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With China's Currency Policy a Tough Topic of Hu Visit, Obama Poised to Push Korean Trade Deal With No Mechanism to Counter, Stop Currency Manipulation

Highlight on China Trade Debacle Raises Specter of Korea's Historic 50-60 Percent Currency Undervaluation

WASHINGTON, D.C. – With the trade advantage gained by China's currency manipulation a top focus of President Barack Obama's meeting with Chinese President Hu Jintao on Wednesday, concerns will rise about entering into yet another trade agreement with no provisions that forbid or redress currency manipulation with another known currency manipulator, South Korea, Public Citizen said today. Korea is one of only three countries (China and Taiwan being the others) that have ever been placed on the Treasury Department's list of currency manipulators.

"After seeing the repeated damage to the U.S. economy with China's accession to the World Trade Organization – and Mexico under NAFTA – of the undervaluation of currencies to gain trade advantages, why in the world would the U.S. enter into a trade agreement with another country – especially Korea, that has a history of strategically undervaluing its currency to gain a trade advantage – if the agreement doesn't have some way of disciplining currency manipulation," said Lori Wallach, director of Public Citizen's Global Trade Watch.

Agribusiness proponents of the Korea Free Trade Agreement (FTA) are repeating the campaign they launched to pass the 1993 North American Free Trade Agreement (NAFTA), which focuses on the prospective U.S. market access gains for farm goods that could result from trade pact tariff cuts. However, as has occurred with China's accession to the World Trade Organization and the implementation of NAFTA with Mexico, for which the U.S International Trade Commission (USITC) projected benefits for the U.S. economy, currency undervaluation by those countries meant that, in practice, the promised gains for agriculture did not translate from paper into reality.

The Korea trade deal is projected to increase the overall U.S. goods trade deficit and cost 159,000 U.S. jobs. Few U.S. economic sectors are expected to benefit, and the USITC projected that the Korea FTA would result in a reduction in the U.S. wheat and oilseeds trade surpluses. The USITC further predicts that the U.S. trade deficit in miscellaneous crops would rise by between $48 million and $53 million if the Korea FTA were to be implemented. The USITC also projected that once tariffs were fully phased out over 20 years, the FTA would improve U.S. trade balances in beef, non-beef meat products, dairy products, other animal products, and vegetables, fruit, and nuts and miscellaneous food products. The agricultural sectors projected to be losers could get further clobbered, and the trade deal's agricultural tariff cuts – and prospective benefits to U.S. exports – could be negated if Korea again reverts to strategically undervaluing its currency to boost exports and reduce imports.

"Unfortunately, because the trade deal does not include provisions disciplining such currency manipulations or defining them as actionable subsidies, just like we saw with China and Mexico, Korea could devalue away the market access gains on paper in government studies and touted by those seeking to get members of Congress to vote for the agreement," said Wallach. "Korea would suffer no penalty while U.S. farmers and the politicians that relied on the paper gains would."

Such currency devaluation following trade agreement implementation has happened in the past. A year after NAFTA went into effect, Mexico suddenly devalued its currency by 50 percent, thereby negating most of Mexico's cuts to tariffs on U.S. exports required by the trade agreement.

Historically, Korea has been a chronic currency manipulator. During the mid to late 1980s, the Korean won was undervalued against the dollar by about 60 percent, meaning that all U.S. goods exported to Korea faced a barrier equivalent to a tariff of about 60 percent during that period. In contrast, China's currency is thought to be undervalued by about 40 percent at present.

If, following implementation of the FTA tariffs cuts, Korea returned to its old habits and undervalued its currency by 50 percent, a 50 percent devaluation of the Korean won combined with the FTA tariff cuts would result in a net effective *increase* in Korean agricultural tariff equivalents for U.S. goods of:

- **12 percent for beef;**
- **25.2 percent for non-beef meat products;**
- **46.7 percent for other animal products;**
- **18.2 percent for vegetables, fruit and nuts;**
- **10.4 percent for dairy products; and**
- **40 percent for miscellaneous food products.**

Korea's deliberate effort to keep its currency undervalued in the 1980's prompted the Treasury Department to place it on the 1988 currency manipulators list. In the early 1990s, the value of the Korean won shifted so that it was no longer undervalued. But in the late 1990s, Korea rapidly acquired foreign exchange reserves, and the won again became severely undervalued against the dollar by about 50 percent.

The U.S.-South Korea Free Trade Agreement was negotiated and signed by former President George W. Bush in 2007. After reaching a limited supplemental agreement with Korea on market access for U.S automobiles, Obama decided to move ahead with the controversial trade deal in December 2010. The Obama administration will seek a vote on the Korea deal, the most economically significant since NAFTA, as soon as mid-February.

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