Insight

Why South Korea Isn't an Example of Failed Trade Policy

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In his most in-depth economic policy outline to date, Donald Trump cited the U.S.-Korea Free Trade Agreement (KORUS) as evidence of how trade has failed American workers. He described KORUS as a "job-killing trade deal" and condemned its failure to increase U.S. exports to South Korea.

But has KORUS really harmed the U.S.? Let's examine the evidence.

Trump relied on research from the Economic Policy Institute (EPI) to support his assertions. Earlier this year, EPI found that the U.S.-Korea trade deal has resulted in a loss of more than 95,000 U.S. jobs. To calculate this figure, EPI researchers used a multiplier with the assumption that a rise in exports translates directly into jobs gained and a rise in imports translates directly into jobs lost. However, this simplistic assumption ignores the wide-ranging benefits of imports.

By decreasing consumer prices, imports increase real income by giving consumers extra money to spend. This is turn generates additional economic activity that leads to job creation.

Imports also give consumers access to a wider variety of products than are traditionally available in the United States. While U.S. producers could manufacture all products at home, the cost of production would significantly increase and consumer prices would rise dramatically. International competition incentivizes the production of high-quality goods while simultaneously bringing down prices; these comprehensive benefits are difficult to measure using simple trade and employment multipliers.

Additionally, EPI's findings were based on the premise that the U.S. trade deficit with South Korea magnified as a direct response to KORUS. However, larger economic factors may be to blame. The recent global slowdown has weakened GDP growth in South Korea. This has depressed its demand for imports, which limits the U.S.'s ability to export. Last year alone, demand for imports in South Korea fell by nearly 17 percent.

A new report from South Korea's trade ministry further undermines this argument. According to the report, two-thirds of the increase in Korean exports generated by KORUS involved the trade of goods exempt from tariff benefits. This means that U.S. imports from South Korea would have increased even if KORUS was never passed. Conversely, the majority of the boost in U.S. exports involved goods benefitting from tariff reductions, implying that the U.S. has gained more from KORUS than South Korea.

The International Trade Commission (ITC) also released a report earlier this year examining the economic impact of U.S. trade agreements. It concluded that, in 2015, the U.S. trade deficit with South Korea would have been $15.8 billion higher if KORUS was not in effect. Furthermore, ITC found that KORUS has benefited American consumers by increasing the variety of Korean products available in the U.S. These benefits, although not always easily recognized, should not be overlooked.

KORUS is not a cautionary tale of the dangers of trade. To the contrary, the agreement has functioned as it was intended to: overall U.S.-Korea trade has increased, and the U.S. has maintained its surplus in services trade since the deal's inception. Moreover, the U.S. trade deficit should not be viewed in a negative light. The trade balance, by definition, will continue to be negative as long as Americans invest more than they save. Critics of KORUS who vilify the trade deficit should reexamine the evidence and recognize the positive economic effects of trade.