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U.S. Needs To Seriously Pursue A Free Trade Agenda

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The United States always has been a nation of traders. When George Washington famously warned against unnecessary political entanglements with Europe, he advocated “extending our commercial relations” and “diffusing and diversifying by gentle means the streams of commerce.”



Image via Wikipedia

For decades Washington oriented its international policies to expanding American trade — and not always with good results. A desire to breach the presumed illimitable markets of China was a one reason the U.S. seized the Philippines from Spain and suppressed an indigenous independence movement, at a cost of hundreds of thousands of lives.

The wreckage of World War II left America well positioned to dominate the international trading system. The U.S. now faces a gaggle of economic competitors, but we all are richer as a result. Entrepreneurial Americans always have been ready to take advantage of opportunity.

Yet today the Obama administration and Democratic Party, and even many Republican politicians, seem to fear international competition. While President George W. Bush was inconsistent in his commitment to free trade, he negotiated several free trade agreements (FTAs) with other

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nations. President Barack Obama and the Democratic Congress have consistently opposed trade liberalization, refusing to ratify accords with Colombia, Panama, and South Korea.

The first two offer modest economic benefits to the U.S. Colombia also is important politically, since it suffers from a serious communist insurgency and large-scale cocaine production. Critics complain about Bogata's imperfect human rights record, but keeping Colombia economically isolated will discourage improvement.

Nevertheless, the administration remains recalcitrant. In his recent speech to the U.S. Chamber of Commerce, the president spoke of pursuing "trade agreements with Panama and Colombia." It is a curiously slow "pursuit." These FTAs were negotiated in 2007 and 2006 respectively by the Bush administration; the latter was reworked in 2007 after the Democrats took control of Congress.

Even more foolish is the failure to ratify the pact with South Korea, a major economic power and long-time military ally located in an ever more important region. At a time when the People's Republic of China (PRC) has displaced Japan as the world's economic number two and surged past America in bilateral trade throughout East Asia, Washington has effectively retreated from the region.

Senator Barack Obama criticized the U.S.-South Korean FTA, which was signed four years ago. President Obama's trade representative Ron Kirk termed the agreement "unacceptable." Leading Democratic legislators ostentatiously opposed the accord.

This attitude was extraordinarily myopic, even for vote-seeking politicians.

While American officials dithered, South Korean and European officials negotiated their own free trade agreement, approved two weeks ago by the European Parliament, which will eliminate 98 percent of tariffs and other trade barriers in the coming five years. There's even talk of the Republic of Korea cutting a trade deal with China.

Last year President Obama finally launched his "pursuit" of an FTA with South Korea. The administration eventually succeeded in renegotiating the pact—to the detriment of American consumers. The administration won a "concession," slowing the reduction in auto tariffs, which punishes U.S. auto buyers in order to hurt South Korean auto producers. The administration expects to send the new version to Congress in March and hopes for approval by July.

Despite the administration's dilatory actions, legislators should oblige. Every day that Congress waits, potential jobs go uncreated and potential influence goes unexercised.

Asia is becoming the globe's economic and geopolitical epicenter. China has the world's second largest economy. Japan is number three. India comes in at four. South Korea rates number 12. Many other Asian states are growing rapidly.

The People's Republic of China also is the most likely "peer competitor" to the U.S. While there is no reason for conflict between Washington and the PRC, the latter is seeking to displace the U.S. from its dominant position in East Asia. Beijing's campaign is being aided by China's rapid economic expansion; the PRC is the biggest trading partner with most East Asian nations, including South Korea.

ABOUT ME

Doug Bandow is a Senior Fellow at the Cato Institute. A former Special Assistant to President Ronald Reagan, he also is a Senior Fellow in International Religious Persecution with the Institute on Religion and Public Policy. He is the author and editor of numerous books, including *Foreign Follies: America's New Global Empire*, *The Politics of Plunder: Misgovernment in Washington*, and *Beyond Good Intentions: A Biblical View of Politics*. He is a graduate of Florida State University and Stanford Law School.

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The FTA's most obvious benefit is economic. Last year total bilateral U.S.-ROK trade hit \$87 billion, rebounding after the financial crisis. South Korea's leading imports are aircraft, cereals, chemicals, machinery, and plastics. Although the U.S. has run a \$10 billion deficit the last two years, the gap has been closing.

The agreement will expand commerce to Americans' advantage. Seoul long has resisted foreign imports. Explained business professor Moon Hw-y-chang: "Korea has not been a very open economy." While the trade accord represents freer rather than free trade, it is a major step forward, eliminating tariffs on about 95 percent of commerce within the first three years and ending most restrictions thereafter. The FTA, observed Jeffrey Schott of the Peterson Institute for International Economics, "opens up substantial new opportunities for bilateral trade and investment in goods and services."

Even in the highly contested areas of autos and beef, the pact relaxes import restrictions. More should be done, but further liberalization will not occur unless the FTA is approved. Overall, the agreement likely would increase American exports more than South Korean sales. The U.S. International Trade Commission estimated that implementing the FTA would add \$10 billion to \$12 billion to America's GDP.

In fact, Congress needs to ratify the accord just to keep pace with Europe. With the ratification of the EU's FTA with South Korea, American manufacturers could lose billions in exports to European firms. Choi Byung-il, a professor of international economics, explained that the EU agreement "poses a serious and substantial threat to the commercial interests of the United States, including automobiles, legal services, and accounting services."

The FTA may offer even greater economic benefits in the future. South Korea's per capita GDP remains well below that of America; continued economic growth is likely to result in a disproportionate increase in consumer spending. Moreover, 23 million or more North Koreans are likely to eventually join the ROK in a united Korea. That will greatly expand the market open to Americans.

Trade also is part of the great geopolitical game in East Asia. Beijing has displaced the U.S. as the region's most important economic player; the PRC is wielding greater political authority as well. Further, China is strengthening its deterrent capabilities, which in time will neutralize America's military superiority.

Proximity ensures that China's growing economic strength will yield regional influence. But the U.S. will retain the world's largest and most productive economy for years if not decades to come. Rather than bankrupt Americans in order to sustain a military build-up which the PRC will have the incentive and resources to match, Washington should reduce barriers to American private activities in the region. Although private trade is not the same as government power, expanded commerce will extend Americans' if not Washington's role in the region.

In fact, the U.S. should not stop with the ROK. Last year China agreed to an agreement for expanded economic cooperation with Taiwan. Beijing also has proposed FTAs with Australia, Japan, and South Korea. That is, the PRC is seeking to forge trade agreements with all of America's top military allies in Asia.

Washington needs to respond in kind.

3/1/2011

U.S. Needs To Seriously Pursue A Free ...

Americans benefit from trade. The administration and Congress should pursue a comprehensive strategy on behalf of freer trade.

The U.S. should push to jump start the long-stalled Doha round of the World Trade Organization. New regional and bilateral trade pacts also are desirable. The FTA with South Korea offers unique geopolitical advantages. After years of unnecessary delay, Congress should say yes.

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