



INTERNATIONAL
TRADE
ADMINISTRATION

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

Minnesota www.export.gov/fta/korea/state August 2008

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.

Minnesota Depends on World Markets

Minnesota's export shipments of merchandise in 2007 totaled \$18.0 billion, the 20th largest total among the 50 states, up 60 percent (\$6.7 billion) from the 2003 total of \$11.3 billion. Minnesota ranked 18th among the states in terms of dollar growth in exports from 2003 to 2007.

Exports Support Jobs for Minnesota Workers –

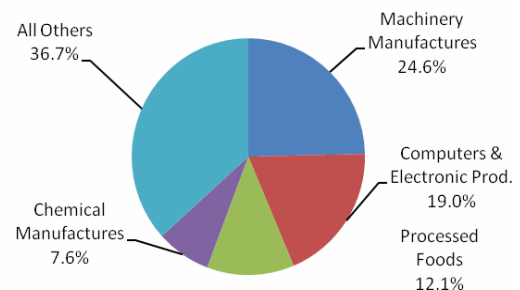
Export-supported jobs linked to manufacturing account for an estimated 5.3 percent of Minnesota's total private-sector employment. Over one-sixth (18.1 percent) of all manufacturing workers in Minnesota depend on exports for their jobs. (2006 data are the latest available.)

Exports Sustain Thousands of Minnesota Businesses – A total of 5,755 companies exported goods from Minnesota locations in 2006. Of those, 5,009 (87 percent) were small and medium-sized enterprises (SMEs), with fewer than 500 employees.

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

SMEs generated over one-sixth (18 percent) of Minnesota's total exports of merchandise in 2006. SMEs particularly benefit from the tariff-eliminating provisions of free trade agreements (FTAs) and should benefit from the significant tariff cuts under the U.S.-Korea FTA. The transparency obligations, particularly those contained in the customs chapter, are also very important to SMEs, which may not have the resources to navigate customs and regulatory red tape.

Minnesota Exported \$562 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 U.S.-Korea FTA Opens New Markets for Key Minnesota Exports

Computers and Electronic Products – Computers and electronic products accounted for \$4.0 billion of the state's merchandise exports in 2007. The top U.S. exports in this sector included digital integrated circuitry, magnetic tape and navigational equipment. Korean tariffs range between zero and 13 percent. The U.S.-Korea FTA improves market access for computers and electronic products. With the immediate removal of many of these tariffs, U.S. exports will become much more competitive and affordable to Koreans.

Machinery Manufactures – Minnesota's exports of machinery will benefit from U.S.-Korea FTA tariff reductions. Machinery manufactures accounted for \$2.6 billion of the state's merchandise exports in 2007. Many machinery manufactures will receive duty-free treatment immediately upon entry into force of the agreement, including products such as refrigeration compressors, water filtering and purifying equipment. One hundred percent of agricultural and construction equipment, including bulldozers, mechanical shovels, boring and sinking machinery, and dumpers, will continue to receive duty-free treatment. The elimination of Korean tariffs on U.S. machinery manufactures will provide a competitive boost to U.S. exporters, who will no longer face tariffs as high as 8 percent.

Transportation Equipment – Transportation equipment accounted for \$2.2 billion of the state's export sales in 2007. Minnesota'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.

U.S.-Korea FTA Creates Opportunities for Minnesota's Agriculture

In 2006, Minnesota's agriculture exports to the world amounted to \$3.0 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 Minnesota such as pork, corn, soybeans, dairy, and beef. 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 Minnesota

In the first four years of the U.S.-Chile FTA (2004-2007), Minnesota's exports to Chile have grown 309 percent and in the first three years of the U.S.-Australia FTA (2005-2007), the state's exports to Australia have grown 47 percent. Since the North American Free Trade Agreement's (NAFTA) entry into force in 1994, Minnesota's combined exports to Canada and Mexico have grown by 177 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.