



Asia Pacific Bulletin

Number 79 | November 4, 2010

On the Sidelines of the G-20: Success or Failure Likely Awaits the KORUS FTA

BY TROY STANGARONE

The pending free trade agreement between the United States and South Korea, KORUS FTA, is heading into a defining period. After more than three years of delay, Presidents Barack Obama and Lee Myung-bak have committed to resolving each side's differences by the upcoming G-20 summit in Seoul on November 11-12, paving the way for passage in 2011. However, for political reasons in both countries, 2011 may be the last opportunity to move forward on the KORUS FTA for a period of years and falling short of that could have reverberations for the alliance.

Troy Stangarone, Director of Congressional Affairs and Trade for the Korea Economic Institute, explores future scenarios for the pending free trade agreement between the United States and South Korea noting that "...for political reasons in both countries, 2011 may be the last opportunity to move forward on the KORUS FTA for a period of years and falling short of that could have reverberations for the alliance."

Timelines and the G-20

The KORUS FTA's prospects are inversely tied to the next US presidential election. As it draws nearer, the agreement's chances of passing Congress grow slimmer. For this reason, the FTA needs to be sent to Congress no later than this spring to ensure it is passed prior to the August recess, and thus avoids any budget showdown next fall.

If there is not a vote in 2011, the chances of a vote in a presidential election year are slim. Instead, the agreement might be facing the worst of all possibilities—delay until the next administration. In that case, a vote might not occur until late 2013 or early 2014, as a reelected Obama administration or a new Republican administration would want to move on any major campaign promises first. The only real window of opportunity is the first half of 2011.

The Consequences of Not Reaching a Deal

The sinking of the *Cheonan* earlier this year focused the US administration's thinking about the KORUS FTA and the US-ROK alliance. In the face of North Korean aggression the Obama administration sought to signal its support for an embattled US ally in the strongest terms possible. Continued delay on a key alliance issue such as the KORUS FTA would have signaled that there was distance between the two governments, especially in light of the policy significance that South Korea places on the agreement.

Having publicly committed to a resolution on the FTA means that falling short will have a quantitatively different impact on relations than would have occurred in the absence of a public commitment. As the G-20 approaches, it's worth considering what this would mean. First, the alliance will not come to an end. Core security considerations relating to North Korea and the Korean peninsula will not change. However, there is the possibility for policy divergence in other areas and a change in the conception each side has for the future direction of the alliance.

The first impact is the easiest to quantify—the continued decline of the United States as an economic actor on the Korean peninsula. This is a process that is already taking place. The last decade has seen China rapidly surpass the United States in terms of trade with South Korea, as well as the European Union. The European Union's FTA with South



“In the absence of a close relationship with the United States the recent decision by South Korea to impose additional sanctions on Iran might have been different. This decision was highly contentious in South Korea because of the potential consequences it had for South Korean interests in the Middle East.”

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the U.S. Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options.

The Asia Pacific Bulletin is produced by the East-West Center in Washington. The views expressed in this publication are those of the authors and do not necessarily reflect the policy or position of the East-West Center.

EastWestCenter.org/apb

Korea will come into force on July 1 of next year, while South Korea is expected to engage in FTA negotiations with China in 2012. Along with South Korea's other FTAs, these will continue to erode the United States' position as an economic player on the Korean peninsula.

On a regional level, there would be consequences to the United States' economic position as well. The United States would lose credibility as a negotiating partner on the most significant set of issues in Asia, trade and economic growth. This would likely have a direct impact on the Trans-Pacific Partnership negotiations, as America's partners would likely have concerns about the United States' ability to follow through on its commitments.

On the political and strategic side, the nature of the outcome could create disappointment that would have political consequences in South Korea. It would be understandable for South Koreans to question the United States' commitment to the alliance and further a narrative, even if untrue, of the United States as an unreliable partner in some quarters. This would strengthen the position of those in South Korea who believe that South Korea's future is outside of the US-ROK alliance and weaken those who want to work with the United States. At a time when China is growing more assertive as a regional power and South Korea's economic ties to the United States are loosening, it would give new context to the question of whether South Korea's long-term future is tied to that of the United States, especially if unification were to occur.

Policy divergence might also occur in other areas such as trade, economics, nuclear proliferation and climate change, to name but a few. In the absence of a close relationship with the United States the recent decision by South Korea to impose additional sanctions on Iran might have been different. This decision was highly contentious in South Korea because of the potential consequences it had for South Korean interests in the Middle East. In a less friendly political environment it might be difficult for a South Korean government that wanted to work with the United States. Let alone a government that did not, creating incentives to take a different course much as Turkey has done as it reorients its foreign policy in the light of cooling relations with Washington and Europe.

Concluding the FTA would provide an institutional structure to the alliance and point to a commitment by both sides beyond the resolution of long-standing tensions on the peninsula. This would help the alliance to weather changes in government better by providing an additional institutional framework. As has been the case before with South Korea and is currently the case with Japan, every relationship goes through difficult periods and having additional ties between both sides will help to make those periods easier to weather.

The KORUS FTA as a First Step in Asia

With South Korea being awarded the distinction of hosting the G-20 summit this November and the 2012 nuclear summit attest, Seoul is beginning to come of age on the global stage. It is also doing so during a time of significant change. The G-20 is already rewriting the global economic power structure and those same shifts in economic power will precipitate changes in diplomatic and international power structures in the years ahead.

While the KORUS FTA will not address all of the challenges the United States will face in a changing international system, it is a key part of the strategic picture for the United States in South Korea and Asia more generally. If the United States allows itself to continue to lose ground as an economic presence on the peninsula and Asia, over time it will see the same outcome on its diplomatic and military influence. The first step to avoiding that outcome is to reach an understanding on the KORUS FTA.