



Updated December 28, 2018

## U.S.-South Korea (KORUS) FTA

### Overview

The U.S.-South Korea free trade agreement (KORUS FTA) entered into force in March 2012. At the request of the Trump Administration, the two nations in January 2018 began negotiating potential amendments. On September 24, Presidents Trump and Moon, signed an agreement on KORUS modifications relating to, among other things, U.S. auto exports, the U.S. truck tariff, and certain rules, including on investment. South Korea's National Assembly ratified the amendments on December 7 and President Trump proclaimed the related U.S. tariff modifications on December 21, effective January 1, 2019. Although President Trump characterized the changes as a "basic redoing" of the agreement, most analysts agree that the modifications are relatively limited in scope and unlikely to fundamentally alter the balance of commitments.

The KORUS FTA reduces and in most cases eliminates 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. The second largest U.S. FTA by trade flows after the North American Free Trade Agreement (NAFTA), KORUS also is among the most recently negotiated and arguably has the most extensive commitments of any U.S. FTA in effect.

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. The sometimes contentious nature of the 2018 modification talks, including President Trump's stated intent to withdraw from the agreement if satisfactory changes were not made, raised concerns among some analysts over potential negative spillover effects in the bilateral security relationship, especially at a time when the alliance requires close coordination over North Korea policy. Agreement on the modifications has allayed some of these concerns, but the Administration's statements linking trade and security issues and the ongoing threat of additional U.S. unilateral import restrictions, particularly on U.S. auto imports, continues to add a degree of uncertainty and tension in the overall bilateral relationship.

Views on KORUS and its outcomes over the past six years 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, including most prominently President Trump, argue that the agreement's impact is disappointing, pointing to an increase in the U.S. trade deficit with South Korea. Some U.S. stakeholders also raise concerns regarding South Korea's implementation of the agreement.

### KORUS Modifications and Other Issues

Unlike the NAFTA renegotiation, the Trump Administration negotiated changes to the KORUS FTA without following the requirements of U.S. Trade

Promotion Authority (TPA). TPA provides for expedited congressional consideration of legislation to implement U.S. trade agreements based on meeting specific criteria. The KORUS FTA modifications, however, consist primarily of South Korean regulatory changes and U.S. tariff modifications, and therefore do not appear to require action by Congress for implementation. The KORUS implementing legislation and agreement provide little detail on amendment procedures, but do provide presidential proclamation authority to modify the U.S. FTA tariff schedule.

---

*[T]he President may proclaim...modification...of any duty...to maintain the general level of reciprocal and mutually advantageous concessions with respect to Korea...*  
KORUS FTA Implementing Legislation, P.L. 112-41  
October 21, 2011

---

The negotiated modifications include:

- Changing tariff commitments by extending the 25% U.S. light truck tariff twenty more years 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, including additions also in TPP, such as clarifying that public welfare may be considered in national treatment determinations and that failure to meet investor expectations does not violate minimum standard of treatment provisions;
- Confirming customs principles on expeditious and risk-based origin verifications;
- Amending South Korea's Premium Pricing Policy for Global Innovative New Drugs to ensure it is consistent with KORUS commitments;
- Initiating the addition of certain textile and apparel inputs to the KORUS short supply list, potentially allowing South Korea to make greater use of third-party inputs in some exports to the United States.

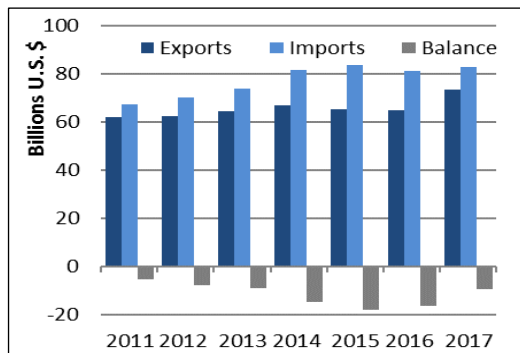
In a separate but related move, in the spring of 2018 South Korea also negotiated an exemption from the U.S. Section 232 "national security" steel tariffs that were announced in March 2018. In place of the 25% tariff, U.S. imports of South Korean steel are subject to a quota equivalent to 70% of 2015-2017 imports. South Korea remains subject to the Administration's tariff increases on washing machines, solar panels/modules, and aluminum, which were also announced in 2018. A U.S. Section 232 investigation on autos is ongoing and could result in additional tariffs on U.S. auto imports. A proposed currency deal was not included in the FTA's modifications, but South Korea has stated plans to begin disclosing its foreign exchange transactions—a practice long sought by the United States.

## Trade and Investment Patterns

South Korea is the seventh largest U.S. trading partner with total trade (goods and services) in 2017 of \$156.1 billion (\$73.4 billion in exports and \$82.7 billion in imports). From 2011 (the year before KORUS took effect) to 2017, bilateral trade increased by 21%. U.S. imports increased by 25% for goods and 12% for services, while exports increased by 9% for goods and by 45% for services. From 2011 to 2017, the stock of U.S. foreign direct investment (FDI) to South Korea grew from \$28.2 billion to \$41.6 billion, while South Korean FDI in the United States grew from \$19.9 billion to \$51.2 billion.

The overall (goods and services) U.S. trade deficit with South Korea grew by more than 70% since KORUS went into effect. It grew from \$5.4 billion in 2011 to \$9.3 billion in 2017, which represented less than 2% of the global U.S. trade deficit in 2017. It is difficult to determine the extent to which the trade agreement affected trade given the myriad factors that simultaneously affect these flows. In 2016, the U.S. International Trade Commission estimated that the bilateral trade deficit would have been larger without KORUS. Slower economic growth in South Korea likely explains some of the deficit growth; South Korea's imports from China and Japan were also flat or fell from 2011 to 2016. This pattern shifted in 2017, as South Korea's global and U.S. imports increased markedly, leading to a \$7.3 billion decrease in the bilateral trade deficit.

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



Source: Bureau of Economic Analysis.

## Selected Key Sectors and Provisions

### Agriculture

Agricultural products are an area of U.S. comparative advantage. The United States ran a \$6.3 billion agricultural trade surplus with South Korea in 2017. South Korea's agriculture sector is highly protected—its agricultural tariffs average 57%—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 are to be phased out by 2021. One of the most significant market access gains for U.S. producers is South Korea's phased elimination of its 40% tariff on beef by 2027. Rice, however, was excluded at Seoul's request. Despite export gains from 2011 to 2017 in sectors with large tariff reductions, such as beef (+\$500 million) and fruits and tree nuts (+\$356 million), overall U.S. agriculture exports to South Korea have decreased, due largely to a major decline in the value of corn exports (-\$1.1 billion), and partly due to a drop in commodity prices.

### Motor Vehicles

U.S. and South Korean producers compete intensely in the motor vehicle and parts sector and such imports account for

roughly one-third 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. The KORUS FTA eliminated the 2.5% U.S. auto import tariff in 2016, and was originally to maintain the 25% U.S. light truck tariff through 2018, gradually eliminating it by 2021. (The 2018 modifications are to extend 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 2017, U.S. auto and parts exports doubled to \$2.4 billion, while U.S. imports increased by 55% to \$23.9 billion.

### Services

Services trade was a priority in the KORUS FTA talks as the U.S. 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. Since 2011, the U.S. bilateral services trade surplus grew from \$6.9 billion to \$13.3 billion, with major growth in exports of travel (+\$4.1 billion) and charges for use of intellectual property (+\$1.6 billion).

## Potential Issues for Congress

**Trade Agreements and Trade Deficits.** The Trump Administration has made trade balances a key metric of the success of U.S. FTAs, yet most economists argue other factors largely determine trade balance outcomes. What are the best metrics to evaluate U.S. FTAs? Has KORUS, which lowered reciprocal trade barriers, achieved its goals?

**Modifications and Ongoing Implementation.** Congress has constitutional authority to regulate foreign commerce, implements FTAs through legislation, and sets U.S. trade negotiating objectives, but the Administration sought modifications to KORUS without formal congressional notification or consent. What is the appropriate role for Congress in considering modifications to FTAs that do not require changes to U.S. law?

**Trade Disputes and the Alliance.** Some analysts worry that trade tensions may influence South Korean views on the alliance and broader bilateral relations. What is the most productive way to address trade concerns, such as the imbalance in bilateral auto trade, without damaging vital U.S. national security and foreign policy interests? Are the KORUS FTA's dispute mechanisms sufficient?

**Brock R. Williams, Coordinator, Specialist in International Trade and Finance**

**Bill Canis, Specialist in Industrial Organization and Business**

**Jenny Hopkinson, Analyst in Agricultural Policy**

**Mark E. Manyin, Specialist in Asian Affairs**

IFI0733

---

## Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.