

The KORUS FTA is a Strategic Imperative

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For most of the summer, Congress has seemed dysfunctional and unable to make decisions as it debated ways to raise the debt ceiling and cut spending. The deadlock in Washington also stalled pending free trade agreements with Korea, Panama, and Colombia as Democrats and Republicans fight over how to handle the renewal of trade adjustment assistance. Now that the two sides have reached a deal on the debt ceiling, it is critical that the agreement hold and Congress move quickly to pass the three agreements, and the Korea-US (KORUS) Free Trade Agreement in particular, as they are directly linked to US strategic interests and future prosperity.

Because broader trade initiatives have been at a standstill over the last four years, the KORUS FTA has grown in significance. An agreement that originally would have provided the US with an advantage in a key Asian market is now essential for US producers just to maintain a level playing field with their competitors as Korea pursues one of the most aggressive trade liberalization agendas of any country.

As recently as 2003, the US was Korea's largest trading partner, but it has fallen to fourth in the Korean market. In less than a decade the European Union, China, and Japan have all passed the US in importance with Korea. The EU's lead on the US is likely to grow with the EU-Korea FTA now in effect, giving European producers a competitive edge over the US in most of America's top exports to Korea. Early results show EU exports to Korea up by 45 percent over the first three weeks of July and the US losing ground in terms of its overall share of the Korean market.

Perhaps more important, the ability of the US to pass the KORUS FTA has become a litmus test for US leadership on trade in the entire Asia-Pacific region. As Asia has grown in economic importance over the last decade, the US finds itself in a competition of ideas with China for how Asia should be ordered in the 21st century. If the US is unable to pass an FTA with a close ally such as the Republic of Korea – one that most of America's competitors and partners consider to be in its interests – it will undermine US credibility on trade in the part of the world expected to lead global economic growth.

The loss of US credibility would be detrimental to the Trans-Pacific Partnership (TPP) talks. An America that cannot resolve its own differences to pass the KORUS FTA would be seen by prospective partners as unable to follow through on its commitments, likely leaving the TPP talks stillborn or with the US on the outside looking in. This would have a direct impact

on US interests in Asia. The TPP is envisioned as a stepping stone to a 21st-century free trade area of the Asia-Pacific, and perhaps the US best tool in a contest with China over the standards, rules, and norms of trade and investment in the region. The consequence would likely be a trading system in Asia that excludes the US to the detriment of America's economic interests.

The strategic interests of the US in the TPP extend beyond the agreement's direct commercial benefits. For much of the past 60 years, peace and stability have been maintained in the Asia-Pacific region through the active engagement of the US. Part of that engagement and one of the keys to stability in the region has been the US-Japan alliance.

However, Japan is at a crossroads. For much of the past two decades Japan's economy has been stagnant; China has replaced it as the second largest economy in the world. As a result, there has been a relative shift in the influence of the two largest Asian economies in the region. A confident and growing Japan is a key to any US strategy in Asia.

To revive its economy, Japan needs extensive economic reforms. The TPP talks, which Japan had indicated an interest in joining, were seen by many as the vehicle that would enable Japan politically to undertake those reforms. Given the political deadlock in Tokyo, it is unlikely that Japan would embrace a program of reform without the incentive a TPP agreement would provide. With passage of the KORUS FTA, Korea would almost certainly immediately join TPP negotiations, which would spur efforts within Japan.

On more than one occasion over the past year, it appeared as though the KORUS FTA would move forward, only to have another obstacle surface. While reaching agreement on process is an important step forward for all three FTAs, the debate on the debt ceiling has shown that there are few certainties in the current Congress.

Successfully resolving the differences in Congress over TAA and the FTAs will not solve the challenges the US faces in Asia either on a strategic or commercial level. However, until they are resolved, policies that would largely benefit the US position in the region risk being undermined. Should the FTAs once again become stalled, the US will be forced to adapt to a situation in which the key region of the 21st century is shaped by actors that do not have US best interests at heart rather than working with its allies and like-minded countries to shape an Asian-Pacific region that is peaceful, prosperous, and open to commerce among all nations.

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