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On Announcement of Revisions to U.S.-Korea Free Trade Agreement

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

WASHINGTON, D.C. – As the administration announced revisions to the U.S.-Korea Free Trade Agreement (FTA), Lori Wallach, director of Public Citizen’s Global Trade Watch, commented:

“Despite the touted 10,000 tariff cuts and promises of more exports, more jobs, our deficit almost doubled in the FTA’s first five years as U.S. agricultural exports declined and a flood of Korean cars were shipped here.

“It’s unclear how the proposed changes to the pact itself would reverse the doubling of our Korea trade deficit under KORUS, but the new currency agreement could make a difference if it has teeth, delaying the U.S. tariff cuts on Korean trucks could stop the big imbalance from getting even worse, and the parallel steel agreement is significant.

“The limited revisions to KORUS do not the promised new American trade agreement model make, which puts added pressure on NAFTA renegotiations to deliver a deal that eliminates the job outsourcing incentives in our past trade deals and adds strong labor and environmental standards with swift and certain enforcement.

“Success on many key issues that were not addressed at all in this deal – such as the elimination of job outsourcing incentives and the controversial ISDS tribunals, the tightening of automobile rules of origin, and the addition of strictly enforced labor and environmental standards – will determine if a renegotiated NAFTA can get the bipartisan support necessary to get it passed.”

KORUS Outcomes: First Five Years

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

- U.S. exports to Korea declined 7.8 percent ($3.7 billion), and imports from Korea increased 13.1 percent ($8.1 billion) by the end of KORUS’ fifth year.

- Since the FTA took effect, U.S. average monthly exports to Korea have fallen in nine of the 15 U.S. sectors that export the most to Korea, relative to the year before the FTA.
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.

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.

During that period Korea’s GDP rose 15 percent, and the unemployment rate has averaged 3.4 percent, belying the claims from KORUS defenders that the growing deficit was fueled by weak growth and thus weak demand in Korea.

The U.S. service sector trade surplus with Korea grew much slower since the FTA. In KORUS’ first five years, it increased by only $2 billion from 2011 to 2015, a growth rate of 29 percent, which is notably 64 percent slower than our services surplus growth over the five years before the FTA went into effect.

Record-breaking U.S. trade deficits with Korea have become the new normal under the FTA – in 59 of the 60 months of KORUS’ first five years, the U.S. goods trade deficit with Korea has exceeded the average monthly trade deficit in the five years before the deal.

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 17.1 and 18.8 percent, respectively.

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