The Detroit News www.detnews.com

October 28, 2010 http://detnews.com/article/20101028/OPINION01/10280344

Free trade vital to U.S. interests

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? 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 at the last G20 Summit, President Barack Obama advocated reviving the agreement. He hopes to wrap up outstanding issues by the next G20 meeting in November 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.

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 the Republic of Korea — just as it does not eliminate all import restrictions in America. Nevertheless, both countries would benefit.

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. gross domestic product.

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.

Continued strong growth would greatly enhance individual buying power, leading to more purchases of American goods and services.

Second, reunification with the North is likely someday, which will make for a more important market for the U.S.

Nor is economics the sum total of the issue.

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.

At the same time, the People's Republic of China is asserting itself throughout Asia.

In June, Beijing finalized the economic framework cooperation agreement with Taiwan, and is pressing for free trade agreements with Australia and Japan. The PRC and South Korea also have discussed the possibility of a FTA.

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 with European producers — with the likely loss of roughly $30 billion in exports.

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 the Southeast Asian states.

But first Congress must ratify the 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.

Doug Bandow is a senior fellow at the Cato Institute.

He is the author of several books, including “Foreign Follies: America’s New Global Empire.” E-mail comments to letters@detnews.com.