



## Trump's first trade deal is more bark than bite

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March 30, 2018

During the presidential campaign, and in his first weeks in office, Donald Trump promised "a lot of [bilateral] trade deals." As the months went by, though, people began to ask, where are all the great deals we were promised?

New deals will have to wait (no negotiations with new trading partners have been started), but the Trump administration just announced that there is an "agreement in principle" on the first deal, an amendment to the existing Korea-US (KORUS) trade agreement. So how did Trump's brash and blustery approach to trade negotiations play out?

On balance, based on what we know now (the final legal text has not been released yet), the new KORUS deal does not offer a radical remake of U.S. trade policy. There is a lot of fiddling around the edges of the original agreement, but the core is still the same.

The biggest economic impact will probably be the quotas on steel exports that South Korea agreed to. This was in exchange for a permanent exemption from the Trump administration's Section 232 "national security" tariffs on steel. The impact of these quotas/tariffs will be some degree of price increase for U.S. consumers.

The Koreans were willing to accept this quota because Korean producers may actually benefit; now that they have avoided the tariffs, their sales to the U.S. will now be at higher prices, and they may find other markets for their steel to replace the lost volume in the U.S.

On autos, the administration appears to have negotiated one outcome that looks like trade liberalizing on paper, although in practice it may not have much impact.

Under the existing KORUS, U.S.-based auto manufacturers can export up to 25,000 vehicles (per manufacturer) to Korea that would be deemed compliant with Korean safety standards simply by meeting U.S. standards. This quota has now been increased to 50,000 vehicles per manufacturer.

On its face, this is a positive development that further opens Korea's auto market. However, the real economic value is not as clear. U.S. passenger vehicle and light truck exports to Korea in 2017 totaled only 52,607. Ford and General Motors shipped fewer than 10,000 vehicles each.

But this is just part of the story. Many European car manufacturers, such as BMW, Mercedes-Benz and Volkswagen, have factories in the U.S., and their products make up part of that total export number.

However, with the recent threat of steel and aluminum tariffs by the Trump administration, European auto executives have warned that their U.S. operations may be negatively affected since they source components from many different countries.

So while an increased quota for auto imports into Korea does look like market opening, it will not necessarily change the low utilization rate for the quota, which may be further challenged by the administration's other trade actions on steel.

With regard to light trucks, it appears that the administration took a more protectionist tack, with a 25-percent tariff that was supposed to be phased out by 2021 now extended until 2041. While Korea does not currently export trucks to the U.S., that may be because the tariff effectively blocked the possibility of exports.

When the tariff is removed, Korean producers might be able to make these trucks in Korea and export them to the U.S., although they also may produce those trucks in the U.S. or in Mexico for sale in the U.S. market now.

There are also provisions on currency manipulation, which sound similar to those agreed to in a side letter to the Trans-Pacific Partnership. In the context of KORUS, adding these currency provisions is not particularly significant, as the Trump administration is mostly just carrying over an Obama-era policy.

However, the Trump administration may be pushing for enforceable currency provisions as part of a renegotiated NAFTA. This would be a bigger deal.

Other reported KORUS results sound minor, although a full assessment will have to wait for a release of the full text. These include: some mutual recognition of standards; more transparency in certain dispute procedures; opening up South Korea's national drug reimbursement program to American companies; and changes to Korean customs inspection procedures.

Overall, the KORUS renegotiation looks like a minor tweak to U.S. trade relationships, rather than the wholesale "populist" revolution that is sometimes indicated by Trump's tweets. But this does not mean it is time to relax about Trump's aggressive trade policy.

South Korea is in a special situation, given the fundamental security issues they face and their long-standing alliance with the United States.

Working out a deal there was always going to be easier than with other partners, and the Trump administration kept the scope small by pushing for amendments, which will not require a vote by Congress, rather than a full-fledged negotiation.

More contentious negotiations are coming soon.

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