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SENATOR ROBERT P. CASEY, JR., CHAIRMAN

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U.S. Trade with South Korea:
Implications for the U.S. Economy

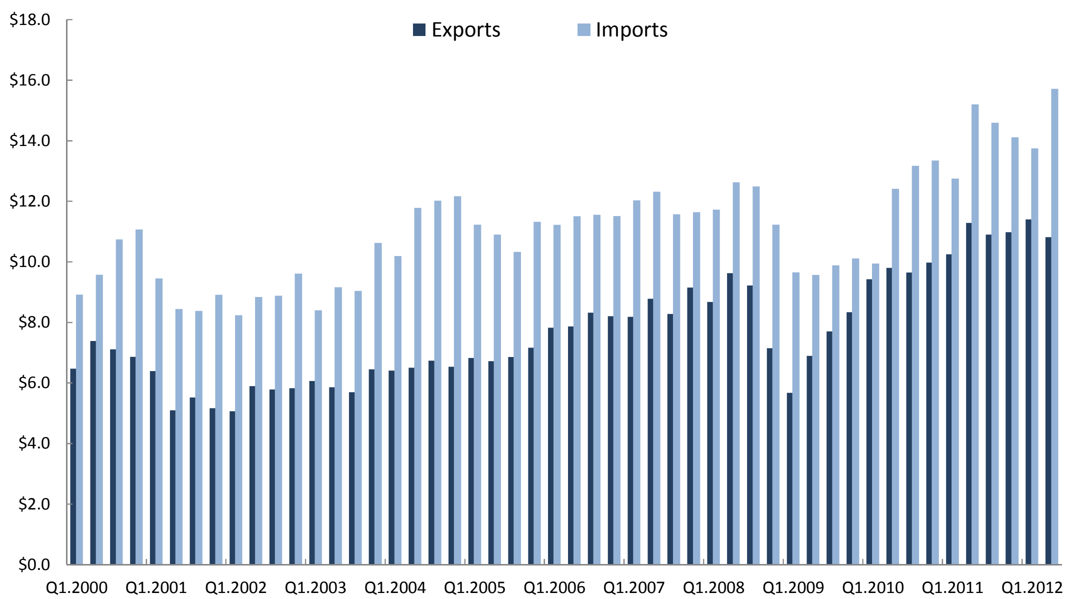
As the United States' seventh-largest trading partner, South Korea accounts for a significant share of total U.S. trade activity.[1] The U.S. has run a trade deficit with South Korea for more than a decade. (See **Figure 1**.) Most of this deficit is due to the shortfall of manufacturing exports to South Korea – particularly computers and electronics – relative to imports from South Korea. The free trade agreement between the U.S. and South Korea was signed into law in the fall of 2011 and became effective in the spring of this year. Lowering trade barriers will likely affect U.S. trade flows with South Korea and, in turn, the U.S. economy.

Widening Trade Deficit

While the overall U.S. international trade deficit in goods and services increased markedly during the first half of the last decade, the global recession dampened international trade and the U.S. trade deficit narrowed in the second part of the decade. It began to grow again in 2009.[2] The bilateral deficit of trade in goods between the United States and South Korea worsened during the recession. Although imports from South Korea decreased during this period, exports to South Korea declined even more. (See **Figure 1**.)

Figure 1. U.S. Trade Activity With South Korea

Billions of U.S. Dollars, Not Seasonally Adjusted

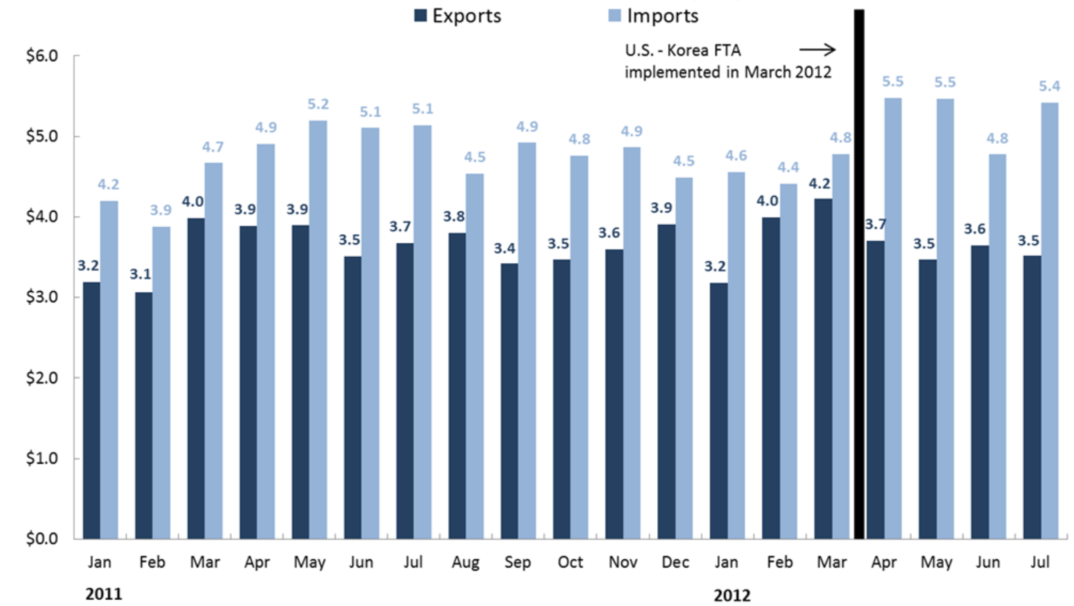


Note: The bilateral trade deficit between the United States and South Korea is the difference between U.S. imports from South Korea and U.S. exports to South Korea.
Source: U.S. Census Bureau.

Recent trade activity shows that, since the free trade agreement was implemented in March 2012, imports from South Korea have increased while exports to South Korea have decreased. (See **Figure 2**.)

Figure 2. Recent U.S. Trade Activity With South Korea

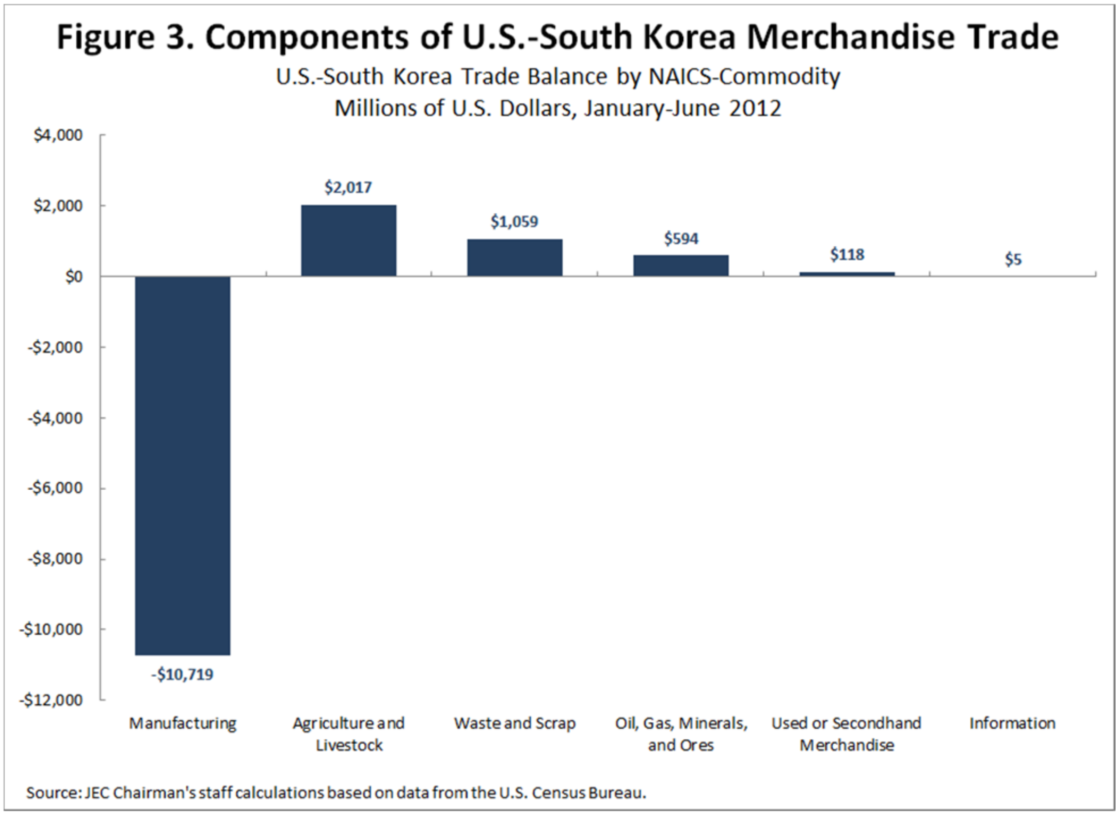
Billions of U.S. Dollars, Not Seasonally Adjusted



Note: The bilateral trade deficit between the United States and South Korea is the difference between U.S. imports from South Korea and U.S. exports to South Korea.
Source: U.S. Census Bureau, U.S. Trade Representative.

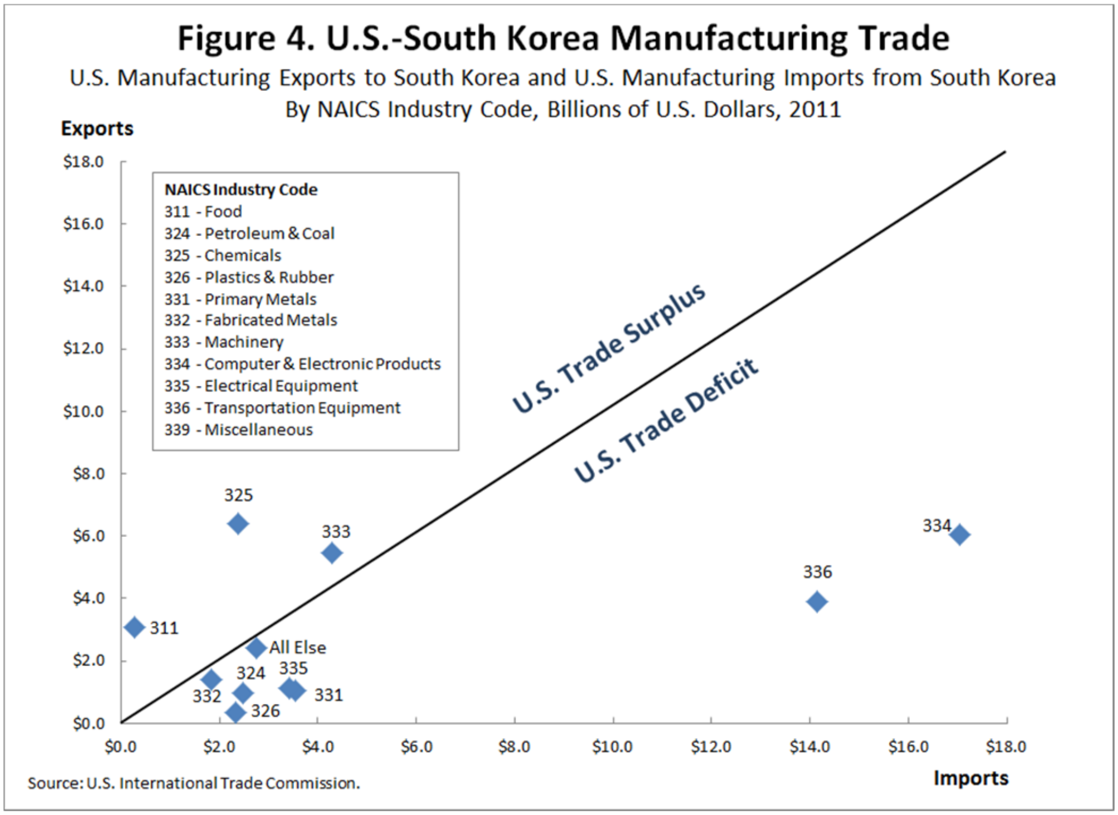
Trade in Goods with South Korea

The U.S. merchandise trade deficit with South Korea primarily reflects our tendency to import more manufactured goods from South Korea than we export to that country. (See **Figure 3**.) In the first half of 2012, the U.S. had net imports (imports minus exports) of nearly $11 billion in manufactured goods. During the same period, net exports to South Korea of other goods were much smaller. The largest net exports to South Korea from the U.S. were in agricultural goods and livestock ($2 billion), waste and scrap materials ($1 billion) and mined products ($0.6 billion).



Computers and electronics account for a large portion of manufacturing trade with South Korea, making up more than a quarter of the bilateral manufacturing trade in 2011. The U.S. exports semiconductors and instruments for navigation, measurement and control to South Korea while importing communications and computer equipment.[3] While the U.S. exports a substantial amount of computer and electronic products to South Korea, the value of imported computer and electronic products exceeds those exports. U.S. exports of computer and electronic products to South Korea totaled $6.0 billion in 2011 while imports equaled $17.1 billion. (See **Figure 4**.)

In addition to computers and electronics, the U.S. purchases more from South Korea than it sells in several other manufacturing categories, running a trade deficit in transportation equipment; primary metals; fabricated metals; plastics and rubber; electrical equipment; and petroleum and coal. The U.S. runs a trade surplus with South Korea in the production of food, chemicals and machinery.



Conclusion

As this report notes, recent data following the implementation of the U.S.-Korea FTA show imports from South Korea have increased while exports to South Korea have decreased. However, it is still too early to assess the long-run impact of the U.S.-Korea FTA. Analysts expect an eventual improvement in the bilateral trade deficit with South Korea. In particular, the reductions in tariffs on agricultural products will increase food exports to South Korea.[4] Additionally, analysts expect that the terms of the agreement will allow U.S. electronics firms to be more competitive in the South Korea market, leading to an increase in exports of these products.[5] Domestic production of computers and electronics, which depends heavily on intellectual property (IP), contributes to U.S. economic growth and national competitiveness.[6] Research shows that jobs in IP-intensive industries pay higher wages and employ more-educated workers. Every two jobs in IP-intensive industries support approximately one additional job elsewhere in the economy.[7] Increasing exports of IP-intensive goods, including computers and electronics, to South Korea and other countries can play a vital role in boosting job creation and strengthening U.S. competitiveness.

Sources:

[1] U.S. International Trade Commission. “U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects.” September 2007. Washington D.C.
[2] According to data from the Census Bureau and the Bureau of Economic Analysis, the U.S. trade deficit in goods and services peaked at 6.0 percent of GDP in the fourth quarter of 2005. After falling to 2.3 percent of GDP in the second quarter of 2009, it has resumed growing and is now 3.6 percent of GDP as of the second quarter of 2012.
[3] U.S. International Trade Commission. Data accessed through Dataweb on August 3, 2012.
[4] U.S. International Trade Commission. “U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects.” September 2007. Washington D.C.
[5] *Ibid.*
[6] Economics Statistics Agency and U.S. Patent and Trademark Office. “Intellectual Property and the U.S. Economy: Industries in Focus.” p. V. March 2012. Washington D.C.
[7] *Ibid.*, p. VII.