

## ***Moon Jae-in administration reached an agreement in principle on US-Korea FTA renegotiation***

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Korean economy has been expanding moderately. Looking at major monthly economic indices, export in general has maintained increasing trend and Manufacturing Purchasing Managers' Index (PMI) has largely maintained the level above 50 which indicates economic expansion (see table 1). According to research institutes, the direct economic effects of 2018 Pyeongchang Winter Olympics, such as infrastructure development and increase in number of tourists, were estimated to be around 21 trillion won (1.2% of GDP). However, the number of visitors from overseas recorded -16.5% YoY in February, continuing its decline, and the positive effects owing to tourism revenue seemed to be limited. Looking ahead, while the growth of investment is expected to slow down in reaction to the special demand from the Olympics, export will maintain its increasing trend backed by growing demand from advanced countries and private consumption will remain firm owing to the improved employment and income environments. The economy is expected to continue its moderate expansion.

The pending trade negotiation with the US seems likely to settle reasonably. At the third meeting to discuss the revision of the US-Korea Free Trade Agreement (KORUS), both parties appeared to reach an agreement in principle: the US will exempt South Korea from the steel tariffs while South Korea will cut its steel export to the US and also give concession in motor vehicles sector. Vehicle export to the US, although it is decreasing owing to the shift to local production, is still a major part of South Korea's trade surplus with the US (see chart 1). Under KORUS revisions, it appears that South Korea will allow US automakers to bring 50,000 vehicles, up from 25,000 vehicles previously, per automaker per year that meet US safety standards. South Korea will also extend US tariffs on pickup trucks until 2041 (from 2021 previously) although no South Korean automakers currently export pickup trucks to the US. Furthermore, the US's demand such as obligation to use US-made auto parts and additional liberalization of agricultural market did not seem to be included into the revision (attention needs to be paid, however, to the effects of currency provision to prohibit deliberate currency devaluation that was included in a side-letter).

To Moon Jae-in administration, it is a top priority issue to lead the South and North Korean summit, which will be held at the end of April, and the US-North Korea summit, which could be held as early as May, toward success. Having succeeded in avoiding trade conflict with the US by reaching early agreement in principle on renegotiation of KORUS, amid stable economic growth, has given a strong impetus to the administration while addressing the top priority issue in foreign and security policy.

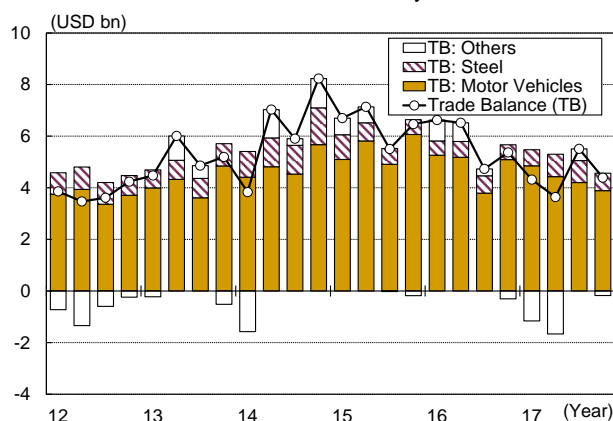
Table 1: Major monthly economic indices of South Korea

		2017				2018	
		Sep	Oct	Nov	Dec	Jan	Feb
Household	Real Retail Sales (YoY, %)	6.9	-0.5	5.3	1.4	1.4	n.a.
	Consumer Confidence Index (%pt)	107.4	108.9	112.0	110.6	109.9	108.2
	Unemployment Rate (%)	3.7	3.6	3.7	3.7	3.6	3.6
Corporate	Industrial Production (YoY, %)	2.7	4.4	-1.0	-1.3	-3.0	n.a.
	Capital Investment (YoY, %)	25.0	-3.9	6.7	2.5	22.5	6.3
	Export (YoY, %)	34.9	6.7	9.7	8.8	22.3	3.9
	Manufacturing PMI (%pt)	50.6	50.2	51.2	49.9	50.7	50.3

Note: Highlighted parts indicate decline in growth rate/fall in level (or rise in unemployment rate) from the previous quarter.

Source: Bank of Korea (BOK), Statistics Korea, Ministry of Trade, Industry and Energy of Korea, MUFG Bank Economic Research Office

Chart 1: South Korea's trade balance by main items with US



Source: Korea International Trade Association, MUFG Bank Economic Research Office

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