

## Payback time

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Collateral damage from the trade war is piling up in South Korea, whose two largest foreign markets are the United States and China. Exports have fallen for six straight months and the economy is contracting. A recession looms. Does President Donald Trump recognize this pain?

Significant steps by Seoul to bolster its already strong economic partnership with the United States deserve to be rewarded with more than just words. For starters, South Korean companies are investing heavily to create high-quality U.S. jobs. Just last month, Lotte Chemical opened a \$3.1 billion complex in Louisiana, with 265 jobs paying around \$75,000 a year with benefits. The project also will result in another 2,300 local positions being created indirectly, the state's economic development office estimates. After meeting with Lotte Group executives in the White House last month, Trump tweeted that theirs was the "biggest investment in US".

At the same time, he has failed to acknowledge what happened when Lotte donated land in 2017 for a U.S.-made missile defence system so that South Koreans and U.S. forces stationed there could protect themselves. The conglomerate took an economic direct hit when China shut down the company's stores in retaliation. Beijing's bullying extended to Hyundai Motor, which endured an otherwise inexplicably large drop in sales in China. South Korea's tourism market also suffered, when Chinese visitors slowed to a trickle.

On the trade front, exports of U.S. goods to South Korea increased 17% in 2018 from a year earlier, and by nearly 34% on a cumulative basis since 2016. This is proof that Seoul is addressing that particular obsession of Trump's: the trade deficit. While the U.S. Treasury Department continues to lump South Korea in with imbalances elsewhere, it only accounts for about 0.5 percent of total U.S. goods imports, while China's surplus is nearly 25 times larger. And the United States had a \$12.2 billion services trade surplus with South Korea in 2018.

Overall, the bilateral goods deficit has been declining, and it fell below the critical, albeit arbitrary, \$20 billion threshold in 2018. It is now more than one-third lower than the peak in 2015. U.S. Treasury officials have noted that this significant adjustment is driven by increased U.S. exports to South Korea, particularly chemicals and fuels.

What's more, South Korea is now the fourth-largest market for U.S. weapons sales. And the country is planning nearly \$9 billion of U.S. military systems acquisitions over the next five to six years, exceeding the \$7.4 billion in U.S. arms purchases over the past decade, according to trade publication Defense News. To put those figures in context, South Korea spends 2.6% of GDP on defence, above the 2% NATO benchmark. President Moon Jae-in also plans to raise the rate during the remaining three years of his term. It is clear South Korea is taking its defence burden more seriously than many U.S. military allies.

Hyundai and Kia sedans and SUVs?

The U.S. Treasury also could accelerate the removal of South Korea from its monitoring list of currency manipulators. Although the agency said it might take that step later this year, such recognition is overdue.

In addition, Washington could do more to mediate between its two most important Asian allies – Seoul and Tokyo – to help heal the dangerously strained diplomatic and business ties resulting from historical disputes. A healthy trilateral relationship is critical for dealing with Korean peninsula security threats as well as China.

Finally, the United States could return to a predictable, equitable and long-term military cost-sharing agreement with South Korea when it comes up for renegotiation in the year ahead.

South Korea is putting its money where its loyalties lie. Those efforts ought to be recognized and reciprocated.

## Context News

Thomas Byrne is president of the nonpartisan Korea Society and formerly the regional manager for sovereign risk in Asia-Pacific and the Middle East for Moody's Investors Service.

President Donald Trump is due to hold talks in South Korea with President Moon Jae-in at the end of June, in conjunction with a trip to Japan for the Group of 20 summit.

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