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Economic View

Switching Tracks With a South Korean Pact

By [DANIEL ALTMAN](#)

THE free trade agreement the United States signed with South Korea last week could be the most important step in the nation's trade policy since the North American Free Trade Agreement went into effect 13 years ago. If Congress approves it, the slashed tariffs could lead to billions of dollars of new trade. Yet it could also symbolize a shift away from global trade negotiations, which were supposed to help poor countries to grow.

Those negotiations, called the Doha Development Round by the [World Trade Organization](#), have been stalled for the better part of two years. In addition, the Free Trade Area of the Americas — a proposed regional free trade zone — has run into substantial opposition from the new leftists of South and Central America. The bilateral option — two-way trade deals — is the only game in town right now.

According to Kimberly A. Elliott, a senior fellow at the Center for Global Development and the Peterson Institute for International Economics, the Korean deal could divert trade away from the poor countries that might have benefited from a worldwide agreement — and it also subtracts from the credibility of the W.T.O. as a viable option for opening markets.

President Bush's trade representatives — [Robert B. Zoellick](#), Rob Portman and now Susan C. Schwab — have always said that the United States would pursue a three-track approach in opening markets for American consumers and producers, seeking bilateral, regional and global free trade agreements. If progress along one track stalled, they have always said, their efforts would then be directed to the others. The bilateral agreement with South Korea is the largest payoff so far from their strategy.

Why is it so important? South Korea ranks just behind the [European Union](#), United States, Japan, China and Hong Kong as an exporter. It shipped \$284 billion worth of merchandise in 2005, the last year for which the World Trade Organization offers global statistics. That amount, which was three times India's exports, was also equivalent to the total merchandise shipped by the world's bottom 118 economies, ranked by the same metric.

All but 30 of those economies are also members of the W.T.O. So signing a free trade agreement with

South Korea could be as economically important as signing agreements with 88 of the group's 150 members. Given the intense and growing trade relationship between the United States and South Korea, it could be even more important.

With a couple more bilateral deals like this one, the W.T.O. could seem an afterthought, or at least not worth the effort. And, indeed, the United States has already been talking trade with Brazil, and its nuclear pact with India could open the door to economic talks. Those two nations also happen to be two crucial negotiating parties at the W.T.O., and they might be just the first countries whose attention might be seduced away from the global negotiations.

"Assuming that this deal is going to be passed by both houses, which is not guaranteed, then clearly Japan is going to be looking to do a deal," Ms. Elliott said. A free trade agreement with Japan, the world's second-biggest economy — if you don't count the European Union, which negotiates as one party for trade — would trump any other negotiations.

Yet as Ms. Elliott hinted, there's still a long way to go before even the Korean agreement becomes law. Timing is not a problem, because the agreement was signed before the president's authority to submit trade pacts to Congress for an up-or-down vote expires at the end of June. But there is already some dissent among unions and automakers, who see jobs being lost to Asia, as well as members of Congress concerned that South Korea is blocking exports of American beef.

"It's going to be hard," said John B. Taylor, a professor of economics at Stanford who was under secretary of the Treasury for international affairs from 2001 to 2005. "Some of the unions are lining up against it, and some forces are looking for some significant modification." That's true both in the United States and in South Korea, whose farmers, fearing the destruction of their livelihoods, have been among the most vocal opponents of free trade talks.

Because of the strategic importance of the American relationship with South Korea, however, a deal could be tough for anyone to stop.

"The idea that we would turn down a trade agreement with Korea on any basis, given the sensitive political arrangements in that area, and their neighbors to the north, is somewhat daunting," said [Mickey Kantor](#), a former United States trade representative and secretary of commerce. "There'll be legitimate pressure to try and get something done here, regardless of the provisions of the agreement."

Mr. Kantor noted that most previous two-way trade agreements have been signed with small economies, with largely strategic rather than economic goals. For example, the United States has pursued agreements throughout the Arab world, having signed deals with Jordan, Bahrain and Morocco, in order to build support for its foreign policy objectives. But a deal with South Korea, Mr. Kantor said, would be the first major step in many years toward opening markets.

AND not everyone thinks that it will shift attention away from the global talks. "For those that are

concerned about the United States being unilateral or looking for coalitions that are not so broad, they're wrong," Professor Taylor said.

He suggested that the South Korean agreement could give a spur to the W.T.O. negotiations, provided that Congress renewed the president's trade negotiating authority in the summer.

"This is a way that the United States can show tremendous leadership on a multilateral basis," he said. "For Congress not to give that extension would set that whole effort back substantially."

Ms. Elliott, however, argued that it would be hard to push the global talks forward without more involvement from American businesses, which, she said, have so far taken relatively little interest. A trade agreement with South Korea will give them little reason to change that attitude.

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