Korea-U.S. Auto Talks Essay, Research Paper

INTRODUCTION On 20 October 1998, Korea and the U. S. reached an agreement on auto trade after the tediously long time, almost 1 year. The negotiation had been a matter of concern and interest in both countries especially in Korea because it would bring great impacts on auto industry. Korean economy has heavily depended on auto export and on American market. Therefore, everyone worried that conflicts on negotiation table led to sanction on auto export of Korea. Additionally, domestic auto market needed some refreshments to revitalize domestic sales that had been reduced by 50% since the economic crisis. During the negotiation, the issues on annual auto registration tax that is progressive and import tariff were hardest to come to an agreement on. After overcoming the continuous deadlocks, both finally came to an agreement. According to the newspapers of Korea, both sides were satisfied with the result of the talks. However, there were also some criticism in Korea that the U. S. that is major creditor to Korea pushed harder pressure for further car market opening resorting to the IMF to solve the automobile issue. I will try to find out the important results of the talks and assess those results. Furthermore, I want to seek some fundamental measures to cope with American pressure after investigating the trend of American auto trade policy. BODY Major Agreements of the Korea- U. S. Auto Talks First of all, I gathered the results of the talks. Tariff and annual auto vehicle registration tax were harder to agree on as mentioned before. The U. S. kept insisting on reducing tariff rate to 2.5%, the same as American level and on the abolition of progressive tax system. Korea also could not easily yield to the request of the U. S. because those measures would drastically change Korean auto market condition. Thus, Korea kept persuading the U. S. to understand unique situation of Korea and explaining that Korean tariff rate is the same as other advanced European countries. And the U. S. changed its initiative harsh attitude after Korean economy got into deep trouble at the end of 1997. Then, both came to an agreements like following. 1. Tariff 2. Annual Auto Vehicle Registration Tax 3. Special Excise Tax 4. Other Taxes 5. Self Certification 6. Auto Mortgage 7. Steps for Talks 8. Customer’s Perception Assessment of the Korea-U.S. Auto Talks Positive 1. Korea could narrowly escape possible U. S. retaliation against Korean auto exports to the U. S. market under the Trade Act Super 301 as the two governments were able to iron out their differences in the auto trade dispute which erupted last October. The possible retaliationary action would have great impacts on Korean economy because car is the major export item of Korea amounting 215,684 in number and 1,793,610,000 in dollar in 1997. 2. Reduction in various tax rate will lead to reduction in customer’s burden. As shown in table 1, consumer will benefit from the agreement with price cut ranging 48,000 won to 4,594,000 won. Table 1: XChange in Car Price Resulting from Agreements of the Korea-U. S. Auto Talks | (1,000 won) ( I: current price, II: could-be price after expiration of 30% cut in special excise tax without the agreement next year, III: new price accommodating the agreement ) 3. Korea did not give in to the U. S. demand that import tariff rate on foreign vehicles should be cut from the current 8% to the U. S. tariff rate, 2.5%. By maintaining 8% tariff rate and granting the same tariff rate to the WTO, it is expected that there will be positive effects to inform major trading partners of Korea’s will to open Korean market. Instead, Korea promised to participate actively in multilateral talks for tariff rate reduction as one member of WTO and APEC. That means Korea will take the same tariff policy as other WTO members and APEC members such as China, ASEAN, and Russia. With tariff reduction, Korea will have chances to get into larger foreign markets as well as pressure to open Korean car market. 4. The agreements are expected to boost the sagging domestic auto market. The steps to reduce tax imposed in the acquisition and registration process have been continuously requested by domestic auto makers. According to Maeil Business Newspaper, there will be 7-9% car sales growth due to those tax reduction steps. Negative 1. Most of all, Korea had to admit the power of the U. S. the only hegemonic power in political, military, and economic terms in these days. Even in the era of the WTO, the U. S. demanded bilateral trade negotiations taking advantage of Korean economic crisis and Korea rather subjected to the U. S. power and set up its trade policy through the bilateral talks not through the multilateral talks in WTO. The WTO has once demanded, through Trade Policy Review Mechanism, to rectify the U. S. dependence more on bilateral talks than on multilateral talks. But the U. S. reiterated an odd assertion that it used bilateral agreement in order to promote free trade. 2. The agreements will revise the domestic tax system again so that taxes will be more on mileage than on vehicle acquisition. The domestic tax system was firstly negotiated in 1995 Korea-U. S. auto talks, and it was fatal that Korean government permitted to negotiate domestic taxes in bilateral talks. Now it seems that domestic tax system is, of course, one of negotiation objects at the request of the super power. 3. With the reduction of auto taxes that are mostly local taxes, local governments are expected to suffer revenue shortage. Thus, central government promised to support local governments with 2,900,000,000,000 won, being burdened with budget deficit that usually ends up with current account deficit. 4. There will be more demand for large cars while less demand for middle-sized cars with larger reduction in larger car price. This expected consumption shift from middle-sized cars to large cars seems to have little effects on over-all market condition. However, this reorganization of car market will bring problems such as overconsumption in energy terms. Eventually more energy-consuming cars might be able to bring the aggravation of BOP. 5. Also, larger reduction in larger car price implies some social injustice in income distribution : larger sales for the richer. The crisis Korea is facing now has aggravated the fair income distribution. And the agreements will fan the increasing gap of income differences. As shown in table1, it is easily found that one to purchase Enterprise3.6 will have amazing price cut amounting 4,594,000 won while one to purchase Matiz will have only 48,000 won cut. 6. Because of serious economic depression, the agreements will not bring immediate demand for foreign cars. However, there will be surely more demand for foreign large cars due to lower price for acquisition as Korea escapes out of depression. After Import Diversification is abolished in June 1999, the sales growth of foreign cars especially the Japanese cars will be faster than expected. Thus, Korean auto makers need to work for their competitiveness in order to keep their market share in large car market. 7. And the agreement about talks procedure to hold yearly auto talks leaves the chances open to have conflicts between Korea and the U. S. about the auto industry realized every year. 8. Moreover, the agreement that tariff rate will be discussed in multilateral negotiations in WTO and in APEC where the U. S. takes the initiative and main role leads us to judge that dispute on tariff rate will come again in the near future. In sum, the agreements have negative aspects as well as positive aspects. Unlike the welcoming attitude of newspapers, the agreement seems like a tentative measure that will have side-effects and will bring further conflicts. For the future, it is needed to understand about the American auto policy and to seek fundamental measures to cope with American pressure. The U. S. Auto Trade Policy toward Korea Major Trade Negotiation Partners of the U. S. ?????????The major U. S. auto trade policy is non-discriminative application of MFN(Most Favored Nation) clause to all countries but for several special cases. For the special cases, the U. S. has taken discriminative policy toward some countries through bilateral agreements. The U. S. auto trade policy has been focusing on some countries that export large number of auto vehicles to the U. S. and other countries that import small number of American auto vehicles for their market size. Up till now, the U. S. has not given much pressure on the areas where American auto makers extended their businesses already or where American auto makers took a form of strategic joint-venture with local

businesses even though the trade deficit with those areas is seemingly great because the trade unbalance is not substantial matters. This case is the cases in Canada, Mexico, and Western Europe.-protection of own auto makers???? expansion of free trade???? Because American auto makers are quite influential in other regions, the U. S. has not needed to press. On the other hand, the U. S. has pressed Japan and Korea where American auto makers do not have large market share for their market size to open up the markets. Table 2: XThe U. S. Protection Measures | The U. S Auto Trade Policy toward Japan In 1980, the American government pressed by American auto makers and labor union induced Japan to increase local production of complete autos and components in the U. S. by the means of Askew-Yasukawa agreement. And VER (voluntary export restraint) was mainly used for the protection of American auto industry limiting Japanese car import within 1,650,000 to 2,3000,000 units for 13 years (1981 1994). From 1982, the U. S. raised issues about Japan’s import procedure, aiming at auto export to Japan, and requested to simplify the import steps. Since the local production reached to some extent, the U. S. changed its concern to exporting American component to Japan. So, MOSS (Market Oriented Sector Specific) talks questioned about the ‘keiretzu’ relationship of auto makers and component suppliers from 1987. In 1991 the U. S. diversified its requests into ‘fair market competition’ including Japan’s formal admission of standardization, tax system, the relations of makers and dealers, Japan’s unique distribution system and so on. The trade policy of Clinton administration(1993) became aggressive and tended to seek ‘tangible outcome’. Thus, Clinton administration demanded on Japan to purchase American component to the extent that American component had 20% market share in A/S component market. The U. S. demanded 20% because other OECD members was purchasing American component by average 20%. However the 20% was calculated with the 77% in Canada, 3.5% in Germany, 1.8% in France, and 2.5% in the U. K. Therefore, Japan purchased more American component than any other European countries except Canada and Mexico that have close linkage with the U. S. This compulsory demand to meet 20% minimal limit raised criticism even in the U. S. Anyhow Japan narrowly escaped from setting numerical minimal limit but has to report the implement of the Japan-U. S. agreements to the U. S twice a year. Table 3: XHistoric Overview of the U. S. Auto Trade Policy toward Japan | The U. S. Auto Trade Policy toward Korea The U. S. had not raised any questions for a while after 1988 when Korea opened Korean auto market. In the early 1990s, the U. S. only requested to rectify the tax investigation of foreign car owners since the tax investigation did harms on foreign car sales. But in 1993, Clinton administration started to intensify the pressures on Japan in order to eliminate trade deficit. At that time, raising issues and pressing for open market by the U. S. were intensified in Korea too. The reason why the Korea-U. S. trade conflicts in auto industry came to the fore is, firstly, the large Korean market size. And then, Korean auto makers’ competitiveness was increased to the extent that Korean exported cars threatened advanced countries’. Also, with the inauguration of Clinton, the U. S. trade policy became aggressive. So, Korean government, in 1994, voluntarily took some steps to open market but the U. S. kept intensifying trade pressure by listing Korea as Area of Concern in the same year. In 1995, Korean government additionally took measures including revising of tax system to enlarge the chances to import cars with the form of Memorandum of Understanding. Even after these steps, the U. S. pressure for additional market opening continued. In 1997, the USTR listed Korea as PFCP using Trade Act Super 301. Taking consideration that Korean economy is under depression, the U. S. reached an agreement with Korea on October 20, 1998. Table 4: XHistoric Overview of the Korea-U. S. Auto Trade Policy | The U. S. calls on Korea to open market will go on as long as the auto trade imbalance between two countries goes on. Moreover, if Korea exports more cars to the U. S. escaping out of current economic crisis, the U. S. will probably intensify pressure on Korea and demand for the fair relationship of component suppliers, auto makers, and car dealers, more purchase of American auto components, and deregulation in component market for A/S just like the U. S. demanded on Japan. Therefore, it is needed to seek fundamental measures to cope with American trade policy. Comments for Fundamental Measures 1. Obtaining the Fairness in Market CompetitionFirst of all, it is desirable to obtain the fairness in market competition. As shown in the case of Japan, the U. S. will intensify and diversify its pressure into on social aspects including transparency and fairness in the relationship of auto makers, component suppliers, and car dealers and domestic progressive tax system in order to enlarge American car and component export to Korea. Therefore, obtaining transparency and fairness can root out the source of American complaints. The transparency and fairness will be helpful for Korean auto industry also because they will be a basic condition for superior business to grow better and to meet the coming global standard age. 2. Mature Control of NegotiationThe U. S. demanded bilateral negotiation mainly complaining that Korea imports too small number of autos while it exports large number of autos. However, this assertion of the U. S. to have trade balance in auto industry seems unreasonable. According to the most trade theories, trade occurs and benefits both sides usually by producing and exporting a good in which each has better productivity resulting from abundance in resources, or labor productivity, or economies of scale. So we need to persuade the U. S. into the fact that the trade is almost impossible if the trade balance in certain industry has to be obtained between two countries. The U. S. is also overemphasizing the trade surplus of Korea in auto industry. In terms of over-all trade, Korea is experiencing trade deficit with the U. S. Especially in agricultural products, machinery, and chemical goods, Korean trade deficit is enormous. Also, Korea suffered deficit of $ ?????????? in component market in 1998 even though it recorded trade surplus in complete car market. And it must be considered that Korean autos are mostly classified into lower small ones, thus Korean car’s price (average: $ 10,000) amounts to only the half of American car’s (average: $ 20,000). Consequently Korea’s market share in American auto industry was assumed to be only 1% in terms of dollar not in terms of unit. So, it is needed for Korea to reply to American request with reasonable explanation and to confidently cope with American pressure. 3. Improvement of Competitiveness of Korean Auto VehicleFor the long-term strategy, strengthening competitiveness of Korean cars will be the most fundamental measure for long-term development and handling American pressure. Generally speaking, competitiveness can be achieved by strategic cooperation between car makers, cooperative labour-management relations, enhancing R & D, and diversification of strategy according to products. Especially, large car market that will be affected most, needs more attention. It is also reasonable to work for superior competitiveness in small and middle-sized car in which Korean auto makers might be able to be more competitive. 4. Diversification of Export MarketGoing actively into other markets can be an alternative. Korea has heavily depended on export solely to the U. S. If we turn our interest into growing market such as Eastern Europe, South East Asia, and South America where small and middle-sized cars take large portion of auto market, Korean low small cars might be able to have more competitiveness. Some regions especially in Asia are under economic crisis and there will be more trade barriers. However, it is surely reasonable for Korea to diversify its export market, marketing, and design according to local demands for the after-crisis. With diversification of export market, Korea can more confidently cope with negotiations with the U. S. 5. Long Effort to Understand U.S. trade politics and policyKorea, that has quite near sighted policy making mechanism, tends to ignore the long term research and investment to overcome the conflicts with U.S. Along with the previous short and middle term measures, Korea needs to design its policy direction with the long term perspective. CONCLUSION In summary, the results were not that satisfying as most newspapers reported. Korea could escape out of the American retaliation and the measures boosted Korean market with reduction in consumer car price. However, those steps are expected to have several side-effects also and there will be surely continuous conflicts between two countries. The negotiation results that is believed to be somewhat tentative measures, leave us to think further for the fundamental measures. To cope with the intensifying and diversifying trend of American pressure that can be easily found in investigation of precedents of American trade policy toward Japan, it is needed to seek fundamental measures such as obtaining the fairness in market competition, mature control of negotiation, improvement of competitiveness, and diversification of export market. Moreover, it is a requisite for Korea to understand U.S. trade politics and trend of policy.