

# National Foundation for American Policy

---

August 16, 2018

Contact: Stuart Anderson, 703-351-5042, [press@nfap.com](mailto:press@nfap.com)

## New Research on U.S.-South Korea Trade Shows Americans Gain From Lower Tariffs and Trade Liberalization

**Arlington, Va.** – Americans gain from liberalized trade with South Korea as shown by an economic analysis that finds eliminating the provisions of the United States-Korea Free Trade Agreement (KORUS-FTA) would impose a consumption tax of \$196 over 5 years on the typical U.S. household, according to a [new report](#) by the National Foundation for American Policy (NFAP), an Arlington, Va.-based policy research group. A 25% tariff on all imports from South Korea, such as the one proposed on China, would cost the typical U.S. household \$916 over five years. The research illustrates the benefits of free trade and trade agreements for American consumers and companies, particularly given KORUS-FTA is a treaty President Donald Trump has threatened to terminate.

“The research shows that if the Trump administration had pulled out of the trade agreement with South Korea – or decides to do so in the future – a trade policy that already has been bad for many American consumers and companies unfortunately would become even worse,” said NFAP Executive Director Stuart Anderson.

The [report](#), “U.S.-South Korea Trade,” is available at <https://nfap.com/>. The report was authored by David G. Tuerck, a professor in the Department of Economics at Suffolk University and executive director of the Beacon Hill Institute, and Paul Bachman, director of research at the Beacon Hill Institute. Tuerck and Bachman are both research fellows at the National Foundation for American Policy.

**Table 1: Effect of Trump Withdrawing from the KORUS-FTA and Imposing a 25% Tariff over Five Years**

Item	All households (\$56,437 mean after-tax Income)	Lowest 10 % (\$5,348 mean after-tax Income)	Second 10 % (\$15,182 mean after-tax Income)	Fifth 10% (\$38,735 mean after-tax Income)	Ninth 10% (\$97,430 mean after-tax Income)	Highest 10% (\$172,669 mean after-tax Income)
Tariff burden of leaving FTA (\$)	196	132	141	178	249	260
The burden of imposing 25% Tariff on Korean Imports (\$)	916	474	507	753	1,365	1,676

Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2017. Calculation of cost increase for imported goods.

The two countries recently agreed to changes in the agreement that have minimal consequences for trade. The Trump Administration's threatened 25% tariff on automobile parts is jeopardizing the deal by stalling ratification by the South Korean Parliament. Withdrawing from the trade deal in the next two years could still happen, if it is couched as a way to fulfill Trump's promises to crack down on what he considers unfair trade competition from other countries or part of a revisiting of all trade agreements with other countries. Even if the treaty stays in place, an analysis of its impact makes the case that protectionism and higher tariffs are costly, while liberalized trade and lower tariffs bring great benefits to Americans.

The key findings of the report:

- Assuming that imports from Korea would face tariffs under Most Favored Nation status in the absence of KORUS-FTA, our analysis finds that canceling the KORUS-FTA would manifest itself as a 10.7% increase in the price of competing domestically produced goods and, therefore, as a cut in real wages. Conversely, this means that the typical U.S. household benefits from Korean imports by that same \$196 over five years, due to the lower prices made possible by the agreement.
- President Trump has recently announced 25% tariffs on imported steel, automobiles and other goods (Pramuk, 2018). Were President Trump to impose 25% tariffs on the \$73 billion in goods that the U.S. imports from Korea, the damage to households would be substantially greater. A 25% tariff on all imports from Korea would cost the typical U.S. household \$916 over five years.
- We find that ending the KORUS-FTA would cost U.S. consumers \$4.6 billion annually and \$23 billion over five years.
- The analysis included calculations of the dead loss (net loss to the economy) of potential tariff increases using standard methodology. That included first estimating the reduction in U.S. imports from Korea for 97 categories of goods under the two-digit Harmonized Tariff Schedule (HTS) and utilizing the Armington elasticities for each of these 2 digit HTS category codes. (The Armington method is based on an assumption that the country of origin of a product distinguishes it from other countries.) We used the increase in the tariff rates, the quantity of imports and the Armington elasticities to calculate the dead loss to the U.S. economy for each commodity category of imports from Korea. The methodology was also used to calculate the impact of a 25% tariff on U.S. imports from Korea.
- If the Trump Administration were to impose a 25% across-the-board tariff on imports from Korea, it would be certain to bring retaliation in the form of tariffs on U.S. exports, which would carry additional economic impacts.
- In total, ending the KORUS-FTA would impose a dead loss on the U.S. economy of \$411 million annually and \$2.1 billion over five years. U.S. consumers would suffer a total annual burden in the form of a \$4.6 billion loss in household purchasing power. The annual benefits to producers would be \$2.6 billion, or 56.7% of the loss experienced by consumers. These results show that consumers gain an additional \$4.6 billion in purchasing power as a result of implementing and preserving the KORUS-FTA.
- If the Trump Administration decided to impose a 25% tariff on all imports from Korea, then the damage would be much higher for households and the U.S. economy. The total burden on consumers would be \$28.4 billion annually. The dead loss to the U.S. economy would be \$6.1 billion annually.

### **About the National Foundation for American Policy**

Established in the Fall 2003, the National Foundation for American Policy (NFAP) is a 501(c)(3) non-profit, non-partisan public policy research organization based in Arlington, Virginia focusing on trade, immigration and related issues. The Advisory Board members include Columbia University economist Jagdish Bhagwati, Ohio University economist Richard Vedder, Cornell Law School professor Stephen W. Yale-Loehr and former INS Commissioner James W. Ziglar. Over the past 24 months, NFAP's research has been written about in the *Wall Street Journal*, the *New York Times*, the *Washington Post*, and other major media outlets. The organization's reports can be found at [www.nfap.com](http://www.nfap.com). Twitter: [@NFAPResearch](https://twitter.com/NFAPResearch)

2111 Wilson Blvd., Suite 700, Arlington, VA 22201  
phone: (703) 351-5042 fax: (703) 351-9292 [www.nfap.com](http://www.nfap.com)