

## U.S. hurts itself sitting on South Korea FTA

By DOUG BANDOW

WASHINGTON — How have the Obama administration and the Democratic Congress responded to the twin challenges of continued high unemployment and China's displacing America as the No. 1 trading partner with leading East Asian states? By retreating economically from Asia.

The U.S.-South Korea Free Trade Agreement sits unratified in Washington. This policy is remarkable for both its economic and geostrategic folly.

Thankfully, U.S. trade policy is undergoing a reset. When he met South Korean President Lee Myung Bak at the last Group of 20 Summit, President Barack Obama advocated reviving the agreement. He hopes to wrap up outstanding issues by the next G20 meeting in November, to be held in Seoul.

Still, the path to ratification is not clear. Leading congressional Democrats remain opposed, while Seoul refuses to renegotiate the accord. 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 percent 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 South Korea — 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 U.S. gross domestic product. Demand for American audio visual, financial and telecommunications services also are likely to increase substantially.

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 someday. 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 debacle, 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, China is asserting itself throughout Asia, including in South Korea.

In June, Beijing finalized an economic framework cooperation agreement with Taiwan and is pressing for free trade agreements with Australia and Japan. China and South Korea also have discussed the possibility of a FTA. The fact that China 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. 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 long-standing 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. Today, the U.S.-South Korea 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 already has forged FTAs with Australia and Singapore. The U.S. should move forward and negotiate FTAs with Japan, Taiwan and the Association of Southeast Asian Nations, a collection of 10 highly trade-dependent states. The start is for the U.S. 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 for America to pay at any time, but especially when China is rapidly expanding its influence throughout East Asia.

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The Japan Times: Tuesday, Nov. 2, 2010  
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