The United States and Korea Leading beyond the Storm
The G-20, Trade, and a Roadmap for the Alliance to Lead in the Wake of the Financial Crisis
A Report of the CSIS Scholl Chair in International Business

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AUTHOR
Steven Schrage

RESEARCH TEAM
Jeffrey E. Farrah
Cheng Gao
Marek Hlavac
Jennifer Prüfer

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CSIS CENTER FOR STRATEGIC & INTERNATIONAL STUDIES
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For the United States and Korea, the global economic crisis was not just a sea change, but a tsunami. Nations riveted just weeks earlier by issues like terrorism and proliferation were consumed by talk of economic collapse and unprecedented fiscal and monetary actions seeking to avoid a second Great Depression. In the midst of this storm stood a U.S.-Korea alliance that had withstood a half-century of war and peace. Yet even before the crisis, leaders of both nations were struggling to rethink a partnership still adjusting to the Cold War’s end; a post-9/11 world of interconnected security threats; and the rise of China and Asia on the wave of Internet-speed, global competition.

As signs of light begin to break through the storm, leaders confront a changed world and deep questions about what shape the next global economy and interrelated security challenges will take. The strategic impacts of the economic crisis and earlier shocks are poised to deeply change the environment facing the United States and Korea. These events impact the importance—and even the relevance—of their alliance. Yet analysis of the key factors reshaping both nations’ destinies point to the need for a deepened partnership that, while changing in key ways, is at the nexus of more of the world’s critical issues than at arguably any point in the alliance’s history. As domestic economic troubles drive Korean and U.S. attention inward, successfully navigating this turmoil will test alliance leaders in ways they have not been tested in decades. Yet a range of factors from the G-20 to the postcrisis rise of Asia are poised to make 2010—the 60th anniversary of the outbreak of the Korean War, which closely bound both nations—a critical year for the alliance. In 2010, the alliance will have unique leverage to set a course for the global agenda and lay the foundation for future multilateral efforts. To succeed, U.S. and Korean leaders should recognize and act on four key points.

1. G-20’s Challenge and Opportunity to Broaden Alliance, Launch Dynamic Multilateralism

The 2010 G-20 summit in Korea will be an action-forcing event that is both a critical opportunity and challenge for the alliance. The United States, as the world’s economic leader, and Korea, as the host of a G-20 that has been charged with leading the global recovery, will take center stage in facing the world’s greatest challenge. Perhaps no two nations—or presidents—have more at stake in a successful G-20 outcome. America is being both targeted as the cause of the crisis and looked upon to lead a way forward. It must ensure that nations act decisively to address global issues, while avoiding overreaching that might undermine U.S. or global recovery. President Barack Obama, in a sense, “inherited” the G-20 leaders’ process that was launched by his predecessor. Yet
by personally convening the recent G-20 summit in Pittsburgh and using it to institutionalize the G-20 as the preeminent global forum driving international economic cooperation, the G-20’s success and President Obama’s legacy are fundamentally intertwined. For Korea, hosting a 2010 summit is an unprecedented opportunity to achieve President Lee Myung-bak’s vision of a “Global Korea.” Yet, it is also a critical challenge that will influence Korea’s prospects for moving into the top tier of leadership within the global community. The G-20 has been called on to take action on key substantive issues ranging from combating protectionism to addressing global imbalances. Yet, now that the G-20 leaders’ summit process has been institutionalized, its leaders face a critical test that cuts across all of these issues—making this process work where past multilateral efforts have too often proved impotent. This situation provides the host nation, known as “Dynamic” Korea, with the opportunity to launch a new type of twenty-first century “Dynamic Multilateralism” to meet today’s multifaceted and rapid challenges, especially through considering reforms in three key areas:

- **Dynamic Structures and the “G-?” Challenge:** Multilateral efforts have often failed due to ossified structures and an inability to adapt. In the debate over the future of the G-8 and G-20 (sometimes referred to as the “G-?”), one truism has become clear—there is no perfectly sized group for every challenge. In a world that is not just multipolar, but also multitiered and multidimensional in terms of the different challenges we face, different types of groups may be needed to balance legitimacy and operational effectiveness on specific issues. Building on concepts of “variable geometry,” the 2010 G-20 could create a new approach that actively enables and fosters such groups with different compositions. This “Dynamic Multilateralism” or G-X approach (where X represents a variable number) would allow evolving structures to target specific challenges, while elevating the G-20 as the preeminent global forum. This may include spinning off or empowering G-8 subgroups, such as the G-8 Anti-Crime and Terrorism (Lyon Roma) Group, which key G-8 allies previously discussed transforming into a free-standing and expandable global alliance against transnational threats.

- **Accountability—Making G-20 Statements More Than Words:** Perhaps the most damning criticism of past multilateral efforts such as the G-8 is that far too often their bold sounding pledges and words resulted in less impressive real world action. World leaders will need to build out G-20 and G-8 proposals for peer review and consider new ideas, such as possibly empowering eminent persons to conduct independent reviews, to ensure that nations are held accountable for their G-20 pledges.

- **Involving Different Types of “G”s:** In today’s globalized and interconnected world, many critical decisions and capabilities no longer rest with governments, but with the private sector, international organizations, and nonprofit groups. Innovative proposals to involve international organizations and nongovernmental “G”s—groups such as nongovernmental organizations, businesses, and experts—in the G-20 either formally or informally should be explored to widen stakeholder input in this process.
Overall, a strengthened, comprehensive effort for close coordination and planning by the United States and Korea should begin immediately to ensure that the G-20 actions to combat the strategic challenges of the financial crisis succeed and help lay the groundwork for a revitalized alliance.

2. Failure to Address KORUS by G-20 Risks Critical Setback for U.S./Alliance Leadership

If the United States and Korea are to leverage the opportunity of the G-20 to advance critical interests, reorient the alliance, and lead the way out of the crisis, they cannot avoid the alliance’s elephant in the room. The U.S.-Korea Free Trade Agreement (KORUS) is undoubtedly its largest and most prominent outstanding issue. Even many opponents of the current KORUS provisions would acknowledge that it could be a grave mistake to let this issue linger and risk undermining support for a critical alliance. This free trade agreement is an unprecedented opportunity to deepen the alliance, boost the economies of both nations, and lead the way forward in stemming rising protectionism in a region and world struggling for sustainable growth. The Obama administration should commit to addressing KORUS by 2010 or putting it on a track for resolution. Stakeholders must be willing to take a fresh approach in order to make this possible and seize the opportunity to utilize KORUS to chart a new way forward on international economic efforts led by the United States and a “Global” Korea. This report addresses the calls for creative solutions to advance KORUS and deals with key issues including:

- **Addressing the United States’ Risk of Losing Trade Leadership in Asia and the Wider World:** Over the last half-century and across Democratic and Republican presidential administrations and Congresses, the United States has been at the forefront of leading international trade and economic cooperation. Few can fault the Obama administration for reviewing U.S. trade strategy and tactics that, despite much effort, achieved little concrete progress in the past two years. Yet the lack of a new approach is now posing risks to the United States’ leadership role and to global recovery. In the current situation, U.S. workers and companies face the risk of comparative disadvantages across the majority of the world, and for the first time in decades, the United States increasingly risks being on the sidelines of key trade deals and initiatives. Bilateral and regional trade deals have spread rapidly to cover Asia (where there are increasing talks of economic blocs, such as an East Asian community, that may exclude the United States) and most of the globe. In contrast, the multilateral Doha Round of the World Trade Organization (WTO) and U.S. trade efforts have stalled. This situation hurts not only U.S. trade, but also labor and environmental efforts, where U.S. free trade agreements (FTAs) have been among the most powerful tools in advancing high standards. Overall, as the world looks for new sources of growth in the wake of the financial crisis and as nations struggling with joblessness are tempted by protectionism, renewed U.S. leadership is essential.

- **Recognizing New Realities and Being Open to Creative Ideas to Advance KORUS:** The U.S., Korean, and global situations have changed dramatically since KORUS was signed. KORUS is now a critical test for the United States’ leadership in Asia, the Obama
administration, and the U.S. Congress (which is central to KORUS’s fate). All sides need to be open to creative, WTO-consistent approaches. These include potentially looking beyond existing litigation-style approaches to new innovations that can address the broad issue of nontariff barriers, which have undermined confidence in trade agreements.

- **Using KORUS to Reboot a New Global Trade Effort as an Open, Multilateral Agreement**:

  Even as a WTO Doha Round with relatively low ambitions has stalled, and a “spaghetti bowl” of conflicting bilateral trade deals have crisscrossed the world, leaders are looking for new ways forward. KORUS’s precedent for addressing critical issues such as services, intellectual property rights (IPR), labor, and environment along with its linking the world’s largest economy with its most vibrant economic region makes it a powerful foundation for a new way forward. KORUS already has a provision that allows other nations to join the agreement through accession. Strengthening and prioritizing KORUS as a global hub for economic cooperation could make it the cornerstone for a global free trade arrangement based on the highest standards. Given KORUS’s many similarities with the language and provisions adopted by other U.S. FTA partners, these partners would be logical candidates for rapid expansion. This could advance the strategy of earlier proposals to weld together existing U.S. FTAs into a wide-ranging, international economic partnership zone that could advance high standards in new areas and would be open to all who could meet its core requirements.

  While KORUS stalls, the signing of the Korea-EU FTA (forming a free trade area larger than that of the combined BRIC—Brazil, Russia, India, and China—economies) highlights how competitors are moving ahead. Yet the Korea-EU FTA could also be an opportunity to explore a joint U.S.-Korea-and EU economic and trade partnership (ETP) area as a core for consolidating FTAs. Such a partnership could dwarf any combined FTA markets for the foreseeable future, bridge the world’s three most powerful economic regions, reassert a development model based on political freedom and the rule of law, and drive global standards.

  Overall, launching these or other new multilateral efforts (e.g., proposed U.S. trade agreements with other multilateral arrangements such as those of ASEAN or the proposed Trans-Pacific Partnership) may be difficult if individual governments look only to the short-term competitive trade advantages that have driven the rise of the current global “spaghetti bowl.” Yet acting in broader strategic partnerships would allow nations and their leaders to reframe the global trade discussion and lead in a way they may be unable to do so bilaterally. Even if these proposals do not ultimately yield new agreements, they could help put competitive pressure on nations to complete a meaningful WTO Doha Round.
3. Security Challenges Endure, Must Be Addressed Despite Economic Pressures

The most damaging impact of the economic crisis would be to take our eyes off of broader challenges that have not gone away with the crisis and may be worsened by it. The United States and Korea must remain united and engaged on North Korea, whose nuclear weapons and potential instability have consequences for the world, especially as the economic crisis may tempt other powers to focus on domestic concerns. China’s rise has altered the world’s landscape economically and militarily. Korea and the United States are both deeply engaged with China and have strong interests in encouraging its positive integration into the global community. Korea and the United States have also been strong partners in addressing international threats and challenges, as seen in their efforts in the Middle East and Central Asia. On these and other issues, strong U.S.-Korea efforts bilaterally and in multilateral arenas will be especially important. These should include information sharing on the developments and ramifications of an evolving economic situation in the wake of the crisis and continued robust contingency planning for potential developments such as a humanitarian or security crisis in North Korea. At a time when the United States risks being left behind as Asia rapidly expands internal outreach and partnerships, KORUS and G-20 outcomes could greatly impact debates on these wider issues.

4. Must Move beyond Talk, Build a Twenty-first Century Strategic Alliance through S&ED or Similar Structure

Finally, through these and other actions, the United States and Korea must elevate and broaden the scope of their discussions, making operational the long-held vision of a twenty-first century strategic alliance and Presidents Obama and Lee’s call for a more global U.S.-Korea alliance this summer. Launching deep bilateral discussions on the G-20 could be a key facet of this approach, which, along with joint efforts on the wider strategic issues addressed above, could set the stage for institutionalizing this engagement. U.S. bilateral arrangements, such as those with China (the Strategic and Economic Dialogue) and India, could be examined as potential models. Beyond the topics addressed here, new opportunities for deepening the alliance may exist in a range of areas, including peace keeping, humanitarian work, and advancing green technology.

Seizing a Once-in-a-Generation Opportunity

Overall, there may be no two nations who stand at the center of more critically emerging issues—ranging from the rise of Asia, proliferation of weapons of mass destruction, and the future of trade and international economic cooperation—than the United States and Korea. A once-in-a-generation opportunity exists in 2010 to harness the G-20 partnership to advance national and global goals, find a way forward on KORUS, address evolving security dynamics, and revitalize the alliance. Further projects building on the framework of this initial study should be rapidly advanced to flesh out additional substantive priorities. Building on this action plan would allow the United States and Korea to transform this potential into results and realize the promise of a true twenty-first century strategic alliance.
About the Author

Steven Schrage holds the Scholl Chair in International Business at CSIS. His experience spans senior positions with the U.S. State Department, Office of the U.S. Trade Representative, the G-8 and major presidential campaigns, as well as key roles for congressional leadership and top committees. As international trade counsel for Congress’s Ways and Means Committee (which initiates all U.S. trade legislation), he led efforts to successfully pass several of America’s most recent free trade agreements (FTAs), including those that generated the greatest bipartisan support for any U.S. FTA in decades. He has also worked on international business issues in various private-sector positions, including at several major international law firms.

Mr. Schrage formerly served as deputy assistant secretary of state and acting assistant secretary under Colin Powell. During that time, he was selected by the White House and the State Department to lead major multilateral efforts among the United States’ top allies in the G-8 as the cochair of the G-8’s Anti-Crime and Terrorism Group. While at the State Department, he managed more than $2 billion in global assistance funding for projects including critical civilian security efforts in Iraq, Latin America, Asia, Europe, Africa, Pakistan, and Afghanistan, where he led efforts that trained more than 27,000 police officers and helped secure Afghanistan’s historic first presidential election.

Previously, Mr. Schrage served in the White House office of the U.S. trade representative (USTR). He was the first administration appointee placed in USTR in 2001, serving as senior adviser responsible for all aspects of this cabinet agency, and later served under USTR Robert Zoellick. Additionally, Mr. Schrage has served in various positions for congressional leadership, including on the policy team of the Speaker of the House and as chief foreign policy counsel for the third-ranking member of the Senate Foreign Relations Committee. Most recently, Mr. Schrage served as foreign policy and trade director for the 2008 presidential campaign of former Massachusetts governor and Bain Capital founder Mitt Romney.

Mr. Schrage is an honors graduate of Duke University and the University of Michigan Law School, and conducted M.B.A. and doctoral studies at Harvard Business School, where he earned distinction (honors) for his doctoral work prior to his return to public service in 2000.
Figure 1. Korea: Largest Potential U.S. FTA Partner since NAFTA

- **Republic of Korea, 2007**
- **Singapore, 2003**
- **Panama, 2007**
- **Morocco, 2004**
- **Chile, 2003**
- **Oman, 2006**
- **Colombia, 2006**
- **Peru, 2006**

**Key:** Area of circle represents relative projected 2014 GDP (PPP). Year following country label denotes year FTA was signed. Circles represent all countries that signed FTA with U.S. after NAFTA.

Data Sources: CIA World Factbook (Oct 2009); 2014 GDP projection data from IMF World Economic Outlook 5-Year Forecast (Oct 2009)
Figure 2. United States Falling Behind China, Japan, European Union in Korea Trade

Note: EU refers to the 27 countries currently comprising the European Union (2009)
Total Korean Trade = Korea’s Total Exports + Total Imports
Bilateral Trade = Bilateral Exports + Bilateral Imports
Data Source: Korea International Trade Association (aggregate yearly data)
Figure 3. Asia Advancing FTAs while U.S. Efforts Stall

FTAs Involving an Asian Country

<table>
<thead>
<tr>
<th>Year agreement signed</th>
<th>Number of FTAs</th>
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<tbody>
<tr>
<td>1997</td>
<td>10</td>
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<tr>
<td>1998</td>
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<td>2002</td>
<td>60</td>
</tr>
<tr>
<td>2003</td>
<td>70</td>
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</tbody>
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Countries included: WCO Members in the Central Asia, South Asia, East and Southeast Asia, Australia/Oceania regions, as given by the CIA World Factbook. (Based on WTO's list of notified Regional Trade Agreements (RTAs) in force. Year represents year of signature.)

U.S. FTAs with Asia

Source: World Trade Organization
Figure 4. EU-Korea or U.S.-EU-Korea Partnerships Would Be Larger than BRIC

**GDP—official exchange rate**

**GDP—purchasing power parity**
Figure 5. Trade Inaction Disadvantages U.S. Workers and Firms

A global "spaghetti bowl" of FTAs, along with stalled WTO and U.S. FTA efforts, has resulted in a myriad of nations with agreements that exclude the United States (red) and could tilt the playing field against U.S. exports.

Note: Countries in red represent markets where the country has preferential trade agreements that do not include the United States. The countries not colored represent either U.S. FTA partners or countries that do not have such agreements with a third country. The source data were derived primarily from the World Trade Organization Regional Trade Agreement Database.