



Updated March 17, 2023

U.S.-South Korea (KORUS) FTA and Bilateral Trade Relations

The U.S.-South Korea free trade agreement (KORUS FTA) entered into force in March 2012. The agreement has reduced and, in most cases, eliminated tariff and non-tariff barriers between the two parties on manufactured goods, agricultural products, and services; provides rules and disciplines on investment, intellectual property rights (IPR) and other issues; commits both countries to maintain certain worker and environmental standards; and provides mechanisms for resolving disputes. KORUS is the second largest U.S. FTA by trade flows, after the U.S.-Mexico-Canada Agreement (USMCA). The agreement is extensive in scope, but on some issues, such as digital trade, its commitments are limited compared to more recent trade agreements, leading some stakeholders to call for updates.

In May 2022, the Biden Administration launched the Indo-Pacific Economic Framework for Prosperity (IPEF) initiative. South Korea is among 14 inaugural negotiating partners in the U.S.-led initiative, which may provide a forum to enhance the U.S.-South Korea economic relationship beyond existing KORUS FTA commitments. South Korea also has been active in regional economic agreements that do not include the United States, including the Regional Comprehensive Economic Partnership (RCEP), among major Asian trading nations, such as China, Japan, and the 10 Association of Southeast Asian Nations (ASEAN) members. South Korea also has initiated domestic procedures necessary for potential application to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), but has not applied to date.

KORUS has been modified twice since it was signed in 2007 under the George W. Bush Administration. The Obama Administration negotiated modifications to certain auto and agricultural provisions prior to submitting the agreement for congressional approval in 2011. In 2018, the Trump Administration negotiated amendments relating to U.S. auto exports, the U.S. truck tariff, and certain rules, including on investment, which took effect in January 2019.

The United States and South Korea, allies since 1953, originally negotiated KORUS to deepen and enhance economic ties and to strengthen a critical alliance relationship. During the Trump Administration, trade tensions were an irritant in the broader bilateral relationship, including President Trump's threats to withdraw from KORUS during the modification negotiations, and the imposition of new U.S. global import restrictions on important South Korean industries, including steel. Bilateral trade tensions have eased under President Biden, who has prioritized working more closely with U.S. allies to address global economic issues. During summits with former President Moon Jae-in (May 2021) and President Yoon Suk Yeol (May 2022), President Biden announced plans for greater bilateral cooperation in industries, such as electric vehicle (EV) batteries and semiconductors. However, South Koreans have complained that bilateral cooperation is undercut by the CHIPS and Science Act (CHIPS, P.L. 117-167) and the electronic vehicle (EV) provisions in the 2022 Inflation Reduction Act (IRA, P.L. 117-169), arguing that both laws harm South Korean companies.

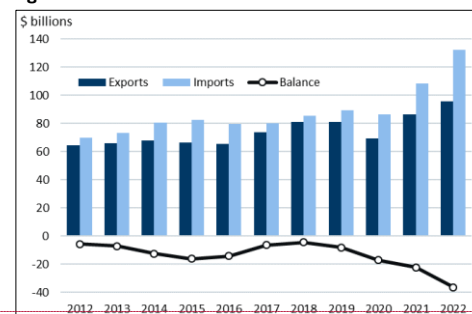
Views on KORUS and its outcomes over its 11-year existence are mixed. Proponents argue the FTA has expanded trade (including U.S. exports), investment, competition, and consumer choice in both countries, increased U.S. IPR protection in South Korea, and improved transparency in South Korea's regulatory process. Others have argued that the agreement's impact is disappointing, often pointing to an increase in the U.S. trade deficit with South Korea since the agreement took effect, though most economists dispute this argument (see below). The two countries continue to address implementation issues using the agreement's consultative mechanisms.

Trade and Investment Patterns

South Korea is the seventh largest U.S. trading partner, with total trade (goods and services) in 2022 of \$227.4 billion. From 2021 to 2022, U.S. exports to South Korea increased by \$9.4 billion (+11%) to \$96.5 billion. South Korean spending on U.S. travel services, however, remained depressed in 2021 due to the pandemic, and was \$5.7 billion below 2019 levels (latest data available). U.S. imports from South Korea increased in 2022 by \$23.5 billion (+22%) to \$132 billion. The stock of South Korean FDI in the United States has more than tripled since the KORUS FTA took effect, reaching \$72.5 billion in 2021. The stock of U.S. FDI in South Korea, by contrast, has grown by a more modest 35% during this period, reaching \$38.1 billion in 2021.

The U.S. trade deficit with South Korea has fluctuated since KORUS took effect, growing early on, declining from 2015-2018, and then increasing again (Figure 1). Auto imports, which account for much of the increase in U.S. imports since the FTA took effect, grew most rapidly from 2011-2015, before the 2.5% U.S. car tariff was reduced under KORUS. As a result, many economists argue that the FTA has not contributed significantly to the increase in the bilateral trade deficit. Economists generally find that macroeconomic factors are the main drivers of bilateral trade balances, rather than trade agreements.

Figure 1. U.S. Total Trade with South Korea



Source: Bureau of Economic Analysis.

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Selected Key Sectors and Provisions

Agriculture

Agricultural products are an area of U.S. comparative advantage. The United States ran an \$8.2 billion agricultural trade surplus with South Korea in 2021. South Korea's agriculture sector generally is highly protected—its agricultural tariffs average 61.5%—but through KORUS, South Korea immediately granted duty-free status to almost two-thirds of U.S. agricultural exports. Tariffs and import quotas on most other agricultural goods were phased out by 2021. One significant market access gain for U.S. producers is South Korea's phased elimination of its 40% tariff on beef by 2026. U.S. export gains from 2011 to 2021 have been strong in sectors with large tariff reductions, such as beef (+\$1.7 billion), fresh fruit (+\$175 million) and tree nuts (+\$162 million). South Korea excluded rice from the FTA tariff commitments, but in 2019 agreed to provide the United States with a country-specific quota under its WTO obligations, worth approximately \$110 million annually.

Motor Vehicles

U.S. and South Korean motor vehicle industries are major competitors. Such imports account for roughly 25% of U.S. goods imports from South Korea. Auto trade was among the most contentious issues in the original FTA negotiations, but the Detroit Three U.S. automakers ultimately supported the agreement. Under KORUS, the United States eliminated its 2.5% auto import tariff in 2016, and was originally to begin reducing its 25% light truck tariff in 2019, gradually eliminating it by 2021. (The 2019 modifications extended the 25% truck tariff to 2041.) South Korea's 8% auto import tariff was reduced to 4% immediately and eliminated in 2016, and its 10% light truck tariff was immediately eliminated. Under KORUS, bilateral tariffs on virtually all auto parts immediately dropped to zero. From 2011 to 2021, U.S. auto and parts exports to South Korea tripled to \$3.8 billion (albeit from a low base), while U.S. imports increased by 76% to \$27.1 billion.

Services

Services trade was a priority in the KORUS FTA talks, as the United States sought greater market access for its highly competitive services firms and South Korea hoped to improve productivity in a sector that lags behind its manufacturers. Commitments are on a "negative list" basis (i.e., they apply to all sectors except those specifically exempted). Provisions prohibit discriminatory treatment, local presence requirements, and market access limitations, and require certain steps in the regulatory process. Industry-specific commitments include the opening of South Korea's legal services sector; a financial services chapter, including a provision to allow data flow transfers; and an annex on express delivery. From 2011 to 2021, top U.S. exports gains have occurred in telecom, computer and information services (+\$1.2 billion), other business services (+\$1.3 billion), and financial services (+\$813 million).

2019 KORUS FTA Modifications

The changes to KORUS negotiated in 2018 consisted primarily of South Korean regulatory changes and U.S. tariff modifications, and were implemented in January 2019 by the Trump Administration without action by Congress. The KORUS FTA implementing legislation provides the President authority to modify the U.S. FTA tariff schedule.

The negotiated modifications included, among other things

- changing tariff commitments by extending the 25% U.S. light truck tariff to 2041;
- doubling the number of U.S. vehicle exports to South Korea that can be imported with U.S. safety standards

(25,000 to 50,000 per manufacturer per year), and clarifying South Korean recognition of certain U.S. emissions and auto parts standards for U.S. exports;

- amending the trade remedy chapter by adding transparency and reporting requirements, including calculations of dumping margins;
- amending the investment chapter, by clarifying aspects of what may or may not be considered a violation of certain commitments; and
- confirming customs principles on expeditious and risk-based origin verifications.

Currency provisions were not included in the FTA's 2019 modifications, but South Korea separately agreed to disclose its foreign exchange transactions moving forward—a practice long sought by the United States.

Section 201 and 232 Import Restrictions

Since 2018, certain U.S. imports from South Korea have been subject to restrictions (tariffs and quotas) imposed by President Trump using authorities under Section 201 of the Trade Act of 1974 (washing machines and solar panels) and Section 232 of the Trade Expansion Act of 1962 (steel and aluminum). South Korea, typically among the top five suppliers of U.S. steel imports (\$2.9 billion in 2021), was one of the first countries to negotiate a quota arrangement with the Trump Administration, in lieu of the 25% steel tariff. As a result, U.S. imports of South Korean steel are subject to a quota equivalent to 70% of 2015-2017 imports. South Korean officials have urged the Biden Administration to revisit the quota arrangement in light of less restrictive arrangements the Administration has negotiated with the European Union and Japan. Section 232 import restrictions remain in place unless the President removes them. Section 201 restrictions are statutorily time-limited and set to expire in February 2026 for solar panels; restrictions on washing machines expired in February 2023.

Potential Questions Faced by Congress

- Economists generally view overall bilateral trade balances as a poor metric for the success of FTAs. What is the best way to evaluate the KORUS FTA? Has it achieved congressional goals?
- In certain areas, KORUS does not reflect the most recent U.S. negotiating positions, such as on digital trade. Would KORUS benefit from changes or updates, and, if so, how should this be achieved? To what extent could IPEF initiative effectively such issues?
- What are congressional priorities for the IPEF initiative with respect to South Korea? How would it affect the KORUS FTA and compare to other regional agreements like CPTPP?
- How can the United States balance domestic economic policy goals and increasing bilateral cooperation in key industries (e.g., EV batteries and semiconductors)?
- The United States continues to engage with South Korea on its implementation of KORUS commitments. Does the executive branch have adequate resources and tools, including the FTA's mechanisms for consultation, to address implementation and enforcement issues?

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