South Korea Free Trade Agreement key to prosperity and security

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Unemployment remains high, with Washington politicians clamoring for job creation. China is ever more confident, challenging the U.S. economically and politically. The People's Republic of China (PRC) even has displaced America as the number one trading partner of such leading East Asian states as South Korea.

How have the Obama administration and the Democratic Congress responded to these challenges? By retreating economically from the region. Sen. Barack Obama termed the U.S.-South Korean free trade agreement (FTA) "badly flawed" and urged the Bush administration not to submit it for ratification. At his confirmation hearing to be President Obama's U.S. Trade Representative, Ron Kirk called the agreement "unacceptable" and "just not fair."

This policy was remarkable for both its economic and geostrategic folly.

As we approach the second anniversary of President Obama's election victory, trade policy may be undergoing a reset of sorts. When he met South Korean President Lee Myung-bak at the last G20 Summit, President Obama expressed his desire to revive the agreement. He said "It is the right thing to do for our country, it is the right thing to do for Korea." He added that the U.S. intended to work in a "methodical fashion" to meet congressional objections.

The president spoke of "adjustments" rather than "renegotiation" of the FTA and said he hoped to wrap up outstanding issues by the next G20 meeting in November, to be held in Seoul. However, leading congressional Democrats remain opposed and the Lee government refuses to rewrite an agreement reached at great political cost at home. The road forward remains bumpy.

Washington should be expanding American investment and trade opportunities throughout East Asia. The starting point should be ratifying the FTA with the Republic of Korea (ROK).

South Korea possesses one of the world's largest economies — number 13 at last count — and is among the top dozen trading nations. Total bilateral trade between the U.S. and the ROK ran about $85 billion in 2008. The seventh largest merchandise trading partner of the U.S., the ROK is a major importer of aircraft, cereals, chemicals, machinery, and plastics. Even a small expansion of U.S.-ROK trade would offer a significant benefit for America's economy.

Despite its stunning economic success due in large part to exports, the South has never welcomed international competition. Korean business professor Moon Hwy-chang admits: "Korea has not been a very open economy."

The FTA helps change that. Jeffrey Schott of the Peterson Institute for International Economics reported: "The U.S.-Korea pact covers more trade than any other U.S. trade agreement except the North American Free Trade Agreement" and "opens up substantial new opportunities for bilateral trade and investment in goods and services." Roughly 95 percent of trade would become duty free within three years and most of the other tariffs would be lifted within a decade. The accord would provide particularly significant benefits for U.S. agriculture, financial services companies, and American firms seeking access to ROK government procurement.

Obviously, the FTA does not eliminate all economic barriers in the South — just as it does not eliminate all import restrictions by America. Nevertheless, even in the contested areas of autos and beef the FTA makes progress, eliminating taxes on the former and reducing tariffs on the latter. Only by ratifying the current agreement is further progress likely.

Both countries would benefit economically from the FTA, but the U.S., whose share of Korean imports has been falling, would probably benefit more. According to the U.S. International Trade Commission, eliminating South Korean tariffs alone should add $10 billion to $12 billion to America's GDP. Demand for American audiovisual, financial, and telecommunications services also likely would increase substantially. Overall, the ITC figures that American exports to South Korea would go up nearly twice as much as imports from the ROK.

Moreover, the longer-term gain could be even greater. First, South Koreans remain less affluent than suggested by their GDP: the ROK's per capita GDP is about $17,000. Continued strong growth — especially if enhanced by the sort of economic reforms which would be likely in the faced of increased U.S. economic competition — would enhance individual buying power, leading to increased purchases of American goods and services in the future.

Second, reunification with the North is likely to come some day. A united Korea will be an even more important economic market for U.S. concerns. The FTA would give American companies an advantage when that day comes.

The Korean FTA also is part of East Asia's greater economic game. A rising China is bumping up against a still dominant America. Strengthening trade ties is one way for Washington to ensure continued American influence in East Asia. Especially since East Asian countries have increasingly turned, with or without the U.S., to bilateral economic agreements to promote trade.

Despite the Wall Street crash, the U.S. retains the world's largest and most productive economy. However, the PRC now possesses the second largest economy.

Moreover, China's rapid economic growth has naturally led to expanded Chinese investment and trade throughout East Asia. China's top trading partner is the U.S., but the former's second through fifth largest are Japan, Hong Kong, South Korea, and

Taiwan. Australia, Malaysia, and Singapore fall in at numbers seven, nine, and ten. Between 2007 and 2008, all of these countries except Singapore saw its trade with the People's Republic of China increase faster than its trade with America. China's increasing economic growth is leading to increasing Chinese domination of East Asian economies.

American companies have been pushed into second and even third place, most notably in South Korea and Japan. As recently as 2003, the U.S. was number one in the former.

At the same time, the PRC is asserting itself politically throughout Asia, including in the ROK. China has linked its growing economic power with strong diplomatic initiatives throughout Asia. In June Beijing finalized the economic framework cooperation agreement with Taiwan, and is pressing for FTAs with Australia and Japan. Most important, the PRC and South Korea have discussed the possibility of a FTA.

There are significant barriers to agreements between Beijing and all of these nations. But the fact the PRC is pursuing this strategy — and that America's *three leading military allies* in the region view FTAs with China as a serious possibility — illustrate the challenge now facing Washington.

Nor is South Korea waiting for the U.S. Last year Seoul completed the world's largest bilateral trade pact, with the European Union. Despite political opposition in Europe, similar to that in the U.S., the agreement will soon take effect.

American manufacturers will then find themselves at a disadvantage compared to European producers — one estimate is a likely loss of roughly $30 billion in exports. Frank Vargo, vice president of the National Association of Manufacturers, argued: "if the president sends the [U.S.-ROK] agreement up in early 2011, we will be able to avoid the export and job loss" that otherwise will result from the European pact. If not, however, Prof. Choi Byung-il warns that the European agreement "poses a serious and substantial threat to the commercial interests of the United States, including automobiles, legal services, and accounting services."

Yet the U.S.-ROK FTA sits unratified in Washington.

Expanding trade ties offers geopolitical advantages as well. The Bush administration may have overstated the benefits, but only slightly, when it argued: "By boosting economic ties and broadening and modernizing our longstanding alliance, it promises to become the pillar of our alliance for the next 50 years, as the Mutual Defense Treaty has been for the last 50 years."

Washington's influence in East Asia is slowly ebbing. And America's military alliance, created in a different era, is obsolescent. The two nations, once united by the threat of a dangerous North Korea backed by a hostile China and Soviet Union, now perceive regional threats differently. The U.S. already has begun a force drawdown and a full withdrawal is becoming ever more likely.

To meet this challenge Washington needs to employ American "soft power" — access to the world's most important, advanced, and productive economy. Chinese influence will inevitably grow throughout East Asia. But the U.S. need not yield the playing field; instead, it should actively engage friendly nations. The most profitable and least dangerous means to do so is to make it easier for its people to trade.

Washington should press for multilateral agreements, particularly the long-stalled Doha round of the World Trade Organization. Various nations also have expressed interest in a Trans-Pacific Strategic Economic Partnership, a Free Trade Area in the Asia Pacific, an East Asian Community, and other similar though differently-named groupings. The U.S. government should respond positively to any and all.

Washington also should negotiate FTAs with Japan and Taiwan. So too with ASEAN, the collection of highly-trade dependent Southeast Asian states which currently host nearly $300 billion worth of U.S. investment.

But the start is for Congress to ratify the trade accord with South Korea. Failing to approve the South Korean FTA would likely result in permanent economic and geopolitical damage. This would be a high price to pay at any time, but especially when China is rapidly expanding its influence throughout East Asia.

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