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Playing Geoeconomics in Asia

by Doug Bandow

International trade liberalization has stalled, with the World Trade Organization deadlocked over farm subsidies. Unilateral reductions in trade barriers, though sensible on economic grounds, would face strong political opposition.

The best alternatives are bilateral and regional free trade agreements. However, the President's expedited negotiating authority expires in June.

Washington's trade priority today should be Asia, which is becoming the center of the global economy. For both economic and geopolitical reasons, the Republic of Korea (ROK) should be at the top of the administration's list. In a last minute push at the end of March, the U.S. finalized a proposed Free Trade Agreement (FTA) with South Korea. The pact deserves prompt and positive action by Congress.

The Importance of Korea

The ROK is a significant economic player, and increased trade would benefit both nations. The South's GDP last year was almost $800 billion, ranking its economy 12th in the world. South Korea remains one of the world's fastest growing economies, with its GDP growing 16 percent in 2005.

Seoul also is one of the world's great exporters—selling $284.4 billion worth of goods and services last year and importing almost as much.[1] Two-way trade with the U.S. ran more than $72 billion in 2005. Americans are the biggest investors in the ROK.

The economic potential from a FTA is enhanced by the fact that the South has not always welcomed international competition. Korean business professor Moon Hwy-chang admits: "Korea has not been a very open economy."[2]

Neither country got everything that it wanted from this particular agreement, of course. But the agreement substantially increases economic opportunities for Americans. For instance, the proposed FTA reduces taxes on and addresses non-tariff barriers against U.S. auto imports. Many American farm products will enter the ROK duty-free. South Korea will open its service market, increase the access of U.S. firms to the broadcast, financial, and telecommunications sectors, improve patent protection, and improve the legal regime for American investors.

By some estimates such an agreement will increase the ROK's GDP by between .5 and two percent and add an extra 100,000 jobs.[3] The relative boost for America's much larger economy would be smaller, perhaps .2 percent of GDP, but on an $11 trillion economy that isn't just loose change.[4] The International Trade Commission figures that a FTA could hike U.S. exports to South Korea by 50 percent.[5]

The longer-term gain could be even greater. After reunification some day, Korea, which will incorporate the entire peninsula, will be an even more important economic market for U.S. concerns.

The Change in Trade Patterns

To some a FTA with the ROK might not seem to be a priority, given America's dominance in Asia. But America's position is eroding.

China now trades more with the ROK (as well as North Korea, of course) than does the U.S. Chinese investment lags behind that from Americans, but as the PRC's economy grows there will be more Chinese investment capital, and more of it will end up in South Korea.

The Rand Corporation reports: "The effect of China's economic rise on the Korean economy has been significant. China is now Korea's largest trading partner and the largest destination for Korea's foreign direct investment."[6] With Beijing and Seoul discussing a FTA, economic ties between the two countries are bound to increase.

Nor is the ROK waiting for the U.S. South Korea already has implemented FTAs with nine ASEAN (Southeast Asian) states, four European nations, and Chile. It hopes to add another three dozen countries to the list, negotiating FTAs with the European Union and MERCOSUR (a Latin America association), as well as Canada, India, Japan, Mexico, and Russia.

Nor is the issue only economics. For more than a half century the dominant U.S.-Korean relationship was military.[7] Today, however, the alliance is fraying. The countries have grown apart, with younger South Koreans, in particular, viewing America far less favorably than in the past. Moreover, the two nations now perceive the threat very differently. Washington already has begun a force drawdown and a full withdrawal is becoming ever more likely.[8]

The Role of China

At the same time, the People's Republic of China is asserting itself throughout Asia. Although some analysts worry about growing Chinese military strength, Beijing's primary challenge to America now is economic. Warned the U.S.-China Economic and Security Review Commission three years ago: "China has become even more central to regional and global trade, investment, and production patterns." Moreover, added the Commission, "China has linked its growing economic power with strong diplomatic initiatives throughout Asia."[9]

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. can respond by engaging friendly nations.

Free Trade Is Good Economics

Free trade benefits consumers and enlarges business opportunities. It creates a larger market within which poorer nations can prosper.

Free trade also is good politics. Perhaps no where is it more important for the U.S. to find an alternative to military competition than in Asia, where Washington is likely to eventually confront its first geopolitical equal in decades.

Notes

[1] The ROK escaped poverty through its export-led development program. Roughly 70 percent of South Korea's GDP is attributed to exports. See, e.g., Tami Overby, "KORUS FTA, a Way to Ensure Future Competitiveness of Korean Economy," *Korea Policy Review*, September 2006, p. 39.

[2] Quoted in James Brooke, "South Korea and U.S. Start Talks on Free Trade Pact," *New York Times*, February 8, 2006, p. C6.

[3] See, e.g., Junkyu Lee and Hongshik Lee, "Feasibility and Economic Effects of a Korea-U.S. FTA," Korea Institute for International Economic Policy, NRCS Joint Research Series on FTA Issues 05-05-02, December 30, 2005, www.kiep.go.kr; Lee Tae-sik, "U.S.-South Korea Trade Ties," *Washington Times*, February 19, 2006, p. B3.

[4] Alexander Vershbow (U.S. Ambassador to the ROK), "U.S.-Korea Free Trade Agreement: A Path to Sustainable Growth," Remarks to the Institute for Global Economics (Seoul), February 14, 2006, http://usinfo.state.gov.

[5] Lee Tae-sik; "South Korea Trade: No Hot Potatoes et al," February 3, 2006, http://cnnmoney.com/2006/02/03/news/international/koreatalks.reut/index.htm.

[6] Somi Seong, et al., *Strategic Choices in Science and Technology: Korea in the Era of a Rising China* (Santa Monica, Ca.: The RAND Corporation, 2005), p. xv.

[7] For a detailed look at issues surrounding Washington's relationship with both Koreas, see Doug Bandow, *Tripwire: Korea and U.S. Foreign Policy in a Changed World* (Washington, D.C.: The Cato Institute, 1996); Ted Galen Carpenter and Doug Bandow, *The Korean Conundrum: America's Troubled Relationship with North and South Korea* (New York: Palgrave, 2004).

[8] See, e.g., Doug Bandow, "Hope Over Experience, Part VIII," American Spectator online, July 25, 2006, www.specator.org/dsp_article.asp?art_id=10135; Doug Bandow, "The Korean Imbroglio: Disengage and Ignore," September 8, 2006, www.antiwar.com/bandow/?articleid=9671; Doug Bandow, "Can't We Drop Even One Alliance?", July 7, 2006, www.antiwar.com/bandow/?articleid=9248.

[9] U.S.-China Economic and Security Review Commission, *2004 Report to Congress* (Washington, D.C.: U.S.-China Economic and Security Review Commission, June 2004), http://www.uscc.gov, p. 102.

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