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North Korea Crisis No Reason to Preserve Failed Trade Deal; U.S. Exports to South Korea Dropped, Deficit Nearly Doubled Since Pact

Statement of Lori Wallach, Director, Public Citizen's Global Trade Watch

“How to peacefully resolve North Korea’s nuclear escalation is a thorny question, but what should happen with the 2012 U.S.-South Korea Free Trade Agreement is an entirely separate question that is not complicated. We opposed the U.S.-Korea Free Trade Agreement in 2011 when it came before Congress because we knew that any deal that has at its heart new rights and powers for corporations to offshore jobs, raise medicine prices and attack environmental, health and financial stability safeguards is bad for people and the planet.

In its five years in effect, this U.S.-Korea trade agreement proved even worse than expected. The unique outcome is that **U.S. exports to South Korea actually declined after the pact was implemented.** As with most other U.S. FTAs, imports into the United States soared. Thus, the U.S. goods trade deficit with Korea increased by 85 percent in five years. U.S. average monthly exports to South Korea have fallen in nine of the 15 U.S. sectors that export the most to South Korea, relative to the year before the FTA. **U.S. exports to South Korea of agricultural goods have even fallen 5.4 percent** in the first five years of the FTA.

Claims that U.S.-Korean cooperation on a mutually shared existential priority will somehow be undermined by cancelation of a trade deal that has done the opposite of what was promised is absurd. The 28,000 U.S. troops stationed in Korea are just one demonstration of U.S. support for South Korea and commitment to its defense. Hysterical foreign policy arguments are always the claim of last resort in support of [a failed trade agreement, and time and again they have proved meritless](#). Given the broad public opposition to the FTA in Korea, ending a deal negotiated in secret with 500 official U.S. advisers representing corporate interests would be viewed by many in Korea outside the foreign policy elite as good news.”

Background information and our previous press release summarizing the Korea FTA five-year data release by the U.S. International Trade Commission on May 4, 2017

With respect to the economics of the deal’s termination, Korean tariffs would not rise to 14 percent as suggested by former-U.S. Trade Representative Robert Zoellick. An oped he wrote that ran earlier this week says levels “could” rise, a hedge to cover the reality that he is citing Korea’s bound World Trade Organization tariff rates, not their actual applied rates. (It is the “applied” rate that reflects the actual tariffs charged while the “bound” rate is the highest level to which a country could raise tariffs although only on a Most Favored Nation basis, which means with respect to all countries.) The relevant data is the applied trade weighted mean tariff level provided by the World Bank, which for Korea is 4.78 percent. The United States is at 1.63 percent. (The applied trade weighted mean is the actual average tariff level based on actual trade flows.)

May 4, 2017, Public Citizen press release

Today's Five-Year Korea FTA Data Show March Imports from Korea Higher than Any Month But One Since Pact Started: What Is Trump's Plan for Pact?

U.S. Trade Deficit With Korea Has Soared as U.S. Exports Fell, Imports Jumped Under 2012 U.S.-Korea Free Trade Agreement

WASHINGTON, D.C. – Despite the Trump administration's tough rhetoric about the U.S.-Korea Free Trade Agreement (FTA) pact, imports from Korea in March 2017 were higher than any month but one in the pact's five years in effect.

Today's release of new U.S. Census trade data for the first full five years of the Korea FTA spotlight statements from both President Donald Trump and Vice President Mike Pence in the past month that the agreement's outcomes are not acceptable. While the Trump and Pence statements were notable for coming despite escalating military tensions on the Korean Peninsula, what the administration will do about the pact and when remains a mystery.

"Our trade deficit with Korea has increased dramatically under this agreement Trump bashed on the campaign trail, and workers in the swing states that elected Trump have been hardest hit, so what will Trump do about it," asked Lori Wallach, director of Public Citizen's Global Trade Watch.

While then-Representative Pence voted to pass the agreement in 2011, now-Vice President Pence, in an April 2017 trip to Seoul, declared the pact to be "[falling short](#)" and needing review and reform. Later that month, Trump declared of the Korea deal: "We've told them that we'll either [terminate or negotiate](#). We may terminate." Trump spotlighted the "job-killing trade deal with South Korea" in his [nomination acceptance speech](#) and on the stump, where he also often [noted](#) that "this deal doubled our trade deficit with South Korea and destroyed nearly 100,000 American jobs."

Many of Trump's trade-related campaign pledges were broken in his first 100 days, calling into question the prospects for action on the Korea pact. A powerful White House faction opposes the trade policy changes that Trump promised would deliver more American jobs and lower deficits

The agreement, sold by the Obama administration with a "[more export, more jobs](#)" slogan, has resulted in U.S. exports to Korea *declining* 7.8 percent (\$3.7 billion) and imports from Korea increasing 13.1 percent (\$8.1 billion) by the end of its fifth year. The 85 percent trade deficit *increase* with Korea under the pact – from \$14 billion in the 12 months before the pact went into effect on March 15, 2012 to \$26 billion in its fifth year – came in the context of the overall U.S. trade deficit with the world *decreasing* by 5 percent. While U.S. goods imports from the world decreased by 7.1 percent, goods imports from Korea increased by 13.1 percent.

Defenders of the pact claim the results stem from weakness in Korea's economy, but in fact Korea's GDP has risen by 15 percent from 2011 to 2016 while unemployment rates have averaged 3.4 percent, hardly the indicators of a weak economy.

Meanwhile, the U.S. service sector trade surplus with Korea has increased by only \$2 billion from 2011 to 2015 a growth rate of 29 percent in its five years in effect that is notably 64 percent slower than our services surplus growth over the five years before the FTA went into effect. (Service sector data for the full fifth year of the deal will be released in October.)

Despite the Korea FTA including more than 10,000 tariff cuts, [80 percent](#) of which began on Day One:

- Record-breaking U.S. trade deficits with Korea have become the new normal under the FTA – **in 59 of the 60 months since the Korea FTA took effect, the U.S. goods trade deficit with Korea has exceeded the average monthly trade deficit in the five years before the deal.**
- Since the FTA took effect, **U.S. average monthly exports to Korea have fallen in 10 of the 15 U.S. sectors that export the most to Korea**, relative to the year before the FTA.
- **The auto sector was among the hardest hit: The U.S. trade deficit with Korea in motor vehicles grew 55.7 percent in the pact's first five years.** U.S. imports of motor vehicles from Korea have increased by 64.2 percent, or \$6.4 billion by the fifth year of the Korea FTA.
- **Exports of machinery and computer/electronic products, collectively comprising 27 percent of U.S. exports to Korea, have fallen 20.6 and 20.1 percent respectively.**
- **U.S. exports to Korea of agricultural goods have fallen 5.4 percent** in the first five years of the Korea FTA, despite almost two-thirds of U.S. agricultural exports by value obtaining immediate duty-free entry to Korea under the pact. U.S. agricultural imports from Korea, meanwhile, have grown 45.4 percent under the FTA. As a result, the U.S. agricultural trade balance with Korea has declined 8.1 percent, or \$554 million, since the FTA's implementation. The Obama administration promised that U.S. exports of meat would rise particularly swiftly, thanks to the deal's tariff reductions on these products. However, despite U.S. officials' promises that the pact would enhance cooperation between the U.S. and Korean governments to resolve food safety and animal health issues that affect trade, South Korea has imposed temporary bans on imports of American poultry in each of the last three years, including 2017. Comparing the fifth year of the FTA to the year before it went into effect, U.S. poultry producers have faced a 78 percent collapse of exports to Korea – a loss of 82,000 metric tons of poultry exports to Korea. U.S. pork exports have also dropped 1 percent.

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