

**THE KOREA-US FREE TRADE AGREEMENT: KORUS FTA
VIEWS OF EXPERTS AND CONCERNED PARTIES:
OPINION SURVEY REPORT #3
JANUARY 11, 2007**

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with interviewing by Opinion Dynamics Corporation, John Gorman, Chairman

I. Introduction and Background

As part of the Korea Economic Institute's ongoing effort to provide information and source materials relating to negotiations to complete a Free Trade Agreement (FTA) between the United States and the Republic of Korea, KEI has contracted for a series of opinion surveys, seeking to learn the views on this topic of individuals with an interest and knowledge of Korean affairs. These negotiations for a Free Trade Agreement have been given the acronym "KORUS FTA."

William Watts, president of Potomac Associates, a non-partisan research organization that has conducted a number of opinion surveys on U.S.-Korea relations, organized the KEI survey. Field work is being carried out by Opinion Dynamics Corporation, a national survey research organization led by John Gorman, located in Cambridge, Massachusetts.

The survey program will encompass a rolling series of four focused sets of interviews, of which this is the third. The fourth report and final summary will be issued later this year. Each report will be posted on the KEI website.

This third report is based on confidential interviews conducted with 25 individuals during the period December 14, 2006-January 9, 2007. Twenty two individuals participated in earlier surveys, while three in this round are new. Names were drawn from lists available to KEI and PA, comprising the following:

- 12 - trade and business organizations, and interest groups, dealing with Korea;
- 8 - think tanks, policy analysis organizations, academic and other Korea specialists;
- 5 - current and former U.S. government executive and legislative branch officials, all with extensive Korea experience.

Because of the limited size of the survey sample, the findings do not lend themselves to drawing conclusions on the basis of strict statistical reliability. Rather, responses and comments (summarized in percentages of the interview sample) should be understood as indicative and impressionistic. They reflect the outlooks of a group of knowledgeable, interested, and engaged individuals who have informed opinions to offer.

II. The Questionnaire, Responses, and Commentary

The questionnaires, as fielded by Opinion Dynamics Corporation, are set forth verbatim in the pages that follow. Summary responses to each question are presented, with comments by the author. Questions 1- 2, which had already been posed to participants in earlier surveys, were asked only of three new respondents. Questions 3- 27 were asked of all 25 individuals interviewed.

[Opening statement made to each respondent
by interviewer from Opinion Dynamics Corporation]

VERSION A: [FOR 3 NEW RESPONDENTS ONLY]

Thank you for agreeing to talk with me. This research is the third in a series being conducted on behalf of The Korea Economic Institute. Our goal is to understand better how South Korea is viewed in the United States; attitudes toward a proposed Free Trade Agreement between the United States and the Republic of Korea in 2007; and how a Free Trade Agreement with South Korea will potentially impact both countries.

Please be assured that you will not be identified by name as a respondent in this survey. Your anonymity will be strictly protected. If you would like to see a copy of the report on both this and the first two surveys, we will be happy to send them to you.

VERSION B: [FOR 22 REPEAT RESPONDENTS ONLY]

Thank you for agreeing to talk with me. This is the third round of research being conducted on behalf of The Korea Economic Institute. You were kind enough to participate in an earlier survey, and we would greatly appreciate your renewed cooperation this time around. You should have received a copy of our earlier reports, and we will be happy to send you a copy of the third one, should you wish to have it.

As you know, our goal is to better understand how South Korea is viewed in the United States; attitudes toward a proposed Free Trade Agreement between the United States and the Republic of Korea in 2007; and how a Free Trade Agreement with South Korea will potentially impact both countries.

As before, please be assured that you will not be identified by name as a respondent in this effort. Your anonymity will be strictly protected. —**SKIP TO Q. 3**

VERSION A: [3 NEW RESPONDENTS]

1. **[The Question]:** On balance, how do you feel about entering into negotiations to conclude a Free Trade Agreement between the United States and the Republic of Korea? In general, do you:

1. Favor these negotiations	100%
2. Oppose them	-
3. Want to know more about the details/negotiations	-
4. (Other)	-
5. (None)	-
6. (Don't know/Not sure/Refused)	-

As we found in our previous surveys, there is virtually unanimous support for the United States and the Republic of Korea entering into negotiations for a free trade agreement. None of the new participants in this round of questioning was opposed to these talks.

2. **[The Question]:** Why do you feel this way?

Reasons for support mirror those already recorded: “potential to be a net positive for the economies of both sides and for the political relationship on both sides;” “strategic advantage for the US-ROK alliance, the positive effect on overall Asian economic integration for the United States, and economic opportunities for U.S. business;” and “neither country is going to agree to something that violates its national interest in a very strong way.”

Simply put, national self-interest provides the basis for these FTA negotiations.

3. **[The Question]:** [**VERSION A:** First of all,] [**VERSION B:** how closely have you followed the earlier rounds of negotiations on the proposed Free Trade Agreement between the United States and the Republic of Korea? **[READ RESPONSES 1-4]**

1. Very closely	48%
2. Somewhat closely	40
3. Not too closely	12
4. Not at all closely	--
5. (Don't know/Not sure/Refused)	--

Once again, we have found that most of the individuals interviewed are at least “somewhat” aware of the ongoing FTA talks.

4. **[The Question]:** As you may already know, the five rounds of negotiations held thus far have been marked by a combination of specific areas of agreement as well as lingering areas of disagreement. Do you see this level of progress as normal in ongoing negotiations, or do you think it reflects deeper, more serious differences between the two sides?

1. Normal part of negotiations	40%
2. Reflects more serious differences	40
3. (Combination)	16
4. (Don't know/Not sure/Refused)	4

Respondents were evenly divided in their views as to whether progress in talks have been progressing normally, or are beset with some serious negotiating hurdles. The size of the latter, more pessimistic, view introduces a cautionary note, reflecting an awareness of the difficulties faced by the negotiating teams.

4a. [The Question]: A number of specific issues have assumed primary importance in previous rounds of negotiations. As I list these disputed areas, please tell me whether you think satisfactory agreement on each can be reached:

- SCALE:**
1. Yes, satisfactory agreement can be reached
 2. No, satisfactory agreement cannot be reached
 3. (Don't know/Not sure/Refused)

	Yes	No	D/K
	(in percentages)		
5. Pharmaceuticals	72%	16%	12%
6. Agriculture, in general	48	48	4
7. Rice, in particular	40	60	--
8. Beef	84	12	4
9. Automobiles	76	24	--
10. The Kaesong Industrial Complex	36	64	--
11. Textiles	88	12	--
12. Financial services & investment	92	4	4
13. Various trade remedies	64	28	8
14. Intellectual property rights (IPR)	96	--	4

Several issues on the negotiating table are seen by most observers as open to “satisfactory agreement,” including pharmaceuticals, beef, automobiles, textiles, financial services cum investments, trade remedies, and intellectual property rights. Agriculture, rice, and (especially) the industrial complex in Kaesong, North Korea are viewed with greater skepticism, with the last getting an almost two-to-one negative rating.

Little has changed here since our last survey. The positive assessment of prospects for agreement on pharmaceuticals, automobiles, textiles, financial services, and trade remedies remains virtually unchanged. The divided views on agriculture and the strong negatives concerning the Kaesong complex also match previous findings. (Rice, beef, and IPR) were not included earlier.)

Importantly, however, several of these issues on the negotiating table - when looked at individually - are seen as potentially threatening to the entire FTA process. While about half of those surveyed think of difficulties in the negotiations as par for the course (question #4, above), we also recorded a very clear majority (22 of 25 respondents) to be of the view that one or more of the areas in dispute could prove fatal, with widely varying opinions concerning which one(s) might be the culprit. Thus:

15. **[The Question]:** Do you think any of these areas is so critical to either the United States or South Korea that failure to reach agreement would kill a possible FTA?

1. Yes	88%
2. No	12
3. (Don't know/Not sure/Refused)	--

16. **[The Question]:** If so, which issues do you believe would be deal-breakers for the United States?

For purposes of comparison, next to the number of citations for each item is the level of presumed likelihood of reaching agreement, listed above in question 4a, numbers 5-14.

Issue area	Number of specific citations	Susceptible to agreement
Automobiles/auto parts	13	76%
Kaesong industrial complex	10	36
Agriculture	7	48
Beef	7	84
Trade remedies/anti-dumping	7	64
Rice (apart from agriculture)	5	40
Pharmaceuticals	4	72
Financial services	2	92
IPR	2	96
Textiles	1	88

These sets of numbers are not necessarily mutually exclusive. Negotiations are all about finding ways to find accommodation, and that is certainly something that an arrangement as difficult as a free trade agreement is bound to put to the test. One respondent posited that “the real problem I see is there isn't just one area of serious disagreement; there are multiple areas and sensitivities.”

It is worth noting the numbers of mentions of automobiles and the Kaesong industrial complex – two areas where feelings run especially strong. (More on beef below.)

Automobiles: “Automobiles are possible [as a deal-breaker] because there is a lot of political clout on the Hill from the auto industry.” [A deal-breaker] “... if Korea doesn’t agree to address long-standing barriers to U.S. automakers in the Korean market.”

Kaesong Industrial Complex: “A number of members of Congress and staff members have said that a provision to specifically consider products made in the Kaesong industrial complex is a non-starter.” “The North Korean trade site would be a make or break for the United States.” One respondent, seeking an alternative solution, suggested the “...hope that the Koreans will adjust ... language [relating to Kaesong] to call for procedures to amend the FTA in the future, as conditions warrant, for inclusion of products made in the joint industrial complex in the North.”

Kaesong, together with agriculture in general and rice in particular, stand out as areas where successful agreement is seen as most difficult.

Beef joins these items as one of particular negotiating difficulty. Given its sensitivity, a separate question on beef was included in the survey.

17. [The Question]: On the specific issue of beef, a precondition for opening FTA negotiations was acceptance by South Korea of U.S. beef imports. Since then, three shipments of U.S. beef have been rejected because of the presence of tiny bone chips. If U.S. beef continues to be rejected, will this be a deal-breaker?

1. Yes	56%
2. No	40
3. (Don’t know/Not sure/Refused)	4

Here are one respondent’s words, referring to beef as a deal-breaker: “In particular beef. I think that the Congress has made it pretty clear that the market has to be fully open. There have been numerous letters from numerous Hill leaders.” Another stated, bluntly, “If they don’t fix the beef deal, we’re talking about something that isn’t going to happen.”

The beef issue has been brought dramatically to the fore by Senator Max Baucus, senior senator from Montana who has assumed a key committee chairmanship role in the newly-formed Congress. He has made it clear that he expects satisfaction on this issue, and is in a position to be heard.

One individual took note of “the level of (Congressional) anger toward Japan when it had a similar beef ban. Now Japan is importing beef again, so Korea doesn’t have the Japan buffer to shield it like it did in the past.”

18. **[The Question]:** And which would be deal-breakers for South Korea?

Issue area	Number of specific citations
Rice	15
Agriculture	10
Kaesong	5
Trade remedies/anti-dumping	4
Automobiles	3
Beef	1
Financial services/Investment	1
Visas/visa waiver	1

The prominence of rice and related agricultural issues has come through strongly in many of the respondents' comments: "Rice is the political third rail of South Korean politics." "... it's a perpetually profound issue and continues to be [of] symbolic importance politically." "Rice and agriculture are Korean grass-roots issues." "Rice means that they are prepared to see the deal fail rather than compromise to an unacceptable level on certain critical issues like rice." "If we push too hard on rice it would be a deal-breaker for South Korea ... Everything else they can do."

The automobile issue is cited for its importance because "it's such a crucial sector with so much clout in South Korea."

Although trade remedies and anti-dumping were given less attention, related comments are of interest: "Korea has emphasized trade remedies and it becomes a matter of face ...it becomes difficult for them to back down without some sort of even symbolic action by the U.S." "They are deeply invested in getting some relief on trade remedies."

In a non-specific vein, one respondent noted "Korea has to get at least one of its highest-priority issues ... They have to get at least one ... even if it's small." Another noted that "Korean negotiators need to demonstrate to their public and National Assembly that there are perceived gains for Koreans."

One skeptical observer noted: "I think they have a political problem at home, and until they resolve their political problem this is probably going to be a difficult negotiation and may take a lot longer than everybody expects or wants."

Turning to the current political scene, we sought to measure the impact of North Korea's recent nuclear test and subsequent agreement to reconvene the 6-party talks on its nuclear program, with both South and North Korea, the United States, Japan, China, and Russia.

19. **[The Question]:** After recently detonating a nuclear device, North Korea has agreed to return to the 6-Party talks on dealing with its nuclear weapons development program.

Taken together, what do you think the effect of these developments will be on the FTA negotiations?

- | | |
|--|-----|
| 1. Provide a positive push to the FTA negotiations | 12% |
| 2. Provide a negative push to these negotiations | 4 |
| 3. Won't matter much; the two sets of negotiations will proceed separately | 68 |
| 4. (Don't know/Not sure/Refused) | 16 |

20. [The Question]: Why do you feel this way?

Most respondents are of the view that the FTA negotiations and the 6-party talks are separate issues that will proceed on separate tracks. Thus, "I see them on separate tracks, being taken on the merit of trade and domestic politics involved, rather than in the political security matter."

Again, "... South Korea knows that the FTA is with South Korea. It has nothing to do with North Korea ... They started negotiating this agreement long before, knowing that North Korea had a bomb. If it had mattered, they never would have started the negotiations to begin with." In a similar vein, another noted that "...expectations in the negotiations were entirely set without reference to success in negotiating with North Korea."

Taking the view that North Korean actions have provided a positive impetus to the FTA negotiations, one participant stated simply that "It heightens the importance for South Korea of having a free trade agreement with the United States." Another expressed the sense that the North's nuclear test effectively takes the issue of the Kaesong industrial complex off the table. "An economic deal would help cement a better United States-Korea relationship overall, particularly in the realm of public diplomacy toward North Korea.... [South] Korea will back down and [the Kaesong] issue will not be a deal-breaker in the end."

Comments by an individual of the "it won't matter much" cohort still saw similar positive side-effects from the North's actions. "North Korea is peripheral to these bilateral free trade agreement talks. One impact it does have is by taking Kaesong off the table. It has also underscored in Korea the importance of South Korea's bilateral relationship with the U.S., in which this agreement will be an important component."

One negative observation was expressed as follows: "The nuclear test highlights the extent to which South Korea and the United States have different approaches to North Korea. It is forcing the U.S. to think about taking tougher action against North Korea. If South Korea doesn't change its approach, it will be seen as undermining the tougher U.S. stand. ... it just becomes harder politically to sell a FTA on strategic grounds."

21. **[The Question]:** And what do you think the impact of November’s elections here in the U.S. will be, with the Democratic Party now in control of both the House and the Senate? Will this Democratic control make conclusion of an FTA before the President’s trade promotion authority expires in June 2007:

1. Much less likely	16%
2. Somewhat less likely	36
3. Have little effect	20
4. Somewhat more likely	12
5. Much more likely	--
6. Too early to tell, depends on future developments	16
7. (Don’t know/not sure/refused)	

The balance is clearly on the negative side, with a better than 3-to-1 majority opting for “less likely” prospect of ultimate FTA approval. There will be more to say on this below, in looking at responses to a subsequent question.

22. **[The Question]:** How important do you think the domestic political situation in South Korea will be in influencing negotiations for an FTA?

1. Very important	68%
2. Somewhat important	32
3. Not too important	--
4. Not at all important	--
5. (Don’t know/Not sure/Refused)	--

The sense that political shifts in the United States may complicate the prospects for successful FTA negotiations is mirrored by concerns about the political situation in South Korea. One observer noted the very low popularity rating of President Roh Moo-hyun, which may limit his ability to get an FTA passed by the Korean National Assembly.

23. **[The Question]:** What will be the likely impact on the overall U.S.-Korea relationship if the FTA negotiations succeed?

In a variety of different ways, respondents warmly endorsed successful conclusion of a free trade agreement, with the word “positive” appearing with great frequency.

Herewith are a few illustrative comments: “brings Korea and the United States closer together;” “trade agreements like this have the effect of fortifying relations between the two countries;” “will make the relationship more based on strategic interests and foreign policy objectives, rather than on economic considerations;” “the biggest situation since the Korean War to strengthen ties between the two countries. When you do an FTA with the United States you enter into a very special club, with a very stringent way of doing business when you enter;” “symbolic value in underscoring the close relationship;”

“strategic glue,” and “very positive as a success story amidst so many problems in the relationship.”

One respondent noted the possibility that a successful FTA will “reaffirm the level of political trust the two leaders in the two countries have, despite strategic differences over things like North Korea and Japan. They can still launch a major new initiative that would give a big boost to the alliance.”

Some specific third country-related benefits were noted:

“That the U.S. will have an FTA with Korea and not Japan is very meaningful, especially for the Korean side.” “This would be very good from a public relations point of view, because you have China in the background.”

Some cautionary notes were also introduced:

“It will create expectations on each side that may lead to further frictions.” “Short term positive, long term neutral.” “I think the trade relations are already very deep. I expect they would be improved in FTA negotiations succeeded. But it’s not as though you’re going from zero to sixty, you’re going from fifty to sixty.”

24. [The Question]: What will be the likely impact on the overall U.S.-Korea relationship if the FTA negotiations fail?

We uncovered a wide range of opinions on the effect of failure in the FTA talks, with responses clustered around several themes (number holding each in parentheses):

a. The two sides won’t let failure occur (1):

-- “We need more time to conclude a smaller deal... never going to let it fail.”

b. Depends on why (3):

-- “Key variable will be popular responses on both sides and how the failure is explained.”

c. Relatively neutral to only slightly negative (13):

-- “The ties between the two countries are too deep to be effected by this.”

-- “Disappointment on both sides, but it won’t stop or slow down trade flows.”

-- “Neutral to mildly negative, but it would embolden protectionism in both countries.”

-- “Short-term it would have a negative public relations effect, but I don’t think it would change anything very much.”

d. Modestly to very negative (8):

- “Will result in a rather dismal Korean economy for a long time, which can’t compete with China without [the FTA].”
- “Longer term it could weaken the political relationship and may result in China drawing Korea closer in trade and investment.”
- “Basically show that narrow domestic interest, particularly in Korea, prevailed over the economic good, with addressing short-term concerns prevailed over longer-term vision.”
- “Weaker relationship at a time of crisis in Northeast Asia. The United States would lose a purchase in East Asian expansion.”
- “A real disaster. South Korea will be isolated ... and become very inward.”
- “It could be the beginning of the end of the alliance as we know it. ... Strengthen the voices in the U.S. who want to accelerate U.S. troop withdrawal from South Korea.”
- “Deflated expectations, resentment, and bitterness. Negotiations created a lot of friction and brought out a lot of anti-American attitudes ... to go through all that and get no agreement, then you get all the pain and none of the gain.”

25. [The Question]: Do you think strong public statements of support and strong pressure on Congress by President Bush would help prospects for an FTA?

	<u>8/06</u>	<u>12/06-1/07</u>
1. Yes	64%	32%
2. No	36	64
3. (Don’t know/Not sure/Refused)	--	4

The proportion that thinks strong supportive efforts by President Bush would help FTA prospects has dropped dramatically in the last four months, down from 64% in August 2006, to 32% now. This would appear to reflect declines in the president’s popularity and support, as reflected in the November 2006 elections.

26. [The Question]: And what about President Roh? Would similar efforts by him help prospects for passage in the National Assembly?

	<u>8/06</u>	<u>12/06-1/07</u>
1. Yes	76%	68%
2. No	12	20
3. (Don’t know/Not sure/Refused)	12	12

In spite of declines in popularity and support for President Roh at home, participants in our study still thought efforts by him would prove useful. One individual did take a

sharply different stance, stating: “President Roh is so weak politically that it’s questionable whether he can sell this agreement in the National Assembly.”

27. **[The Question]:** Are there any other points you would like to mention concerning the FTA negotiations?

Among the several respondents who contributed some final thoughts, there was general acknowledgement that the negotiations have been lengthy and difficult. “It is the largest potential FTA partner that we’ve negotiated since NAFTA ... it’s expected that it’s going to be difficult.” Several add that much remains to be done, and that the next rounds are crucial. “If they don’t make a lot more progress in the next round, the week of January 15, I would be a lot more pessimistic” noted one individual with generally optimistic views.

Some other thoughts are worth noting: “The complexity of the relationship between the two sides, due to the varied political and economic interests in each, will remain whatever the outcome of the FTA.” “The leaders on both sides think this agreement is too big to fail. The Bush administration and President Roh have invested a lot in this.” “I am persuaded by those who think that really this is more something Korea has to decide, that the U.S. positions are fairly straightforward and they are all negotiable. There is nothing outrageous in the U.S. positions here, but the Koreans have some things that, if they want the agreement, they will have to give up on, for example, Kaesong.” “Political considerations in Korea are far more important than in the United States, while commercial considerations in the United States are more important than in Korea.”

And finally, a worthy comment on which to close:

“Korea is a country worth having an FTA with. Unfortunately, those things that are worth doing are difficult.”

