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## **USTR's Omissions and Data Distortions Aimed at Hiding the Dismal Realities of the Korea Free Trade Agreement**

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The Office of the U.S. Trade Representative (USTR) has disseminated a press release riddled with false claims about the record of the U.S. “free trade” agreement (FTA) with Korea, which turned two years old in March 2014.<sup>1</sup> The release attempts to obscure the fact that two years after the pact went into effect, the actual outcomes are exactly the opposite of the “more exports, more jobs” that the administration promised:<sup>2</sup> According to the official U.S. government trade data provided by the U.S. International Trade Commission (USITC), **U.S. average annual goods exports to Korea are down 5 percent, while imports from Korea have increased. The U.S. goods trade deficit with Korea has swelled 50 percent under the FTA's first two years.**<sup>3</sup>

USTR's primary data distortion is the decision to use figures that include what are called “re-exports.” These are goods made abroad, such as in Canada, that are simply shipped through the United States en route to Korea. (For instance, the USTR figures would include as U.S. exports the goods taken off a truck from Canada in California's Port of Long Beach and then shipped to their final destination in Korea.) Each month, the U.S. International Trade Commission removes re-exports, which do not support U.S. production jobs, from the raw data gathered by the U.S. Census Bureau.<sup>4</sup> But USTR uses the uncorrected data, inflating the actual U.S. export figures.

**Foreign-made re-exports that pass through the United States en route to Korea have increased under the FTA, rising 14 percent on an annual average basis.** That amounts to \$315 million more in re-exports to Korea on average under each year of the FTA, relative to the two years before the deal.<sup>5</sup> In its press release on the record of the FTA, **USTR treats the rise in foreign-made re-exports as if it were a rise in U.S. exports, allowing the agency to artificially diminish the dramatic drop in actual U.S. exports to Korea under the deal, and to errantly claim gains in some sectors.**

USTR also inflates the Korea FTA export record by failing to adjust for price inflation. Opting not to perform this standard calculation means that **USTR mistakenly counts an increase in prices since the FTA as an increase in U.S. exports.**

Finally, USTR's data relies on a selective timeframe for measuring the outcomes of the FTA. Rather than compare the post-FTA period to the months immediately prior to the FTA's implementation (i.e. through March 2012), USTR uses calendar year 2011 as a baseline. This means that USTR omits data from the three months just before the FTA's 2012 implementation (January through March 2012) and replaces it with data from the same three months in 2011. This difference matters, since U.S. exports to Korea in the first three months of 2011 were 9

percent lower than in the first three months of 2012, giving USTR a lower baseline of comparison that makes the downfall in U.S. exports look less severe than if using the three most recent pre-FTA months.<sup>6</sup> In addition, USTR only uses calendar year 2013 to assess the FTA's record, omitting 12 months of available post-FTA data (April through December of 2012 and January through March of 2014). While a comparison between 2011 and 2013 could serve as a second-best approximation in the absence of more precise data, the more FTA-relevant monthly data is readily available. Here we use the full set of data, assessing average annual U.S. trade with Korea in the FTA's first two years, as compared to the two years immediately preceding the FTA.<sup>7</sup>

To set the record straight, here are USTR's claims, followed by the Korea FTA's inconvenient realities according to the official U.S. government trade data provided by USITC, without the distortion of re-exports, inflation or omitted months of data. For a detailed, data-driven review of the Korea FTA's two-year record, click here for Public Citizen's report: "[Korea FTA Outcomes on the Pact's Second Anniversary](#)."

*USTR Claim: "In the two years that this landmark agreement has been in effect...exports of U.S. manufactured goods to Korea have increased" ... "Made-in-America manufactured goods still grew their sales in Korea by 3 percent"*

**Reality:** Annual U.S. exports to Korea of manufactured goods have *fallen* under the FTA's first two years, relative to the two years before the deal took effect. Manufacturing sectors that provide critical shares of U.S. exports to Korea, such as machinery and computers/electronics, have experienced steep export declines under the FTA (8 percent and 9 percent respectively).<sup>8</sup>

How does USTR claim otherwise? First, they count the 11 percent growth in foreign-made re-exports of manufactured products under the FTA, measured on an annual average basis, as growth in U.S. exports. Second, they omit the data from the last three months before the FTA's implementation (January through March of 2012). U.S. manufactured goods exports to Korea in those three pre-FTA months were higher than in earlier months, meaning that their omission provides a lower baseline of exports that makes the post-FTA export downfall look smaller than it actually was. Third, USTR fails to adjust for inflation. Indeed, **simply adjusting for inflation alone completely erases USTR's claim of growth in exports of U.S. manufactured goods to Korea under the FTA.** That is, even if one includes the distortion of re-exports and uses USTR's timeframe, U.S. exports to Korea of manufactured goods fell slightly under the FTA after properly accounting for price increases.<sup>9</sup>

*USTR Claim: "...U.S. exports of a wide range of agricultural products have seen significant gains."... "There were also dramatic increases in U.S. exports of key agricultural products that benefit from reduced tariffs under KORUS, including dairy, wine, beer, soybean oil, fruits and nuts, among many others."*

**Reality:** Average annual exports of all U.S. agricultural products to Korea have fallen 34 percent under the FTA's first two years in comparison to the two years before the deal – a decline of \$1.2 billion per year. USTR omits the overall U.S. agricultural export record in its release, apparently hoping to distract from the large net decline in agricultural exports by cherry

picking a few products that have seen export gains. For example, USTR singles out fruit as a winning agricultural sector under the FTA, but U.S. annual average exports to Korea of all fruits have increased by just \$62 million under the FTA. USTR also highlights wine, but U.S. annual average exports of wine to Korea have increased by just \$7 million under the FTA.<sup>10</sup> **The wine sold in an average two hours in the United States is worth more (\$8 million) than the gain in U.S. wine exports to Korea in an average year under the Korea FTA.**<sup>11</sup>

Such paltry gains pale in comparison to the more than \$170 million lost on average under each year of the FTA in U.S. exports to Korea of meat – one of the sectors that the administration promised would be among the biggest beneficiaries of the Korea deal.<sup>12</sup> Since the FTA, U.S. average annual exports of poultry to Korea have fallen 31 percent below the pre-FTA average. U.S. poultry exports to Korea have been lower than the pre-FTA monthly level in every single month since the FTA's implementation. U.S. average annual exports of pork to Korea since the FTA have fallen 19 percent below the pre-FTA average, and U.S. average annual exports of beef to Korea have fallen 10 percent below the pre-FTA average.<sup>13</sup>

*USTR Claim: "Since the Korea agreement went into effect, U.S. exports to Korea are up for our manufactured goods, including autos" (Ambassador Froman) ... "overall U.S. passenger vehicle exports to Korea increased 80 percent compared to 2011, and sales of "Detroit 3" vehicles are up 40 percent."*

Reality: Exports to Korea of U.S.-produced Fords, Chryslers and General Motors vehicles increased by just 3,400 vehicles from 2011 to 2013.<sup>14</sup> But given that pre-FTA exports of "Detroit 3" vehicles was also tiny – 8,252 vehicles – USTR can express the small increase of 3,400 cars as a "40 percent" gain. Meanwhile, 125,000 more Korean-produced Hyundais and Kias were imported and sold in the United States in 2013 (after the FTA) than in 2011 (before the FTA), when Hyundai and Kia imports already topped 1.1 million vehicles.<sup>15</sup>

And USTR's claim of an "80 percent" rise in passenger vehicle exports, in addition to being inflated by increases in re-exports and prices, omits any mention of imports. U.S. average annual automotive exports to Korea have actually only increased by 26 percent under the FTA (when counting only U.S.-made exports, using the full set of data and adjusting for inflation), while average annual automotive imports from Korea have risen by 31 percent. The disparity is even starker in dollar terms: **while U.S. average annual automotive exports to Korea under the FTA have been \$294 million higher than the pre-FTA annual average, average annual automotive imports from Korea have soared by \$4.9 billion under the deal.** The tiny gains in U.S. exports have been swamped by a surge in auto imports from Korea that the administration promised would not occur because of its additional FTA auto sector measure negotiated in 2011. In January 2014, monthly automotive imports from Korea topped \$2 billion for the first time on record. The post-FTA flood of automotive imports has provoked a 32 percent increase in the average annual U.S. auto trade deficit with Korea.<sup>16</sup>

*USTR Claim: "...Koreans are buying more U.S. services than ever..." ... "Exports of services to Korea increased an estimated 18.5 percent between 2011 and 2013, to an estimated \$19.4 billion."*

**Reality: Growth in U.S. services exports to Korea has actually slowed under the FTA. While U.S. services exports to Korea increased at an average quarterly rate of 5.6 percent in the seven quarters before the FTA took effect, the average quarterly growth rate has fallen to 1.6 percent in the seven quarters since the deal's enactment.** Taking into account the full 13 pre-FTA years for which data are available, the long-term average pre-FTA quarterly growth rate for U.S. services exports to Korea was 2.9 percent – still significantly higher than the post-FTA rate.<sup>17</sup> USTR hides the decline in service sector export growth by omitting any reference to the growth rate prior to the FTA.

*USTR Claim: “While our trade balance has been affected by decreases in corn and fossil fuel exports, changes that are due to the U.S. drought in 2012 and change in Korea’s energy mix, both of which were unrelated to the agreement” (Ambassador Froman)*

**Reality:** The crash in U.S. exports to Korea since the FTA cannot be explained away by citing corn and fossil fuels. **Even if discounting both corn and fossil fuels (oil, natural gas and coal), U.S. annual exports to Korea still fell under the FTA, and the annual trade deficit with Korea still ballooned.**<sup>18</sup> USTR overemphasizes the role of corn and fossil fuels in part by using the ill-suited 2011 versus 2013 timeframe that omits 12 months of available data and relies on a less relevant pre-FTA baseline. Usage of this less accurate timeframe produces a greater drop in corn and fossil fuel exports than has actually occurred under the FTA when comparing the two years immediately preceding the FTA with the two years of available post-FTA data.

It is not surprising that the dismal FTA record remains without these products, given that **of the 15 U.S. sectors that export the most to Korea, nine have experienced export declines under the FTA.** And export shifts under the FTA has been larger for losing sectors than for winning sectors. Of the 15 top export sectors, eight have seen declines in exports to Korea of greater than 5 percent while only three have seen growth of exports to Korea of greater than 5 percent.<sup>19</sup> No product-specific anomalies can explain away what has been a broad-based downfall of U.S. exports to Korea since the pact went into effect. Those losses amount to an overall 5 percent decline in average annual exports to Korea. The export decline, combined with an increase in imports, has caused the U.S. annual trade deficit with Korea to swell 50 percent, or \$7.6 billion, from the year before the FTA took effect to the deal’s second year.<sup>20</sup> **Using the export-to-job ratio that the Obama administration employed to project gains from the Korea deal, this drop in net U.S. exports to Korea in the FTA’s first two years represents the loss of more than 50,400 U.S. jobs.**<sup>21</sup>

*USTR Claim: “Slow economic growth in Korea between 2012 and 2013 dampened demand for imports”*

**Reality:** Korea’s GDP growth rate for 2013 is estimated to be higher than in both 2012 and 2011.<sup>22</sup> And in 2012 (the first year of the FTA), Korea’s gross national income grew 2.3 percent and final consumption expenditures grew 2.2 percent.<sup>23</sup> Further, Korea’s overall imports from all countries increased by 1.7 percent from the year before the FTA took effect to the year after.<sup>24</sup> Since enactment of the Korea FTA, Koreans have been purchasing and importing more goods overall, while importing fewer U.S. goods.

*USTR Claim: “KORUS has also improved Korea’s investment environment through strong provisions on intellectual property rights, services, and investment, supporting U.S. exports.”*

**Reality:** The Korea FTA included extraordinary foreign investor privileges that incentivize the export of U.S. investment, not the export of U.S. products, thereby promoting the offshoring of U.S. jobs. **The deal’s “investor-state” terms provide special benefits to firms that relocate abroad and eliminate many of the usual risks that make firms think twice about moving out of the United States.** New incentives for U.S. firms to relocate to Korea under the pact include a guaranteed minimum standard of treatment in Korea and compensation for regulatory costs, including the right to obtain government compensation simply because a regulation is altered after a foreign investment is established. U.S. firms that offshore production to Korea are also empowered to skirt Korea’s domestic legal system and directly “sue” the government in World Bank and U.N. tribunals comprised of three private attorneys. Such extraordinary privileges have already incentivized widespread offshoring under existing U.S. FTAs.<sup>25</sup>

## ENDNOTES

<sup>1</sup> See Office of the U.S. Trade Representative, “U.S.-Korea Free Trade Agreement Shows Strong Results on Second Anniversary,” USTR press release, March 12, 2014. Available at: <http://www.ustr.gov/about-us/press-office/press-releases/2014/March/US-Korea-Free-Trade-Agreement-Shows-Strong-Results-on-Second-Anniversary>.

<sup>2</sup> The administration still uses this slogan to promote the Korea FTA. See Office of the U.S. Trade Representative, “U.S. Korea Trade Agreement: More Exports. More Jobs.” accessed March 10, 2014. Available at: <http://www.ustr.gov/uskoreaFTA>.

<sup>3</sup> In this paragraph and throughout, figures concerning average annual export and import levels compare data from the two years before the FTA’s implementation (April 2010 through March 2012) and from the first two years under the FTA (April 2012 through March 2014). The assessment of the change in the U.S. goods trade deficit with Korea compares data from the year before the FTA’s implementation (April 2011 through March 2012) and data from the second (most recent) year of FTA implementation (April 2013 through March 2014). The deficit calculation uses a different timeframe since deficits and deficit-related job losses are typically assessed based on the most recent year of data rather than on an average over multiple years. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>. All data in this report is inflation-adjusted according to the CPI-U-RS index of the U.S. Bureau of Labor Statistics (which provides indices up through 2013) and the online inflation calculator of the U.S. Bureau of Labor of Statistics (which provides an approximate index for 2014). U.S. Bureau of Labor Statistics, “Consumer Price Index Research Series Using Current Methods (CPI-U-RS),” U.S. Department of Labor, updated March 27, 2014. Available at: <http://www.bls.gov/cpi/cpirsai1978-2013.pdf>.

U.S. Bureau of Labor Statistics, “CPI Inflation Calculator,” U.S. Department of Labor, accessed May 8, 2014. Available at: [http://www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm).

<sup>4</sup> USITC data can be found at U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb.” Available at: <http://dataweb.usitc.gov/>. Census Bureau data can be found at U.S. Census Bureau, “U.S. International Trade Data,” U.S. Department of Commerce. Available at: <http://www.census.gov/foreign-trade/data/>.

<sup>5</sup> U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.

<sup>6</sup> U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.

<sup>7</sup> As mentioned in footnote 3, the calculations for the U.S. goods trade deficit differ from this annual average approach, given that deficits tend to be assessed based on the most recent year of data.

<sup>8</sup> Manufactured goods are defined as NAICS 31, 32 and 33. Machinery is defined as NAICS 333 and computer and electronic products are defined as NAICS 334. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.

<sup>9</sup> U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.

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- <sup>10</sup> Agricultural products are defined as NAICS 111. Fruits are defined as NAICS 11310, 11320, 111331, 111332, 111333, 111334 and 111339. Wine is defined as NAICS 312130. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.
- <sup>11</sup> The statistic is based on an estimated \$34.6 billion in wine sales in the United States in 2012, adjusted for inflation. The Wine Institute, “2012 California and U.S. Wine Sales,” 2013, accessed May 8, 2014. Available at: <https://www.wineinstitute.org/resources/pressroom/04082013>.
- <sup>12</sup> “Meat” includes beef (defined as SITC 011), pork (defined as SITC 0122, 0161 and 0175) and poultry (defined as SITC 0123 and 0174). U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.
- <sup>13</sup> U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.
- <sup>14</sup> Korea Automobile Importers & Distributors Association, “New Registration,” 2014, accessed March 10, 2014. Available at: <http://www.kaida.co.kr/en/statistics/NewRegistList.do>.
- <sup>15</sup> Timothy Cain, “Hyundai-Kia Sales Figures,” GoodCarBadCar.net, 2014, accessed March 10, 2014. Available at: <http://www.goodcarbadcar.net/2012/10/hyundai-kia-group-sales-figures.html>.
- <sup>16</sup> Total automotive exports and imports are defined as code 3 in the one-digit End Use classification system. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.
- <sup>17</sup> U.S. Bureau of Economic Analysis, “International Data: Table 12: U.S. International Transactions, by Area,” accessed May 8, 2014. Available at: <http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&isuri=1>.
- <sup>18</sup> Corn is defined as NAICS 111150 and fossil fuels are defined as NAICS 211111, 211112, 212112 and 212113. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.
- <sup>19</sup> U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.
- <sup>20</sup> U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 8, 2014. Available at: <http://dataweb.usitc.gov/>.
- <sup>21</sup> For the ratio, see [International](#) Trade Administration, “Exports Support American Jobs,” U.S. Department of Commerce, 2010, at 3. Available at: <http://trade.gov/publications/pdfs/exports-support-american-jobs.pdf>.
- <sup>22</sup> Korea Central Bank, “ECOS Economic Statistics System,” accessed March 12, 2014. Available at: [http://ecos.bok.or.kr/flex/EasySearch\\_e.jsp](http://ecos.bok.or.kr/flex/EasySearch_e.jsp).
- <sup>23</sup> “World DataBank,” The World Bank, accessed February 27, 2014. Available at: <http://databank.worldbank.org/data/home.aspx>.
- <sup>24</sup> The statistic is a comparison of Korea’s imports in 2011 and 2013 (monthly data is not available). “Customs,” Korea Customs Service, accessed March 3, 2014. Available at: <http://english.customs.go.kr/kcshome/trade/TradeCountryList.do>.
- <sup>25</sup> For a list of investor-state claims brought under U.S. FTAs, see Public Citizen, “Table of Foreign Investor-State Cases and Claims under NAFTA and Other U.S. ‘Trade’ Deals,” February 2014. Available at: <http://www.citizen.org/documents/investor-state-chart.pdf>.