



INTERNATIONAL
TRADE
ADMINISTRATION

Benefits from the U.S.-Korea Free Trade Agreement

Michigan

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The U.S.-Korea Free Trade Agreement Provides Enhanced Market Access

The U.S.-Korea Free Trade Agreement (FTA) offers tremendous opportunities for U.S. exporters. Nearly 95 percent of U.S. exports of consumer and industrial products will enter Korea duty-free within three years of entry into force of the agreement, including computers and electronic products; auto parts; power generation equipment; chemicals; medical and scientific equipment; and certain wood products. Most remaining tariffs will be eliminated within 10 years. Almost two-thirds of U.S. agricultural exports will be immediately duty-free when the FTA is implemented (\$1.9 billion duty-free out of \$2.9 billion 2005-2007 average).

Recognizing that non-tariff barriers in Korea are often as much of an impediment to market access as tariffs, the FTA includes an extensive set of provisions that will eliminate such measures across sectors, including autos, high technology, pharmaceuticals and medical devices, financial services, and telecommunications. The agreement includes strong transparency provisions, including commitments to publish in advance proposed government regulations that affect trade and to allow a reasonable opportunity for interested parties to provide input. The agreement contains strong provisions on technical barriers to trade to enhance transparency of the regulatory process in Korea and ensure nondiscriminatory treatment for U.S. companies that test and certify products to Korean standards.

Michigan Depends on World Markets

Michigan's export shipments of merchandise in 2007 totaled \$44.4 billion, placing Michigan seventh among the states in this category. From 2003 to 2007, merchandise exports from Michigan increased \$11.4 billion (35 percent), the 11th largest dollar growth in exports among the 50 states.

Exports Support Jobs for Michigan Workers-

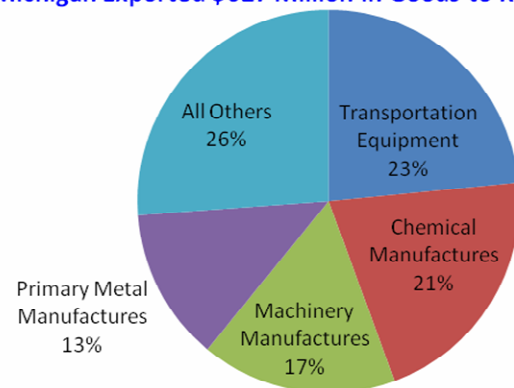
Export-supported jobs linked to manufacturing account for an estimated 6.4 percent of Michigan's total private-sector employment. Nearly one-quarter (24.5 percent) of all manufacturing workers in Michigan depend on exports for their jobs. (2006 data are the latest available.)

Exports Sustain Thousands of Michigan Businesses- A total of 10,373 companies exported goods from Michigan locations in 2006. Of those, 9,265 (89 percent) were small and medium-sized enterprises (SMEs), with fewer than 500 employees.

Michigan SMEs Will Benefit from U.S.-Korea FTA Provisions

SMEs generated 12 percent of Michigan's total exports of merchandise in 2006. SMEs enterprises particularly benefit from the tariff-elimination provisions of free trade agreements. The transparency obligations, particularly those contained in the customs chapters, are also very important to SMEs, which may not have the resources to navigate customs and regulatory red tape.

Michigan Exported \$627 Million in Goods to Korea in 2007



Source: U.S. Department of Commerce, International Trade Administration.

The U.S.-Korea FTA Moves the Trade Relationship to Full Partnership

The U.S.-Korea FTA will level the playing field by rectifying the significant tariff imbalance that currently favors Korean exporters over U.S. exporters. Korea's current applied tariffs on industrial goods average 6.2 percent. The average applied U.S. tariff rate is only 2.8 percent - less than half of the Korean rate. Because of these higher tariffs, U.S. exporters do not have equivalent access to the Korean market. The U.S.-Korea FTA levels the playing field and enhances competition because it moves the U.S.-Korea commercial relationship to full partnership and reciprocal commitments.

The Korea FTA Opens New Markets for Key Michigan Exports

Chemical Manufactures- Chemical manufactures accounted for \$3.6 billion of the state's merchandise exports to the world in 2007. Michigan's exporters of chemical and related products, including pharmaceuticals, cosmetics, fertilizers, and agro-chemicals, will benefit from U.S.-Korea FTA tariff reductions. Forty-seven percent of U.S. chemical exports by value will receive duty-free treatment immediately upon entry into force of the agreement, with the remaining tariffs phased out within 10 years. Current Korean chemical tariffs average 6 percent and can be as high as 50 percent.

Transportation Equipment- Transportation equipment accounted for \$23.2 billion of the state's export sales to the world in 2007. Michigan's exporters of transportation equipment, including aircraft, fishing vessels, locomotives, and other transportation manufactures, will benefit from U.S.-Korea FTA tariff reductions. Duties on most transportation equipment products will be eliminated immediately, including duties on 87 percent of aircraft and related parts. Duties on a small group of products will be eliminated over three or ten years.

The FTA includes an unprecedented package of auto-related provisions that will address a range of tariff and non-tariff barriers to ensure that U.S. automakers have a fair opportunity to compete in Korea. Specifically, Korea will immediately eliminate its 8 percent tariff on U.S. passenger vehicles and auto parts; eliminate the discriminatory aspects of its system for taxing cars based on "engine displacement"; revise emissions and automotive safety standards that U.S. industry has identified as priorities to ensure that these standards do not preclude them from accessing the Korean market; and create an automotive working group to serve as an early warning system to address regulatory issues in the future. In addition, the Agreement contains an innovative process for resolving disputes on auto-related measures on an

expedited basis (within about six months) that will serve as a powerful deterrent against any violations of FTA commitments. This enhanced dispute settlement process includes a unique "snap-back" provision that will allow the United States to suspend our tariff concessions on Korean imports of passenger cars if Korea is found to have taken a measure affecting motor vehicles that violates, nullifies, or impairs an FTA commitment.

U.S.-Korea FTA Creates Opportunities for Michigan Agriculture

In 2006, Michigan's agriculture exports to the world amounted to \$1.2 billion (latest data available). The U.S.-Korea FTA eliminates tariffs and other barriers on most agricultural products, increasing export opportunities for U.S. agricultural products like those produced in Michigan such as dairy, soybeans, and corn. With immediate elimination of duties on more than 60 percent of current U.S. trade, the U.S.-Korea FTA gives U.S. exporters improved access to the Korean market for many of the products that have been highly protected. U.S. exporters shipped \$3.5 billion in farm products to Korea in 2007.

For more information on agricultural exports and the U.S.-Korea FTA, see the fact sheets posted by the U.S. Department of Agriculture at:
<http://www.fas.usda.gov/itp/us-koreafta.asp>

Free Trade Works for Michigan

In the first four years (2004-2007) of the U.S.-Chile FTA, Michigan's exports to Chile increased by 61 percent and since the U.S.-Singapore FTA took effect in 2004, the state's exports to Singapore have grown 81 percent. Since the North American Free Trade Agreement's (NAFTA) entry into force in 1994, Michigan's combined exports to Canada and Mexico have grown by 71 percent.

All state export data in this report are based on the Origin of Movement (OM) series. This series allocates exports to state based on transportation origin, i.e., the state from which goods began their journey to the port (or other point) of exit from the United States. The transportation origin of exports is not always the same as the location where the goods were produced. Thus conclusions about "export production" in a state should not be made solely on the basis of the OM state export figures.

Sources: Bureau of the Census, U.S. Department of Commerce, Origin of Movement Series; U.S. Department of Agriculture.

Prepared by the U.S. Department of Commerce, International Trade Administration.