

US auto exports to South Korea under revised trade deal face low demand

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By Evan Fallor

While U.S. automakers stand to benefit from the reworked U.S. free trade deal with South Korea through an increase in the cap on eligible auto exports, some analysts believe low demand for American cars in the Asian nation could undermine anticipated gains.

The revamped U.S.-Korea Free Trade Agreement, or KORUS, announced on March 28, would raise the annual cap on U.S. auto exports meeting American safety standards, doubling it to 50,000 units from an existing cap of 25,000.

Under the rules of the six-year-old trade pact, current U.S. auto exports that exceed the 25,000-vehicle cap must meet South Korean safety standards, which the U.S. has argued can be more costly and burdensome.

The Trump administration has touted the expanded export levels as a win for U.S. automakers, and some economists agree that it could boost U.S. exports.

Existing South Korean cap on U.S. auto exports underutilized

However, the existing export cap in place has been underutilized, according to Panjiva Research, a division of S&P Global Market Intelligence.

The combined shipments of Ford Motor Co., Fiat Chrysler Automobiles NV and Cadillac vehicles to South Korea totaled just 19,844 between February 2017 and February 2018, far below a combined total of 75,000 vehicles allowed under the current cap using U.S. safety standards.

Rebecca Lindland, executive analyst for Kelley Blue Book, said in an interview the Korean auto market is still largely driven by older consumers who are partial to domestic producers such as Kia Motors Corp. and Hyundai Corp. Younger consumers, who she said are more globally minded, could impact the market eventually, but not soon enough for a revamped KORUS to significantly boost U.S. car sales in South Korea.

"Will it make a difference tomorrow or next month or even next year? I don't think so," Lindland said. "I think it's a more long-term thing. But that younger buyer is certainly coming."

Panjiva Research Director Chris Rogers said the combined total of 19,844 in shipments from the three U.S. automakers included military vehicles destined for American bases located in South Korea, meaning the number of commercial vehicles used by consumers was even less than that total.

Rogers said a marketing campaign in South Korea would be necessary to spur U.S. carmakers to ship more vehicles across the Pacific, even with an increased cap in the revamped KORUS deal.

"It didn't look like there was a screaming demand for the vehicles in the first place," Rogers said.

To underscore that point, Rogers pointed to GM, which has begun to scale back auto production in South Korea.

In February, GM announced it would close its plant in Gunsan, South Korea by May, noting it is "increasingly underutilized" and its continued operations are "unsustainable."

Detroit-based GM, which estimates it will take a \$850 million hit from closing one of its four South Korean plants, said the

entire division sold 132,377 vehicles in South Korea in 2017. Rogers said GM would likely not benefit from changes in the KORUS trade pact since most of its auto sales in South Korea are locally produced.

"Why they would undermine their own local factory is beyond me," Rogers said.

Ford, GM and Fiat Chrysler did not return requests for comment.

U.S. Trade Representative Robert Lighthizer said in a statement announcing the agreement in principle on March 28 that the revamped trade deal would expand market access for U.S. automakers and help reduce the United States' \$22.9 billion goods deficit with South Korea in 2017.

According to Panjiva, roughly 60% of the U.S. goods deficit with South Korea between January 2017 and January 2018 was due to the auto imbalance between the two countries.

Potential benefits for automakers

Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business, said that despite the apparent lack of demand, any expansion of the export levels will benefit sales, especially if the price is competitive with those of South Korean sellers.

He said it will make it easier to not only sell more cars in South Korea, but also to develop dealership and service networks in South Korea, which also encourages purchases of vehicles if they can be serviced more easily.

"Any kind of easement on any standards will help sell more cars over there," Dhawan said.

The agreement in principle came after two meetings between top trade officials from both countries in January. It is still subject to domestic review processes in both countries, including a 60-day congressional consultation period in the U.S.

The U.S. will also extend its 25% tariff on imports of Korean pickup trucks for another two decades and make South Korea exempt from Trump's 25% tariff on steel imports, though their imports of steel into the U.S. will be subject to a product-specific quota.

The prospects for implementation of the revised KORUS trade deal are unclear. After the agreement in principle was announced, President Donald Trump threatened to hold up the trade pact with South Korea until a nuclear deal is reached with North Korea.