



2016 Top Markets Report **Automotive Parts** Country Case Study

Korea

Type: Large Market; Small Share

The United States and Korea Free Trade Agreement (KORUS FTA) eliminates tariffs on over 95 percent of industrial and consumer goods within five years, with tariffs on U.S. car exports fully eliminated in 2016. The FTA attempts to address automotive safety standards and new Korean environmental standards that have served as barriers to U.S. exports to create a more open and fair market for U.S. auto companies.

Original
Equipment
Rank

6

Aftermarket
Rank

16

On March 15, 2012, the United States and Korea brought into force the United States-Korea Free Trade Agreement (KORUS FTA). Trade between the United States and Korea is bound by the terms of the KORUS FTA. The FTA was negotiated to increase opportunities for U.S. businesses and promote of American exports. It eliminates tariffs on over 95 percent of industrial and consumer goods within five years. For autos specifically, the FTA contains measures to address automotive safety standards and new Korean environmental standards that have served as barriers to U.S. exports with the intention of creating a more open and fair market for U.S. auto companies. For example, the FTA immediately cut Korea's tariff on U.S. car exports in half from 8 to 4 percent, and it was fully eliminated in 2016. Korea immediately eliminated its 10 percent tariff on U.S. trucks. Since the ratification of the KORUS FTA, the tariff on automotive parts and accessories, which are new or used, is zero percent.

In Korea, imported vehicles accounted for about 15.5 percent of all vehicles in total market share in 2015, up from 5 percent in 2009 and 10 percent in 2012. According to the Korea Automobile Importers

& Distributors Association (KAIDA), the number of newly registered imported cars in 2015 was 243,900, a 24.2 percent rise from 2014. Exports of U.S. passenger vehicles and light trucks to Korea have been steadily climbing. In 2009, the United States exported less than 5,000 vehicles. U.S. vehicle exports rose to 20,086 in 2012 and reached over 46,000 vehicles by the end of 2015. In 2015, almost 1.9 million passenger vehicles were sold in Korea. According to Ward's, total production of vehicles in Korea was 4.66 million units in 2011, 4.56 million units in 2012 and 4.52 units in 2013. From the 2013 numbers, 3.45 million were produced by Hyundai and Kia, 782,721 by GM and 129,638 by Renault.

Today, Korea is ranked the fifth largest vehicle producer in the world. Korea's top two automakers, however, have been shifting production to their plants outside of Korea. "In 2008, Hyundai made 60 percent of its vehicles in Korea, but now the country accounts for only about 40 percent of Hyundai production. Kia used to make almost 80 percent of its vehicles in Korean factories, but now 60 percent are made there."ⁱ Factors leading to production in other markets outside of Korea include costlier

wages as well as disruptive strikes and walkouts, making Korea less competitive for auto production.

Overview of the Automotive Parts Market in Korea

Korea ranks as the ninth largest export market for U.S. auto parts overall. According to this analysis, Korea ranks as the sixth best prospect market for OE parts and the sixteenth best market for aftermarket parts. Factors that contributed to its rank for OE include Korea’s high level of domestic vehicle production and Korea currently being a top 10 market for overall U.S. parts exports.

From 2009 to 2015, U.S. auto parts exports have more than tripled from \$303 million to over \$926 million. In 2014, U.S. auto parts exports to Korea reached \$914 million, a 15 percent increase from 2013. According to the Korea Auto Industries Co-op Association (KAICA), the total sales volume in the Korea auto parts industry for OE parts was \$49.3 billion in 2014, \$46.3 billion in 2013, \$46.1B in 2012, \$46.6B in 2011, \$37.4B in 2010 and \$26.8B in 2009. For aftermarket parts, sales totaled \$2.9 billion in 2014, \$2.8 billion in 2013, \$2.8 billion in 2012, \$2.8 billion in 2011, \$2.2 billion in 2010 and \$1.6 billion in 2009.

Challenges and Barriers to Automotive Parts Exports

Historically, Korea has maintained a number of policies that inhibit U.S. auto exports, including rigid automotive safety and environmental standards unique to the Korean market. These policies have given domestic producers advantages and have

made it difficult for foreign manufacturers to compete. In 2014, the American Chamber of Commerce in Korea issued a report focused on the key issues and recommendations for the auto industry in Korea. In this report, AmCham stated in 2012 and 2013, “Korea imposed burdensome parts certification, registration and marking requirements...Over the next few years, the list of parts that Korea will require to be certified, registered and marked will dramatically increase...Korea’s parts rules are unreasonable and unduly burdensome.” These issues, among others, make competing in the Korean market a challenge.

The European Union - Korea Free Trade Agreement (FTA) entered into force in July 2011. The European automobile industry has faced market issues in Korea that remain even after the FTA, citing that Korean authorities remain reluctant to dismantle existing non-tariff barriers (NTBs) and that new barriers have also emerged.ⁱⁱ As a result of the provisions of EU-Korea FTA, U.S. exporters face increased competition from European suppliers.

Given that Korea is one of the largest vehicle manufacturers in the world, the market is already extremely competitive. In 2014, there were 879 first-tier suppliers serving the automakers, down from 898 in 2013. The number of these suppliers for Hyundai was 343, followed by 330 for Kia and 316 for GM Korea. China is already the leading exporter of parts to Korea with most exports coming primarily from Asia or the EU. While the United States exported over \$926 million in auto parts to Korea in 2015, it imported over \$8.5 billion in parts from Korea.

Opportunities for U.S. Companies

The OE segment accounted for approximately 94 percent of the market with the aftermarket accounting for the remainder. Cooperating with Hyundai and Kia Motors in the United States or with U.S. parts suppliers that have a manufacturing base in Korea is highly recommended. Hyundai Motors and Kia Motors have plants in Alabama and Georgia. A good working relationship with Hyundai and/or Kia in the United States will help suppliers enter the Korean market. In addition, examples of the suppliers already operating in Korea include Bosch, Denso, Continental, Magna, Johnson Controls, Delphi, TRW and Visteon, among many others. Best

Figure 1: 2015 Korea Automotive Market

Sales (units)	1,875,551
U.S. Auto Parts Exports to Korea	\$926,448,708
Total Korean Auto Parts Imports	\$10,373,022,935
Total Domestic Vehicle Production	6,315,971
Vehicles in Operation	20,780,689
U.S. Auto Parts Export Growth 2009-2015	+206%

sub-sector prospects for OE include vehicle diagnostic systems, electronic control systems and low-emission related technologies.

For the aftermarket, demand in Korea is for vehicle diagnostic systems, replacement parts for imported vehicles, high-end car audio systems and components, and high-performance automotive chemicals, such as wax and rust-proofing solutions. It should be noted that Korean consumers typically rely primarily on OEM's after-sales service networks to service their cars rather than using independent shops.

Therefore, Korea's market is a competitive environment, and U.S. suppliers need to offer technological advantages. Partnering with a Korean distributor could also be effective in breaking into the aftermarket.

<http://www.businessweek.com/articles/2014-08-28/koreas-carmakers-flee-to-mexico>

<http://www.acea.be/news/article/eu-south-korea-fta>