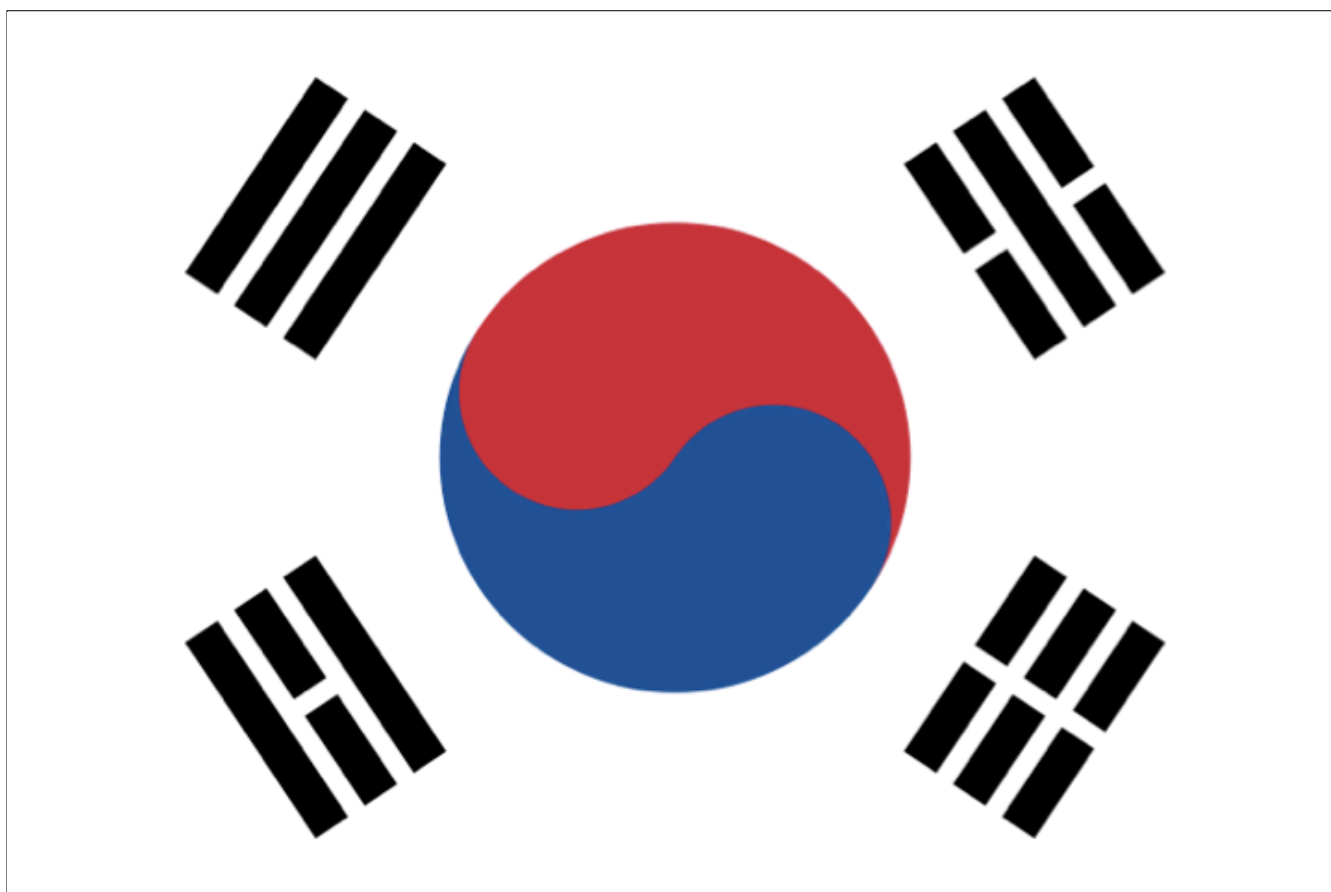


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Free Trade Deal with South Korea Will Boost Prosperity and Security



BY DOUG BANDOW -Unemployment remains high. China is ever more confident and has displaced America as the No. 1 trading partner with leading East Asian states.

How have the Obama administration and Democratic Congress responded to these challenges? By retreating economically from Asia. The U.S.-South Korea Free Trade Agreement sits unratified in Washington.

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

Thankfully, administration trade policy is undergoing a reset. When he met South Korean President Lee Myung-bak earlier this year, President Barack Obama advocated reviving the agreement. But the two sides failed to settle their differences at the recent G-20 Summit in Seoul.

The blame for failure falls squarely on the president's shoulders. He is attempting to renegotiate a pact

Ratification is a must. The South possesses one of the world's largest economies and is among the top dozen trading nations. It is a major importer of aircraft, cereals, chemicals, machinery and plastics.

The FTA would expand the Korean market for American products. 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% of trade would become duty-free within three years and most of the other tariffs would be lifted within a decade.

Obviously, the FTA does not eliminate all economic barriers in the ROK — just as it does not eliminate all import restrictions in America. Nevertheless, both countries would benefit economically.

According to the U.S. International Trade Commission, the elimination of South Korean tariffs alone should add \$10 billion to \$12 billion to the U.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.

The longer-term gain could be even greater. First, South Koreans, like Chinese, remain less affluent individually than suggested by their GDP. Continued strong growth would greatly enhance individual buying power, leading to increased purchases of American goods and services.

Second, reunification with the North is likely some day. A unified Korea will be an even more important market for U.S. concerns.

Nor is economics the sum total of the issue. 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.

Despite the Wall Street crash, the U.S. retains the world's largest and most productive economy. However, Washington's economic dominance in East Asia is waning. China has pushed American companies into second and even third place in many countries, most notably in South Korea and Japan.

At the same time, the People's Republic of China is asserting itself throughout Asia, including in the ROK. In June Beijing finalized the economic framework cooperation agreement with Taiwan, and is pressing for free-trade agreements with Australia and Japan.

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The PRC and South Korea also have discussed the possibility of an FTA. The fact the PRC is pursuing this strategy with America's three leading military allies in the region demonstrates Washington's problem.

South Korea is not waiting for the U.S. Last year Seoul completed the world's largest bilateral trade pact, with the European Union. American manufacturers will soon find themselves at a disadvantage compared to European producers — with the likely loss of roughly \$30 billion in exports.

The primary benefit of the FTA is economic. But expanding trade ties offers geopolitical advantages as well. The Bush administration only slightly overstated the benefits 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

Washington’s influence in East Asia is slowly ebbing. Today, the U.S.-ROK military alliance is outdated.

However, Washington can employ American “soft power” — access to the world’s most important, advanced, and productive economy — to actively engage friendly nations. The U.S. should press for multilateral and regional agreements. Washington also should negotiate FTAs with Japan, Taiwan, and ASEAN, the collection of highly trade- dependent Southeast Asian states.

But the start is for the president to accept and Congress to ratify the pending accord with South Korea.

Failing to approve the South Korean FTA is likely to 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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