that renewal of trade promotion authority is going to be easy, so until that occurs, the U.S. cannot even consider engaging in additional free trade agreements. As Ambassador Hubbard pointed out, no one in Northeast Asia has a free trade agreement with the United States; Korea is the only country that has the opportunity to, and we certainly hope our Korean friends won't pass that opportunity by.

Before I open it to questions, President Kim, would you like to respond to anything that Ambassador Hubbard has said?

MR. KIM: Thank you, Ms. Chairman. Certainly the advice of Cho Kun-ho to the FKI—he pointed out a very good point, I always believe the same as his opinion, that is, without being followed by internal economic reform in the domestic market economy, this kind of complete opening of the Korean economy to the USA and the world will not bear any fruit, but may bring a loss. President Roh Moo-hyun's government actually should have done internal reform first, before he undertook this kind of very courageous and rather bold KORUS FTA. Certainly internal industries in Korea and our economy are not prepared at all, especially the agriculture sector, not prepared at all.

So I foresee a very gloomy prospect in the Korean economy, unlike Mr. Ambassador pointed out. Though there are opportunities, it will be very difficult, hard to catch them. Theoretically the KORUS FTA will bring us a very rosy prospective future, but how to catch it? Because internally, big enterprises, farmers—they are all more or less confined to the old system. This has to be revised and reformed first.

Mr. Ambassador, you pointed out that as a former minister of agriculture, you were surprised I didn't mention at all rice. Actually, in my paper I wrote down. Many people think rice is an agenda item for the FTA, and due to the generosity of the U.S. government, they didn't push hard on the opening of rice. And people really are relieved when they heard the last conclusion of the FTA, "Oh, rice is safe." But this is on the contrary.

Already, the rice market is scheduled to open in seven years. Many people easily forget, in the year 2004, in accordance with the WTO, already a WTO rice renegotiation agreement has been concluded between Korea and the USA and six other rice-exporting countries and agreed and reported to the WTO. Until the year 2014, the minimum market of rice importation is allowed up to actually 13% of Korea's total consumption, 8% but the base for that is the year 1988, but if it is based on 2004, actual consumption decreases, so 13%. In the written, it is 8%. 30% of this imported rice is just for our cooking rice.

And though her honorable chairman complained to me just outside, American rice, California rice is now being imported, but in competition with international bidding, sometimes you lost in the game with Chinese rice. So you better raise your productivity or reduce cost. Anyway, we give many special favors to U.S. rice because Korean people love it too.

Anyway let's come back. So in the year 2015 and on, the Korean rice market, according to this agreement, will be fully opened. Now the question comes: then, like the KORUS FTA, this tariff to be imposed, when will it be repealed? That is the question. And you didn't, during this FTA negotiation, you didn't raise this part. Already this is opened. This is not actually the FTA formal agenda too, because the rice agreement was concluded and rectified in the year of 2005, one year before the Korea FTA started. So the ink of the signature is still wet.

Your points of Korea's international competitiveness compared with Japan and China certainly will be very helpful, but generally speaking the U.S. tariffs ranging from 0% to at the most 13% of textiles, the repealing or abrogation of these tariffs, even to zero, will be compensated by the cost difference between Chinese and Korean products and will be made up by the difference in technology between Japan and Korea. Still this is our task. Theoretically you are right, but in actuality we have yet to overcome to reduce our cost—labor cost, production cost, and land cost—plus increase our productivity and technology.

MR. HUBBARD: I don't want to turn this into a two-way debate, because I'm not an economist and I will always lose that, but I guess the question I might ask is, you mentioned that your concern about the FTA is that Korea has not yet made the domestic changes needed to compete. I guess my question is, would Korea ever make those changes to compete if it didn't have the outside pressure from free trade agreements and organizations like the WTO to do so?

MR. KIM: Oh, yes. We have changed a lot. Maybe it doesn't meet your expectations, but Korea has been known as one of the most rapidly changing countries in terms of even their economic system and policies. Once the president decides, then quickly it is revised. That is a good or bad side of the transition but Korea has changed a lot. Korea has been an opened market in the world according to a WTO report. In the world, among the WTO members Korea opened its market in the quickest time. Before 1994, Korea's market was opened only about sixty-something points. Now, it is 99.3% opened within this short period of time.

MS. OVERBY: May I take the opportunity as chair to open the floor to questions.

QUESTION [in Korean]: I have a question for discussant Mr. Cho Kun-ho. The present is perhaps reminiscent of the time of Korea's annexation by Japan. Might this KORUS FTA bring about Korea's dependency on America's capitalist system or, as some extremists think, even be an economic strategy of American imperialism in the 21st century? These extremists are worried about the possibility that this will lead to economic annexation by the U.S. and Korea's becoming a colony; what are your thoughts on this?

MR. CHO [in Korean]: The opening of Korea at the end of the 19th century, which can be considered the first opening, was forced and under unequal terms. However, the KORUS FTA is under equal terms, so if you view this as the second opening of Korea, it's hard to imagine that Korea would become a subordinate to American capitalism, as the FTA was neither forced nor unequal. Because reform and opening is the only path to Korea's future, I believe the KORUS FTA does not pose any such problems.

The government is preparing measures such as structural reform and agricultural laws to improve and address problems such as weak small and medium enterprises and farming issues. There are problems, we all know there are problems, but this kind of remark is unjustified.

MS. OVERBY: Other questions? Joe?

JOSEPH WINDER: Thank you very much. I want to make a couple of remarks; I will end with a question for Dr. Kim, but I want to make some comments first if I might. In your paper, you note that agriculture is going to be losing its competitiveness in the future and you say, "In principle, farming is not a simple economic activity, but is a way of life for thousands of years. This type of agriculture is now on the verge of

disappearance.” I think every country goes through that process. We went through it in the United States; the disappearance of the family farm was bemoaned. Every country as it moves from an agricultural-based society to an industrial-based society to a service-based society goes through that same process. And I think everyone’s sympathetic to the plight of the farmers as they see their way of life disappearing, and I understand from Chairman Cho and others that indeed the government is taking steps to deal with the problems of the agricultural sector.

And I might say, in agriculture, you guys came out pretty well. According to the information that’s available publicly, rice was excluded. You said the United States didn’t push; the United States pushed very very hard. You’re right it wasn’t so much because of market pressure but because of philosophy: nothing should be excluded. So it was a big step for the United States to agree to leave rice out. But, in addition, the abolishment for apples and pears takes from 10 to 20 years. Beef, pork, etc. is after 15 years; chicken is after 12 years; peaches, persimmons 10 years; strawberries 9 years. I mean, you’ve got a heck of a lot of time for adjustment on agricultural products, and so I think in many ways the agricultural sector came out very nicely.

You also made the point that Korea’s service sector didn’t come out very well. But in point of fact, Korea’s service sector, if you take a look at the data, they came out very well indeed. There’s opening in the telecommunications sector, in broadcasting, in professional services, the financial sector, audiovisual, so there was a tremendous amount included in the FTA for the service sector.

And that gets to my second point, which is basically, and to my question, why is it that you would doubt what you call your pal’s statement that “market opening or return to old closed country 100 years ago” is the option? I’m not sure why you would doubt that. Because indeed 100 years ago, we were talking about an agricultural-based society. As we look ahead, Korea’s future is not in agriculture. Korea’s future is not even only in manufacturing. Korea’s future is in the vision that the government has for a knowledge-based economy based on Korea’s major resource, which is the intellectual capital of its people. As your society, as your economy develops, it’s going to be the opening in the service sector that provides you the competitive edge to stay ahead of Japan and China, and this agreement allows you to do that.

Secondly, it provides—again looking forward to the future, what it does is it provides a basis for a partnership between the United States and Korea to help Korea achieve that objective of a knowledge-based economy and a hub for Northeast Asia, both of which are government objectives. So that’s why I come back to my question, why would you challenge your president’s statement about the lack of economic advantages for doing this FTA? I mean there may well have been some political perspective, but the economics are clear, it seems to me, in terms of the vision of Korea for the future, and the benefits that will accrue to Korea.

MR. KIM: Thank you very much, Mr. Winder, for your thorough reading of my lengthy paper. You raise actually two comments. The second one is easier to answer.

Our president Roh Moo-hyun, when he delivered the special address on the occasion of concluding this KORUS FTA, I thought he regretted very much that the opening of the service sector was not satisfactory. Actually as I mentioned earlier, his first attempt was opening a large extent of the service sector—our economy can be upgraded and reach toward the level of advanced countries. But you know in the service sector there are mostly professionals, and they are very influential. And it was not satisfactory.

Let's come back to the first question on agriculture. I didn't have time to mention in depth—you know in Korea, Korean farmland prices are of the highest in the world I think. I compared with California farmland; it's more than ten times more expensive per unit. Per farm household, they own on average less than 1.4 hectares; this is approximately one tenth of U.S. farmers in size, and labor cost is no longer cheap, but is quite considerable. So it is very difficult for general Korean farmers to compete with the influx of foreign agricultural products without having tariff and some legal non-tariff barriers.

But during this FTA negotiation, as a matter of fact, on 38% of agricultural products, as soon as the FTA takes effect, all tariffs will be gone. As you mentioned, some are until the fifth year, 10 years, 15 years, gradually the tariffs will be reduced to zero, to none. So without tariff and non-tariff help, Korean farmers at this moment cannot compete. And already, even before the signing of this KORUS FTA between two governments officially, Korean cattle, different from American cattle, the price has dropped within one week about 10% because cattle-raisers, small farms, they cannot compete with U.S. beef in terms of price if there is no tariff and if there is no non-tariff procedures there. So I regret to see that.

In order to overcome this, I just suggest in my paper that there are three ways to escape from collapse: 1) to raise very high-quality products, incomparable with foreign products, 2) non-chemical polluted organic foods, which I started during my ministerial time; I encouraged officially and announced the launching of official organic farming in Korea—this is really growing very fast, this is another hope—and 3) in Korea, unlike the USA or other countries, farmers find it very difficult and hard to engage in self-processing and self-marketing. Governmental regulations with respect to agricultural processing or with respect to liquor brewing—almost ordinary farmers cannot take part in by himself. All this belongs to big business, big enterprises. But in order to expand their income other than farming because farming is so small-scale, they must be encouraged if not allowed to go into a third opportunity to add to their income.

This, as I mentioned and I agree with Mr. Cho, is the internal reform needed to be done, in other words. So your concern, actually I share, but in Korea, there is no way, even as an ex-minister I must confess, to incorporate good farmers' ideas into policy because our media, they only classify pro and con. They don't request any solutions, and stamp this one as conservative and that one as progressive. Me, recently, as I've criticized the procedure and contents of this KORUS FTA, I found myself one morning, I woke up to find myself being classified as a left. I never become left in my life. I love, as I said, I love the USA more than President Roh. I lived there seven years, but they call

me anti-American. No, no way. I love the USA, but I am anti-American because I gave some criticism on the way, the method this KORUS FTA has been treated. This is a very unhappy thing.

Now they say a new dictatorship in trade negotiations is revived in Korea. Farmers are not invited, small businessmen are not invited, no public hearings except for those invited who are very obedient to the government, on the record there is a public hearing, and the one-day public hearing was aborted and yet based on the fact there was an announcement for opening and announcement for closing, but actual discussion cannot be carried out at all because of the protests. But based on the fact that there was an announcement of public hearing, it is legitimate and the government decided there was a public hearing, that's why we can decide to declare the inception of this negotiation. Even demonstrators on the street are not allowed if they are against the KORUS FTA. Farmers gathered money and they like to buy TV time to advertise. The advertisement screening committee rejected it the second time because it is criticizing ongoing issues, which are very sensitive to the national interest. That is the reason.

MS. OVERBY: Other questions?

SUN JOUN-YUNG: My name is Sun Joun-yung, a professor of Kyungnam University. I was out of the office so I'm sorry that I could not listen to Mr. Kim's last comments. I would like to start with saying that I'm very happy with the prospect that soon, we can enjoy good-quality and less expensive California wine upon entry into force of the FTA. As it stands now, we pay 15% tariff on imported California wine, but upon entry into force, the entire tariff will disappear overnight. In my view, imported wine contributes to making our life less boring.

But more seriously my question goes to Ambassador Hubbard and/or Ambassador Pritchard. I was a bit uncomfortable when you said that the bipartisan understanding recently reached between Congress and the White House we should accommodate. Now we have only one and a half months left before U.S. TPA—trade promotion authority—expires. We have no time. Do you think, on the part of the United States, the renegotiation or additional negotiation on the basis of that particular bipartisan understanding or on the basis of the request, as reported by some newspapers, demanded by some Congressmen would be inevitable?

MR. HUBBARD: Why don't you let me start the answer to that. I perhaps wasn't clear in my initial comment, but it's not clear yet how we will seek to incorporate this understanding in the KORUS FTA, but from the U.S. perspective, this incorporation should not entail renegotiation. As I understand it—and Tami please correct me if I understand it incorrectly—we all haven't seen of course the text of the agreement but from our perspective it was understood as we closed the negotiation that this was a blank that needed to be filled in based on the outcome of these negotiations in Washington.

I don't believe that the actual contents of this understanding should be controversial in Korea because Korea has very high labor standards, in many respects the

highest in the world. The reference will be to international agreements to which both the United States and Korea are already parties, and incorporation of this should not in any way change the balance of benefits in the agreement since we're both effectively the same. But it's not clear yet exactly how this incorporation should take place but this is an important basis for obtaining Congressional approval of all of the FTAs that are now pending and we'll need to have some discussions about how to do that. Tami, does that accord with what you...?

MS. OVERBY: I think that's an accurate description. Also, I think the word renegotiation for the KORUS FTA is maybe inappropriate. I think in some of the other FTAs—in Panama, Peru, and certainly Colombia—it will be a renegotiation, but given Korea's already high labor and environmental standards, I think that's maybe a mischaracterization. Jack?

MR. PRITCHARD: Well let me have a little contrary view here, and that is the process that Ambassador Hubbard and Tami have talked about I think is probably accurate, and the end result probably is also accurate, that what the United States has in terms of a negotiated bipartisan chapter on labor and environment has no detrimental effect to Korea because of your already high standards. So that will ultimately be a decision that your government will make, not because it's a renegotiation but because it's a fact, a part of the necessity for U.S. passage of that.

Now where I differ slightly is in the process itself, in that there was no guarantee that there would have been a concluded, bilateral bipartisan agreement. So the negotiating teams were, in effect, putting together a document that, if nothing were arrived at separately by the U.S. Congress, it would have been a stand-alone document. So I can understand from an objective or an emotional point of view some degree of discomfort by other partners of the United States—Korea, Peru, Panama, and Colombia.

But I have to go back and reiterate that in the case of Korea, when it comes to this particular chapter of labor and environment, the ultimate result is not going to be anything that you would not have already accepted because it is not contrary to your own standards. Where you may have a disagreement is if, and I say if because we don't know that, if there are other areas, whether it is autos or something else, in which the Congress asks for renegotiation, that falls into an entirely different category, and I think it is absolutely up to the Korean government at that point in time as to whether they want to or not. But we're speculating on that, we're getting ahead of ourselves. So if you confine the discussion to what we know, which is labor and environment, I think we come to the same conclusion. Maybe a little degree of discomfort, but this is nothing you don't already embed in your own laws and regulations to begin with.

MS. OVERBY: Other questions? Sir?

QUESTION: I'm a student at Seoul National University. To anyone from the United States: as the chairwoman said, it is unlikely to see any other East Asian nations but South Korea to have an FTA with the U.S. in the near future. So my question is, why

did the U.S. government choose South Korea among East Asian nations as an FTA partner with the U.S.?

MR. HUBBARD: Because South Korea was prepared to discuss an FTA with us and the other nations involved were not.

MR. KIM [in Korean]: Also, as my colleague has said, our government asked the U.S. to and thus yielded on the four preconditions. It's not the U.S. that suggested the FTA but our government that did. In a similar case, the Korean-U.S. BIT—bilateral investment treaty—that was pursued at the beginning of the Kim Dae-jung government was abandoned after three years of negotiations because of certain preconditions. The current administration has merely repackaged this and changed the name to a high-level KORUS FTA. The contents are basically the same. This time, the Korean government first agreed to the four conditions and asked the U.S. to engage in FTA negotiations. Last time, because of contention over the conditions, the negotiations were abandoned after three years.

MR. PRITCHARD: Let me just reiterate that, when you listened to former USTR Zoellick of a couple of years ago, his answer would have been the United States has no interest in creating or beginning negotiations with Korea because he did not foresee the ability to come to a successful conclusion of the FTA, in part because of these four issues that President Kim has indicated. But the Korean government was dedicated to begin this process and undertook to accept some of the provisions that the U.S. government talked about, and really cleared the way, at which point the U.S. government said, "We now understand that it is absolutely possible to successfully negotiate with Korea. They're serious, we're serious, and now we do want to enter into that." No other country in Northeast Asia fits that criterion.

THOMAS KIM: Tom Kim. I have one question on the trend of free trade agreements. I was wondering what seems to be the proliferation of bilateral free trade agreements, not just between the United States and other countries but even between other countries as well? For example South Korea just finished the first round of FTA talks with Europe, EU, last week I think. And then South Korea is already ready to launch other talks with China as well. My question is, the proliferation of free trade agreements, whether it is going to impose a disincentive to the now seemingly dormant Doha agenda, in terms of the economic leading role the United States has continually played ever since the Bretton Woods Agreement way back and whether the United States has given up on the global economic trade system and is just moving onto the direction of free trade agreements. Perhaps not in complete substitution of the global trade system, but as an approach or alternative to it, how is it going to jive together at the end? That's the first part of the question.

Also I'd like to take advantage of the presence of the two ambassadors whom I used to work for for a long time, since Ambassador Hubbard mentioned North Korea and I'd like to get their views and I missed this morning's session and wasn't here yesterday. My question is, given the level of distrust between Kim Jong Il and George W. Bush as

we know it and that has not changed—there is no change in President Bush’s perception that he changed his position or policy toward North Korea for example—and I also believe North Korea would possibly settle for a political solution which accompanies security assurances as far as the survival of the North Korean regime that would be realized in the form of normalization.

Now, at the same time, they always sought an economic solution, that is whether LWR [light water nuclear reactor] or economic aid and so forth. What I hear nowadays from the people who make frequent visits to Pyongyang and other parts of North Korea, I still confirm there is a high level of distrust of the U.S. government, its intentions. People just raise questions about whether the U.S. is still considering an attack, which I rule out; I try to write that point very clearly in a number of columns I’ve been writing in the Korea Times.

My question is this, given the fact that North Koreans seem to be not satisfied with normalization alone, which is a political solution, although it will promise and even give programs for economic aid down the road, but at the time of exchanging denuclearization and normalization simultaneously or action for action, whichever sequential order that is just a technical matter—but I’m getting at the fundamental question of the North Korean intention and that of the Bush administration in terms of the time remaining for the Bush administration, how it’s going to accomplish this goal. For example, they want, as we see it in the Banco Delta Asia instance as well, they want to have something in concrete. I think the ambassadors may well remember that they always say, an agreement or a treaty, whatever that is, is only a sheet of paper. But we want to have something concrete in our hands, tangible substance in our hands. How are we going to deal with this?

MR. PRITCHARD: Let me unwind all of that. First of all, let me tackle the economic question, and I’m not an economist, so we probably have more people in here that can answer this better. But my understanding, my sense, is, because of a lack of process in the Doha Round and a lack of movement on a multilateral scale, a number of countries—Korea is a good example, the United States is the other, both of which we’re talking about today—have embarked on a series of bilateral and regional FTAs that are in some cases a substitution for a lack of a more comprehensive multilateral settlement, because of a lack of movement in Doha. I won’t go beyond that.

I’m not quite sure what you’re asking on the rest of that, Tom, but you talked a good deal about the distrust on a personal level between President George W. Bush and Kim Jong Il. That hasn’t changed; I don’t think it will change. Regardless of the shift in U.S. policy that has permitted the Initial Actions Agreement of the 13th of February, that’s a positive sign. I hope it continues, I look upon that as absolutely necessary. I am not as optimistic as Ambassador Vershbow has been, as he needs to be as a spokesman for the administration. I do not think it will be concluded by the end of the Bush administration in terms of getting into Phase III.

But the point that I would make is it doesn't matter as long as there's momentum, as long as we're in the right direction, as long as the next administration, on the 20th of January 2009, has something positive to work with and we don't have a situation that was talked about earlier today, and that is the de facto permanent nuclear North Korea, in which either the United States or South Korea or others have acquiesced and tolerated a nuclear North Korea. I don't think that's anything we need to accept, and as long as there is progress in that direction, however slow it may be, but as long as there's continuous progress, there continues to be hope for denuclearization. And on January 20, 2009, you remove one of the personalities involved, and the mistrust.

MS. OVERBY: I want to thank all of our panel participants, particularly Ambassador Pritchard and Ambassador Hubbard for making the long trip to Korea. Chairman Cho and President Kim, thank you both so much for participating. Ladies and gentlemen, thank you for your kind attention; we are now adjourned.