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Obama Should Approve Korea Trade Agreement

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President Barack Obama's trip to South Korea will be driven by several overlapping agendas. President Lee Myung-bak has laid the groundwork for progress on several economic issues at the G-20 summit, but breakthroughs may prove elusive given the disparity of participants' national interests.

A greater potential success during the Seoul gathering would be the Obama Administration's affirmation of the Korea–U.S. free trade agreement (KORUS FTA), finally allowing submission for legislative approval. Yet President Obama continues to genuflect to special interest groups, which has delayed the FTA's progress. South Korean officials complained that, as late as last month, the U.S. had not even articulated its specific demands on altering the automobile section of the agreement.

Using this visit to address the FTA would fulfill Obama's pledge at the June 2010 G-20 gathering that "I want to make sure that everything is lined up properly by the time I visit Korea in November. A few months after that, I intend to present it to Congress."

KORUS Benefits the United States. The trade agreement would reduce trade barriers by eliminating tariffs, establish rules for foreign investment—including intellectual property rights—and improve market access. As a result, implementing the FTA would increase U.S. exports, create new American jobs and economic growth, level the playing field for U.S. businesses, and strengthen Washington's partnership with South Korea. No wonder that during the period of U.S. public comment on the KORUS, 91 percent of the comments favored KORUS ratification.[1]

The U.S. International Trade Commission estimated that U.S. exports would increase $10–11 billion annually, while imports would increase $6 billion as a result of the agreement. And those estimates do not include the benefits arising from the reduction of tariffs in the services industries. The U.S. Chamber of Commerce estimated that approving the KORUS FTA would lead to an increase of 250,000 jobs, while a failure to enact the agreement would lead to a loss of $35 billion in exports and 345,000 jobs.

The Korean market is now the fifth largest for U.S. agricultural exports, valued at $3.9 billion in 2009. The American Farm Bureau Federation estimated that the FTA would create $1.8 billion in additional U.S. agricultural sales—a 46 percent increase.[2]

U.S. Slipping Further and Further Behind. In less than five years, the U.S. plummeted from being South Korea's largest trading partner to fourth place, behind the European Union, China, and Japan. While Congress obstructed KORUS approval since its June 2007 completion, South Korea moved forward with other trade negotiations, risking further loss of U.S. market share.

The EU will augment its trade lead over the U.S. with next year's implementation of its own bilateral

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FTA with South Korea. That accord was initiated, negotiated, and signed while the KORUS languished in Congress. The Korea Institute for International Economic Policy estimated that the South Korean–EU FTA, which will be implemented next year, would boost bilateral trade by 20 percent.

A White House economic official estimated that if the EU and Canada implement their trade pacts with South Korea before the U.S., the U.S. could lose $30 billion in exports.[3] China declared in July 2010 that it also wants to begin FTA talks with South Korea in 2011.

Two sectors of the FTA—beef and autos—have been in Congress's crosshairs. Senator Max Baucus (D–MT) has demanded a more expansive opening of Korea's beef market, but the U.S. beef industry announced its support in May 2009 for ratification of an unaltered KORUS. The U.S. Meat Export Federation declared that it "fully support[ed]" the KORUS and did not "view the 30 month limitation as a major hindrance to our marketing efforts in Korea."[4]

The National Cattlemen's Beef Association also supports the KORUS, declaring it could "potentially be one of the most significant bilateral agreements in our history." In 2003, U.S. beef producers sold $815 million in beef products. With KORUS in force, Korea could eventually be a $1 billion market for U.S. beef producers.[5]

The beef association fears that continued U.S. foot-dragging on KORUS would be deleterious to its exports. If Australia were to complete FTA negotiations with South Korea, it would "be devastating to the U.S. beef industry, and sadly, the losses would be of our own doing. [It is] critical that we expand our opportunities to sell beef in the international marketplace if we want to keep American family farms in business."[6]

The U.S. auto industry has long resisted the KORUS FTA, blaming unfair Korean trading practices rather than their declining competitiveness. Yet the facts suggest otherwise. Steven Rattner, the Obama Administration's auto task force director, commented that "everyone knew Detroit's reputation for insular, slow-moving cultures. Even by that low standard, I was shocked by the stunningly poor management that we found, particularly at General Motors, where we encountered perhaps the weakest finance operation any of us had ever seen in a major company." Rattner commented that the company's business plan "evinced a state of denial" and "*the company's leaders blamed everyone but themselves for the automaker's quagmire*."[7]

Then-Senator Obama declared in a May 2007 speech in Detroit that the spiraling cost of health care for retired autoworkers accounted for $1,500 of every GM car. "For years," he said, "while foreign competitors were investing in more fuel-efficient technology for their vehicles, American automakers were spending their time investing in bigger, faster cars.… The auto industry's refusal to act for so long has left it mired in a predicament for which there is no easy way out."

Obama was right. Auto executives' incompetence and excessive union demands should not penalize American and Korean strategic interests by scuttling the KORUS FTA.

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1. Yonhap, "US to Address Auto Imbalance Before Ratification," October 15, 2009.
2. Cattle Network, "ASA Supports Administration's Commitment to Free Trade Agreement with South Korea," June 28, 2010, at *http://www.cattlenetwork.com/ASA-Supports-Administration-s-Commitment-to-Free-Trade-Agreement-with-South-Korea/2010-06-28/Article.aspx?oid=1134804&fid* (November 5, 2010).
3. Elizabeth Williamson, "US Vows New Push in Korean Trade Pact," *The Wall Street Journal*, June 25, 2010.
4. Yonhap, "US Beef Industry Supports Korea FTA Despite Restricted Shipments," May 21, 2009.
5. Cattle Network, "NCBA Welcomes President Obama's Call to Action On U.S.-Korea Trade," June 28, 2010, at *http://www.cattlenetwork.com/NCBA-Welcomes-President-Obama-s-Call-to-Action-On-U-S--Korea-Trade/2010-06-28/Article.aspx?oid=1133792&fid* (November 5, 2010).
6. *Ibid.*
7. Peter Whoriskey, "Rattner Defends Rescue of Automakers, Says Some Money Is Gone," *The Washington Post*, October 22, 2009 (emphasis added).

Cannot Lead from the Rear. It is time for the Obama Administration to stop talking about free trade and begin implementing a trade policy. Dropping the protectionist-driven demands for beef and auto revisions to the KORUS and instead approving the agreed-upon FTA would be a tangible first step. Doing so would significantly benefit the U.S. economy by increasing exports and creating jobs, all without spending a dime of federal funds.

On one side of the equation is the U.S.'s strongest ally in Asia and a critical trading partner, as well as the majority of U.S. manufacturing and service industries. On the other side are protectionist special interest groups. It is your choice, Mr. President, and the clock is ticking.

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