

Updated November 19, 2024

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. It also: 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).

South Korea is a negotiating partner in the U.S.-led Indo-Pacific Economic Framework for Prosperity (IPEF), 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, such as the 15-member Regional Comprehensive Economic Partnership (RCEP) that includes China, Japan, and the 10 Association of Southeast Asian Nations (ASEAN) members, among others. South Korea joined the four-nation Digital Economic Partnership Agreement (DEPA) in June 2023 and also has initiated domestic procedures necessary for potential application to the 11-nation 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 enhance economic ties and to strengthen a critical alliance relationship. During the Trump Administration, trade tensions were evident 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 some South Korean industries, including steel. Bilateral trade tensions have eased under President Biden, who has prioritized cooperating with U.S. allies to address economic security 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 to strengthen economic security in supply chain resiliency and priority industries, such as electric vehicle (EV) batteries and semiconductors. South Korean concerns related to the CHIPS and Science Act of 2022 (CHIPS, P.L. 117-167) and the Inflation Reduction Act of 2022 (IRA, P.L. 117-169) have largely been resolved through bilateral dialogue.

Views on KORUS and its outcomes are mixed. Proponents argue the FTA has: expanded trade (including U.S. exports), investment, competition, and consumer choice in

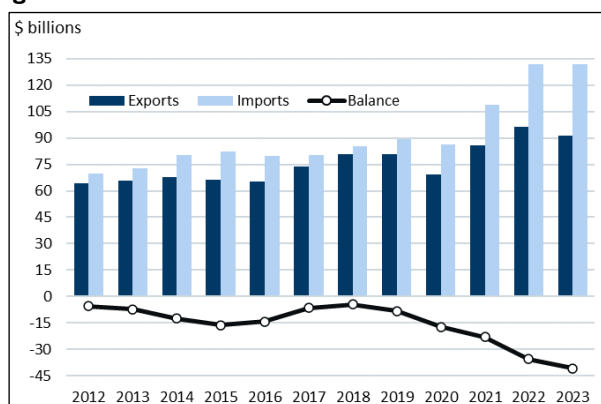
both countries; increased U.S. IPR protection in South Korea; and improved transparency in South Korea's regulatory process. Others have argued that the agreement's impact has not met expectations in some respects, pointing, for example, to an increase in the U.S. trade deficit with South Korea since the agreement took effect. The two countries continue to address implementation 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) at \$223.4 billion in 2023; U.S. exports to South Korea were valued at \$91.3 billion and U.S. imports were \$132 billion. The stock of South Korean foreign direct investment (FDI) in the United States nearly doubled, to \$76.7 billion, between 2014 and 2023. The stock of U.S. FDI in South Korea, by contrast, has grown by a more modest 35% during this period, reaching \$35.6 billion in 2023.

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**). Many economists argue that tariff reductions under the FTA have not contributed significantly to the increase in the bilateral trade deficit. For example, 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. Some analysts argue that FTAs contribute to the U.S. trade deficit. Others, including some economists, have found that macroeconomic factors, such as national savings and investment rates, have been the main drivers of bilateral trade balances.

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



Source: CRS with data from the 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 \$6.2 billion agricultural trade surplus with South Korea in 2023. South Korea's agriculture sector generally is highly protected—its agricultural applied 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 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. From 2011 to 2023, U.S. agricultural exports saw the largest gains in beef (+\$1.4 billion), prepared food (+\$150 million), and pork (+\$135 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 World Trade Organization (WTO) obligations, worth approximately \$110 million annually.

Motor Vehicles

Motor vehicles accounted for roughly 35% of U.S. goods imports from South Korea in 2023. Auto trade was among the most contentious issues in the original FTA negotiations, but major U.S.-based automakers ultimately supported the agreement. Under KORUS, the United States eliminated its 2.5% passenger vehicle tariff in 2016. The U.S. tariff on light trucks, which was originally scheduled to phase out between 2019 and 2021, was extended to 2041 under the 2019 modifications. South Korea's 8% passenger vehicle 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 2023, auto and parts trade tripled, with U.S. exports to South Korea reaching \$3.1 billion and U.S. imports hitting \$42.2 billion. South Korean automakers have also invested in the United States, including a \$5.4 billion EV and battery plant in Georgia, which reportedly began production in October 2024.

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. 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 2023, U.S. services exports increased from \$17.9 billion to \$24.9 billion and U.S. services imports increased from \$9.9 billion to \$14.6 billion.

2019 KORUS FTA Modifications

In 2018, the Trump Administration negotiated changes to KORUS, which consisted primarily of South Korean regulatory changes and U.S. tariff modifications. The changes were implemented in January 2019 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:

- extending the 25% U.S. light truck tariff to 2041;
- doubling the number of annual U.S. vehicles (to 50,000 per manufacturer) that can be exported to South Korea without modification if they meet U.S. safety standards, and clarifying South Korean recognition of certain U.S. emissions and auto parts standards for U.S. exports; and
- adding transparency and reporting requirements in the trade remedy chapter.

South Korea separately agreed to disclose its foreign exchange transactions moving forward—a practice long sought by the United States.

Section 232 Import Restrictions

Since 2018, the Trump Administration imposed a 25% tariff on all steel imports using authorities under Section 232 of the Trade Expansion Act of 1962. South Korea, typically among the top five suppliers of U.S. steel imports (\$2.4 billion in 2018), was one of the first countries to negotiate with the Trump Administration a quota in lieu of the tariff. As a result, U.S. imports of South Korean steel are subject to an absolute quota equivalent to 70% of the average volume of South Korean steel imported between 2015-2017. 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. In August 2024, some Members of Congress asked the Biden Administration to lower the import quota of certain steel products from South Korea.

Economic Security Cooperation

Under the Biden Administration, U.S.-South Korea economic and trade relations expanded beyond issues addressed in KORUS to include economic security cooperation. The two countries committed to strengthening cooperation in supply chain resiliency and priority sectors, such as semiconductors, EV batteries, and clean energy. According to the Biden Administration, South Korean companies have pledged more than \$140 billion in new investment in the United States, primarily in the aforementioned priority sectors. During the U.S.-South Korea-Japan trilateral summit in August 2023 and trilateral ministerial meeting in June 2024, the three countries committed to increasing cooperation on economic security. In that realm, the three countries agreed to establish an early warning system to strengthen supply chain resiliency, which has reportedly been implemented as of June 2024.

Issues for Congress

Some Members of Congress support building on the KORUS FTA to develop deeper economic ties with South Korea. Congress may conduct oversight of the ongoing implementation of the KORUS FTA and consider whether or not the agreement may benefit from changes or updates. Some questions Congress may consider when conducting oversight include:

- How can the United States balance domestic economic policy goals and strengthening bilateral cooperation in key industries (e.g., EV batteries and semiconductors)?
- How might the IRA and CHIPS Act affect bilateral trade relations and broader global supply chains for EV batteries and semiconductors?
- President-elect Trump has suggested he would impose tariffs on all U.S. imports, including on goods from South Korea. How might tariffs, if imposed, affect bilateral trade relations and economic cooperation?

Liana Wong, Analyst in International Trade and Finance
Mark E. Manyin, Specialist in Asian Affairs

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.