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Korean Free Trade Agreement Renegotiation: California Agriculture Has Much to Lose

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South Korea is a major export destination for U.S. and California agriculture. Key California farm exports to Korea include: oranges and related citrus, almonds, rice, walnuts, beef products and cattle hides, dairy products, and hay. The Korea-U.S. Free-Trade Agreement has been in force for five years and allowed California farm exports to Korea to compete on an even footing with the other major agricultural exporters with which Korea also has FTAs. Current renegotiations, while focused on industrial products, could place California agricultural exports at risk.

The Korea-U.S. Free Trade Agreement (KORUS-FTA) was completed by the end of 2008 but finally approved by the U.S. Congress in 2011 and implemented beginning in 2012. California agricultural exports to Korea rose substantially from 2009 to 2012 and have fluctuated between \$800 million and \$1 billion since then (Figure 1). Since 2011, Korea has been a consistently important export destination receiving between 4% and 5% of California agricultural exports. (We follow normal practice and use the name "Korea" to refer to the Republic of Korea, which is also known as South Korea.)

Korea ships substantial manufactured goods to California and the United States (with familiar brand names such as Hyundai, LG, and Samsung), but exports only trivial amounts of food or agricultural goods here mostly in the form of processed specialty items sold by retailers targeting ethnic populations.

The United States and Korea initiated a renegotiation of the KORUS-FTA in early October 2017, which is similar to the high-profile renegotiation of NAFTA. In motivating the need to reopen an agreement that is just five years old, the U.S. Trade Representative Robert Lighthizer emphasized that the amount by which U.S. imports from Korea exceeded exports to Korea had expanded and that this "imbalance" would be a U.S. focus of the renegotiation efforts.

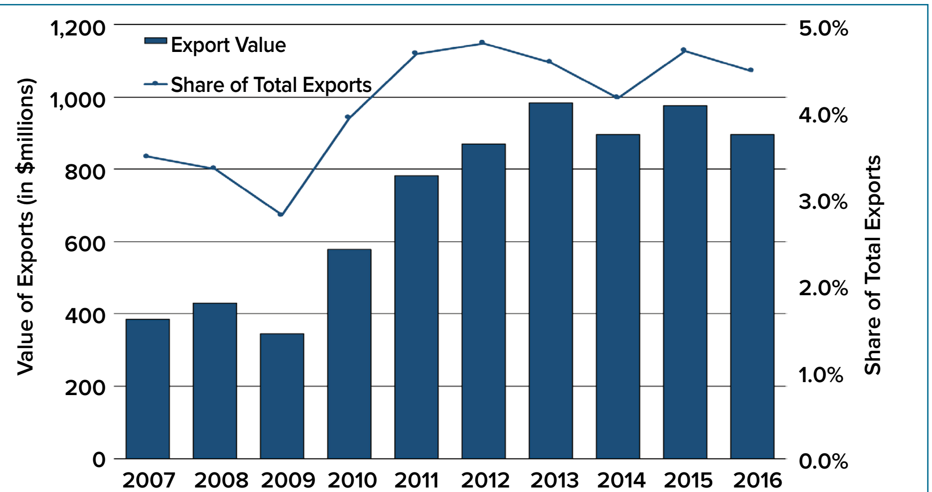

Figure 1: Value and Share of Total California Agricultural Exports to Korea, 2007–2016

Source: UC Agricultural Issues Center, California Agricultural Exports, multiple years

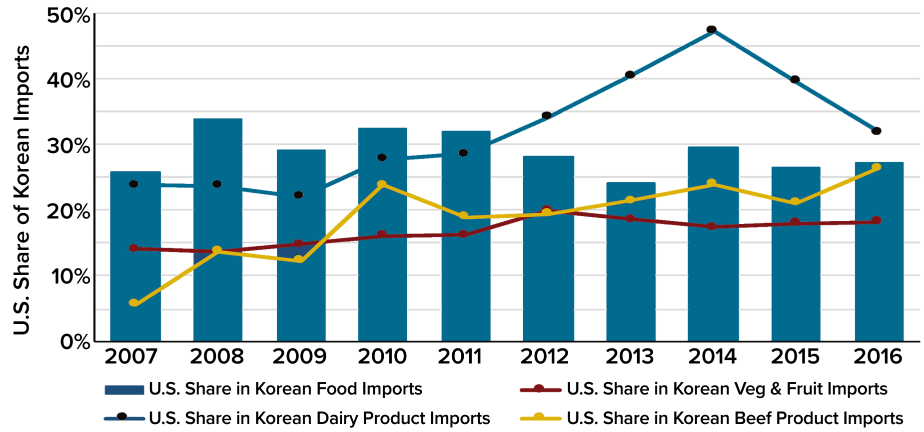

Figure 2: U.S. Share of Total Food and Selected Products imported by Korea
Source: Korean Statistical Information Service. http://kosis.kr/eng/

This article examines the importance of the KORUS-FTA, in particular the potential consequence of ending the agreement for California agriculture. We first review the KORUS-FTA and what it has done and is doing about trade barriers for California agricultural exports. Then, we examine the Korean economy and trade patterns to assess the growth potential for California agricultural exports. We then review the recent patterns of Korean agricultural products from California and consider how the KORUS-FTA is affecting those imports. Finally, we place these renegotiations in the context of global trade patterns and negotiations.

KORUS-FTA Reduced the High Barriers to California Agricultural Exports

Before the improved market access, many Korean agricultural trade barriers were quite high. Garlic, onions, peppers, and citrus had tariffs over 100%. Most fruits and juices were in the range of 50%. Almonds and tomato paste faced 8% tariffs, while dried plums, olives, raisins, and cherries faced tariffs of between 18% and 24%. Many fresh and frozen vegetables, lemons and limes, wine, avocados, pistachios, and shelled walnuts face 27% to 30% tariff rates. Dairy tariffs ranged from about 40% for cheese to 176% for milk powder. In addition to these tariffs, there were additional technical barriers and restrictions that reduced imports.

The KORUS-FTA immediately eliminated dozens of important agricultural tariffs and has already phased out dozens of others. Tariffs already set to zero include those for almonds, asparagus, avocados, spinach, tomato paste, shelled walnuts, and wine among many more.

Naturally, U.S. products that compete most directly with important Korean farm products were scheduled to be phased out more slowly. Among these are apples, lettuce, peaches, strawberries, and other berries. The longest phase-out periods of 15 to 20 years were reserved for directly competitive products such as Korean-style fresh mandarins, in-shell walnuts, chestnuts, beef offal, table grapes arriving during the Korean production season, and Asian-style pears.

As with most agreements, the KORUS-FTA did not achieve complete free trade and some products will continue to face complicated sets of trade regimes. Fresh, in-season oranges received a gradual increase in the quantity of zero-tariff access, but no elimination of the over-quota tariff that remains very high. Many dairy products also received expanded quantity access rather than tariff elimination, but feed whey and ice cream had tariffs slated for elimination. Garlic, ginger, onions, pepper, and sweet potatoes—which are staples in Korean food—face tariffs and the potential for special safeguards against rapid jumps in imports, as did apples and beef. Rice, which is subject to significant quantity access under the World Trade Organization rules, got no additional access under the KORUS-FTA.

Korea Is an Important and Growing Market for Agricultural Imports

Korea has a population of more than 50 million, but is unlikely to grow given little immigration and very low birth rates. Average per capita purchasing power of consumers in Korea is about $36,000—roughly equal to that of Spain and Italy, and about two-thirds that of the United States. Overall, Korea has the 11th largest economy in the world. Korea is highly urban, with about 2% of gross domestic product (GDP) from farming. At the same time, agriculture continues to have considerable political and policy influence, in part because it was a mainstay of the economy just two generations ago and also because most farms are still small, with average farm incomes below the urban average.

The Korean economy depends on trade. It is the fifth or sixth largest exporter in the world. It is the most export-oriented large economy with exports equivalent to more than one-third of national income (in GDP). Besides industrial and consumer goods, Korea is a major exporter of cultural services such as popular music, TV dramas, and movies. China accounts for about 25% of Korean exports with about 13% shipped to the United States. About 22% of all Korean imports come from China, with another 11% each from Japan and the United States. Petroleum from the Middle East comprises another 11% of imports.

Because of the importance of trade to its economy, Korea has 17 free trade agreements with major exporting countries such as Australia, India, Canada, Chile, Peru, Turkey, and Viet Nam. It also has FTAs with the EU and other parts of Europe. Many of these FTAs are with countries that can supply agricultural products competing directly with those from California. This plethora of agreements means that, rather than giving an advantage, the KORUS-FTA allows U.S. exporters to have equally favorable access as these other export sources.

The value of the Korean won relative to the dollar affects year-to-year export and import values. The price of the Korean won jumped 40% from 2008 to 2009 before declining by about 20% in the following year. The Korean won then fell gradually by another 10% through 2014 before rising again in 2015. The global price of agricultural commodities, especially grains, oilseeds and dairy products, have fallen in dollar terms since 2013–2014, and this has reduced the value of Korean agricultural imports over the past few years.

Food and agricultural products account for about 5% of Korean imports, following oil and industrial equipment and materials in importance. Korea imports about $25 billion in food and agricultural products from a variety of sources, including 25% to 30% from the United States. As shown in Figure 2, the U.S. share of Korean agricultural imports has not changed much over the past decade. Given Korea's FTAs with other countries, the 2012 KORUS-FTA has no clear impact on the U.S. share of overall Korean agricultural imports. However, the U.S. share of fruit and vegetable imports has grown by a modest amount from about 14% to 18%, while the share of beef and cattle hides has risen from about 6% in 2007 (after a BSE scare) to 13% in 2008 and then doubling to 26% by 2016. The dairy import share rose from about 24% in 2007 to a peak of 47% in 2014 (when milk prices peaked) before declining to 32% in 2016.

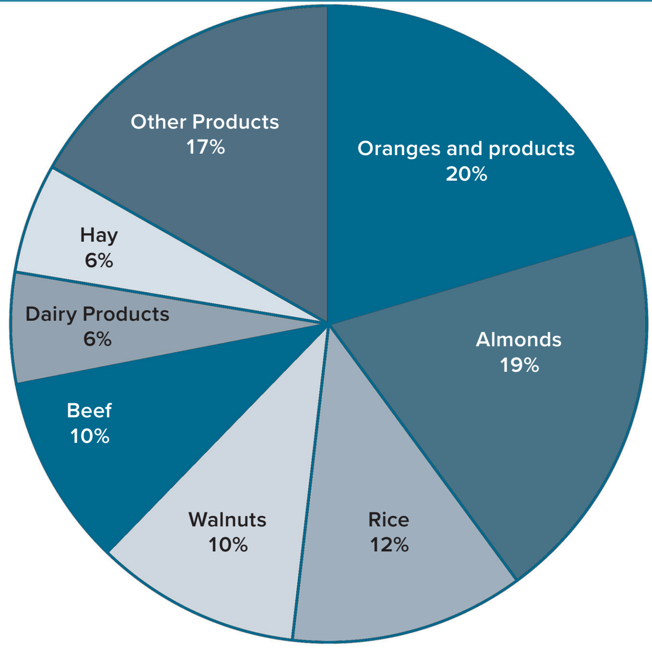

Figure 3: Shares of 2016 California Agricultural Exports to Korea by Commodity (Total = $895 million)

Source: UC Agricultural Issues Center, California Agricultural Exports, multiple years

California Agricultural Exports to Korea

A diversified portfolio of California-grown agricultural products is shipped to Korea. Figure 3 shows that in 2016, out of $895 million in exports to Korea, oranges (including mandarins and similar products) and almonds topped the list of export products—each with about 20% of all California agricultural exports to Korea or about $180 million each.

Korea was a particularly important destination for oranges, and beef products and cattle hides, accounting for about 27% of total exports of each from California. Hay, rice, and walnuts are among the other major export products, with about 18% of hay exports and 7% of rice and walnut exports destined for Korea.

Table 1 (on page 4) documents variations in the share of California exports sent to Korea for six important products (oranges, almonds, walnuts, beef and cattle hides, dairy, and hay) over the past decade. (Among the top exports, we exclude rice because its exports are subject to strict import quotas.) For simplicity, in Table 1 we show the difference of Korea's share in 2011 of California exports for each product.

Table 1 shows that with implementation of the KORUS-FTA in 2012, Korea's share of exports grew for California almonds and oranges, while exports of walnuts, hay, and beef and cattle hides remained relatively steady or were modestly lower. The share of California dairy exports destined for Korea varied annually from 2011 to 2016 due to influences from other export destinations such as China, and competitors in Korean markets, but were generally down. Overall, there is no clear evidence that lower barriers increased Korea's share of California exports as other destinations also expanded their imports.

Table 1: Changes in the Shares of California Exports Shipped to Korea for Six Major Agricultural Products, (Index 2011 = 100).

	Dairy	Hay	Almonds	Oranges	Beef	Walnuts
2007	62	283	64	87	76	100
2008	54	66	64	93	97	108
2009	58	23	88	76	76	91
2010	69	88	90	88	97	101
2011	100	100	100	100	100	100
2012	70	101	129	142	92	116
2013	57	92	139	124	72	93
2014	75	91	158	102	79	105
2015	80	97	140	123	88	96
2016	71	88	131	119	104	88

Source: UC Agricultural Issues Center, California Agricultural Exports, multiple years

Additional Considerations and Concerns

This article has documented the importance of the KORUS-FTA for California agricultural exports in aggregate and for specific commodities. Initiation of renegotiation at the demand of the United States has potential consequences, even if relatively little change occurs in the agreement itself. Therefore, additional considerations are useful to state explicitly.

First, U.S. buyers are major beneficiaries of low tariff access to Korean (almost exclusively non-agricultural) products. Some of these, such as cars, music videos, consumer electronics, and refrigerators are directed to consumers. Others, such as trucks, business-oriented electronics and shipping services, are inputs that make production in the United States, including in agriculture, more productive. The import side of trade is as important for an economy as the export side.

Second, if the U.S. were to exit or greatly modify a free trade agreement with one of the world's largest economies, it would be a signal that the U.S. government is not a reliable negotiating partner. That would make any planned negotiations much harder. Even worse, U.S. industries that participate in global commerce would be seen as less reliable because the U.S. government may change the conditions under which long-term relationships were developed. Importers from and exporters to the United States would naturally look for alternative trading partners.

Finally, it is impossible to consider trade with Korea outside the geopolitical context. Unlike the democratic and peaceful Republic of Korea (South Korea), North Korea brutalizes its own people and threatens the world including South Korea, Japan, and most directly the United States. A close economic relationship with Korea is one way that the United States can signal determination to continue to isolate North Korea and effectively reduce the threat and perhaps soon help the people of North Korea enjoy the freedom and prosperity of their southern compatriots.

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For additional information, the authors recommend:

Lee, H. and D.A. Sumner. 2009. *The Prospective Free Trade Agreement with Korea: Background, Analysis, and Perspectives for California Agriculture.* June 2009. UC Giannini Foundation of Agricultural Economics Information Series 09-2. http://giannini.ucop.edu/InfoSeries/092_KORUS_FTA.pdf.

Lee, H. and D.A. Sumner. 2011. "South Korea-U.S. Free Trade Agreement Will Lower Export Barriers for California Products." *California Agriculture,* 65: 66-72.

Office of the U.S. Trade Representative, https://ustr.gov/trade-agreements/free-trade-agreements/korus-fta.

Office of the U.S. Trade Representative. October 2017. USTR Lighthizer Statement on the Conclusion of the Second Special Session of the U.S.-Korea FTA Joint Committee. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/october/ustr-lighthizer-statement