

U.S.-Korea FTA: What is Driving U.S. Textile and Apparel Trade Imbalances?

Mahnaz Khan, Office of Industries; mahnaz.khan@usitc.gov, (202) 205-2046

The United States-Korea Free Trade Agreement (KORUS) became effective on March 15, 2012. On January 5, 2018, the United States and Korea began renegotiating the U.S.-Korea FTA to address trade imbalances between the two countries in all sectors. In 2017, the United States had a negative trade balance of \$347 million with Korea for textile and apparel products, with the majority of this imbalance being driven by the fabric sector, where Korea is a major global producer. Further, Korea's investments in its domestic fiber and yarn production since the implementation of KORUS have decreased their reliance on U.S. textile exports in recent years.

U.S.-Korea Trade Balances for the Textile and Apparel Sector from 2012–17

The total U.S. trade deficit with Korea in the textiles and apparel sector is driven largely by U.S. fabric imports from Korea. Though the trade deficit has fluctuated since the implementation of KORUS in 2012, in 2017, this sector's deficit was 12 percent higher compared to 2012, with a significant decrease of trade surplus for yarn and apparels (table 1). In two of these sectors—fabric and made-ups¹—the United States has registered a deficit in all years since the implementation of KORUS; whereas with respect to yarn, the United States' small trade surplus changed to a deficit in 2016–17. Although U.S. apparel exports to Korea have shown a positive trade balance since KORUS went into effect, there has been a 50 percent decrease in this trade surplus from 2012 to 2017.

Table 1: U.S.-Korea trade balances by textile and apparel sector, 2012–17, (millions \$)

	2012	2013	2014	2015	2016	2017
Yarn	\$42	\$56	\$44	\$7	-\$13	-\$17
Fabrics	-\$458	-\$421	-\$436	-\$411	-\$406	-\$376
Made-Ups	-\$36	-\$41	-\$4	-\$13	-\$21	-\$24
Apparel	\$143	\$147	\$130	\$113	\$60	\$70
Total	-\$309	-\$259	-\$266	-\$304	-\$380	-\$347

Source: Department of Commerce, Office of Textiles and Apparel, Major Shippers Report, 2018.

Korean Fabric Accounts for the Largest Negative Trade Balance

U.S. fabric imports from Korea, which totaled \$472 million in 2017, accounted for over half of total U.S. textile and apparel imports from Korea during this time, while U.S. fabric exports to Korea were \$96 million. Following considerable investment in recent years, Korean fabric production has increased, contributing to Korea's decreased use of imports of U.S. fabric. Korea and the United States have fabric production that requires advanced manufacturing processes, skilled labor, capital-intensive equipment, and significant research and development, thereby limiting competition from lower-wage countries. Korean textile firms have strengthened their global production base through investments in countries that have an FTA with the United States, such as the CAFTA-DR region. Korean companies have also made investments in the United States' non-FTA partner countries, like Vietnam, that account for a growing share of U.S. textile and apparel imports in recent years. Apparel manufacturers in these countries use fabric from Korean-owned producers.

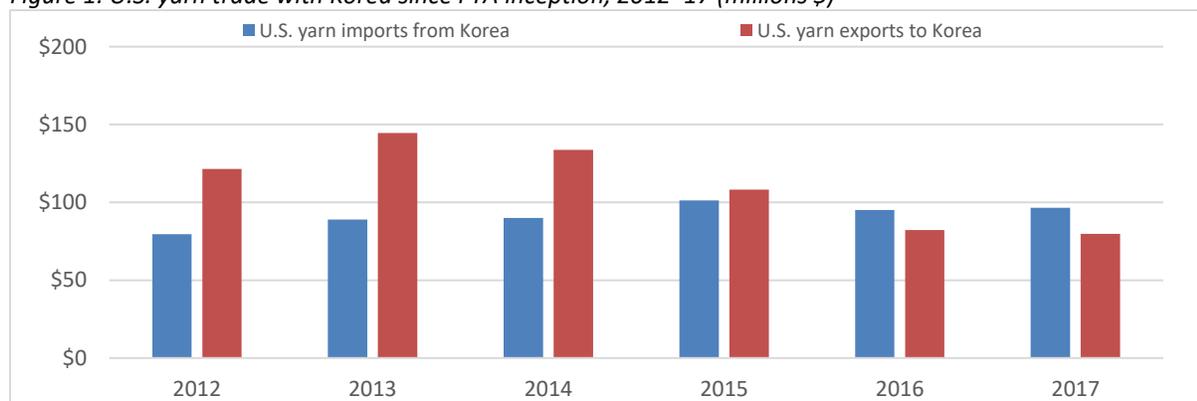
¹ Made-ups include home furnishings and other textile goods such as towels, sheets, tablecloths, and blankets.

U.S. specialty fabric imports from Korea (which includes technical textiles) were valued at \$161 million in 2017. The U.S. market for technical textiles was estimated at \$22 billion in 2017,² and Korea has been a growing exporter of technical textiles to the United States as U.S. demand for these products has increased rapidly. Although data on imports of technical textiles are unavailable, industry analysts estimated U.S. technical textile imports from Korea at \$66 million in 2017, an increase of 50 percent since 2014. U.S. imports of technical textiles from Korea are mainly used in U.S. automotive and industrial applications. Korea competes directly with the United States in globally exporting technical textiles. Korea was a traditional textile producer, but shifted to a higher value-added producer focused on technical textiles in the last decade by leveraging its strong industrial and specialty yarn production.

The Negative Trade Balance for Yarn Has Been Growing Due to Korea's Fiber Investments

The U.S.-Korea FTA generally follows a “yarn forward” rule of origin (with limited exceptions), requiring that yarn production, fabric production, and all processing thereafter has to occur in Korea or the United States in order for finished textile and apparel goods to receive duty-free treatment. The “yarn forward” rule contained in the FTA may have initially boosted U.S. yarn exports to Korea, which rose through 2013 (figure 1). It is likely that U.S. yarn exports to Korea declined as Korean capabilities increased. In recent years, the Korean government has taken proactive measures to concentrate its textile industry on developing new manmade fibers (MMF). The Korean government provided financial incentives to firms that invested in research and development in order to spur more innovative products, especially in the MMF industry. Korea is a major global producer of MMF, which are used to create technical textiles.³ Korea has also been focusing on producing high-tech “super fibers,” such as aramid and carbon fibers, smart fibers, and nanofibers. Korea uses these high-tech fibers in their domestic automotive, shipbuilding, and defense industries.

Figure 1: U.S. yarn trade with Korea since FTA inception, 2012–17 (millions \$)



Source: U.S. Department of Commerce (USDOC), Office of Textiles and Apparel, “U.S. Imports Under Free Trade Agreements.”

Sources: USDOC, International Trade Administration (ITA), “2016 Top Markets Report Technical Textiles: Korea,” 2017; USDOC, ITA, OTEXA, “Summary of U.S.-Korea FTA,” 2018; EU Commission, “Country Reports on Technical Textiles in Brazil, Japan, South Korea and the USA,” September 2017; Korean Federation of Textile Industries, <http://www.kofoti.or.kr/ENG/>

² Jonathan DeCarlo, “Textile Mills in the US—Loose Threads: Demand for Technical and Home Furnishing Textiles Will Aid Growth,” IBISWorld Industry Report, January 2017.