



The Daily Dish

The Korean Free Trade Agreement

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Eakinomics: The Korean Free Trade Agreement

As President Trump visits South Korea — the sixth largest trading partner of the United States — the Korea-US trade pact (KORUS) is in the spotlight. In an April [interview](#), Trump called it “a horrible deal.” He said he plans on ending KORUS “unless we make a fair deal. We’re getting destroyed in Korea.” It is hard to understand the source of the Administration’s animus toward KORUS. Granted, the United States runs a bilateral trade deficit with Korea, but bilateral deficits are economically [meaningless](#). And while that deficit has widened since the pact was signed in 2012, since last year it has shown signs of closing. That shows that the trade deficit is influenced by many factors, like relative growth rates in each country, and not simply KORUS. Put differently, it means that even if there was an agreement, in the [words](#) of U.S. Trade Representative Robert Lighthizer “to resolve outstanding implementation issues as well as to engage soon on amendments that will lead to fair, reciprocal trade,” there might not be balance.

Nevertheless, South Korea has [agreed](#) to negotiations and two rounds of talks have already taken place. This probably reflects the importance to South Korea of maintaining a strong link to the United States when faced with the North Korean threat and the withdrawal of the United States from the Trans Pacific Partnership (TPP). Indeed, South Korea has also [agreed](#) to buy millions of dollars of military equipment, conveniently lowering the U.S. trade deficit while helping to defend against North Korea. (In 2016, [the United States had](#) a goods trade deficit of \$27.7 billion with South Korea and a services trade surplus of \$10.1 billion for a total balance of - \$17.6 billion.) In addition to the goal of reducing the trade deficit, the Administration [is trying](#) to strengthen intellectual property protections in KORUS.

Time will tell if the KORUS renegotiation is successful, but all signs point to South Korea remaining an important strategic trading partner, despite negative rhetoric about the underlying deal.