



The Daily Dish

Withdraw from KORUS?

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Eakinomics: Withdraw from KORUS?

Over the Labor Day weekend the Trump Administration floated the possibility that the president might withdraw the United States from the Korea-United States (KORUS) free trade agreement. Let's put aside for the moment the dispute over whether the president has the power to do so unilaterally, and focus on the substance of the idea. KORUS withdrawal chatter seems ill advised (to put it gently) from a number of perspectives.

The first thing that jumps out is the bizarre timing. The North Korean nuclear threat is the single greatest geopolitical threat on the globe. At a minimum, one would expect that there would be a premium on showing solidarity with regional security partners like Japan and, especially, South Korea. Indeed, it might be viewed as especially important to strengthen the relationship with a new South Korean administration taking over for a government that has been rocked by scandal. Threatening to withdraw from KORUS serves none of these larger purposes.

The second issue is that there is no [evidence](#) that KORUS is a failed agreement. The Trump Administration has seemingly drawn this conclusion because the United States has a bilateral trade deficit with South Korea. But the United States runs bilateral trade deficits with nearly 100 countries because of the economics of comparative advantage (e.g., bananas are from the tropics and those countries might not demand a comparable amount of high-tech goods produced in the United States), not because of trade agreements. That is why mainstream economics places essentially zero emphasis on [bilateral deficits](#) and instead focuses on the determinants of the overall balance. The Administration is using the wrong criterion to evaluate the agreement and ignoring the the KORUS contributions to the U.S. standard of living.

So there is no reason to withdraw from KORUS and this is a particularly bad time to raise the possibility. That leads some to suspect that this is simply a negotiating ploy; the Trump Administration has no plan to withdraw, it simply wants a "better deal" with South Korea. If so, this seems like a bad negotiating strategy. The United States tried the same game with NAFTA to no particular observed advantage. And for the threat to be effective, it would have to make sense for the United States to follow through. Unfortunately, it does not. The United States would face South Korea's average tariff of 13.9 percent while Korean exporters would bear the U.S. average of 3.5 percent.